



Statement of Accounts

For the year ended 31 March 2019

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 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 financial outlook for the council will continue to be extremely uncertain as the outcome and the timing of both the Comprehensive Spending Review and Fair Funding Review are not known at this time. These reviews will determine the quantum of funding available to local government and the share available to the council. The added uncertainty brought about by the expected exit from the European Union will only serve to compound these issues.

By the end of 2018/19, the council had delivered £224m of financial savings with additional savings of £10.3m approved for 2019/20. It is forecast that total savings for the period 2011/12 to 2022/23 will be £263m.

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 ten years has focussed on 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 2019 – 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 2018/19;
- 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 2019 and an executive summary of the non-financial performance of the council in 2018/19. 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 2018/19 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 2018/19
- 6 Non-Financial Performance of the council 2018/19
- 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

Many of our distinctive qualities can be explained by our history. In medieval times, Durham held great political importance as a buffer state between England and Scotland with its own autonomous ruler, the Prince Bishop of Durham, holding both spiritual and secular power in the region and having responsibility for protecting England's northern

frontier. As a religious centre, Durham helped to illuminate the Dark Ages. Durham Cathedral was the site of the tomb of St Cuthbert, the great northern saint and a popular site of pilgrimage in medieval times. The cathedral was also the home of the Lindisfarne Gospels, the oldest surviving translation of the Gospels into English and one of the finest illuminated manuscripts in existence. Today, Durham Castle and Cathedral are one of only a few World Heritage Sites in the British Isles and are a major tourist attraction for visitors from all over the world.

Later in our history when coal was king, our mines powered the Industrial Revolution. This area saw the birth of the railways and provided the coal, steel and ships for economic growth across the country and the world. In the nineteenth century the growth of the mining industry transformed the landscape and the population of the county. Colliery villages sprang up and migrant workers from all parts of the British Isles swelled the workforce. Some of the housing erected in our old colliery villages to accommodate the large population increases of the boom years of coal remain, so the built environment in some parts of the county needs regeneration. Despite improvements in recent years, some of these communities still face challenges. The demise of mining and heavy industry in the 1980s hit the local economy hard, seeing significant increases in unemployment. This led to large scale environmental reclamation work to restore the natural beauty of our county and the economic renaissance that continues today.

Today the county has one of the best natural environments in the country, boasting some wonderful countryside from the unspoilt Area of Outstanding Natural Beauty of the North Pennines to the Durham Heritage Coast. The county's industrial heritage is well served by museums such as Beamish, the largest open-air museum in the UK and Locomotion, the National Railway Museum at Shildon, the world's first railway town.

A partnership of public agencies working together with the private sector has redeveloped the economy of the county, investing in leisure and tourism, green technologies, creative industries, financial services, pharmaceuticals and advanced engineering sectors. The University of Durham, the third oldest in England, is a member of the prestigious Russell Group of universities known for their world class teaching and research. Collaboration between local businesses and the University of Durham has led to developments in science, technology and innovation.

The county enjoys good north-south connectivity being on the East Coast Mainline and is served by two airports and two maritime ports. We enjoy relatively traffic free roads in comparison with the rest of the country. However, east-west connectivity within the county needs improvement. Accessibility remains a priority for residents, particularly in rural areas and areas of high deprivation with low car ownership. The county has poorer health outcomes in comparison to some UK measures, partly due to the legacy of heavy industry and the deprivation suffered in some of our communities, which means we have some challenges. There is a high dependency on benefits in some parts of the county and the introduction of Universal Credit has disproportionately affected County Durham. Children living in poverty and levels of fuel poverty are higher than national averages and the

demand for children's social care has increased in line with national trends, putting significant pressure on our public services.

Interesting facts about your county:

- At an estimated population of 523,662, County Durham has the highest population of any local authority area in the North East region and has seen a net increase of 1,519 (or 0.3%) since 2016;
- The working age population in the county increased by 2.9% between 2001 and 2016, however it has fallen since 2011 by 4,900 people due to more people ageing into retirement;
- the population aged 65+ has increased by 30.7% since 2001, rising to 106,900 residents. This group now represents over one fifth (20.4%) of the county's total population.
- 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 the council:

- it has a net revenue budget requirement of £400m and a capital budget of £391m for 2018/19 to 2021/22;
- it employs around 10,453 staff (excluding schools);
- it maintains 3,797 km of highway, over 80,000 street lights, owns and manages 39 libraries, 12 leisure centres, 8 customer access points and 228 schools (excluding academies);
- it 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 246,436 domestic and 15,562 business premises in the County;
- 126 councillors represent 63 electoral divisions within County Durham making it the largest elected body in England outside of the UK Parliament;
- The political makeup of the council on 31 March 2019 was as follows:
 - 73 Labour,
 - 14 Liberal Democrat,

- 12 Durham County Council Independent Group,
 - 10 Conservative,
 - 7 Durham Independent Group,
 - 4 Spennymoor Independent Group,
 - 3 North East Party Group
 - 1 not aligned to any political group,
 - 2 vacancies.
- its administrative staff are concentrated at five strategic centres in Crook, Seaham, Spennymoor, Meadowfield and County Hall, Durham;
 - there are 14 Area Action Partnerships covering the county providing residents with the opportunity to set local priorities which are acted on through local projects.

5. Financial Performance of the Council 2018/19

Revenue Outturn Position

The council's revenue outturn is shown in the following table. The original net revenue expenditure budget of £400.288m was approved at the Council meeting on 21 February 2018. The original budget set out how the council planned to allocate its funding during the year in order to deliver services to the people and communities of Durham. During the financial year, amendments to the council's budget were approved by Cabinet.

In overall terms, the outturn was an underspend of £11.216m when comparing actual net expenditure to the revised budgeted/ planned net expenditure. The underspend represents 2.8% of the revised total net expenditure budget. The surplus for the year in respect of Service Groupings (£3.353m) has been allocated to the individual Cash Limit Reserves to meet future service demands. The remaining £7.863m 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	130,822	118,717	114,723	-3,994
Children and Young People's Services	106,563	100,229	103,620	3,391
Regeneration and Local Services	126,987	128,521	127,392	-1,129
Resources	15,635	17,289	15,753	-1,536
Transformation and Partnerships	11,944	12,673	12,588	-85
	391,951	377,429	374,076	-3,353
Corporate Finance				
Contingencies/Sums outside the Cash Limit	3,737	548	-	-548
Corporate Costs	3,844	4,845	4,544	-301
Capital, Treasury and Technical Accounting	-15,437	5,150	540	-4,610
Levies	16,193	16,204	16,207	3
	8,337	26,747	21,291	-5,456
Total Net Expenditure	400,288	404,176	395,367	-8,809
Funded By:				
Council Tax	-209,712	-209,712	-209,718	-6
Use of (-) / contribution to earmarked reserves	-4,711	986	986	-
Estimated net surplus on Collection Fund	-7,506	-7,506	-7,506	-
Business Rates	-51,889	-51,889	-51,904	-15
Top up grant	-70,350	-70,350	-70,009	341
Levy Account Surplus Grant	-	-	-1,922	-1,922
Revenue Support Grant	-41,860	-41,860	-41,860	-
New Homes Bonus	-6,504	-6,504	-6,504	-
Section 31 Grant	-7,723	-7,723	-8,528	-805
Contribution to / from (-) Cash Limit Reserve	-33	-8,718	-8,718	-
Budgeted Contribution from General Reserves	-	-900	-900	-
Total Funding	-400,288	-404,176	-406,583	-2,407
Variance	-	-	-11,216	-11,216

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

- In Adult and Health Services (AHS) there was a net underspend of £3.994m. This was mainly due to:
 - the early achievement of a number of future MTFP savings 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) there was a cash limit overspend of £3.391m. This was primarily made up from:

- an underspend within the Education Service of £0.332m. This mainly relates to alternative funding arrangements for the nursery sustainability service and vacancies in the early years team of £0.812m, along with early achievement of MTFP savings totalling £0.361m within operational support and other staffing underspends of £0.043m. These underspends however were offset by an overspend of £0.884m on the Home to School Transport budget, which is largely as a result of increased costs on Special Educational Needs transport; and
 - an overspend within Children's Services of £3.722m. This primarily 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 continuing to create a strain on the service. It was anticipated that Looked after children (LAC) numbers and costs would have stabilised by 2018/19 and that the budget, augmented by £3.9m of base growth and £0.5m of demographic growth would meet demand in 2018/19. The actual overspend on placement costs was £2.624m, primarily driven by the requirement for expensive single residential and secure welfare placements to meet the care needs of particular young people. Interagency adoption fees overspent by £0.751m as a result of successfully placing young people in permanent adoptive placements outside of the county. Prior to 2018/19 the service had made a commitment to use agency staff only in areas where staff vacancies existed. Due to service pressure and demands, unbudgeted agency staff costs in excess of savings accrued through vacancies were £0.748m. External transportation costs overspent by £0.458m as a result of court direction on the frequency of supervised contact for Looked after children, combined with the continuing high numbers of children currently looked after.
- £0.548m of the contingencies/sums outside of the cash limit budget remained unspent at the end of the financial year;
 - Within Capital, Treasury and Technical Accounting there was an overachievement of investment income of £1.600m which was mainly due to higher than anticipated levels of returns on loan investments and commercial activities plus an underspend on interest charges of £3.000m resulting from a review of the council's MRP policy;
 - A Levy Account Surplus Grant of £1.922m was received from MHCLG at the end of the financial year.

Capital Outturn Position

The original capital budget for 2018/19, taking into account the budgets approved by Council on 21 February 2018 and adjustments for re-profiling of underspends at 2017/18 year end was £137.053m. This was agreed by Cabinet on 11 July 2018.

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 2019 have also been considered by MOWG.

The council spent £91.258m on its capital programme in 2018/19 compared to the revised forecast spend of £103.819m. 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	32	-	-32
Children and Young People's Services	18,995	16,194	-2,801
Regeneration and Local Services	75,792	69,376	-6,416
Resources	5,037	4,368	-669
Transformation and Partnerships	3,963	1,320	-2,643
Total	103,819	91,258	-12,561
Funded By:			
Grants and Contributions	-65,745	-52,183	13,562
Revenue and Reserves	-24,868	-22,116	2,752
Capital Receipts	-13,206	-9,391	3,815
Borrowing	-	-7,568	-7,568
Total	-103,819	-91,258	12,561

The variance between the revised capital budget and the final outturn for the year was £12.561m. This underspend of planned expenditure will be re-profiled into 2019/20 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 2018/19

Material Assets and Liabilities:

- As at 31 March 2019, the council held:
 - £1,857.847m of Long Term Assets
 - £301.237m of Current Assets
 - £153.502m of Current Liabilities and

- £1,576.977m of Long Term Liabilities.
- Long Term Assets have increased by £40.883m, which is mainly due to an increase in the value of Property, Plant and Equipment assets.
- Current Assets have increased by £55.195m, which is mainly due to an increase of £87.690m in Short Term Investments and reductions of £8.923m in short term debtors and £21.171m in cash and cash equivalents.
- Current Liabilities have increased by £13.466m, which is mainly due to an increase of £14.573m in Short Term Creditors.
- Long Term Liabilities have increased by £16.333m, which is mainly due to the movement in Long Term Borrowing during the year.

Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2018/19 to 2021/22 and Revenue and Capital Budget 2018/19 Report, approved by Council on 21 February 2018, details the 2018/19 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 2018/19 were as follows:
 - Authorised limit for external debt of £538m
 - Operational boundary for external debt of £485m
- As part of the council's Treasury Management service, these indicators are monitored on a daily basis, and neither was exceeded during 2018/19. The highest level of external debt incurred by the council during the year was £310.615m.

6. Non-Financial Performance of the Council 2018/19

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 progress to achieving our key outcomes, which are structured around a set of key questions aligned to the six priority themes of the Altogether framework, we present key performance measures along with visual summaries and data tables for each priority theme to Cabinet meetings every quarter.

You will be able to find the full quarter four, 2018/19 Performance Management Report on the council's website after approval of Cabinet on 12 June 2019.

The six priority themes are made up of 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.

Key questions

- Do residents have good job prospects?
- Is County Durham a good place to do business?
- Do residents have access to decent and affordable housing?
- Is it easy to travel around the county?
- How well do tourism and cultural events contribute to the local economy?

Achievements

- Following previous successful events, Lumiere has again been secured and will celebrate its 10th Anniversary in 2019.
- Business Durham helped to create or safeguard 3,866 jobs and secured £17m of inward investment and £8.1m of new contracts.
- A phased development plan for the Aykley Heads strategic employment site was approved, it has the potential to attract up to 6,000 additional jobs to the county.
- Technical Services helped deliver a number of improvement schemes including the Deerness Bridge replacement scheme; the Street Lighting Energy Reduction Project and Lanchester Flood Prevention Scheme.
- Improved access to more and better housing by improving, adapting or bringing back into use 1,913 properties.
- Housing Solutions helped 1,007 households threatened with homelessness to stay in their homes and 1,036 households move to alternative accommodation.
- We are leading a sub-regional project with the other north east local authorities to help rough sleepers. The Rough Sleeping Initiative project submitted and was successful in being awarded £0.7m from the Ministry for Housing, Communities and Local Government to help those sleeping rough and struggling with mental health and substance misuse issues.
- Satisfaction with highways in the county continues to exceed national levels.
- Planning permission for Horden Train Station was approved, £10m investment planned, anticipated this will attract 70,000 passengers each year.

Altogether Wealthier Statistics

- The working age population in employment has stabilised at 74.6%, performing better than the planned Regeneration Statement target (73%).
- There were 19.7m visitors to the county in 2017, contributing almost £870m to the county's economy.
- 2018 Tour Series Cycling, Brass Festival, Durham Book Festival, North Pennines Stargazing Festival and Bishop Auckland Food Festival, collectively attracted over 73,000 visitors to the county.
- There was a net increase of 1,465 homes across the county.
- 111,505 trips were made using community transport.

- The Gala Theatre (cinema and studio) had 194,323 visitors, with 1,985 film screenings.
- 994,561 park and ride passenger journeys.
- **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.

Key questions

- Are children, young people and families in receipt of universal services appropriately supported?
- Are children, young people and families in receipt of early help services appropriately supported?
- Are children, young people and families in receipt of social work services appropriately supported and safeguarded?
- Are we being a good corporate parent to looked after children?

Achievements

- 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 Family Centre.
- 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.
- Children Looked After achieving the expected standard in Reading, Writing and Maths at Key Stage 2 has improved, the Average Attainment 8 Score of Children Looked After has also improved this year.
- 100% of our early-years schools are judged as good or outstanding.
- 91% of the county's primary schools are judged as good or better, performance is better than national.
- The council is one of 14 local authorities awarded Earned Autonomy, which ensures children and families with complex needs receive effective 'whole family' outcomes focused support at the earliest opportunity.
- The council continues to promote resilience and emotional wellbeing in children and young people and 2,253 pupils participated in the 'Youth Aware of Mental Health' (YAM) programme. 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.
- Following feedback from children, young people families and key partners we have developed a Special Educational Needs and Disability (SEND) Strategy.
- Good progress has been made in relation to the health of children looked after, with more than 91% having had the required number of health assessments.

- The percentage of care leavers aged 17-18 and 19-21 in suitable accommodation (March 2019) has hugely improved.

Altogether Better for Children and Young People Statistics

- Almost half of all children in County Durham (47%) aged 0 to 17 live in deprived areas in the top 30% most deprived nationally.
 - 2,574 families have achieved significant and sustained outcomes (as described in the County Durham Family Outcome Framework).
 - One Point has 2,341 cases open (March 2019).
 - There are around 800 children in care at any one time - this is in addition to around 430 children on a child protection plan and almost 3,800 children in need.
 - 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).
 - 44% of children and young people are physically active.
 - Durham's Average Point Score per A-Level entry was 33.4 for the 2017/18 academic year, this is an improvement on the previous year.
 - The achievement gap between Durham disadvantaged and national non-disadvantaged pupils (-18) is smaller than the gap nationally (-20).
 - There has been a 64% reduction in teenage conceptions in County Durham since this was first measured in 1998 (499 to 181 in 2017). Some parts of the county have higher rates of teenage conception than the countywide average, to address this, DCC are working with partners to co-ordinate a range of preventative interventions.
 - The percentage of Durham's Social Workers that have fewer than 20 cases is increasing and is less than the national average.
 - A rate of 53.1 (per 100,000) alcohol specific hospital admissions for under-18s in County Durham, which is improved performance and lower than regional figures. Durham's rate is higher than that nationally.
 - Educational attainment at Key Stage 4 (GCSE-level) has improved (45.0 from 44.6) although performance is lower than the national average (46.6).
 - Fewer secondary schools have been judged by Ofsted to be good or better when comparing to the previous 12 months and performance nationally. Durham's judgements are better than those regionally.
 - More than 5,800 young people (aged 16-24) are being helped by DurhamWorks to secure a place in education, employment or training (EET). 89% of those completing the programme have secured a place in EET or gained an accredited qualification.
- **Altogether Healthier** - improving Health and Wellbeing.

Key questions

- Are our services improving the health of our residents?
- Are people needing social care supported to live safe, healthy and independent lives?

Achievements

- The Durham Insight website continues to be developed, as a shared intelligence, research and knowledge base to inform strategic planning across County Durham.
- Estimated smoking prevalence (aged 18+) has improved and is not significantly different to national and regional averages.
- We have signed up to the Local Government Declaration on Alcohol, a pledge to act and demonstrate our commitment to protecting local communities from the harm caused by alcohol.
- The percentage of people in the county who have been screened for breast, cervical and bowel cancer is higher than regional and national averages.
- We have been selected as one of eight new national Time to Change hubs, the aim of which is to help change the way people think and act about mental health.
- Run Durham attracted 530 participants, with 13 new running groups established; Walk Durham attracted 464 participants, with 3 new groups established; and Cycle Durham attracted 156 participants to a new cycling group.
- The council achieved silver status for the North East Better Health At Work Award.
- Delayed transfers of care attributable to adult social care remain low and are better than national and regional averages.
- Free training courses were offered to care providers in the county on falls, infection protection and control, sepsis and telehealth, through the Supporting the Provider Market project.
- The Teams Around Patients (TAP) model of care is well advanced and continues to deliver proactive care to frail and elderly populations, to support independence at home and a movement of care out of acute hospital settings.

Altogether Healthier Statistics

- Life expectancy and healthy life expectancy is statistically significantly lower in County Durham than England.
- There has been a reduction in the number of mothers smoking at time of delivery, although our performance is worse than the national average.
- The proportion of people using services in the county who say that those services help them in having social contact with people is 77.8% compared to 67.3% nationally.
- 141 businesses have now signed up to the County Durham Breastfeeding Friendly Scheme.
- The council's directly managed leisure centres had 3,928,419 visits during the year.
- Across the leisure centres, there are 12,846 gym memberships, 3,889 Aqualearn memberships and 1,334 'swim only' memberships.
- 2,616 runners participated in the 2018 Durham City Run.

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

Key questions

- How effective are we at tackling crime and disorder?
- How effective are we at tackling anti-social behaviour?
- How well do we reduce misuse of drugs and alcohol?
- How well do we tackle abuse of vulnerable people, including domestic abuse, child exploitation and radicalisation?
- How do we keep our environment safe, including roads and waterways?

Achievements

- Care Connect responded to 8,080 emergency calls from vulnerable and/or at-risk residents.
- The 'Slow to 20 for Safer Streets' Project has been successfully introduced into a total of 78 schools utilising a one-off Public Health Grant. A further 31 schemes have also been completed and 15 are in development, fully funded by local councillors, Area Action Partnerships, schools and town & parish councils. Further schemes in development for 2019/20.
- The Hate Hurts campaign was launched, it shows that the council and partners are united against Hate Crime in County Durham.
- We approved a new Modern Slavery Charter which outlines our commitment to preventing modern slavery in County Durham.

Altogether Safer Statistics

- The number of anti-social behaviour incidents reported to the council fell to 11,318 from 12,256 in 2017/18.
 - During 2018/19 there were 51,764 crimes recorded, this equates to a rate of 101.6 crimes per 1,000 population.
 - Public perception that the police and council are dealing with anti-social behaviour and crime issues that matter to the local area is declining, 50.3% (December 2018), compared to 61.3% (December 2017). The Safe Durham Partnership joint task group is working to gain a better understanding of why this is, so future actions can be implemented to improve public perception.
 - The council maintains approximately 3,700km of roads, 3,400km of footpaths and more than 89,000 street lights and illuminated signs.
 - During the winter period, the council's stock of salt was increased to 42,000 tonnes and over the 2018/19 winter period, the fleet treated more than 1,700km of roads (priority 1 routes).
 - The council provides a total of 2,500 salt bins across the county.
 - Arrests for drink and/or drug driving increased from 512 in 2017/18 to 674 in 2018/19, which is a 24% increase.
- **Altogether Greener** - ensuring an attractive and 'liveable' local environment and contributing to tackling global environmental challenges.

Key questions

- How clean and tidy is my local environment?
- Are we reducing carbon emissions and adapting to climate change?
- How effective and sustainable is our collection and disposal of waste?

Achievements

- 12 Green Flag Awards for Parks and Cemeteries – the highest in the North East.
- Durham was named 'Best Small City' in the Royal Horticultural Society (RHS) Britain in Bloom Awards. Durham City will now compete in the Champion of Champions competition during 2019.
- Durham also won best overall entry and best small city and Chester-le-Street, best large town in the Northumbria in Bloom Awards.
- Quicks wins have been made in the pledge to reduce the use of Single Use Plastics (SUP), we have eliminated 839,000 blue overshoes from our leisure centres, 700kg of plastic confetti from the Gala Theatre, and removed plastic straws and cutlery from our catering facilities.
- Six and a half tonnes of waste plastics (which equates to 250,000 single use carrier bags) were incorporated into the road resurfacing of the A689, we were the first local authority in the north east to try this new technology.
- Carbon emissions are significantly reducing as we generate more energy from renewable sources and divert more waste from landfill.
- The council has declared a Climate Emergency and set a target to become carbon neutral by 2050.
- The new Stainton Grove Household Waste Recycling Centre has reopened following a £3m refurbishment. It now features additional recycling skips, an area for trade waste from small businesses and a new re-use shop.
- 218 small and medium businesses engaged with the Business Energy Efficiency Project (BEEP) to address energy efficiency and save money through reducing their energy consumption.

