



Statement of Accounts

For the year ended 31 March 2020

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

| Durham County Council | Page |
|--|-------------|
| Preface | 1 |
| Narrative Report | 3 |
| Statement of Responsibilities for the Statement of Accounts..... | 27 |
| Independent Auditor's Report to Durham County Council | 29 |
| Durham County Council Core Financial Statements | |
| Comprehensive Income and Expenditure Statement..... | 34 |
| Movement in Reserves Statement..... | 35 |
| Balance Sheet | 36 |
| Cash Flow Statement..... | 37 |
| Notes to the Accounts..... | 38 |
| Collection Fund..... | 142 |
| Durham County Council Pension Fund Accounts | 149 |
| Notes to Durham County Council Pension Fund Accounts..... | 155 |
| Annual Governance Statement..... | 198 |
| Glossary of Terms used in the Accounts | 226 |

1. Message from John Hewitt CPFA – Corporate Director of Resources

Durham County Council remains committed to the delivery of its vision and priorities which are developed in consultation with the public, our partners and stakeholders. The council has continued to effectively manage its resources during a period of increasing cost pressures and a backdrop of many years of government funding reductions. The future funding outlook for the public sector and local government is extremely uncertain and the impact of Covid 19 and the recovery from it will undoubtedly impact on the council and its communities for a number of years.

The financial landscape for the council is therefore likely to remain challenging for the foreseeable future. The delay to the Comprehensive Spending Review until the Autumn of 2020 means that there will be little certainty over the council's longer term funding outlook and this will need to be carefully managed as the council considers the recovery actions it needs to take and commit to. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022/23.

The outcome of 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 exit from the European Union will compound these issues. There remains a risk that funding reductions may continue beyond this point placing further pressure on the Medium Term Financial Plan (MTFP).

The Covid 19 outbreak will have a significant financial impact on the council in 2020/21 and the recovery will take place over a number of years. The financial implications of the council's recovery plan will not be fully understood. The council began to experience the impact of the outbreak in March 2020 when a number of front-line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

The council's spending has also significantly increased to cope with the outbreak. Whilst some Covid 19 financial support has been received from government, it is unclear as to the extent to which all of the cost pressures and reductions in income will be reimbursed. This represents a financial risk to the council that will form part of future medium term financial planning.

By the end of 2019/20, the council had delivered £234 million of financial savings with additional savings of £8 million approved for 2020/21. It is forecast that total savings for the period 2011/12 to 2023/24 will be £282 million.

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) for the last eleven years has focussed on protecting front line services as far as possible, prioritising back office efficiencies and reductions in management. As this strategy becomes increasingly more difficult to maintain over time the council's Transformation Programme was designed to ensure all options were exhausted to protect front line services wherever possible. Nevertheless, front line services will inevitably become progressively impacted over the coming years if funding continues to be restricted.

This document presents the published accounts for Durham County Council for the year ended 31 March 2020 – 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 2019/20;
- 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 2020 and an executive summary of the non-financial performance of the council in 2019/20. 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 2019/20 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 2019/20
- 6 Impact of Covid 19 on the council
- 7 Non-Financial Performance of the council 2019/20
- 8 Significant Issues for 2019/20 and Beyond
- 9 Corporate Risks
- 10 Summary Position
- 11 Receipt of Further Information
- 12 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:

- County Durham has a population of 526,980, making it the most populated local authority in the North East and the seventh most populated all-purpose local authority in England
- 1 in 5 people are aged 0-17 years old
- 1 in 5 people are aged over 65, an increase of nearly 36% since 1991.
- The number of people aged over 65 is projected to increase by 31% over the next 15 years and the number of people aged over 85, will increase by 82% over the same time period.
- The county covers an area of 862 square miles making it nearly 20 times the size of Newcastle-upon-Tyne.
- Over a third of the county is made up of accessible green space.
- It has a rich history. Its Norman cathedral and castle were one of the first sites in the UK to be listed as a world heritage site by UNESCO.
- The University of Durham is highly regarded and was recently ranked as 5th in the UK and is in the top 8% of universities worldwide.
- Durham Constabulary is unique among police forces in the country, having been ranked as outstanding for the last four years.
- There are over 240,000 households in the county with 2 in 5 living in rural areas.
- Over 7,000 homes are off the gas network.
- 40% of dwellings are in terraced properties.
- There are over 14,000 businesses registered in the county and this has increased by nearly 20% in the last 10 years.
- 74% of our working age population are in employment which is the highest it has been in over 15 years.
- 1 in 3 people are employed in public administration, health and education. The largest business sectors in the county are construction and scientific and technical industries. Production is the fastest growing sector.
- Nearly a third of our population are aged under 25.
- We have enough renewable energy based in the county to power 157,000 homes a year; that's over 65% of our homes.
- Less than 5% of our domestic refuse goes to landfill
- Carbon emissions throughout the county have reduced by 52% since 1990
- Last year there were just under 98 crimes per 1,000 population.
- Nearly 20 million people visited County Durham last year spending almost £870 million.
- Nearly 12,000 jobs are supported by the visitor economy.

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 had a net revenue budget requirement of £400 million in 2019/20 and a capital budget of £444 million for 2019/20 to 2022/23;
- it employs around 8,121 staff (excluding schools);
- it maintains 3,793 km of highway, over 80,000 street lights, owns and manages 39 libraries, 12 leisure centres, 8 customer access points and 222 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 248,502 domestic and 15,650 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 2020 was as follows:
 - 70 Labour councillors,
 - 15 Liberal Democrat councillors,
 - 12 Independent councillors,
 - 10 Conservative councillors,
 - 7 Derwentside Independent councillors,
 - 4 Spennymoor Independent People Before Politics councillors,
 - 3 The North East Party councillors,
 - 4 other councillors,
 - 1 Labour and Co-operative councillor.
- 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 2019/20

Revenue Outturn Position

The council's revenue outturn is shown in the following table. The original net revenue expenditure budget of £411.050 million was approved at the Council meeting on 20 February 2019. 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 £27,000 when comparing actual net expenditure to the revised budgeted/ planned net expenditure. The underspend represents less than 0.01% of the revised total net expenditure budget. The deficit for the year in respect of Service Groupings (£5.088 million) has been allocated or drawn from the individual Cash Limit Reserves to meet future service demands. The remaining £5.061 million 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 | 123,776 | 123,312 | 121,792 | -1,520 |
| Children and Young People's Services | 123,639 | 129,360 | 135,577 | 6,217 |
| Regeneration and Local Services | 137,586 | 129,113 | 130,903 | 1,790 |
| Resources | 21,268 | 21,774 | 20,463 | -1,311 |
| Transformation and Partnerships | 10,784 | 11,334 | 11,246 | -88 |
| | 417,053 | 414,893 | 419,981 | 5,088 |
| Corporate Finance | | | | |
| Contingencies/sums outside the cash limit | 5,161 | 2,265 | 0 | -2,265 |
| Centrally Held Budgets | 0 | 0 | 0 | 0 |
| Corporate Costs | 3,728 | 3,998 | 3,583 | -415 |
| Capital, Treasury and Technical Accounting | -30,953 | -8,984 | -9,949 | -965 |
| Levies | 16,061 | 16,080 | 16,080 | 0 |
| | -6,003 | 13,359 | 9,714 | -3,645 |
| Total Net Expenditure | 411,050 | 428,252 | 429,695 | 1,443 |
| Funded by: | | | | |
| Council Tax | -222,275 | -222,275 | -222,267 | 8 |
| Use of (-) / contribution to earmarked reserves | -11,010 | -14,629 | -14,629 | 0 |
| Estimated net surplus on Collection Fund | -2,168 | -2,168 | -2,168 | 0 |
| Business Rates | -54,401 | -54,401 | -54,473 | -72 |
| Top up grant | -71,613 | -71,613 | -71,613 | 0 |
| Levy Account Surplus Grant | 0 | 0 | -427 | -427 |
| Revenue Support Grant | -27,620 | -27,620 | -27,620 | 0 |
| Covid-19 LA Support Grant | 0 | -17,521 | -17,521 | 0 |
| New Homes Bonus | -6,709 | -6,709 | -6,709 | 0 |
| Section 31 Grant | -10,423 | -10,423 | -11,348 | -925 |
| Adult/Childrens Pressures Grant | -4,822 | -4,822 | -4,822 | 0 |
| Contribution to / from (-) Cash Limit Reserve | -9 | 3,929 | 3,929 | 0 |
| Budgeted Use of General Reserves | 0 | 0 | 0 | 0 |
| Total Funding | -411,050 | -428,252 | -429,668 | -1,416 |
| Variance | 0 | 0 | 27 | 27 |

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

- In Adult and Health Services (AHS) there was a net underspend of £1.520 million. This was mainly due to:
 - the early achievement of a number of 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; partially offset by
 - additional spend on adult care packages. Spending on adult care packages will continue to be closely monitored to assess the impact of demographic and procedural/ operational changes.
- In Children and Young People's Services (CYPS) there was a cash limit overspend of £6.217 million. This was primarily made up from:
 - An overspend of £2.535 million within the Education Service, mainly due to pressures on the Home to School Transport budget, linked to increased demand, increased contract prices and the effect of the implementation of Public Service Vehicle Accessibility Regulations.
 - An overspend of £3.682 million within the Children's Services. There was an overspend of £5.431 million on costs associated with the increase in children's placements. Placements include children who have a legal status of looked after and those young people in permanent placements who are financially supported by the council. In addition, there was a £0.124 million overspend on associated legal expenses for childcare cases and a shortfall on income from joint funded placements £0.406 million, which is mitigated in part by savings resulting from employees related costs mainly related to staff vacancies of £2.279 million. The pressure on the budget in children's social care has been evident over the last few years, as the number of children in the care system has increased significantly and their needs have become more complex. There are now circa 920 looked after children, compared to an average of 795 in 2017/18.
- In Regeneration and Local Services there was a cash limit overspend of £1.790 million. The main reasons for this are as follows:
 - Environmental Services was £1.484 million overspent. This is mainly due to pressures on the Waste Disposal and Collection services of £0.785 million due to increased tonnages, this has been recognised when preparing the MTFP(10); unachieved MTFP savings within Fleet of £0.204 million; and a £0.156 million overspend in Refuse due to additional transport costs.
 - Culture Sport and Tourism was overspent by £0.749 million. This is mainly the result of an overspend of £0.197 million at the Gala Theatre linked to reduced income and a £0.499 million overspend relating to the former Leisureworks facilities. These reduced income levels / budget pressures have been recognised in MTFP(10).
 - Technical Services was £0.194 million overspent. Within this service area there was an overspend of £1.370 million attributable to additional policy led expenditure on highways maintenance, mainly in relation to Category 1 and 2 defects and footway maintenance. This was offset by additional income

generated within the Highways Services Trading Accounts of £0.384 million, additional Section 38 income of £0.690 million and other savings of £0.102 million across this service in year.

- £2.265 million 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 £0.965 million which was mainly due to higher than anticipated levels of returns on loan investments and commercial activities;
- A Levy Account Surplus Grant of £0.427 million was received from MHCLG at the end of the financial year;
- Additional Section 31 grant income of £0.925 million, which had not been included in the budget, was received.

Capital Outturn Position

The original capital budget for 2019/20, taking into account the budgets approved by Council on 20 February 2019 and adjustments for re-profiling of underspends at 2018/19 year end was £143.472 million. This was agreed by Cabinet on 10 July 2019.

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 2020 have also been considered by MOWG.

The council spent £110.128 million on its capital programme in 2019/20 compared to the revised forecast spend of £117.574 million. 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.

| Expenditure/ -Income | Revised Budget | Service Groupings Final Outturn | Variance |
|--------------------------------------|-----------------------|--|-----------------|
| | £000 | £000 | £000 |
| Service Groupings | | | |
| Adult and Health Services | - | - | - |
| Children and Young People's Services | 20,269 | 19,542 | -727 |
| Regeneration and Local Services | 91,537 | 85,466 | -6,071 |
| Resources | 3,593 | 3,102 | -491 |
| Transformation and Partnerships | 2,175 | 2,018 | -157 |
| Total | 117,574 | 110,128 | -7,446 |
| Funded by: | | | |
| Grants and Contributions | -44,604 | -49,032 | -4,428 |
| Revenue and Reserves | -16,021 | -23,745 | -7,724 |
| Capital Receipts | -10,439 | -10,471 | -32 |
| Borrowing | -46,510 | -26,880 | 19,630 |
| Total | -117,574 | -110,128 | 7,446 |

The variance between the revised capital budget and the final outturn for the year was £7.446 million. This underspend of planned expenditure will be re-profiled into 2020/21 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 2019/20

Material Assets and Liabilities:

- As at 31 March 2020, the council held:
 - £1,819.039 million of Long Term Assets
 - £338.898 million of Current Assets
 - £151.202 million of Current Liabilities and
 - £1,776.928 million of Long Term Liabilities.
- Long Term Assets have decreased by £43.889 million, which is mainly due to a decrease in the value of Property, Plant and Equipment assets.
- Current Assets have increased by £37.661 million, which is mainly due to an increase of £44.597 million in short term debtors and reductions of £12.788 million in Short Term Investments.
- Current Liabilities have decreased by £2.300 million, mainly due to a decrease of £1.730 million in Short Term Borrowing.
- Long Term Liabilities have increased by £154.831 million, which is mainly due to an increase in Pension Liabilities of £103.234 million and the movement in Long Term Borrowing of £49.768 million during the year.

Council's Borrowing Position

- The General Fund Medium Term Financial Plan 2019/20 to 2022/23 and Revenue and Capital Budget 2019/20 Report, approved by Council on 20 February 2019, details the 2019/20 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 2019/20 were as follows:
 - Authorised limit for external debt of £576 million
 - Operational boundary for external debt of £523 million
- As part of the council's Treasury Management service, these indicators are monitored on a daily basis, and neither was exceeded during 2019/20. The highest level of external debt incurred by the council during the year was £438.415 million.

6. Impact of Covid 19 on the Council

The Covid 19 (coronavirus) outbreak spread rapidly across the world and was declared a global pandemic on 11 March 2020.

The coronavirus pandemic is one of the most profound challenges society has faced in more than a generation. Previous pandemics have lasted for years and with effective coronavirus vaccines yet to be produced, it is anticipated that society will be affected by Covid 19 for some time to come.

The council and its partners had emergency and business continuity management planning frameworks in place, which enabled us to prepare and respond promptly to the threat as it emerged. However, we have had to respond dynamically and innovatively as the pandemic developed, revising our approach as the national coronavirus action plan and recovery strategy evolved. In line with the national response, the council has worked regionally and locally to protect communities from the virus and to support those affected by the pandemic, economically, socially, and in relation to their own physical and mental health.

County Durham communities themselves have been a major force in this and have made an immense contribution to the 'County Durham Together' response. As a category one responder under the Civil Contingencies Act 2004, the council has worked with partner agencies via the County Durham and Darlington Local Resilience Forum (LRF). In particular, the council has led the LRF in relation to:

- community support;
- excess deaths;
- intelligence and data;
- media and communications;
- multi-agency information;

- personal protective equipment (PPE); and
- recovery.

The Director of Public Health has been a member of the regional Health Strategic Group which has worked with the three LRFs in the region and we have played a key leadership role regionally, in addressing mental health issues related to the pandemic. As well as supporting the LRF and regional health partnerships, the council has focussed upon the following, as key features of its own response plan:

- public health and overall planning and response to the pandemic;
- population health management;
- community support;
- social care and commissioning;
- support to businesses;
- education and children's services;
- business continuity;
- human resource management;
- testing;
- recovery planning including physical and mental health.

In responding to the pandemic, the council:

- developed overall planning arrangements, translating World Health Organisation and government guidance into local action and support, underpinned by dedicated intelligence and data analysis, public health practitioner advice, communications and human resources (HR) management;
- offered assistance to over 25,600 medically vulnerable people in the county who have been encouraged to shield from infection because they are at extreme risk of illness;
- contacted over 12,400 people who are shielding and need help;
- undertook a series of prioritised mailshots with leaflets delivered to all those shielding, to over 75,000 other vulnerable people, then to all 310,000 households in the county.
- received nearly 4,100 calls into our dedicated community support hub call centre and resolved over 2,700 requests where people required actual help and assistance;
- introduced enhanced support for residents affected by domestic abuse, homelessness and drug and alcohol problems, all of which have been exacerbated by the pandemic;
- established a volunteer bureau to enable local people and groups who want to help;
- invested an additional £1.5 million via Area Action Partnerships (AAPs) to support local and cross-county community responses and have enabled local Members to

allocate Member budgets more flexibly, potentially providing a further £1.764 million of revenue support;

- increased our Welfare Assistance Scheme by a further £1m to provide emergency financial assistance for those in crisis;
- adjusted our Local Council Tax Support scheme, utilising the Hardship Fund to provide up to an additional £300 council tax relief and arranged individually with council tax payers in financial hardship for their payments to be deferred until later in the year;
- supported commissioned social care providers through over 9,000 telephone calls and the provision of advice and support;
- agreed 5% and 10% funding increases for providers and made £13 million of payments upfront, as opposed to in arrears, in order to help with funding and cashflow issues.
- supplied over 275,000 pieces of PPE to the social care sector on an emergency basis and managed the provision of emergency PPE on behalf of the LRF;
- established an infection inspection team and comprehensive multi-agency support package to support care homes to prevent and tackle infection outbreaks;
- supported the rapid discharge of Covid 19 patients from hospital through the provision of emergency care packages;
- supported over 8,000 businesses with total grant payments of over £90 million;
- recalculated the business rates bills of just under 2,300 businesses, applying business rate reductions and discounts totalling over £49 million;
- introduced immediate supplier payments, supplier relief for important vulnerable suppliers and rent deferrals for our commercial tenants;
- provided advice and assistance to schools across the county and assisted over 250 schools to remain open to provide childcare for key workers;
- maintained all child protection, safeguarding and social care services, retaining contact with children and their families;
- prioritised and maintained service delivery wherever possible, which has involved the redeployment, training and development of 467 staff;
- developed a comprehensive emergency human resource policy and support physical and mental health support packages for staff;
- developed access to rapid local testing for council and social care staff, supported the roll-out of testing via the National Testing Programme and developed regional and local contact tracing arrangements.

