



Statement of Accounts

For the year ended 31 March 2018

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 of Resources

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1. Message from John Hewitt CPFA – Corporate Director of 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 for the foreseeable future, 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 2017/18, the Council had delivered £209m of financial savings and our forecasts show that the Council will need to save an estimated further £43m of savings over the three year period 2018/19 to 2021/22, resulting in a cumulative spending reduction of over £252m in the period 2011/12 to 2021/22.

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

The Council's Medium Term Financial Plan (MTFP) strategy for the last five years has been focussed upon protecting front line services as far as possible to 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 designed to ensure all options are exhausted to protect front line services wherever possible. However, front line services will inevitably become progressively impacted over the coming years, as the year on year effect of the scale of the cuts increasingly puts a strain 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 2018 – 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 of Resources

2. Introduction

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

- understand the financial position of the Council and the outturn for 2017/18;
- 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 2018 and an executive summary of the non-financial performance of the Council in 2017/18. 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 2017/18 and are likely to impact in the future. This foreword covers and is structured as below:

- 1 Message from the Corporate Director of Resources
- 2 Introduction
- 3 An Introduction to Durham
- 4 An Introduction to Durham County Council
- 5 Financial Performance of the Council 2017/18
- 6 Non-Financial Performance of the Council 2017/18
- 7 Significant Issues for 2018/19 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 521,776; 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, whilst some areas to the east of the county have shown a population decline during this period;
- The working age population in the county has increased by 3.0% since 2001 but the population aged 65+ has increased by 28.8% 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 (the Council) as a single all-purpose authority providing the full range of local government services to the public.

Interesting facts about your council:

- The Council has a gross budget of over £880m and employs around 10,597 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 233 schools (excluding academies);

- The Council consists of 5 service groupings, namely: Adult and Health Services, Children and Young People's Services, Regeneration and Local Services, Resources and Transformation and Partnerships;
- There are 244,120 domestic and 15,479 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 on 31 March 2018 is as follows:
 - 74 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,
- Our administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and the 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 2017/18

Revenue Outturn Position

The Council's revenue outturn is shown in the following table. The original net revenue expenditure budget of £406.598m was approved at the Council meeting on 22 February 2017. 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 £13.618m when comparing actual net expenditure to the revised budgeted/planned net expenditure. The underspend represents 3.3% of the revised total net expenditure budget. The surplus for the year in respect of Service Groupings (£1.906m) has been allocated to the individual Cash Limit Reserves to meet future service demands. The remaining £11.712m was allocated to the Council's General and Earmarked Reserves.

	Original Budget	Revised Budget (Including Qtr 4 Cash Limit Adjustments)	Service Groupings Final Outturn	Variance
	£000	£000	£000	£000
Service Groupings				
Adult and Health Services	151,581	132,749	130,098	-2,651
Children and Young People's Services	98,963	83,560	86,621	3,061
Regeneration and Local Services	126,024	105,833	104,761	-1,072
Resources	16,628	17,874	16,496	-1,378
Transformation and Partnerships	8,716	12,862	12,996	134
	401,912	352,878	350,972	-1,906
Corporate Finance				
Contingencies/Sums outside the Cash Limit	5,422	5,084	0	-5,084
Corporate Costs	3,990	4,840	4,595	-245
Capital, Treasury and Technical Accounting	-20,705	30,046	25,179	-4,867
Levies	15,979	15,979	15,980	1
	4,686	55,949	45,754	-10,195
Total Net Expenditure	406,598	408,826	396,726	-12,101
Funded By:				
Council Tax	-195,706	-195,706	-195,711	-5
Contribution to / from (-) Earmarked Reserves	-18,185	-19,360	-19,360	0
Estimated net surplus on Collection Fund	-3,000	-3,000	-3,000	0
Start up Funding Assessment	-172,364	-172,364	-172,765	-401
New Homes Bonus	-8,882	-8,882	-8,883	-1
New Homes Bonus - Re-imburement	-267	-267	-283	-16
Section 31 Grant	-5,875	-5,875	-6,953	-1,078
Education Services Grant	-1,500	-1,500	-1,516	-16
Contribution to / from (-) Cash Limit Reserve	-819	128	128	0
Budgeted Contribution from General Reserves	0	-2,000	-2,000	0
Total Funding	-406,598	-408,826	-410,343	-1,517
Variance	0	0	-13,618	-13,618

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

- In Adult and Health Services (AHS) there was a net underspend of £2.651 which was mainly due to the early achievement of a number of future MTFP savings from management and support service proposals across the Adult Care and related areas, the careful management and control of vacant posts and supplies and services budgets across the service and reduced spend on adult care packages.
- In Children and Young People's Services (CYPS) Children's Services was a cash limit overspend of £3.061. This was primarily made up from:
 - an underspend within the Education Service of £2.071m. This relates to the early achievement of MTFP savings and staff vacancies (£1.364m), reduced pension liabilities in year (£0.081m), an underspend against the

Home to School Transport budget (£0.316m), and one-off over recovery of income (£0.310m): and

- an overspend within Children's Services of £5.132m. This mainly relates to costs associated with Children's placements; those who have a legal status of looked after and those young people in permanent placements that are financially supported by the Council. 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 in terms of financial resource allocation. Whilst it was anticipated that Looked After Children (LAC) numbers and costs would have stabilised in 2017/18 and that the budget would meet demand, having built c£2.735m growth into the 2017/18 base, it is evident in the short term further additional financial support is required. On 21 February 2018 Council agreed the 2018/19 budget as part of MTFP (8) 2018/19 to 2021/22. Budget growth of £4.993m has been built into the CYPS budgets in 2018/19 to allow numbers of LAC to stabilise and to facilitate the timing issues linked to adjusting the placement mix to reduce future years' costs. The additional £4.993m provided in 2018/19 is planned to be reduced by £0.5m in 2019/20 and in 2020/21 in line with CYPS services forecast reductions in LAC related costs. This position will be reviewed as part of MTFP (9), with careful tracking of LAC numbers and placement mix across the coming year. This will inform whether it is financially sustainable to reduce this budget area in future years following the implementation of CYPS LAC placement efficiency plans.
- £5.084m of the contingencies/sums outside of the cash limit budget remained unspent at the end of the financial year; and
- Within Capital, Treasury and Technical Accounting there was an overachievement of investment income of £1.960m which was mainly due to higher than anticipated levels of returns on loan investments and commercial activities plus an underspend on interest charges of £2.654m resulting from a review of the Council's MRP policy during the year.

Capital Outturn Position

The original General Fund capital budget for 2017/18, taking into account the budgets approved by Council on 22 February 2017 and adjustments for re-profiling of underspends at 2016/17 year end was £133.717m. This was agreed by Cabinet on 12 July 2017.

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 2018 have also been considered by MOWG.

The Council spent £97.752m on its Capital Programme in 2017/18 compared to the revised forecast spend of £111.383m. The Capital Programme was financed through a number of sources including borrowing, Government grants, revenue contributions, earmarked reserves and capital receipts. The following table shows the capital expenditure incurred during the year and how it was financed:

	Revised Budget	Service Groupings Final Outturn	Variance
	£000	£000	£000
Service Groupings			
Adult and Health Services	326	94	-232
Children and Young People's Services	19,825	13,707	-6,118
Regeneration and Local Services	81,244	76,762	-4,482
Resources	6,308	5,497	-811
Transformation and Partnerships	3,680	1,692	-1,988
Total	111,383	97,752	-13,631
Funded By:			
Grants and Contributions	-53,697	-54,124	-427
Revenue and Reserves	-5,320	-28,492	-23,172
Capital Receipts	-17,591	-15,136	2,455
Borrowing	-34,775	0	34,775
Total	-111,383	-97,752	13,631

The variance between the revised capital budget and the final outturn for the year was £13.631m. This underspend of planned expenditure will be re-profiled into 2018/19 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 2017/18

Material Assets and Liabilities:

- As at 31 March 2018, the Council held:
 - £1,816.964m of Long Term Assets
 - £246.042m of Current Assets
 - £139.378m of Current Liabilities and
 - £1,527.656m of Long Term Liabilities.
- Long Term Assets have increased by £141.084m, which is mainly due to an increase in the value of Property, Plant and Equipment assets.
- Current Assets have increased by £6.395m, which is mainly due to an increase of £14.194m in Short Term Debtors, partially offset by a reduction of £3.990m in Short Term Investments and a reduction of £6.593m in Assets Held for Sale.

- Current Liabilities have increased by £23.268m, which includes the following significant items:
 - An increase of £10.192m in Short Term Borrowing;
 - An increase of £11.938m in Short Term Creditors.
- Long Term Liabilities have increased by £97.250m, which includes the following significant items:
 - An increase of £24.984m in Long Term Borrowing, reflecting new loans taken out in 2017/18.
 - An increase of £67.956m relating to 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 provided in Note 46.

Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2017/18 to 2020/21 and Revenue and Capital Budget 2017/18 Report, approved by Council on 22 February 2017, details the 2017/18 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 2017/18 were as follows:
 - Authorised limit for external debt of £555m
 - Operational boundary for external debt of £502m
- As part of the Council's Treasury Management service, these indicators are monitored on a daily basis, and neither was exceeded during 2017/18. The highest level of external debt incurred by the Council during the year was £290.622m.

6. Non-Financial Performance of the Council 2017/18

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 2017/18, 73% (74) of our key performance indicators improved or maintained performance and 27% (27) deteriorated compared to 12 months earlier. 93% (68) of Council Plan actions have been achieved or are on target to be achieved by the deadline and 7% (5) of actions slipped.

You will be able to find the full Quarter 4 2017/18 Performance Management Report on the Council's website after it is approved by Cabinet on 13 June 2018.

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

- Successful delivery of Lumiere 2017, with a net economic impact of approximately £7.56m and attracting record crowds of 240,000
- The restoration of Wharton Park was 'highly commended' in the Landscape Institute Awards, celebrating projects which protect, conserve and enhance the natural and built environment
- Technical Services helped deliver a number of improvement schemes including Crook Civic Centre, Thornley Waste Transfer Station, NetPark Explorer, Mountsett Crematorium, North Road in Durham and extending 5 nursery / primary schools to create additional pupil spaces

- Improved access to more and better housing as a direct consequence of local authority intervention by improving 579 private sector properties and bringing 198 empty properties back into use
- Business Durham helped to create or safeguard 1,066 jobs and assisted businesses in securing £2.5m of investment, particularly in space and satellite technology
- The Durham Works programme supported 1,234 people into employment or education and the Employability Mentoring Programme supported 221 people to move into work
- Seaham Harbour Marina's new Water Sports Centre has been nominated in the Excellence in Planning for Health and Wellbeing category at the Royal Town Planning Institute Awards for Planning Excellence (result expected 24 May).

Altogether Wealthier Statistics

- Bishop Auckland Food Festival, Tour Series Cycling, Durham City Run, Durham Brass Festival and Durham Book Festival collectively attracted just over 91,000 visitors to the county, with a total net economic impact of £2.86m
 - There was a net increase of 1,339 homes across the county
 - 58,870 trips were made using community transport
 - The Gala Theatre (cinema and studio) had 186,184 visitors, with 2,079 film screenings
 - There were over 1 million park and ride passenger journeys
 - 49 Archive Workshops reached 1,320 pupils ranging from Reception to Key Stage 4, a significant increase mainly due to First World War community projects
- **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

- The percentage of pre-school children in County Durham who achieve a 'good level of development' continues to increase and is above the national average
- A higher proportion of primary school children achieve the expected standard in Reading, Writing and Maths at Key Stage 2 than nationally
- A Young Parents Support programme has helped over 200 young parents and their children to progress into education, employment or training, which has a significant benefit for the health and wellbeing of both parent and child
- 'Youth Aware of Mental Health' (YAM) is a programme offered to Year 9 students in County Durham secondary schools and has been shown to

- reduce depression and anxiety, self-harm / suicide attempts and facilitate healthy lifestyle choices
- A significant restructure within Early Help, Assessment and Safeguarding Services was undertaken which included the creation of an Edge of Care service (Supporting Solutions) and pre-birth social work team
- Good progress has been made in relation to looked after children's health, with 90% having had the required number of health assessments and 95% having a dental check - this is better than last year and the national averages
- The Local Safeguarding Children Board received the Investing in Children Award

Altogether Better for Children and Young People Statistics

- Almost half of all children in County Durham (47%) live in the top 30% most deprived communities in the country
- Almost 9 in 10 children under the age of two living in the county's most deprived communities are registered with, and have sustained contact with, a Children's Centre
- There are around 800 children in care at any one time - this is in addition to around 450 children on a child protection plan and 3,500 children in need
- Almost a quarter of school children are overweight or obese at reception (age 4-5) and this rises to over a third at year six (age 10 to 11)
- Educational attainment decreases at Key Stage 4 (GCSE-level), with County Durham performing worse than the national average, and fewer pupils are in secondary schools judged by Ofsted to be good or outstanding than nationally

- **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

- The Stop Smoking Service helped 2,790 people to quit smoking
- The percentage of people in the county who have been screened for breast and bowel cancer is higher than regional and national averages
- The target to help 1,220 clients through the Wellbeing for Life Service between April and September 2017 was exceeded – and Health Trainers supported 1,536 people in the community
- The council achieved bronze level for the Better Health At Work Award
- A mental health promotion, prevention and wellbeing model has been developed with Public Health
- Delayed transfers of care attributable to adult social care remain low and are better than national and regional averages
- Our flagship Dementia Advisor Service has been re-commissioned

- The council supported the implementation of Teams Around Patients (TAP) through the integration of health and social care services and the Integration Steering Group
- The Durham Humanitarian Support Partnership project was shortlisted as a finalist in the Municipal Journal 2018 Achievement Awards
- More than £2m was invested in four leisure centres, to improve swimming pools and programming aimed at increasing participation in the sport
- Run Durham attracted 470 participants, with 9 running groups established and 90 “Couch to 5k” graduates completing the Durham City Run

Altogether Healthier Statistics

- Life expectancy and healthy life expectancy is statistically significantly lower in County Durham than England – and within the county, the gap in life expectancy between the most and least deprived is 6.9 years for men and 7.6 years for women
- There are currently almost 50 factsheets and associated needs assessments published on the County Durham Integrated Needs Assessment website, with further development being undertaken
- The council’s directly managed leisure centres had 4,131,227 visits during the year
- The proportion of people using services in the county, who say that those services have made them feel safe and secure, is 89.3% compared to 86.4% nationally
- Across the leisure centres, there are 12,688 gym memberships, 3,288 Aqualearn memberships and 1,340 ‘swim only’ memberships

- **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

Achievements

- The council won national recognition in the Municipal Journal Achievement Awards 2017 for its ‘Dying to be Cool’ campaign around water safety, for its “excellence in community engagement”
- A successful partnership funding bid between police forces in Northumbria, Durham, Cleveland, West Yorkshire, North Yorkshire and Humberside was awarded £6.087m over three years to transform domestic abuse services
- A grant of £0.31m over three years has been awarded to a partnership supported by Durham County Council for a project which aims to reduce violence against women and girls, through the development of a specialist perpetrator initiative aimed at non-high risk, high volume service users
- Care Connect responded to 46,086 emergency calls from vulnerable and/or at-risk residents

- Successful Local Government Association Peer Reviews of the Safe Durham Partnership and Safeguarding Adults Board
- The first successful closure of premises under the Anti-Social Behaviour, Crime and Policing Act 2014 was achieved
- During the year, the council used 61,550 tonnes of salt to pre-salt 1,060 miles of roads (priority 1 routes)

Altogether Safer Statistics

- The number of anti-social behaviour incidents reported to the council fell to 8,440 from 10,406 in 2016/17
 - The council maintains approximately 3,700km of roads, 3,400km of footpaths and more than 89,000 street lights and illuminated signs
 - The council provides a total of 2,500 salt bins across the county
 - Arrests for drink and/or drug driving reduced from 834 in 2016/17 to 512 in 2017/18, which is a 37% reduction
- **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

- The council was one of only two in the country to achieve a maximum 3 star efficiency rating from the Department for Transport
- 14 Green Flag Awards for Parks and Cemeteries – the highest 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), with 71 successful prosecutions
- Finalist in the Local Government Chronicle Awards for community resilience to flooding
- Operation Spruce Up, the campaign to 'clean up' and 'green up' front streets in local communities won the 'campaign of the year' at Keep Britain Tidy's Network Awards 2018
- The council collected, stored, handled, transported and treated over 250,000 tonnes of Solid Municipal Waste generated within the county from over 14m bin collections
- 4 Waste Transfer Stations were refurbished / replaced to improve efficiency, staff and visitor welfare and security
- Over 93 "Bin it Right" presentations on recycling and waste issues were delivered to schools, AAP's, community groups and residents associations - engaging over 7,841 residents
- 148 small businesses were supported through the Business Energy Efficiency Project (BEEP) to address energy efficiency and save money through reducing their energy consumption

-
- The council created a new shared use pedestrian and cycle path at Durham Railway Station, to improve pedestrian and cycle access

Altogether Greener Statistics

- Approximately 97% of municipal waste was diverted from landfill
- Almost 70,000 properties signed up to the garden waste collection scheme, with 233kg of garden waste collected per household
- 12,913 people visited heritage sites within the county as part of the Heritage Open Days held in September 2017
- 3,363 people visited Binchester Roman Fort and the number of school groups increased by approximately 30% compared to 2016

- **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

- Digital Durham won project of the year in the North East IT and Technology Awards and more council tax/ business rates bills have been issued electronically
- The Council was awarded Level 2 of the Disability Confident Scheme
- Holocaust Memorial Day in January 2018 – 12 schools and 268 pupils attended the event, with 150 people attending the Holocaust Memorial Day exhibition at Durham Town Hall
- Conducted County Durham Town Centre Surveys and developed the new online / interactive Town Centre Surveys Story Maps
- Secured collaborative working (and funding) with County Durham Housing Group in relation to counter-fraud work
- Secured Local Government Association support for the Prevention Agenda – only 14 areas nationally have secured this support
- The REfUSE Café, a new venture by one of our AAPs, uses surplus supermarket food to provide meals on a pay-as-you-can basis for vulnerable people
- Implementation of Armed Forces Outreach Service following a successful bid to the Ministry of Defence Covenant Fund (£240k) in partnership with Gateshead and Northumberland Councils
- Buildings & Facilities Maintenance was awarded the Association of Public Sector Excellence 2017 award for the most improved maintenance provider
- The Street Lighting Team was a 'most improved performer' finalist in the Street Lighting category of the 2017 Association of Public Sector Excellence awards

7. Significant Issues for 2018/19 and Beyond

Economic climate

Since 2010, the 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. The Government will produce a Comprehensive Spending Review in 2019 with the implementation of a Fair Funding expected from April 2020. Both of these processes will significantly shape the financial future of the Council.

The Council continues to face a range of significant budget pressures including general inflation, cost pressures in the care sector, increases in the number of adults and children needing support and rising levels of need, increases in demand for everyday services as the population grows, and increases in core costs such as 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

Whilst still 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. The implications of leaving the EU are still 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.

Post the EU Referendum, the Chancellor gave a guarantee that all projects approved prior to Brexit will have their funding honoured. Since then there have been further commitments to deliver the current 2014-2020 European Structural and Investment Funds Programme out in full. Within Durham we are continuing to work with partners to invest and commit resources; currently there is 70% of European Regional Development Fund (ERDF) and 75% of European Structural Funds (ESF) committed (a total of £89.8m in contracted projects or those at full application stage). Further ERDF open calls are expected in the Autumn 2018. A key concern going forward is what successor funding is put in place post Brexit.

It is too early to understand the full implications of Brexit on jobs and investment in the County until trade negotiations are finalised. 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 2017/18 continues to be good. The revenue outturn with a £13.618m 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 2018/19 and future years.

In 2017/18, 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 2018/19.

10. Receipt of Further Information

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

11. Explanation of Accounting Statements

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

The **core statements** are:

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

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

- **Movement in Reserves Statement**

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

- **Balance Sheet**

This shows the value of the assets and liabilities recognised by the Council as at 31 March. The net assets (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category consists of usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category consists of reserves that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

- **Cash Flow Statement**

This presents the changes in cash and cash equivalents during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows into operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income, or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are

useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

The **supplementary statements** are:

- **Collection Fund**

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

- **Durham County Council Pension Fund Accounts**

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

- **Annual Governance Statement**

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

- **Glossary of Terms**

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

Notes to the Accounts are fundamentally important in the presentation of a true and fair view. They aim to assist understanding and have three significant roles:

- presenting information about the basis of preparation of the financial statements and the specific accounting policies used;
- disclosing information required by the Code that is not presented elsewhere in the financial statements, for example sub-classification of Property, Plant and Equipment; and
- providing information that is not provided elsewhere in the financial statements, but is relevant to the understanding of any of them, this applies to information that is material in a qualitative rather than quantitative sense, for example, transactions with Related Parties.