Altogether Greener Statistics

- Nearly 97% of municipal waste was diverted from landfill.
- The council collected, stored, handled, transported and treated over 245,000 tonnes of Solid Municipal Waste generated within the county from over 14m bin collections.
- Almost 63,500 properties signed up to the garden waste collection scheme, with 213kg of garden waste collected per household during 2018/19.
- Each year, residents use more than 287m cans, foil trays and aerosols, less than half of these items are recycled. If all metal used across the county was recycled, each year we would reduce carbon dioxide by over 7,500 tonnes, equivalent to 1,650 fewer cars on the road.
- 14,834 people visited heritage sites within the county as part of the Heritage Open Days held in September 2018.
- The carbon reduction programme is saving more than £12m each year – compared to business as usual energy and fuel costs.

- Almost one fifth of kerbside recycle is contaminated and cannot be reprocessed.
- **Altogether Better Council** - ensuring corporate improvements are achieved against the five priority themes.

Key questions

- How well do we look after our people?
- Are our resources being managed for the best possible outcomes for residents and customers?
- How good are our services to customers and public?

Achievements

- Our transformation programme is continuing to make a difference to the way we work and the services we provide to customers
- Digital tools, techniques and processes have helped automate paper-based systems, increase online services, optimise work programmes and improve the customer experience. Examples include enhancing communication through SMS bulk-messaging, supporting ease of access via voice recognition call transfer and reducing processing and service delivery times through automated enquiry handling and Robotic Process automation
- 122,000 customers have an online account and more than 44,000 receive their council tax bills electronically.
- Having achieved silver status for the Better Health at Work Award, we are now working toward gold status.
- Through the Digital Durham programme, we now have almost 96% of residential and commercial properties connected to superfast broadband.
- With partners, we supported a series of high-profile equality awareness events, including Durham Pride, Holocaust Memorial events and International Women's Day event.
- Lumiere was awarded 'Best Creative Lighting Event' at this year's darc awards which celebrates the best in lighting.
- Satisfaction with cleanliness and highways continues to meet or exceed national levels (National Highways and Transport Survey)

7. Significant Issues for 2019/20 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. The financial outlook for the council continues to be extremely uncertain for the foreseeable future as the outcome and timing of the Fair Funding Review and Comprehensive Spending Review are uncertain at this time. These reviews will determine the quantum of funding available to local government and the share available to the council. The added uncertainty brought about by the expected exit from the European Union will compound these issues.

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 in full, and further ERDF and ESF calls are planned to be launched over the summer 2019 to try and commit remaining resources. A key concern going forward is what successor funding is put in place post Brexit. The Government has promised a UK Shared Prosperity Fund (UKSPF), which is intended to be the UK government's post-Brexit replacement for EU Structural Funds. Details of the fund however, are still to be decided and a government consultation, promised before the end of 2018, has still not been issued. The amount of funding is expected to be announced in this year's spending review, with hopefully the proposed consultation issued prior to this. Prior to the consultation being published the council has been lobbying Government to ensure the proposed UKSPF recognises those regions furthest behind; arguing it needs to provide a protected allocation of funds to regions with greatest need; and that it is adequately funded, matching at least the €13 billion that UK regions would have received under the next EU Programme.

It is too early to understand the full implications of Brexit on jobs and investment in the County until trade negotiations are finalised. However, a series of studies from government academics and other researchers have shown that the North East is expected to be impacted with lower future levels of economic activity as a result of Brexit, particularly due to its disproportionately large trading relationship with the EU in manufacturing. A no deal Brexit is likely to have a greater negative economic impact on the North East than any other parts of the UK. The impact of Brexit will obviously depend on the outcome of the negotiations and what trade deals are put in place. It is clear that the current uncertainly

regarding the ongoing negotiations, which businesses have been operating within since the Brexit referendum, is also having a negative impact. 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;
- Government funding cuts, which will continue into 2019/20, will have an increasing major impact on all council services. In addition, the outcome of the Fair Funding review is unknown and could also have a significant impact of the level of funding available to the council;
- Failure to protect a child from death or serious harm (where service failure is a factor or issue);
- Failure to protect a vulnerable adult from death or serious harm (where service failure is a factor or issue).

9. Summary Position

It is clear that the council's financial and non-financial performance in 2018/19 continues to be good. The revenue outturn with a £11.216m underspend is in line with forecasts, 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 2019/20 and future years.

In 2018/19, 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 2019/20.

10. Receipt of Further Information

If you would like to receive further information about these accounts please contact the Corporate Director of Resources at 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 2019 and its expenditure and income for the year ended 31 March 2019.

John Hewitt

Corporate Director of Resources

31 July 2019

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 2019.

James Rowlandson

Vice-Chair of the Audit Committee

Chair of the meeting approving the Accounts

31 July 2019

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

Report on the financial statements

Opinion on the financial statements of Durham County Council

We have audited the financial statements of Durham County Council ('the Council') for the year ended 31 March 2019, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Opinion on the financial statements of Durham County Council Pension Fund

We have audited the financial statements of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a 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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of Durham County Council Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 and the Pension Fund 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 as

applicable to public interest entities, 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 opinions.

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 Council's and the Pension Fund's 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 or the Pension Fund'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 Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinions 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 of the Corporate Director of Resources' Responsibilities, the Corporate Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Council's and Pension Fund's 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 2018/19, 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 2018/19 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 and the Pension Fund to prepare the 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 Council's and Pension Fund's 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 opinions. 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.

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.

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 2019.

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 2019.

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 for the 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 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.

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 44 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.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.



Mark Kirkham
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS
31 July 2019

2017-18 (restated)			Note	2018-19			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
274,690	-148,928	125,762		277,618	-162,984	114,634	
468,921	-373,786	95,135		488,248	-375,310	112,938	
219,225	-77,136	142,089		237,343	-75,083	162,260	
227,335	-211,889	15,446		195,700	-180,102	15,598	
15,286	-2,534	12,752		15,173	-2,658	12,515	
6,854	-579	6,275		56,085	-433	55,652	
1,212,311	-814,852	397,459	Cost of Services	7,8	1,270,167	-796,570	473,597
47,088	-13,794	33,294	Other Operating Expenditure	11	71,316	-5,193	66,123
44,142	-10,223	33,919	Financing and Investment Income and Expenditure	12	46,954	-5,515	41,439
-	-447,673	-447,673	Taxation and Non Specific Grant Income	13	-	-453,251	-453,251
	16,999		Surplus (-) or Deficit on Provision of Services				127,908
			Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services				
	-123,787		Surplus (-) or deficit on revaluation of PPE / Heritage assets	14,15			-96,629
	3,164		Impairment losses on non-current assets charged to revaluation reserve	14			4,994
	-		Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income	17			-100
	74,780		Remeasurements of the net defined benefit liability	26,45			-59,470
	1,573		Difference between actuary's estimate and actual employer's pension contributions	26,45			166
	-		Net increase in pensions assets and liabilities from disposals / acquisitions	26,45			-3,110
	-44,270		Other Comprehensive Income and Expenditure				-154,149
	-27,271		Total Comprehensive Income and Expenditure				-26,241

During 2018/19, the Environment, Health and Consumer Protection service was realigned from Adult and Health Services to Regeneration and Local Services. The 2017/18 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 51.

Movement in Reserves Statement

2018/19:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018 brought forward	24,500	224,433	8	248,941	113,384	362,325
Movement in Reserves during 2018-19						
Total Comprehensive Income and Expenditure	-127,908	-	-	-127,908	154,149	26,241
Adjustments between accounting basis and funding basis under regulations (Note 9)	130,492	-	-	130,492	-130,492	-
Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves	2,584	-	-	2,584	23,657	26,241
Transfers to / from Earmarked Reserves (Note 10)	-1,978	1,978	-	-	-	-
Balance at 31 March 2019 carried forward	25,106	226,411	8	251,525	137,041	388,566

2017/18:

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2017 brought forward (restated)	23,004	233,544	362	256,910	78,454	335,364
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 (restated)	24,500	224,433	8	248,941	113,384	362,325

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

2017/18 balances have been restated as a result of a prior period adjustment in respect of leases entered into during 2014/15 and 2015/16 for properties at Freeman's Reach in Durham City. A summary of the restatement is set out in Note 51.

01 April 2017 (restated) £000	31 March 2018 (restated) £000		Notes	31 March 2019 £000
1,616,901	1,751,476	Property, Plant and Equipment	14	1,802,008
15,747	15,552	Heritage Assets	15, 48	14,895
3,694	7,379	Investment Property	16	6,442
1,987	3,691	Intangible Assets		4,408
13,735	19,624	Long Term Investments	17	18,396
23,816	19,242	Long Term Debtors	17	16,779
1,675,880	1,816,964	Long Term Assets		1,862,928
140,063	136,073	Short Term Investments	17	223,763
8,604	2,011	Assets Held for Sale	22	-
3,908	5,000	Inventories	19	4,610
53,732	67,926	Short Term Debtors	20	59,003
33,340	35,032	Cash and Cash Equivalents	21	13,861
239,647	246,042	Current Assets		301,237
-2,879	-13,071	Short Term Borrowing	17	-15,122
-102,318	-114,914	Short Term Creditors	23	-129,487
-7,796	-7,594	Provisions	24	-6,504
-3,117	-4,457	Capital Grants Receipts in Advance	37	-2,389
-116,110	-140,036	Current Liabilities		-153,502
-9,648	-13,288	Provisions	24	-17,574
-256,226	-281,210	Long Term Borrowing	17	-299,195
-	-628	Capital Grants Receipts in Advance	37	-1,887
-1,120,277	-1,188,233	Other Long Term Liabilities - Pensions	45	-1,228,057
-77,902	-77,285	Other Long Term Liabilities - Other	40, 41	-75,384
-1,464,053	-1,560,644	Long Term Liabilities		-1,622,097
335,364	362,326	Net Assets		388,566
256,910	248,941	Usable Reserves	25	251,525
78,454	113,385	Unusable Reserves	26	137,041
335,364	362,326	Total Reserves		388,566

2017/18 balances have been restated as a result of a prior period adjustment in respect of leases entered into during 2014/15 and 2015/16 for properties at Freeman's Reach in Durham City. Full details are disclosed at Note 51.

2017-18 (restated) £000		Notes	2018-19 £000
16,999	Net surplus (-) or deficit on the provision of services		127,908
-8,772	Adjustments to net surplus or deficit on the provisions of services for non-cash movements	27	-202,281
13,139	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	27	8,313
21,366	Net Cash flows from Operating Activities		-66,060
16,431	Investing Activities	28	97,184
-39,489	Financing Activities	29	-9,954
-1,692	Net increase (-) or decrease in cash and cash equivalents		21,171
33,340	Cash and cash equivalents at 1 April	21	35,032
35,032	Cash and cash equivalents at 31 March	21	13,861

The cash flow statement for 2017/18 has been restated as a result of adopting a revised methodology for the 2018/19 statement. The figures which have been amended are adjustments to the net surplus or deficit on the provisions of service for non-cash movements, investing activities and financing activities. Supporting information contained within Notes 27, 28 and 29 has also been restated.

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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 financial performance for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19 (the Code) and the Service Reporting Code of Practice 2018/19 (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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 applies 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 where 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 to reduce the overall borrowing requirement calculated by the council on a prudent basis and in accordance with statutory guidance. This annual contribution is known as the minimum revenue provision.

Therefore, so that council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the minimum revenue provision with the difference being transferred to the Capital Adjustment Account in the balance sheet.

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. Unquoted securities – current bid price.
 4. Property – market value

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

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

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

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

Discretionary Benefits

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

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.

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 using an approach that is based on the business model for holding the financial assets and their cashflow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council holds most of its investments solely to collect contractual cash flows, which means that the majority of its financial assets are classified as amortised cost.

There are some exceptions e.g. where the council holds strategic investments to help it meet other policy objectives, such as the support of economic development in the county. With these types of investments, the purpose of the contract is not solely concerned with the payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument). For each of these investments a separate assessment has been

made on the appropriate accounting treatment in relation to IFRS 9 for Financial Instruments.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 financial assets held by the council, 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.

The council has given small loans to external or voluntary organisations, but these are for trivial amounts. The council has not provided guarantees against loans they have received from financial institutions. However, the council does have deferred payment policies where individuals are allowed to defer payment against an invoice raised by the council, for example where the council holds a legal charge against a property that enable sums to be reimbursed from sale proceeds at a later date. These are similar to loans at less than market rates and are referred to as soft loans. If any the lost interest against the soft loan was significant then adjustments would be made to the relevant service revenue account and Balance Sheet. However, the impact on the council's revenue account of soft loans and lost interest is not financially significant and the accounts have not been adjusted to reflect these requirements.

Expected Credit Loss Model

The council recognises expected credit losses on all of its financial assets held at amortised cost or FVOCI, either on a twelve month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of twelve month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss (FVPL)

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

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

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

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.

An equity instrument can be elected into a FVOCI treatment rather than a FVPL treatment if it is not held for trading. The council has reviewed its assets that would be measured at FVPL on the basis of the business model and has elected to classify instruments as either FVPL or FVOCI on an instrument-by-instrument basis based on the assessed benefit to the council from the chosen classification.

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 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 tax payers 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. This annual contribution is known as the Minimum Revenue Provision. Therefore, as council tax funds only what is required, the charges to the accounts (depreciation, revaluation and impairment losses and amortisations) are replaced by the Minimum Revenue Provision, with the difference being transferred to the Capital Adjustment Account in the balance sheet. 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. Where there is a material cost or benefit at the start or end of the lease (e.g. a rent free period at the start of the lease) then charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

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. Where there is a material cost in addition to the regular payments (e.g. there is a premium paid at the commencement of the lease or there are costs of negotiating and arranging the lease), then credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

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 2018/19 (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)
- 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 2018/19 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 or revalued. 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 or revaluation loss is recognised for the shortfall.

Where impairment or revaluation 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 or revaluation 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 periods 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 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 ended 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. The following new or amended standards have been issued but not yet adopted by the Code:

- IFRS 16 Leases: this new standard replaces IAS 17 from 2020/21; it will require the council, as a lessee, to recognise most leases on its balance sheet. The impact on the accounts could be material; a detailed review of leasing arrangements is underway.
- IAS 40 Investment Property - Transfers of Investment Property: this provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration: clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering goods/ services. This is not expected to impact upon the accounts as the council does not have any material transactions within the scope of this amendment.
- IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation: amendment to clarify that amortised cost should be used where prepayments are significantly lower than the unpaid principal and interest. The council has no loans where this will apply.
- IFRIC 23 Uncertainty over Income Tax Treatments: provides guidance on income tax treatment. This will have no impact on the council's accounts.

3. Critical Judgements in Applying Accounting Policies

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

Funding of Local Government

There is a high degree of uncertainty about future levels of funding for local government. However, the council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a need to close facilities and reduce levels of service provision.

Academy schools

Five schools transferred to academy status in 2018/19. 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 £25.345m, but this does not include assets relating to The Academy at Shotton Hall. Further details can be found in Note 41.

Under the PFI arrangement, the contractor is able to renegotiate its financing arrangements, and the council has contracted to share the benefit of the reduction in interest payable by the operator. These gains can be shared in the form of a reduction in the unitary payment for the remaining term of the contract but can also be paid as a cash lump sum. The council's treatment is that, unless the gain is material, it should be recognised as a cash lump sum. In 2018/19, the council recognised a gain share of £2.881m.

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, 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 as follows:

	Type of School	Nursery Schools	Primary Schools	Secondary Schools	Special Schools	Total
a)	Community	11	131	12	9	163
b)	Voluntary Controlled (VC)	-	15	-	-	15
b)	Voluntary Aided (VA)	-	46	1	-	47
c)	Foundation	-	-	1	-	1
d)	Alternative Provision	-	-	-	1	1
d)	Endowed Parochial	-	1	-	-	1
	Maintained Schools	11	193	14	10	228
e)	Academies	-	21	18	2	41
	Total	11	214	32	12	269

- 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 38. There are a number of criteria by which the council must determine whether its interest in such bodies is significant enough to be included in the council's consolidated accounts. After consideration of these criteria, the council has determined that the consolidation of related companies would have no material effect on the council's financial position and therefore it is not necessary to produce Group Accounts for 2018/19.

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 £18.630m between the pensions liability and the pensions reserve reported in the Balance Sheet at 31 March 2019. This difference will reduce to zero at 31 March 2020, when the final instalment is charged to the CIES.

Pensions: McCloud Judgement

All public sector pension schemes were reviewed in 2011 and subsequently reformed to reduce the cost to the taxpayer. Transitional protections were provided to members who were closest to retirement. The transitional protections applied to all active members of public service schemes who were within 10 years of their normal pension age on 1 April 2012. In relation to the LGPS, all members were moved into the new 2014 Scheme, but members within 10 years of normal retirement were given an underpin (or 'better of both') promise, so their benefits would be at least as valuable in terms of amount and when they could be drawn than if they had remained in the 2008 Scheme.

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling potentially has implications for all public sector schemes which were reformed around the same time and could lead to members who were discriminated against being compensated.

The Government applied to the Supreme Court for permission to appeal this judgement. On 27 June 2019, the Supreme Court denied this request for an appeal.

The Government Actuary's Department (GAD), under instruction of the LGPS Scheme Advisory Board, has calculated a potential IAS 19 accounting liability which could be in the region of 0.5% to 1.0% of defined benefit obligation, but will depend on the remedy chosen by government to compensate members, the membership profile and assumptions used to report pension costs at time of recognition.

It is unknown what impact this will have on future employer pension contributions at this stage. Where an additional liability arises relating to past service this will result in increased employer contribution rates in the future. Employer contributions towards future

service may also increase if the 'better of both' test is extended beyond members within 10 years of normal pension age at 1 April 2012.

The council has treated the potential additional liability as a constructive obligation in the accounts, recognising an amount of £41.670m in 2018/19, which is on a worst case scenario basis. This is consistent with the methodology adopted by GAD.

Pensions: Guaranteed Minimum Pension (GMP) Indexation and Equalisation

GMP is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. The rate at which GMP was accrued, and the date it is payable is different for men and women, meaning there is an inequality for male and female members who have GMP.

On 26 October 2018, the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. The ruling confirmed that trustees have a duty “to equalise benefits for men and women so as to alter the result which is at present produced in relation to GMPs”.

HM Treasury have, however, gone on record since the Lloyds judgement to say, “Public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement”.

The council has previously recognised the liability of the first “interim solution” (to December 2018), as it was included within the 2016 valuations of the LGPS. The council has recognised a potential liability of £7.460m in 2018/19 in respect of further GMP indexation/equalisation, allowing for both the second “interim solution” and the Government’s commitment to compensate members reaching State Pension Age after April 2021.

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 2019 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 £251m as at 31 March 2019 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £2.510m.</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 £18.020m.</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	<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 £56.470m</p>

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the council with expert advice about the assumptions to be applied.</p>	<p>In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions. IAS19 now requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions. The results from the sensitivity analysis are disclosed in note 45 and indicate how the figures are sensitive to the assumptions used.</p>
Arrears	<p>At 31 March 2019, the Authority had a balance of debtors of £78.337m. A review of significant balances suggested that an impairment of doubtful debts of 29.84% (£23.376m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £23.376m to be set aside as an allowance.</p>

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 2018/19.

6. Events After the Balance Sheet Date

The accounts have been adjusted for the following event after 31 March 2019:

Pensions - McCloud judgement

On 27 June 2019, the Government was denied leave to appeal the McCloud judgement (see Note 3 Critical Judgements), which relates to claims of age discrimination in respect of transitional protection arrangements for public sector pension scheme reforms. As a result of this, the council has treated the potential additional liability as a constructive obligation, recognising an amount of £41.670m in 2018/19, estimated by the council's actuary on a worst case scenario basis.

Non-adjusting Event - Academy Schools

Two local authority schools are due to convert to Academy status during 2019/20 which was a non-adjusting event in 2018/19. This change in status will lead to the removal of these schools from the Balance Sheet in 2019/20 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 £16.638m, which is the carrying value of the assets in the 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.

2017-18 (restated)				2018-19		
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
124,603	1,159	125,762	Adult and Health Services	113,846	788	114,634
81,884	13,251	95,135	Children and Young People's Services	92,162	20,776	112,938
98,090	43,999	142,089	Regeneration and Local Services	99,857	62,403	162,260
13,257	2,189	15,446	Resources	11,868	3,730	15,598
9,956	2,796	12,752	Transformation and Partnerships	10,076	2,439	12,515
4,497	1,778	6,275	Corporate Costs	4,544	51,107	55,651
332,287	65,172	397,459	Net Cost of Services	332,353	141,243	473,596
-366,861	-13,599	-380,460	Other Income and Expenditure	-365,800	20,112	-345,688
42,189	-42,189	-	Adjustments between Funding and Accounting basis outside the CIES	30,863	-30,863	-
7,615	9,384	16,999	Surplus (-) or Deficit	-2,584	130,492	127,908
-256,548			Opening General Fund Balance (including earmarked reserves) at 1 April	-248,933		
7,615			Surplus (-) or Deficit on General Fund Balance in year	-2,584		
-248,933			Closing General Fund Balance (including earmarked reserves) at 31 March	-251,517		

During 2018/19, the Environment, Health and Consumer Protection service was realigned from Adult and Health Services to Regeneration and Local Services. The 2017/18 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 51.

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.