The council's focus has now turned to restoring council services and laying the foundations for recovering from the pandemic. While there is a possibility that we may experience secondary outbreaks and pandemic peaks, recovering from Covid 19 will set the context for future community and council planning and decision-making in the county as we develop and implement the new county vision and council plan.

7. Non-Financial Performance of the Council 2019/20

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

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

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

Council Plan

We have a three year, high level plan which is underpinned by service planning arrangements and links closely to the Medium Term Financial Plan (MTFP) and the County Durham Plan. The MTFP sets out how our priorities will be resourced. The County Durham Plan is a spatial representation of our ambitions around housing, jobs and the environment as well as the transport, schools and healthcare infrastructure to support it. It sets out how Durham County Council is to consider corporate priorities for improvement, and the key actions to be taken to deliver the longer-term goals in the Vision for County Durham 2035 and the council's own transformation agenda.

There are three ambitions 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:

- **More and Better Jobs** - focusing on continuing our economic renaissance and ensuring that people can enjoy a thriving economy with more and better jobs and reduced levels of poverty and deprivation.

Objectives

- Deliver a range of employment sites across the county
- A strong, competitive economy where County Durham is the premier place in the North East to do business
- A broader experience for residents and visitors in the county
- Young people will have access to good quality education, training and employment

- Helping all people into rewarding work
- Fewer people will be affected by poverty and deprivation within the county

Achievements

- Outstanding success in attracting countywide private and public investment in enterprise and tourism
- £25 million invested in Jade Enterprise Zone
- £178 million invested on Integra 61 warehousing facility at Bowburn including facilitating internet giant, Amazon
- £271 million has been invested in one of Europe's leading technology parks at NETPark, Sedgefield
- £13 million has been invested at Forrest Park in Aycliffe preparing for further investment of over £140million
- £200 million in Bishop Auckland on Kynren, the Auckland Project at the castle and Auckland Tower
- £90 million spent in Barnard Castle by Glaxo Smith Kline on a new manufacturing facility
- Almost £1.5 billion in Durham City, £750 million by the University and over £240 million on the Riverside and other projects
- Plans to create up to 6,000 jobs on the Aykley Heads strategic employment site
- £100 million invested through Project Genesis in Consett
- £17 million spent at Beamish Museum on the 1950s town, upland farm and Georgian coaching inn
- Lumiere in Durham, the biggest light festival in Europe, celebrated its 10th anniversary with 37 separate artworks attracting thousands of visitors and boosting the local economy in Durham City.
- Successful food festivals held at Bishop Auckland and Seaham

More and Better Jobs Statistics

- The employment rate in County Durham has steadily improved since a mid-recession low point in 2015 when it stood at 66.6% and is now 74.1%, just 1.6 percentage points behind the national average
- Over 165,000 people visited the Lumiere festival in November, bringing the total number of people who have enjoyed the festival since it began in 2009 to just over one million.
- A record 29,000 people attended the 14th annual Bishop Auckland Food Festival boosting takings of more than 150 traders from County Durham and beyond and 15,000 attended the inaugural Seaham Food Festival.
- Pupils in County Durham achieved an average Attainment 8 score of 44.6 at GCSE compared to a national average of 46.5. The average points score per A-level entry for state funded schools in County Durham was 35.4 compared to a national average of 32.4.

- Educational attainment decreases at Key Stage 4 (GCSE-level), with County Durham performing worse than the national average, and fewer pupils are in secondary schools judged by Ofsted to be good or outstanding than nationally
 - There was a net increase of 1,642 homes across the county
 - County Durham is in the top 40% most deprived upper-tier authorities in England
- **Long and Independent Lives** – Improve both the life expectancy and number of years our residents remain in good health by providing children and young people with the best start in life, a high quality environment for everyone to access, promote positive behaviours amongst our residents, more integrated health and social care services and enabling them to live in their own homes for longer.

Objectives

- Children and young people will enjoy the best start in life, good health and emotional wellbeing
- Children and young people with special educational needs and disabilities will achieve the best possible outcomes
- A physical environment that will contribute to good health
- Promotion of positive behaviours
- Better integration of health and social care services
- People will be supported to live independently for as long as possible by delivering more homes to meet the needs of older and disabled people

Achievements

- Life expectancy has increased by three years for men and two years for women since 2001/02.
- 32,000 fewer people smoke now than in 2012.
- Teenage pregnancies have halved since 2012.
- Effective discharge planning and joint working between health and social care services means that County Durham is one of the best performing areas in the country at delayed transfers of care from hospital.
- We have low rates of permanent admissions to residential or nursing care for older people in comparison with national figures.
- We have excellent levels of satisfaction from clients in receipt of adult social care services compared to national figures.
- The council in partnership with other local organisations work together to support families with problems through our Stronger Families Programme. We have turned around the lives of over 4,000 families.
- 100% of our maintained nursery education providers are rated as good or outstanding by Ofsted.
- The tonnage of carbon emissions from council operations has been reduced by 47% since 2008-09.

- The council has actively worked to eliminate single use plastics from all its operations and has encouraged over 200 organisations throughout the county to sign up to our plastics pledge and work to eradicate unnecessary plastics from their business.
- Less than 5% of the household waste that we collect now goes to landfill compared to over 60% in 2008.
- To facilitate greater investment, over 18,000 council houses were transferred to the social housing sector in 2015, one of the largest housing transfers in the country.

Long and Independent Lives Statistics

- Almost 9 in 10 children under the age of two living in the county's most deprived communities are registered with, and have sustained contact with, a Children's Centre
 - Almost a quarter of school children are overweight or obese at reception (age 4-5) and this rises to over a third at year six (age 10 to 11)
 - Female life expectancy and healthy life expectancy is statistically significantly lower in County Durham than England
 - We have a gap between life expectancy and the number of years lived in good health of 19 years for men and 23 years for women (significantly wider than national rates)
 - We have one of the lowest rates of daily delayed transfers of care from hospital to a social care setting in the country
 - Less than 5% of the domestic refuse that we collect goes to landfill sites
- **Connected communities** – Help our residents create caring and welcoming communities where everyone is valued, we can help and support each other and we give everyone the opportunity to realise their potential.

Objectives

- All children and young people will have a safe childhood
- Standards will be maintained or improved across County Durham's housing stock
- Our towns and villages will be vibrant, well used, clean, attractive and safe
- People will have good access to workplaces, services, retail and leisure opportunities
- Communities will come together and support each other
- Delivery of new high-quality housing which is accessible and meets the needs of our residents

Achievements

- Significant investment in increasing workforce capacity both at a managerial and social worker level and effective workforce planning has led to reduced caseloads, better quality and timeliness in children's social care.
- Investment in new IT systems has transformed children's social care performance information available and management oversight has improved compliance in most areas of performance.
- Since 2016, the council in collaboration with a range of partner organisations has played its part in the UK's commitment to support some of the world's most vulnerable refugees and has been recognised nationally as best practice for its resettlement programme.
- A local lettings agency has been established to help secure suitable housing for homeless people and people who find it difficult to access the housing market.
- Durham County Council is one of only two local authorities in the country to achieve the maximum under the Department for Transport's incentive fund in recognition of its efficiency rating and has managed to prioritise and increase investment in its highways.
- The council invests £3.7 million per year on town centre regeneration, purchasing derelict buildings and land and environmental improvements.
- Over the last 10 years our Area Action Partnerships have completed over 6,000 community projects, benefiting over 30,000 people and helping to secure over £100 million funding.
- Over 30,000 people have taken part in volunteering across all sectors in County Durham over the last two years

Connected Communities Statistics

- County Durham has a higher than average crime rate (97 per 1,000 population compared to 83 nationally)
 - There are around 900 children in care at any one time - this is in addition to around 420 children on a child protection plan and 3,700 children in need
 - The rate of first time entrants to the youth justice system in County Durham is higher than the national average (262 per 100,000 population aged 10-17 years old compared to 238 nationally)
 - Antisocial behaviour in County Durham is showing a reducing trend
 - The number of people killed and seriously injured on our roads is showing a long-term reducing trend
 - Standards of cleanliness in County Durham are good and reported incidents of fly-tipping is decreasing
- **An Excellent Council** – Rethinking the way that we deliver many of our services in order to meet increasing demand with reducing resources and make sure that we are

equipped for the future by reskilling our workforce and working more effectively for the benefit of our residents across organisational boundaries with partner organisations.

Objectives

- Our resources will be managed effectively
- We will create a workforce for the future
- We will design our services with the customer
- We will use data and technology more effectively
- We will actively performance manage our services

Achievements

- By the end of 2019/20, the council will have delivered £232 million of savings and lost just under 3,000 posts since the introduction of the Government's austerity programme in 2011.
- The council leads on Digital Durham, a £35 million initiative to transform broadband speeds for residents and business across the North East which has already provided access to fibre broadband to over 105,000 properties.
- Over 100 council services are available digitally and 40% of residents access our services this way.
- We have 246 people employed in apprenticeship posts and 276 existing staff are accessing the apprenticeship levy to increase their skills. 7.8% of 16 to 17 year olds in County Durham are accessing an apprenticeship compared to a national figure of 5.8%.
- The council holds gold status in the Better Health at Work Award, which recognises the efforts of employers regionally in helping to address health issues of its workforce. We also work with local companies and other organisations to help them achieve the award.
- The council has 200 trained mental health first aiders and 80 time to change (mental health) champions.
- The council has been awarded the Disability Confident Leader status by the Department for Work and Pensions in recognition of its commitment to be a good employer of people with a disability, and will support local businesses to become Disability Confident.

An Excellent Council Statistics

- 57% of our staff had no sickness absence in the last 12 months and 78% had sickness absence of five days or fewer.
- 10% of transactions with the public are now through our self-service 'do it online' portal.
- Satisfaction rates for dealing with the council remain high. 96% felt that their request was knowledgeably and effectively handled and 92% found it easy to contact the right service.

- Superfast broadband coverage in County Durham is at 96%, despite much of our county having some of the sparsest population densities in the country.

8. Significant Issues for 2019/20 and Beyond

Economic climate

The financial landscape for the council is likely to remain challenging for the foreseeable future. The financial outlook will continue to be extremely uncertain as the expected Comprehensive Spending Review has been delayed until the Autumn of 2020 and may only cover one year due to the impact of Covid 19. In addition, the Fair Funding Review and move to 75% Business Rate Retention have been delayed again with an earliest implementation date of 2022/23.

The outcome of 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 exit from the European Union will only serve to compound these issues. There is a risk that funding reductions may continue beyond this point placing further pressure on the Medium Term Financial Plan (MTFP).

The Covid 19 outbreak will also have a significant financial impact on the council in 2020/21 with the impact then likely to be felt in future years. The council began to experience the impact of the outbreak in March 2020 when a number of front line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

The council's spending has also significantly increased to cope with the outbreak. Although government initially indicated that it would fund all additional costs associated with the pandemic, this is no longer a certainty. Local authorities may be expected to use their own reserves to fund any shortfall in future funding.

By the end of 2019/20, the council had delivered £234 million of financial savings with additional savings of £8 million approved for 2020/21. It is forecast that total savings for the period 2011/12 to 2023/24 will be £282 million.

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 wage increases, 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.

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. The impact of Brexit will obviously depend on the outcome of the negotiations and what trade deals are put in place. The current uncertainty 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.

9. 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;
- There is significant uncertainty in relation to the future funding settlements from government, which will be impacted by the upcoming Comprehensive Spending Review and Fair Funding review;
- 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).

10. Summary Position

The council's financial and non-financial performance in 2019/20 continues to be good. The revenue outturn with a £27,000 overspend (0.01% more than the revised budget) is broadly 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 2020/21 and future years.

In 2019/20 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 2020/21.

11. 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.

12. 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 of Practice on Local Authority Accounting in the United Kingdom (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 2020 and its expenditure and income for the year ended 31 March 2020.

John Hewitt

Corporate Director of Resources

30 October 2020

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 25 September 2020.

Edward Bell

Chairman of the Audit Committee

Chair of the meeting approving the Accounts

30 October 2020

Independent Auditor's Report To The Members Of Durham County Council

Report on the financial statements

Opinion

We have audited the financial statements of Durham County Council for the year ended 31 March 2020, 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 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of Durham County Council as at 31st March 2020 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 2019/20.

Basis for opinion

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

Emphasis of Matter - Material uncertainty relating to valuations of property investments

We draw attention to Note 44 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 44 of the financial statements, the outbreak of Covid-19 has had a significant impact on global financial markets. As such the Pension Fund's property investment manager, has included a material valuation uncertainty clause in some of their 31 March 2020 valuation reports due to the possible impact of Covid-19. Therefore, there is less certainty and a higher degree of caution should be attached to valuations of unquoted property assets than would normally be the case. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement 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 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 2019/20, 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 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The

Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

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 April 2020, 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 2020.

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 April 2020, 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 2020.

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

30 October 2020

Comprehensive Income and Expenditure Statement

| 2018-19 | | | Note | 2019-20 | | | |
|---------------------------|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|----------------|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | |
| 277,618 | -162,984 | 114,634 | Adult and Health Services | 292,127 | -168,310 | 123,817 | |
| 488,248 | -375,310 | 112,938 | Children and Young People's Services | 525,340 | -376,826 | 148,514 | |
| 237,343 | -75,083 | 162,260 | Regeneration and Local Services | 259,658 | -89,440 | 170,218 | |
| 195,700 | -180,102 | 15,598 | Resources | 186,025 | -163,689 | 22,336 | |
| 15,173 | -2,658 | 12,515 | Transformation and Partnerships | 18,606 | -6,556 | 12,050 | |
| 56,085 | -433 | 55,652 | Corporate Costs | 3,460 | -222 | 3,238 | |
| 1,270,167 | -796,570 | 473,597 | Cost of Services | 7,8 | 1,285,216 | -805,043 | 480,173 |
| 71,316 | -5,193 | 66,123 | Other Operating Expenditure | 11 | 68,161 | -5,307 | 62,854 |
| 46,954 | -5,515 | 41,439 | Financing and Investment Income and Expenditure | 12 | 47,378 | -12,726 | 34,652 |
| - | -453,251 | -453,251 | Taxation and Non Specific Grant Income | 13 | - | -473,149 | -473,149 |
| | | 127,908 | Surplus (-) or Deficit on Provision of Services | | | | 104,530 |
| | | | Items that will not be reclassified to Surplus (-) or Deficit on Provision of Services | | | | |
| | | -96,629 | Surplus (-) or deficit on revaluation of PPE / Heritage assets | 14,15 | | | 9,944 |
| | | 4,994 | Impairment losses on non-current assets charged to revaluation reserve | 14 | | | 2,985 |
| | | -100 | Surplus (-) or deficit from investments in equity instruments designated at fair value through other comprehensive income | 17 | | | 3,538 |
| | | -59,470 | Remeasurements of the net defined benefit liability | 26,44 | | | 34,030 |
| | | 166 | Difference between actuary's estimate and actual employer's pension contributions | 26,44 | | | 473 |
| | | -3,110 | Net increase (-) or decrease in pensions assets and liabilities from disposals / acquisitions | 26,44 | | | 3,260 |
| | | -154,149 | Other Comprehensive Income and Expenditure | | | | 54,230 |
| | | -26,241 | Total Comprehensive Income and Expenditure | | | | 158,760 |

2019/20:

| | 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 2019 brought forward | 25,106 | 226,411 | 8 | 251,525 | 137,041 | 388,566 |
| Movement in Reserves during 2019-20 | | | | | | |
| Total Comprehensive Income and Expenditure | -104,530 | - | - | -104,530 | -54,230 | -158,760 |
| Adjustments between accounting basis and funding basis under regulations (Note 9) | 93,803 | - | - | 93,803 | -93,803 | - |
| Net Increase / Decrease (-) in Year before Transfers to Earmarked Reserves | -10,727 | - | - | -10,727 | -148,033 | -158,760 |
| Transfers to / from Earmarked Reserves (Note 10) | 9,571 | -9,571 | - | - | - | - |
| Balance at 31 March 2020 carried forward | 23,950 | 216,840 | 8 | 240,798 | -10,992 | 229,806 |