The Council's Responsibilities

The Council is required to:

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

The Corporate Director of Resources' Responsibilities

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

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

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

The Corporate Director of Resources has also:

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

Certificate of the Corporate Director of Resources

I certify that the Statement of Accounts, which includes the Pension Fund financial statements, presents a true and fair view of the financial position of the Council as at 31 March 2018 and its expenditure and income for the year ended 31 March 2018.

John Hewitt

Corporate Director of Resources

31 July 2018

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 31 July 2018.

Edward Bell

Chairman of the Audit Committee

Chair of the meeting approving the Accounts

31 July 2018

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

Opinion on the Council's financial statements

We have audited the financial statements of Durham County Council ('the Council') for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and notes to the financial statements, including the summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2018 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 2017/18.

Opinion on the Pension Fund financial statements

We have audited the financial statements of Durham County Council Pension Fund for the year ended 31 March 2018 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, including the summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018 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 2017/18.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other

ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Corporate Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement Responsibilities, the Corporate Director of 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 2017/18, and for being satisfied that they give a true and fair view. The Corporate Director of Resources is also responsible for such internal control as the Corporate Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporate Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Conclusion on Durham County Council's arrangements for securing economy, efficiency and effectiveness in the 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 in November 2017, we are satisfied that, in all significant respects, Durham County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. 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.

Responsibilities of the Council

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.

Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) 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. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. 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.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- 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 sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

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 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Certificate

We certify that we have completed the audit of Durham County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

A handwritten signature in black ink, appearing to read 'M Kirkham', is centered on the page. The signature is written in a cursive style with a large initial 'M'.

Mark Kirkham

31 July 2018

For and on behalf of Mazars LLP

Salvus House

Aykley Heads

Durham

DH1 5TS

Movement in Reserves Statement

2017/18:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2017 brought forward	23,004	233,544	362	-	256,910	112,101	369,011
Movement in Reserves during 2017-18							
Total Comprehensive Income and Expenditure	-16,998	-	-	-	-16,998	44,269	27,271
Adjustments between accounting basis and funding basis under regulations (Note 9)	9,383	-	-44	-	9,339	-9,339	-
Earmarked capital receipts adjustment*			-310		-310	-	-310
Net Increase/Decrease in Year before Transfers to Earmarked Reserves	-7,615	-	-354	-	-7,969	34,930	26,961
Transfers to/from Earmarked Reserves (Note 10)	9,111	-9,111	-	-	-	-	-
Balance at 31 March 2018 carried forward	24,500	224,433	8	-	248,941	147,031	395,972

* £0.310m in respect of proceeds from historic property sales held in trust for charitable purposes have been reclassified from earmarked capital receipts into Trust Funds in 2017/18. Trust Funds are held within creditors on the Balance Sheet.

2016/17:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2016 brought forward	29,101	241,643	362	524	271,630	296,498	568,128
Movement in Reserves during 2016-17							
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	-
Net Increase/Decrease in Year before Transfers to Earmarked Reserves	-14,196	-	-	-524	-14,720	-184,397	-199,117
Transfers to/from Earmarked Reserves (Note 10)	8,099	-8,099	-	-	-	-	-
Balance at 31 March 2017 carried forward	23,004	233,544	362	-	256,910	112,101	369,011

31 March 2017		31 March 2018	
£000	Notes	£000	
1,616,901	Property, Plant and Equipment	14	1,751,476
15,747	Heritage Assets	15, 49	15,552
3,694	Investment Property	16	7,379
1,987	Intangible Assets		3,691
13,735	Long Term Investments	17	19,624
23,816	Long Term Debtors	17	19,242
1,675,880 Long Term Assets			1,816,964
140,063	Short Term Investments	17	136,073
8,604	Assets Held for Sale	22	2,011
3,908	Inventories	19	5,000
53,732	Short Term Debtors	20	67,926
33,340	Cash and Cash Equivalents	21	35,032
239,647 Current Assets			246,042
-2,879	Short Term Borrowing	17	-13,071
-102,318	Short Term Creditors	23	-114,256
-7,796	Provisions	24	-7,594
-3,117	Capital Grants Receipts in Advance	38	-4,457
-116,110 Current Liabilities			-139,378
-9,648	Provisions	24	-13,288
-256,226	Long Term Borrowing	17	-281,210
	- Capital Grants Receipts in Advance	38	-628
-1,120,277	Other Long Term Liabilities - Pensions	46	-1,188,233
-44,255	Other Long Term Liabilities - Other	41, 42	-44,297
-1,430,406 Long Term Liabilities			-1,527,656
369,011 Net Assets			395,972
256,910	Usable Reserves	25	248,941
112,101	Unusable Reserves	26	147,031
369,011 Total Reserves			395,972

Cash Flow Statement

2016-17		2017-18
£000		£000
59,674	Net surplus (-) or deficit on the provision of services	16,999
-134,152	Adjustments to net surplus or deficit on the provisions of services for non-cash movements (Note 27)	-52,309
7,160	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 28)	13,139
<hr/>		<hr/>
-67,318	Net Cash flows from Operating Activities	-22,171
92,591	Investing Activities (Note 30)	63,126
-19,623	Financing Activities (Note 31)	-42,647
<hr/>		<hr/>
5,650	Net increase (-) or decrease in cash and cash equivalents	-1,692
38,990	Cash and cash equivalents at 1 April	33,340
<hr/>		<hr/>
33,340	Cash and cash equivalents at 31 March	35,032
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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.

1. Accounting Policies

1.1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18 (the Code) and the Service Reporting Code of Practice 2017/18 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

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

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

1.2. Accruals of Income and Expenditure

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

- Revenue from 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 Council has a policy of not accruing for manual sundry creditor or sundry debtor provisions for less than £10,000 other than in exceptional circumstances.

1.3. Business Improvement District Schemes

A Business Improvement District (BID) scheme 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.

1.4. Cash and Cash Equivalents

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

1.5. Exceptional Items

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

1.6. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

1.7. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue 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.

1.8. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees. These are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. These benefits are charged on an accruals basis to the Comprehensive Income and Expenditure

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

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

Post Employment Benefits

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

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

These schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the Teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Children and Young People's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The Adult and Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension scheme in the year.

The Local Government Pension Scheme

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

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

- Liabilities are discounted to their value at current prices, using a discount rate provided by the actuary.
- The assets of Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 1. Quoted securities – current bid price.
 2. Unquoted securities – professional estimate.
 3. Unitised securities – current bid price.
 4. Property – market value

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

- Service cost, comprising:
 - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
 - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
 - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Corporate Costs.
- Remeasurements, comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Durham County Council Pension Fund – cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits

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

1.9. Events After the Reporting Period

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

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

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

1.10. Financial Instruments

Financial Liabilities

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

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

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. 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. 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 instruments for which there is no quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured – at cost.

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 in respect of assets and liabilities for which fair value is measured or disclosed are categorised within the fair value hierarchy, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: unobservable inputs for the asset or liability.

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).

1.11. Foreign Currency Translation

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

1.12. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and

contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

1.13. Heritage Assets

Tangible and Intangible Heritage Assets

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

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

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

Recognition and measurement

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets and the 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, or cost information is available, heritage assets are not recognised on the Balance Sheet, however they are disclosed in the narrative notes to the financial statements.

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

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

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

Museum Collections and Artefacts

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

Artwork, including Public Art and Sculptures

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

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

Monuments, Statues and Historic Buildings

This includes war and colliery memorials, statues and non-operational historic buildings around the county. Some items in this collection are reported at insurance value, some at

existing use value and some at cost. There are a number for which no value is available and they are not reported on the balance sheet.

Civic Regalia and Silverware

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

Geophysical / Archaeological

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

Depreciation

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

Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment 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.

1.14. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it

can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

1.15. Interests in Companies and Other Entities

The Code requires local authorities to produce group accounts to reflect significant activities provided to Council 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 joint arrangements against the criteria for group accounts, as set out in the Code, and has concluded that there are no such material interests that require the preparation of group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

1.16. Inventories and Long Term Contracts

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

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

1.17. Investment Property

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

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

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

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

1.18. Joint Operations

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

1.19. Leases

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

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

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

The County Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. 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.

1.20. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017/18 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate Costs. These are costs relating to the Council's status as a multifunctional, democratic organisation, the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

1.21. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), 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 2017/18 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.

1.22. Service Concession Arrangements (Private Finance Initiative (PFI) and Similar Contracts)

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

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.

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.

1.23. Provisions

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

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

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

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.

1.24. 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.

1.25. 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.

1.26. 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.

1.27. 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.

1.28. 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.

1.29. 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.

1.30. 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 Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.

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

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

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

1.31. 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 2018/19 Code:

- 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 15 Revenue from Contracts with Customers: local authorities will be required to recognise revenue in such a way that provides an understanding of the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Its impact is not expected to be material as the Council has relatively predictable income streams.

The transitional reporting requirements for IFRS 9 and IFRS 15 are such that the preceding year does not need to be restated.

The following change to accounting standards is set for adoption in future Codes:

- IFRS 16 Leases: this new standard replaces IAS 17 from 2019/20; it removes the existing classifications of operating and finance leases and establishes a new model for lessees. The impact on the accounts could be material; a detailed review of leasing arrangements will commence during 2018, after the CIPFA Code has been finalised.

3. Critical Judgements in Applying Accounting Policies

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

- Funding of Local Government -There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Academy Schools - four schools transferred to academy status in 2017/18. 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 £21.043m, 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, or the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then they are not included on the Council's Balance Sheet.

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

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	11	134	13	9	167
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
	Maintained Schools	11	197	16	10	234
e)	Academies	-	18	12	1	31
	Total	11	215	28	11	265

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

- Group Accounts – The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which can be found in Note 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 2017/18.

- Pension Fund Advance Payment – In April 2017 the Council made an advance payment of £55.890m to the Pension Fund in respect of amounts due from 2017/18 to 2019/20. The Council has spread this charge to the General Fund in equal annual instalments of £18.630m over the three year period, as permitted by the Code, and the Actuary's Rates and Adjustment Certificate dated 31 March 2016, which sets out the pension contribution rates payable.

While the pensions liability is reduced by the full prepayment, the pensions reserve is credited only with the amount charged to the General Fund. This has resulted in a difference of £37.260m between the pensions liability and the pensions reserve reported in the Balance Sheet at 31 March 2018. This difference will reduce to £18.630m at 31 March 2019 and zero at 31 March 2020, as the instalments are charged to the CIES.

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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.	<p>The impact of a change in valuation or useful life would be to affect the carrying value of the asset in the balance sheet and the charge for depreciation or impairment in the CIES.</p> <p>These changes do not have an impact on the Council's General Fund position as the Council is not required to fund such non-cash charges from council tax receipts.</p> <p>Accumulated depreciation totalled £249m as at 31 March 2018 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £2.490m.</p>
Property, plant and equipment	Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the Council.	<p>If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets are next revalued.</p> <p>A 1% change in asset valuation would equate to £17.515m.</p>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £53.480m.</p> <p>To understand the magnitude of the possible volatility in the balance sheet</p>

Item	Uncertainties	Effect if actual results differ from assumptions
	Fund engages a firm of specialist actuaries to provide the Council with expert advice about the assumptions to be applied.	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 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. Results from the sensitivity analysis are disclosed in Note 46 and indicate how the figures are sensitive to the assumptions used.
Insurance Provision	The value of provisions that will be used in 2018/19 is uncertain. Based on previous experience, an amount of £2.477m has been classified as short term to reflect the likely use of this provision in 2018/19.	If the short term provision is not used during 2018/19, the annual review of the insurance provision will ensure that an appropriate amount is included in the 2018/19 accounts.
Arrears	At 31 March 2018, the Authority had a balance of short term debtors of £87.383m. A review of significant balances suggested that an impairment of doubtful debts of 26.45% (£23.113m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £23.113m to be set aside as an allowance.

5. Material Items of Income and Expense

There are no material items of Income and Expenditure to be disclosed separately in the Statement of Accounts in 2017/18.

6. Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Corporate Director of Resources on 31 May 2018. 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 2018, the figures in the financial

statements and notes have been adjusted in all material respects to reflect the impact of this information.

Academy Schools

Five local authority schools are due to convert to Academy status during 2018/19 which was a non-adjusting event in 2017/18. This change in status will lead to the removal of these schools from the Balance Sheet in 2018/19 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 £30.468m, which is the carrying value of the assets in the balance sheet.

Leisureworks

With effect from 1 April 2018 all operations and services previously provided by Derwentside Trust for Sport and the Arts, trading as Leisureworks, are transferring into the management of the Council. From 2018/19, the cost of providing these services will be reflected in the Comprehensive Income and Expenditure Statement, within Regeneration and Local Services, and the net liabilities of Leisureworks will be included in the Council's Balance Sheet.

7. Expenditure and Funding Analysis

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

2016-17 (restated)				2017-18		
Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
153,047	-1,204	151,843	Adult and Health Services	129,228	1,280	130,508
79,986	48,443	128,429	Children and Young People's Services	81,884	13,251	95,135
97,984	28,315	126,299	Regeneration and Local Services	93,465	43,878	137,343
13,778	459	14,237	Resources	13,257	2,189	15,446
10,370	3,504	13,874	Transformation and Partnerships	9,956	2,796	12,752
4,701	942	5,643	Corporate Costs	4,497	1,778	6,275
359,866	80,459	440,325	Net Cost of Services	332,287	65,172	397,459
-383,512	2,861	-380,651	Other Income and Expenditure	-366,861	-13,599	-380,460
37,842	-37,842	-	Adjustments between Funding and Accounting basis outside the CIES	42,189	-42,189	-
14,196	45,478	59,674	Surplus or Deficit	7,615	9,384	16,999
-270,744			Opening General Fund Balance (including earmarked reserves) at 1 April	-256,548		
14,196			Less Surplus or Deficit on General Fund Balance in year	7,615		
-256,548			Closing General Fund Balance (including earmarked reserves) at 31 March	-248,933		

During 2017/18, a small number of functions were realigned between services. The 2016/17 comparative figures have been restated to reflect these changes. There is no net impact on the Cost of Services or the Surplus or Deficit on the Provision of Services. A summary of the restatement is set out in Note 52.

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.

2016-17 (restated)				2017-18				
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
778	-1,985	3	-1,204	Adult and Health Services	885	418	-23	1,280
55,401	-3,801	-3,157	48,443	Children and Young People's Services	8,948	727	3,576	13,251
31,595	-3,283	3	28,315	Regeneration and Local Services	44,281	-360	-43	43,878
2,647	-2,185	-3	459	Resources	2,697	-524	16	2,189
4,015	-510	-1	3,504	Transformation and Partnerships	3,052	-275	19	2,796
-	942	-	942	Corporate Costs	-	1,778	-	1,778
94,436	-10,822	-3,155	80,459	Net Cost of Services	59,863	1,764	3,545	65,172
-26,859	29,720	-	2,861	Other Income and Expenditure from the Funding Analysis	-40,699	27,100	-	-13,599
-33,987	-	-3,855	-37,842	Adjustments between Funding and Accounting basis outside the CIES	-40,604	-	-1,585	-42,189
33,590	18,898	-7,010	45,478	Difference between surplus or deficit on General Fund Balance in year and CIES surplus or deficit	-21,440	28,864	1,960	9,384

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:

2016-17		2017-18
£000		£000
-42,070	Adult and Health Services	-42,311
-21,618	Children and Young People's Services	-20,752
-40,774	Regeneration and Local Services	-45,888
-8,901	Resources	-8,446
-126	Transformation and Partnerships	-160
-354	Corporate Costs	-247
-113,843		-117,804

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.

2016-17		2017-18
£000		£000
	Expenditure	
504,123	Employee benefits expenses	525,216
636,655	Other service expenditure	647,157
103,861	Depreciation, amortisation and other capital charges	69,377
27,442	Precepts and levies	27,831
17,125	Amounts of non-current assets written off on disposal	19,255
14,212	Interest payable	14,707
1,303,418	Total Expenditure	1,303,543
	Income	
-128,028	Fees, charges and other service income	-134,512
-6,790	Capital receipts	-13,794
-258,547	Council Tax and non domestic rates	-260,747
-834,581	Grants and contributions	-859,711
-15,798	Other income	-17,780
-1,243,744	Total Income	-1,286,544
59,674	Surplus or Deficit on Provision of Services	16,999

9. Adjustments Between Accounting Basis and Funding Basis Under Regulations

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

This holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/ or the financial year in which this can take place.

2017/18:

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments to Revenue Resources				
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)	-28,864	-	-	28,864
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	198	-	-	-198
• Council Tax and NDR (transfers to or from Collection Fund)	1,387	-	-	-1,387
• Holiday pay (transferred to the Accumulated Absences Reserve)	-3,545	-	-	3,545
• 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	-61,671	-	-	61,671
◦ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	9,099	-	-	-9,099
◦ Amounts of non-current assets written off on disposal or sale	-19,238	-	-	19,238
◦ Revenue expenditure funded from capital under statute	-15,253	-	-	15,253
◦ Capital grants and contributions credited to the CI&E Statement	54,124	-	-	-54,124
Total Adjustments to Revenue Resources	-63,763	-	-	63,763
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	13,778	-13,140	-	-638
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-2	2	-	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	12,120	-	-	-12,120
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	28,484	-	-	-28,484
Total Adjustments between Revenue and Capital Resources	54,380	-13,138	-	-41,242
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	-	14,836	-	-14,836
Application of capital grants unapplied to finance capital expenditure	-	-	-	-
Cash payments in relation to deferred capital receipts	-	-1,654	-	1,654
Total Adjustments to Capital Resources	-	13,182	-	-13,182
Total Adjustments	-9,383	44	-	9,339

2016/17:

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
Adjustments to Revenue Resources				
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):				
◦ Depreciation and amortisation of non-current assets	-58,176	-	-	58,176
◦ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-29,784	-	-	29,784
◦ Amounts of non-current assets written off on disposal or sale	-17,105	-	-	17,105
◦ Revenue expenditure funded from capital under statute	-15,900	-	-	15,900
◦ Capital grants and contributions credited to the CI&E Statement	46,626	-	-	-46,626
Total Adjustments to Revenue Resources	-86,227	-	-	86,227
Adjustments between Revenue and Capital Resources				
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
Total Adjustments between Revenue and Capital Resources	40,749	-6,238	-	-34,511
Adjustments to Capital Resources				
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
Total Adjustments to Capital Resources	-	6,238	524	-6,762
Total Adjustments	-45,478	-	524	44,954