2017-18 (restated)				2018-19				
Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments		Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
£000	£000	£000	£000		£000	£000	£000	£000
				Adjustments between Funding and Accounting Basis				
882	300	-23	1,159	Adult and Health Services	671	155	-38	788
8,948	727	3,576	13,251	Children and Young People's Services	22,872	908	-3,004	20,776
44,284	-242	-43	43,999	Regeneration and Local Services	61,511	842	50	62,403
2,697	-524	16	2,189	Resources	3,255	466	9	3,730
3,052	-275	19	2,796	Transformation and Partnerships	2,509	-70	-	2,439
-	1,778	-	1,778	Corporate Costs	-	51,107	-	51,107
59,863	1,764	3,545	65,172	Net Cost of Services	90,818	53,408	-2,983	141,243
-40,699	27,100	-	-13,599	Other Income and Expenditure from the Funding Analysis	-10,088	30,200	-	20,112
-40,604	-	-1,585	-42,189	Adjustments between Funding and Accounting basis outside the CIES	-35,451	-	4,588	-30,863
-21,440	28,864	1,960	9,384	Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit	45,279	83,608	1,605	130,492

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:

2017-18 (restated)		2018-19
£000		£000
-40,855	Adult and Health Services	-40,641
-20,752	Children and Young People's Services	-22,724
-47,344	Regeneration and Local Services	-50,503
-8,446	Resources	-7,752
-160	Transformation and Partnerships	-139
-247	Corporate Costs	-409
<u>-117,804</u>	Total	<u>-122,168</u>

8. Expenditure and Income Analysed by Nature

The following table analyses 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.

2017-18		2018-19
£000		£000
	Expenditure	
525,216	Employee benefits expenses	569,733
647,157	Other service expenditure	635,598
69,377	Depreciation, amortisation and other capital charges	95,541
27,831	Precepts and levies	28,751
19,255	Amounts of non-current assets written off on disposal	42,560
14,707	Interest payable	16,254
1,303,543	Total Expenditure	1,388,437
	Income	
-134,512	Fees, charges and other service income	-132,168
-13,794	Capital receipts	-5,193
-260,747	Council Tax and non domestic rates	-276,941
-859,711	Grants and contributions	-828,197
-17,780	Other income	-18,030
-1,286,544	Total Income	-1,260,529
16,999	Surplus (-) or Deficit on Provision of Services	127,908

Revenue from Contracts with Service Recipients

The council is required to follow the requirements of IFRS 15 Revenue from Contracts with Customers, however has concluded that the impact is not material. Therefore no changes have been made to the accounts as a result of this accounting standard being adopted in the 2018/19 Code.

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.

2018-19:

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	
<u>Adjustments to Revenue Resources</u>			
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)	-83,607	-	83,607
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	144	-	-144
• Council Tax and NDR (transfers to or from Collection Fund)	-4,732	-	4,732
• Holiday pay (transferred to the Accumulated Absences Account)	2,982	-	-2,982
• 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	-63,158	-	63,158
○ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties	-11,698	-	11,698
○ Amounts of non-current assets written off on disposal or sale	-42,548	-	42,548
○ Revenue expenditure funded from capital under statute	-20,685	-	20,685
○ Capital grants and contributions credited to the CI&E Statement	52,183	-	-52,183
Total Adjustments to Revenue Resources	-171,119	-	171,119
<u>Adjustments between Revenue and Capital Resources</u>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,181	-5,181	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-5	5	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	13,335	-	-13,335
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	22,116	-	-22,116
Total Adjustments between Revenue and Capital Resources	40,627	-5,176	-35,451
<u>Adjustments to Capital Resources</u>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	6,455	-6,455
Application of capital grants unapplied to finance capital expenditure	-	-	-
Cash payments in relation to deferred capital receipts	-	-1,279	1,279
Total Adjustments to Capital Resources	-	5,176	-5,176
Total Adjustments	-130,492	-	130,492

2017-18:

	Usable Reserves		Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £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 Account)	-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

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.

	31 March 2017 £000	2017-18 Transfers Out £000	In £000	31 March 2018 £000	2018-19 Transfers Out £000	In £000	31 March 2019 £000
Adult and Health Services							
Social Care Reserve	6,337	-686	15,584	21,235	-3,370	7,541	25,406
Public Health Reserve	3,436	-1,812	1,319	2,943	-509	2,025	4,459
Children and Young People's Services							
Children's Services Reserve	4,985	-3,599	489	1,875	-771	1,088	2,192
DSG Reserve	11,159	-6,425	-	4,734	-5,467	384	-349
Education Reserve	10,230	-391	4,447	14,286	-3,569	3,155	13,872
Balances held by schools under a scheme of delegation	19,836	-1,421	-	18,415	-725	-	17,690
Regeneration and Local Services							
Business Growth Fund Reserve	764	-20	-	744	-140	-	604
Culture and Sport Reserve	2,531	-767	1,916	3,680	-390	340	3,630
Direct Services Reserve	2,605	-337	637	2,905	-945	116	2,076
Economic Development Reserve	2,164	-664	-	1,500	-208	11,824	13,116
Employability and Training Reserve	125	-68	-	57	-	-	57
Environment, Health and Consumer Protection Reserve	708	-99	126	735	-152	-	583
Funding and Programmes Management Reserve	390	-	90	480	-2	-	478
Housing Regeneration Reserve	1,091	-26	21	1,086	-448	-	638
Housing Solutions Reserve	1,327	-12	365	1,680	-265	612	2,027
Neighbourhoods AAP Reserve	45	-	26	71	-71	-	-
North Pennines AONB Partnership Reserve	328	-	974	1,302	-	165	1,467
Planning Reserve	1,516	-	57	1,573	-	7	1,580
REAL Match Fund Programme Reserve	1,735	-82	-	1,653	-66	-	1,587
Restructure Reserve	114	-	-	114	-114	-	-
Strategic Waste Reserve	136	-136	-	-	-	-	-
Technical Services Reserve	4,631	-1,935	102	2,798	-1,085	-	1,713
Transport Reserve	207	-42	900	1,065	-940	366	491
Resources							
Corporate Reserve	978	-500	412	890	-890	425	425
Customer Services Reserve	210	-	136	346	-11	-	335
DWP Grant Reserve	1,681	-69	621	2,233	-1,062	218	1,389
Elections Reserve	1,010	-598	296	708	-	56	764
Housing Benefit Subsidy Reserve	433	-	387	820	-268	589	1,141
Human Resources Reserve	97	-	329	426	-126	-	300
ICT Reserves	959	-328	695	1,326	-174	325	1,477
Legal Reserves	354	-	-	354	-	25	379
Operations and Data Reserves	-	-	-	-	-	50	50
Registrars Trading Reserve	-	-	200	200	-	-	200
Revenue and Benefits Reserve	300	-	680	980	-372	150	758
System Development Reserve	725	-813	500	412	-44	-	368
Transformation and Partnerships							
AAP/Members Reserve	2,482	-631	-	1,851	-635	265	1,481
Grant Reserve	1,172	-89	141	1,224	-175	39	1,088
Operational Reserve	890	-209	891	1,572	-465	1,298	2,405
Transformation Reserve	-	-	2,147	2,147	-457	-	1,690
Corporate							
Budget Support Reserve	42,622	-12,622	-	30,000	-340	-	29,660
Capital Reserve	-	-	-	-	-	2,510	2,510
Commercialisation Support Reserve	-	-	4,000	4,000	-	1,800	5,800
Equal Pay Reserve	20,140	-631	-	19,509	-4,516	-	14,993
ER/VR Reserve	12,822	-5,315	-	7,507	-5,023	6,164	8,648
Feasibility Study Reserve	-	-	-	-	-	500	500
Inspire Programme Reserve	2,664	-1,285	-	1,379	-493	-	886
Insurance Reserve	9,991	-	1,494	11,485	-3,300	1,803	9,988
Office Accommodation Capital Reserve	40,645	-9,591	677	31,731	-87	1,300	32,944
Office Accommodation Project Support Reserve	77	-	-	77	-77	-	-
Performance Reward Grant Reserve	638	-600	-	38	-38	-	-
Cash Limit Reserves	16,254	-2,158	4,191	18,287	-9,235	3,863	12,915
Total	233,544	-53,961	44,850	224,433	-47,025	49,003	226,411

The significant earmarked reserves at 31 March 2019, together with a brief explanation of their purpose, were as follows:

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

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

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.

Balances Held By Schools: Surplus or deficit balances of locally managed schools, which are committed to be spent on the education service. The net surplus at 31 March 2019 comprised individual school balances totalling £17.690m, net of loans outstanding of £0.007m.

Culture and Sport Reserve: to provide resources to support future cultural and sporting projects.

Economic Development Reserve: to provide resources to enable the future development of the County.

Budget Support Reserve: to enable the council to protect frontline services for a period and ensure that the council is able to plan effectively and consult fully on future years' savings plans.

Capital Reserve: To support spending on future capital schemes in line with the capital programme.

Commercialisation Support Reserve: to provide resources to enable the authority to improve value for money in the context of its commercialisation agenda.

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

ER/VR Reserve: to provide for the costs of approved redundancy and early retirements.

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.

Office Accommodation Capital Reserve: to provide a resource for the review of Office Accommodation across the County.

Cash Limit Reserves: to carry forward under and overspends to meet future service demands.

11. Other Operating Expenditure

2017-18 £000		2018-19 £000
11,851	Parish council precepts	12,544
15,980	Levies	16,207
2	Payments to the Government Housing Capital Receipts Pool	5
5,461	Losses / - Gains on the disposal of non-current assets	37,367
<u>33,294</u>	Total	<u>66,123</u>

12. Financing and Investment Income and Expenditure

2017-18 £000		2018-19 £000
14,707	Interest payable and similar charges	16,254
27,100	Pensions net interest on the net defined benefit liability	30,200
-3,614	Interest receivable and similar income	-3,536
-	Impairment of Financial Investments	323
-1,198	Income and expenditure in relation to investment properties and changes in their fair value	-1,950
-3,076	Other investment income	148
<u>33,919</u>	Total	<u>41,439</u>

13. Taxation and Non-Specific Grant Income

2017-18 £000		2018-19 £000
-210,944	Council tax income *	-222,781
-49,803	Non domestic rates	-54,159
-141,602	Non-ringfenced government grants	-128,823
-45,324	Capital grants and contributions	-47,488
<u>-447,673</u>	Total	<u>-453,251</u>

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

14. Property, Plant and Equipment

Movement on Balance 2018-19:

	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 2018	1,266,832	91,992	593,960	2,908	42,694	912	1,999,298
Additions	16,800	8,297	36,601	61	643	9,393	71,795
Revaluation increases/(decreases)	36,796	-	-	16	-954	-	35,858
Derecognition - disposals	-44,703	-6,614	-	-	-5,591	-	-56,908
Assets reclassified (to)/from Held for Sale	-	-	-	-	1,665	-	1,665
Other reclassifications	955	-	-	-	-	-	955
Other movements in cost or valuation	-388	-	-	-	1,701	-418	895
At 31 March 2019	1,276,292	93,675	630,561	2,985	40,158	9,887	2,053,558
Accumulated Depreciation and Impairment							
At 1 April 2018	-37,164	-60,350	-149,891	-88	-329	-	-247,822
Depreciation charge	-36,525	-10,053	-15,353	-	-236	-	-62,167
Depreciation written out on revaluation	49,370	-	-	-	390	-	49,760
Impairment losses/(reversals)	-5,859	-	-	-	-	-	-5,859
Derecognition - disposals	8,158	6,373	-	-	8	-	14,539
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Other movements in cost or valuation	33	-	-	-	-33	-	-
At 31 March 2019	-21,987	-64,030	-165,244	-88	-200	-	-251,549
Net Book Value							
At 31 March 2019	1,254,305	29,645	465,317	2,897	39,958	9,887	1,802,009
At 31 March 2018	1,229,668	31,642	444,069	2,820	42,365	912	1,751,476
The Revaluations / Impairments above:							
Revaluation increases/(decreases)	36,796	-	-	16	-954	-	35,858
Depreciation written out	49,370	-	-	-	390	-	49,760
Impairment losses/(reversals)	-5,859	-	-	-	-	-	-5,859
	80,307	-	-	16	-564	-	79,759
Are recognised as follows:							
Revaluation / depreciation in the Revaluation Reserve	96,828	-	-	16	-211	-	96,633
Revaluation / depreciation in the Surplus/Deficit on the Provision of Services	-10,662	-	-	-	-353	-	-11,014
Impairment losses in the Revaluation Reserve	-4,994	-	-	-	-	-	-4,994
Impairment losses in the Surplus/Deficit on the Provision of Services	-865	-	-	-	-	-	-865
	80,307	-	-	16	-564	-	79,759

Comparative Movements in 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	-35,86	-10,456	-14,424	-	-234	-	-60,976
Depreciation written out on revaluation	2	-	-	-	230	-	45,118
Impairment losses/(reversals)	44,88	-	-	-	-2,132	-	-3,819
Derecognition - disposals	8	47,825	-	-	2,474	-	64,368
Assets reclassified (to)/from Held for Sale	-1,687	-	-	-	2	-	2
Other reclassifications	14,069	-	-	-	-459	-	1
Other movements in cost or valuation	460	-	-	-	-	-	-
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 increases/(decreases)	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

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 of up to 25 years
- Infrastructure – 40 years
- Surplus Assets – Buildings up to 50 years, Land not depreciated

Revaluations

Valuations as at 1 April 2018 have been carried out by valuers in the Council's Asset Management team. The valuations covered Direct Services assets under the rolling programme whereby 20% of assets are valued each year. This provides a full revaluation every five years, in line with statutory requirements. Surplus Properties, Investment Properties and Assets Held for Sale were also subject to their annual revaluation as at 1 April 2018.

At 31 March 2019 an annual review of market conditions was undertaken to ensure that the value of assets was not materially misstated. Consequently assets valued at Depreciated Replacement Cost were revalued. In total in 2018/19, the Council revalued £979m of its land and buildings, community and surplus assets and assets held for sale, equal to 74% of the £1.319m gross value for these asset categories. For the remaining £340m there were revaluations in 2017/18 (£43m or 3%), 2016/17 (£113m or 9%), 2015/16 (£25m or 2%) and 2014/15 (£77m or 6%), with £82m (6%) being valued at historic cost.

Surplus Property

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

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

When the fair values cannot be measured based on quoted prices in active markets for identical properties (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar properties or the discounted cash flow model). Where possible, the inputs to these valuation techniques are based on observable data but where this is not possible judgement is required in establishing fair values. These

judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets.

The fair value for the above properties at 31 March 2019 (£39.958m) 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 2019 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £4.088m in future years. Similar commitments at 31 March 2018 were £6.788m. The commitments at 31 March 2019 are:

- Digital Durham £1.283m
- Chester le Street de culverting £2.030m
- Review of Social Services Information Database £0.776m

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 Monuments, Statues and Historic Buildings £000	£000	Civic Regalia and Silverware £000	Total Assets £000
Cost or valuation					
At 1 April 2018	8,961	659	4,773	1,158	15,551
Additions	-	-	63	-	63
Assets reclassified from / -to Property Plant and Equipment	-	-	-720	-	-720
At 31 March 2019	8,961	659	4,116	1,158	14,894
Cost or valuation					
At 1 April 2017	8,961	823	4,804	1,158	15,746
Additions	-	-	28	-	28
Revaluations	-	-	-37	-	-37
Assets reclassified from / -to Property Plant and Equipment	-	-164	-22	-	-186
At 31 March 2018	8,961	659	4,773	1,158	15,551

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 Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2017-18 £000		2018-19 £000
-1,981	Rental Income from Investment Property	-1,978
1,621	Direct Operating Expenses arising from Investment property	-
<u>-360</u>	Net (-) Gain / Loss	<u>-1,978</u>

The direct operating expenses in 2017/18 comprise leasing payments for the properties at Freeman's Reach in Durham City. From 2018/19 these payments are being treated as finance leases, so are not shown in Financing and Investment Income and Expenditure. More details on the leases are included in Note 51.

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

2017-18		2018-19
£000		£000
3,693	Balance at start of the year	7,378
	Additions:	
-	Enhancements	47
-	Disposals	
948	Net gains/losses from fair value adjustments	-28
	Transfers:	
2,737	To/from Property, Plant and Equipment	-955
7,378	Balance at end of the year	6,442

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 2019 (£6.442m) 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

Reclassification and remeasurement of financial assets at 1 April 2018

From 1 April 2018 a new accounting standard, IFRS 9 Financial Instruments, applies which changes the accounting treatment of financial instruments. Under the new arrangements financial assets must be reviewed and reclassified into new categories.

The categorisation of financial assets under the new arrangements is detailed in the following table:

	Carrying amount brought forward at 1 April 2018 £000	Amortised cost £000	Fair value through other comprehensive income £000	Non-financial instrument balances £000
Previous classifications				
Loans & receivables	210,326	200,325	-	10,001
Cash & cash equivalents	35,032	35,032		
Available for sale	17,464	3,739	10,710	3,015
Fair value through profit or loss	-	-	-	-
Reclassified amounts at 1 April 2018	262,822	239,096	10,710	13,016
Remeasurements at 1 April 2018	-2,454	0	-	-2,454
Remeasured carrying amounts at 1 April 2018	260,368	239,096	10,710	10,562

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income

The council has elected to treat a number of its investments in equity instruments as Fair Value through Other Comprehensive Income as these investments are held for strategic economic development purposes and not for trading. This decision protects council taxpayers from any future movements in the value of these shareholdings until such time as the shares are sold or released. In the balance sheet the £10.432m previously held in the Available for Sale reserve, in respect of Newcastle Airport and Atom Bank, has been reclassified into the Financial Instruments Revaluation Reserve.

These investments are detailed in the following table:

Fair Value at 31 March 2018 £000	Dividends Recognised in 2017/18 £000		Fair Value at 31 March 2019 £000	Dividends Recognised in 2018/19 £000
10,558	867	Newcastle International Airport Ltd	10,658	-
-	-	Durham Tees Valley Airport Ltd	-	-
152	-	Atom Bank	152	-

Effect of reclassification and remeasurement on the Balance Sheet

The following table shows how the new balances for financial assets at 1 April 2018 have been incorporated into the Balance Sheet.

	Amortised cost	Fair value through other comprehensive income	Non-financial instrument balances	Total Balance Sheet carrying amount
	£000	£000	£000	£000
Remeasured carrying amounts at 1 April 2018	239,096	10,710	10,562	260,368
Long Term Investments	3,739	10,710	3,017	17,466
Long Term Debtors	12,164	-	6,782	18,946
Short Term Investments	136,074	-	-	136,074
Cash & Cash Equivalents	35,032	-	-	35,032
Short Term Debtors	52,087	-	763	52,850

Reclassification and remeasurement of impairment losses at 1 April 2018

One of the changes introduced under IFRS 9 is that charges of losses to revenue should move from a model of actual losses incurred to one based on an assessment of future expected losses. The effect of this change was not material so the remeasurement has not been implemented.

Categories of Financial Instruments – 2018/19

The values for financial instruments carried in the Balance Sheet are as follows:

Financial Assets

	Long-term				Current				Total	
	Investments		Debtors		Investments		Debtors		31 March 2018	31 March 2019
	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019	31 March 2018	31 March 2019		
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
Amortised cost	3,739	3,739	12,164	13,033	171,106	237,623	52,087	42,533	239,096	296,928
Fair value through other comprehensive income - designated equity instruments	10,710	10,810	-	-	-	-	-	-	10,710	10,810
Total financial assets	14,449	14,549	12,164	13,033	171,106	237,623	52,087	42,533	249,806	307,738
Non-financial instrument balances	5,175	3,847	7,078	3,746	-	-	15,839	16,470	28,092	24,063
Total	19,624	18,396	19,242	16,779	171,106	237,623	67,926	59,003	277,898	331,801

The current investments include cash and cash equivalent balances.

Financial Liabilities

	Long-term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000	31 March 2018 £000	31 March 2019 £000
Amortised cost	-281,210	-299,195	-77,286	-75,384	-13,071	-15,123	-80,322	-94,321	-451,890	-484,022
Total financial liabilities	-281,210	-299,195	-77,286	-75,384	-13,071	-15,123	-80,322	-94,321	-451,890	-484,022
Non-financial liabilities	-	-	-	-	-	-	-34,592	-35,166	-34,592	-35,166
Total	-281,210	-299,195	-77,286	-75,384	-13,071	-15,123	-114,914	-129,487	-486,482	-519,188

The long term and short term creditors have been restated to reflect the prior period adjustment for the lease of the Freeman's Reach properties.

Soft Loans

The council can sometimes make loans at less than market rates, where a service objective justifies making a concession (soft loans). 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.

Fair Value of Equity instruments designated at fair value through other comprehensive income disclosures on derecognition

The council has not derecognised any equity instruments designated at fair value through other comprehensive income during this accounting period.

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:

2017-18			2018-19			
Financial Liabilities measured at amortised cost £000	Financial Assets measured at amortised cost £000	Total £000		Financial Liabilities measured at amortised cost £000	Financial Assets measured at amortised cost £000	Total £000
14,707	-	14,707	Interest expense	16,254	-	16,254
-	-	-	Impairment losses	-	37	37
14,707	-	14,707	Total expense in Surplus or Deficit on the Provision of Services	16,254	37	16,291
-	-2,198	-2,198	Interest income	-	-3,430	-3,430
-	-2,198	-2,198	Total income in Surplus or Deficit on the Provision of Services	-	-3,430	-3,430
14,707	-2,198	12,509	Net gain/(loss) for the year	16,254	-3,393	12,861

Fair Value of Financial Assets and Financial Liabilities

Financial liabilities and financial assets 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 2018 (restated)			31 March 2019	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
-238,979	-269,992	PWLB borrowing	-258,977	-294,368
-51,633	-71,141	Non-PWLB borrowing	-51,628	-72,542
-76,234	-76,234	Short term creditors	-88,812	-88,812
-3,430	-3,430	Short term finance lease liability	-4,497	-4,497
-39,104	-39,104	Long term finance lease liability	-38,214	-38,214
-39,173	-39,173	PFI liability	-38,182	-38,182
-448,553	-499,074	Total Liabilities	-480,310	-536,614

The finance lease liabilities shown at 31 March 2018 have increased by £33.647m to account for the lease of office buildings at Freemans' Reach that have not previously been included. More details are included in Note 51 – Prior Period Adjustments.