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 |

| 31 March 2019 £000 | | Notes | 31 March 2020 £000 |
|-----------------------|--|--------|-----------------------|
| 1,802,008 | Property, Plant and Equipment | 14 | 1,763,406 |
| 14,895 | Heritage Assets | 15, 47 | 14,131 |
| 6,442 | Investment Property | 16 | 6,252 |
| 4,408 | Intangible Assets | | 5,081 |
| 18,396 | Long Term Investments | 17 | 40,898 |
| 16,779 | Long Term Debtors | 17 | 15,508 |
| 1,862,928 | Long Term Assets | | 1,845,276 |
| 223,763 | Short Term Investments | 17 | 184,737 |
| - | Assets Held for Sale | 22 | - |
| 4,610 | Inventories | 19 | 4,105 |
| 59,003 | Short Term Debtors | 20 | 103,600 |
| 13,861 | Cash and Cash Equivalents | 21 | 20,218 |
| 301,237 | Current Assets | | 312,660 |
| -15,122 | Short Term Borrowing | 17 | -13,392 |
| -129,487 | Short Term Creditors | 23 | -129,081 |
| -6,504 | Provisions | 24 | -6,007 |
| -2,389 | Capital Grants Receipts in Advance | 36 | -2,722 |
| -153,502 | Current Liabilities | | -151,202 |
| -17,574 | Provisions | 24 | -15,998 |
| -299,195 | Long Term Borrowing | 17 | -348,963 |
| -1,887 | Capital Grants Receipts in Advance | 36 | -6,504 |
| -1,228,057 | Other Long Term Liabilities - Pensions | 44 | -1,331,291 |
| -75,384 | Other Long Term Liabilities - Other | 39, 40 | -74,172 |
| -1,622,097 | Long Term Liabilities | | -1,776,928 |
| 388,566 | Net Assets | | 229,806 |
| 251,525 | Usable Reserves | 25 | 240,798 |
| 137,041 | Unusable Reserves | 26 | -10,992 |
| 388,566 | Total Reserves | | 229,806 |

| 2018-19 | | Notes | 2019-20 |
|----------------------|---|--------------|----------------------|
| £000 | | | £000 |
| 127,908 | Net surplus (-) or deficit on the provision of services | | 104,530 |
| -202,281 | Adjustments to net surplus or deficit on the provisions of services for non-cash movements | 27 | -108,234 |
| 8,313 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 27 | 4,813 |
| <u>-66,060</u> | Net Cash flows from Operating Activities | | <u>1,109</u> |
| 97,184 | Investing Activities | 28 | 34,001 |
| -9,954 | Financing Activities | 29 | -41,468 |
| <u>21,171</u> | Net increase (-) or decrease in cash and cash equivalents | | <u>-6,357</u> |
| 35,032 | Cash and cash equivalents at 1 April | 21 | 13,861 |
| <u>13,861</u> | Cash and cash equivalents at 31 March | 21 | <u>20,218</u> |

Notes to the Accounts

| Note | | Page |
|-------------|---|-------------|
| 1 | Accounting Policies | 39 |
| 2 | Accounting Standards that have been Issued but have not yet been Adopted | 63 |
| 3 | Critical Judgements in Applying Accounting Policies | 63 |
| 4 | Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty | 66 |
| 5 | Material Items of Income and Expense | 68 |
| 6 | Events After the Balance Sheet Date | 69 |
| 7 | Expenditure and Funding Analysis | 69 |
| 8 | Expenditure and Income Analysed by Nature | 73 |
| 9 | Adjustments Between Accounting Basis and Funding Basis Under Regulations | 73 |
| 10 | Transfers to/from Earmarked Reserves | 77 |
| 11 | Other Operating Expenditure | 79 |
| 12 | Financing and Investment Income and Expenditure | 79 |
| 13 | Taxation and Non-Specific Grant Income | 79 |
| 14 | Property, Plant and Equipment | 80 |
| 15 | Heritage Assets | 84 |
| 16 | Investment Properties | 85 |
| 17 | Financial Instruments | 86 |
| 18 | Nature and Extent of Risks Arising from Financial Instruments | 91 |
| 19 | Inventories | 97 |
| 20 | Short Term Debtors | 97 |
| 21 | Cash and Cash Equivalents | 98 |
| 22 | Assets Held For Sale (Current) | 98 |
| 23 | Short Term Creditors | 98 |
| 24 | Provisions | 99 |
| 25 | Usable Reserves | 100 |
| 26 | Unusable Reserves | 101 |
| 27 | Cash Flow Statement - Operating Activities | 105 |
| 28 | Cash Flow Statement - Investing Activities | 106 |
| 29 | Cash Flow Statement - Financing Activities | 106 |
| 30 | Reconciliation of liabilities arising from financing activities | 106 |
| 31 | Agency Services | 107 |
| 32 | Members' Allowances | 107 |
| 33 | Officers' Remuneration | 108 |
| 34 | External Audit Costs | 110 |
| 35 | Dedicated Schools Grant | 110 |
| 36 | Grant Income | 112 |
| 37 | Related Parties | 114 |
| 38 | Capital Expenditure and Capital Financing | 120 |
| 39 | Leases | 121 |
| 40 | Private Finance Initiatives and Similar Contracts | 124 |
| 41 | Impairment and Revaluation Losses | 127 |
| 42 | Termination Benefits | 127 |
| 43 | Pension Schemes Accounted for as Defined Contribution Schemes | 127 |
| 44 | Defined Benefit Pension Schemes | 128 |
| 45 | Contingent Liabilities | 136 |
| 46 | Contingent Assets | 138 |
| 47 | Heritage Assets: Further Information on the Council's Collection | 139 |
| 48 | Exceptional Items | 140 |
| 49 | Pooled Budget - Better Care Fund | 140 |
| 50 | Prior Period Adjustments (PPAs) | 141 |

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 2019/20 financial year and its position at the year-end of 31 March 2020. 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 2019/20 (the Code) and the Service Reporting Code of Practice 2019/20 (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. Unlisted 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 measured at 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 of 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 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 2019/20 (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 2019/20 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. 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.

1.25. 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.

1.26. 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.

1.27. 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.

1.28. 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.

1.29. 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.

1.30. 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 standard has been issued but not yet adopted by the Code:

- IFRS 16 Leases: this new standard replaces IAS 17 from 2020/21. However in March 2020, in response to the developing Covid 19 situation, the CIPFA/LASAAC Local Authority Accounting Code Board deferred implementation by one year until 2021/22. The standard 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.

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 2019/20. 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 (now an Academy), 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 £4.6m, but this does not include assets relating to Sedgefield Community College and the Academy at Shotton Hall. Further details can be found in Note 40.

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 2019/20, there was no gain.

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 | 129 | 10 | 9 | 159 |
| b) | Voluntary Controlled (VC) | - | 15 | - | - | 15 |
| b) | Voluntary Aided (VA) | - | 43 | 1 | - | 44 |
| c) | Foundation | - | - | 1 | - | 1 |
| d) | Alternative Provision | - | - | - | 1 | 1 |
| d) | Endowed Parochial | - | 1 | - | - | 1 |
| | Maintained Schools | 11 | 188 | 12 | 10 | 221 |
| e) | Academies | - | 24 | 20 | 2 | 46 |
| | Total | 11 | 212 | 32 | 12 | 267 |

- 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 37. 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 2019/20.

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.

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 next stage is for the case to be referred to the Employment Tribunal to agree the remedy - it is not likely to be known until 2020/21.

Although it is unknown what impact this will have on future employer pension contributions at this stage, the Pension Fund's Actuary has calculated a potential IAS 19 accounting liability which has been included in the current service cost. 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.

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 will recognise the liability for GMP Indexation for all members whose State Pension Age is after 6 April 2016 with effect from 2019/20

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 2020 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 £301m as at 31 March 2020 and a change in methodology resulting in a 1% movement would only change the Balance Sheet by £3.010m.</p> |
| Property, plant and equipment | Property, plant and equipment (with the exception of infrastructure, community assets, assets under construction and small value items of vehicles, plant and equipment) are revalued on a periodic basis and tested annually for indicators of impairment. Judgements are required to make an assessment as to whether there is an indication of impairment. Advice has been provided by valuers employed by the council. | <p>If the actual results differ from the assumptions the value of PPE will be over or understated. This would be adjusted when the assets are next revalued.</p> <p>A 1% change in asset valuation would equate to £17.634m.</p> |
| Pensions Liability | Estimation of the net liability to pay pensions depends on | The effects on the net pensions liability of changes in individual |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---------|---|---|
| | <p>a number of complex judgements such as the discount rate, future salary increases, mortality expectations, future inflation, and the expected rate of return on the Pension Fund's investments. The Pension Fund engages a firm of specialist actuaries to provide the council with expert advice about the assumptions to be applied.</p> | <p>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 £58.870m</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 44 and indicate how the figures are sensitive to the assumptions used.</p> |
| Arrears | <p>At 31 March 2020, the council had a balance of debtors of £118.160m. A review of significant balances suggested that an impairment of doubtful debts of 20.48% (£24.194m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.</p> | <p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £24.194m 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 2019/20.

6. Events After the Balance Sheet Date

Non-adjusting Event - Academy Schools

Five local authority schools have converted since the end of 2019/20 and three more are planning to convert to Academy status during 2020/21. These were non-adjusting events in 2019/20. This change in status will lead to the removal of these schools from the Balance Sheet in 2020/21 and the loss on disposal will be charged to the Comprehensive Income and Expenditure Statement below the Net Cost of Services. The estimated loss on disposal is £30.857m, 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.

| 2018-19 | | | | 2019-20 | | |
|--|--|---|--|--|--|---|
| Net Expenditure Chargeable to the General Fund £000 | Adjustments between Funding and Accounting Basis £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 | | Net Expenditure Chargeable to the General Fund £000 | Adjustments between Funding and Accounting Basis £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 |
| 113,846 | 788 | 114,634 | Adult and Health Services | 121,400 | 2,417 | 123,817 |
| 92,162 | 20,776 | 112,938 | Children and Young People's Services | 110,334 | 38,180 | 148,514 |
| 99,857 | 62,403 | 162,260 | Regeneration and Local Services | 110,256 | 59,962 | 170,218 |
| 11,868 | 3,730 | 15,598 | Resources | 17,076 | 5,260 | 22,336 |
| 10,076 | 2,439 | 12,515 | Transformation and Partnerships | 8,505 | 3,545 | 12,050 |
| 4,544 | 51,107 | 55,651 | Corporate Costs | 3,583 | -345 | 3,238 |
| 332,353 | 141,243 | 473,596 | Net Cost of Services | 371,154 | 109,019 | 480,173 |
| -365,800 | 20,112 | -345,688 | Other Income and Expenditure | -400,707 | 25,064 | -375,643 |
| 30,863 | -30,863 | - | Adjustments between Funding and Accounting basis outside the CIES | 40,280 | -40,280 | - |
| -2,584 | 130,492 | 127,908 | Surplus (-) or Deficit | 10,727 | 93,803 | 104,530 |
| -248,933 | | | Opening General Fund Balance (including earmarked reserves) at 1 April | -251,517 | | |
| -2,584 | | | Surplus (-) or Deficit on General Fund Balance in year | 10,727 | | |
| -251,517 | | | Closing General Fund Balance (including earmarked reserves) at 31 March | -240,790 | | |

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.

| 2018-19 | | | | 2019-20 | | | | |
|----------------------------------|---|-------------------|-------------------|--|----------------------------------|---|-------------------|-------------------|
| Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Other Differences | Total Adjustments | Adjustments between Funding and Accounting Basis | Adjustments for Capital Purposes | Net change for the Pensions Adjustments | Other Differences | Total Adjustments |
| £000 | £000 | £000 | £000 | | £000 | £000 | £000 | £000 |
| 671 | 155 | -38 | 788 | Adult and Health Services | 200 | 2,215 | 2 | 2,417 |
| 22,872 | 908 | -3,004 | 20,776 | Children and Young People's Services | 29,004 | 7,449 | 1,727 | 38,180 |
| 61,511 | 842 | 50 | 62,403 | Regeneration and Local Services | 54,468 | 5,495 | -1 | 59,962 |
| 3,255 | 466 | 9 | 3,730 | Resources | 2,935 | 2,322 | 3 | 5,260 |
| 2,509 | -70 | - | 2,439 | Transformation and Partnerships | 2,653 | 804 | 88 | 3,545 |
| - | 51,107 | - | 51,107 | Corporate Costs | - | -345 | - | -345 |
| 90,818 | 53,408 | -2,983 | 141,243 | Net Cost of Services | 89,260 | 17,940 | 1,819 | 109,019 |
| -10,088 | 30,200 | - | 20,112 | Other Income and Expenditure from the Funding Analysis | -3,836 | 28,900 | - | 25,064 |
| -35,451 | - | 4,588 | -30,863 | Adjustments between Funding and Accounting basis outside the CIES | -37,824 | - | -2,456 | -40,280 |
| 45,279 | 83,608 | 1,605 | 130,492 | Difference between surplus (-) or deficit on General Fund Balance in year and CIES surplus (-) or deficit | 47,600 | 46,840 | -637 | 93,803 |

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:

| 2018-19 | | 2019-20 |
|-----------------|--------------------------------------|-----------------|
| £000 | | £000 |
| -40,641 | Adult and Health Services | -42,230 |
| -22,724 | Children and Young People's Services | -21,359 |
| -50,503 | Regeneration and Local Services | -52,057 |
| -7,752 | Resources | -7,193 |
| -139 | Transformation and Partnerships | -274 |
| -409 | Corporate Costs | -191 |
| <u>-122,168</u> | Total | <u>-123,304</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.

| 2018-19 | | 2019-20 |
|-----------------------|--|-----------------------|
| £000 | | £000 |
| | Expenditure | |
| 569,733 | Employee benefits expenses | 550,781 |
| 635,598 | Other service expenditure | 664,266 |
| 95,541 | Depreciation, amortisation and other capital charges | 100,831 |
| 28,751 | Precepts and levies | 29,229 |
| 42,560 | Amounts of non-current assets written off on disposal | 38,929 |
| 16,254 | Interest payable | 16,719 |
| <u>1,388,437</u> | Total Expenditure | <u>1,400,755</u> |
| | Income | |
| -132,168 | Fees, charges and other service income | -132,099 |
| -5,193 | Capital receipts | -5,307 |
| -276,941 | Council Tax and non domestic rates | -294,369 |
| -828,197 | Grants and contributions | -833,041 |
| -18,030 | Other income | -31,409 |
| <u>-1,260,529</u> | Total Income | <u>-1,296,225</u> |
| <u>127,908</u> | Surplus (-) or Deficit on Provision of Services | <u>104,530</u> |

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 and therefore no changes have been made to the accounts.

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.

2019-20:

| | 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) | -46,841 | - | 46,841 |
| • Financial Instruments (transferred to the Financial Instruments Adjustment Account) | 144 | - | -144 |
| • Council Tax and NDR (transfers to or from Collection Fund) | 2,313 | - | -2,313 |
| • Holiday pay (transferred to the Accumulated Absences Account) | -1,819 | - | 1,819 |
| • 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 | -64,593 | - | 64,593 |
| ○ Revaluation and impairment losses on non-current assets, and movements in the fair value of Investment Properties | -22,516 | - | 22,516 |
| ○ Amounts of non-current assets written off on disposal or sale | -38,919 | - | 38,919 |
| ○ Revenue expenditure funded from capital under statute | -13,722 | - | 13,722 |
| ○ Capital grants and contributions credited to the CI&E Statement | 49,032 | - | -49,032 |
| Total Adjustments to Revenue Resources | -136,921 | - | 136,921 |
| Adjustments between Revenue and Capital Resources | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 5,297 | -4,866 | -431 |
| Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve) | -3 | 3 | - |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | 14,071 | - | -14,071 |
| Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account) | 23,753 | - | -23,753 |
| Total Adjustments between Revenue and Capital Resources | 43,118 | -4,863 | -38,255 |
| Adjustments to Capital Resources | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | - | 5,641 | -5,641 |
| Application of capital grants unapplied to finance capital expenditure | - | - | - |
| Cash payments in relation to deferred capital receipts | - | -778 | 778 |
| Total Adjustments to Capital Resources | - | 4,863 | -4,863 |
| Total Adjustments | -93,803 | - | 93,803 |

2018-19:

| | 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) | -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 |
| Adjustments between Revenue and Capital Resources | | | |
| 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 |
| Adjustments to Capital Resources | | | |
| 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 |