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 2016	Transfers out 2016-17	Transfers in 2016-17	Balance at 31 March 2017	Transfers out 2017-18	Transfers in 2017-18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Balances held by schools under a scheme of delegation	24,083	-4,247	-	19,836	-1,421	-	18,415
Budget Support Reserve	30,000	-1,624	14,246	42,622	-12,622	-	30,000
Business Growth Fund Reserve	816	-52	-	764	-20	-	744
Cash Limit Reserves	22,300	-11,597	5,551	16,254	-2,158	4,191	18,287
Children's Services Reserve	5,835	-3,252	2,402	4,985	-3,599	489	1,875
Commercialisation Support Reserve	-	-	-	-	-	4,000	4,000
Culture and Sport Reserve	3,055	-1,776	1,252	2,531	-767	1,916	3,680
Direct Services Reserve	3,182	-2,185	1,608	2,605	-337	637	2,905
DSG Reserve	12,185	-1,026	-	11,159	-6,425	-	4,734
Economic Development Reserve	783	-	1,381	2,164	-664	-	1,500
Education Reserve	4,855	-414	5,789	10,230	-391	4,447	14,286
Employability and Training Reserve	1,706	-1,684	103	125	-68	-	57
Env. Health and Consumer Protection Reserve	814	-106	-	708	-99	126	735
Equal Pay Reserve	9,529	-642	11,253	20,140	-631	-	19,509
Funding and Programmes Management Reserve	156	-	234	390	-	90	480
Housing Regeneration Reserve	320	-70	841	1,091	-26	21	1,086
Housing Solutions Reserve	1,142	-121	306	1,327	-12	365	1,680
Housing Stock Transfer Reserve	1,000	-1,000	-	-	-	-	-
Inspire Programme Reserve	-	-	2,664	2,664	-1,285	-	1,379
Insurance Reserve	10,228	-2,600	2,363	9,991	-	1,494	11,485
MTFP Redundancy and Early Retirement Reserve	13,859	-5,849	4,812	12,822	-5,315	-	7,507
Neighbourhoods AAP Reserve	48	-3	-	45	-	26	71
North Pennines AONB Partnership Reserve	205	-	123	328	-	974	1,302
Office Accommodation Capital Reserve	42,481	-1,836	-	40,645	-9,591	677	31,731
Office Accommodation Project Support Reserve	697	-620	-	77	-	-	77
Pension Deficit Reserve	10,000	-10,000	-	-	-	-	-
Performance Reward Grant Reserve	685	-47	-	638	-600	-	38
Planning Reserve	1,869	-573	220	1,516	-	57	1,573
Public Health Reserve	4,955	-2,109	590	3,436	-1,812	1,319	2,943
REAL Match Fund Programme Reserve	2,012	-457	180	1,735	-82	-	1,653
Resources Corporate Reserve	931	-438	485	978	-500	412	890
Resources Customer Services Reserve	233	-23	-	210	-	136	346
Resources DWP Grant Reserve	2,034	-678	325	1,681	-69	621	2,233
Resources Elections Reserve	1,010	-	-	1,010	-598	296	708
Resources Housing Benefit Subsidy Reserve	500	-67	-	433	-	387	820
Resources Human Resources Reserve	65	-57	89	97	-	329	426
Resources ICT Reserves	1,727	-1,226	458	959	-328	695	1,326
Resources Land Search Fees Reserve	444	-476	32	-	-	-	-
Resources Legal Reserves	354	-	-	354	-	-	354
Resources Registrars Trading Reserve	-	-	-	-	-	200	200
Resources Revenue and Benefits Reserve	200	-	100	300	-	680	980
Resources Single Fraud Incentive Scheme	257	-257	-	-	-	-	-
Resources System Development Reserve	874	-178	29	725	-813	500	412
Restructure Reserve	188	-74	-	114	-	-	114
Social Care Reserve	13,363	-7,196	170	6,337	-686	15,584	21,235
Strategic Waste Reserve	136	-	-	136	-136	-	-
T&P AAP/Members Reserve	3,606	-1,124	-	2,482	-631	-	1,851
T&P Grant Reserve	1,412	-264	24	1,172	-89	141	1,224
T&P Operational Reserve	747	-33	176	890	-209	891	1,572
T&P Transformation Reserve	-	-	-	-	-	2,147	2,147
Technical Services Reserve	4,353	-1,073	1,351	4,631	-1,935	102	2,798
Transport Asset Management Programme Reserve	160	-160	-	-	-	-	-
Transport Reserve	249	-42	-	207	-42	900	1,065
Total	241,643	-67,256	59,157	233,544	-53,961	44,850	224,433

The significant earmarked reserves at 31 March 2018, together with a brief explanation of their purpose, were as follows:

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.

Commercialisation Support Reserve

To provide resources to enable the authority to improve value for money in the context of its commercialisation agenda.

Culture and Sport Reserve

To provide resources to support future cultural and sporting projects.

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.

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 2018 comprised individual school balances totalling £18.415m, net of loans outstanding of £0.032m.

Social Care Reserve

To fund future health and social care-related projects, in particular to support further integrated work with local NHS partners.

11. Other Operating Expenditure

2016-17		2017-18
£000		£000
11,513	Parish council precepts	11,851
15,929	Levies	15,980
8	Payments to the Government Housing Capital Receipts Pool	2
10,334	Gains/losses on the disposal of non-current assets	5,461
37,784	Total	33,294

12. Financing and Investment Income and Expenditure

2016-17		2017-18
£000		£000
14,212	Interest payable and similar charges	14,707
29,720	Pensions net interest on the net defined benefit liability	27,100
-5,852	Interest receivable and similar income	-3,614
48	Impairment of Financial Investments	-
-1,331	Income and expenditure in relation to investment properties and changes in their fair value	-1,198
-2,409	Other investment income	-3,076
34,388	Total	33,919

13. Taxation and Non-Specific Grant Income

2016-17		2017-18
£000		£000
-201,341	Council tax income *	-210,944
-57,206	Non domestic rates	-49,803
-158,407	Non-ringfenced government grants	-141,602
-35,870	Capital grants and contributions	-45,324
-452,824	Total	-447,673

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

14. Property, Plant and Equipment

Movement on Balance 2017/18:

	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	
Cost or valuation							
At 1 April 2017	1,170,210	131,434	556,246	7,232	42,869	1,427	1,909,418
Additions	33,007	9,121	37,759	67	1,069	912	81,935
Revaluation increases/(decreases)	98,060		-45	-1,226	-9,278	-	87,511
Derecognition - disposals	-24,863	-48,563			-3,890		-77,316
Assets reclassified (to)/from Held for Sale					301		301
Other reclassifications	-9,582			-3,165	11,623	-1,427	-2,551
Other movements in cost or valuation							-
At 31 March 2018	1,266,832	91,992	593,960	2,908	42,694	912	1,999,298
Accumulated Depreciation and Impairment							
At 1 April 2017	-59,032	-97,719	-135,467	-88	-210	-	-292,516
Depreciation charge	-35,862	-10,456	-14,424		-234		-60,976
Depreciation written out on revaluation	44,888				230		45,118
Impairment losses/(reversals)	-1,687				-2,132		-3,819
Derecognition - disposals	14,069	47,825			2,474		64,368
Assets reclassified (to)/from Held for Sale					2		2
Other reclassifications	460				-459		1
Other movements in cost or valuation							-
At 31 March 2018	-37,164	-60,350	-149,891	-88	-329	-	-247,822
Net Book Value							
At 31 March 2018	1,229,668	31,642	444,069	2,820	42,365	912	1,751,476
At 31 March 2017	1,111,178	33,715	420,779	7,144	42,659	1,427	1,616,902
The Revaluations / Impairments above:							
Revaluation	98,060	-	-45	-1,226	-9,278	-	87,511
Depreciation written out	44,888	-	-	-	230	-	45,118
Impairment losses/(reversals)	-1,687	-	-	-	-2,132	-	-3,819
	141,261	-	-45	-1,226	-11,180	-	128,810
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	130,346	-	-	-741	-6,145	255	123,715
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	12,602	-	-45	-485	-2,903	-255	8,914
Impairment losses in the Revaluation Reserve	-1,265	-	-	-	-1,899	-	-3,164
Impairment losses in the Surplus/Deficit on the Provision of Services	-422	-	-	-	-233	-	-655
	141,261	-	-45	-1,226	-11,180	-	128,810

Comparative Movements in 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		
Cost or valuation								
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	-	-	-	-	-	-	-	
At 31 March 2017	1,170,210	131,434	556,246	7,232	42,869	1,427	1,909,417	
Accumulated Depreciation and Impairment								
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	-	-	-	-	-	-	-	
At 31 March 2017	-59,032	-97,719	-135,467	-88	-210	-	-292,516	
Net Book Value								
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	
	31,191	-	-15	-	-3,934	-	27,242	
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	
	31,191	-	-15	-	-3,934	-	27,242	

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;
- 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 2018 (£42.365m) 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 2018 the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £6.788m in future years. Similar commitments at 31 March 2017 were £20.114m. The commitments at 31 March 2018 are:

• Energy Efficiency Programme	£2.092m
• Horden Railway Station	£0.776m
• Forrest Park	£0.562m
• Digital Durham	£2.858m
• New Bowburn Primary School	£0.500m

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
Cost or valuation					
At 1 April 2017	8,961	823	4,804	1,158	15,746
Additions	-	-	28	-	28
Disposals	-	-	-	-	-
Revaluations	-	-	-37	-	-37
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	-	-164	-22	-	-186
Other reclassifications	-	-	-	-	-
At 31 March 2018	8,961	659	4,773	1,158	15,551
Cost or valuation					
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	-	-	-	-	-
At 31 March 2017	8,961	823	4,804	1,158	15,746

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:

2016-17		2017-18
£000		£000
-1,891	Rental Income from Investment Property	-1,981
1,680	Direct Operating Expenses arising from Investment property	1,621
<u>-211</u>	Net (-) Gain / Loss	<u>-360</u>

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

2016-17	2017-18
£000	£000
2,266 Balance at start of the year	3,693
Additions:	
- Enhancements	-
- Disposals	-
1,302 Net gains/losses from fair value adjustments	948
Transfers:	
125 To/from Property, Plant and Equipment	2,737
3,693 Balance at end of the year	7,378

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 2018 (£7.378m) 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:

2016-17			2017-18	
Long-term £000	Current £000		Long-term £000	Current £000
Investments:				
13	140,063	Loans and receivables	2,160	136,074
-	33,340	Cash and cash equivalents	-	35,032
13,725	-	Available-for-sale financial assets	17,464	-
<u>13,738</u>	<u>173,403</u>	Total Investments	<u>19,624</u>	<u>171,106</u>
Debtors:				
23,816	38,809	Loans and receivables	19,242	52,087
<u>23,816</u>	<u>38,809</u>	Total Debtors	<u>19,242</u>	<u>52,087</u>
Borrowings:				
-256,226	-2,880	Financial Liabilities at amortised cost	-281,210	-13,071
<u>-256,226</u>	<u>-2,880</u>	Total Borrowings	<u>-281,210</u>	<u>-13,071</u>
Other Long term Liabilities:				
-44,254	-3,623	PFI and finance lease liabilities at amortised cost	-44,297	-4,421
<u>-44,254</u>	<u>-3,623</u>	Total other long term liabilities:	<u>-44,297</u>	<u>-4,421</u>
Creditors:				
-	-67,706	Financial liabilities at amortised cost	-	-75,243
-	-	Financial liabilities carried at contract amount	-	-
<u>-</u>	<u>-67,706</u>	Total Creditors	<u>-</u>	<u>-75,243</u>

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 March 2018 of £19.2m (£23.8m 31 March 2017) includes the following:

2016-17 £000		2017-18 £000
5,850	Chapter Homes	5,384
3,649	Durham County Cricket Club	-
9,385	Newcastle International Airport	9,385
1,161	Independent sector care providers	1,127
1,903	Deferred Payment Agreement	1,696
1,868	Other	1,650
<u>23,816</u>	Total	<u>19,242</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 2018 was £0.077m (31 March 2017 £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 2 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 2018 was £0.000m (31 March 2017 £0.001m).

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 2018, the value of soft loans received by the Council was £0.020m (31 March 2017, £0.024m).

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 2017/18.

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:

2016-17 (restated)			2017-18		
Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
£000	£000	£000	£000	£000	£000
14,212	-	14,212	14,707	-	14,707
-	-	-	-	-	-
14,212	-	14,212	14,707	-	14,707
-	-2,730	-2,730	-	-2,198	-2,198
-	-	-	-	-	-
-	-2,730	-2,730	-	-2,198	-2,198
14,212	-2,730	11,482	14,707	-2,198	12,509

Dividend income of £3.122m has been deducted from the interest income figure relating to 2016/17 which was disclosed in last year's accounts, resulting in the restated figure of £2.730m. Dividend income is classed as available for sale financial assets and the restatement is to provide consistent presentation with the 2017/18 figure.

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:

31 March 2017 (restated)			31 March 2018		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
-203,981	-241,049	PWLB borrowing	-238,979	-269,992	
-51,651	-76,614	Non-PWLB borrowing	-51,633	-71,141	
-68,663	-68,663	Short term creditors	-76,234	-76,234	
-2,666	-2,666	Short term finance lease liability	-3,430	-3,430	
-	-	Long term creditors	-	-	
-5,082	-5,082	Long term finance lease liability	-6,115	-6,115	
-40,130	-40,130	PFI liability	-39,173	-39,173	
-372,173	-434,204	Total Liabilities	-415,564	-466,085	

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 Link Asset Services. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. This is a widely accepted valuation technique commonly used by the public sector. Our accounting policy uses new borrowing rates to discount the future cash flows.

The fair 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 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £269.992m 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 £238.979m would be valued at £269.992m. 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 £300.160m.

31 March 2017			31 March 2018		
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000	
140,063	140,063	Short term investments	136,074	136,074	
13	13	Long term investments	2,160	2,160	
38,809	38,809	Short term debtors	52,087	52,087	
23,816	23,816	Long term debtors	19,242	19,242	
202,701	202,701	Total Loans and Receivables	209,563	209,563	

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.

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 £17.464m 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.

As at 31 March 2017 £000	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2018 £000
Equity Shareholding in:				
10,558	Newcastle International Airport Ltd.	Level 2	Inputs other than quoted prices in active markets that are observable for the asset	10,558
-	Durham Tees Valley Airport Ltd.	Level 3	Valued at cost	-
1,715	Chapter Homes.	Level 3	Valued at cost	1,715
300	Polyphotonix.	Level 3	Valued at cost	300
1,000	Forrest Park (Newton Aycliffe).	Level 3	Valued at cost	1,000
152	Atom Bank.	Level 3	Valued at cost	152
-	Durham County Cricket Club.	Level 3	Valued at cost	3,739
13,725	Total			17,464

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.

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 22 February 2017 and updated on 6 December 2017 and is available on the Council's website.

The key issues within the strategy were:

- The Authorised Limit for 2017/18 was set at £555m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was set at £502m. 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 70% 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 Link Asset Services. 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 £171.765m 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 2018 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 £23.042m of the £54.771m balance is past its due date for payment. The amount past its due date for payment can be analysed by age as follows:

31 March 2017		31 March 2018
£000		£000
12,205	Less than three months	16,903
2,299	Between three and six months	1,210
1,239	Between six months and one year	2,050
2,563	More than one year	2,879
<u>18,306</u>	Total	<u>23,042</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 2018 was £2.310m.

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 2018 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 2018 is that 85.5% of the outstanding balance has been repaid and recovery of between 86.25%-87.0% is expected.

Liquidity Risk

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

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

Refinancing and Maturity Risk

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

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

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

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

31 March 2017		31 March 2018
£000		£000
7	Less than one year	10,007
10,002	Between one and two years	12,002
22,028	Between two and five years	20,039
62,617	Between five and ten years	66,210
89,887	Between ten and fifteen years	80,264
4,002	Between fifteen and twenty years	1
-	Between twenty and twenty five years	-
67,090	More than twenty five years	102,090
<u>255,633</u>	Total	<u>290,613</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 2018, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £37.116m 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 £17.464m (£13.725m in 2016/17) 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 2017				31 March 2018		
Unquoted Shares £000	Other £000	Total £000		Unquoted Shares £000	Other £000	Total £000
12,308	-	12,308	Opening balance	13,725	-	13,725
1,417	-	1,417	Additions	3,739	-	3,739
13,725	-	13,725	Closing Balance	17,464	-	17,464

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
Year to 31 March 2018						
Consumable Stores	2,785	7,941	-6,989	-	-	3,737
Maintenance Materials	450	271	-276	-	-	445
Client Services Work in Progress	98	142	-115	-	-	125
Rechargeable Works	575	693	-575	-	-	693
Total	3,908	9,047	-7,955	-	-	5,000
Year to 31 March 2017						
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
Total	5,066	14,959	-16,117	-	-	3,908

20. Short Term Debtors

31 March 2017		31 March 2018
£000		£000
11,158	Central government bodies	22,773
5,455	Other local authorities	5,737
2,941	NHS bodies	4,102
55,475	Other entities and individuals	54,771
<u>-24,913</u>	Less: Impairment Allowance	<u>-23,113</u>
50,116		64,270
3,616	Payments in advance	3,656
<u>53,732</u>	Total Debtors	<u>67,926</u>

21. Cash and Cash Equivalents

31 March 2017		31 March 2018
£000		£000
515	Cash at bank	475
-1,953	Overdraft	-1,401
24,340	Cash held on demand (call accounts)	35,132
10,438	Deposits held for liquidity purposes	826
<u>33,340</u>	Cash and Cash Equivalents balance	<u>35,032</u>

22. Assets Held For Sale (Current)

31 March 2017		31 March 2018
£000		£000
6,660	Balance outstanding at start of year	8,604
	Assets newly classified as held for sale:	
8,203	Property, Plant and Equipment	149
-823	Revaluations	-7
	Assets declassified as Held for Sale:	
-4,752	Property, Plant and Equipment	-443
-684	Assets sold	-6,292
<u>8,604</u>	Balance outstanding at year-end	<u>2,011</u>

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 2018 (£2.011m) 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

31 March 2017		31 March 2018
£000		£000
-24,880	Central government bodies	-26,601
-1,341	Other local authorities	-1,648
-1,084	NHS bodies	-1,383
-66,035	Other entities and individuals	-76,038
<u>-93,340</u>		<u>-105,670</u>
-8,978	Receipts in Advance	-8,586
<u><u>-102,318</u></u>	Total Creditors	<u><u>-114,256</u></u>

24. Provisions

The provisions at 31 March 2018 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.

	Insurance £000	Equal Pay £000	NDR Appeals £000	Total £000
Balance at 1 April 2017	8,459	66	8,919	17,444
Additional provisions made in 2017-18	4,895	1	3,180	8,076
Amounts used in 2017-18	-1,331	-	-207	-1,538
Unused amounts reversed in 2017-18	-3,100	-	-	-3,100
Balance at 31 March 2018	8,923	67	11,892	20,882
As shown in Balance Sheet				
Long Term Provisions	6,446	-	6,842	13,288
Short Term Provisions	2,477	67	5,050	7,594
Balance at 31 March 2018	8,923	67	11,892	20,882

25. Usable Reserves

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

31 March 2017 £000		31 March 2018 £000
362	Usable Capital Receipts Reserve	8
23,004	General Fund Balance	24,500
233,544	Earmarked Reserves	224,433
256,910	Total	248,941

Usable Capital Receipts Reserve

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

General Fund Balance

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

Earmarked Reserves

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

26. Unusable Reserves

31 March 2017		31 March 2018
£000		£000
534,500	Revaluation Reserve	632,306
690,012	Capital Adjustment Account	735,329
-1,838	Financial Instruments Adjustment Account	-1,640
3,238	Deferred Capital Receipt	2,222
-10,078	Short Term Accumulating Absences Account	-13,623
-1,120,277	Pensions Reserve	-1,225,494
10,432	Available for Sale Financial Instruments Reserve	10,432
6,112	Collection Fund	7,499
112,101	Total	147,031

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.

2016-17		2017-18
£000		£000
504,364	Balance at 1 April	534,500
120,274	Upward revaluation of assets	159,974
	Downward revaluation of assets and impairment losses not charged to the	
-62,774	Surplus/Deficit on the Provision of Services	-39,350
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or	
57,500	Deficit on the Provision of Services	120,624
-17,273	Difference between fair value depreciation and historical cost depreciation	-17,739
-10,091	Accumulated gains on assets sold or scrapped	-5,079
-27,364	Amount written off to the Capital Adjustment Account	-22,818
534,500	Balance at 31 March	632,306

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.

2016-17 £000		2017-18 £000
694,829	Balance at 1 April	690,012
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-68,809	- Charges for depreciation and impairment of non-current assets	-61,745
-19,970	- Revaluation losses on Property, Plant and Equipment	9,028
-512	- Amortisation of intangible assets	-695
-15,900	- Revenue expenditure funded from capital under statute	-15,253
-17,105	- 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	-19,238
-122,296		-87,903
27,364	Adjusting amounts written out of the Revaluation Reserve	22,818
-94,932	Net written out amount of the cost of non-current assets consumed in the year	-65,085
	Capital financing applied in the year:	
7,648	- Use of Capital Receipts Reserve to finance new capital expenditure	14,836
-	- Use of Capital Receipts Reserve to repay debt - Housing Stock Transfer	-
46,626	- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	54,124
524	- Application of grants and contributions to capital financing from the Capital Grants Unapplied account	-
13,589	- Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	12,120
20,397	- Capital expenditure charged against the General Fund and HRA balances	28,484
88,784		109,564
1,331	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	838
690,012	Balance at 31 March	735,329

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.