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 2019) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £294.368m at 31 March 2019 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 council 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 council 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 council 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 £258.977m at 31 March 2019 would be valued at £294.368m. But, if the council 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 £331.989m at 31 March 2019.

Fair Value at Amortised Cost

The fair values for investments and debtors 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, as reflected in the following table:

31 March 2018			31 March 2019	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000		£000	£000
136,074	136,074	Short term investments	223,763	223,763
3,741	3,741	Long term investments	3,741	3,741
52,850	52,850	Short term debtors	46,365	46,365
18,946	18,946	Long term debtors	16,779	16,779
211,611	211,611	Total Investments and Debtors	290,648	290,648

The short term investments included here exclude cash and cash equivalents that are detailed in Note 21. The long term investments included here exclude equity shareholdings that are detailed overleaf.

Some of the council'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 council's equity shareholdings are shown in the following table. The shares in these companies are not traded in an active market and the total fair value of £14.655m has been calculated using valuation techniques that are not based on observable current market transactions or available market data:

31 March 2018	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2019
£000				£000
10,558	Newcastle International Airport Ltd	Level 3	Inputs other than quoted prices in active markets that are observable for the asset	10,658
-	Durham Tees Valley Airport Ltd	Level 3		-
1,715	Chapter Homes	Level 3		2,545
300	Polyphotonix	Level 3		300
1,000	Forrest Park (Newton Aycliffe)	Level 3		1,000
152	Atom Bank	Level 3		152
<u>13,725</u>	Total			<u>14,655</u>

Transfers between Levels of the Fair Value Hierarchy

The fair value for Newcastle Airport has transferred from Level 2 to a Level 3 basis as its valuation at 31 March 2019 has been based on a combination of the discounted cash flow of income method and the guideline public company method of the market approach to valuations. This represents a change from previous years where the value was based on the last active trading of shares in 2012.

Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares within the next year.

18. Nature and Extent of Risks Arising from Financial Instruments

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

The council's activities expose it to a variety of financial risks, including:

- 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
- refinancing and maturity risk – the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous rates or terms
- market risk – the possibility that financial loss may arise for the council as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions and 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 minimum credit ratings from the three major credit ratings agencies. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each rating category and country.

Risk also arises from loans to local businesses, in order to encourage regeneration and economic development in the area. Any new investments are only agreed after significant due diligence checks have been carried out and is agreed through the Annual Investment Strategy, which is contained within the council's approved Treasury Management Strategy.

Amounts Arising from Expected Credit Losses

The council's investments have been reviewed and the loss allowance for each has been recalculated as at 31 March 2019. The result is that the calculated provision required at 31 March 2019 is £0.037m.

A summary of the credit quality of the council's investments at 31 March 2019 is shown as follows:

	Lowest long term rating	Balance at 31 March 2019	Historical rate of default	Estimated maximum exposure to default at 31 March 2019
		£000	%	£000
Deposits with banks and financial institutions				
Local Authorities	AA	131,913	0.00	-
Banks (less than 1 year)	A	47,575	0.05	8
Banks (more than 1 year)	A	8,650	0.14	24
Banks (less than 1 year)	A+	34,600	0.05	5
Banks (less than 1 year)	AA-	20,695	0.02	-
National Savings	Not rated	865	n/a	-
		<u>244,298</u>		<u>37</u>

Loans are generally issued to subsidiaries and joint ventures so are all low credit risk arrangements by nature. Each of the bodies to which loans have been issued have been considered to assess their ongoing financial stability and viability. Consideration has been given to whether there has been any late payment against contractual cashflows as well as looking at the current financial position of each organisation. An assessment of the likelihood of default within the next twelve months has been determined for each loan and it has been assessed that no credit losses are expected.

The council does not generally allow credit for customers, although £17.853m of the £39.302m balance of Other Debtors (Note 20) is past its due date for payment. The balance that is past its due date for payment can be analysed by age as follows:

31 March 2018		31 March 2019
£000		£000
16,903	Less than three months	11,219
1,210	Between three and six months	1,150
2,050	Between six months and one year	2,686
2,879	More than one year	2,798
<u>23,042</u>	Total	<u>17,853</u>

Collateral and Other Credit Enhancements

The council holds legal charges on properties where clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2019 was £2.018m.

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 2018		31 March 2019
£000		£000
10,007	Less than one year	15,123
12,002	Between one and two years	10,012
20,039	Between two and five years	30,034
66,210	Between five and ten years	72,359
80,264	Between ten and fifteen years	54,098
1	Between fifteen and twenty years	1
-	Between twenty and twenty five years	-
102,090	More than twenty five years	132,690
<u>290,613</u>	Total Short and Long Term Borrowing	<u>314,317</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 the council's assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £43.005m 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.

As at 31 March 2019, the council has undertaken four forward borrowing deals with Phoenix Group:

- £20m: start date 13/02/2020, end date 13/02/2070, at 2.733%
- £15m: start date 15/02/2021, end date 15/02/2071, at 2.773%
- £15m: start date 13/08/2021, end date 13/08/2071, at 2.793%
- £10m: start date 15/02/2022, end date 15/02/2072, at 2.807%

19. Inventories

	Balance outstanding at start of year £000	Purchases £000	Recognised as an expense in the year £000	Balance outstanding at year-end £000
Year to 31 March 2019				
Consumable Stores	3,737	9,677	-9,993	3,421
Maintenance Materials	445	147	-153	439
Client Services Work in Progress	125	-	-125	-
Rechargeable Works	693	793	-736	750
Total	5,000	10,617	-11,007	4,610
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

20. Short Term Debtors

31 March 2018		31 March 2019	
£000		£000	
22,773	Central government bodies	12,163	
5,737	Other local authorities	2,916	
4,102	NHS bodies	1,553	
	Other entities and individuals:		
19,348	Council Tax	20,152	
2,051	Non-Domestic Rates	2,251	
33,372	Other	39,302	
	Less: Impairment Allowance		
-15,331	Council Tax	-15,294	
-1,473	Non-Domestic Rates	-1,447	
-6,309	Other	-6,635	
64,270		54,961	
3,656	Payments in advance	4,041	
67,926	Total Debtors	59,002	

21. Cash and Cash Equivalents

2017-18 £000		2018-19 £000
475	Cash at bank	486
-1,401	Overdraft	-8,231
35,132	Cash held on demand (call accounts)	20,739
826	Deposits held for liquidity purposes	867
<u>35,032</u>	Cash and Cash Equivalents balance	<u>13,861</u>

22. Assets Held For Sale (Current)

2017-18 £000		2018-19 £000
8,604	Balance outstanding at start of year	2,011
	Assets newly classified as held for sale:	
149	Property, Plant and Equipment	-
-7	Revaluations	-
	Assets declassified as Held for Sale:	
-443	Property, Plant and Equipment	-1,665
-6,292	Assets sold	-346
<u>2,011</u>	Balance outstanding at year-end	<u>-</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.

There are no properties that fall into this category at 31 March 2019. For any assets that would fall into this category the fair value would be 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 2018		31 March 2019
£000		£000
-26,601	Central government bodies	-43,117
-1,648	Other local authorities	-1,580
-1,383	NHS bodies	-1,302
	Other entities and individuals:	
-13,623	Accumulated Absences Account	-10,641
-5,080	Short term finance lease and PFI liabilities	-5,509
-4,854	Collection Fund prepayments	-4,164
-6,087	Section 106 agreements	-7,109
-4,905	Pension Fund	-5,506
-42,148	Other	-41,841
<u>-106,329</u>		<u>-120,769</u>
-8,586	Receipts in Advance	-8,719
<u>-114,915</u>	Total Creditors	<u>-129,488</u>

24. Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that will probably require settlement by a transfer of economic benefits or service potential at some point in the future, and a reliable estimate can be made of the amount of the obligation. The estimated cost is charged as an expense to the appropriate service in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation. When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and any provisions which are no longer required are credited back to the relevant service line in the Comprehensive Income and Expenditure Statement.

The provisions at 31 March 2019 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. The following table sets out the movement on the insurance provision during 2018/19.

Equal Pay

The council has outstanding equal pay complaints from existing and former staff who are seeking financial redress in respect of periods when unequal pay is alleged to have been paid. A significant number of grievances and claims have been settled in earlier years and agreements regarding the remaining cases are expected to be settled in 2019/20. These have therefore been included as a short-term provision in the balance sheet, as set out in the following table.

NDR Appeals

Local authorities are liable for successful appeals against business rates charged to businesses. A provision has been recognised for the best estimate of the amount that will be successfully appealed in relation to 2018/2019 and previous years. In general the estimate is calculated using the Analyse Local system designed specifically to forecast the effects of outstanding appeals and other threats to rateable values in local lists. The estimate has been calculated by applying historic trend analysis to open appeals lodged with the VOA relating to the 2010 list and historic estimates for likely appeals raised relating to the 2017 list. Whilst the settlement of these appeals is outside of the council's control, it is considered likely that 2010 list appeals will be settled within the next financial year and are therefore classified as a short-term provision.

In addition to this the council considers there is likely to be a liability to refund business rates to NHS bodies within Durham and has included a provision to cover 60% of the expected liability on the basis of the perceived risk of a successful appeal (please see Note 46 for further details). As the full value and timing of this liability is uncertain, as well as the risk of a successful appeal, the council has also considered it prudent to include a contingent liability for sums not included within the appeals provision.

The provision included in the following table 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 2018	8,923	67	11,892	20,882
Additional provisions made in 2018/19	3,939	-	2,887	6,826
Amounts used in 2018/19	-1,097	-	-430	-1,527
Unused amounts reversed in 2018/19	-2,103	-	-	-2,103
Balance at 31 March 2019	9,662	67	14,349	24,078
As shown in Balance Sheet				
Long Term Provisions	7,415	-	10,159	17,574
Short Term Provisions	2,247	67	4,190	6,504
Balance at 31 March 2019	9,662	67	14,349	24,078

25. Usable Reserves

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

31 March 2018 £000		31 March 2019 £000
8	Usable Capital Receipts Reserve	8
24,500	General Fund Balance	25,106
224,433	Earmarked Reserves	226,411
<u>248,941</u>	Total	<u>251,525</u>

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

1 April 2017 (restated) £000	31 March 2018 (restated) £000		31 March 2019 £000
534,500	632,306	Revaluation Reserve	678,992
10,432	10,432	Financial Instruments Revaluation Reserve	10,531
656,365	701,682	Capital Adjustment Account	702,632
-1,838	-1,640	Financial Instruments Adjustment Account	-1,496
3,238	2,222	Deferred Capital Receipts	943
-10,078	-13,623	Accumulated Absences Account	-10,641
-1,120,277	-1,225,494	Pensions Reserve	-1,246,687
6,112	7,499	Collection Fund Adjustment Account	2,767
<u>78,454</u>	<u>113,384</u>	Total	<u>137,041</u>

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.

2017-18 £000		2018-19 £000
534,500	Balance at 1 April	632,306
159,974	Upward revaluation of assets	113,615
-39,350	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	-21,976
	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	
120,624		91,639
-17,739	Difference between fair value depreciation and historical cost depreciation	-19,839
-5,079	Accumulated gains on assets sold or scrapped	-25,114
-22,818	Amount written off to the Capital Adjustment Account	-44,953
632,306	Balance at 31 March	678,992

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. 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.

2017-18 £000		2018-19 £000
10,432	Balance at 1 April	10,432
	- Upward revaluation of investments not credited to the Surplus/Deficit on the Provision of Services	100
10,432		10,532
	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-
10,432	Balance at 31 March	10,532

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.

There has been an adjustment to the 2017/18 figures relating to leases for properties at Freeman's Reach. Further details are provided at Note 51.

2017-18 £000		2018-19 £000
690,012	Balance at 1 April	701,682
-33,647	Restatement - Freeman's Reach Leasing	-
<u>656,365</u>	Restated Balance at 1 April	<u> </u>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
-61,745	Charges for depreciation and impairment of non-current assets	-62,818
9,028	Revaluation losses on Property, Plant and Equipment	-11,014
-695	Amortisation of intangible assets	-995
-15,253	Revenue expenditure funded from capital under statute	-20,685
-19,238	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	-42,548
<u>-87,903</u>		<u>-138,060</u>
22,818	Adjusting amounts written out of the Revaluation Reserve	44,953
<u>-65,085</u>	Net written out amount of the cost of non-current assets consumed in the year	<u>-93,107</u>
	Capital financing applied in the year:	
14,836	Use of Capital Receipts Reserve to finance new capital expenditure	6,451
54,124	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	52,183
12,120	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	13,335
28,484	Capital expenditure charged against the General Fund and HRA balances	22,116
<u>109,564</u>		<u>94,085</u>
838	Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-28
<u>701,682</u>	Balance at 31 March	<u>702,632</u>

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.

2017-18 £000		2018-19 £000
3,238	Balance at 1 April	2,222
638	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-
-1,654	Transfer to the Capital Receipts Reserve upon receipt of cash	-1,279
2,222	Balance at 31 March	943

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.

2017-18 £000		2018-19 £000
-10,078	Balance at 1 April	-13,623
10,078	Settlement or cancellation of accrual made at the end of the preceding year	13,623
-13,623	Amounts accrued at the end of the current year	-10,641
-3,545	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	2,982
-13,623	Balance at 31 March	-10,641

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Further detail can be found in Note 45.

2017-18		2018-19
£000		£000
-1,120,277	Balance at 1 April	-1,225,494
-74,780	Remeasurements of the net defined benefit liability	59,470
-1,573	Adjustment for previous year's difference between actuary's estimate and actual employers' pension contributions	-166
-	- Net increase in assets from disposals / acquisitions	3,820
-	- Net increase in liabilities from disposals / acquisitions	-710
-96,370	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	-151,980
67,506	Employer's pensions contributions and direct payments to pensioners payable in the year	68,373
<u>-1,225,494</u>	Balance at 31 March	<u>-1,246,687</u>

27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2017-18		2018-19
£000		£000
14,707	Interest paid	16,277
-1,958	Interest received	-3,082
-1,416	Dividends received	-110

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2017-18 (restated) £000		2018-19 £000
-60,976	Depreciation	-62,163
8,261	Impairment and downward revaluation	-11,670
-695	Amortisation	-995
3,545	Transfer to/from Accumulated Absences account	-3,009
-803	Increase/decrease in the provision for bad debts	-326
-15,483	Increase/decrease in creditors	-11,564
33,627	Increase/decrease in debtors	-27,227
1,092	Increase/decrease in inventory	-390
-28,864	Pension liability	-83,607
-19,238	Carrying amount of non-current assets sold	-42,548
70,762	Other non-cash items	41,218
-8,772		-202,281

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2017-18 £000		2018-19 £000
13,139	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,313
13,139	Net cash flows from investing activities	8,313

The cash flow statement and notes for 2017/18 have been restated as a result of adopting a revised methodology for the 2018/19 statement.

28. Cash Flow Statement – Investing Activities

2017-18 (restated) £000		2018-19 £000
79,399	Purchase of property, plant and equipment, investment property and intangible assets	68,729
442,813	Purchase of short-term (not considered to be cash equivalents) and long-term investments	431,823
3,342	Other payments for investing activities - external trading	5,021
-13,139	Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets	-8,313
-444,712	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	-345,462
-51,272	Other receipts from investing activities (inc. external trading)	-54,614
16,431	Net cash flows from investing activities	97,184

The cash flow statement and notes for 2017/18 have been restated as a result of adopting a revised methodology for the 2018/19 statement.

29. Cash Flow Statement – Financing Activities

2017-18 (restated) £000		2018-19 £000
-35,000	Cash receipts of short-term and long-term borrowing	-30,000
-9,411	Other receipts from financing activities	3,957
4,902	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	6,066
20	Repayments of short-term and long-term borrowing	10,023
-	Other payments for financing activities	-
<u>-39,489</u>	Net cash flows from financing activities	<u>-9,954</u>

The cash flow statement and notes for 2017/18 have been restated as a result of adopting a revised methodology for the 2018/19 statement.

30. Reconciliation of liabilities arising from financing activities

	1 April 2018	Financing cash flows	Non Cash Changes		31 March 2019
	£000	£000	Acquisition £000	Other non- cash changes £000	£000
Long Term Borrowings	-281,210	-30,000	-	-	-311,210
Short Term borrowings	-13,071	10,008	-	-44	-3,107
Lease Liabilities	-43,192	5,080	-4,599	0	-42,711
On balance sheet PFI Liabilities	-39,174	991	0	0	-38,183
Total Liabilities from financing activities	<u>-376,647</u>	<u>-13,921</u>	<u>-4,599</u>	<u>-44</u>	<u>-395,211</u>

31. Trading Operations

The summary revenue account for these services is shown as follows:

	2016-17	2017-18	2018-19	
	£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: £8.471m	Turnover	-46,356	-43,406	-43,520
	Expenditure	43,412	40,598	40,801
	Surplus(-)/Deficit	-2,944	-2,808	-2,719
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: £1.448m	Turnover	-14,489	-14,901	-15,312
	Expenditure	15,431	15,141	15,578
	Surplus(-)/Deficit	942	240	266
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 trading objective is to meet the net cash limit target as set. The 2018-19 accounts include fixed asset impairment charges of £2.993m following a revaluation of the premises. The cumulative deficit over the last three financial years : £3.844m	Turnover	-2,233	-2,400	-1,758
	Expenditure	2,480	2,652	5,103
	Surplus(-)/Deficit	247	252	3,345
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: £2.081m	Turnover	-23,115	-20,329	-24,910
	Expenditure	22,605	19,504	24,164
	Surplus(-)/Deficit	-510	-825	-746

	2016-17	2017-18	2018-19
	£000	£000	£000

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 £0.065m

Turnover	-2,258	-2,325	-2,504
Expenditure	2,275	2,284	2,463
Surplus(-)/Deficit	17	-41	-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 £0.192m

Turnover	-879	-763	-1,106
Expenditure	921	870	1,149
Surplus(-)/Deficit	42	107	43

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 deficit on trading operations is charged as Financing and Investment Income and Expenditure (see Note 12).

32. Agency Services

The 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 2018/19 £7.924m (£6.427m in 2017/18) 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 increase in Agency Services from 2017/18 to 2018/19 is mainly due to the increase in services provided to other Local Authorities and schools outside of County Durham.

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

33. Members' Allowances

The council paid the following amounts to Members of the council during the year.

2017-18 £000		2018-19 £000
1,669	Basic Allowance	1,667
283	Special Responsibility Allowance	286
5	Broadband Allowance	5
69	Expenses	63
2,026	Total	2,021

34. Officers' Remuneration

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

Name	Period	£ Salary, Fees and Allowances	£ Expenses Allowances	£ Pensions Contribution	£ Total
Chief Executive - Terry Collins	2018-19	192,493	-	-	192,493
	2017-18	188,719	-	-	188,719
Corporate Director - Resources	2018-19	145,670	32	24,327	170,029
	2017-18	142,814	-	23,850	166,664
Corporate Director - Children and Young Peoples Services	2018-19	145,670	-	-	145,670
	2017-18	143,954	-	-	143,954
Corporate Director - Adult and Health Services	2018-19	145,670	124	24,327	170,121
	2017-18	142,814	46	23,850	166,710
Corporate Director - Regeneration and Local Services	2018-19	145,670	-	24,327	169,997
	2017-18	142,814	-	23,850	166,664
Director - Transformation and Partnerships	2018-19	124,860	-	20,852	145,712
	2017-18	122,412	-	20,443	142,855
Head of Legal and Democratic Services (Monitoring Officer) (to 05/04/17)	2018-19	-	-	-	-
	2017-18	1,558	-	260	1,818
Interim Head of Legal and Democratic Services (Monitoring Officer) (to 06/08/17)	2018-19	-	-	-	-
	2017-18	39,214	-	6,549	45,763
Head of Legal and Democratic Services (Monitoring Officer) (from 07/08/17 to 31/03/18)	2018-19	114,455	102	19,114	133,671
	2017-18	72,998	12	12,191	85,201

Payments to council employees receiving more than £50,000 remuneration in year (excluding employer's pension contributions) are set out in the following table (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 176 'Other Staff' in 2018/19 there are no employees paid on Leadership Teacher grades and 42 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	2017-18 Number of Employees			2018-19 Number of Employees		
	School Staff	Other Staff	Total	School Staff	Other Staff	Total
£50,000 - £54,999	112	73	185	112	69	181
£55,000 - £59,999	92	33	125	85	37	122
£60,000 - £64,999	54	21	75	70	22	92
£65,000 - £69,999	34	8	42	31	8	39
£70,000 - £74,999	10	3	13	14	6	20
£75,000 - £79,999	4	8	12	6	6	12
£80,000 - £84,999	3	3	6	5	3	8
£85,000 - £89,999	2	3	5	2	2	4
£90,000 - £94,999	3	2	5	3	2	5
£95,000 - £99,999	-	7	7	1	2	3
£100,000 - £104,999	2	1	3	1	7	8
£105,000 - £109,999	1	-	1	2	1	3
£110,000 - £114,999	-	7	7	-	4	4
£115,000 - £119,999	-	-	-	-	2	2
£120,000 - £124,999	-	1	1	-	1	1
£125,000 - £129,999	-	-	-	-	-	-
£130,000 - £134,999	-	2	2	-	2	2
£135,000 - £139,999	-	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	-	-
£145,000 - £149,999	-	-	-	-	-	-
£150,000 - £154,999	-	-	-	-	1	1
£155,000 - £159,999	-	-	-	-	-	-
£160,000 - £164,999	-	-	-	-	-	-
£165,000 - £169,999	-	-	-	-	-	-
£170,000 - £174,999	-	-	-	-	-	-
£175,000 - £179,999	-	-	-	-	-	-
£180,000 - £184,999	-	-	-	-	1	1
	317	172	489	332	176	508

The cost of exit packages comprises 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 following table 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	
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18 £000	2018-19 £000
£0 - £20,000	19	17	110	14	129	31	925	237
£20,001 - £40,000	1	4	48	6	49	10	1,336	289
£40,001 - £60,000	-	1	19	6	19	7	912	375
£60,001 - £80,000	-	2	9	2	9	4	666	287
£80,001 - £100,000	-	-	5	10	5	10	452	893
£100,001 - £150,000	-	1	3	10	3	11	344	1,299
£150,001 - £250,000	1	-	3	4	4	4	688	731
Total	21	25	197	52	218	77	5,323	4,111

35. External Audit Costs

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the council's external auditors. The appointed auditor for 2018/19, and up to 2021/22, is Mazars LLP.