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 2018 £000 | 2018-19 Out £000 | Transfers In £000 | 31 March 2019 £000 | 2019-20 Out £000 | Transfers In £000 | 31 March 2020 £000 |
|---|--------------------------|------------------------|-------------------------|--------------------------|------------------------|-------------------------|--------------------------|
| Adult and Health Services | | | | | | | |
| Social Care Reserve | 21,235 | -3,370 | 7,541 | 25,406 | -226 | 491 | 25,671 |
| Public Health Reserves | 2,943 | -509 | 2,025 | 4,459 | -489 | 1,275 | 5,245 |
| Children and Young People's Services | | | | | | | |
| Children's Services Reserve | 1,875 | -771 | 2,051 | 3,155 | -1,419 | 49 | 1,785 |
| DSG Reserve | 4,734 | -5,467 | 384 | -349 | -3,458 | - | -3,807 |
| Education Reserve | 14,286 | -4,532 | 3,155 | 12,909 | -952 | 673 | 12,630 |
| Balances held by schools under a scheme of delegation | 18,415 | -725 | - | 17,690 | -1,741 | - | 15,949 |
| Regeneration and Local Services | | | | | | | |
| Business Growth Fund Reserve | 744 | -140 | - | 604 | - | - | 604 |
| Community Protection Reserve | 735 | -152 | - | 583 | -139 | 132 | 576 |
| Culture and Sport Reserve | 3,680 | -390 | 340 | 3,630 | -1,445 | 98 | 2,283 |
| Direct Services Reserve | 2,905 | -945 | 116 | 2,076 | -362 | 860 | 2,574 |
| Economic Development Reserve | 1,500 | -208 | 1,824 | 3,116 | -1,043 | 50 | 2,123 |
| Employability and Training Reserve | 57 | - | - | 57 | - | 219 | 276 |
| Funding and Programmes Management Reserve | 480 | -2 | - | 478 | - | 28 | 506 |
| Housing Regeneration Reserve | 1,086 | -448 | - | 638 | -165 | - | 473 |
| Housing Solutions Reserve | 1,680 | -265 | 612 | 2,027 | -88 | 261 | 2,200 |
| Neighbourhoods AAP Reserve | 71 | -71 | - | - | - | - | - |
| North Pennines AONB Partnership Reserve | 1,302 | - | 165 | 1,467 | - | 444 | 1,911 |
| Planning Reserve | 1,573 | - | 7 | 1,580 | -453 | - | 1,127 |
| REAL Match Fund Programme Reserve | 1,653 | -66 | - | 1,587 | -373 | - | 1,214 |
| Restructure Reserve | 114 | -114 | - | - | - | - | - |
| Technical Services Reserve | 2,798 | -1,085 | - | 1,713 | -911 | - | 802 |
| Town and Villages Regeneration Reserve | - | - | 10,000 | 10,000 | -233 | 10,000 | 19,767 |
| Transport Reserve | 1,065 | -940 | 366 | 491 | -286 | 541 | 746 |
| Resources | | | | | | | |
| Corporate Reserve | 890 | -890 | 425 | 425 | - | 104 | 529 |
| Customer Services Reserve | 346 | -11 | - | 335 | -19 | - | 316 |
| DWP Grant Reserve | 2,233 | -1,062 | 218 | 1,389 | -815 | - | 574 |
| Elections Reserve | 708 | - | 56 | 764 | - | 95 | 859 |
| Housing Benefit Subsidy Reserve | 820 | -268 | 589 | 1,141 | - | 401 | 1,542 |
| Human Resources Reserve | 426 | -126 | - | 300 | - | 23 | 323 |
| ICT Reserves | 1,326 | -174 | 325 | 1,477 | -254 | 19 | 1,242 |
| Internal Audit and Corporate Fraud Reserve | - | - | - | - | - | 80 | 80 |
| Legal Reserves | 354 | - | 25 | 379 | -38 | 110 | 451 |
| Operations and Data Reserves | - | - | 50 | 50 | -12 | - | 38 |
| Registrars Trading Reserve | 200 | - | - | 200 | - | - | 200 |
| Revenue and Benefits Reserve | 980 | -372 | 150 | 758 | -134 | 230 | 854 |
| System Development Reserve | 412 | -44 | - | 368 | -14 | - | 354 |
| Transformation and Partnerships | | | | | | | |
| AAP/Members Reserve | 1,851 | -635 | 265 | 1,481 | -74 | 626 | 2,033 |
| Grant Reserve | 1,224 | -175 | 39 | 1,088 | -167 | 8 | 929 |
| Operational Reserve | 1,572 | -465 | 1,298 | 2,405 | -647 | 1,301 | 3,059 |
| Transformation Reserve | 2,147 | -457 | - | 1,690 | -413 | - | 1,277 |
| Corporate | | | | | | | |
| Budget Support Reserve | 30,000 | -340 | - | 29,660 | -10,488 | - | 19,172 |
| Business Support Reserve | - | - | - | - | -32 | 1,064 | 1,032 |
| Capital Reserve | - | - | 2,510 | 2,510 | -1,810 | - | 700 |
| Commercialisation Support Reserve | 4,000 | - | 1,800 | 5,800 | -24 | 2,600 | 8,376 |
| Covid-19 Support Grant Reserve | - | - | - | - | 17,521 | - | 17,521 |
| Equal Pay Reserve | 19,509 | -4,516 | - | 14,993 | -5,014 | - | 9,979 |
| ER/VR Reserve | 7,507 | -5,023 | 6,164 | 8,648 | -5,301 | - | 3,347 |
| Feasibility Study Reserve | - | - | 500 | 500 | - | - | 500 |
| Inspire Programme Reserve | 1,379 | -493 | - | 886 | -556 | - | 330 |
| Insurance Reserve | 11,485 | -3,300 | 1,803 | 9,988 | -2,600 | 2,682 | 10,070 |
| Office Accommodation Capital Reserve | 31,731 | -87 | 1,300 | 32,944 | -8,589 | 384 | 24,739 |
| Office Accommodation Project Support Reserve | 77 | -77 | - | - | - | - | - |
| Performance Reward Grant Reserve | 38 | -38 | - | - | - | - | - |
| Cash Limit Reserves | 18,287 | -9,235 | 3,863 | 12,915 | -10,380 | 9,224 | 11,759 |
| Total | 224,433 | -47,988 | 49,966 | 226,411 | -43,643 | 34,072 | 216,840 |

The significant earmarked reserves at 31 March 2020, 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 (DSG) and Education Reserves: 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. See Note 35 for further information about the negative DSG balance.

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 2020 comprised individual school balances totalling £15.949m.

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

Town and Villages Regeneration Reserve: to provide resources to improve local communities within County Durham.

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 council to improve value for money in the context of its commercialisation agenda.

Covid 19 Support Grant Reserve: the council received £18.588m from central government on 27 March 2020, the first tranche of Covid 19 support funding. £1.067m was utilised in 2019/20 to meet the additional costs and lost revenue incurred due to the Covid 19 outbreak. The remaining £17.521m has been transferred to the reserve, which will be utilised in 2020/21 to fund additional expenditure and lost income related to Covid 19.

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

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| 12,544 | Parish council precepts | 13,149 |
| 16,207 | Levies | 16,080 |
| 5 | Payments to the Government Housing Capital Receipts Pool | 3 |
| 37,367 | Losses / - Gains on the disposal of non-current assets | 33,622 |
| <u>66,123</u> | Total | <u>62,854</u> |

12. Financing and Investment Income and Expenditure

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| 16,254 | Interest payable and similar charges | 16,719 |
| 30,200 | Pensions net interest on the net defined benefit liability | 28,900 |
| -3,536 | Interest receivable and similar income | -4,299 |
| 323 | Impairment of Financial Investments | 1,568 |
| -1,950 | Income and expenditure in relation to investment properties and changes in their fair value | -1,970 |
| 148 | Other investment income | -6,266 |
| <u>41,439</u> | Total | <u>34,652</u> |

13. Taxation and Non-Specific Grant Income

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|----------------------------------|-----------------|
| -222,781 | Council tax income * | -235,704 |
| -54,159 | Non domestic rates | -58,665 |
| -128,823 | Non-ringfenced government grants | -141,129 |
| -47,488 | Capital grants and contributions | -37,651 |
| <u>-453,251</u> | Total | <u>-473,149</u> |

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

14. Property, Plant and Equipment

Movement on Balance 19/20:

| | 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 2019 | 1,276,292 | 93,675 | 630,561 | 2,985 | 40,158 | 9,887 | 2,053,558 |
| Additions | 28,554 | 10,570 | 35,225 | 65 | 444 | 22,925 | 97,783 |
| Revaluation increases/(decreases) | -30,703 | - | - | - | -4,740 | 928 | -34,515 |
| Derecognition - disposals | -43,354 | -6,978 | - | - | -3,072 | - | -53,404 |
| Assets reclassified (to)/from Held for Sale | - | - | - | - | - | - | - |
| Other reclassifications | - | - | - | - | - | - | - |
| Other movements in cost or valuation | 9,130 | -5 | - | -1,594 | 1,997 | -8,175 | 1,353 |
| At 31 March 2020 | 1,239,919 | 97,262 | 665,786 | 1,456 | 34,787 | 25,565 | 2,064,775 |
| Accumulated Depreciation and Impairment | | | | | | | |
| At 1 April 2019 | -21,987 | -64,030 | -165,244 | -88 | -200 | - | -251,549 |
| Depreciation charge | -37,548 | -9,432 | -16,242 | - | -173 | - | -63,395 |
| Depreciation written out on revaluation | 4,749 | - | - | - | 279 | - | 5,028 |
| Impairment losses/(reversals) | -4,789 | - | - | - | -1,145 | - | -5,934 |
| Derecognition - disposals | 6,381 | 6,930 | - | - | 1,174 | - | 14,485 |
| Assets reclassified (to)/from Held for Sale | - | - | - | - | - | - | - |
| Other reclassifications | - | - | - | - | - | - | - |
| Other movements in cost or valuation | 89 | - | - | - | -91 | - | -2 |
| At 31 March 2020 | -53,105 | -66,532 | -181,486 | -88 | -156 | - | -301,367 |
| Net Book Value | | | | | | | |
| At 31 March 2020 | 1,186,814 | 30,730 | 484,300 | 1,368 | 34,631 | 25,565 | 1,763,408 |
| At 31 March 2019 | 1,254,305 | 29,645 | 465,317 | 2,897 | 39,958 | 9,887 | 1,802,009 |
| The Revaluations / Impairments above: | | | | | | | |
| Revaluation increases/(decreases) | -30,703 | - | - | - | -4,740 | 928 | -34,515 |
| Depreciation written out | 4,749 | - | - | - | 279 | - | 5,028 |
| Impairment losses/(reversals) | -4,789 | - | - | - | -1,145 | - | -5,934 |
| | -30,743 | - | - | - | -5,606 | 928 | -35,421 |
| Are recognised as follows: | | | | | | | |
| Revaluation / depreciation in the Revaluation Reserve | -7,158 | - | - | - | -3,723 | 938 | -9,943 |
| Revaluation / depreciation in the Surplus/Deficit on the Provision of Services | -18,795 | - | - | - | -739 | -10 | -19,544 |
| Impairment losses in the Revaluation Reserve | -2,439 | - | - | - | -546 | - | -2,985 |
| Impairment losses in the Surplus/Deficit on the Provision of Services | -2,351 | - | - | - | -598 | - | -2,949 |
| | -30,743 | - | - | - | -5,606 | 928 | -35,421 |

Comparative Movements in 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 | - | -11,015 |
| 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 |

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 2019 have been carried out by valuers in the Council's Asset Management team. The valuations covered Corporate Property and Land and Economic Development 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 2019.

The significant assumptions applied in estimating the values are:

- Depreciated Replacement Cost (DRC) method has been used where the asset is used by the Council to deliver services, but the property is of a specialist nature in that there is little or no market evidence to support value;
- Existing Use Value has been used where the asset is used by the Council to deliver services but is not specialised and there is market evidence to support value;
- the condition and state of repair of the assets is acceptable for the purpose for which they are used. Given that the Council has a regular maintenance programme for its assets, there will be no significant deterioration within the estimated life expectancy of each asset;
- the Council has good title to each asset with no adverse or restrictive covenants which could affect the use or the asset;
- the assets are fit for the purpose for which they are used and will continue to remain so physically, complying with fire, health and safety or any other statutory regulation;
- the current use will continue for the foreseeable future and the use will remain viable;
- the existing use has planning permission;
- the assets are not affected by any ground conditions / stability or contamination which would materially prejudice the valuation;
- the assets are free from contamination and deleterious or hazardous substances;
- no allowance has been made for taxation, acquisition, realisation or disposal costs or other expenses;
- the assets provided by PFI contracts will be effectively maintained by the contractor up to the end of the contract with each being fit for purpose; and

- an assumption that the transaction takes place in the principle market, or in the absence of the principle market, the most advantageous market for the asset is used for assets valued at fair value.

In total in 2019/20, the council revalued £112m of its land and buildings, community and surplus assets and assets held for sale, equal to 9% of the £1,276m gross value for these asset categories. For the remaining £1,164m there were revaluations in 2018/19 (£906m or 71%), 2017/18 (£45m or 4%), 2016/17 (£107m or 8%) and 2015/16 (£19m or 1%), with £87m (7%) being valued at historic cost.

An annual review of market conditions was undertaken by the council's valuer at 31 March 2020, to ensure that the value of assets was not materially misstated. The conclusion was that there had been minimal change in market conditions during the year and therefore the value of assets valued at Depreciated Replacement Cost were not changed. At the end of the year these assets were valued at £938m, or 74% of the total.

The annual review was made shortly after the Government lockdown to address the Covid 19 outbreak was brought into force on 23 March 2020. In the valuer's opinion this was too close to the valuation date on 31 March 2020 to have any material impact on the reported values. Going forward, the valuer's opinion is that the economy will suffer and they anticipate that undoubtedly there will be a significant and unprecedented impact on all sectors of the property market. We will therefore monitor all sectors and fully analyse the impact on the council's assets as reliable evidence emerges.

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 2020 (£34.631m) 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 2020 the council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment that were budgeted to cost £65.828m in future years. Similar commitments at 31 March 2019 were £4.088m. The commitments at 31 March 2020 are:

| | |
|---|----------|
| • New Council Headquarters | £38.663m |
| • Digital Durham | £8.247m |
| • Bowburn Primary | £7.746m |
| • Horden (Peterlee) Rail Station | £5.102m |
| • Jade Business Park Factory Build | £3.508m |
| • Social Services Information Database (SSID) Replacement | £0.747m |
| • Pennine PeatLIFE – Forest of Bowland | £0.730m |
| • Chester le Street Deculverting | £0.581m |
| • Greenfield School | £0.503m |

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 2019 | 8,961 | 659 | 4,116 | 1,158 | 14,894 |
| Additions | - | - | 122 | - | 122 |
| Depreciation | - | - | 2 | - | 2 |
| Assets reclassified from / -to Property Plant and Equipment | - | - | -887 | - | -887 |
| At 31 March 2020 | 8,961 | 659 | 3,353 | 1,158 | 14,131 |
| 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 |

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:

| 2018-19 | | 2019-20 |
|----------------|--|----------------|
| £000 | | £000 |
| -1,978 | Rental Income from Investment Property | -2,160 |
| - | Direct Operating Expenses arising from Investment property | - |
| <u>-1,978</u> | Net (-) Gain / Loss | <u>-2,160</u> |

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

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| 7,378 | Balance at start of the year | 6,442 |
| | Additions: | |
| 47 | Enhancements | - |
| - | Disposals | - |
| -28 | Net gains / losses from fair value adjustments | -190 |
| | Transfers: | |
| -955 | (-)To / from Property, Plant and Equipment | - |
| <u>6,442</u> | Balance at end of the year | <u>6,252</u> |

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

The fair value for the above properties at 31 March 2020 (£6.252m) has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

17. Financial Instruments

Categories of Financial Instruments – 2019/20

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

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council.

The financial assets held by the Council during the year are accounted for under the following three classifications:

- Financial assets held at amortised cost - these are assets where cash payments are receivable on specified dates. The amount in the Balance Sheet represents the outstanding balance owed (which for a loan will include principal and accrued interest receivable) net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

- Fair Value Through Other Comprehensive Income (FVOCI) – these assets are measured and carried at fair value. All gains and losses due to changes in fair value are accounted for through the Financial Instruments Revaluation Reserve.
- Fair Value Through Profit and Loss (FVTPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value are recognised in the CIES as they occur.

In addition, to balance to asset and liability totals in the balance sheet, these notes include the value of financial assets that the council considers are outside the scope of the above classes. These include capital transactions that are covered by Statutory Regulations, the Local Authorities(Capital Finance and Accounting) (England) Regulations 2003 S25 and also tax-based debtors.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. The majority of the Council's financial liabilities held during the year are measured at amortised cost, while others are tax based creditors that are considered outside of the scope.

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

Financial Assets

| | Long-term | | | | Current | | | | Total | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Investments | | Debtors | | Investments | | Debtors | | Total | |
| | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 |
| Fair value through profit or loss | - | - | - | - | - | - | - | - | - | - |
| Amortised cost | 3,739 | 29,677 | 13,033 | 11,757 | 237,623 | 204,955 | 42,533 | 77,566 | 296,928 | 323,955 |
| Fair value through other comprehensive income - designated equity instruments | 10,810 | 7,272 | - | - | - | - | - | - | 10,810 | 7,272 |
| Total financial assets | 14,549 | 36,949 | 13,033 | 11,757 | 237,623 | 204,955 | 42,533 | 77,566 | 307,738 | 331,227 |
| Non-financial instrument balances | 3,847 | 3,949 | 3,746 | 3,751 | - | - | 16,470 | 26,034 | 24,063 | 33,734 |
| Total | 18,396 | 40,898 | 16,779 | 15,508 | 237,623 | 204,955 | 59,003 | 103,600 | 331,801 | 364,961 |

The current investments include cash and cash equivalent balances.

Financial Liabilities

Financial Liabilities

| | Long-term | | | | Current | | | | Total | |
|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Borrowings | | Creditors | | Borrowings | | Creditors | | | |
| | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 | 31 March 2019 £000 | 31 March 2020 £000 |
| Amortised cost | -299,195 | -348,963 | -75,384 | -74,172 | -15,123 | -13,392 | -94,321 | -76,736 | -484,023 | -513,263 |
| Total financial liabilities | -299,195 | -348,963 | -75,384 | -74,172 | -15,123 | -13,392 | -94,321 | -76,736 | -484,023 | -513,263 |
| Non-financial liabilities | - | - | - | - | - | - | -35,166 | -52,346 | -35,166 | -52,346 |
| Total | -299,195 | -348,963 | -75,384 | -74,172 | -15,123 | -13,392 | -129,487 | -129,082 | -519,189 | -565,609 |

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.

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:

| 2018-19 | | | 2019-20 | | | |
|--|---|---------------|---|--|---|---------------|
| 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 |
| 16,254 | - | 16,254 | Interest expense | 16,719 | - | 16,719 |
| - | 37 | 37 | Impairment losses | - | 951 | 951 |
| 16,254 | 37 | 16,291 | Total expense in Surplus or Deficit on the Provision of Services | 16,719 | 951 | 17,671 |
| - | -3,430 | -3,430 | Interest income | - | -3,696 | -3,696 |
| - | -3,430 | -3,430 | Total income in Surplus or Deficit on the Provision of Services | - | -3,696 | -3,696 |
| 16,254 | -3,393 | 12,861 | Net (gain)/loss for the year | 16,719 | -2,745 | 13,975 |

Fair Value of Financial Assets and Financial Liabilities

Fair Value Through Profit or Loss

The council has no assets that fall in this category. This follows a decision to reclassify a number of its investments in equity instruments, that fall under the definition of Fair Value Through Profit or Loss, 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.