2016-17 £000		2017-18 £000
4,125	Balance at 1 April	3,238
524	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	638
-1,411	Transfer to the Capital Receipts Reserve upon receipt of cash	-1,654
<u>3,238</u>	Balance at 31 March	<u>2,222</u>

Accumulated Absences Account

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

2016-17 £000		2017-18 £000
-13,233	Balance at 1 April	-10,078
13,233	Settlement or cancellation of accrual made at the end of the preceding year	10,078
-10,078	Amounts accrued at the end of the current year	-13,623
3,155	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	-3,545
<u>-10,078</u>	Balance at 31 March	<u>-13,623</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.

2016-17 £000	2017-18 £000
-904,285 Balance at 1 April	-1,120,277
-197,240 Remeasurements of the net defined benefit liability	-74,780
145 Adjustment for previous year's difference between Actuary's estimate and Actual Employers' Pension Contributions	-1,573
-81,200 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	-96,370
62,303 Employer's pensions contributions and direct payments to pensioners payable in the year	67,506
<u>-1,120,277</u> Balance at 31 March	<u>-1,225,494</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.

2016-17 £000	2017-18 £000
10,280 Balance at 1 April	10,432
- Transfer of historic Available for Sale balance to Available for Sale Reserve	-
152 Upward revaluation of investments	-
- Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	-
10,432	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	-
<u>10,432</u> Balance at 31 March	<u>10,432</u>

27. Cash Flow Statement – Non-Cash Movements

2016-17 £000	2017-18 £000
-57,664 Depreciation	-60,976
-30,868 Impairment and downward revaluation	8,261
-512 Amortisations	-695
-48 Impairment of Icelandic assets	0
-3,155 Transfer to/from Accumulated Absences account	3,545
-78 Increase/decrease in the provision for bad debts	-803
-1,976 Increase/decrease in creditors	8,393
1,614 Increase/decrease in debtors	5,239
1,158 Increase/decrease in inventory	-1,092
-18,897 Pension liability	-28,864
-17,105 Carrying amount of non-current assets sold	-19,238
-6,621 Other non-cash items	33,920
-134,152	-52,309

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

2016-17 £000	2017-18 £000
7,160 Proceeds from the sale of property, plant and equipment, investment property and intangible assets	13,139
7,160 Net cash flows from investing activities	13,139

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:

2016-17 £000	2017-18 £000
14,212 Interest paid	14,707
-3,118 Interest received	-1,958
-3,122 Dividends received	-1,416
7,972 Net cash flows from operating activities	11,333

30. Cash Flow Statement – Investing Activities

2016-17 £000		2017-18 £000
85,754	Purchase of property, plant and equipment, investment property and intangible assets	79,399
420,583	Purchase of short-term (not considered to be cash equivalents) and long-term investments	442,813
3,065	Other payments for investing activities - external trading	3,342
-7,160	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-13,139
-405,424	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-444,712
-4,227	Other receipts from investing activities (inc. external trading)	-4,577
92,591	Net cash flows from investing activities	63,126

31. Cash Flow Statement – Financing Activities

2016-17 £000		2017-18 £000
-20,000	Cash receipts of short-term and long-term borrowing	-35,000
-10,055	Other receipts from financing activities	-10,421
432	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	2,754
10,000	Repayments of short-term and long-term borrowing	20
-	- Other payments for financing activities	-
-19,623	Net cash flows from financing activities	-42,647

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.

	2015-16	2016-17	2017-18
	£000	£000	£000

Highways Operations

The Council runs a Highways Services trading operation which maintains the network of roads, footpaths and street lighting throughout the County. The service also undertakes major road works and the maintenance of transport and bridge structures, as well as carrying out various infrastructure works for external bodies. The design and build elements of transport related schemes is included in the trading area. The trading objective of the team is to meet the net cash limit target as set. The cumulative surplus over the last three financial years: £12.209m

Turnover	-40,958	-46,356	-43,406
Expenditure	34,501	43,412	40,598
Surplus(-)/Deficit	-6,457	-2,944	-2,808

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: £1.700m

Turnover	-14,806	-14,489	-14,901
Expenditure	15,324	15,431	15,141
Surplus(-)/Deficit	518	942	240

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 : £1.717m

Turnover	-2,161	-2,233	-2,400
Expenditure	3,379	2,480	2,652
Surplus(-)/Deficit	1,218	247	252

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: £2.497m

Turnover	-23,387	-23,115	-20,329
Expenditure	22,225	22,605	19,504
Surplus(-)/Deficit	-1,162	-510	-825

	2015-16 £000	2016-17 £000	2017-18 £000
<u>Housing Maintenance</u>			
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: £0.159m	Turnover	-60	-
	Expenditure	219	-
	Surplus(-)/Deficit	159	-

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 £0.137m

Turnover	-2,126	-2,258	-2,325
Expenditure	2,013	2,275	2,284
Surplus(-)/Deficit	-113	17	-41

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 £0.230m

Turnover	-623	-879	-763
Expenditure	704	921	870
Surplus(-)/Deficit	81	42	107

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 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, Crime and Victims' 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 2017/18 £6.427m (£7.531m (restated) in 2016/17) was received for services including Finance, Information and Communications Technology, Human Resources, Legal Advice

and Support, Inspections and Subject Reviews, Cleaning, Care Connect, Ground Maintenance and Crematorium Services.

The decrease in Agency Services from 2016/17 to 2017/18 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.

2016-17		2017-18
£000		£000
1,667	Basic Allowance	1,669
285	Special Responsibility Allowance	283
7	Broadband Allowance	5
72	Expenses	69
<hr/>		<hr/>
2,031	Total	2,026
<hr/>		<hr/>

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)	2017-18	188,719	-	-	-	-	188,719
	2016-17	186,850	-	-	-	21,488	208,338
Interim Corporate Director - Resources (1/6/2016 to 17/10/2016)	2017-18	-	-	-	-	-	-
	2016-17	53,595	-	-	-	7,396	60,991
Corporate Director - Resources (from 18/10/2016)	2017-18	142,814	-	-	-	23,850	166,664
	2016-17	64,238	-	-	-	8,865	73,103
Corporate Director - Children and Young Peoples Services - (from 29/03/2017)	2017-18	143,954	-	-	-	-	143,954
	2016-17	-	-	-	-	-	-
Interim Corporate Director - Adult, Wellbeing and Health Services (from 25/7/2016 to 13/10/2016)	2017-18	-	-	-	-	-	-
	2016-17	31,169	-	-	-	4,301	35,470
Corporate Director - Adult and Health Services (from 14/10/2016)	2017-18	142,814	-	46	-	23,850	166,710
	2016-17	65,759	-	-	-	9,075	74,833
Interim Corporate Director - Neighbourhood Services (from 1/2/2016 to 30/09/2016)	2017-18	-	-	-	-	-	-
	2016-17	70,700	-	-	-	9,757	80,457
Corporate Director - Regeneration and Economic Development (to 30/9/2016)	2017-18	-	-	-	-	-	-
	2016-17	70,700	-	-	-	9,757	80,457
Corporate Director - Regeneration and Local Services (from 1/10/2016)	2017-18	142,814	-	-	-	23,850	166,664
	2016-17	70,700	-	-	-	9,757	80,457
Assistant Chief Executive (to 30/9/2016)	2017-18	-	-	-	-	-	-
	2016-17	60,600	-	-	-	8,363	68,963
Director - Transformation and Partnerships (from 1/10/2016)	2017-18	122,412	-	-	-	20,443	142,855
	2016-17	60,600	-	-	-	8,363	68,963
Head of Legal and Democratic Services (Monitoring Officer) (to 05/04/17)	2017-18	1,558	-	-	-	260	1,818
	2016-17	111,100	-	-	-	15,612	126,712
Interim Head of Legal and Democratic Services (Monitoring Officer) (to 06/08/17)	2017-18	39,214	-	-	-	6,549	45,763
	2016-17	-	-	-	-	-	-
Head of Legal and Democratic Services (Monitoring Officer) (from 07/08/17 to 31/03/18)	2017-18	72,998	-	12	-	12,191	85,201

The previous table includes details of officers acting up on an interim basis in 16/17 only, who continue to be employed by the Council.

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

The 'Other Staff' column in the table includes employees which provide educational support services within schools. Of the 172 'Other Staff' in 2017/18 there are 3 employees paid on Leadership Teacher grades and 43 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	2016-17 Number of Employees			2017-18 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	112	81	193	112	73	185
£55,000 - £59,999	96	34	130	92	33	125
£60,000 - £64,999	48	26	74	54	21	75
£65,000 - £69,999	34	16	50	34	8	42
£70,000 - £74,999	9	3	12	10	3	13
£75,000 - £79,999	6	9	15	4	8	12
£80,000 - £84,999	1	4	5	3	3	6
£85,000 - £89,999	2	2	4	2	3	5
£90,000 - £94,999	4	-	4	3	2	5
£95,000 - £99,999	1	5	6	-	7	7
£100,000 - £104,999	1	2	3	2	1	3
£105,000 - £109,999	2	1	3	1	-	1
£110,000 - £114,999	1	5	6	-	7	7
£115,000 - £119,999	-	2	2	-	-	-
£120,000 - £124,999	-	-	-	-	1	1
£125,000 - £129,999	-	1	1	-	-	-
£130,000 - £134,999	-	-	-	-	2	2
£135,000 - £139,999	-	-	-	-	-	-
	317	191	508	317	172	489

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

(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	
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17 £000	2017-18 £000
£0 - £20,000	48	19	139	110	187	129	902	925
£20,001 - £40,000	5	1	36	48	41	49	1,194	1,336
£40,001 - £60,000	1	-	17	19	18	19	875	912
£60,001 - £80,000	-	-	18	9	18	9	1,224	666
£80,001 - £100,000	-	-	18	5	18	5	1,629	452
£100,001 - £150,000	-	-	12	3	12	3	1,395	344
£150,001 - £250,000	-	1	1	3	1	4	156	688
Total	54	21	241	197	295	218	7,375	5,323

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 2017/18 and 2018/19 is Mazars LLP.

2016-17 £000	2017-18 £000
251 Fees payable with regard to external audit services carried out by the appointed auditor for the year	251
24 Fees payable in the year for the certification of grant claims and returns by the appointed auditor for Public Sector Appointments Ltd (PSAA)	20
5 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	8
280 Total	279

During 2017/18 £0.037m was refunded to the Council by Public Sector Audit Appointments (PSAA) Ltd in respect of the Audit Commission's retained earnings.

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 2017/18 are as follows:

	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2017/18 before Academy Recoupment			370,849
B Academy figure recouped for 2017/18			89,169
C Total DSG after Academy Recoupment for 2017/18			281,680
Plus			
D Brought forward from 2016/17			11,159
Less			
E Carry forward to 2018/19 agreed in advance			10,094
F Agreed initial budgeted distribution in 2017/18	51,439	231,306	282,745
G In year adjustments	-24,774	24,717	-57
H Final budgeted distribution for 2017/18	26,665	256,023	282,688
Less			
I Actual central expenditure	30,822		30,822
Less			
J Actual ISB deployed to schools		257,227	257,227
Plus			
K Local authority contribution for 2017/18	-	-	-
L Carry forward to 2018/19	-4,157	-1,204	4,733 *

* Total carry-forward (£4.733m) is the carry forward on central expenditure (L) (-£4.157m) plus carry forward on ISB (L) (-£1.204m) plus carry forward 2018/19 already agreed (E) (£10.094m).

A: Final DSG figure before any amount has been recouped from the Council excluding the January 2018 early years block adjustment.

B: Figure recouped from the Council in 2017/18 by the DfE for the conversion of maintained schools into Academies.

C: Total figure after EFA Academy recoupment for 2017/18.

D: Figure brought forward from 2016/17 as agreed with the Department.

E: Any amount which the Council decided after consultation with the Schools Forum to carry forward to 2018/19 rather than distribute in 2017/18 – this may be the difference between estimated and final DSG for 2017/18, or a figure (positive or negative) brought forward from 2016/17 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 2017/18.

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 2017/18 which will have the effect of substituting for DSG in funding the Schools Budget.

L: Carry forward to 2018/19:

- 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 2018/19 already agreed (E).

38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

2016-17 £000		2017-18 £000
Credited to Taxation and Non Specific Grant Income:		
Non Ring-fenced Government Grants:		
-77,144	- Revenue Support Grant	-56,000
-60,995	- Top Up Grant	-67,967
-4,400	- Section 31 Grants	-6,953
-5,419	- Education Funding Agency Grant	-1,516
-10,182	- New Homes Bonus Scheme Grant	-8,883
-267	- New Homes Bonus Scheme Topslice Reimbursement	-283
-35,870	Capital Grants and Contributions	-45,324
-194,277		-186,926

Grant and Contribution Income Credited to Services

2016-17 £000		2017-18 £000
	Credited to Services:	
	- Apprenticeship levy digital account	-104
-424	Arts Council Eng - NE	-415
-31	Arts Projects	-2
-235	Asylum Seekers Grant	-305
-23,300	Clinical Commissioning Groups-Better Care Fund	-24,494
-346	Darlington Borough Council	-312
-545	DCSF Grant	-1,167
-277,985	Dedicated Schools Grant (DSG)	-281,623
-309	DEFRA Grant	-315
-744	Department of Health Grant	-1,073
-72	Department for Transport Grant	-66
-1,187	Discretionary Housing Payment Grant	-1,301
-496	Durham Police and Crime Commissioner	-437
-395	Education Authorities-other	-521
-9,647	Education Funding Agency	-9,318
-625	Educational Visits	-675
-1,576	ERDF Grant	-6,655
-1,213	Heritage Lottery Fund Grant	-506
-2,482	Housing Benefit - Admin Grant	-2,267
-177,960	Housing Benefit Grant - Rent Allowance	-178,209
-408	Housing Benefit Grant - Rent Rebate	-492
	- Improved Better Care Fund	-15,490
-984	LCTSS - Administration Grant	-964
-62	Natural England	-110
-7,266	NHS - Care Costs	-9,756
	- NHS - Integrated Services	-91
-1,837	NHS - Joint Arrangements	-3,171
-600	NNDR Cost of Collection Allowance	-590
-15,474	North East Combined Authority	-15,489
-783	Other Local Authorities	-942
-5,519	PFI Grants	-5,519
-51,246	Public Health Grant	-49,983
-20,435	Pupil Premium Grant	-20,484
-2,897	Skills Funding Agency	-4,476
	- Social Care Grant	-2,835
-610	Youth Offending Teams Grant	-612
-22,175	Other Grants and Contributions	-23,516
<u>-629,868</u>		<u>-664,285</u>

Capital Grants and Contributions Receipts in Advance

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

<u>2016-17</u>			<u>2017-18</u>	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
Capital Grants and Contributions Receipts in Advance				
-	-452	Broadband Delivery UK	-134	-
-	-107	County Durham Housing Group Limited	-	-321
-	-104	Darlington Borough Council	-104	-
-	-1,592	Education Funding Agency	-	-355
-	-	European Commission	-	-872
-	-	Gateshead Council	-	-150
-	-	Home Loan Recycled Fund	-	-318
-	-63	Middlesbrough Council	-63	-
-	-	Ministry of Housing, Community and Local Govt	-	-810
-	-26	North East Combined Authority	-	-
-	-	North Tyneside Council	-	-500
-	-200	Public Health England	-	-200
-	-170	Redcar and Cleveland Borough Council	-170	-
-	-	South Tyneside Council	-	-200
-	-156	Stockton Borough Council	-157	-
-	-134	Sunderland City Council	-	-
-	-	Tees Valley Combined Authority	-	-497
-	-	The Auckland Castle Trust	-	-77
-	-113	Other	-	-157
-	<u>-3,117</u>	Total Capital Grants and Contributions Receipts in Advance	<u>-628</u>	<u>-4,457</u>

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 2017/18 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 to the Council or the related parties.

The local environmental projects, youth groups and community associations, in which Members are involved, received grant funding to the value of £0.201m in 2017/18 (£0.381m in 2016/17). 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 £0.901m in 2017/18 (£0.924m in 2016/17)
- Groundwork North East, carrying out environmental works for which there were transactions of £0.552m in 2017/18 (£0.451m in 2016/17).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.177m in 2017/18 (£0.318m in 2016/17)
- Delta North Consett Ltd for work done with various schools £0.382m in 2017/18 (£0.214m in 2016/17)
- The Bowes Museum for services to schools £0.423m in 2017/18 (£0.273m in 2016/17)
- Durham Christian Partnership £0.010m in 2017/18 (£0.022m in 2016/17)
- Cornforth Partnership £0.127m in 2017/18 (£0.126m in 2016/17)
- Glebe Centre £0.015m in 2017/18 (£0.019m in 2016/17)
- Easington Regeneration Partnership £0.010m (NIL in 2016/17)
- South Durham Enterprise Agency £0.027m (£0.082m in 2016/17)

During 2017/18, works and services to the value of £0.074m (£0.056m in 2016/17) were commissioned from companies in which some Members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders.

Chief Officers

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

Chief Officer	Related party declaration
Corporate Director - Regeneration and Local Services	Director of VISIT County Durham. Payments to VISIT County Durham amounted to £0.15m in 2017/18 (£0.15m in 2016/17). Director of Durham Villages Regeneration Limited. No payments to 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.

The unaudited draft company accounts for the full year 2017/18 have been prepared, in 2017/18 Chapter Homes Durham Limited had turnover of £6.586m (£1.023m in 2016/17), made a profit before taxation of £0.187m (£0.184m in 2016/17) no taxation has yet been determined, no dividend was paid. Chapter Homes had net assets of £1.991m at 31 March 2018 (£1.836m at 31 March 2017).

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. Its statement of accounts for the period ending 31 March 2018 are not yet finalised, the draft unaudited management information

show initial profits of £0.006m before taxation (£0.004m in 2016/17). The net assets of the company total £2.009m at 31 March 2018 (£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 2017/18 are not yet available, however the draft unaudited management account show at 31 March 2018 Durham Villages Regeneration Limited made an operating profit before taxation of £0.136m for 2017/18 (2016/17 £0.685m) and estimated £0.109m for 2017/18 after taxation (2016/17 £0.548m).

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 2018 are £3.702m (31 March 2017 £3.200m). Durham County Council is the administrative body and employing authority for the crematorium.

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

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 2018 are £0.365m (31 March 2017 £1.523m). Durham County Council is the administrative body and employing authority for the crematorium.

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

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 the financial year 2017/18 show Service Direct

NewCo Limited had £1.154m turnover (2016/17 £1.161m), £0.003m operating profits before taxation (£0.001m 2016/17), no dividend was paid, and had net assets of £0.017m (2016/17 £0.014m).

NIAL Holdings Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 12.15% interest in NALAHCL, valued at £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 £0.867m was received for the year ended 31 December 2016 (£2.664m 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.

The accounts for the year ended 31 December 2017 are not yet available. 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 2017, Durham Tees Valley Airport Limited made a loss before taxation of £2.733m (loss of £3.302m for year ended 31 March 2016) and a loss of £2.408m after taxation (loss of £2.590m for year ended 31 March 2016). The Company accounts for 2017/18 are not yet available.

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

Durham County Cricket Club

The Council previously had a number of loans with Durham County Cricket Club (DCCC) and the value of principal outstanding as at 31 March 2017 amounted to £3.740m (£3.829m as at 31 March 2016).

A restructuring of Durham County Cricket Club including a revised financial package has since taken place with the aim of securing first class cricket in the county in the longer term. As part of this restructuring package, the Council agreed to convert the outstanding balances on the loans advanced by the Council to DCCC, currently £3.740m - to equity in the form of redeemable preference shares in a newly formed Community Interest Company to run DCCC going forward. This is on the condition that the company will repay the amount of share capital within the fixed period of 10 years from June 2017 or even earlier at the discretion of the company.

Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 114 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2017/18, the Pension Fund had an average balance of £27.093m (£21.368m in 2016/17) of surplus cash deposited with the Council. In 2017/18 the Council paid the fund a total of £0.113m (£0.069m in 2016/17) in interest on these deposits.

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.