2017-18 £000		2018-19 £000
251	Fees payable with regard to external audit services carried out by the appointed auditor for the year	193
20	Fees payable in the year for the certification of grant claims and returns by the appointed auditor for Public Sector Appointments Ltd (PSAA)	-
8	Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA	25
<u>279</u>	Total	<u>218</u>

36. Dedicated Schools Grant

The council's expenditure on schools is funded primarily by grant monies provided by the Department for Education; the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the council's area. DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2018. 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 2018/19 are as follows:

	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2018/19 before Academy Recoupment			384,143
B Academy figure recouped for 2018/19			102,393
C Total DSG after Academy Recoupment for 2018/19			281,750
D Brought forward from 2017/18			4,733
E Carry forward to 2019/20 agreed in advance			-
F Agreed initial budgeted distribution in 2018/19 (C+D-E)	50,425	236,058	286,483
G In year adjustments	8,225	-8,202	23
H Final budgeted distribution for 2018/19 (F+G)	58,650	227,856	286,506
I Actual central expenditure	62,264	-	62,264
J Actual ISB deployed to schools	-	227,856	227,856
K Local authority contribution for 2018/19 (H-I+J+K)	3,265	-	3,265
L Carry forward to 2019/20	-349	-	-349 *

* Total carry-forward (-£0.349m) is the carry forward on central expenditure (L) (-£0.349m) plus carry forward on ISB (L) (£nil) plus carry forward 2019/20 already agreed (E) (£nil).

- A Final DSG figure before any amount has been recouped from the council excluding the January 2019 early years block adjustment.
- B Figure recouped from the council in 2018/19 by the DfE for the conversion of maintained schools into Academies.
- C Total figure after EFA Academy recoupment for 2018/19.
- D Figure brought forward from 2017/18 as agreed with the Department.
- E Any amount which the council decided after consultation with the Schools Forum to carry forward to 2019/20 rather than distribute in 2018/19 – this may be the difference between estimated and final DSG for 2018/19, or a figure (positive or negative) brought forward from 2017/18 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 2018/19.
- 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 2018/19 which will have the effect of substituting for DSG in funding the Schools Budget.
- L Carry forward to 2019/20:
- 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 2019/20 already agreed (E).

37. Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement during the year.

2017-18 £000		2018-19 £000
	Credited to Taxation and Non Specific Grant Income:	
	Non Ring-fenced Government Grants:	
-56,000	Revenue Support Grant	-41,860
-67,967	Top Up Grant	-70,009
-6,953	Section 31 Grants	-8,528
-	Levy Account Surplus Grant	-1,922
-1,516	Education Funding Agency Grant	-
-8,883	New Homes Bonus Scheme Grant	-6,504
-283	New Homes Bonus Scheme Topslice Reimbursement	-
-45,324	Capital Grants and Contributions	-47,488
<u>-186,926</u>		<u>-176,311</u>

Grant and Contribution Income Credited to Services

2017-18 £000		2018-19 £000
	Credited to Services:	
-2,876	Additional Grant for Schools	-4,145
-104	Apprenticeship Levy digital account	-622
-415	Arts Council England - NE	-1,264
-24,494	Clinical Commissioning Groups-Better Care Fund	-24,959
-1,167	DCSF Grant	-1,833
-281,623	Dedicated Schools Grant (DSG)	-281,773
-315	DEFRA Grant	-775
-1,073	Department of Health Grant	-1,039
-1,301	Discretionary Housing Payment Grant	-1,342
-437	Durham Police, Crime and Victims' Commissioner	-468
-521	Education Authorities-other	-785
-9,318	Education Funding Agency	-8,313
-675	Educational Visits	-912
-6,655	ERDF Grant	-3,733
-4,545	General Contributions	-5,498
-506	Heritage Lottery Fund Grant	-1,355
-	Home Office Grant - Syrian Vulnerable Persons	-791
-2,267	Housing Benefit - Admin Grant	-2,018
-178,209	Housing Benefit Grant - Rent Allowance	-148,497
-492	Housing Benefit Grant - Rent Rebate	-476
-15,490	Improved Better Care Fund	-21,475
-964	Local Council Tax Support Scheme Administration Grant	-927
-1,951	MHCLG Grant	-4,481
-9,756	NHS - Care Costs	-16,347
-3,171	NHS - Joint Arrangements	-3,391
-590	NNDR Cost of Collection Allowance	-586
-15,489	North East Combined Authority	-15,692
-942	Other Local Authorities	-890
-5,519	PFI Grants	-5,519
-49,983	Public Health Grant	-48,698
-20,484	Pupil Premium Grant	-19,924
-4,476	Skills Funding Agency	-2,834
-2,835	Social Care Grant	-
-4,774	Universal Infant Free School Meals Grant	-4,496
-612	Youth Offending Teams Grant	-612
-10,256	Other Grants and Contributions	-11,003
<u>-664,285</u>		<u>-647,473</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:

2017-18		Capital Grants and Contributions Receipts in Advance	2018-19	
Long Term Liabilities £000	Short Term Liabilities £000		Long Term Liabilities £000	Short Term Liabilities £000
-134	-	Broadband Delivery UK	-	-
-	-321	County Durham Housing Group Limited	-	-
-104	-	Darlington Borough Council	-104	-
-	-	Department for Transport	-	-929
-	-355	Education & Skills Funding Agency	-	-67
-	-872	European Commission	-	-
-	-150	Gateshead Council	-	-169
-	-	Historic England	-	-29
-	-318	Home Loan Recycled Fund	-1,257	-272
-63	-	Middlesbrough Council	-63	-
-	-810	Ministry of Housing, Communities and Local Govt	-	-386
-	-500	North Tyneside Council	-	-238
-	-200	Public Health England	-	-2
-170	-	Redcar and Cleveland Borough Council	-170	-
-	-200	South Tyneside Council	-	-83
-157	-	Stockton Borough Council	-157	-
-	-	Sunderland City Council	-135	-
-	-497	Tees Valley Combined Authority	-	-205
-	-77	The Auckland Castle Trust	-	-
-	-157	Other	-1	-9
-628	-4,457	Total Capital Grants and Contributions Receipts in Advance	-1,887	-2,389

38. Related Parties

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

Central Government

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

Members

Members of the County Council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 33.

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

The local environmental projects, youth groups and community associations, in which members are involved, received grant funding to the value of £0.197m in 2018/19 (£0.201m in 2017/18). 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 Citizens Advice Bureau (CAB) delivering advice services across the county, which received financial support to the value of £0.676m in 2018/19 (£0.901m in 2017/18)
- Groundwork North East, carrying out environmental works for which there were transactions of £0.986m in 2018/19 (£0.552m in 2017/18).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.231m in 2018/19 (£0.177m in 2017/18)
- Consett YMCA (Delta North) for work done with various schools £0.407m in 2018/19 (£0.382m in 2017/18)
- Durham Christian Partnership £0.081m in 2018/19 (£0.010m in 2017/18)
- Cornforth Partnership £0.214m in 2018/19 (£0.127m in 2017/18)
- Glebe Centre £0.011m in 2018/19 (£0.015m in 2017/18)
- Easington Regeneration Partnership £0.009m in 2018/19 (£0.010m in 2017/18)
- South Durham Enterprise Agency £0.061m in 2018/19 (£0.027m in 2017/18)
- Pelton Fell Community Partnership £0.022m in 2018/19 (£0.013m in 2017/18)

During 2018/19, works and services to the value of £0.169m (£0.074m in 2017/18) 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 North East Enterprise Company Limited Director of Durham Villages Regeneration Limited
Corporate Director – Resources	Deputy Section 73 Officer for North East Combined Authority
Director – Transformation and Partnership Services	Trustee of St Cuthbert’s Hospice

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 2018/19 have been prepared, in 2018/19 Chapter Homes Durham Limited had turnover of £8.230m (£6.499m in 2017/18), made a profit before taxation of £1.096m (£0.187m in 2017/18) no taxation has yet been determined, no dividend was paid. Chapter Homes had net assets of £3.708m at 31 March 2019 (£1.991m at 31 March 2018).

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. The unaudited draft company accounts for the full year 2018/19 have been prepared, in 2018/19 Forrest Park (Newton Aycliffe) Limited had losses of £0.006m before taxation (profit of £0.006m in 2017/18). The net assets of the company total £2.002m at 31 March 2019 (£2.008m at 31 March 2018).

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 2018/19 are not yet available, however the draft unaudited management accounts show at 31 March 2019 Durham Villages Regeneration Limited made an operating profit before taxation of £0.172m for 2018/19 (2017/18 £0.136m) and estimated £0.139m for 2018/19 after taxation (2017/18 £0.110m).

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 2019 are £4.012m (31 March 2018: £3.702m). 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 2019 are £0.624m (31 March 2018: £0.365m). 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 unaudited draft company accounts for the full year 2018/19 have been prepared, in 2018/19 Service Direct NewCo Limited had turnover of £1.175m (2017/18 £1.154m), £0.003m operating profits before taxation (£0.003m 2017/18), no dividend was paid, and had net assets of £0.019m at 31 March 2019 (£0.017m at 31 March 2018).

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 £10.658m (£10.558m in 2017/18). 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. No such events have occurred. The shares have been revalued in year using a combination of the discounted cash flow of income method together with the guideline public company method of the market approach to derive a fair value measurement that complies with IFRS13 and IFRS9.

Through its shares in NALAHCL the council has an effective shareholding of 6.20% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31 December 2018 (£0.867m for the year ended 31 December 2017).

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 six monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the year end.

NIAL Group Limited made a profit before tax of £10.443m and a profit after tax of £7.435m for the year ended 31 December 2018. In the previous year, the Group made a profit before tax of £6.884m and a profit after tax of £4.408m.

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 2018, Durham Tees Valley Airport Limited made a loss before taxation of £2.620m (loss of £2.733m for year ended 31 March 2017) and a loss of £2.114m after taxation (loss of £2.408m for year ended 31 March 2017). The Company accounts for 2018/19 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

As at 31 March 2019 the council holds £3.740m (£3.740m at 31 March 2018) in redeemable preference shares in Durham Cricket Community Interest Company (formerly Durham Cricket Limited). 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. The Company accounts for the year ended 30 September 2018 are not yet available. For the year ended 30 September 2017, the Company made a profit before tax of £2.246m and profit after tax of £2.228m. In the previous year the Company made a loss before tax of £1.259m and a loss after tax of £1.240m.

Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 112 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2018/19, the Pension Fund had an average balance of £36.119m (£27.093m in 2017/18) of surplus cash deposited with the council. In 2018/19 the council paid the fund a total of £0.262m (£0.113m in 2017/18) in interest on these deposits.

39. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the following table (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.

The 2017/18 comparative figures have been restated to recognise the council's lease interest in respect of Freemans Reach properties in Durham City.

2017-18 (restated) £000		2018-19 £000
431,641	Opening Capital Financing Requirement	458,829
	Capital investment:	
76,185	Property, Plant and Equipment	66,987
39,390	Property, Plant and Equipment - Finance Leases	4,599
38	Heritage Assets	63
2,399	Intangible Assets	1,713
3,877	Acquisition of share and loan capital	1,809
15,253	Revenue Expenditure Funded from Capital under Statute	20,685
	Sources of finance:	
-15,226	Capital receipts	-9,391
-54,124	Government grants and other contributions	-52,183
	Sums set aside from revenue:	
-28,484	- Direct revenue financing	-22,116
-12,120	- Minimum Revenue Provision	-13,335
<u>458,829</u>	Closing Capital Financing Requirement	<u>457,660</u>
	Explanation of movements in year	
-5,517	Increase/-decrease in underlying need to borrow (supported by government financial assistance)	-5,525
-6,685	Increase/-decrease in underlying need to borrow (unsupported by government financial assistance)	-243
39,390	Assets acquired under finance leases	4,599
<u>27,188</u>	Increase/-decrease in Capital Financing Requirement	<u>-1,169</u>

40. Leases

Council as Lessee

Finance leases

The council has acquired a number of operational vehicles and equipment under finance leases. In addition during 2014/15 and 2015/16 the council entered into finance leasing agreements for properties at Freeman's Reach in Durham City:

- Wearside House – lease commenced on 28 January 2015 for 35 years, and
- Her Majesty's Passport Office (HMPO) (including kiosk)– lease commenced on 18 March 2016 for 35 years

More details are included in Note 51 – Prior Period Adjustment.

The full asset values, liabilities and rents receivable for the properties were not included in the equivalent note to the 2017/18 statement of accounts. The 2017/18 comparators in the tables below have therefore been restated to account for these and other, lesser changes.

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

31 March 2018 (restated) £000		31 March 2019 £000
2,485	Other Land and Buildings	2,485
12,739	Vehicles, Plant, Furniture and Equipment	13,325
<u>15,224</u>		<u>15,810</u>

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

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

31 March 2018 (restated) £000		31 March 2019 £000
	Finance lease liabilities (net present value of minimum lease payments):	
4,088	Current	4,497
39,104	Non-Current	38,214
19,229	Finance costs payable in future years	18,183
<u>62,421</u>	Minimum lease payments	<u>60,894</u>

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

31 March 2018 (as restated)			31 March 2019	
Minimum Lease Payments £000	Finance Lease Liabilities £000		Minimum Lease Payments £000	Finance Lease Liabilities £000
5,378	4,088	Not later than one year	5,759	4,497
13,028	8,921	Later than one year and not later than five years	12,800	8,820
44,015	30,183	Later than five years	42,335	29,394
<u>62,421</u>	<u>43,192</u>		<u>60,894</u>	<u>42,711</u>

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

The council has not sub-let any of the vehicles and equipment under finance leases, but it has sub-let the Freemans' Reach properties. The total of future minimum sublease

payments expected to be received under these leases was £25.194m (£27.149m at 31 March 2018) and this is included in the following table showing future minimum lease payments where the council is a lessor.

Operating Leases

The council has acquired a number of administrative buildings by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2018 (as restated) £000		31 March 2019 £000
1,127	Not later than one year	2,562
2,228	Later than one year and not later than five years	4,922
4,786	Later than five years	5,439
<u>8,141</u>		<u>12,923</u>

The following table sets out the expenditure in relation to these leases which has been charged against the cost of services line within the comprehensive income and expenditure statement.

31 March 2018 (as restated) £000		31 March 2019 £000
678	Minimum lease payments	588
-3,108	Sublease payments receivable	-3,660
<u>-2,430</u>		<u>-3,072</u>

Council as Lessor

Finance Leases

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

Operating leases

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

- for the provision of community services, such as child care and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses
- for other purposes as the council determines as being beneficial to its interests.

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

31 March 2018 (restated)		31 March 2019
£000		£000
9,069	Not later than one year	6,968
14,372	Later than one year and not later than five years	15,037
18,936	Later than five years	18,940
<u>42,377</u>		<u>40,945</u>

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

41. Private Finance Initiatives and Similar Contracts

Schools

In 2009/10, the council signed a Private Finance Initiative (PFI) 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 2018 £000		31 March 2019 £000
19,646	Net book value at 1 April	22,365
112	Additions	101
-1,095	Depreciation	-636
3,702	Revaluations	1,775
22,365	Net book value at 31 March	23,605

In addition to the net book value of £23.605m 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 £25.345m.

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 2018/19 are summarised as follows:

31 March 2018 £000	31 March 2019 £000
40,131 Balance outstanding at start of year	39,174
-957 Payments during the year	-991
39,174 Balance outstanding at year-end	38,183

Estimates of Future Payments Due

	Payments for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2019-20	2,628	1,011	3,874	7,513
Payable within two to five years	11,096	5,278	14,374	30,748
Payable within six to ten years	15,837	9,989	14,312	40,138
Payable within eleven to fifteen years	19,361	14,435	8,465	42,261
Payable within sixteen to twenty years	6,856	7,469	1,113	15,438
Total	55,778	38,182	42,138	136,098

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 and in 2018/19 the council was able to recognise a cash lump sum gain of £2.881m from a re-financing exercise. As the full gain was recognised in 2018/19 the future year costs are not affected.

42. Impairment and Revaluation Losses

The value of the council's assets has been reduced by £44.468m in 2018/19 (£55.970m in 2017/18), 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.

43. Termination Benefits

The council terminated the contracts of a number of employees in 2018/19. The value of the redundancy payments charged to services in 2018/19 was £3.519m and in 2017/18 was £4.124m. The following table analyses the payments made in the relevant financial years. The majority of the payments made in 2018/19 were due to the rationalisation of services within the council.

2017-18 £000		2018-19 £000
758	Adult and Health Services	1,267
1,731	Children and Young People's Services	1,667
648	Regeneration and Local Services	311
834	Resources	111
153	Transformation and Partnerships	163
<u>4,124</u>		<u>3,519</u>

In addition to the above redundancy payments, the pension enhancement value in 2018/19 was £2.325m and in 2017/18 (£2.253m in 2017/18).

44. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

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

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

In 2018/19, the council paid £18.481m to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% of pensionable pay (£18.861m or

16.48% in 2017/18). There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £23.305m, taking into account of an increase in the contribution rate to 23.68% with effect from 1 September 2019.

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

NHS Pension Scheme

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

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

In 2018/19, the council paid £0.067m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 14.38% of pensionable pay (£0.106m or 14.38% in 2017/18). There were no contributions remaining payable at the year-end. The contributions due to be paid in the next financial year are estimated to be £0.054m.

45. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), administered locally by Durham County Council – this is a funded defined benefit 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:

2017-18			2018-19	
Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000		Local Government Pension Scheme £000	Discretionary Benefits Arrangements £000
		Cost of services:		
		Service cost comprising:		
67,110	-	- Current service cost	70,320	-
2,160	-	- Past service cost (including curtailments)	51,460	-
		Financing and Investment Income and Expenditure:		
25,340	1,760	- Net interest on net defined benefit liability	28,470	1,730
94,610	1,760	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	150,250	1,730
		Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
		Remeasurement of the net defined benefit liability comprising:		
8,790	-	- Return on plan assets (excluding the amount included in the net interest expense)	-104,960	-
48,770	590	- Actuarial gains and losses due to changes in financial assumptions	163,360	1,440
-	-	- Actuarial gains and losses due to changes in demographic assumptions	-121,130	-3,010
14,850	1,780	- Actuarial gains and losses due to liability experience	4,640	190
167,020	4,130	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	92,160	350
		Movement in Reserves Statement		
-94,610	-1,760	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	-150,250	-1,730
		Actual amount charged against the General Fund Balance for pensions in the year:		
62,214	-	- Employer's contributions payable to the scheme	63,245	-
-	5,292	- Direct retirement benefits payable to pensioners	-	5,128

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:

2017-18			2018-19		
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	
-2,966,960	-69,120	Present value of the defined benefit obligation	-3,132,620	-64,370	
1,847,680	-	Fair value of plan assets	1,968,460	-	
<u>-1,119,280</u>	<u>-69,120</u>	Net liability arising from defined benefit obligation	<u>-1,164,160</u>	<u>-64,370</u>	
254	-88	Difference between actuary's figures and actual contributions	445	28	
<u>-1,119,026</u>	<u>-69,208</u>	Adjusted Total*	<u>-1,163,715</u>	<u>-64,342</u>	

* To produce a more accurate assessment of the council's IAS 19 liability, the adjusted total line shows the net liabilities per the actuary's figures adjusted for actual contributions made to the scheme.

In 2018/19, the net liability arising from defined benefit obligation has been reduced by £3.110m to recognise:

- the transfer to academy status of three schools since the last actuarial valuation on 31 March 2016; and
- the transfer into the management of the council of Derwentside Trust for Sport and the Arts, trading as Leisureworks, with effect from 1 April 2018.

The reduction is made up of a £3.820m increase in assets and a £0.710m increase in liabilities, which are shown in the following tables.