Amortised Cost

These are carried at cost as this is a fair approximation of their value, as reflected in the following table:

| 31 March 2019 (Restated) | | | 31 March 2020 | |
|-------------------------------------|---------------------------|--------------------------------------|-----------------------------------|---------------------------|
| Carrying Amount £000 | Fair Value £000 | | Carrying Amount £000 | Fair Value £000 |
| 223,763 | 223,763 | Short term investments | 184,737 | 184,737 |
| 3,739 | 3,739 | Long term investments | 29,677 | 29,677 |
| 42,533 | 42,533 | Short term debtors | 77,566 | 77,566 |
| 13,033 | 13,033 | Long term debtors | 11,757 | 11,757 |
| 283,068 | 283,068 | Total Investments and Debtors | 303,737 | 303,737 |

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

Fair Value Through Other Comprehensive Income

| 31 March 2019 | Recurring fair value measurements | Input level in fair value hierarchy | Valuation technique used to measure fair value | 31 March 2020 |
|--------------------------|--|--|---|--------------------------|
| £000 | | | | £000 |
| 10,658 | Newcastle International Airport Ltd | Level 3 | Inputs other than quoted prices in active markets that are observable for the asset | 7,120 |
| - | Durham Tees Valley Airport Ltd | Level 3 | | - |
| 152 | Atom Bank | Level 3 | | 152 |
| 10,810 | Total | | | 7,272 |

These are investments in equity instruments that the council elected to treat as Fair Value Through Other Comprehensive Income rather than Fair Value Through Profit or Loss at the inception of the IFRS 9 Financial Instruments accounting standard on 1st April 2018.

The reason for this election was that the investments are held for strategic economic development purposes rather than trading. This decision protects council taxpayers from movements in the value of these shareholdings until such time as the shares are sold or released.

The shares in these companies are not traded in an active market and the total fair value of £7.272m has been calculated using valuation techniques that are not based on observable current market transactions or available market data.

Dividends of £0.620m were received for Newcastle International Airport Ltd. in 2019/20 (nil in 2018/19).

Financial Liabilities

Financial liabilities are carried on the balance sheet at amortised cost (in long term liabilities with accrued interest in current 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 all loans, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- 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.

Values have been calculated using a financial model 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 values calculated are as follows:

| 31 March 2019 | | | 31 March 2020 | |
|-----------------|-----------------|------------------------------------|-----------------|-----------------|
| Carrying Amount | Fair Value | | Carrying Amount | Fair Value |
| £000 | £000 | | £000 | £000 |
| -258,977 | -294,368 | PWLB borrowing | -288,974 | -308,146 |
| -51,628 | -72,542 | Non-PWLB borrowing | -69,605 | -91,090 |
| -88,812 | -88,812 | Short term creditors | -71,072 | -71,072 |
| -4,497 | -4,497 | Short term finance lease liability | -4,605 | -4,605 |
| -38,214 | -38,214 | Long term finance lease liability | -38,060 | -38,060 |
| -38,182 | -38,182 | PFI liability | -37,170 | -37,170 |
| -480,310 | -536,614 | Total Liabilities | -509,486 | -550,142 |

The carrying amounts exclude interest accrued for the borrowing.

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 £411.870m at 31 March 2020.

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels in the fair value hierarchy during the 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

At the balance sheet date the council's treasury management advisors provided a credit risk assessment of treasury management investments with banks and financial institutions. This helped the council determine whether credit risk had increased since the investments were initially recognised. Based on this assessment a loss allowance for each has been recalculated as at 31 March 2020. The result is that the calculated provision required at 31 March 2020 is unchanged at £0.037m (£0.037m at 31 March 2019).

A summary of the credit quality of the council's investments at 31 March 2020 is shown as follows:

| | Lowest long term rating | Balance at 31 March 2020 | Estimated rate of default | Estimated maximum exposure to default at 31 March 2020 |
|---|-------------------------------|--------------------------------|---------------------------------|--|
| | | £000 | % | £000 |
| Deposits with banks and financial institutions | | | | |
| Local Authorities | AA | 98,393 | 0.00 | - |
| Banks (less than 1 year) | A | 13,119 | 0.05 | 3 |
| Banks (more than 1 year) | A | 4,373 | 0.15 | 10 |
| Banks (less than 1 year) | A+ | 78,714 | 0.05 | 24 |
| Banks (less than 1 year) | AA | 21,471 | 0.02 | - |
| Building Societies (less than 1 year) | Not rated | 15,306 | n/a | - |
| National Savings | Not rated | 875 | n/a | - |
| | | <u>232,250</u> | | <u>37</u> |

The councils maximum exposure to credit loss from these deposits is the full balance at 31 March 2020. 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.

The only loan against which a loss has been calculated is the loan to Newcastle International Airport Limited. This is a loan for £9.385m which is the council's maximum exposure to credit loss against the loan. Based on information supplied by the airport on its expected financial performance as a result of the effects of the Covid 19 pandemic the council has calculated a modification loss of £0.796m, reducing the loan value to £8.589m. Against this the council has calculated an expected credit loss of £0.118m. No credit losses are expected for other loans the council has made.

The council does not generally allow credit for customers, although £23.123m of the £58.601m balance of Other Debtors (Note 20) is past its due date for payment and the council has made an impairment allowance totalling £24.194m to allow for expected credit losses. The balance that is past its due date for payment can be analysed by age as follows:

| 31 March 2019 | | 31 March 2020 | |
|---------------|---------------------------------|---------------|--|
| £000 | | £000 | |
| 11,219 | Less than three months | 15,840 | |
| 1,150 | Between three and six months | 2,299 | |
| 2,686 | Between six months and one year | 1,494 | |
| 2,798 | More than one year | 3,490 | |
| <u>17,853</u> | Total | <u>23,123</u> | |

For other financial instruments, whose carrying amount best represents the maximum exposure to credit risk, no expected credit losses have been calculated.

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 2020 was £2.628m (£2.018m at 31 March 2019).

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 2019 | | 31 March 2020 |
|----------------------|--|----------------------|
| £000 | | £000 |
| 15,123 | Less than one year | 13,392 |
| 10,012 | Between one and two years | 5 |
| 30,034 | Between two and five years | 62,553 |
| 72,359 | Between five and ten years | 39,873 |
| 54,098 | Between ten and fifteen years | 54,031 |
| 1 | Between fifteen and twenty years | - |
| - | Between twenty and twenty five years | 3,000 |
| 132,690 | More than twenty five years | 189,500 |
| <u>314,317</u> | Total Short and Long Term Borrowing | <u>362,355</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 2020, if interest rates had been 1% higher with all other variables held constant, the financial effect would be a decrease of £51.997m 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 2020, the council has undertaken three forward borrowing deals with Phoenix Group:

- £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 2020 | | | | |
| Consumable Stores | 3,421 | 4,088 | -4,279 | 3,230 |
| Maintenance Materials | 439 | 80 | -128 | 391 |
| Client Services Work in Progress | - | - | - | - |
| Rechargeable Works | 750 | 484 | -750 | 484 |
| Total | 4,610 | 4,652 | -5,157 | 4,105 |
| 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 |

20. Short Term Debtors

| 31 March 2019 | | 31 March 2020 |
|----------------------|---------------------------------|----------------------|
| £000 | | £000 |
| 12,163 | Central government bodies | 52,634 |
| 2,916 | Other local authorities | 3,728 |
| 1,553 | NHS bodies | 3,197 |
| | Other entities and individuals: | |
| 20,152 | Council Tax | 22,766 |
| 2,251 | Non-Domestic Rates | 2,231 |
| 39,302 | Other | 33,604 |
| | Less Impairment Allowance: | |
| -15,294 | Council Tax | -16,134 |
| -1,447 | Non-Domestic Rates | -1,279 |
| -6,635 | Other | -6,781 |
| 54,961 | | 93,966 |
| 4,041 | Payments in advance | 9,634 |
| 59,002 | Total Debtors | 103,600 |

21. Cash and Cash Equivalents

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| 486 | Cash at bank | 457 |
| -8,231 | Overdraft | -2,601 |
| 20,739 | Cash held on demand (call accounts) | 21,486 |
| 867 | Deposits held for liquidity purposes | 876 |
| <u>13,861</u> | Cash and Cash Equivalents balance | <u>20,218</u> |

22. Assets Held For Sale (Current)

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| 2,011 | Balance outstanding at start of year | - |
| | Assets newly classified as held for sale: | |
| - | Property, Plant and Equipment | - |
| - | Revaluations | - |
| | Assets declassified as Held for Sale: | |
| -1,665 | Property, Plant and Equipment | - |
| -346 | Assets sold | - |
| <u>-</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 2020.

23. Short Term Creditors

| 31 March 2019 £000 | | 31 March 2020 £000 |
|-----------------------|--|-----------------------|
| -43,117 | Central government bodies | -30,294 |
| -1,580 | Other local authorities | -1,541 |
| -1,302 | NHS bodies | -1,038 |
| | Other entities and individuals: | |
| -10,641 | Accumulated Absences Account | -12,460 |
| -5,509 | Short term finance lease and PFI liabilities | -5,664 |
| -4,164 | Collection Fund prepayments | -3,647 |
| -7,109 | Section 106 agreements | -10,013 |
| -5,506 | Pension Fund | -4,889 |
| -41,841 | Other | -36,747 |
| <u>-120,769</u> | | <u>-106,293</u> |
| -8,719 | Receipts in Advance | -22,788 |
| <u>-129,488</u> | Total Creditors | <u>-129,081</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 2020 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 2019/20.

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 2020/21. 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 2019/2020 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 30% 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 2019 | 9,662 | 67 | 14,349 | 24,078 |
| Additional provisions made in 2019/20 | 2,941 | - | 2,581 | 5,522 |
| Amounts used in 2019/20 | -1,193 | - | -3,721 | -4,914 |
| Unused amounts reversed in 2019/20 | -2,681 | - | - | -2,681 |
| Balance at 31 March 2020 | 8,729 | 67 | 13,209 | 22,005 |
| As shown in Balance Sheet | | | | |
| Long Term Provisions | 6,633 | - | 9,365 | 15,998 |
| Short Term Provisions | 2,096 | 67 | 3,844 | 6,007 |
| Balance at 31 March 2020 | 8,729 | 67 | 13,209 | 22,005 |

25. Usable Reserves

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

| 31 March 2019 £000 | | 31 March 2020 £000 |
|-----------------------|---------------------------------|-----------------------|
| 8 | Usable Capital Receipts Reserve | 8 |
| 25,106 | General Fund Balance | 23,950 |
| 226,411 | Earmarked Reserves | 216,840 |
| 251,525 | Total | 240,798 |

Usable Capital Receipts Reserve

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

General Fund Balance

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

Earmarked Reserves

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

26. Unusable Reserves

| 31 March 2019 £000 | | 31 March 2020 £000 |
|-----------------------|---|-----------------------|
| 678,992 | Revaluation Reserve | 635,727 |
| 10,531 | Financial Instruments Revaluation Reserve | 6,994 |
| 702,632 | Capital Adjustment Account | 685,715 |
| -1,496 | Financial Instruments Adjustment Account | -1,352 |
| 943 | Deferred Capital Receipts | 596 |
| -10,641 | Accumulated Absences Account | -12,460 |
| -1,246,687 | Pensions Reserve | -1,331,292 |
| 2,767 | Collection Fund Adjustment Account | 5,080 |
| <u>137,041</u> | Total | <u>-10,992</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.

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| 632,306 | Balance at 1 April | 678,992 |
| 113,615 | Upward revaluation of assets | 20,448 |
| -21,976 | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | -33,377 |
| <u>91,639</u> | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | <u>-12,929</u> |
| -19,839 | Difference between fair value depreciation and historical cost depreciation | -22,624 |
| -25,114 | Accumulated gains on assets sold or scrapped | -7,712 |
| -44,953 | Amount written off to the Capital Adjustment Account | -30,336 |
| <u>678,992</u> | Balance at 31 March | <u>635,727</u> |

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the council 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.

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| 10,432 | Balance at 1 April | 10,532 |
| 100 | Upward or downward revaluation of investments not credited to the Surplus/Deficit on the Provision of Services | -3,538 |
| <u>10,532</u> | | <u>6,994</u> |
| - | Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income | - |
| <u>10,532</u> | Balance at 31 March | <u>6,994</u> |

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.

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| 701,682 | Balance at 1 April | 702,632 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| -62,818 | Charges for depreciation and impairment of non-current assets | -66,349 |
| -11,014 | Revaluation losses on Property, Plant and Equipment | -19,378 |
| -995 | Amortisation of intangible assets | -1,192 |
| -20,685 | Revenue expenditure funded from capital under statute | -13,722 |
| -42,548 | 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 | -38,919 |
| <u>-138,060</u> | | <u>-139,560</u> |
| 44,953 | Adjusting amounts written out of the Revaluation Reserve | 30,336 |
| <u>-93,107</u> | Net written out amount of the cost of non-current assets consumed in the year | <u>-109,224</u> |
| | Capital financing applied in the year: | |
| 6,451 | Use of Capital Receipts Reserve to finance new capital expenditure | 10,471 |
| - | Write down of capital loan repaid in year as a capital receipt | -4,830 |
| 52,183 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 49,032 |
| 13,335 | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 14,071 |
| 22,116 | Capital expenditure charged against the General Fund and HRA balances | 23,753 |
| <u>94,085</u> | | <u>92,497</u> |
| <u>-28</u> | Movements in the fair value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | <u>-190</u> |
| <u>702,632</u> | Balance at 31 March | <u>685,715</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.

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| 2,222 | Balance at 1 April | 943 |
| | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 484 |
| -1,279 | Transfer to the Capital Receipts Reserve upon receipt of cash | -831 |
| <u>943</u> | Balance at 31 March | <u>596</u> |

Accumulated Absences Account

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

| 2018-19 | | 2019-20 |
|----------------|---|----------------|
| £000 | | £000 |
| -13,623 | Balance at 1 April | -10,641 |
| 13,623 | Settlement or cancellation of accrual made at the end of the preceding year | 10,641 |
| -10,641 | Amounts accrued at the end of the current year | -12,460 |
| 2,982 | 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 | -1,819 |
| <u>-10,641</u> | Balance at 31 March | <u>-12,460</u> |

Pensions Reserve

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

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

However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds, or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Further detail can be found in Note 44.

| 2018-19 | | 2019-20 |
|-------------------|---|-------------------|
| £000 | | £000 |
| -1,225,494 | Balance at 1 April | -1,246,687 |
| 59,470 | Remeasurements of the net defined benefit liability | -34,030 |
| -166 | Adjustment for previous year's difference between actuary's estimate and actual employers' pension contributions | -473 |
| 3,820 | Net increase in assets from disposals / acquisitions | 2,930 |
| -710 | Net increase in liabilities from disposals / acquisitions | -6,190 |
| -151,980 | 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 | -117,930 |
| 68,373 | Employer's pensions contributions and direct payments to pensioners payable in the year | 71,089 |
| <u>-1,246,687</u> | Balance at 31 March | <u>-1,331,291</u> |

27. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2018-19 (restated) £000 | | 2019-20 £000 |
|-------------------------------|--------------------|-----------------|
| 16,291 | Interest paid | 17,671 |
| -3,430 | Interest received | -3,696 |
| -110 | Dividends received | -620 |

The Interest paid and Interest received for 2018/19 has been restated reflecting Financial Instruments note 17.

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

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| -62,163 | Depreciation | -63,401 |
| -11,670 | Impairment and downward revaluation | -22,325 |
| -995 | Amortisation | -1,192 |
| -3,009 | Transfer to/from Accumulated Absences account | 1,819 |
| -326 | Increase/decrease in the provision for bad debts | -147 |
| -11,564 | Increase/decrease in creditors | -1,620 |
| -27,227 | Increase/decrease in debtors | 24,933 |
| -390 | Increase/decrease in inventory | -505 |
| -83,607 | Pension liability | -46,841 |
| -42,548 | Carrying amount of non-current assets sold | -38,919 |
| 41,218 | Other non-cash items | 39,964 |
| -202,281 | | -108,234 |

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

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| 8,313 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 4,813 |
| 8,313 | Net cash flows from investing activities | 4,813 |

28. Cash Flow Statement – Investing Activities

| 2018-19 | | 2019-20 |
|----------------|--|----------------|
| £000 | | £000 |
| 68,729 | Purchase of property, plant and equipment, investment property and intangible assets | 94,353 |
| 431,823 | Purchase of short-term (not considered to be cash equivalents) and long-term investments | 393,123 |
| 5,021 | Other payments for investing activities - external trading | 6,267 |
| -8,313 | Proceeds from the sale of property, plant and equipment, non-current assets held for sale, investment property and intangible assets | -4,813 |
| -345,462 | Proceeds from short-term (not considered to be cash equivalents) and long-term investments | -406,109 |
| -54,614 | Other receipts from investing activities (inc. external trading) | -48,820 |
| <u>97,184</u> | Net cash flows from investing activities | <u>34,001</u> |

29. Cash Flow Statement – Financing Activities

| 2018-19 | | 2019-20 |
|----------------|--|----------------|
| £000 | | £000 |
| -30,000 | Cash receipts of short-term and long-term borrowing | -60,000 |
| 3,957 | Other receipts from financing activities | -189 |
| 6,066 | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts | 6,696 |
| 10,023 | Repayments of short-term and long-term borrowing | 12,025 |
| - | Other payments for financing activities | - |
| <u>-9,954</u> | Net cash flows from financing activities | <u>-41,468</u> |

30. Reconciliation of liabilities arising from financing activities

2019/20:

| | 1 April 2019 | Financing cash flows | Changes which are not financing cash flows | | 31 March 2020 |
|---|-------------------------|---------------------------------|---|--------------|--------------------------|
| | £000 | £000 | Acquisition | Other | £000 |
| | | | £000 | £000 | |
| Long term borrowings | -311,210 | -60,000 | - | - | -371,210 |
| Short term borrowings | -3,107 | 12,025 | - | - | 8,918 |
| Lease liabilities | -42,711 | 5,685 | -5,639 | - | -42,665 |
| On balance sheet PFI liabilities | -38,183 | 1,011 | - | - | -37,172 |
| Total liabilities from financing activities | <u>-395,211</u> | <u>-41,278</u> | <u>-5,639</u> | <u>-</u> | <u>-442,128</u> |

2018/19:

| | 1 April 2018 | Financing cash flows | Changes which are not financing cash flows | | 31 March 2019 |
|--|-------------------------|---------------------------------|---|--------------|--------------------------|
| | | | Acquisition | Other | |
| | £000 | £000 | £000 | £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 | - | -42,711 |
| On balance sheet PFI liabilities | -39,174 | 991 | - | - | -38,183 |
| Total liabilities from financing activities | -376,647 | -13,921 | -4,599 | -44 | -395,211 |

31. 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, 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 2019/20 £7.871m (£7.924m in 2018/19) 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 overall decrease in Agency Services from 2018/19 to 2019/20 is due to an increase in services provided to County Durham and Darlington Fire and Rescue Authority, Chapter Homes, and Academies net off against a decrease 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.