2016-17		2017-18
£000		£000
410,407	Opening Capital Financing Requirement	431,641
	Capital investment:	
85,603	Property, Plant and Equipment	76,185
2,968	Property, Plant and Equipment - Finance Leases	5,743
111	Heritage Assets	38
1,322	Intangible Assets	2,399
4,205	Acquisition of share and loan capital	3,877
15,900	Revenue Expenditure Funded from Capital under Statute	15,253
	Sources of finance:	
-7,739	Capital receipts	-15,226
-47,150	Government grants and other contributions	-54,124
	Sums set aside from revenue:	
-20,397	- Direct revenue financing	-28,484
-13,589	- Minimum Revenue Provision	-12,120
431,641	Closing Capital Financing Requirement	425,182
	Explanation of movements in year	
-5,886	Increase/(decrease) in underlying need to borrow (supported by government financial assistance)	-5,517
24,152	Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance)	-6,685
2,968	Assets acquired under finance leases	5,743
21,234	Increase/(decrease) in Capital Financing Requirement	-6,459

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 2017		31 March 2018
£000		£000
	- Other Land and Buildings	-
10,785	Vehicles, Plant, Furniture and Equipment	12,739
10,785		12,739

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

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

31 March 2017		31 March 2018
£000		£000
	Finance lease liabilities (net present value of minimum lease payments):	
2,666	Current	3,430
5,082	Non-Current	6,115
537	Finance costs payable in future years	626
8,285	Minimum lease payments	10,171

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

31 March 2017			31 March 2018		
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000	
2,914	2,666	Not later than one year	3,726	3,430	
5,348	5,059	Later than one year and not later than five years	6,417	6,088	
23	23	Later than five years	28	27	
8,285	7,748		10,171	9,545	

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

31 March 2017		31 March 2018
£000		£000
996	Not later than one year	1,050
2,400	Later than one year and not later than five years	2,228
3,259	Later than five years	4,786
6,655		8,064

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 2017 £000	31 March 2018 £000
1,806 Minimum lease payments	1,735
-2,478 Sublease payments receivable	-3,494
-672	-1,759

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 2017 £000	31 March 2018 £000
2,792 Not later than one year	2,029
4,137 Later than one year and not later than five years	2,492
5,834 Later than five years	3,515
12,763	8,036

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 2017/18 no rents were received by the authority in respect of contingent rents (2016/17 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 2017 £000 (restated)		31 March 2018 £000
18,492	Net book value at 1 April	19,646
1,494	Additions	112
-431	Depreciation	-1,095
91	Revaluations	3,702
<u>19,646</u>	Net book value at 31 March	<u>22,365</u>

2016/17 comparative figures have been restated to show additions which were added to the Asset Register after the 2016/17 Statement of Accounts had been produced.

In addition to the net book value of £22.365m 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 £1.740m and the total net value of land and buildings for these schools carried forward is £24.105m.

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 2017/18 are summarised below:

31 March 2017 £000		31 March 2018 £000
41,060	Balance outstanding at start of year	40,131
-929	Payments during the year	-957
<u>40,131</u>	Balance outstanding at year-end	<u>39,174</u>

Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2018-19	2,482	991	3,974	7,447
Payable within two to five years	10,941	4,677	14,849	30,467
Payable within six to ten years	15,201	9,288	15,254	39,743
Payable within eleven to fifteen years	18,774	13,233	9,808	41,815
Payable within sixteen to twenty years	10,862	10,983	2,227	24,072
Total	58,260	39,172	46,112	143,544

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

Other reasons why costs might vary 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 £55.970m in 2017/18 (£99.167m in 2016/17), 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 2017/18. The value of the redundancy payments charged to services in 2017/18 was £4.124m and in 2016/17 was £3.452m. The table below analyses the payments made in the relevant financial years. The majority of the payments made in 2017/18 were due to the rationalisation of services within the Council.

2016-17	2017-18
£000	£000
1,226 Adult and Health Services	758
1,117 Children and Young People's Services	1,731
747 Regeneration and Local Services	648
279 Resources	834
83 Transformation and Partnerships	153
3,452 Total	4,124

In addition to the above redundancy payments, the pension enhancement value in 2017/18 was £2.253m and in 2016/17 was £3.471m.

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.

The Council anticipates paying £18.424m to the Teachers' Pension Scheme in 2018/19 in respect of teachers' retirement benefits, which represents 16.48% of pensionable pay (£18.861m or 16.48% in 2017/18). 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.

The Council anticipates paying £0.068m to the NHS Pension Scheme in respect of former NHS staff retirement benefits in 2018/19, representing 14.4% of pensionable pay (£0.106m or 14.4% in 2017/18). 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 of Resources has a statutory duty to ensure the Pension Fund remains solvent and is administered effectively, adhering to the LGPS regulations in order to meet any current and future liabilities. The Pension Fund has seven investment managers who are appointed by the committee to invest the Fund's assets in compliance with constraints imposed by the Fund's Investment Strategy Statement and in compliance with applicable legislation. Further information on Durham County Council's Pension Fund can be found in the Pension Fund Accounts later in this document.

The principal risks to the 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 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:

2016-17			2017-18	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
		Cost of services:		
		Service cost comprising:		
50,170	-	- Current service cost	67,110	-
1,310	-	- Past service cost (including curtailments)	2,160	-
		Financing and Investment Income and Expenditure:		
27,450	2,270	- Net interest on net defined benefit liability	25,340	1,760
78,930	2,270	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	94,610	1,760
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
		Remeasurement of the net defined benefit liability comprising:		
-181,850	-	- Return on plan assets (excluding the amount included in the net interest expense)	8,790	-
489,500	4,970	- Actuarial gains and losses due to changes in financial assumptions	48,770	590
-7,810	-10	- Actuarial gains and losses due to changes in demographic assumptions	-	-
-107,040	-520	- Actuarial gains and losses due to liability experience	14,850	1,780
271,730	6,710	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	167,020	4,130
		Movement in Reserves Statement		
-78,930	-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	-94,610	-1,760
		Actual amount charged against the General Fund Balance for pensions in the year:		
56,783	-	- Employer's contributions payable to the scheme	62,214	-
-	5,520	- Direct retirement benefits payable to pensioners	-	5,292

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:

2016-17			2017-18	
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
-2,837,520	-70,370	Present value of the defined benefit obligation	-2,966,960	-69,120
1,786,040	-	Fair value of plan assets	1,847,680	-
-1,051,480	-70,370	Net liability arising from defined benefit obligation	-1,119,280	-69,120
1,983	-410	Difference between actuary's figures and actual contributions *	254	-88
-1,049,497	-70,780	Adjusted Total	-1,119,026	-69,208

* 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

2016-17			2017-18	
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
1,568,010	-	Opening fair value of scheme assets	1,786,040	-
53,040	-	Interest Income	47,460	-
181,850	-	Remeasurement gain/loss (-)	-8,790	-
54,800	5,930	Contributions from employer	99,220	5,380
14,210	-	Contributions from employees into the scheme	14,180	-
-85,870	-5,930	Benefits paid	-90,430	-5,380
1,786,040	-	Closing fair value of scheme assets	1,847,680	-

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

2016-17			2017-18		
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	Opening balance at 1 April	2,837,520	70,370	
50,170	-	Current service cost	67,110	-	
80,490	2,270	Interest cost	72,800	1,760	
14,210	-	Contributions by scheme participants	14,180	-	
		Remeasurement gains (-) and losses:			
489,500	4,970	Actuarial gains and losses due to changes in financial assumptions	48,770	590	
-7,810	-10	Actuarial gains and losses due to changes in demographic assumptions	-	-	
-107,040	-520	Actuarial gains and losses due to liability experience	14,850	1,780	
1,310	-	Past service cost (including curtailments)	2,160	-	
-85,870	-5,930	Benefits paid	-90,430	-5,380	
<u>2,837,520</u>	<u>70,370</u>	Closing balance at 31 March	<u>2,966,960</u>	<u>69,120</u>	

Local Government Pension Scheme Assets comprised:

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

31 March 2017			31 March 2018			
Fair Value of scheme assets £000			Fair Value of scheme assets £000			
Quoted	Unquoted	Total				
843,011	-	843,011	Equity investments	923,839	-	923,839
21,432	112,521	133,953	Property	22,172	105,318	127,490
484,017	96,446	580,463	Government bonds	543,218	-	543,218
-	146,455	146,455	Corporate bonds	164,444	-	164,444
82,158	-	82,158	Cash	88,689	-	88,689
<u>1,430,618</u>	<u>355,422</u>	<u>1,786,040</u>	Total	<u>1,742,362</u>	<u>105,318</u>	<u>1,847,680</u>

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:

2016-17		2017-18	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
Mortality assumptions:			
Longevity at 65 for current pensioners:			
23.2	23.2 - Men	23.3	23.3
24.9	24.9 - Women	25.0	25.0
Longevity at 65 for future pensioners:			
25.4	n/a - Men	25.5	n/a
27.2	n/a - Women	27.3	n/a
Principal financial assumptions (% per annum)			
2.6	2.6 - Rate for discounting scheme liabilities	2.6	2.6
3.1	3.1 - Rate of inflation (RPI)	3.2	3.2
2.0	2.0 - Rate of inflation (CPI)	2.1	2.1
2.0	2.0 - Rate of increase in pensions	2.1	2.1
3.5	n/a - Rate of increase in salaries	3.6	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below are based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assume for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit cost method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in 2016/17.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected service cost for the year ending 31 March 2019 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)	2,913,480	2,966,960	3,021,430
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£000)	69,420	71,550	73,740
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)	2,980,930	2,966,960	2,953,150
Change in present value of total obligation	0.5%		-0.5%
Projected service cost (£000)	71,550	71,550	71,550
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)	3,007,340	2,966,960	2,927,170
Change in present value of total obligation	1.4%		-1.3%
Projected service cost (£000)	73,740	71,550	69,420
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)	3,055,890	2,966,960	2,878,510
Change in present value of total obligation	3.0%		-3.0%
Projected service cost (£000)	74,150	71,550	68,970
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 £42.760m contributions to the scheme in 2018/19 (£98.640m in 2017/18, including a £37.260m advance payment in April 2017 in respect of amounts due from 2018/19 to 2019/20). The advance payment is 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 2018 (18.2 years at 31 March 2017).

47. Contingent Liabilities

a) Pension Contributions on Equal Pay Payments

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

b) Equal Value Claims

Solicitors representing a number of individuals have lodged claims under the Equality Act 2010 in relation to "work of equal value". These types of cases are complex and 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.

c) 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.

d) Municipal Mutual Insurance

Historically, the Municipal Mutual Insurance Company (MMI) was the principal provider of insurance to the Council. In the early 1990's it became clear that MMI was in danger of becoming insolvent. It was determined that MMI would close to new business and there would be an orderly run down of all the existing and prospective claims. The Council

signed up to this agreement and as remaining assets have proven to be insufficient to cover potential future liabilities, the Scheme of Arrangement was invoked on 13 November 2012. At the current time, the Council's maximum potential liability that can be clawed back is £6.8m.

The Council's Insurance Adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the Council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. Based upon further information received from our Insurance Adviser during 2017/18, the provision was increased to 50%. As the provision is not for the total amount of the potential liability, there is the possibility of future claims, the Council considers there to be a contingent liability as it has no certainty about the timing or the amount of any future liability.

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

e) 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.

f) Warranties in relation to LSVT of Housing Stock

The Council has given County Durham Housing Group (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.

g) National Non Domestic Rates (NNDR) Mandatory Rate Relief Claims

The Council considers there is likely to be a liability to refund business rates to NHS bodies within Durham. This is on the back of one leading NHS Foundation Trust, together with 19 other Foundation Trusts, having issued proceedings in the High Court against a County Council (the named defendant billing authority) and 48 other billing authorities to recover 80% of the business rates (NNDR) going forward and 6 years' worth of backdated payment of rates. The claim is based on the premise that the trusts are charities and

therefore entitled to a mandatory 80% discount on their rates under Section 43 Local Government Finance Act 1988.

A provision has been included within the Collection Fund and Council's General Fund accounts to cover 40% of the total liability on the basis of the perceived risk of a successful appeal. As the full value and timing of this liability is uncertain, as well as the risk of a successful appeal, the Council considers that it would be prudent to also include a contingent liability for sums not included within the appeals provision.

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.

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. 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 2017/18.

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 2017 (restated) £000	31 March 2018 £000
Funding Provided to BCF	
763 Local Authority (revenue)	15,490
4,890 Local Authority (capital)	5,299
<u>38,926</u> CCGs	<u>40,399</u>
44,579	61,188
Expenditure met from BCF	
24,064 Local Authority (revenue)	39,984
4,890 Local Authority (capital)	5,299
<u>15,625</u> CCGs	<u>15,905</u>
44,579	61,188
- Net surplus on pooled budget	-
- Authority share of the net surplus arising from pooled budget	-

52. Prior Period Adjustments (PPAs)

Comparator Restatement – Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis

During 2017/18, a small number of functions were realigned between services:

- customer services from Regeneration and Local Services to Resources
- planning and service strategy from Adult and Health Services to Children and Young People's Services and Transformation and Partnerships
- performance from Regeneration and Local Services to Transformation and Partnerships

The 2016/17 comparative figures in the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis (Note 7) have been restated to reflect these changes. There is no net impact on the Cost of Services or the Surplus or Deficit on the Provision of Services.

The impact on the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis is as follows:

Comprehensive Income and Expenditure Statement

	2016-17 adjustment		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Adult and Health Services	-5,959	964	-4,995
Children and Young People's Services	4,941	-520	4,421
Regeneration and Local Services	-5,516	4,949	-567
Resources	4,826	-4,729	97
Transformation and Partnerships	1,708	-664	1,044
Corporate Costs	-	-	-
Cost of Services	-	-	-

Expenditure and Funding Analysis

	2016-17 adjustment		
	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Adult and Health Services	-5,176	181	-4,995
Children and Young People's Services	4,598	-177	4,421
Regeneration and Local Services	-669	102	-567
Resources	193	-96	97
Transformation and Partnerships	1,054	-10	1,044
Corporate Costs	-	-	-
Net Cost of Services	-	-	-

Note to the Expenditure and Funding Analysis

	2016-17 adjustment			
Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes £000	Net change for the Pensions Adjustments £000	Other Differences £000	Total Adjustments £000
Adult and Health Services	-9	190	-	181
Children and Young People's Services	5	-182	-	-177
Regeneration and Local Services	-40	142	-	102
Resources	40	-136	-	-96
Transformation and Partnerships	4	-14	-	-10
Corporate Costs	-	-	-	-
Net Cost of Services	-	-	-	-

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

Income and Expenditure Account

2016-17		2017-18		
		Council Tax £000	NNDR £000	Total £000
	Income			
-238,796	Council Tax due from Taxpayers	-250,093	-	-250,093
-118,188	Income from Business Ratepayers	-	-109,466	-109,466
	Recovery of Previous Year's Estimated Deficit			
-3,346	Central Government	-	-	-
-3,279	Durham County Council	-	-	-
-67	County Durham & Darlington Fire & Rescue Authority	-	-	-
-363,676	Total Income	-250,093	-109,466	-359,559
	Expenditure			
	Precepts and Demands			
197,311	Durham County Council	207,558	-	207,558
22,219	Durham Police, Crime and Victims' Commissioner	22,952	-	22,952
12,822	County Durham & Darlington Fire & Rescue Authority	13,243	-	13,243
	Payment of Previous Year's Surplus			
-	Central Government	-	848	848
5,896	Durham County Council	2,169	831	3,000
719	Durham Police, Crime and Victims' Commissioner	259	-	259
416	County Durham & Darlington Fire & Rescue Authority	150	17	167
	Business Rates			
55,918	Payment to Central Government	-	49,646	49,646
1,118	Payment to County Durham and Darlington Fire & Rescue Authority	-	993	993
54,842	Payment to Durham County Council, including Renewable Energy	-	48,739	48,739
42	Payment to Durham County Council, Renewable Energy - Prior year's surplus	-	59	59
600	Costs of Collection - Business Rates	-	589	589
	Bad & Doubtful Debts			
4,053	Write Offs	2,829	2,427	5,256
-1,396	Change in Provision for Bad Debts	-497	-1,153	-1,650
-46	Provision for Appeals	-	6,068	6,068
354,514	Total Expenditure	248,663	109,064	357,727
-9,162	Movement on Fund Balance	-1,430	-402	-1,832
368	Surplus(-) /Deficit on Fund Brought Forward	-5,029	-3,765	-8,794
-8,794	Fund Balance Carried Forward	-6,459	-4,167	-10,626
	Allocated to :			
-6,053	Durham County Council	-5,450	-2,035	-7,485
-502	Durham Police, Crime and Victims' Commissioner	-640	-	-640
-327	County Durham and Darlington Fire & Rescue Authority	-369	-42	-411
-1,853	Central Government	-	-2,076	-2,076
-59	Durham County Council - Renewable Energy	-	-14	-14
-8,794		-6,459	-4,167	-10,626

Notes to the Collection Fund Accounts

i. The Collection Fund Income and Expenditure Account

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

ii. Council Tax

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

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

Adjustments are made to the number of properties in each band by taking into account those occupied by a single council taxpayer (25% discount), long-term empty (50% premium) and other discounts and exemptions. A factor is applied to each band to convert the properties into Band D equivalents and finally an allowance for non-collection is applied to produce the Tax Base.

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

The following table shows the property value bandings and the Band D equivalent properties in 2017/18.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent
Up to £ 40,000	Band A	143,358	6/9ths	95,572
Over £ 40,000 up to £ 52,000	Band B	31,448	7/9ths	24,460
Over £ 52,000 up to £ 68,000	Band C	29,632	8/9ths	26,340
Over £ 68,000 up to £ 88,000	Band D	20,457	9/9ths	20,457
Over £ 88,000 up to £120,000	Band E	9,968	11/9ths	12,183
Over £120,000 up to £160,000	Band F	3,863	13/9ths	5,580
Over £160,000 up to £320,000	Band G	2,116	15/9ths	3,527
Over £320,000	Band H	270	18/9ths	540
		241,112		188,659
Net effect of discounts, reliefs, exemptions and premiums				53,038.1
Chargeable Properties (Taxbase) 2017/18:				135,620.9

The Council Tax Base for 2016/17 was 133,892.4

In 2017/18, the Band D charge was £1,709.93 (£1,649.38 2016/17) made up of Durham County Council £1,443.04 (£1,387.67 2016/17), Durham Police, Crime and Victims' Commissioner £169.24 (£165.95 2016/17) and County Durham and Darlington Fire and Rescue Authority £97.65 (£95.76 2016/17). In addition, Band D Town and Parish precepts between £0 and £297.59 (£0 and £294.90 2016/17) were chargeable and there were some areas with no Town or Parish Council.

Any surplus or deficit on the Collection Fund – Council Tax (estimated in mid-January each year) 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 £5.483m surplus for 2017/18, which will be distributed to major preceptors during 2018/19. At 31 March 2018, the actual outturn was a surplus of £6.459m (surplus of £5.029m at 31 March 2017).

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 2018 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage provision applied:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2017/18	20%
	2016/17	50%
	2015/16 and older	100%
Category 2- First, second or final reminder	2017/18	40%
	2016/17	65%
	2015/16 and older	100%
Category 3- Summons (including liability orders, bailiff and bankruptcy)	2017/18	55%
	2016/17	90%
	2015/16 and older	100%

At 31 March 2018, the calculated provision of £18.182m covered 79% of arrears (£18.679m, 79% at 31 March 2017).

Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2018 amounted to a surplus of £6.459m (surplus of £5.029m at 31 March 2017).

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

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

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

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	-5,450	-15,331	19,348	-3,176
Durham Police, Crime & Victims' Commissioner	-640	-1,835	2,315	-380
County Durham & Darlington Fire & Rescue Authority	-369	-1,016	1,283	-211
Total Allocated	-6,459	-18,182	22,946	-3,767

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 2017/18, the general multiplier was £0.479 (£0.497 in 2016/17) and the small business multiplier was £0.466 (£0.484 in 2016/17). The total non-domestic rateable value for Durham County Council at 31 March 2018 was £310.861m VOA schedule dated 21 March 2018) (£306.544m at 31 March 2017).

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 2017/18 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2017. In addition, during 2017/18, the estimated surplus for 2016/17 was paid to shareholders as shown in the Income and Expenditure Account.

The estimated outturn for 2017/18 was included on the NNDR1 for 2018/19, submitted in January 2018. This predicted a surplus of £2.938m (surplus £1.686m estimated for 2016/17) of which Durham County Council's share would be £2.879m (surplus of £0.831m for 2016/17). 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 2018, the actual outturn was a surplus of £4.152m (surplus of £3.706m in 2016/17). In addition, income from Renewable Energy amounted to £0.100m (£0.100m in 2016/17).