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

2017-18			2018-19	
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
1,786,040	-	Opening fair value of scheme assets	1,847,680	-
47,460	-	Interest Income	47,700	-
-8,790	-	Remeasurement gain / loss (-)	104,960	-
99,220	5,380	Contributions from employer	44,170	5,100
14,180	-	Contributions from employees into the scheme	14,410	-
-90,430	-5,380	Benefits paid	-94,280	-5,100
-	-	Net increase in assets from disposals / acquisitions	3,820	-
1,847,680	-	Closing fair value of scheme assets	1,968,460	-

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

2017-18			2018-19	
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	Opening balance at 1 April	2,966,960	69,120
67,110	-	Current service cost	70,320	-
72,800	1,760	Interest cost	76,170	1,730
14,180	-	Contributions by scheme participants	14,410	-
48,770	590	Remeasurement gains (-) and losses:	163,360	1,440
-	-	Actuarial gains and losses due to changes in financial assumptions	-121,130	-3,010
14,850	1,780	Actuarial gains and losses due to changes in demographic assumptions	4,640	190
2,160	-	Actuarial gains and losses due to liability experience	51,460	-
-90,430	-5,380	Past service cost (including curtailments)	-94,280	-5,100
-	-	Benefits paid	710	-
-	-	Net increase in liabilities from disposals / acquisitions	-	-
2,966,960	69,120	Closing balance at 31 March	3,132,620	64,370

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 2018			31 March 2019			
Fair Value of scheme assets £000			Fair Value of scheme assets £000			
Quoted	Unquoted	Total		Quoted	Unquoted	Total
923,839	-	923,839	Equity investments	982,262	-	982,262
22,172	105,318	127,490	Property	25,590	120,076	145,666
543,218	-	543,218	Government bonds	513,768	-	513,768
164,444	-	164,444	Corporate bonds	228,341	-	228,341
88,689	-	88,689	Cash	98,423	-	98,423
1,742,362	105,318	1,847,680	Total	1,848,384	120,076	1,968,460

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 Pension Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary are:

2017-18		2018-19	
Local Government Pension Scheme	Discretionary Benefits Arrangements	Local Government Pension Scheme	Discretionary Benefits Arrangements
Mortality assumptions:			
Longevity at 65 for current pensioners:			
23.3	23.3 - Men	22.6	22.6
25.0	25.0 - Women	24.1	24.1
Longevity at 65 for future pensioners:			
25.5	n/a - Men	24.3	n/a
27.3	n/a - Women	25.9	n/a
Principal financial assumptions (% per annum)			
2.6	2.6 - Rate for discounting scheme liabilities	2.4	2.4
3.2	3.2 - Rate of inflation (RPI)	3.3	3.3
2.1	2.1 - Rate of inflation (CPI)	2.2	2.2
2.1	2.1 - Rate of increase in pensions	2.2	2.2
3.6	n/a - Rate of increase in salaries	3.7	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 2017/18.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 is set out in the following table:

Discount rate assumption			
Adjustment to discount rate	+ 0.1% per annum	Base Figure	- 0.1% per annum
Present value of total obligation (£000)	3,076,150	3,132,620	3,190,130
Change in present value of total obligation	-1.8%		1.8%
Projected service cost (£000)	79,110	81,500	83,950
Approximate change in projected service cost	-2.9%		3.0%
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)	3,147,760	3,132,620	3,117,660
Change in present value of total obligation	0.5%		-0.5%
Projected service cost (£000)	81,500	81,500	81,500
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)	3,174,860	3,132,620	3,090,990
Change in present value of total obligation	1.4%		-1.3%
Projected service cost (£000)	83,950	81,500	79,110
Approximate change in projected service cost	3.0%		-2.9%
Post retirement mortality assumption			
Adjustment to mortality age rating assumption *	- 1 year	Base Figure	+ 1 year
Present value of total obligation (£000)	3,233,500	3,132,620	3,032,560
Change in present value of total obligation	3.2%		-3.2%
Projected service cost (£000)	84,660	81,500	78,360
Approximate change in projected service cost	3.9%		-3.8%

* 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 Council'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 £43.630m contributions to the scheme in 2019/20 (£42.760m in 2018/19).

The weighted average duration of the defined benefit obligation for scheme members is 18.2 years at 31 March 2019 (18.2 years at 31 March 2018).

46. 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 £7.0m.

The council's insurance adviser initially recommended that adequate provision should be held against future calls in the range of 25% to 30%. As at 31 March 2015 the council provided for 28% (£0.774m) of the value of the total potential liability in the Scheme of Arrangement, after the levy payments totaling £0.856m were made in 2013/14 and 2014/15. However, during 2015/16 a further levy of £0.616m was paid and as a result of a further deterioration in the MMI balance sheet it was felt prudent to increase the provision to 34% of the outstanding liability net of the levy payments made to date. 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 Believe Housing (formerly known as County Durham Housing Group (CDHG)) certain warranties in relation to staff transferring, property and environmental pollution. These warranties to both Believe Housing 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 60% 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.

47. Contingent Assets

LSVT - VAT Shelter

The council and Believe Housing have entered into a VAT shelter arrangement to enable Believe Housing 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 Believe Housing from this VAT shelter arrangement. The estimated proceeds are £29.25m for the council over a 15 year period ending on 31 March 2030.

48. Heritage Assets: Further Information on the Council's Collection

Museum Collections and Artefacts

This includes:

- Museum exhibits owned by or on long-term loan to the council at Killhope Lead Mining Museum, Durham Town Hall and Shildon Locomotion Museum (excluding items belonging to the National Railway Museum). The museums are open to the public. Killhope holds the national collection of spar boxes, ornate mineral creations developed by miners in the North Pennines. Further details of the collections can be found on the museums' websites.
- Artefacts held by the council's Learning Resources service. These items are not on public display but are available for schools and other educational establishments to borrow via an online catalogue.

- Items held by Durham County Record Office, including documents, photographs, films and sound recordings. Public access to the record office is by appointment and an online catalogue is available. The records are stored securely with appropriate temperature and humidity control. These items are not recognised on the Balance Sheet as they have no separate insurance values.
- Books of remembrance and miners banners held in civic buildings.

Artwork, including Public Art and Sculptures

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

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

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

Monuments, Statues and Historic Buildings

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

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

Civic Regalia and Silverware

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

Geophysical / Archaeological

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

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

Preservation and Management

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

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

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

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

49. Exceptional Items

There are no exceptional items in 2018/19.

50. Pooled Budget – Better Care Fund

The council has entered into a Pooled Budget arrangement under the Better Care Fund (BCF) Agreement for Health and Social Care initiatives. The BCF was introduced by the Government on 1 April 2015 and the Pooled Budget arrangement 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 2018 £000		31 March 2019 £000
	Funding Provided to BCF	
15,490	Local Authority (revenue)	21,475
5,299	Local Authority (capital)	5,708
40,399	CCGs	41,167
61,188		68,350
	Expenditure met from BCF	
39,984	Local Authority (revenue)	46,435
5,299	Local Authority (capital)	5,708
15,905	CCGs	16,207
61,188		68,350
-	Net surplus on pooled budget	-
-	Authority share of the net surplus arising from pooled budget	-

51. Prior Period Adjustments (PPAs)

a) Comparator Restatement – Environment, Health and Consumer Protection Service

During 2018/19, the Environment, Health and Consumer Protection service was realigned from Adult and Health Services to Regeneration and Local Services. The 2017/18 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

	2017-18 adjustment		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Adult and Health Services	-6,360	1,614	-4,746
Regeneration and Local Services	6,360	-1,614	4,746
Cost of Services	-	-	-

Expenditure and Funding Analysis

	Net Expenditure Chargeable to the General Fund	2017-18 adjustment	
		Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
Adult and Health Services	-4,625	-121	-4,746
Regeneration and Local Services	4,625	121	4,746
Net Cost of Services	-	-	-

Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis	Adjustments for Capital Purposes	2017-18 adjustment		
		Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Adult and Health Services	-3	-118	-	-121
Regeneration and Local Services	3	118	-	121
Net Cost of Services	-	-	-	-

Segmental Income

	2017-18 adjustment
	£000
Adult and Health Services	1,456
Regeneration and Local Services	-1,456
	-

b) Accounting for Finance Leases – Balance Sheet Recognition

The council has reviewed the accounting treatment of leases it entered into during 2014/15 and 2015/16 for properties at Freeman's Reach in Durham City:

- Wearside House – lease commenced on 28 January 2015, and
- Her Majesty's Passport Office (HMPO) – lease commenced on 18 March 2016.

Both leases are for a thirty-five year period and, following the review, it is judged that during the life of the leases all of the risk and rewards of ownership are transferred to the council. As such they have been reclassified from operating leases to finance leases and shown on the balance sheet. The assets were already recognised as Investment Properties in the council's balance sheet and the liabilities should also be recognised.

There was a total liability of £34.286m at the beginning of the previous accounting period (1 April 2017), including an amount due in the period of £0.639m. As the total liability is considered material, the council has restated the accounts for the long-term element (£33.647m). The leasing payments made during the previous period are not judged to be material, therefore there has been no restatement of the Comprehensive Income and Expenditure Statement for 2017/18.

The effects of these restatements are set out below:

Effect on Opening Balance Sheet – 1 April 2017

The adjustments that have been made to the balance sheet since the version published in the 2017/18 Statement of Accounts are as follows:

	Balances at 1 April 2017 (as reported) £000	Restatement - Finance Leases £000	Balances at 1 April 2017 (restated) £000
Other Long Term Liabilities - Other	-44,255	-33,647	-77,902
Long Term Liabilities	-1,430,406	-33,647	-1,464,053
Net Assets	369,011	-33,647	335,364
Unusable Reserves	112,101	-33,647	78,454
Total Reserves	369,011	-33,647	335,364

Movement in Reserves Statement 2017/18

The restatement of the relevant lines of the Movement in Reserves Statement as at 31 March 2018, as a result of the adjustments, is presented as follows:

Unusable Reserves	31 March 2018 (as reported) £000	Restatement - Finance Leases £000	31 March 2018 (restated) £000
Balance at 31 March 2017 brought forward	112,101	-33,647	78,454
Balance at 31 March 2018 carried forward	147,031	-33,647	113,384

Effect on Balance Sheet - 31 March 2018

The adjustments that have been made to the balance sheet since the version published in the 2017/18 Statement of Accounts are as follows:

	Balances at 31 March 2018 (as reported) £000	Restatement - Finance Leases £000	Balances at 31 March 2018 (restated) £000
Short Term Creditors	-114,256	-658	-114,914
Current Liabilities	-139,378	-658	-140,036
Other Long Term Liabilities - Other	-44,297	-32,989	-77,286
Long Term Liabilities	-1,527,656	-32,989	-1,560,645
Net Assets	395,972	-33,647	362,325
Unusable Reserves	147,031	-33,647	113,384
Total Reserves	395,972	-33,647	362,325

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

2017-18		2018-19		
		Council Tax £000	NNDR £000	Total £000
	Income			
-250,093	Council Tax due from Taxpayers	-264,504	-	-264,504
-109,466	Income from Business Ratepayers	-	-117,226	-117,226
	Recovery of Previous Year's Estimated Deficit			
-	Central Government	-	-	-
-	Durham County Council	-	-	-
-	County Durham & Darlington Fire & Rescue Authority	-	-	-
-359,559	Total Income	-264,504	-117,226	-381,730
	Expenditure			
	Precepts and Demands			
207,558	Durham County Council	222,257	-	222,257
22,952	Durham Police, Crime and Victims' Commissioner	25,087	-	25,087
13,243	County Durham & Darlington Fire & Rescue Authority	13,915	-	13,915
	Payment of Previous Year's Surplus			
848	Central Government	-	2,938	2,938
3,000	Durham County Council	4,627	2,879	7,506
259	Durham Police, Crime and Victims' Commissioner	543	-	543
167	County Durham & Darlington Fire & Rescue Authority	313	59	372
	Business Rates			
49,646	Payment to Central Government	-	52,840	52,840
993	Payment to County Durham and Darlington Fire & Rescue Authority	-	1,057	1,057
48,739	Payment to Durham County Council, including Renewable Energy	-	51,890	51,890
59	Payment to Durham County Council, Renewable Energy - Prior year's surplus	-	14	14
589	Costs of Collection - Business Rates	-	586	586
	Bad & Doubtful Debts			
5,256	Write Offs	2,547	1,336	3,883
-1,650	Change in Provision for Bad Debts	82	-53	29
6,068	Provision for Appeals	-	5,013	5,013
357,727	Total Expenditure	269,371	118,559	387,930
-1,832	Movement on Fund Balance	4,867	1,333	6,200
-8,794	Surplus(-) /Deficit on Fund Brought Forward	-6,459	-4,167	-10,626
-10,626	Fund Balance Carried Forward	-1,592	-2,834	-4,426
	Allocated to :			
-7,485	Durham County Council	-1,342	-1,353	-2,695
-640	Durham Police, Crime and Victims' Commissioner	-161	-	-161
-411	County Durham and Darlington Fire & Rescue Authority	-89	-28	-117
-2,076	Central Government	-	-1,381	-1,381
-14	Durham County Council - Renewable Energy	-	-72	-72
-10,626		-1,592	-2,834	-4,426

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 2018/19.

Property Value	Council Band	Number of Properties	Proportion of Band 'D'	Band 'D' Equivalent
Up to £ 40,000	Band A	143,521	6/9ths	95,681
Over £ 40,000 up to £ 52,000	Band B	32,954	7/9ths	25,631
Over £ 52,000 up to £ 68,000	Band C	30,301	8/9ths	26,934
Over £ 68,000 up to £ 88,000	Band D	21,236	9/9ths	21,236
Over £ 88,000 up to £120,000	Band E	10,245	11/9ths	12,522
Over £120,000 up to £160,000	Band F	4,011	13/9ths	5,794
Over £160,000 up to £320,000	Band G	2,175	15/9ths	3,625
Over £320,000	Band H	276	18/9ths	552
		244,719		191,975
Net effect of discounts, reliefs, exemptions and premiums				52,236.2
Chargeable Properties (Taxbase) 2018/19:				139,738.8

The Council Tax Base for 2017/18 was 135,620.9

In 2018/19, the Band D charge was £1,796.82 (£1,709.93 in 2017/18) made up of Durham County Council £1,515.05 (£1,443.04 in 2017/18), Durham Police, Crime and Victims' Commissioner £181.24 (£169.24 in 2017/18) and County Durham and Darlington Fire and Rescue Authority £100.53. (£97.65 in 2017/18). In addition, Band D Town and Parish precepts between £0 and £296.44 (£0 and £297.59 in 2017/18) 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 £1.715m surplus for 2018/19, which will be distributed to major preceptors during 2019/20. At 31 March 2019, the actual outturn was a surplus of £1.592m (surplus of £6.459m at 31 March 2018).

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 2019 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:

Collection Fund

Category of Arrears	Year	Percentage provision applied
1. No reminders yet sent	2018/19	20%
	2017/18	50%
	2016/17 and older	100%
2. First, second or final reminder	2018/19	35%
	2017/18	65%
	2016/17 and older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2018/19	50%
	2017/18	90%
	2016/17 and older	100%

At 31 March 2019, the calculated provision of £18.264m covered 76% of arrears (£18.182m, 79% at 31 March 2018).

Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2019 amounted to a surplus of £1.592m (surplus of £6.459m at 31 March 2018).

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 £000	Provision for Bad Debts £000	Arrears £000	Overpayments and Prepayments £000
Durham County Council	-1,342	-15,294	20,152	-3,025
Durham Police, Crime & Victims' Commissioner	-161	-1,974	2,601	-390
County Durham & Darlington Fire & Rescue Authority	-89	-996	1,312	-197
Total Allocated	-1,592	-18,264	24,065	-3,612

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 2018/19, the general multiplier was £0.493 (£0.479 in 2017/18) and the small business multiplier was £0.480 (£0.466 in 2017/18). The total non-domestic rateable value for Durham County Council at 31 March 2019 was £314.922m in accordance with the VOA schedule dated 27 March 2019) (£310.861m at 31 March 2018).

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 2018/19 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2018. In addition, during 2018/19, the estimated surplus for 2017/18 was paid to shareholders as shown in the Income and Expenditure Account.

The estimated outturn for 2018/19 was included on the NNDR1 for 2019/20, submitted in January 2019. This predicted a surplus of £1.472m (surplus £5.876m estimated for 2017/18) of which Durham County Council's share would be £0.721m (surplus of £2.879m for 2017/18). 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 2019, the actual outturn was a surplus of £2.762m (surplus of £4.152m in 2017/18). In addition, income from Renewable Energy amounted to £0.178m (£0.100m in 2017/18).

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 2019 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
1. No reminders yet sent	2018/19	20%
	2017/18	50%
	2016/17 and older	100%
2. First, second or final reminder	2018/19	35%
	2017/18	65%
	2016/17 and older	100%
3. Summons (including liability orders, bailiff and bankruptcy)	2018/19	50%
	2017/18	90%
	2016/17 and older	100%

At 31 March 2019, the calculated provision of £2.953m covered 64.11% of arrears (£3.006m, 69.82% at 31 March 2018).

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 2019, the provision for appeals was estimated at £29.283m (£24.269m at 31 March 2018).

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2019 amounted to a surplus of £2.762m (surplus of £4.152m at 31 March 2018).

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 2019.

Authority	Year-end Surplus (-) / Deficit on Collection Fund £000	Provision for Bad Debts £000	Business Rates Arrears £000	Business Rates Overpayments and Prepayments £000	Provision for Appeals £000
Durham County Council	-1,353	-1,447	2,252	-1,139	-14,349
Central Government	-1,381	-1,477	2,297	-1,162	-14,641
County Durham & Darlington Fire & Rescue Authority	-28	-29	46	-23	-293
Total Allocated	-2,762	-2,953	4,595	-2,324	-29,283

Fund Account

2017-18			2018-19		
£000	£000		Notes	£000	£000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND					
-156,395		Contributions receivable	8	-99,068	
-6,453		Transfers in from other pension funds	9	-4,033	
-3		Other income		-3	
	-162,851				-103,104
117,788		Benefits payable	10	126,503	
11,279		Payments to and on account of leavers	11	6,624	
	129,067				133,127
	-33,784	Net withdrawals/ -additions from dealings with members, employers and others			30,023
	17,124	Management expenses	12		15,458
	-16,660	Net withdrawals/ -additions including Fund Management Expenses			45,481
RETURN ON INVESTMENTS					
- 28,093		Investment income	13	-26,513	
- 64,531		Profit and losses on disposal of investments and change in market value of investments	15	-199,268	
	-92,624	Net returns on investments			-225,781
	-109,284	NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR			-180,300

Net Assets Statement

31 March 2018			31 March 2019		
£000	£000		Notes	£000	£000
		INVESTMENT ASSETS			
307,224		Equities	15	348,884	
556,309		Bonds	15	575,582	
<u>1,838,878</u>		Pooled investment vehicles	15	<u>1,962,121</u>	
	2,702,411				2,886,587
304		Loans	15	279	
		Other cash deposits:			
65,191		Fund Managers	15	40,910	
35,041		Short term investments	15	36,933	
3,552		Derivative contracts	15	7,052	
	<u>104,088</u>				<u>85,174</u>
	2,806,499				2,971,761
		Other Investment Assets			
1,611		Dividend accruals	15,18	1,642	
597		Tax recovery	15,18	639	
21,483		Other investment balances	15,18	<u>27,214</u>	
	<u>23,691</u>				<u>29,495</u>
	2,830,190	Total Investment Assets			3,001,256
		INVESTMENT LIABILITIES			
-5,834		Derivative contracts	15	-3,993	
-25,981		Other investment balances	19	-18,486	
	<u>-31,815</u>	Total Investment Liabilities			<u>-22,479</u>
	2,798,375	NET INVESTMENT ASSETS			2,978,777
	417	Long Term Assets	18		208
		Current assets			
7,760		Contributions due from employers	18	8,189	
<u>1,394</u>		Other current assets	18	<u>1,862</u>	
	9,154				10,051
		Current liabilities			
<u>-6,207</u>		Current liabilities	19	<u>-6,997</u>	
	<u>-6,207</u>				<u>-6,997</u>
	<u>2,801,739</u>	NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH			<u>2,982,039</u>

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.

	2014/15	2015/16	2016/17	2017/18	2018/19
Contributing Members	18,011	18,530	18,630	19,219	20,116
Pensioners in Payment	17,193	17,715	18,139	18,618	19,404
Pensioners Deferred	13,165	14,451	15,104	15,746	15,987

In comparison to the figures reported at 31 March 2018, the number of pensionable employees in the Fund at 31 March 2019 has increased by 897 (4.67%), the number of pensioners has increased by 786 (4.22%) and deferred pensioners have increased by 241 (1.53%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 112 at 31 March 2019), 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.

2017-18			2018-19	
Benefits	Contributions		Benefits	Contributions
£000	£000		£000	£000
90,326	-113,692	Administering Authority	94,357	-59,075
20,549	-34,888	Scheduled Bodies	24,210	-31,424
6,913	-7,815	Admission Bodies	7,936	-8,569
117,788	-156,395		126,503	-99,068

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 2018/19 (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.

No such accounting standards have been identified for 2018/19 that are applicable to the pension fund accounts.

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). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

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:

- dividend 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 using the effective interest rate of the financial instrument as at the date of acquisition;
- 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.

Voluntary and Mandatory Scheme Pays (VSP, MSP) and Lifetime Allowances

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

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;
- Shares in the Border to Coast Pensions Pool (BCPP) have been valued at cost as a proxy for fair value;
- 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 Account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accrual basis and included in administration costs.

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 summarised 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 23 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 2019 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 16) is £171.0m at 31/3/19 (£158.0m at 31/3/18). This consists of the Fund's unlisted property holding. In line with the market risk section within Note 17, there is a risk that the value of the Fund may be over/ under stated in the accounts by £23.77m (£22.28m at 31/3/18), which represents the potential market movement on the value of the unlisted property.

7. Events After the Reporting Period

There have been no events after 31 March 2019 which require any adjustments to be made to these accounts.

8. Contributions Receivable

2017-18 £000		2018-19 £000
	Employer contributions:	
-59,903	Normal	-63,158
-3,994	Augmentation	-4,247
-68,915	Deficit funding	-7,293
	Member contributions:	
-23,493	Normal	-24,298
-90	Additional contributions	-72
-156,395		-99,068
-113,692	Administering Authority	-59,075
-34,888	Scheduled Bodies	-31,424
-7,815	Admission Bodies	-8,569
-156,395		-99,068

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

2017-18		2018-19
£000		£000
-6,453	Individual Transfers	-4,033
<u>-6,453</u>		<u>-4,033</u>

10. Benefits Payable

2017-18		2018-19
£000		£000
96,884	Pensions	102,008
23,094	Commutations and lump sum retirement benefits	26,989
2,332	Lump sum death benefits	1,944
-4,522	Recharged benefits	-4,438
<u>117,788</u>		<u>126,503</u>
90,326	Administering Authority	94,357
20,549	Scheduled Bodies	24,210
6,913	Admission Bodies	7,936
<u>117,788</u>		<u>126,503</u>

11. Payments To and On Account of Leavers

2017-18		2018-19
£000		£000
327	Refunds to members leaving service	256
20	Payments for members joining state scheme	1
10,932	Individual transfers to other schemes	6,367
<u>11,279</u>		<u>6,624</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 Fund's 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 when applicable; 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.

2017-18			2018-19	
£000	£000		£000	£000
	1,000	Administration expenses		996
		Investment Management expenses		
10,210		Management fees	11,202	
116		Performance fees	203	
150		Custody fees	158	
4,744		Transaction costs	1,914	
	15,220			13,477
	904	Oversight and Governance costs		985
	17,124			15,458

All of the Fund's managers provided information on transaction costs for 2018/19, which totalled £1.914m. Only 6 of the 7 managers provided transaction costs for 2017/18, making up the total of £4.744m.