32. Members' Allowances

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

| 2018-19 | | 2019-20 |
|----------------|----------------------------------|----------------|
| £000 | | £000 |
| 1,667 | Basic Allowance | 1,675 |
| 286 | Special Responsibility Allowance | 287 |
| 5 | Broadband Allowance | 5 |
| 63 | Expenses | 61 |
| 2,021 | Total | 2,028 |

33. Officers' Remuneration

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

| Name | Period | Salary, Fees and Allowances £ | Expenses Allowances £ | Compensation for Loss of Office £ | Pensions Contribution £ | Total £ |
|--|---------|-------------------------------------|-----------------------------|--|-------------------------------|------------|
| Chief Executive - Terry Collins | 2019-20 | 196,343 | - | - | - | 196,343 |
| | 2018-19 | 192,493 | - | - | - | 192,493 |
| Corporate Director - Resources | 2019-20 | 148,583 | - | - | 24,813 | 173,396 |
| | 2018-19 | 145,670 | 32 | - | 24,327 | 170,029 |
| Corporate Director - Children and Young Peoples Services (01/04/19 - 31/08/19) | 2019-20 | 61,910 | - | - | - | 61,910 |
| | 2018-19 | 145,670 | - | - | - | 145,670 |
| Corporate Director - Children and Young Peoples Services (01/09/19 - 31/03/20) | 2019-20 | 86,261 | - | - | 13,806 | 100,067 |
| Corporate Director - Adult and Health Services | 2019-20 | 148,789 | 272 | - | 24,813 | 173,874 |
| | 2018-19 | 145,670 | 124 | - | 24,327 | 170,121 |
| Corporate Director - Regeneration and Local Services (01/04/19 - 31/01/20) | 2019-20 | 123,819 | 184 | - | 20,678 | 144,681 |
| | 2018-19 | 145,670 | - | - | 24,327 | 169,997 |
| Corporate Director - Regeneration, Economy and Growth (01/01/20 - 31/03/20) | 2019-20 | 37,146 | - | - | 6,203 | 43,349 |
| Director - Transformation and Partnerships * (01/04/19 - 06/12/19) | 2019-20 | 121,297 | - | 112,895 | 14,522 | 248,715 |
| | 2018-19 | 124,860 | - | - | 20,852 | 145,712 |
| Head of Legal and Democratic Services (Monitoring Officer) | 2019-20 | 116,744 | 244 | - | 19,496 | 136,484 |
| | 2018-19 | 114,455 | 102 | - | 19,114 | 133,671 |

* The post of Director of Transformation and Partnerships was deleted with voluntary redundancy of the postholder

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 202 'Other Staff' in 2019/20 there are no employees paid on Leadership Teacher grades and 39 employees paid on Soulbury grades. The costs associated with providing the educational support services are recovered through Service Level Agreements from schools within County Durham and also a number of schools outside of the Durham area.

| Remuneration band | 2018-19 Number of Employees | | | 2019-20 Number of Employees | | |
|----------------------|--------------------------------|-------------|------------|--------------------------------|-------------|------------|
| | School Staff | Other Staff | Total | School Staff | Other Staff | Total |
| £50,000 - £54,999 | 112 | 69 | 181 | 128 | 47 | 175 |
| £55,000 - £59,999 | 85 | 37 | 122 | 91 | 55 | 146 |
| £60,000 - £64,999 | 70 | 22 | 92 | 68 | 49 | 117 |
| £65,000 - £69,999 | 31 | 8 | 39 | 37 | 6 | 43 |
| £70,000 - £74,999 | 14 | 6 | 20 | 25 | 5 | 30 |
| £75,000 - £79,999 | 6 | 6 | 12 | 8 | 4 | 12 |
| £80,000 - £84,999 | 5 | 3 | 8 | 5 | 8 | 13 |
| £85,000 - £89,999 | 2 | 2 | 4 | 3 | 2 | 5 |
| £90,000 - £94,999 | 3 | 2 | 5 | 2 | 6 | 8 |
| £95,000 - £99,999 | 1 | 2 | 3 | 2 | 2 | 4 |
| £100,000 - £104,999 | 1 | 7 | 8 | - | 5 | 5 |
| £105,000 - £109,999 | 2 | 1 | 3 | 1 | 1 | 2 |
| £110,000 - £114,999 | - | 4 | 4 | 2 | 1 | 3 |
| £115,000 - £119,999 | - | 2 | 2 | - | 8 | 8 |
| £120,000 - £124,999 | - | 1 | 1 | - | - | - |
| £125,000 - £129,999 | - | - | - | - | - | - |
| £130,000 - £134,999 | - | 2 | 2 | - | 1 | 1 |
| £135,000 - £139,999 | - | - | - | 1 | 2 | 3 |
| £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 | - | - | - |
| | <u>332</u> | <u>176</u> | <u>508</u> | <u>373</u> | <u>202</u> | <u>575</u> |

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:

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|-----------------------------------|-----------|-----------------------------------|-----------|--|------------|--|-----------------|
| | 2018-19 | 2019-20 | 2018-19 | 2019-20 | 2018-19 | 2019-20 | 2018-19 £000 | 2019-20 £000 |
| £0 - £20,000 | 17 | 7 | 14 | 32 | 31 | 39 | 237 | 387 |
| £20,001 - £40,000 | 4 | 2 | 6 | 28 | 10 | 30 | 289 | 871 |
| £40,001 - £60,000 | 1 | 1 | 6 | 14 | 7 | 15 | 375 | 704 |
| £60,001 - £80,000 | 2 | - | 2 | 13 | 4 | 13 | 287 | 870 |
| £80,001 - £100,000 | - | - | 10 | 7 | 10 | 7 | 893 | 621 |
| £100,001 - £150,000 | 1 | - | 10 | 5 | 11 | 5 | 1,299 | 570 |
| £150,001 - £250,000 | - | - | 4 | - | 4 | - | 731 | - |
| Total | 25 | 10 | 52 | 99 | 77 | 109 | 4,111 | 4,023 |

34. 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 2019/20, and up to 2021/22, is Mazars LLP.

| 2018-19 | 2019-20 |
|---|----------------|
| £000 | £000 |
| 193 Fees payable with regard to external audit services carried out by the appointed auditor for the year | 193 |
| - Fees payable in the year for the certification of grant claims and returns by the appointed auditor for Public Sector Appointments Ltd (PSAA) | - |
| 25 Fees payable in the year for other services carried out by the appointed auditor not on behalf of PSAA | 28 |
| 218 Total | 221 |

35. 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 2019/20 are as follows:

| | Central Expenditure £000 | ISB £000 | Total £000 |
|---|---|---------------------|-----------------------|
| A Final DSG for 2019/20 before Academy Recoupment | | | 393,267 |
| B Academy figure recouped for 2019/20 | | | 112,305 |
| C Total DSG after Academy Recoupment for 2019/20 | | | <u>280,962</u> |
| Plus | | | |
| D Brought forward from 2018/19 | | | -349 |
| Less | | | |
| E Carry forward to 2020/21 agreed in advance | | | 0 |
| F Agreed initial budgeted distribution in 2019/20 | 54,099 | 226,514 | 280,613 |
| G In year adjustments | 65 | 47 | 112 |
| H Final budgeted distribution for 2019/20 | <u>54,164</u> | <u>226,561</u> | <u>280,725</u> |
| Less | | | |
| I Actual central expenditure | 63,885 | | 63,885 |
| Less | | | |
| J Actual ISB deployed to schools | | 226,561 | 226,561 |
| Plus | | | |
| K Local authority contribution for 2019/20 | 5,915 | - | 5,915 |
| L Carry forward to 2020/21 | <u>-3,806</u> | <u>0</u> | <u>-3,806</u> |

* Total carry-forward deficit (-£3.806m) is the carry forward deficit on central expenditure (L) (-£3.806m) plus carry forward on ISB (L) (£nil) plus carry forward 2020/21 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 2019/20 by the DfE for the conversion of maintained schools into Academies.
- C Total figure after EFA Academy recoupment for 2019/20.
- D Figure brought forward from 2018/19 as agreed with the Department.
- E Any amount which the council decided after consultation with the Schools Forum to carry forward to 2020/21 rather than distribute in 2019/20 – this may be the difference between estimated and final DSG for 2019/20, or a figure (positive or negative) brought forward from 2018/19 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 2019/20.

- 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 2019/20 which will have the effect of substituting for DSG in funding the Schools Budget.
- L Carry forward to 2020/21:
- 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 2020/21 already agreed (E).

New provisions have been put into Regulation 8, paragraphs (7) and (8), and Schedule 2 Part 8 of the School and Early Years Finance (England) Regulations 2020, so that local authorities are required to carry forward overspends of DSG to their schools budget either in the year immediately following or the year after. They can apply to the secretary of state to disregard this requirement. In the case of the secretary of state giving such permission, this may be for all or part of the sum requested by a local authority, and permission may be given subject to conditions.

All of the deficit will be carried forward into the financial year following the new year, using Regulation 8(7)(c).

This reflects the statutory requirement that a deficit must be carried forward to be funded from future DSG income, unless the secretary of state authorises the local authority not to do this.

36. Grant Income

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

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--|-----------------|
| | Credited to Taxation and Non Specific Grant Income: | |
| | Non Ring-fenced Government Grants: | |
| -41,860 | Revenue Support Grant | -27,621 |
| -70,009 | Top Up Grant | -71,613 |
| -8,528 | Section 31 Grants | -11,348 |
| -1,922 | Levy Account Surplus Grant | -427 |
| - | Covid 19 Support Grant | -18,588 |
| - | Social Care Support Grant | -4,822 |
| -6,504 | New Homes Bonus Scheme Grant | -6,709 |
| -47,488 | Capital Grants and Contributions | -37,652 |
| <u>-176,311</u> | | <u>-178,780</u> |

Grant and Contribution Income Credited to Services

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| | Credited to Services: | |
| -4,145 | Additional Grant for Schools | -3,401 |
| -622 | Apprenticeship Levy digital account | -1,165 |
| -1,264 | Arts Council England - NE | -1,268 |
| -24,959 | Clinical Commissioning Groups-Better Care Fund | -29,034 |
| -1,833 | DCSF Grant | -2,624 |
| -281,773 | Dedicated Schools Grant (DSG) | -281,074 |
| -775 | DEFRA Grant | -800 |
| -1,039 | Department of Health Grant | -1,091 |
| -1,342 | Discretionary Housing Payment Grant | -1,170 |
| -468 | Durham Police, Crime and Victims' Commissioner | -322 |
| - | DWP New Burdens Grant | -549 |
| -785 | Education Authorities-other | -745 |
| -8,313 | Education Funding Agency | -8,128 |
| -912 | Educational Visits | -930 |
| -3,733 | ERDF Grant | -4,048 |
| - | ESF Grant | -5,017 |
| -5,498 | General Contributions | -5,353 |
| -1,355 | Heritage Lottery Fund Grant | -795 |
| -791 | Home Office Grant - Syrian Vulnerable Persons | -1,870 |
| -2,018 | Housing Benefit - Admin Grant | -1,928 |
| -148,497 | Housing Benefit Grant - Rent Allowance | -129,699 |
| -476 | Housing Benefit Grant - Rent Rebate | -423 |
| -21,475 | Improved Better Care Fund | -29,959 |
| -927 | Local Council Tax Support Scheme Administration Grant | -916 |
| -4,481 | MHCLG Grant | -3,356 |
| -16,347 | NHS - Care Costs | -11,599 |
| -3,391 | NHS - Joint Arrangements | -3,190 |
| -586 | NNDR Cost of Collection Allowance | -581 |
| -15,692 | North East Combined Authority | -15,552 |
| -890 | Other Local Authorities | -977 |
| -5,519 | PFI Grants | -5,519 |
| -48,698 | Public Health Grant | -47,412 |
| -19,924 | Pupil Premium Grant | -19,644 |
| -2,834 | Skills Funding Agency | -3,023 |
| - | Teacher Pay Grant | -2,413 |
| - | Teacher Pension Grant | -4,860 |
| - | Think Family Grant | -1,726 |
| -4,496 | Universal Infant Free School Meals Grant | -4,045 |
| -612 | Youth Offending Teams Grant | -611 |
| -11,003 | Other Grants and Contributions | -6,379 |
| <u>-647,473</u> | | <u>-643,196</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:

| 2018-19 | | Capital Grants and Contributions Receipts in Advance | 2019-20 | |
|-------------------|--------------------|---|-------------------|--------------------|
| Long Term £000 | Short Term £000 | | Long Term £000 | Short Term £000 |
| - | - | Broadband Delivery UK | -3,294 | - |
| -104 | - | Darlington Borough Council | -104 | - |
| - | -929 | Department for Transport | -2,188 | -354 |
| - | - | Durham University | - | -50 |
| - | -67 | Education & Skills Funding Agency | - | -149 |
| - | - | European Commission | - | -281 |
| - | -169 | Gateshead Council | -108 | -61 |
| - | - | Groundwork North East | - | -26 |
| - | - | Heritage Lottery Fund | - | -18 |
| - | - | Highways England | - | -26 |
| - | -29 | Historic England | - | -10 |
| -1,257 | -272 | Home Loan Recycled Fund | -281 | -548 |
| -63 | - | Middlesbrough Council | -63 | - |
| - | -386 | Ministry of Housing, Communities and Local Govt | - | -746 |
| - | - | North East Combined Authority | - | - |
| - | -238 | North Tyneside Council | -167 | -71 |
| - | -2 | Public Health England | - | - |
| -170 | - | Redcar and Cleveland Borough Council | -170 | - |
| - | -83 | South Tyneside Council | -57 | -26 |
| -157 | - | Stockton Borough Council | - | -156 |
| -135 | - | Sunderland City Council | - | -58 |
| - | -205 | Tees Valley Combined Authority | -71 | -135 |
| -1 | -9 | Other | -1 | -7 |
| -1,887 | -2,389 | Total Capital Grants and Contributions Receipts in Advance | -6,504 | -2,722 |

37. 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 2019/20 is shown in Note 32.

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 £0.174m in 2019/20 (£0.197m in 2018/19). 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 £0.767m in 2019/20 (£0.676m in 2018/19)
- Groundwork North East, carrying out environmental works for which there were transactions of £0.767m in 2019/20 (£0.986m in 2018/19).
- Durham Community Action, formerly Durham Rural Community Council, providing support to communities throughout County Durham £0.189m in 2019/20 (£0.231m in 2018/19)
- Consett YMCA (Delta North) for work done with various schools £0.449m in 2019/20 (£0.407m in 2018/19)
- Durham Christian Partnership £0.091m in 2019/20 (£0.081m in 2018/19)
- Cornforth Partnership £0.129m in 2019/20 (£0.214m in 2018/19)
- Glebe Centre £0.020m in 2019/20 (£0.011m in 2018/19)
- Easington Regeneration Partnership £0.010m in 2019/20 (£0.009m in 2018/19)
- South Durham Enterprise Agency £0.009m in 2019/20 (£0.061m in 2018/19)
- Pelton Fell Community Partnership £0.020m in 2019/20 (£0.022m in 2018/19)
- Craghead Community Association £0.026m in 2019/20 (nil in 2018/19)
- Arts Council £0.005m in 2019/20 (£0.003m in 2018/19)

During 2019/20, works and services to the value of £0.188m (£0.169m in 2018/19) 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 of Resources | Deputy Section 73 Officer for North East Combined Authority |

The spouse of the Corporate Director of REAL declared she was the Head of Development at The Riverside Group for which there were no transactions in 2019/20 or 2018/19.

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 2019/20 have been prepared. In 2019/20 Chapter Homes Durham Limited had turnover of £4.740m (£8.230m in 2018/19), made a profit before taxation of £0.454m (£1.096m in 2018/19) no taxation has yet been determined, no dividend was paid. Chapter Homes had net assets of £4.076m at 31 March 2020 (£3.708m at 31 March 2019).

During 2019/20 Durham County Council paid Chapter Homes £1.359m (2018/19 nil) mainly due to a contribution towards S106 Affordable Housing instalments.

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 2019/20 have been prepared. In 2019/20 Forrest Park (Newton Aycliffe) Limited had losses of £0.039m before taxation (loss of £0.006m in 2018/19). The net assets of the company total £1.964m at 31 March 2020 (£2.002m at 31 March 2019).

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 2019/20 are not yet available, however the draft unaudited management accounts show at 31 March 2020 Durham Villages Regeneration Limited made an operating profit before taxation of £1.335m for 2019/20 (£0.147m for 2018/19) and estimated £1.081m for 2019/20 after taxation (£0.119m in 2018/19).