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 2018 have been analysed by age of debt and stage of recovery action being taken. These have been put into three broad categories, as set out in the following table, alongside the percentage provision applied:

Category of Arrears	Year	Percentage provision applied
Category 1- No reminders yet sent	2017/18	20%
	2016/17	50%
	2015/16 and older	100%
Category 2- First, second or final reminder	2017/18	40%
	2016/17	65%
	2015/16 and older	100%
Category 3- Summons (including liability orders, bailiff and bankruptcy)	2017/18	55%
	2016/17	90%
	2015/16 and older	100%

At 31 March 2018, the calculated provision of £3.006m covered 69.82% of arrears (£4.159m, 71% at 31 March 2017).

Provision for Appeals

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

At 31 March 2018, the provision for appeals was estimated at £24.269m (£18.201m at 31 March 2017).

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2018 amounted to a surplus of £4.152m (surplus of £3.706m at 31 March 2017).

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

The following table shows how Business Rates balances have been allocated at 31 March 2018.

Collection Fund

Authority	Year-end Surplus (-)/ Deficit on Collection Fund - NNDR £000	Provision for Bad Debts - NNDR £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	-2,035	-1,473	2,051	-1,678	-11,892
Central Government	-2,076	-1,503	2,093	-1,712	-12,135
County Durham & Darlington Fire & Rescue Authority	-42	-30	42	-34	-243
Total Allocated	-4,152	-3,006	4,186	-3,424	-24,269

Fund Account

2016-17 Restated			2017-18		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-106,715		Contributions receivable	8	-156,395	
-4,974		Transfers in from other pension funds	9	-6,453	
-3		Other income		-3	
	-111,692				-162,851
114,152		Benefits payable	10	117,788	
7,270		Payments to and on account of leavers	11	11,279	
	121,422				129,067
	9,730	Net withdrawals/ -additions from dealings with members, employers and others			-33,784
	14,156	Management expenses	12		17,124
	23,886	Net withdrawals/ -additions including Fund Management Expenses			-16,660
RETURN ON INVESTMENTS					
-26,122		Investment income	13	- 28,093	
-369,002		Profit and losses on disposal of investments and change in market value of investments	15	- 64,531	
	-395,124	Net returns on investments			-92,624
	-371,238	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-109,284

The 2016-17 Management Expenses figure has been restated to include £2.279m Fund Managers' transaction costs, and the Profit and losses on disposal of investments and change in market value of investments figure has also been increased by £2.279m. This information was not available in 2016-17. The Net Increase/ Decrease in the Net Assets Available For Benefits During the Year figure remains unchanged.

Net Assets Statement

31-Mar-17			31-Mar-18		
£000	£000		Notes	£000	£000
INVESTMENT ASSETS					
282,942		Equities	15	307,224	
580,729		Bonds	15	556,309	
<u>1,778,540</u>	2,642,211	Pooled investment vehicles	15	<u>1,838,878</u>	2,702,411
327		Loans	15	304	
Other cash deposits:					
31,491		Fund Managers	15	65,191	
8,431		Short term investments	15	35,041	
4,524	<u>44,773</u>	Derivative contracts	15	3,552	<u>104,088</u>
	2,686,984				2,806,499
Other Investment Assets					
1,766		Dividend accruals	15,18	1,611	
480		Tax recovery	15,18	597	
<u>3,230</u>	5,476	Other investment balances	15,18	<u>21,483</u>	23,691
2,692,460		Total Investment Assets			2,830,190
INVESTMENT LIABILITIES					
-2,989		Derivative contracts	15	-5,834	
-1,981		Other investment balances	19	-25,981	
<u>-4,970</u>		Total Investment Liabilities			<u>-31,815</u>
2,687,490		NET INVESTMENT ASSETS			2,798,375
625		Long Term Assets	18		417
Current assets					
9,091		Contributions due from employers	18	7,760	
<u>1,716</u>		Other current assets	18	<u>1,394</u>	
	10,807				9,154
Current liabilities					
<u>-6,467</u>		Current liabilities	19	<u>-6,207</u>	
	-6,467				-6,207
2,692,455		NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			2,801,739

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

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

1. Fund Operation and Membership

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

- Public Services Pensions Act 2013
- LGPS Regulations 2013 (as amended)
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended)
- LGPS (Management and Investment of Funds) Regulations 2016

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

The Corporate Director of Resources is responsible for the administration of the Pension Fund. He is assisted by the Pensions Administration and Pension Fund Accounting teams in his statutory duty to ensure the Pension Fund is administered effectively and remains solvent.

The Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and firefighters for whom separate pension arrangements exist. A number of other scheduled and admitted bodies also participate in the Scheme.

The LGPS is a defined benefit occupational pension scheme to provide 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.

	2013/14	2014/15	2015/16	2016/17	2017/18
Contributing Members	17,454	18,011	18,530	18,630	19,219
Pensioners in Payment	16,700	17,193	17,715	18,139	18,618
Pensioners Deferred	13,040	13,165	14,451	15,104	15,746

In comparison to the figures reported at 31 March 2017, the number of pensionable employees in the Fund at 31 March 2018 has increased by 589 (3.16%), the number of pensioners has increased by 479 (2.64%) and deferred pensioners have increased by 642 (4.25%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 114 at 31 March 2018), at a rate determined by the Fund's Actuary, and
- pensionable employees, at a rate set by statute.

The Fund's total benefits and contributions are summarised in the following table. Further detailed information is provided in Notes 10 and 8 accordingly.

2016-17			2017-18	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
86,173	-71,078	Administering Authority	90,326	-113,692
22,158	-28,273	Scheduled Bodies	20,549	-34,888
5,821	-7,364	Admission Bodies	6,913	-7,815
114,152	-106,715		117,788	-156,395

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 2017/18 (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 23.

3. Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- 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.

4. Statement of Accounting Policies

Significant Accounting Policies

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

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;

- Employers' augmentation contributions are accounted for in the year in which they become due;
- Employers' deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

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

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the transfer value is agreed by Durham County Council Pension Fund.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses

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

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

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Note 12 provides further information regarding the basis of Investment Managers' Fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

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

Investment income

Investment income is accounted for as follows:

- 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 22.

Investment transactions

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

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 24).

Additional Voluntary Contributions (AVCs)

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

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

Prior Period Adjustments

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

Events After the Reporting Period

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

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

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

5. Critical judgements in applying accounting policies

The preparation of the statements in accordance with the Code of Practice on Local Authority Accounting requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In applying the policies, the Pension Fund has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary; the estimate is subject to significant variances based on changes to the underlying assumptions. These assumptions are summarized in Note 24.

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

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

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

Item	Uncertainties	Effect if actual differs from assumptions
Actuarial Valuation	Estimation of the net liability to pay pensions depends on a number of complex judgements including the discount rate used, the salary increase projections, expected changes in retirement ages, mortality rates and returns on pension fund assets. A firm of actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. Note 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"> - 75% if life expectancy increases by 3 years - 67% if discount rate falls by 1% - 67% if inflation increases by 1% - 68% if equities fall by 25% - 78% if pensionable pay increases by 1%
Fair Value of Investments	The Accounts are as at 31 March 2018 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 £158.0m at 31/3/18 (£165.4m at 31/3/17). This consists of the Fund's unlisted property holding. 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 £22.28m (£23.99m at 31/3/17), which represents the potential market movement on the value of the unlisted property.

7. Post Net Assets Statement (Balance Sheet) Event

There have been no events after 31 March 2018 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2016-17 £000		2017-18 £000
	Employer contributions:	
-49,580	Normal	-59,903
-5,797	Augmentation	-3,994
-28,059	Deficit funding	-68,915
	Member contributions:	
-23,191	Normal	-23,493
-88	Additional contributions	-90
-106,715		-156,395
-71,078	Administering Authority	-113,692
-28,273	Scheduled Bodies	-34,888
-7,364	Admission Bodies	-7,815
-106,715		-156,395

Durham County Council and Darlington Borough Council paid their deficit contributions for the 3 year period; 01/04/17 to 31/03/20 in full during 2017/18. These contributions are reflected in the deficit funding figure of £68.915m in 2017/18.

9. Transfers in From Other Pension Funds

2016-17		2017-18
£000		£000
-4,974	Individual Transfers	-6,453
<u>-4,974</u>		<u>-6,453</u>

10. Benefits Payable

2016-17		2017-18
£000		£000
93,285	Pensions	96,884
23,344	Commutations and lump sum retirement benefits	23,094
2,167	Lump sum death benefits	2,332
-4,644	Recharged benefits	-4,522
<u>114,152</u>		<u>117,788</u>
86,173	Administering Authority	90,326
22,158	Scheduled Bodies	20,549
5,821	Admission Bodies	6,913
<u>114,152</u>		<u>117,788</u>

11. Payments To and On Account of Leavers

2016-17		2017-18
£000		£000
297	Refunds to members leaving service	327
75	Payments for members joining state scheme	20
6,329	Individual transfers to other schemes	10,932
569	Group transfers to other schemes	-
<u>7,270</u>		<u>11,279</u>

12. Management Expenses

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

Investment management expenses include any expenses in relation to the management of the 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.

2016-17			2017-18	
Restated				
£000	£000		£000	£000
	905	Administration expenses		1,000
		Investment Management expenses		
9,891		Management fees	10,210	
230		Performance fees	116	
209		Custody fees	150	
<u>2,279</u>	12,609	Transaction costs	<u>4,744</u>	15,220
	642	Oversight and Governance costs		904
	<u><u>14,156</u></u>			<u><u>17,124</u></u>

The 2016-17 figure has been restated by £2.279m to include Fund Managers' transaction costs comprising information from 2 of the Fund's 7 Fund Managers. This information was not available in 2016-17. The Transaction Costs figure for 2017-18 comprises information from 6 of the Fund's 7 Fund Managers.

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2017/18 of £0.026m (£0.026m in 2016/17). No fees have been paid to Mazars in 2017/18 in respect of non-audit work

13. Investment Income

2016-17			2017-18	
£000			£000	
-5,620		Interest from bonds		-3,264
-7,071		Dividends from equities		-9,838
-48		Interest on cash deposits		-220
-13,383		Income from pooled investment vehicles		-14,771
	<u><u>-26,122</u></u>			<u><u>-28,093</u></u>

14. Taxation

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

- **United Kingdom Income Tax**

The Fund is an exempt approved Fund under Section 1(1) Schedule 36 of the Finance Act 2004, and is therefore not liable to UK income tax on interest, dividends and property income, or to capital gains tax.

- **Value Added Tax**

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

- **Foreign Withholding Tax**

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

15. Investments

Analysis by Investment Manager

The following Investment Managers were employed during 2017/18 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
(Formerly Aberdeen Asset Management Limited)
- 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)

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership (BCPP) which has been formed as a result of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require all Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools. BCPP is one of these investment pools.

It is anticipated that assets belonging to the Fund will start to be transferred into BCPP Limited towards the end of 2018/19.

BCPP Limited will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

The medium-term and long-term strategic asset allocation as at 31 March was as follows:

31 March 2017 Long Term	Asset Class	31 March 2018	
		Medium Term	Long Term
%		%	%
30	Global equities	40	40
15	Global Bonds	15	15
20	Dynamic Asset Allocation	5	0
8	Global property	8	8
0	Private Markets	5	10
7	Emerging Market Equities	7	7
20	Investment grade sterling bonds	20	20
100		100	100

Although the strategic asset allocation was revised and agreed during 2017/18, funds have yet to be transferred between managers and asset classes. Therefore the actual allocations vary from the long-term strategic allocations. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31 March 2017				31 March 2018	
£000	%	Investment Manager	Asset Class	£000	%
440,069	16.45	Aberdeen Standard	Global equities	450,516	16.29
357,972	13.38	AB	Global Bonds	396,399	14.34
444,824	16.63	BNYM	Global equities	466,030	16.85
489,644	18.30	BlackRock	Dynamic Asset Allocation	481,305	17.41
216,266	8.09	CBRE	Global property	225,228	8.14
197,224	7.37	Mondrian	Emerging Market Equities	204,554	7.40
529,238	19.78	RLAM	Investment grade sterling bonds	541,288	19.57
2,675,237	100.00			2,765,320	100.00

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 2018 excludes loans of £0.304m, cash invested by the administering authority of £35.041m, other investment assets of £23.691m and other investment liabilities of £25.981m (£0.327m, £8.431m, £5.476m and £1.981m respectively as at 31 March 2017).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2018, £2.765m (98.82%) is invested through Investment Managers (£2.675m or 99.54% at 31 March 2017).

Reconciliation of Movements in Investments 2017/18

Investment category	Value at 31 March 2017	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2018
	£000	£000	£000	£000	£000
Equities	282,942	149,452	-128,009	2,839	307,224
Bonds	580,729	2,201,577	-2,228,991	2,994	556,309
Pooled investment vehicles	1,778,540	228,336	-201,057	33,059	1,838,878
	2,642,211	2,579,365	-2,558,057	38,892	2,702,411
Derivative contracts:					
Futures, margins & options	734	17,911	-18,741	203	107
Forward foreign currency	801	27,922	-59,784	28,672	-2,389
	2,643,746	2,625,198	-2,636,582	67,767	2,700,129
Other investment balances:					
Loans	327				304
Other cash deposits	39,922			-3,236	100,232
Dividend accruals	1,766				1,611
Tax recovery	480				597
Other investment balances	1,249				-4,498
Net Investment Assets	2,687,490			64,531	2,798,375

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 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	124,781	-108,068	54,363	282,942
Bonds	519,293	2,713,423	-2,757,548	105,561	580,729
Pooled investment vehicles	1,487,500	233,241	-203,684	261,483	1,778,540
	2,218,659	3,071,445	-3,069,300	421,407	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
	2,213,754	3,239,696	-3,180,405	370,701	2,643,746
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
Net Investment Assets	2,316,751			369,002	2,687,490

The 2016-17 Sales Proceeds and Change in Market Value figures for Equities and Bonds have been restated to include Transaction Costs as shown in Note 12. The overall Value of Investments 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

2016-17			2017-18	
Restated			£000	£000
£000	£000			
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
511,012		UK - Public sector - quoted	510,526	
69,717		Overseas - Public sector - quoted	41,089	
-		Overseas - Corporate - quoted	4,694	
	580,729			556,309
Equities				
45,087		UK quoted	40,758	
237,855		Overseas quoted	266,466	
	282,942			307,224
Pooled Investment Vehicles				
118,307		Managed funds - non property - UK quoted	130,441	
1,460,408		Managed funds - non property - overseas quoted	1,517,240	
2,086		Unit Trusts - property - UK quoted	2,202	
23,510		Unit Trusts - property - UK unquoted	18,345	
32,289		Unit Trusts - property - Overseas quoted	30,980	
141,940		Unit Trusts - property - Overseas unquoted	139,670	
	1,778,540			1,838,878
Derivative Contracts				
4,524		Assets	3,552	
-2,989		Liabilities	-5,834	
	1,535			-2,282
31,491	31,491	Fund Managers' Cash	65,191	65,191
2,675,237		NET ASSETS INVESTED THROUGH FUND MANAGERS		2,765,320
OTHER INVESTMENT BALANCES				
8,431		Short term investments (via DCC Treasury Management)		35,041
327		Loans		304
5,476		Other investment assets		23,691
-1,981		Other investment liabilities		-25,981
2,687,490		NET INVESTMENT ASSETS		2,798,375

The 2016-17 figure for Managed funds - non property - overseas quoted has been reduced by £5.111m and Managed funds - non property - UK quoted has been increased accordingly. There has been no change to the total Net Investment Assets

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:

2016-17		Derivative Contracts	2017-18	
£000	£000		£000	£000
		Forward foreign currency		
2,671		Assets	1,530	
<u>-1,870</u>		Liabilities	<u>-3,919</u>	
	801	Net Forward foreign currency		-2,389
		Futures		
585		Assets	1,865	
<u>-155</u>		Liabilities	<u>-1,885</u>	
	430	Net Futures		-20
		Options		
1,268		Assets	157	
<u>-964</u>		Liabilities	<u>-30</u>	
	304	Net Options		127
	<u>1,535</u>	Net market value of derivative contracts		<u>-2,282</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 2018 and 31 March 2017.

Notes to Durham County Council Pension Fund Accounts

2017-18

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
0 to 1 mth	USD	1,700,000	AUD	-2,101,931	63	
0 to 1 mth	USD	3,200,000	CAD	-3,945,824	99	
0 to 1 mth	USD	4,495,000	CHF	-4,179,473	89	
0 to 1 mth	CHF	664,860	USD	-700,000		-3
0 to 1 mth	USD	3,500,000	COP	-10,150,000,000		-95
0 to 1 mth	USD	875,000	COP	-2,501,187,500		-14
0 to 1 mth	USD	875,000	COP	-2,504,250,000		-15
0 to 1 mth	USD	875,000	COP	-2,505,125,000		-15
0 to 1 mth	USD	875,000	COP	-2,508,187,500		-16
0 to 1 mth	GBP	61,875,250	EUR	-70,180,000	320	
0 to 1 mth	GBP	7,557,147	EUR	-8,600,000	14	
0 to 1 mth	EUR	4,300,000	HUF	-1,338,215,900	12	
0 to 1 mth	EUR	38,955,000	USD	-48,753,234		-563
0 to 1 mth	GBP	3,057,622	JPY	-470,000,000		-94
0 to 1 mth	GBP	117,944,077	USD	-167,410,000		-1,315
0 to 1 mth	GBP	4,760,000	USD	-6,756,803		-53
0 to 1 mth	USD	22,000,000	GBP	-15,508,357	164	
0 to 1 mth	USD	3,000,000	HKD	-23,415,288	11	
0 to 1 mth	HKD	23,425,800	USD	-3,000,000		-10
0 to 1 mth	USD	1,060,000	SGD	-1,387,574	1	
1 to 3 mths	USD	1,970,000	TWD	-58,597,650		-38
1 to 3 mths	USD	1,970,000	TWD	-58,646,900		-39
1 to 3 mths	USD	2,365,000	TWD	-70,559,775		-50
1 to 3 mths	USD	3,940,000	TWD	-117,254,400		-77
1 to 3 mths	USD	1,970,000	TWD	-58,745,400		-41
1 to 3 mths	USD	7,485,000	TWD	-223,240,125		-158
1 to 3 mths	USD	3,225,000	TWD	-97,878,750		-109
1 to 3 mths	USD	3,225,000	TWD	-97,911,000		-110
1 to 3 mths	TWD	78,123,125	USD	-2,615,000	58	
1 to 3 mths	TWD	123,693,500	USD	-4,130,000	100	
1 to 3 mths	TWD	94,011,600	USD	-3,140,000	75	
1 to 3 mths	TWD	93,886,000	USD	-3,140,000	72	
1 to 3 mths	TWD	78,083,900	USD	-2,615,000	57	
1 to 3 mths	TWD	39,077,300	USD	-1,310,000	28	
1 to 3 mths	TWD	39,057,650	USD	-1,310,000	27	
1 to 3 mths	TWD	78,005,450	USD	-2,615,000	55	
1 to 3 mths	TWD	39,064,490	USD	-1,310,000	27	
1 to 3 mths	TWD	9,232,730	USD	-310,000	6	
1 to 3 mths	TWD	29,787,000	USD	-1,000,000	20	
1 to 3 mths	TWD	79,039,350	USD	-2,655,000	52	
3 to 6 mths	GBP	13,179,189	USD	-18,375,611	118	
3 to 6 mths	GBP	2,405,773	EUR	-2,705,000	29	
3 to 6 mths	GBP	1,489,957	EUR	-1,678,458	15	
3 to 6 mths	EUR	2,076,589	GBP	-1,817,024	8	
3 to 6 mths	EUR	2,260,000	GBP	-1,990,920		-5
3 to 6 mths	GBP	3,812,420	USD	-5,374,472		-8
3 to 6 mths	GBP	1,992,861	EUR	-2,268,634		-1
1 to 3 mths	EUR	4,395,068	GBP	3,845,465		-17
1 to 3 mths	EUR	31,601,592	GBP	27,649,813		-125
1 to 3 mths	GBP	2,286,688	AUD	4,215,943		-11
1 to 3 mths	GBP	17,447,660	AUD	32,168,077		-83
1 to 3 mths	GBP	2,335,842	DKK	19,871,292		-7
1 to 3 mths	GBP	684,549	JPY	101,999,190		-
1 to 3 mths	GBP	13,744,363	JPY	2,047,937,602		-7
1 to 3 mths	GBP	3,160,324	JPY	470,894,542		-2
1 to 3 mths	GBP	1,276,313	SEK	14,835,254	10	
1 to 3 mths	GBP	125,286	USD	178,735		-2
1 to 3 mths	GBP	62,388,830	USD	89,005,152		-821
1 to 3 mths	GBP	267,091	USD	381,037		-4
1 to 3 mths	GBP	824,193	USD	1,175,810		-11
					1,530	-3,919

Net forward foreign currency contracts at 31 March 2018

-2,389

2016-17

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	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
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	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

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	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	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
					2,671	-1,870
Net forward foreign currency contracts at 31 March 2017					801	801

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:

<u>2017-18</u>					
	Expires	Product Description	Currency	Market Value at 31 March 18	
				£000	£000
Assets					
Overseas equity	1 to 3 months	S&P500 EMINI JUN 18	USD	1,339	
Overseas equity	1 to 3 months	E-MINI CONSUMER STAPLES JUN 18	USD	428	
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 18	EUR	70	
Overseas bonds	3 to 6 months	US 5YR NOTE JUN 18 29/6/2018	USD	22	
Overseas bonds	3 to 6 months	EURO-BUND JUN 18 7/6/2018	EUR	6	
Total assets					1,865
Liabilities					
Overseas equity	3 to 6 months	TOPIX INDEX JUN 18	JPY	-82	
Overseas equity	1 to 3 months	E-MINI HEALTH CARE SECTOR JUN 18	USD	-721	
Overseas equity	1 to 3 months	EURO STOXX MID JUN 18	EUR	-1,082	
Total liabilities					-1,885
Net Futures Contracts at 31 March 2018					-20
<u>2016-17</u>					
	Expires	Product Description	Currency	Market Value at 31 March 17	
				£000	£000
Assets					
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	
Total assets					585
Liabilities					
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	
Total liabilities					-155
Net Futures Contracts at 31 March 2017					430

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.