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2018/19 of £0.025m (£0.026m in 2017/18). Included in the 2018/19 audit fee is £4,800 for audit work undertaken on behalf of fund employers' auditors in relation to IAS 19 assurance. These fees will be recharged to the employers to whom the information is provided. No fees have been paid to Mazars in 2018/19 in respect of non-audit work.

13. Investment Income

2017-18			2018-19	
£000			£000	
-3,264	Interest from bonds		-2,659	
-9,838	Dividends from equities		-9,997	
-220	Interest on cash deposits		-847	
-14,771	Income from pooled investment vehicles		-13,010	
-28,093			-26,513	

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 2018/19 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
(Formerly Aberdeen Asset Management Ltd)
- 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 during 2019/20.

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

The strategic asset allocation as at 31 March was as follows:

31 March 2018	Asset Class	31 March 2019
%		%
40	Global equities	40
15	Global Bonds	15
0	Dynamic Asset Allocation	0
8	Global property	8
10	Private Markets	10
7	Emerging Market Equities	7
20	Investment grade sterling bonds	20
100		100

Although the strategic asset allocation was reviewed and agreed during 2018/19, funds have yet to be transferred between managers and asset classes. Therefore the actual allocations vary from the strategic allocations. The actual market values of investments held by each Investment Manager as at 31 March were as follows :

31 March 2018				31 March 2019	
£000	%	Investment Manager	Asset Class	£000	%
450,516	16.29	Aberdeen Standard	Global equities	487,448	16.63
396,399	14.34	AB	Global Bonds	401,460	13.70
466,030	16.85	BNYM	Global equities	566,360	19.33
481,305	17.41	BlackRock	Dynamic Asset Allocation	477,375	16.29
225,228	8.14	CBRE	Global property	218,754	7.46
204,554	7.40	Mondrian	Emerging Market Equities	215,055	7.34
541,288	19.57	RLAM	Investment grade sterling bonds	563,271	19.22
-	0.00	BCPP	Unquoted UK Equity	833	0.03
2,765,320	100.00			2,930,556	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 2019 excludes loans of £0.279m, cash invested by the administering authority of £36.933m, other investment assets of £29.495m and other investment liabilities of £18.486m (£0.304m, £35.041m, £23.691m and £25.981m respectively as at 31 March 2018).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2019, £2,931m (98.38%) is invested through Investment Managers (£2,765m or 98.82% at 31 March 2018).

Reconciliation of Movements in Investments 2018/19

Investment category	Value at 31 March 2018	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	307,224	172,889	-147,387	16,158	348,884
Bonds	556,309	2,102,826	-2,116,491	32,938	575,582
Pooled investment vehicles	1,838,878	145,824	-191,410	168,829	1,962,121
	2,702,411	2,421,539	-2,455,288	217,925	2,886,587
Derivative contracts:					
Futures, margins & options	107	2,960	-848	-508	1,711
Forward foreign currency	-2,389	55,682	-32,803	-19,142	1,348
	2,700,129	2,480,181	-2,488,939	198,275	2,889,646
Other investment balances:					
Loans	304				279
Other cash deposits	100,232			993	77,843
Dividend accruals	1,611				1,642
Tax recovery	597				639
Other investment balances	-4,498				8,728
Net Investment Assets	2,798,375			199,268	2,978,777

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 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

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

31 March 2018			31 March 2019	
£000	£000		£000	£000
ASSETS INVESTED THROUGH FUND MANAGERS				
Bonds				
510,526		UK - Public sector - quoted	514,079	
41,089		Overseas - Public sector - quoted	56,628	
4,694		Overseas - Corporate - quoted	4,875	
	556,309			575,582
Equities				
40,758		UK quoted	32,258	
-		UK unquoted	833	
266,466		Overseas quoted	315,793	
	307,224			348,884
Pooled Investment Vehicles				
130,441		Managed funds - non property - UK quoted	117,374	
1,517,240		Managed funds - non property - overseas quoted	1,633,504	
2,202		Unit Trusts - property - UK quoted	1,703	
18,345		Unit Trusts - property - UK unquoted	17,968	
30,980		Unit Trusts - property - Overseas quoted	38,511	
139,670		Unit Trusts - property - Overseas unquoted	153,061	
	1,838,878			1,962,121
Derivative Contracts				
3,552		Assets	7,052	
-5,834		Liabilities	-3,993	
	-2,282			3,059
65,191	65,191	Fund Managers' Cash	40,910	40,910
	2,765,320	NET ASSETS INVESTED THROUGH FUND MANAGERS		2,930,556
OTHER INVESTMENT BALANCES				
	35,041	Short term investments (via DCC Treasury Management)		36,933
	304	Loans		279
	23,691	Other investment assets		29,495
	-25,981	Other investment liabilities		-18,486
	2,798,375	NET INVESTMENT ASSETS		2,978,777

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:

31 March 2018		Derivative Contracts	31 March 2019	
£000	£000		£000	£000
		Forward foreign currency		
1,530		Assets	4,798	
<u>-3,919</u>		Liabilities	<u>-3,450</u>	
	-2,389	Net Forward foreign currency		1,348
		Futures		
1,865		Assets	1,302	
<u>-1,885</u>		Liabilities	<u>-543</u>	
	-20	Net Futures		759
		Options		
157		Assets	952	
<u>-30</u>		Liabilities	<u>-</u>	
	127	Net Options		952
	<u><u>-2,282</u></u>	Net market value of derivative contracts		<u><u>3,059</u></u>

The Pension Fund invests in the following types of derivatives:

i. Forward Foreign Currency Contracts

Currency is bought and sold by investment managers for future settlement at a predetermined exchange rate. Such contracts are used to hedge against the risk of adverse currency movements on the Fund's investments.

The following tables list all of the forward foreign currency contracts held by the investment managers (BlackRock, CBRE and Royal London) on 31 March 2019 and 31 March 2018.

31 March 2019

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value £000	Liability Value £000
0 to 1 month	USD	3,000,000	CHF	-2,920,743	51	
0 to 1 month	GBP	70,496,283	EUR	-78,780,000	2591	
0 to 1 month	GBP	6,044,228	EUR	-6,900,000	97	
0 to 1 month	EUR	46,475,000	USD	-53,642,607		-1097
0 to 1 month	EUR	11,000,000	USD	-12,394,146		-26
0 to 1 month	GBP	3,392,382	JPY	-470,000,000	133	
0 to 1 month	GBP	146,780,186	USD	-189,330,000	1542	
0 to 1 month	USD	15,736,634	GBP	-12,200,000		-128
0 to 1 month	GBP	5,537,708	USD	-7,300,000		-62
0 to 1 month	GBP	1,931,180	USD	-2,500,000	13	
0 to 1 month	USD	10,600,000	TWD	-326,215,000	22	
0 to 1 month	USD	10,600,000	TWD	-326,904,000	5	
0 to 1 month	USD	10,230,000	TWD	-316,004,700		-8
0 to 1 month	USD	1,841,400	TWD	-56,899,260		-2
0 to 1 month	USD	1,790,000	TWD	-55,311,000		-2
0 to 1 month	USD	1,790,000	TWD	-55,298,470		-2
0 to 1 month	USD	1,795,000	TWD	-55,447,550		-1
0 to 1 month	USD	1,153,600	TWD	-35,634,704		-1
3 to 6 months	GBP	8,424,637	EUR	-9,640,000	100	
3 to 6 months	EUR	5,685,000	GBP	-4,950,083		-41
3 to 6 months	GBP	214,054	AUD	-400,000		-4
3 to 6 months	GBP	5,464,373	EUR	-6,374,000		-40
3 to 6 months	EUR	5,594,000	GBP	-4,787,066	44	
3 to 6 months	EUR	4,681,000	GBP	-4,032,911	9	
3 to 6 months	GBP	7,882,159	EUR	-9,139,000		-10
3 to 6 months	GBP	7,343,312	USD	-9,674,902		-59
3 to 6 months	GBP	3,717,397	EUR	-4,326,000		-18
3 to 6 months	GBP	449,138	USD	-590,000		-2
3 to 6 months	EUR	9,177,000	GBP	-7,939,527		-15
3 to 6 months	USD	9,745,313	GBP	-7,445,115	11	
3 to 6 months	EUR	4,320,000	GBP	-3,701,817	29	
3 to 6 months	GBP	1,936,899	USD	-2,573,364		-32
3 to 6 months	USD	3,030,000	GBP	-2,271,092	47	
3 to 6 months	GBP	2,282,166	USD	-3,040,000		-44
3 to 6 months	GBP	1,649,515	EUR	-1,917,000		-6
3 to 6 months	GBP	4,146,683	EUR	-4,778,000	21	
3 to 6 months	GBP	8,225,859	EUR	-9,466,000	52	
3 to 6 months	GBP	7,956,675	USD	-10,496,000		-74
3 to 6 months	GBP	7,120,239	EUR	-8,278,000		-28
3 to 6 months	GBP	2,398,312	USD	-3,174,000		-30
3 to 6 months	GBP	5,643,589	EUR	-6,563,000		-24
3 to 6 months	EUR	1,636,000	GBP	-1,396,198	17	
3 to 6 months	EUR	1,201,000	GBP	-1,024,933	12	
3 to 6 months	EUR	5,150,000	GBP	-4,445,392	2	
3 to 6 months	USD	4,636,000	GBP	-3,548,732		-2
1 to 3 months	EUR	40,560,857	GBP	-34,727,395		-329
1 to 3 months	EUR	2,037,142	GBP	-1,744,160		-17
1 to 3 months	GBP	2,921,869	AUD	-5,466,156		-50
1 to 3 months	GBP	17,123,018	AUD	-32,033,296		-295
1 to 3 months	GBP	2,382,240	DKK	-20,717,388		-18
1 to 3 months	GBP	1,999,463	JPY	-290,518,952		-20
1 to 3 months	GBP	14,610,374	JPY	-2,122,865,411		-147
1 to 3 months	GBP	1,029,231	JPY	-149,545,732		-10
1 to 3 months	GBP	1,373,031	SEK	-16,767,597		-17
1 to 3 months	GBP	110,594	USD	-146,578		-1
1 to 3 months	GBP	60,670,273	USD	-80,410,438		-784
1 to 3 months	GBP	186,789	USD	-247,564		-2
1 to 3 months	GBP	132,414	USD	-175,497		-2
					4,798	-3,450

Net forward foreign currency contracts at 31 March 2019**1,348**

31 March 2018

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset Value	Liability Value
0 to 1 month	USD	1,700,000	AUD	-2,101,931	63	
0 to 1 month	USD	3,200,000	CAD	-3,945,824	99	
0 to 1 month	USD	4,495,000	CHF	-4,179,473	89	
0 to 1 month	CHF	664,860	USD	-700,000		-3
0 to 1 month	USD	3,500,000	COP	-10,150,000,000		-95
0 to 1 month	USD	875,000	COP	-2,501,187,500		-14
0 to 1 month	USD	875,000	COP	-2,504,250,000		-15
0 to 1 month	USD	875,000	COP	-2,505,125,000		-15
0 to 1 month	USD	875,000	COP	-2,508,187,500		-16
0 to 1 month	GBP	61,875,250	EUR	-70,180,000	320	
0 to 1 month	GBP	7,557,147	EUR	-8,600,000	14	
0 to 1 month	EUR	4,300,000	HUF	-1,338,215,900	12	
0 to 1 month	EUR	38,955,000	USD	-48,753,234		-563
0 to 1 month	GBP	3,057,622	JPY	-470,000,000		-94
0 to 1 month	GBP	117,944,077	USD	-167,410,000		-1,315
0 to 1 month	GBP	4,760,000	USD	-6,756,803		-53
0 to 1 month	USD	22,000,000	GBP	-15,508,357	164	
0 to 1 month	USD	3,000,000	HKD	-23,415,288	11	
0 to 1 month	HKD	23,425,800	USD	-3,000,000		-10
0 to 1 month	USD	1,060,000	SGD	-1,387,574	1	
1 to 3 months	USD	1,970,000	TWD	-58,597,650		-38
1 to 3 months	USD	1,970,000	TWD	-58,646,900		-39
1 to 3 months	USD	2,365,000	TWD	-70,559,775		-50
1 to 3 months	USD	3,940,000	TWD	-117,254,400		-77
1 to 3 months	USD	1,970,000	TWD	-58,745,400		-41
1 to 3 months	USD	7,485,000	TWD	-223,240,125		-158
1 to 3 months	USD	3,225,000	TWD	-97,878,750		-109
1 to 3 months	USD	3,225,000	TWD	-97,911,000		-110
1 to 3 months	TWD	78,123,125	USD	-2,615,000	58	
1 to 3 months	TWD	123,693,500	USD	-4,130,000	100	
1 to 3 months	TWD	94,011,600	USD	-3,140,000	75	
1 to 3 months	TWD	93,886,000	USD	-3,140,000	72	
1 to 3 months	TWD	78,083,900	USD	-2,615,000	57	
1 to 3 months	TWD	39,077,300	USD	-1,310,000	28	
1 to 3 months	TWD	39,057,650	USD	-1,310,000	27	
1 to 3 months	TWD	78,005,450	USD	-2,615,000	55	
1 to 3 months	TWD	39,064,490	USD	-1,310,000	27	
1 to 3 months	TWD	9,232,730	USD	-310,000	6	
1 to 3 months	TWD	29,787,000	USD	-1,000,000	20	
1 to 3 months	TWD	79,039,350	USD	-2,655,000	52	
3 to 6 months	GBP	13,179,189	USD	-18,375,611	118	
3 to 6 months	GBP	2,405,773	EUR	-2,705,000	29	
3 to 6 months	GBP	1,489,957	EUR	-1,678,458	15	
3 to 6 months	EUR	2,076,589	GBP	-1,817,024	8	
3 to 6 months	EUR	2,260,000	GBP	-1,990,920		-5
3 to 6 months	GBP	3,812,420	USD	-5,374,472		-8
3 to 6 months	GBP	1,992,861	EUR	-2,268,634		-1
1 to 3 months	EUR	4,395,068	GBP	3,845,465		-17
1 to 3 months	EUR	31,601,592	GBP	27,649,813		-125
1 to 3 months	GBP	2,286,688	AUD	4,215,943		-11
1 to 3 months	GBP	17,447,660	AUD	32,168,077		-83
1 to 3 months	GBP	2,335,842	DKK	19,871,292		-7
1 to 3 months	GBP	684,549	JPY	101,999,190		-
1 to 3 months	GBP	13,744,363	JPY	2,047,937,602		-7
1 to 3 months	GBP	3,160,324	JPY	470,894,542		-2
1 to 3 months	GBP	1,276,313	SEK	14,835,254	10	
1 to 3 months	GBP	125,286	USD	178,735		-2
1 to 3 months	GBP	62,388,830	USD	89,005,152		-821
1 to 3 months	GBP	267,091	USD	381,037		-4
1 to 3 months	GBP	824,193	USD	1,175,810		-11
					1,530	-3,919
						-2,389

Net forward foreign currency contracts at 31 March 2018

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>2018-19</u>					Market Value at 31 March 19	
	Expires	Product Description	Currency		£000	£000
Assets						
Overseas fixed interest	1 to 3 months	US 10YR NOTE JUN 19 19/6/2019	USD		285	
Overseas fixed interest	1 to 3 months	US 5YR NOTE JUN 19 28/6/2019	USD		550	
Overseas equity	0 to 1 month	BIST 30 FUTURES APR 19	TRY		276	
Overseas equity	1 to 3 months	EURO STOXX 50 JUN 19	EUR		46	
Overseas equity	1 to 3 months	TOPIX INDEX JUN 19	JPY		145	
Total assets						1,302
Liabilities						
Overseas equity	1 to 3 months	WIG20(PLN20) INDEX JUN	PLN		-18	
Overseas equity	1 to 3 months	S&P500 EMINI JUN 19	USD		-394	
UK equity	1 to 3 months	FTSE 100 INDEX JUN 19	GBP		-131	
Total liabilities						-543
Net Futures Contracts at 31 March 2019						759

<u>2017-18</u>					Market Value at 31 March 18	
	Expires	Product Description	Currency		£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	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	USD		22	
Overseas bonds	3 to 6 months	EURO-BUND JUN 18	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	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

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>2018-19</u>				
Type	Expires	Product Description	Currency	Market Value at 31 March 19 £000
Assets				
Overseas fixed interest	1 to 3 months	GBP C USD P @1.350000 EO	GBP	177
Overseas equity	6 to 12 months	EURO STOXX 50 INDEX 01-JAN-2050 20/12/2019 C @ 3350.000	EUR	775
Total assets				952
Liabilities				
				-
Net Options at 31 March 2019				952

<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

Investments Exceeding 5% of Net Assets

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:

Investments Exceeding 5% of the Market Value of the Fund

Name of Fund	Investment Manager	At 31 March 2019		At 31 March 2018	
		£m	%	£m	%
BNYM Long Term Global Equity	BNYM	566.36	18.99	466.03	16.63
AAM L and P World Equity	Aberdeen Standard	487.45	16.35	450.52	16.08
Diversified Yield Plus	AB	401.46	13.46	396.40	14.15

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 accounting standards for financial instruments have changed between financial years. In 2017-18 the accounting standard was International Accounting Standard 39 (IAS39), and in 2018-19 the accounting standard is International Financial Reporting Standard 9. The change in accounting standards has not changed the treatment of the Fund's financial instruments, but financial assets classified as loans and receivables under IAS39 are classified as financial assets at amortised cost under IFRS9.

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading:

2017-18			2018-19		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets					
307,224			Equities	348,884	
556,309			Bonds	575,582	
1,838,878			Pooled investment vehicles	1,962,121	
3,552			Derivative contracts	7,052	
	304		Loans		279
	65,191		Cash held by Fund Managers		40,910
	35,041		Short term investments		36,933
	23,691		Other investment assets		29,495
	9,571		Debtors		10,259
<u>2,705,963</u>	<u>133,798</u>	<u>-</u>		<u>2,893,639</u>	<u>117,876</u>
Financial liabilities					
-5,834			Derivative contracts	-3,993	
		-32,188	Creditors		-25,483
<u>-5,834</u>	<u>-</u>	<u>-32,188</u>		<u>-3,993</u>	<u>-25,483</u>
<u>2,700,129</u>	<u>133,798</u>	<u>-32,188</u>		<u>2,889,646</u>	<u>117,876</u>
		<u>2,801,739</u>	Net Assets at 31 March		<u>2,982,039</u>

Net Gains and Losses on Financial Instruments

31 March 2018		31 March 2019
£000		£000
Financial Assets		
67,767	Fair Value through profit and loss	198,275
-3,236	Loans and receivables	-
-	Financial assets valued at amortised cost	993
Financial Liabilities		
-	Fair Value through profit and loss	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
<u>64,531</u>	Total	<u>199,268</u>

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 2019 and 31 March 2018, 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 2019	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at fair value through profit and loss	2,716,801	5,809	171,029	2,893,639
Financial assets at amortised cost	117,876	-	-	117,876
Total Financial Assets	2,834,677	5,809	171,029	3,011,515
Financial Liabilities				
Financial Liabilities at fair value through profit and loss	-2,663	-1,330		-3,993
Financial Liabilities at amortised cost	-25,483			-25,483
Total Financial Liabilities	-28,146	-1,330	-	-29,476
Net Financial Assets	2,806,531	4,479	171,029	2,982,039

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £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

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 2018/19 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 2019 £000	Potential market movements %	Value on increase £000	Value on decrease £000
Aberdeen Standard	Global equity	487,448	19.2%	581,038	393,858
AB	Broad Bonds	401,460	8.0%	433,577	369,343
BNYM	Global equity	566,360	19.2%	675,101	457,619
BlackRock	DAA	464,634	9.7%	509,703	419,565
CBRE	Unlisted property	171,029	13.9%	194,802	147,256
CBRE	Listed property	40,214	22.2%	49,142	31,286
Mondrian	Emerging market equity	212,439	25.4%	266,399	158,479
RLAM	UK Index Linked Gilts	542,170	9.2%	592,050	492,290
BCPP	Unquoted UK Equity	833	0.0%	833	833
	Loans	279	0.0%	279	279
	Cash	77,843	0.0%	77,843	77,843
	Net derivative assets	3,059	0.0%	3,059	3,059
	Net investment balances	11,009	0.0%	11,009	11,009
Total change in net investment assets available		2,978,777		3,394,835	2,562,719

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		2,798,375		3,162,470	2,434,280

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 2019 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 2019	Change in year in the net assets available to pay benefits	
		+25 BPS	-25 BPS
		£000	£000
Cash and cash equivalents	77,843	195	-195
Fixed interest securities	33,412	84	-84
Total change in net investment assets available	111,255	279	-279

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
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

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 19	increase	decrease
				£000	£000	£000
Aberdeen Standard	Global Equity	86%	15%	487,448	550,329	424,567
AB	Broad Bonds	0%	0%	401,460	401,460	401,460
BlackRock	DAA	5%	10%	566,360	569,192	563,528
BNYM	Global Equity	94%	15%	464,634	530,147	399,121
CBRE	Global Property	18%	10%	211,243	215,045	207,441
Mondrian	Emerging market equity	100%	15%	212,439	244,305	180,573
RLAM	UK Index Linked Gilts	0%	0%	542,170	542,170	542,170
BCPP	Unquoted UK Equities	0%	0%	833	833	833
	Loans	0%	0%	279	279	279
	Cash	11%	10%	77,843	78,699	76,987
	Net derivative assets	0%	0%	3,059	3,059	3,059
	Net investment balances	0%	0%	11,009	11,009	11,009
Total change in net investment assets available				2,978,777	3,146,527	2,811,027

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

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 2019, this level of exposure to the Custodian is 1.4% of the total value of the portfolio (2.4% as at 31 March 2018).