During 2019/20 Durham County Council received no income (2018/19 £0.119m) due to receipts for the share of the surplus generated in the business.

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 2020 are £3.782m (31 March 2019: £4.012m). 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.

During 2019/20 Durham County Council received income of £0.445m (2018/19 £0.445m) due to receipts for the share of the surplus generated in the business.

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 2020 are £0.868m (31 March 2019: £0.624m). 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.

During 2019/20 Durham County Council received income of £0.228m (2018/19 £0.107m) due to receipts for the share of the surplus generated in the business.

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 2019/20 have been prepared. In 2019/20 Service Direct NewCo Limited had turnover of £1.188m (2018/19: £1.175m), £0.004m operating profits before taxation (£0.003m: 2018/19), no dividend was paid, and had net assets of £0.022m at 31 March 2020 (£0.019m at 31 March 2019).

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 £7.120m (£10.658m in 2018/19). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The spread of Covid 19 led to a sudden decline in air travel which resulted in the value of the shareholding being impaired. 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. A dividend of £0.620m was received for the year ended 31 December 2019 (nil for the year ended 31 December 2018).

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 agreement stipulated that loan notes will be repayable in 2032 with interest being received up to that date on a six monthly basis. The airport company has advised that as a result of the effects of the Covid 19 pandemic on its expected financial performance it will not be in a position to make any further loan repayments until October 2022. Based on this information the council has calculated a modification loss of £0.796m, reducing the loan value to £8.589m. At 31 March 2020 the income from interest receivable was in arrears by £0.537m (£0.606m at 31 March 2019). Otherwise there are no outstanding balances owed to or from NIAL at the year end.

No accounts are available for the year ended 31 December 2019. 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 2019, Durham Tees Valley Airport Limited made a loss before taxation of £5.725m (loss of £1.994m for year ended 31 March 2018) and a loss of £4.291m after taxation (loss of £1.590m for year ended 31 March 2018). The Company accounts for 2019/20 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 2020 the council holds £3.439m (£3.740m at 31 March 2019) 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 2019 are not yet available. For the year ended 30 September 2018, the Company made a loss before tax of £1.155m and a loss after tax of £1.136m. In the previous year the Company made a profit before tax of £2.246m and a profit after tax of £2.228m.

Durham County Council Pension Fund

Durham County Council administers the Durham County Council Pension Fund on behalf of 115 bodies, including borough, parish and town councils, colleges, academy schools, statutory bodies and admitted bodies. During 2019/20, the Pension Fund had an average balance of £38.895m (£36.119m in 2018/19) of surplus cash deposited with the council. In 2019/20 the council paid the fund a total of £0.319m (£0.262m in 2018/19) in interest on these deposits.

38. 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.

| 2018-19 | | 2019-20 |
|----------------|---|----------------|
| £000 | | £000 |
| 458,829 | Opening Capital Financing Requirement | 457,660 |
| | Capital investment: | |
| 66,987 | Property, Plant and Equipment | 92,144 |
| 4,599 | Property, Plant and Equipment - Finance Leases | 5,634 |
| 63 | Heritage Assets | 122 |
| 1,713 | Intangible Assets | 1,865 |
| 1,809 | Acquisition of share and loan capital | 1,970 |
| 20,685 | Revenue Expenditure Funded from Capital under Statute | 14,027 |
| | Sources of finance: | |
| -9,391 | Capital receipts | -10,471 |
| -52,183 | Government grants and other contributions | -49,032 |
| | Sums set aside from revenue: | |
| -22,116 | - Direct revenue financing | -23,753 |
| -13,335 | - Minimum Revenue Provision | -14,071 |
| <u>457,660</u> | Closing Capital Financing Requirement | <u>476,095</u> |
| | Explanation of movements in year | |
| -5,525 | Increase/(decrease) in underlying need to borrow (supported by government financial assistance) | 12,801 |
| -243 | Increase/(decrease) in underlying need to borrow (unsupported by government financial assistance) | - |
| 4,599 | Assets acquired under finance leases | 5,634 |
| <u>-1,169</u> | Increase/(decrease) in Capital Financing Requirement | <u>18,435</u> |

39. Leases

Council as Lessee

Finance leases

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

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

| 31 March 2019 | | 31 March 2020 |
|----------------------|--|----------------------|
| £000 | | £000 |
| 2,485 | Other Land and Buildings | 2,274 |
| 13,325 | Vehicles, Plant, Furniture and Equipment | 14,622 |
| <u>15,810</u> | | <u>16,896</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 2019 | | 31 March 2020 |
|----------------------|--|----------------------|
| £000 | | £000 |
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 4,497 | Current | 4,605 |
| 38,214 | Non-Current | 38,060 |
| 18,183 | Finance costs payable in future years | 17,209 |
| <u>60,894</u> | Minimum lease payments | <u>59,874</u> |

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

| 31 March 2019 | | | 31 March 2020 | | |
|---|--|---|---|--|--|
| Minimum Lease Payments £000 | Finance Lease Liabilities £000 | | Minimum Lease Payments £000 | Finance Lease Liabilities £000 | |
| 5,759 | 4,497 | Not later than one year | 5,838 | 4,605 | |
| 12,800 | 8,820 | Later than one year and not later than five years | 13,128 | 9,236 | |
| 42,335 | 29,394 | Later than five years | 40,908 | 28,824 | |
| <u>60,894</u> | <u>42,711</u> | | <u>59,874</u> | <u>42,665</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 properties at Freemans' Reach that were acquired under a finance lease. The total of future minimum sublease payments expected to be received under these leases was £21.280m (£23.240m at 31 March 2019). This is included in the table showing minimum lease payments receivable from operating leases in future years, where the council is a lessor.

The Council is facilitating a major regeneration scheme in Durham City Centre comprising a mixed use development of homes, offices, restaurants, shops, a cinema and hotel. The development is being delivered and funded by the private sector. The Council is committed to taking a 35 year lease on practical completion of the development. In accordance with the Council's accounting policy, assets held under finance leases are recognised at the commencement of the lease, which has not taken place at this stage. The lease will be recognised and accounted for when the lease is actually completed which is anticipated to be at the time of practical completion of the development in November 2021.

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 2019 | | 31 March 2020 |
|----------------------|---|----------------------|
| £000 | | £000 |
| 2,562 | Not later than one year | 2,478 |
| 4,922 | Later than one year and not later than five years | 3,030 |
| 5,439 | Later than five years | 2,056 |
| <u>12,923</u> | | <u>7,564</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 2019 | | 31 March 2020 |
|----------------------|------------------------------|----------------------|
| £000 | | £000 |
| 588 | Minimum lease payments | 1,086 |
| -3,660 | Sublease payments receivable | -3,331 |
| <u>-3,072</u> | | <u>-2,245</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 childcare 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 2019 | | 31 March 2020 |
|----------------------|---|----------------------|
| £000 | | £000 |
| (Restated) | | |
| 7,739 | Not later than one year | 6,156 |
| 15,209 | Later than one year and not later than five years | 14,334 |
| 17,712 | Later than five years | 15,596 |
| <u>40,660</u> | | <u>36,086</u> |

The balances at 31 March 2019 have been restated so they are comparable to the figures at 31 March 2020. 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.

40. 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.

Two of the schools have become Academies since the construction date. Shotton Hall School became an Academy on 1 February 2011 and Sedgefield Community College became an Academy on 1 March 2020. The council has granted the Academies lease of the land and buildings at a peppercorn rent for 125 years. The PFI contract remains with

the council and the Academies have signed agreements with the council to cover the operation of the contract as it affects the Academies and the Academies' contributions to meeting the costs of the contract.

The assets associated with PFI schools that have transferred to academy status (Shotton Hall and Sedgefield Community College) are not reflected in the council's balance sheet as the assets were written out in 2010/11 and 2019/20 retrospectively.

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 2019 | | 31 March 2020 |
|----------------------|----------------------------|----------------------|
| £000 | | £000 |
| (restated) | | |
| 22,365 | Net book value at 1 April | 23,547 |
| 43 | Additions | 69 |
| -636 | Depreciation | -506 |
| 1,775 | Revaluations | - |
| - | Disposals | -18,993 |
| <u>23,547</u> | Net book value at 31 March | <u>4,117</u> |

2018/19 comparative figures have been restated to reflect final 2018/19 expenditure additions.

In addition to the net book value of £4.117m 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 £0.483m and the total net value of land and buildings for these schools carried forward is £4.600m.

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 2019/20 are summarised as follows:

| 31 March 2019 £000 | 31 March 2020 £000 |
|--|-----------------------|
| 39,173 Balance outstanding at start of year | 38,182 |
| -991 Payments during the year | -1,011 |
| 38,182 Balance outstanding at year-end | 37,171 |

Estimates of Future Payments Due

| | Payments for Services £000 | Reimbursement of Capital Expenditure £000 | Interest £000 | Total £000 |
|--|----------------------------------|--|------------------|---------------|
| Payable in 2020-21 | 2,751 | 1,059 | 3,771 | 7,581 |
| Payable within two to five years | 11,262 | 5,937 | 13,839 | 31,038 |
| Payable within six to ten years | 16,553 | 10,690 | 13,299 | 40,542 |
| Payable within eleven to fifteen years | 19,732 | 15,985 | 7,001 | 42,718 |
| Payable within sixteen to twenty years | 2,853 | 3,499 | 355 | 6,707 |
| Total | 53,151 | 37,170 | 38,265 | 128,586 |

Contract payments are partially linked to inflation as measured by the RPIX index (all items excluding Mortgage Interest Payments). These estimates assume that after 2019/20 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 council recognised a cash lump sum gain of £2.881m from a re-financing exercise in 2018/19 and there are no plans for further re-financing at this stage.

41. Impairment and Revaluation Losses

The value of the council's assets has been reduced by £57.324m in 2019/20 (£44.468m in 2018/19), 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.

42. Termination Benefits

The council terminated the contracts of a number of employees in 2019/20. The value of the redundancy payments charged to services in 2019/20 was £3.439m and in 2018/19 was £3.519m. The following table analyses the payments made in the relevant financial years. The majority of the payments made in 2019/20 were due to the rationalisation of services within the council.

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--------------------------------------|-----------------|
| 1,267 | Adult and Health Services | 228 |
| 1,667 | Children and Young People's Services | 1,282 |
| 311 | Regeneration and Local Services | 335 |
| 111 | Resources | 349 |
| 163 | Transformation and Partnerships | 1,245 |
| 3,519 | | 3,439 |

In addition to the above redundancy payments, the pension enhancement value in 2019/20 was £1.821m and in 2018/19 was £2.325m.

43. 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 2019/20, the council paid £23.242m to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% to 31 August 2019 and 23.68% from 1 September 2019 of pensionable pay (£18.481m or 16.48% in 2018/19). 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 £26.024m.

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 44.

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 2019/20, the council paid £0.063m to the NHS Pension scheme in respect of former NHS staff retirement benefits, representing 16.88% of pensionable pay (£0.067m or 14.38% in 2018/19). 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 £0.058m.

44. 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 six 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 council 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:

| 2018-19 | | | 2019-20 | |
|---|---|--|---|---|
| Local Government Pension Scheme £000 | Discretionary Benefits Arrangements £000 | | Local Government Pension Scheme £000 | Discretionary Benefits Arrangements £000 |
| Comprehensive Income and Expenditure Statement | | | | |
| Cost of services: | | | | |
| Service cost comprising: | | | | |
| 70,320 | - | - Current service cost | 89,030 | - |
| 51,460 | - | - Past service cost (including curtailments) | - | - |
| Financing and Investment Income and Expenditure: | | | | |
| 28,470 | 1,730 | - Net interest on net defined benefit liability | 27,420 | 1,480 |
| 150,250 | 1,730 | Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services | 116,450 | 1,480 |
| Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement: | | | | |
| Remeasurement of the net defined benefit liability comprising: | | | | |
| -104,960 | - | - Return on plan assets (excluding the amount included in the net interest expense) | 157,990 | - |
| 163,360 | 1,440 | - Actuarial gains and losses due to changes in financial assumptions | -77,110 | -440 |
| -121,130 | -3,010 | - Actuarial gains and losses due to changes in demographic assumptions | -92,010 | -1,090 |
| 4,640 | 190 | - Actuarial gains and losses due to liability experience | 46,990 | -300 |
| 92,160 | 350 | Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement | 152,310 | -350 |
| Movement in Reserves Statement | | | | |
| -150,250 | -1,730 | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code | -116,450 | -1,480 |
| Actual amount charged against the General Fund Balance for pensions in the year: | | | | |
| 63,245 | - | - Employer's contributions payable to the scheme | 66,119 | - |
| - | 5,128 | - Direct retirement benefits payable to pensioners | - | 4,971 |

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:

| 2018-19 | | | 2019-20 | | |
|---|---|---|---|---|--|
| Funded Liabilities: Local Government Pension Scheme | Unfunded Liabilities: Discretionary Benefits Arrangements | | Funded Liabilities: Local Government Pension Scheme | Unfunded Liabilities: Discretionary Benefits Arrangements | |
| £000 | £000 | | £000 | £000 | |
| -3,132,620 | -64,370 | Present value of the defined benefit obligation | -3,098,380 | -58,940 | |
| 1,968,460 | - | Fair value of plan assets | 1,823,960 | - | |
| <u>-1,164,160</u> | <u>-64,370</u> | Net liability arising from defined benefit obligation | <u>-1,274,420</u> | <u>-58,940</u> | |
| 445 | 28 | Difference between actuary's figures and actual contributions | 2,179 | -111 | |
| <u>-1,163,715</u> | <u>-64,342</u> | Adjusted Total* | <u>-1,272,241</u> | <u>-59,051</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 2019/20, the net liability arising from defined benefit obligation has been increased by £3.260m (2018/19: reduced by £3.110m) to recognise:

- the transfer to academy status of two schools since the last actuarial valuation on 31 March 2019 (2018/19: three schools since the previous 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 increase is made up of a £2.930m increase in assets and a £6.190m increase in liabilities (2018/19: £3.820m increase in assets and £0.710m increase in liabilities), which are shown in the following tables.

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

| 2018-19 | | | 2019-20 | | |
|---|---|--|---|---|--|
| Funded Liabilities: Local Government Pension Scheme | Unfunded Liabilities: Discretionary Benefits Arrangements | | Funded Liabilities: Local Government Pension Scheme | Unfunded Liabilities: Discretionary Benefits Arrangements | |
| £000 | £000 | | £000 | £000 | |
| 1,847,680 | - | Opening fair value of scheme assets | 1,968,460 | - | |
| 47,700 | - | Interest Income | 46,850 | - | |
| 104,960 | - | Remeasurement gain / loss (-) | -157,990 | - | |
| 44,170 | 5,100 | Contributions from employer | 45,310 | 5,080 | |
| 14,410 | - | Contributions from employees into the scheme | 15,640 | - | |
| -94,280 | -5,100 | Benefits paid | -97,240 | -5,080 | |
| 3,820 | - | Net increase in assets from disposals / acquisitions | 2,930 | - | |
| <u>1,968,460</u> | - | Closing fair value of scheme assets | <u>1,823,960</u> | - | |

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

| 2018-19 | | | 2019-20 | | |
|---|---|--|---|---|--|
| Funded Liabilities: Local Government Pension Scheme | Unfunded Liabilities: Discretionary Benefits Arrangements | | Funded Liabilities: Local Government Pension Scheme | Unfunded Liabilities: Discretionary Benefits Arrangements | |
| £000 | £000 | | £000 | £000 | |
| 2,966,960 | 69,120 | Opening balance at 1 April | 3,132,620 | 64,370 | |
| 70,320 | - | Current service cost | 89,030 | - | |
| 76,170 | 1,730 | Interest cost | 74,270 | 1,480 | |
| 14,410 | - | Contributions by scheme participants | 15,640 | - | |
| 163,360 | 1,440 | Remeasurement gains (-) and losses: | -77,110 | -440 | |
| | | Actuarial gains and losses due to changes in financial assumptions | | | |
| -121,130 | -3,010 | Actuarial gains and losses due to changes in demographic assumptions | -92,010 | -1,090 | |
| 4,640 | 190 | Actuarial gains and losses due to liability experience | 46,990 | -300 | |
| 51,460 | - | Past service cost (including curtailments) | - | - | |
| -94,280 | -5,100 | Benefits paid | -97,240 | -5,080 | |
| 710 | - | Net increase in liabilities from disposals / acquisitions | 6,190 | - | |
| <u>3,132,620</u> | <u>64,370</u> | Closing balance at 31 March | <u>3,098,380</u> | <u>58,940</u> | |

Local Government Pension Scheme Assets comprised:

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

| 31 March 2019 | | | 31 March 2020 | | | |
|-------------------------------------|----------------|------------------|-------------------------------------|------------------|----------------|------------------|
| Fair Value of scheme assets £000 | | | Fair Value of scheme assets £000 | | | |
| Quoted | Unquoted | Total | | Quoted | Unquoted | Total |
| 982,262 | - | 982,262 | Equity investments | 855,437 | 3,648 | 859,085 |
| 25,590 | 120,076 | 145,666 | Property | 21,888 | 125,853 | 147,741 |
| 513,768 | - | 513,768 | Government bonds | 519,829 | - | 519,829 |
| 228,341 | - | 228,341 | Corporate bonds | 224,347 | - | 224,347 |
| 98,423 | - | 98,423 | Cash | 72,958 | - | 72,958 |
| 1,848,384 | 120,076 | 1,968,460 | Total | 1,694,459 | 129,501 | 1,823,960 |

A small proportion (7%) of the Pension Fund's investments are in unquoted property assets. As none of these investments are publicly listed there is a degree of estimation involved in the valuations. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, a material valuation uncertainty clause has been included in a number of the Pension Fund's property valuation reports due to the possible impact of Covid 19. Therefore there is less certainty and a higher degree of caution should be attached to the valuations of these unquoted assets than would normally be the case. There is a risk that current valuations may be under or over stated in the accounts.