<u>2017-18</u>				
Type	Expires	Product Description	Currency	Market Value at 31 March 18 £000
Assets				
Overseas equity	0 to 1 month	EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3350.000	EUR	157
Total assets				157
Liabilities				
Overseas equity	0 to 1 month	EURO STOXX 50 INDEX 01-JAN-2050 20/4/2018 P @ 3150.000	EUR	-30
Total liabilities				-30
Net Options at 31 March 2018				127

2016-17

Type	Expires	Product Description	Currency	Market Value at 31 March 17 £000
Assets				
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	S&P 500 INDEX 15/12/2017 P @	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
Total assets				1,268
Liabilities				
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 @	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
Total liabilities				-964
Net Options at 31 March 2017				304

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 2018		At 31 March 2017	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	466.03	16.63	444.82	16.52
AAM L and P World Equity	Aberdeen Standard	450.52	16.08	440.07	16.34
Diversified Yield Plus	AB	396.40	14.15	357.97	13.30

16. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2016-17			2017-18		
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
Financial assets					
282,942			307,224		
580,729			556,309		
1,778,540			1,838,878		
4,524			3,552		
	327			304	
	31,491			65,191	
	8,431			35,041	
	5,476			23,691	
	11,432			9,571	
2,646,735	57,157	-	2,705,963	133,798	-
Financial liabilities					
-2,989			-5,834		
		-8,448			-32,188
-2,989	-	-8,448	-5,834	-	-32,188
2,643,746	57,157	-8,448	2,700,129	133,798	-32,188
		2,692,455			2,801,739
		Net Assets at 31 March			

Net Gains and Losses on Financial Instruments

31 March 2017 £000 Restated		31 March 2018 £000
Financial Assets		
370,701	Fair Value through profit and loss	67,767
-1,699	Loans and receivables	-3,236
Financial Liabilities		
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
369,002	Total	64,531

The 31 March 2017 Fair Value through profit and loss figure has been restated to reflect the restated Change in Market Value figures for Equities and Bonds shown in the Reconciliation of Movements in Investments 2016/17 (Restated) table in Note 15.

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels according to quality and reliability of information used to determine fair values.

LEVEL 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, exchange traded derivatives and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

LEVEL 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

LEVEL 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include unquoted property funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provide analyses of the financial assets and liabilities of the Fund as at 31 March 2018 and 31 March 2017, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	2,546,418	1,530	158,015	2,705,963
Loans and receivables	133,798	-	-	133,798
Total Financial Assets	2,680,216	1,530	158,015	2,839,761
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-1,915	-3,919	-	-5,834
Financial Liabilities at amortised cost	-32,188	-	-	-32,188
Total Financial Liabilities	-34,103	-3,919	-	-38,022
Net Financial Assets	2,646,113	-2,389	158,015	2,801,739

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
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
Total Financial Assets	2,535,549	2,893	165,450	2,703,892
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-913	-2,076	-	-2,989
Financial Liabilities at amortised cost	-8,448	-	-	-8,448
Total Financial Liabilities	-9,361	-2,076	-	-11,437
Net Financial Assets	2,526,188	817	165,450	2,692,455

17. Nature and Extent of Risk Arising From Financial Instruments

Risk and Risk Management

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

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

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and maximise the opportunity for gains across the whole fund portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The administering body manages these investment risks as part of its overall Pension Fund risk management programme.

The Fund's assets are managed by a number of Investment Managers, as disclosed in Note 15. By dividing the management of the assets between a number of managers risk is further controlled. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure the Investment Manager does not deviate from the Pension Fund Committee's investment strategy.

The Fund has appointed a Global Custodian that performs a range of services including collection of dividends and interest from the Investment Managers, administering corporate actions that the Pension Fund may join, dealing with taxation issues and proxy voting when requested. It also ensures that the settlement of purchases and sales of the Fund assets are completed. The Custodian has stringent risk management processes and controls. Client accounts are strictly segregated to ensure that the Fund assets are separately identifiable. Conservative investment practices are ensured by the Custodian where they invest cash collateral.

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 2017/18 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 2018 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	450,516	17.6%	529,807	371,225
AB	Broad Bonds	396,399	8.0%	428,111	364,687
BNYM	Global equity	466,029	17.6%	548,050	384,008
BlackRock	DAA	466,164	8.8%	507,186	425,142
CBRE	Unlisted property	158,015	14.1%	180,295	135,735
CBRE	Listed property	33,182	20.6%	40,017	26,347
Mondrian	Emerging market equity	202,570	26.3%	255,846	149,294
RLAM	UK Index Linked Gilts	529,535	9.0%	577,193	481,877
	Loans	304	0.0%	304	304
	Cash	100,233	0.0%	100,233	100,233
	Net derivative assets	-2,282	0.0%	-2,282	-2,282
	Net investment balances	-2,290	0.0%	-2,290	-2,290
Total change in net investment assets available		2,798,375		3,162,470	2,434,280

Manager	Asset type	Asset value at 31 March 2017 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	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
Total change in net investment assets available		2,687,490		3,060,950	2,314,030

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 2018 and the effect of a +/- 25 Basis Points (BPS) change in interest rates on the net assets available to pay benefits (assuming that all other variables, in particular exchange rates, remain constant). The prior year comparator is also provided:

Asset type	Asset Values at 31 March 2018	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
	£000	£000	£000
Cash and cash equivalents	100,232	251	-251
Fixed interest securities	26,776	67	-67
Total change in net investment assets available	127,008	318	-318

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
Total change in net investment assets available	97,205	243	-243

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 18	increase	decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	84%	15%	450,516	507,281	393,750
AB	Broad Bonds	0%	0%	396,399	396,399	396,399
BlackRock	DAA	5%	10%	466,029	468,359	463,699
BNYM	Global Equity	95%	15%	466,164	532,592	399,736
CBRE	Global Property	16%	10%	191,197	194,256	188,138
Mondrian	Emerging market equity	100%	15%	202,570	232,956	172,185
RLAM	UK Index Linked Gilts	0%	0%	529,535	529,535	529,535
	Loans	0%	0%	304	304	304
	Cash	24%	10%	100,233	102,639	97,827
	Net derivative assets	0%	0%	-2,282	-2,282	-2,282
	Net investment balances	0%	0%	-2,290	-2,290	-2,290
Total change in net investment assets available				2,798,375	2,959,749	2,637,001

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 Standard	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
Total change in net investment assets available				2,687,490	2,842,732	2,532,248

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 2018, this level of exposure to the Custodian is 2.4% of the total value of the portfolio (1.2% as at 31 March 2017).

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 £35.041m as at 31 March 2018 (£8.431m at 31 March 2017). This was held with the following institutions:

	Rating as at 31 March 2018	Balances as at 31 March 2018 £000	Rating as at 31 March 2017	Balances as at 31 March 2017 £000
Bank Deposit Accounts				
Handelsbanken	F1+	955	F1+	259
Santander UK Plc		-	F1	458
Fixed Term Deposits				
Leeds Building Society		-	F1	687
Bank of Scotland	F1	6,729	F1	1,603
Nationwide Building Society		-	F1	458
Goldman Sachs	F1	4,205	F1	1,145
Santander UK Plc	F1	1,682		-
UK Local Authorities	N/A	15,140	N/A	2,861
Income Bond				
National Savings & Investments	N/A	168	N/A	46
Other				
Money Market Funds	N/A	6,162	N/A	914
Total		35,041		8,431

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.

18. Analysis of Debtors

2016-17		2017-18
£000		£000
1,073	Central government bodies	887
8,347	Other local authorities	6,671
7,488	Other entities and individuals	25,704
16,908	Total debtors	33,262
Included in the Net Assets Statement as:		
625	Long Term Assets	417
5,476	Other Investment Assets	23,691
10,807	Current Assets	9,154
16,908		33,262

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.

19. Analysis of Creditors

2016-17		2017-18
£000		£000
-828	Central government bodies	-832
-1,417	Other local authorities	-1,625
-6,203	Other entities and individuals	-29,731
-8,448	Total creditors	-32,188
Included in the Net Assets Statement as:		
-1,981	Investment Liabilities - Other balances	-25,981
-6,467	Current Liabilities	-6,207
-8,448		-32,188

All of the £32.188m is expected to be paid by the Pension Fund within 12 months after the year end.

20. Additional Voluntary Contributions (AVCs)

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

- Purchase of additional pension, which is invested as an integral part of the Fund's assets;
- Money purchase scheme, managed separately by 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 2017 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2018 £000
Equitable Life	2,089	21	331	47	1,826
Prudential	5,109	1,552	809	102	5,954
Standard Life	1,776	225	320	46	1,727
Total	8,974	1,798	1,460	195	9,507

* Purchases represent the amounts paid to AVC providers in 2017/18

The financial information relating to money purchase AVCs, as set out above, is not included in the Fund's Net Asset Statement or Fund Account in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

21. Related Party Transactions

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

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

Related parties of the Pension Fund fall into three categories:

- a) Employer related
- b) Member related
- c) Key management personnel

a) EMPLOYER RELATED

There is a close relationship between an employer and the Pension Fund set up for its employees and therefore each participating employer is considered a related party. The following table details the nature of related party relationships.

Transaction	Description of the Financial Effect	Amount	
		2016/17	2017/18
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£106.715m	£156.395m
Debtors	Amounts due in respect of employers and employee contributions	£8.674m	£7.344m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.417m	£1.598m
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	£1.417m	£1.598m
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 £0.233m	Loans outstanding £0.214m
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 = £21.368m Interest = £0.069m	Balance = £27.093m Interest = £0.113m

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 2018 there were two Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further two Members were deferred members of the Pension Fund.

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

c) KEY MANAGEMENT PERSONNEL

Related parties in this category include:

- key management i.e. senior officers and their close families;
- companies and businesses controlled by the key management of the Pension Fund or their close families.

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

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

2016-17 £000		2017-18 £000
90	Short-term benefits	101
18	Post-employment benefits	27
<u>108</u>		<u>128</u>

22. Contingent Assets**a) PENSION CONTRIBUTIONS ON EQUAL PAY PAYMENTS**

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

There is no certainty that an individual will pay pension contributions on their Equal Pay settlement. The agreements signed by individuals are 'open-ended' in that an individual's ability to determine their settlement as 'pensionable' is not time limited, so the timing of any liability to pay contributions are not certain, and therefore it is not possible to estimate the value of any future contributions. However, the level of contributions likely to be received by the Pension Fund, are unlikely to have a material effect on the Pension Fund Accounts.

b) FOREIGN INCOME DIVIDENDS (FIDs)

The Pension Fund is involved in claims for tax reclaims due to EC Legislation. The outcome of the Court cases will determine the reclaim of taxes, neither the amount of income nor the timing of the income is certain, therefore it is not possible to estimate the value of any reclaims.

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

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

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

c) WITHHOLDING TAX (WHT) CLAIMS

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

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

23. Funding Arrangements

In line with Regulation 62 of the Local Government Pension Scheme Regulations 2013 the Fund's independent qualified actuary undertakes a funding valuation every 3 years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last full valuation took place as at 31 March 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
Financial Assumptions		
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
Demographic Assumptions		
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

24. Actuarial Present Value of Promised Retirement Benefits

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

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

25. Funding Strategy Statement

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

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.

26. 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 can be found on the Council's website at durham.gov.uk.

Annual Governance Statement 2017/18

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 2018.

CONTEXT

2. 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 April 2018, the Council approved, adopted and published on its website, a revised Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework – "Delivering Good Governance in Local Government".

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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 2018 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 April 2018.
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 2017/18.

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 of 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 will be incorporated in the Annual Internal Audit Report to the Audit Committee in June 2018. 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. The necessary changes have been implemented however, 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 2017/18 is included in **appendix A**. An update on improvements identified in the 2016/17 Annual Governance Statement 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 2017/18 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 eight actions as part of ongoing improvements to further strengthen governance arrangements in 2018/19. These are shown in **appendix C**.

APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed:

Alan Napier
Deputy Leader of Durham County Council

Terry Collins
Chief Executive

John Hewitt
Corporate Director of Resources

APPENDIX A: Governance Arrangements during 2017/18

A full description of the Council's governance arrangements is set out in the [Local Code of Corporate Governance](#). Aligned to the seven principles of good governance, the following paragraphs provide a detailed account of how the Council's governance arrangements have operated during 2017/18.

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

Behaving with integrity

1. The [register of gifts, interests and hospitality for members](#) is available online. Staff declarations are maintained and monitored by their Head of Service.
2. Updated versions of the Anti-Money Laundering Policy, the [Counter Fraud & Corruption Strategy and Fraud Response Plan](#) will be presented to Audit Committee for approval in May 2018.

Demonstrating strong commitment to ethical values

3. The [annual report of the Standards Committee](#) was presented to Council in September 2017.
4. Remuneration for heads of service was revised using the Local Government Employers Evaluation Scheme, with support from the North East Regional Employers Organisation.

Respecting the rule of law

5. Following approval by the Council, a new Head of Legal and Democratic Services, the Council's Monitoring Officer under section 5 Local Government and Housing Act 1989, was appointed by the Chief Executive Officer and the Corporate Director of Resources in consultation with the Leader of the Council.
6. In January 2018, the Council agreed to a [members' allowance scheme for 2018/19](#), taking into account the views of the independent remuneration panel, which the Council is required by law to establish and maintain.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

7. The Council seeks to make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes, with a presumption for openness and, where relevant, giving reasons for keeping any decision confidential. Clear reasoning and evidence are provided for decisions, being explicit about the criteria, rationale and considerations used, to ensure that the impact and consequences of those decisions are clear. These commitments are demonstrated by decisions made by Cabinet to approve the following reports:-

- (a) Proposed changes to the [non-residential charging policy](#) for individuals who receive social care services and are assessed to determine their financial contributions towards their care costs.
- (b) Proposal, in the midst of financial challenge being experienced by schools across the county, to implement a [strategic review of educational provision](#) on a locality basis, to achieve an appropriate mix and number of high performing, financially sustainable schools.
- (c) Proposed masterplan, for [Aykley Heads strategic employment site](#) (the site currently occupied by County Hall), to attract over 6,000 jobs, including setting out the implications of the decision.

Engaging comprehensively with institutional stakeholders

8. The Leader of the Council is the chair of the County Durham Partnership, which is the strategic partnership covering most partnerships in County. The Council continues to engage in the North East Local Enterprise Partnership and Combined Authority, taking a regional perspective and seeking to work across broader partnerships to secure investment. 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.
9. The [Aykley Heads redevelopment plan](#) is supported by a number of regional organisations including the North East Local Enterprise Partnership and North East England Chamber of Commerce, as well as Durham University. In the attached [video](#), organisations and key business leaders in the area explain why this development is important for the future of Durham.
10. 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.
11. [DurhamWorks](#) is a partnership programme between the Council and 16 other organisations, working together to support young people into education, training or employment. When funding ends in July 2018, the aim is to have supported nearly 6,000 County Durham young people. [DurhamWorks](#) also supports local employers. Business advisors are on hand to offer tailored support and advice, including financial support to small or medium sized businesses looking to take on a young person.
12. A report to Cabinet in November 2017 outlined the findings of the evaluation of the first year of delivering resettlement support under the Syrian Vulnerable Persons Resettlement Scheme through the [humanitarian support partnership](#) and considered future support for the programme. The partnership was shortlisted in the Municipal Journal awards in the delivering better outcomes category.
13. [Digital Durham](#), which aims to provide homes, businesses and communities with access to fast, fibre based broadband, won the [Public Sector Project of the Year](#) award at the Dynamites 17 awards. A total of more than £34million has been invested in a bid to improve broadband across the region. The Dynamites are hosted by Dynamo and are the North East's IT and Technology awards. The judging panel said, "We were

impressed with the collaboration between ten of the twelve councils in the North East to transform broadband speed in the region”.

Engaging with individual citizens and service users effectively

14. The Consultation Officer Group supports the Council’s approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
15. The new [Transformation Programme](#) was informed by consultation with members, employees, trade unions and focus groups. The Council also consulted with the public and stakeholders as part of the [Medium Term Financial Plan \(MTFP\)](#) development, and sought views on the 2018/19 approach and the individual savings proposals. In total, the council engaged over 3,300 people and received 1,175 responses. Overall, 78.1% of respondents stated the approach to making future savings is a reasonable way to go forward in 2018/19.
16. 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.
17. A significant County Durham Partnership success highlighted in the October 2017 Cabinet report was the official opening of a [new leisure facility in Crook](#). In 2013, the county’s largest participatory budget event, attracting over 1,300 participants, selected a proposal to create a new leisure by investing £500,000 of council funding. The community-led project has also attracted external funding from Sport England and the Social Investment Bureau. Membership numbers for the centre are already positive and it is anticipated that a number of jobs will also be created.
18. The Safe Durham Partnership’s [Dying to be Cool](#) campaign won a national [Municipal Journal Achievement Award 2017](#) for Excellence in Community Engagement, and has now prompted the Local Government Association to call on the Government to make teaching children about cold water shock compulsory.
19. [Operation Spruce Up](#) is an environmental campaign in which Council teams work with partners, including more than 4,000 children and young people, to give one town or village centre an intensive clean up each month. The scheme won national recognition, having landed the prestigious title of 'campaign of the year' at environmental charity [Keep Britain Tidy's Network Awards 2018](#). On the back of this success, the Council has extended the programme's initial 14 month run.
20. [Durham County News](#), the Council’s magazine for residents is issued to every household in the County four times a year in line with the [recommended code of practice for local authority publicity](#).
21. The Inspiring Voice pilot commenced in January 2018 for 12 weeks. Employees are invited to take part in live daily challenges, providing them with the opportunity to suggest ideas, solve problems and to help shape and transform the future of the Council.

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

Defining outcomes

22. The Council conducts a number of strategic assessments of need, which have been brought together into an [Integrated Needs Assessment](#) (INA). This brings together the evidence base and a wide range of strategic assessments to inform strategic planning across the council and by the county's thematic partnerships. The [INA](#) provides links to data, analysis, external frameworks, local profiles, strategies and plans relevant to life in County Durham. An online [data mapping site](#) is being developed.
23. In October 2017, Cabinet received a report informing them of progress in the Council's [Transformation Programme](#), which has been reshaped by the results of a 'deep dive' review. Price Waterhouse Cooper were engaged to seek areas for improvement and suggest areas where additional savings could be found.