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 £36.933m as at 31 March 2019 (£35.041m at 31 March 2018). This was held with the following institutions:

	Rating as at 31 March 2019	Balances as at 31 March 2019 £000	Rating as at 31 March 2018	Balances as at 31 March 2018 £000
Bank Deposit Accounts				
Handelsbanken	F1+	3,129	F1+	955
Fixed Term Deposits				
Bank of Scotland	F1	5,230	F1	6,729
Close Brothers	F1	1,307		-
Goldman Sachs	F1	1,307	F1	4,205
Santander UK Plc	F1	5,885	F1	1,682
UK Local Authorities	N/A	19,944	N/A	15,140
Income Bond				
National Savings & Investments	N/A	131	N/A	168
Other				
Money Market Funds	N/A	-	N/A	6,162
Total		<u>36,933</u>		<u>35,041</u>

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

2017-18 £000	Included in the Net Assets Statement as:	2018-19 £000
417	Long Term Assets	208
23,691	Other Investment Assets	29,495
9,154	Current Assets	10,051
33,262		39,754

The long term assets relate to the portion of the transfer value in from the Ministry of Justice for Magistrates' Courts staff which is repayable more than 12 months after the year end.

19. Analysis of Creditors

2017-18 £000	Included in the Net Assets Statement as:	2018-19 £000
-25,981	Investment Liabilities - Other balances	-18,486
-6,207	Current Liabilities	-6,997
-32,188		-25,483

All of the £25.483m 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 2018 £000	* Purchases £000	Sales £000	Change in Market Value £000	Value at 31 March 2019 £000
Equitable Life	1,826	13	310	67	1,596
Prudential	5,954	1,817	1,116	219	6,874
Standard Life	1,727	183	258	60	1,712
Total	9,507	2,013	1,684	346	10,182

* Purchases represent the amounts paid to AVC providers in 2018/19

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:

- Employer related
- Member related
- Key management personnel

a) EMPLOYER RELATED

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

Transaction	Description of the Financial Effect	Amount	
		2017/18	2018/19
Contributions receivable	Amounts receivable from employers in respect of contributions to the Pension Fund	£156.395m	£99.068m
Debtors	Amounts due in respect of employers and employee contributions	£7.344m	£7.770m
Creditors	Amounts due to the Administering Authority in respect of administration and investment management expenses	£1.598m	£1.608m
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	£1.598m	£1.608m
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 £0.214m	Loans outstanding £0.200m
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 = £27.093m Interest = £0.113m	Balance = £36.119m Interest = £0.262m

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 2019 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; a further 3 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:

2017-18 £000		2018-19 £000
101	Short-term benefits	87
27	Post-employment benefits	23
<u>128</u>		<u>110</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.

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. Investment Strategy Statement

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 2018/19

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 2019.

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 May 2019, 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 2019 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. 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 May 2019.
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](#). The Head of Strategy is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.
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 2018/19.

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 by comments made by the external auditors and other review agencies and inspectorates.
15. Maintaining the effectiveness of the corporate governance framework involves the key member and officer roles outlined below, namely:
- The Executive
 - Chief Financial Officer
 - Monitoring Officer
 - Overview and Scrutiny Committee
 - Standards Committee
 - Audit Committee
16. The council's [Constitution](#) sets out the governance roles and responsibilities of these functions. In addition:
- The Corporate Director Resources co-ordinates and oversees the council's corporate assurance arrangements by:
 - Preparing and maintaining the council's Code of Corporate Governance as a formal framework for the council's governance arrangements;
 - Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
 - Preparing an AGS to demonstrate how far the council complies with the principles of good governance and recommending improvements.
 - Internal Audit provides independent assurance on the effectiveness of the corporate governance framework;
 - External Audit provides an independent opinion on whether the AGS is materially accurate.
17. The review was also informed by a statement provided by each Corporate Director commenting on the effectiveness of the council's governance arrangements generally and how they impacted on their service areas. These included consideration of the effectiveness of internal controls.
18. The Chief Internal Auditor and Corporate Fraud Manager provides an independent opinion on the adequacy and effectiveness of the system of internal control, risk management and governance arrangements which will be incorporated in the Annual Internal Audit Report to the Audit Committee in June 2019. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in 10 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.
19. Aligned to the seven principles of good governance, a detailed account of how the council's governance arrangements have operated during 2018/19 is included in **appendix A**. An update on improvements identified in the 2017/18 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 2018/19 were fit for purpose in accordance with the governance framework. Through the review of governance arrangements, and the work of both internal and external audit, we have identified nine actions as part of ongoing improvements to further strengthen governance arrangements in 2019/20. These are shown in **appendix C**.

APPROVAL OF ANNUAL GOVERNANCE STATEMENT

Signed:

Simon Henig
Leader of Durham County Council

Terry Collins
Chief Executive

John Hewitt
Corporate Director of Resources

APPENDIX A: Governance Arrangements during 2018/19

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 2018/19.

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. 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.

Demonstrating strong commitment to ethical values

3. The annual report of the [Standards Committee](#) was presented to Council in October 2018.
4. To promote a positive culture and environment in which people work, new [Code of Our Values, Behaviours and Conduct](#) have been developed, setting out responsibilities and expected standards of behaviour. Leaders and managers have undertaken awareness training and will work with other employees to put them into action.
5. A quarterly customer feedback report is presented to the Overview and Scrutiny Management Board, summarising performance in dealing with corporate and statutory complaints, and identifying actions to improve service provision.

Respecting the rule of law

6. The [Environment, Health & Consumer Protection enforcement policy](#) sets out the standards and guidance applied by officers authorised to act on behalf of the council in its role as regulator and enforcement agency. Officers must have regard to codes of conduct, legislation and other statutory provisions, and adhere to the 'principles of good regulation' when exercising regulatory functions to improve outcomes without imposing unnecessary burdens on individuals and businesses.
7. Through the [Counter Fraud & Corruption Strategy](#), the council is committed to a zero-tolerance approach to fraud and corruption against the council and its partners. The Counter Fraud team vigorously pursues all reports of fraud, for example, council tax reduction scheme fraud, false insurance claims and blue badge misuse, with successful prosecutions featuring in the [news pages](#) of the council's website. Their achievements were recognised at the Fighting Fraud and Crime Locally conference in London in March 2019 where they won the Acknowledge Award. The award recognised their zero-tolerance approach to fraud, and the collaborative work with internal and external stakeholders under the 'Durham Partnerships', with innovative projects and promoting best practice with the use of technology, to proactively target

fraud risk areas. Since 2015, the team has uncovered or intercepted over £3.5m of fraud, investigating over 1,800 cases across the authority, handling a diverse range of investigations.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

8. 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) The [Adult Social Care Residential Care Charging Policy and Deferred Payment Agreement Policy](#) for individuals who receive social care services and are assessed to determine their financial contributions towards their care costs.
 - (b) 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

9. 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.
10. 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.
11. 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.
12. [DurhamWorks](#) is a partnership programme between the council and 16 other organisations, working together to support young people into education, training or employment. The programme has been granted a further £12m of EU funding and extended to 2021 having so far signed up 5,000 young people, 3,100 of those having progressed into some form of employment or training. [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.

Engaging with individual citizens and service users effectively

13. The Consultation Officer Group supports the council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
14. The [Medium Term Financial Plan](#) budget consultation process engaged with partner agencies and the public on the approach to proposed savings. Views were sought on the strategic priorities for the County, to inform the new vision and corporate plan. Responses were supportive of the approach the council is taking whilst recognising the significant challenge faced from reductions in funding and increasing demand for statutory services.
15. Public consultation exercises were undertaken during the year on a range of issues, including the County Durham Plan, the draft new vision, the Homelessness Strategy and the Digital Strategy. The full list can be found on the [2018 consultations](#) and [2019 consultations](#) pages of the website.
16. The council uses various channels of communication and feedback mechanisms, including social media (Twitter, Facebook, Instagram and YouTube) 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. The council is continuing to build on progress in attracting inward investment and Development in the County through the new [durham powered by people](#) campaign, which engaged with a range of stakeholders across the business community to support economic growth across the county.
18. [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](#).

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

Defining outcomes

19. 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.
20. Following a significant public consultation exercise, a new draft vision document for the county is being developed for consultation during the Summer 2019, before final approval in September. A council plan and statutory plans like the Safe Durham Plan and the Joint Health and Wellbeing Strategy are being developed in parallel to our vision.

Sustainable economic, social and environmental benefits

21. 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) Continued support to protect working age households in receipt of low incomes through the continuation of the existing Council Tax Reduction Scheme where they will continue to be entitled to up to 100% relief against their Council Tax payments;
 - (b) Ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people through the services we provide; and
 - (c) Significant investment in capital expenditure in line with the council's highest priority of regeneration to protect existing jobs and create as many new jobs as possible including investing in our town centres and infrastructure, new transport schemes and maintenance of our highways and pavements.
22. In February 2019, Cabinet reviewed action by the council and its partners to significantly reduce single-use plastics and agreed that the council sign up to the County Durham pledge to further reduce unnecessary single-use plastics.
23. The council was the first local authority in the North East to trial the use of waste plastics in road surfacing, this new technology being used on three schemes.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Determining and planning interventions

24. 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, to secure best value regardless of the service delivery method. Two examples are the [Cabinet reports](#) in January 2019 on: -
- (a) The County Durham Plan Pre-Submission Draft; and
 - (b) Durham History Centre – Next Steps.
25. 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.

26. The [Medium Term Financial Plan 2019 - 2023 \(MTFP\)](#) was approved by the council in February 2019. 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

27. 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 nine years up to the end of March 2019, a sum of £224m of savings has been delivered. The council's strategy has been to protect front line services as far as possible and the 2019/20 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.
28. To ensure that attention remains focused on council priorities, an approach to performance management was developed that answers key performance questions rather than rely on performance indicators. [Quarterly reports](#) are concise, using a dashboard style with shorter narrative, and attention is moving towards analysing and developing insights from the performance data.
29. 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.
30. In September 2018, Cabinet approved a report, which considered the next steps in delivering the Aykley Heads Strategic Employment site to ensure the proposed 6,000 jobs are secured for the benefit of County Durham's economy. The report also proposed a strategy for the development of the site in a flexible manner, enabling a responsive approach to opportunities and changes within the marketplace.
31. In December 2018, Cabinet approved the principle of forming a regional adoption agency (RAA) comprising the areas of County Durham, Sunderland and Cumbria, and five voluntary adoption agencies in accordance with statutory requirements. The outline business case for the RAA was approved as well as a recommendation that Durham County Council should bid to become the host authority. The changes will result in fewer organisations operating at much greater scale in the recruitment of adopters.

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

32. Inspiring Places, which is part of our [Transformation Programme](#), seeks to provide different types of flexible work spaces. Work areas will be paper-lite, which means digital records will replace paper records, where appropriate. Desk-based employees have access to software that allows them secure, remote access to the council's computer systems, including from home.
33. 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.
34. The council's Inspire Programme seeks to enable flexible working through digital and mobile technology, make our work spaces more cost effective and productive, and support collaboration between teams across the organisation. Several projects supporting these aims are either nearing completion or are well underway: -
- (a) A reform of business support services seeks to increase the use of digital solutions to create a more consistent service, improved management information and less labour-intensive administrative processes.
 - (b) A major upgrade to the email, calendar and related systems will deliver numerous benefits, including increased storage capacity, online collaborative working, reduced paper usage and improved data security.
 - (c) A comprehensive development plan for the Resourcelink computer system sets out priorities for streamlining and digitising transactional HR and payroll processes, leading to a reduction in back office administrative tasks. Employees have improved access to personal information, reducing the need for printing and posting documents.
 - (d) The council has commenced a programme examining how we can use business intelligence technologies and invest in skills to further automate processes, make more strategic use of our data and improve our analytical capacity.
35. 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.
36. The Head of People and Talent Management 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.

37. The Head of Digital and Customer Services plays a key role in leading the digital agenda and supporting the transformation journey, including council wide provision and management of customer services.
38. The Head of Transformation leads the development and delivery of a comprehensive internal and external [Transformation Programme](#) as well as the cultural change programme.
39. 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](#). Members also participated in a visioning workshop to contribute to and shape the emerging vision.

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

40. 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.
41. The council's Apprenticeship Strategy 2019 to 2022 is being delivered through the People and Talent Management service, which is working with service managers and maintained schools to identify opportunities for new and existing employees to support workforce development and planning. By March 2019, there were 223 apprentices across a range of occupational areas and levels, and 160 employees were upskilling through an apprenticeship.
42. 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.
43. 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.
44. In consultation with leaders, managers and several employee focus groups, a Valuing Employees Framework has been developed for consideration and approval by CMT in April 2019. It will be communicated to all employees and aims to enhance the supportive working culture with the introduction of engagement and recognition initiatives, including long service awards.

45. The council successfully achieved the bronze and silver National Better Health at Work award for its work on improving employee health and wellbeing, including awareness training for managers and training for approximately 160 mental health first aiders.
46. The Inspiring People Awards (formerly Great Staff, Great Stuff) reflect the aspirations of our Inspire [Transformation Programme](#). The scheme culminates in a celebration of the very best of our employees, teams and projects – those who are making a massive difference to residents and communities or who are delivering innovative projects and solutions to help both the council and our customers.

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

Managing risk

47. 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 2018](#), [November 2018](#) and [February 2019](#). In September 2018, the council received a [report from the Chairman of the Audit Committee](#) on its work between September 2017 and August 2018, and how the Committee continues to provide for good governance across the council.
48. 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](#).
49. The referendum result in June 2016, in which the United Kingdom (UK) voted to leave the European Union (EU), created national uncertainty for the economy, safety and welfare and was compounded by protracted negotiations to secure a withdrawal agreement. An EU Exit Working Task & Finish Group was established, chaired by the Director of Transformation and Partnerships with representatives from all service groupings, reporting to Corporate Management Team. Taking account of a range of guidance from the government and professional bodies, the Group worked with key partners including the Local Resilience Forum, as well as key suppliers and service providers, to identify and minimise the impacts on council services and service users.
50. Several challenges and uncertainties lie ahead, and these are being monitored through the council's strategic risk management reporting arrangements: -
- (a) The financial outlook for the council and the whole of local government remains extremely challenging.
 - (b) 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.
 - (c) Capacity issues caused by nationwide hard-to-recruit posts in children's social care.
 - (d) Funding pressures in adult social care.

Managing performance

51. 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.
52. 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.
53. 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](#).
54. 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.
55. 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

56. Risk management and internal control are acknowledged as integral parts of the council's performance management framework and crucial to the achievement of objectives. To reflect this, internal audit continuously reviews risks with reference to strategic objectives, and a register of strategic risks is compiled linking each item to the relevant strategic objective. Internal audit progress updates were provided to Audit Committee in [June](#), [September](#) and [November 2018](#), and in [February 2019](#).
57. Updated versions of the [Counter Fraud & Corruption Strategy and Fraud Response Plan](#), and the [Anti-Money Laundering Policy](#) were presented to Audit Committee in June and July 2018.

Managing data

58. The designated Senior Information Risk Officer is the Director Transformation and Partnerships, and the designated Data Protection Officer is the Strategic Manager, Executive Support. 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 managed 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.

Strong public financial management

59. The council has appointed the Corporate Director 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.
60. In February 2019, an update was given to Audit Committee on the council's [accounting policies](#) to be applied in the preparation of the 2018/19 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 2017/18](#)
 - (b) [Final Outturn for the General Fund and Collection Fund 2017/18](#)
 - (c) [Update on the delivery of Medium Term Financial Plan 7](#)
 - (d) [Update on the delivery of the Medium Term Financial Plan 8](#)
 - (e) [Report under Section 25 of Local Government Act 2003 - Reserves](#)

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

Implementing good practice in transparency

61. The council is committed to being open and transparent about how it works and how decisions are made. In line with the Local Government Transparency Code, information is published on a [transparency and accountability web page](#) about how money is spent, how services are purchased, land and assets owned, structures and salaries, and fraud. As required by law, the sum paid to each county councillor is also published. The council has also been publishing open datasets through the [Data Mill North](#) website.
62. Reports about complaints against members are included in part A of the Standards Committee agenda rather than part B (consideration of exempt or confidential information).

Implementing good practices in reporting

63. 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 [the County Council](#).
64. The [Statement of Accounts 2017/18](#), incorporating the Annual Governance Statement, was approved by the Audit Committee in July 2018, 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.

65. 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 2018](#)
- (b) [Health and Wellbeing Board and Local Safeguarding Adults Board Annual Report 2017/18](#)
- (c) [Children and Young People's Services Annual Reports and Plans](#)

Assurance and effective accountability

66. 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 2019. 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.

67. Revised versions of the [Internal Audit Strategy, Charter and Plan for 2019/20](#) were approved by Audit Committee in May 2019.

68. 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 Letter 2017/18](#)
- (b) [External Audit, Audit Completion Report Year Ended 31 March 2018](#)
- (c) [External Audit, Audit Strategy Memorandum, February 2019](#)

APPENDIX B: Update on improvements identified in the 2017/18 Annual Governance Statement

Following the production of the Annual Governance Statement for 2017/18, eight improvement actions were identified for 2018/19.

No.	Actions to be taken	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
<p><u>Update:</u> Status: Ongoing, carried forward. The implementation of the action plan is progressing in an effective and timely manner in accordance with the timescales set out in the adopted Local Development Scheme. The next stage will be Submission of the Plan for examination by an independent inspector, which is on track for June 2019.</p>		
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
<p><u>Update:</u> Status: Ongoing, carried forward. Following a significant public consultation exercise, a new draft vision document for the county is being developed for consultation during the Summer 2019, before final approval in September. A council plan and statutory plans like the Safe Durham Plan and the Joint Health and Wellbeing Strategy are being developed in parallel to our vision.</p>		
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
<p><u>Update:</u> Status: Complete. The Prevention Steering Group meets bi-monthly and its work is based around four key themes. The Mental Health Strategic Partnership Board action plan also incorporates much of the prevention agenda related to mental health.</p>		
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
<p><u>Update:</u> Status: Complete. Agreement as to the nature of the Corporate Landlord model for Durham has now been reached with CMT and members. Full Council have agreed the appointment of a new Head of Service to take forward the new Corporate Property and Land Service. Recruitment is due to complete by the end of March with implementation of the new service due to start once a Head of Service is in place.</p>		

No.	Actions to be taken	Lead Officer
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
<p>Update: Status: Complete. The County Durham Integrated Care Board meets regularly and is a well-established group.</p>		
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
<p>Update: Status: Complete. Quarterly reports are presented to individual senior management teams and to Corporate Management Team. Compliance is monitored weekly (performance and chase up auto-approved expenditure, which has reduced as a consequence).</p>		
7	Ensure data protection changes including GDPR compliance are implemented (paragraph 59).	Head of Communications and Information Management
<p>Update: Status: Complete A cross-service working group of around 20 officers managed 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.</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>Update: Status; Ongoing, carried forward. The analysis of educational provision across the county was substantially complete by March 2019. A range of services, including Finance, Communications, Partnerships & Community Engagement, HR and Legal, supported and influenced the process. Several actions that feature in the strategic review are already in hand, with progress monitored by senior officers. Implementation of the remaining actions will be monitored by the MTFP and Financial Strategy Group for Education during 2019/20.</p>		

APPENDIX C: Proposed Governance Improvements required during 2019/20

As a result of the review of governance arrangements, and the work of both internal and external audit, nine improvement actions have been identified to further strengthen governance arrangements in 2019/20. These are shown in the table below.

No.	Actions to be taken	Lead Officer & Timescale
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 March 2020
Links to the Local Code of Corporate Governance (ref): Ensuring that members and staff demonstrate a strong commitment to the rule of the law and adhering to relevant laws and regulations. Ensuring fulfilment of 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 (brought forward).	Head of Strategy October 2019
Links to the Local Code of Corporate Governance (ref): Defining outcomes in terms of sustainable economic, social, and environmental benefits (4.26 – 4.29).		
3	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 (brought forward).	Corporate Director, Children and Young People Services March 2020
Links to the Local Code of Corporate Governance (ref):		
4	Develop revised Children's Performance Management Framework.	Head of Strategy/ Strategic Manager Safeguarding Professional Practice (CYPS) June 2019
Links to the Local Code of Corporate Governance (ref): Ensuring that service delivery is effectively monitored (4.52).		
5	Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model.	Head of Planning and Assets (REAL) March 2020
Links to the Local Code of Corporate Governance (ref): Developing the council's capacity through effective use of assets and improving the use of resources (4.37 – 4.38).		
6	Prepare evidence base around major economic challenges that will influence the NE Local Industrial Strategy with a view to supporting the implementation of corporate priorities and the development of County Durham Industrial Strategy.	Business Durham (REAL) March 2020

No.	Actions to be taken	Lead Officer & Timescale
<p>Links to the Local Code of Corporate Governance (ref): Decision makers receive objective and rigorous analysis of options, outcomes and risks, to secure best value (4.32).</p>		
7	Undertake a review of governance arrangements of the County Durham Partnership	Head of Partnerships and Community Engagement December 2019
<p>Links to the Local Code of Corporate Governance (ref): Engaging effectively with institutional stakeholders and developing formal and informal partnerships (4.21).</p>		
8	Review High Needs Special Educational Needs Provision (HN SEND), including development of a HN SEND Sustainability Plan, to bring this expenditure within Dedicated Schools Grant funding levels.	Head of Education and Skills March 2020
<p>Links to the Local Code of Corporate Governance (ref): Improving the use of its resources to ensure that they are allocated in a way that realises outcomes effectively and efficiently (4.38)</p>		
9	Review the arrangements in place to ensure the council is discharging its sufficiency duty in relation to Looked After Children and responding to gaps in provision.	Corporate Director, Children and Young People Services April 2020
<p>Links to the Local Code of Corporate Governance (ref): Ensuring that members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations (4.14).</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.

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.

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 Accounting Policy 1.21.

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 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.

Curtailement

Curtailements 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 Instruments Revaluation Reserve

This reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income.

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.

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).

Income

Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in reserves or net worth.

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.

Large Scale Voluntary Transfer (LSVT)

A Large Scale Voluntary Transfer 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.

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.

MHCLG / CLG

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

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

Income arising as a result of the council's normal operating activities.

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.

Service Recipient

A party that has contracted with the council to obtain goods or services that are an output of the council's normal operating activities in exchange for consideration.

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.

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.

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 Believe Housing. It also contains all the necessary arrangements to enable Believe Housing 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.