Sustainable economic, social and environmental benefits

24. The Overview and Scrutiny Management Board, supported by its five committees, makes decision-making processes transparent, accountable and inclusive and seeks to improve services for people by being responsive to their needs. Where appropriate, Members have scrutinised the decisions of the Council, demonstrated by a number of key reviews which are outlined in the [Overview and Scrutiny Annual Report](#). They also contributed to a number of consultations and policy development areas, such as [Open Water Safety](#) and the [Homelessness Strategy](#).
25. 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:-
- (a) Significant investment in line with the Council's highest priority of regeneration in order to protect existing jobs and create new jobs;
 - (b) Significant further investment in children's and adults social care services to meet demand pressures and invest in prevention;
 - (c) Continued support to protect working age households in receipt of low incomes through the continuation of the Council Tax Reduction Scheme;
 - (d) Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people; and
 - (e) Continued work with community groups through the 'Durham Ask' initiative to transfer council assets so that they can be sustainable into the future.

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. Two examples are:-

- (a) The Cabinet report in January 2018 on the [proposed masterplan for Aykley Heads strategic employment site](#) (the site currently occupied by County Hall), which also set out the implications of the decision; and
- (b) The Cabinet report in September 2017 on the [tender process for drug and alcohol services](#).

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, Chapter Homes was created by the Council in 2015 to improve the county's housing offer by providing well-designed, quality homes that meet the needs of people wanting to buy or rent in County Durham.

28. A range of controls have been implemented for the Council's commercial companies and joint venture arrangements, appropriate to the specific entity, to ensure that effective governance arrangements are established and maintained. Examples include:-

- (a) Contributing to the attainment of the company's business objectives by providing strategic and financial guidance to ensure that the company's financial commitments are met, to ensure the sound financial management and control of the Company's business, and to support future growth of the company.
- (b) Provision of a Finance Director or Chief Financial Officer.
- (c) Requiring annual reports on operations and performance to be brought to the Council, as a shareholder, through Corporate Management Team and, where considered necessary, Cabinet.
- (d) Financial management support to ensure that annual accounts are prepared and submitted appropriately with HMRC and Companies House, and that they are independently audited.

29. [Business Durham](#), the Council's economic development arm, was shortlisted in the Innovation in Finance category of the Local Government Chronicle awards for the Finance Durham project.

30. The [Medium Term Financial Plan 2018 - 2022 \(MTFP\)](#) was approved by the Council in February 2018. 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](#).

Optimising achievement of intended outcomes

31. Assurance over the delivery of the [Council Plan](#) and the [MTFP](#) is gained by detailed and frequent monitoring undertaken by Corporate Management Team (CMT) and, during the eight years up to the end of March 2018, a sum of £209m 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 2018/19 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.

32. The [Transformation Programme](#) reports to a Transformation Board, consisting of Cabinet members and the Corporate Management Team, chaired by the Leader of the Council. It is co-ordinated through a Steering group made up of senior officers leading on aspects of the programme and chaired by the Director of Transformation.
33. A report to Cabinet in September 2017 gave an [update on welfare reform and poverty issues](#), with a particular focus on Universal Credit and child poverty. Since 2011, there has been increased demand for welfare-related services, including advice and assistance, applications for discretionary housing payments and welfare assistance, foodbank and charity referrals and personal financial action planning. The Council has established a specific portfolio holder for welfare reform on the Cabinet, a Poverty Action Steering Group (PASG) and a Child Poverty Working Group. Through the PASG, the Council continues to develop its partnership-based approach to understanding and tackling poverty and welfare related issues.
34. The County Durham Partnership has agreed to join up a range of workstreams on the Prevention Agenda to have a greater impact on health, education, employment, and work with children and young people. It was agreed to establish three workstreams: Building on Best Practice; Maximising Funding and Meeting Local Needs, and to set up a cross partnership steering group.

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

Developing the Council's capacity

35. 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. Desk-based employees have been given access to software that allows them secure, remote access to the Council's computer systems, including from home, which reduced the impact of severe weather conditions during February and March 2018.
36. Work is well underway to transform office accommodation at each of the Council's sites, leading to a more productive and creative workforce and reduced travelling times. Modern, open plan spaces allow more flexibility, with printers, recycling bins and stationery being centralised on each floor. New technology, such as video conferencing and mobile working, is increasingly being used.
37. A review of the head of service structure was undertaken, informed by work on the [Transformation Programme](#), which identified that two crucial aspects underpin the transformation agenda: cultural change linked to organisational development and the human resources service; and our digital/customer experience strategy. These areas have a significant role to play in ensuring the foundations are in place for the Council to move forward and provide key support to the [Transformation Programme](#) and the evolution of all of the Council's services over the coming years, and ensure that the Council is equipped to take advantage of the investment made into the Apprenticeships Levy.

38. The newly-created Head of People and Talent Management post leads the management and development of a responsive, modern and strategic service. This post provides effective on-going support to managers to ensure that the Council has the right people in the right place at the right time and plays a key role in supporting the Council's transformation journey and cultural development programme.
39. Aligning customer services and ICT through a newly created post of Head of Digital and Customer Services post plays a key role in leading the digital agenda and supporting the transformation journey, including responsibility for the Council wide provision and management of customer services.
40. The newly-created Head of Transformation leads the development and delivery of a comprehensive internal and external [Transformation Programme](#) as well as the cultural change programme.
41. Other proposed changes include a renewed focus on children and young people's services and council wide roles in relation to strategy, communication and information management, and partnerships and community engagement, which reflect the on-going unitisation of services.
42. The Council is also taking part in the Local Government Association's National Graduate Development Programme with four graduates starting with the Council in September 2017.

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

43. The [Transformation Programme](#) report to Cabinet in October 2017 confirmed that, following a restructure of the Corporate Management Team, a restructure of the Council's Extended Management Team (EMT) (heads of service) was completed in June 2017. The new EMT gives additional focus to the digitisation of process and ICT systems management, strengthens our capacity to lead organisational change and manage our people and gives additional focus to our work to support looked after children.
44. Following the introduction of the Apprenticeship Levy, the Council has taken on 130 new apprentices. An apprenticeship audit is being undertaken across service areas to identify future needs. Guidance on Employing an Apprentice and Accessing the Apprenticeship Levy provides managers with key information about the levy, including the process for recruiting an apprentice and the regulations which govern that process.
45. 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.
46. Employees' needs, in terms of training, development, health and wellbeing, are delivered through the Organisational Development Strategy and the Health, Safety and Wellbeing Strategy. The Council continues to support employees through the change process with, for example, Jobcentre Plus information sessions and confidential counselling services through the Employee Assistance Programme. An intranet page has been specifically created for employees in relation to mental health and wellbeing and provides support and guidance for managers and non-management employees.

47. Officers in the Transformation and Partnerships team completed intensive refresher training in Lean business processes and worked closely with colleagues in children's services to identify improvement opportunities. This work helps support the wider programme of improvements across children's services as a whole and helps in our learning for future reviews in the council.
48. Over 3,700 people responded to the Working Well staff survey, the highest response yet. Employees were asked for their views on communications, flexible working and employee health and wellbeing. Almost three in four agreed that their working time is flexible and just over 70% said the council tries its best to help employees to agree working arrangement to meet their needs. For the first time in the survey, the Health and Safety Executive's recommended questions on work-related stress were included, enabling comparison with other organisations. Survey findings are being used to identify priority actions and inform the Inspire programme, the Council's new organisational development strategy and action plan to achieve the Health at Work Award.
49. The Great Staff, Great Stuff Awards 2017 had a new look to reflect the aspirations of our Inspire [Transformation Programme](#) and recognise a broader range of people and projects. Three new categories were introduced, including an award for unsung heroes and a Special Recognition Award, which was chosen by the leader of the council from nominations made by the corporate directors and their service management teams. A Young Employee of the Year Award now replaces the Apprentice of the Year category, allowing for the excellent work of all staff under 25 years old to be recognised.

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

Managing risk

50. Risk management continues to be embedded in decision making and key business processes and the Risk Management Policy and Strategy, which defines key roles and responsibilities and is reviewed annually, underpins this. The Audit Committee has gained assurance that the Council's strategic risks are being effectively managed through reports issued in [July 2017](#), [November 2017](#) and [March 2018](#).
51. The Council is also jointly responsible for responding to civil emergencies (such as severe weather events, network power losses and flu epidemics) through the County Durham and Darlington Local Resilience Forum. The arrangements for managing the risk of such events are explained, and a copy of the latest Community Risk Register can be found, on the [Local Resilience Forum](#) web page. One of the intended outcomes of the Council's [Transformation Programme](#) is to help make communities become more self-reliant and resilient, so the Council's website includes advice for [business and care services on planning for emergency situations](#).
52. Several challenges and uncertainties lie ahead and these are being monitored through the Council's strategic risk management reporting arrangements:-
- (a) The implications of the UK leaving the European Union, including the position of EU citizens living in the UK and UK nationals living in the EU.
 - (b) Capacity issues caused by nationwide hard-to-recruit posts in children's social care.

- (c) Funding pressures in adult social care.

Managing performance

53. 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 [Sustainable Community Strategy](#) (SCS), and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning. In October 2017, Cabinet received an [update from the County Durham Partnership Board](#). Overall performance for the Partnership and Council for 2016/17 showed that whilst, there are positives such as employment and education rates increasing and lower than national crime figures per 1,000 population, there are still significant demand pressures. These include the poverty and deprivation gap, a significant increase in numbers of looked after children and an aging population.
54. The Council's Cabinet is responsible for monitoring performance and ensures that effective arrangements are put in place to deal with any failures in service delivery. Assurance is gained through [quarterly performance reporting](#) and through performance clinics between the Chief Executive, individual Corporate Directors and the Director of Transformation and Partnerships during the year. A number of reviews have also been carried out by Overview and Scrutiny Committees including cybercrime and the [role of the social worker from a child's perspective](#).
55. 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 are more concise, using a dashboard style with shorter narrative, and attention is moving towards analysing and developing insights from the performance data.
56. 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, in September 2017, provided Cabinet with an [update on progress](#) since the inspection in 2016. In July 2017, Cabinet was informed of the outcome of a [self-evaluation](#) of local area special education needs and disability reforms.
57. The Police and Crime Panel, which includes councillors from Durham County Council and from Darlington Borough Council, scrutinises the [annual report](#), decisions and actions of the Police and Crime Commissioner. An update on activity from the Panel is presented to each meeting of the Council's [Safer and Stronger Communities Overview and Scrutiny Committee](#).

Robust internal control

58. Risk management and internal control are acknowledged as integral parts of the Council's performance management framework and crucial to the achievement of

objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective. Internal audit progress updates were provided to Audit Committee in [June](#), [September](#) and [November 2017](#), and in [March 2018](#).

Managing data

59. The council has an Information Governance Group, with representatives from all services, which meets regularly and formulates regulatory responses to the Information Commissioner's Office and handles day-to-day management issues around information governance. A cross-service working group of around 20 officers has been set up to oversee the introduction of the General Data Protection Regulation (GDPR) working on privacy notices, policies and procedures, staff guidance and the development of an e-learning training package in advance of the introduction of GDPR in May 2018. In January 2018, the Head of Communications and Information Management was formally designated the Data Protection Officer under the General Data Protection Regulation.

Strong public financial management

60. The Council has appointed the Corporate Director of Resources as Chief Financial Officer and Section 151 Officer (Local Government Act 1972) to fulfil the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). The Chief Financial Officer, who is a member of the Corporate Management Team (CMT) and reports directly to the Chief Executive, has been involved in all CMT discussions, and has reviewed all reports to Cabinet which have financial implications.

61. In March 2018, an update was given to Audit Committee on the Council's [accounting policies](#) to be applied in the preparation of the 2017/18 Statement of Accounts. The following reports provide assurance that the Council's financial management supports both long-term achievement of outcomes and short-term financial and operational performance:-

- (a) [Treasury Management Outturn 2016/2017](#)
- (b) [Final Outturn for the General Fund and Collection Fund 2016/17](#)
- (c) [Update on the delivery of the Medium Term Financial Plan 6](#)
- (d) [Update on the delivery of the Medium Term Financial Plan 7](#)
- (e) [Report under Section 25 of Local Government Act 2003 - Reserves](#)

62. The closure process of the 2016/17 accounts was utilised as a practice run for the new, earlier statutory account closure deadlines being implemented for the 2017/18 accounts. The target deadline of 31 July 2017 was not achieved because the External Auditor reported one significant issue, which delayed their opinion. After further testing, the necessary assurances were provided and the accounts were signed off by the statutory deadline of 30 September 2017.

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

Implementing good practice in transparency

63. The council has an approach to open data 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 on the Council's website. As required by law, the sum paid to each county councillor is also published.
64. Reports about complaints against members are now included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information).

Implementing good practices in reporting

65. The [Local Code of Corporate Governance](#) was reviewed and updated in line with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016, before being approved by Audit Committee and Full Council.
66. The [Statement of Accounts 2016/17](#), incorporating the Annual Governance Statement, was approved by the Audit Committee in September 2017, 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.
67. The Council's commitment to regular reporting to stakeholders on performance, value for money and stewardship of resources is evidenced throughout this statement. Other examples include:-
- (a) [Annual report of the Director of Public Health 2016/17](#)
 - (b) [Safeguarding Adults Board Annual Report 2016-17](#)
 - (c) [Health and Wellbeing Board Annual Report 2016/17](#)
 - (d) [Children and Young People's Services Annual Reports and Plans](#)

Assurance and effective accountability

68. A [review of the effectiveness of Internal Audit](#), incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee in June 2018. 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.
69. Revised versions of the [Internal Audit Strategy, Charter and Plan for 2017/2018](#) were approved by Audit Committee in June 2017.
70. Assurance can also be taken from the following external independent sources that, through good governance, the Council continues to maintain and improve the quality of services:-
- (a) [External Audit, Annual Audit Letter 2016/17](#)
 - (b) [External Audit, Audit Completion Report Year Ended 31 March 2017](#)
 - (c) [External Audit, Audit Strategy Memorandum, February 2018](#)

(d) Chartered Institute of Payroll Professionals, who awarded our HR Operations and Data Team the Payroll Assurance Scheme accreditation.

APPENDIX B: Update on improvements identified in the 2016/17 Annual Governance Statement

Following the production of the Annual Governance Statement for 2016/17, five improvement actions were identified for 2017/18.

No.	Actions to be taken	Lead Officer
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 (QIB) 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.	Corporate Director, Children and Young People Services
<p><u>Update:</u> The QIB, led by the Corporate Director, Children and Young People's Services, was established to lead, oversee and monitor progress of the improvement plan, following the Ofsted inspection in 2016. The Lead Member received regular reports on the progress of the QIB through briefings from the Corporate Director and at the Transformation Board. A report entitled 'Quality Improvement Board One Year On' was presented to Cabinet in September 2017 and provided an analysis of progress to date. This report was also discussed at the Local Children's Safeguarding Board on 12th October 2017.</p>		
2	Implement an action plan to enable approval of the County Durham Plan (CDP) within the statutory requirements and the anticipated National Planning Policy Framework.	Corporate Director, Regeneration and Local Services
<p><u>Update:</u> The timetable for the continued preparation of the CDP was agreed by Cabinet in November 2017. The next step in the process, the Preferred Options, is going to Cabinet for approval for consultation by July 2018. The draft National Planning Policy Framework was published in March 2018 and is being taken into account in the policies and proposals in the CDP. Following the consultation on the Preferred Options, the comments received are being taken into account, with the publication of the submission due towards the end of the year.</p>		
3	Implement revised governance monitoring arrangements for companies in which the Council has a legal interest to ensure that they are fit for purpose.	Corporate Director, Resources
<p><u>Update:</u> The revised governance monitoring arrangements are described in paragraph 28 of this statement.</p>		
4	Implement arrangements to ensure that the Council complies with the General Data Protection Regulations 2018.	Director, Transformation and Partnerships
<p><u>Update:</u> A cross-service working group of around 20 officers has been set up to oversee the introduction of General Data Protection Regulation (GDPR) working on privacy notices, policies and procedures, staff guidance and the development of an e-learning training package in advance of the introduction of GDPR in May 2018.</p>		

No.	Actions to be taken	Lead Officer
5	Monitor the arrangements for payments to agency workers across the Council to ensure that they are effective.	Corporate Director, Resources
<p>Update: Various controls have been implemented to strengthen the arrangements for payments to agency workers. These include:-</p> <ul style="list-style-type: none"> (a) Quarterly analysis reports to each Service Management Team and Corporate Management Team, including recommended actions to address non-compliance with agreed processes. (b) Enhancements to the Agency workers computer system in relation to approvals and mandatory training for all users. (c) Automated email to the hiring manager/timesheet approvers once a timesheet is ready for approval and improved access to the timesheet to approve through a link embedded in the email. (d) Extended deadlines for managers to approve timesheets. (e) Facility to delegate approvals to an alternative manager in the event of absences. <p>There are still some concerns over the level of auto-approval of agency worker timesheets, which is attributed to non-compliance issues within some service management areas.</p>		

APPENDIX C: Proposed Governance Improvements required during 2018/19

As a result of the review of governance arrangements, and the work of both internal and external audit, eight improvement actions have been identified to further strengthen governance arrangements in 2018/19. These are shown in the table below.

No.	Actions to be taken (cross-reference)	Lead Officer
1	Implement an action plan to enable approval of the County Durham Plan (CDP) within the statutory requirements and the anticipated National Planning Policy Framework (brought forward).	Corporate Director, Regeneration and Local Services
Links to the Local Code of Corporate Governance (ref): The Council endeavours to ensure that members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations. It also seeks to create the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements (4.14).		
2	Develop a new council vision and a new Council Plan to replace the Council Plan 2016-19 (paragraph 22 & 23 – defining outcomes).	Head of Strategy
Links to the Local Code of Corporate Governance (ref): Defining outcomes in terms of sustainable economic, social, and environmental benefits (4.24 – 4.29).		
3	Develop a corporate approach to the Prevention Agenda to have a greater impact on health, education, employment, and work with children and young people (paragraph 34).	Head of Partnerships and Community Engagement
Links to the Local Code of Corporate Governance (ref): Optimising the achievement of intended outcomes (4.34)		
4	Review the Council's asset management arrangements with a view to adopting the Corporate Landlord model, which is seen as best practice in local government (paragraphs 35 & 36 – developing the Council's capacity through asset management).	Head of Planning and Assets
Links to the Local Code of Corporate Governance (ref): Ensuring the continuing effectiveness of operations, performance and use of assets (4.37).		
5	Establish a combined and integrated management board with direct service delivery of NHS community and adult social care services being overseen by a Chief Officer on behalf of all partners (paragraphs 10, 53 to 55 – managing performance).	Director of Public Health & Head of Adult Care
Links to the Local Code of Corporate Governance (ref): Ensuring that service delivery is effectively monitored (4.52).		
6	Monitor the arrangements for payments to agency workers across the Council to ensure that they are effective (paragraph 58 – robust internal control).	Corporate Director, Resources

No.	Actions to be taken (cross-reference)	Lead Officer
<p>Links to the Local Code of Corporate Governance (ref): Aligning the risk management strategy & policies on internal control with achieving objectives, as well as regularly evaluating and monitoring risk management and internal control (4.55).</p>		
7	Ensure data protection changes including GDPR compliance are implemented (paragraph 59).	Head of Communications and Information Management
<p>Links to the Local Code of Corporate Governance (ref): Ensuring that effective arrangements are in place for the safe collection, storage, use and sharing of data, including decision making and processes to safeguard personal data (4.57).</p>		
8	MTFP and Financial Strategy Group for Education will monitor progress on the implementation of the strategic review of educational provision to ensure that the intended outcomes are achieved (paragraph 7b).	Corporate Director, Children and Young People Services
<p>Links to the Local Code of Corporate Governance (ref): Optimising the achievement of intended outcomes with robust mechanisms for making decisions, which are reviewed continually (4.34).</p>		

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

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

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 21 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 is not able to use to provide services, such as the revaluation reserve that arise from accounting requirements.

Usable Capital Receipts Reserve

Represents the resources held by the Council from the sale of non-current assets that are yet to be spent on other capital projects.

Usable Reserves

Usable reserves are reserves that the Council may use to provide services subject to the need to retain prudent levels of reserves and any statutory limitations to their use. Usable reserves include Earmarked Reserves and the General Reserve.

Useful Life

The period in which an asset is expected to be useful to the Council.

Variance

The difference between budgeted expenditure and actual outturn also referred to as an over or under spend.

Work-in-Progress

The value of rechargeable work that had not been recharged at the end of the financial year.