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 2019.

The principal assumptions used by the actuary are:

| 2018-19 | | | 2019-20 | |
|--|-------------------------------------|---|---------------------------------|-------------------------------------|
| Local Government Pension Scheme | Discretionary Benefits Arrangements | | Local Government Pension Scheme | Discretionary Benefits Arrangements |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| 22.6 | 22.6 | - Men | 22.2 | 22.2 |
| 24.1 | 24.1 | - Women | 24.2 | 24.2 |
| Longevity at 65 for future pensioners: | | | | |
| 24.3 | n/a | - Men | 23.2 | n/a |
| 25.9 | n/a | - Women | 25.7 | n/a |
| Principal financial assumptions (% per annum) | | | | |
| 2.4 | 2.4 | - Rate for discounting scheme liabilities | 2.3 | 2.3 |
| 2.2 | 2.2 | - Rate of inflation (CPI) | 2.0 | 2.0 |
| 2.2 | 2.2 | - Rate of increase in pensions | 2.0 | 2.0 |
| 3.7 | n/a | - Rate of increase in salaries | 3.0 | 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 2018/19.

The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 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) | 3,039,510 | 3,098,380 | 3,160,350 |
| Change in present value of total obligation | -1.9% | | 2.0% |
| Projected service cost (£000) | 82,850 | 85,860 | 88,950 |
| Approximate change in projected service cost | -3.5% | | 3.6% |

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) | 3,107,680 | 3,098,380 | 3,089,080 |
| Change in present value of total obligation | 0.3% | | -0.3% |
| Projected service cost (£000) | 85,860 | 85,860 | 85,860 |
| 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) | 3,151,050 | 3,098,380 | 3,045,710 |
| Change in present value of total obligation | 1.7% | | -1.7% |
| Projected service cost (£000) | 88,950 | 85,860 | 82,850 |
| Approximate change in projected service cost | 3.6% | | -3.5% |

Post retirement mortality assumption

| Adjustment to mortality age rating assumption * | - 1 year | Base Figure | + 1 year |
|--|-----------------|--------------------|-----------------|
| Present value of total obligation (£000) | 3,200,630 | 3,098,380 | 2,999,230 |
| Change in present value of total obligation | 3.3% | | -3.2% |
| Projected service cost (£000) | 89,210 | 85,860 | 82,510 |
| Approximate change in projected service cost | 3.9% | | -3.9% |

* 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 18 years from 1 April 2020. 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 £59.800m contributions to the scheme in 2020/21 (£43.630m in 2019/20). This includes a £29.720m payment in April 2020 in respect of amounts due from 2020/21 to 2022/23 (£nil advance payment paid in 2018/19). The advance payment in respect of 2021/22 and 2022/23 will be held on the Balance Sheet and the charge will be released to the Comprehensive Income and Expenditure Statement in those years, £9.907m each year.

The weighted average duration of the defined benefit obligation for scheme members is 19.7 years at 31 March 2020 (18.2 years at 31 March 2019).

45. 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 £7.2m.

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.

In 2018/19 a provision was 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. During 2019/20 the NHS Foundation Trusts lost the case at the High Court but have submitted an appeal, which will be heard in due course. The provision included in the Collection Fund and the council's General Fund at 31 March 2020 has been reduced to 30%. However, as the potential full value and timing of this liability is still 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.

h) Covid 19 Related Expenditure

The Covid 19 outbreak will have a significant financial impact on the council in 2020/21 with the impact then likely to be felt in future years. The council began to experience the impact of the outbreak in March 2020 when a number of front line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond.

The council's spending has also significantly increased to cope with the outbreak. Although government initially indicated that it would fund all additional costs associated with the pandemic, this is no longer a certainty. Local authorities may be expected to use their own reserves to fund any shortfall in future funding.

The financial impact on the council for 2020/21 has been assessed and is being closely monitored and reviewed. Accurate forecasts are very difficult at this time due to the level of uncertainty, but early estimations indicate that government funding may not be sufficient to cover the full impact of Covid 19. The main area of concern is the council's share of the Collection Fund deficits in future years for council tax and business rates if the county were to experience further job losses or business failure. The council feels it prudent therefore, to include a contingent liability for the funding gap between the government grants receivable and additional costs/lost income.

46. Contingent Assets

LSVT - VAT Shelter

The council and a number of registered providers in Durham have in place VAT shelter arrangements agreed at the time when the stock was transferred to those registered providers under LSVT, to enable them 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. The council is entitled to a 50% share of VAT recovered by the registered providers from this VAT shelter arrangement. Under the VAT shelter arrangements, during 2019/20, the council received and recognised £1.999m from three registered providers, namely Believe, Livin and North Star.

47. 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.

48. Exceptional Items

There were no exceptional items in 2019/20.

49. 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 2019 | | 31 March 2020 |
|----------------------|---|----------------------|
| £000 | | £000 |
| | Funding Provided to BCF | |
| 21,475 | Local Authority (revenue) | 29,959 |
| 5,708 | Local Authority (capital) | 6,159 |
| <u>41,167</u> | CCGs | <u>43,032</u> |
| 68,350 | | 79,150 |
| | Expenditure met from BCF | |
| 46,435 | Local Authority (revenue) | 58,994 |
| 5,708 | Local Authority (capital) | 6,159 |
| <u>16,207</u> | CCGs | <u>13,997</u> |
| 68,350 | | 79,150 |
| <u>-</u> | Net (-) surplus / deficit on pooled budget | <u>-</u> |
| - | Authority share of the net surplus / deficit arising from pooled budget | - |

50. Prior Period Adjustments (PPAs)

There were no prior period adjustments in 2019/20.

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

| 2018-19 | | 2019-20 | | |
|----------------------|---|------------------------|----------------------|-----------------------|
| | | Council Tax £000 | NNDR £000 | Total £000 |
| | Income | | | |
| -264,504 | Council Tax due from Taxpayers | -282,055 | - | -282,055 |
| -117,226 | Income from Business Ratepayers | - | -119,054 | -119,054 |
| <u>-381,730</u> | Total Income | <u>-282,055</u> | <u>-119,054</u> | <u>-401,109</u> |
| | Expenditure | | | |
| | Precepts and Demands | | | |
| 222,257 | Durham County Council | 235,424 | - | 235,424 |
| 25,087 | Durham Police, Crime and Victims' Commissioner | 28,680 | - | 28,680 |
| 13,915 | County Durham & Darlington Fire & Rescue Authority | 14,463 | - | 14,463 |
| | Payment of Previous Year's Surplus | | | |
| 2,938 | Central Government | - | 736 | 736 |
| 7,506 | Durham County Council | 1,431 | 721 | 2,152 |
| 543 | Durham Police, Crime and Victims' Commissioner | 173 | - | 173 |
| 372 | County Durham & Darlington Fire & Rescue Authority | 111 | 15 | 126 |
| | Business Rates | | | |
| 52,840 | Payment to Central Government | - | 55,375 | 55,375 |
| 1,057 | Payment to County Durham and Darlington Fire & Rescue Authority | - | 1,107 | 1,107 |
| 51,890 | Payment to Durham County Council, including Renewable Energy | - | 54,401 | 54,401 |
| 14 | Payment to Durham County Council, Renewable Energy - Prior year's surplus | - | 72 | 72 |
| 586 | Costs of Collection - Business Rates | - | 581 | 581 |
| | Bad & Doubtful Debts | | | |
| 3,883 | Write Offs | 2,145 | 1,577 | 3,722 |
| 29 | Change in Provision for Bad Debts | 998 | -342 | 656 |
| 5,013 | Provision for Appeals | - | -2,326 | -2,326 |
| <u>387,930</u> | Total Expenditure | <u>283,425</u> | <u>111,917</u> | <u>395,342</u> |
| 6,200 | Movement on Fund Balance | 1,372 | -7,136 | -5,764 |
| -10,626 | Surplus(-) /Deficit on Fund Brought Forward | -1,592 | -2,834 | -4,426 |
| <u>-4,426</u> | Fund Balance Carried Forward | <u>-220</u> | <u>-9,970</u> | <u>-10,190</u> |
| | Allocated to : | | | |
| -2,695 | Durham County Council | -184 | -4,875 | -5,059 |
| -161 | Durham Police, Crime and Victims' Commissioner | -24 | - | -24 |
| -117 | County Durham and Darlington Fire & Rescue Authority | -12 | -99 | -111 |
| -1,381 | Central Government | - | -4,975 | -4,975 |
| -72 | Durham County Council - Renewable Energy | - | -21 | -21 |
| <u>-4,426</u> | | <u>-220</u> | <u>-9,970</u> | <u>-10,190</u> |

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 2019/20.

| Property Value | Council Band | Number of Properties | Proportion of Band 'D' | Band 'D' Equivalent Properties |
|---|--------------|----------------------|------------------------|--------------------------------|
| 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) 2019/20: | | | | 139,738.8 |
| The Council Tax Base for 2018/19 was | 138,419.2 | | | |

In 2019/20, the Band D charge was £1,899.39 (£1,796.82 in 2018/19) made up of Durham County Council £1,590.65 (£1,515.05 in 2018/19), Durham Police, Crime and Victims' Commissioner £205.24 (£181.24 in 2018/19) and County Durham and Darlington Fire and Rescue Authority £103.50 (£100.53 in 2018/19). In addition, Band D Town and Parish precepts between £0 and £303.38 (£0 and £296.44 in 2018/19) 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 £1.074m surplus for 2019/20, which will be distributed to major preceptors during 2020/21. At 31 March 2020, the actual outturn was a surplus of £0.220m (surplus of £1.592m at 31 March 2019).

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 2020 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 | 2019/20 | 20% |
| | 2018/19 | 45% |
| | 2017/18 | 85% |
| | 2016/17 | 95% |
| | 2014/15 & 2015/16 | 99% |
| | 2013/14 & older | 100% |
| 2. First, second or final reminder | 2019/20 | 35% |
| | 2018/19 | 60% |
| | 2017/18 | 85% |
| | 2016/17 | 95% |
| | 2014/15 & 2015/16 | 99% |
| | 2013/14 & older | 100% |
| 3. Summons (including liability orders, bailiff and bankruptcy) | 2019/20 | 50% |
| | 2018/19 | 80% |
| | 2017/18 | 85% |
| | 2016/17 | 95% |
| | 2014/15 & 2015/16 | 99% |
| | 2013/14 & older | 100% |

At 31 March 2020, the calculated provision of £19.263m covered 71% of arrears (£18.264m, 76% at 31 March 2019).

Collection Fund – Council Tax Balance

The Collection Fund - Council Tax balance at 31 March 2020 amounted to a surplus of £0.220m (surplus of £1.592m at 31 March 2019).

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 | -184 | -16,134 | 22,766 | -3,046 |
| Durham Police, Crime & Victims' Commissioner | -24 | -2,100 | 2,963 | -396 |
| County Durham & Darlington Fire & Rescue Authority | -12 | -1,029 | 1,451 | -194 |
| Total Allocated | -220 | -19,263 | 27,180 | -3,636 |

iii. Business Rates (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 2019/20, the general multiplier was £0.504 (£0.493 in 2018/19) and the small business multiplier was £0.491 (£0.480 in 2018/19). The total non-domestic rateable value for Durham County Council at 31 March 2020 was £316.542m in accordance with the VOA schedule dated 18 March 2020 (£314.922m at 31 March 2019).

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 2019/20 were estimated before the start of the year on the NNDR1 return, a statutory document submitted in January 2019. In addition, during 2019/20, the estimated surplus for 2018/19 was paid to shareholders as shown in the Income and Expenditure Account.

The estimated outturn for 2019/20 was included on the NNDR1 for 2020/21, submitted in January 2020. This predicted a surplus of £1.717m (surplus £1.472m estimated for 2018/19) of which Durham County Council's share would be £0.841m (surplus of £0.721m for 2018/19). 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 2020, the actual outturn was a surplus of £9.970m (surplus of £2.834m in 2018/19). Income from Renewable Energy amounted to £0.155m (£0.178m in 2018/19).

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 2020 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 | 2019/20 | 20% |
| | 2018/19 | 50% |
| | 2017/18 and older | 100% |
| 2. First, second or final reminder | 2019/20 | 35% |
| | 2018/19 | 65% |
| | 2017/18 and older | 100% |
| 3. Summons (including liability orders, bailiff and bankruptcy) | 2019/20 | 50% |
| | 2018/19 | 90% |
| | 2017/18 and older | 100% |

At 31 March 2020, the calculated provision of £2.611m covered 57.27% of arrears (£2.953m, 64.11% at 31 March 2019).

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 2020, the provision for appeals was estimated at £26.957m (£29.283m at 31 March 2019).

Collection Fund Balance - Business Rates

The Collection Fund – Business Rates balance at 31 March 2020 amounted to a surplus of £9.970m (surplus of £2.834m at 31 March 2019).

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 2020.

| 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 | -4,896 | -1,279 | 2,231 | -601 | -13,208 |
| Central Government | -4,975 | -1,305 | 2,276 | -613 | -13,478 |
| County Durham & Darlington Fire & Rescue Authority | -99 | -26 | 46 | -12 | -270 |
| Total Allocated | -9,970 | -2,610 | 4,553 | -1,226 | -26,956 |

Independent Auditor's Report To The Members Of Durham County Council Pension Fund

Report on the financial statements

Opinion

We have audited the financial statements of Durham County Council Pension Fund ('the Pension Fund') for the year ended 31 March 2020, 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 2019/20.

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 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis of opinion

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

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's level 3 unquoted property investments as at 31 March 2020. The outbreak of Covid-19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, a material valuation uncertainty clause has been included in a number of valuation reports due to the possible impact of Covid-19. Therefore there is less certainty and a higher degree of caution should be attached to the valuation of level 3 unquoted property investments than would normally be the case. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

- the Corporate Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Corporate Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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 opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of the Corporate Director of Resources for the financial statements

As explained more fully in the Statement 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 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 2019/20, 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 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The

Corporate Director of Resources is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Durham County Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 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.

Certificate

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

Mark Kirkham
For and on behalf of Mazars LLP
Salvus House
Aykley Heads
Durham
DH1 5TS
30 October 2020

Fund Account

| 2018-19 | | | | 2019-20 | |
|--|-----------------|---|-------|----------|----------------|
| £000 | £000 | | Notes | £000 | £000 |
| DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE FUND | | | | | |
| -99,068 | | Contributions receivable | 8 | -106,029 | |
| -4,033 | | Transfers in from other pension funds | 9 | -8,910 | |
| -3 | | Other income | | -4 | |
| | -103,104 | | | | -114,943 |
| 126,503 | | Benefits payable | 10 | 126,817 | |
| 6,624 | | Payments to and on account of leavers | 11 | 12,556 | |
| | 133,127 | | | | 139,373 |
| | 30,023 | Net withdrawals/ -additions from dealings with members, employers and others | | | 24,430 |
| | 15,458 | Management expenses | 12 | | 15,589 |
| | 45,481 | Net withdrawals/ -additions including Fund Management Expenses | | | 40,019 |
| RETURN ON INVESTMENTS | | | | | |
| - 26,513 | | Investment income | 13 | -30,524 | |
| -199,268 | | Profit and losses on disposal of investments and change in market value of investments | 15 | 186,297 | |
| | -225,781 | Net returns on investments | | | 155,773 |
| | -180,300 | NET -INCREASE/ DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR | | | 195,792 |

Net Assets Statement

| 31 March 2019 | | | 31 March 2020 | |
|--------------------------------|---|-------------------------------------|---------------|-------------------------|
| £000 | £000 | Notes | £000 | £000 |
| INVESTMENT ASSETS | | | | |
| 348,884 | | Equities | 15 | 276,336 |
| 575,582 | | Bonds | 15 | 624,790 |
| - | | Infrastructure | 15 | 3,696 |
| <u>1,962,121</u> | | Pooled investment vehicles | 15 | <u>1,807,754</u> |
| | 2,886,587 | | | 2,712,576 |
| 279 | | Loans | 15 | 252 |
| | | Other cash deposits: | | |
| 40,910 | | Fund Managers | 15 | 52,716 |
| 36,933 | | Short term investments | 15 | 32,720 |
| 7,052 | | Derivative contracts | 15 | 15,898 |
| | <u>85,174</u> | | | <u>101,586</u> |
| | 2,971,761 | | | 2,814,162 |
| Other Investment Assets | | | | |
| 1,642 | | Dividend accruals | 15,18 | 1,594 |
| 639 | | Tax recovery | 15,18 | 725 |
| 27,214 | | Other investment balances | 15,18 | <u>9,030</u> |
| | <u>29,495</u> | | | <u>11,349</u> |
| 3,001,256 | Total Investment Assets | | | 2,825,511 |
| INVESTMENT LIABILITIES | | | | |
| -3,993 | | Derivative contracts | 15 | -16,378 |
| -18,486 | | Other investment balances | 19 | -24,998 |
| | <u>-22,479</u> | Total Investment Liabilities | | <u>-41,376</u> |
| 2,978,777 | NET INVESTMENT ASSETS | | | 2,784,135 |
| 208 | Long Term Assets | 18 | | - |
| Current assets | | | | |
| 8,189 | | Contributions due from employers | 18 | 8,436 |
| <u>1,862</u> | | Other current assets | 18 | <u>1,101</u> |
| | 10,051 | | | 9,537 |
| Current liabilities | | | | |
| <u>-6,997</u> | | Current liabilities | 19 | <u>-7,425</u> |
| | <u>-6,997</u> | | | <u>-7,425</u> |
| <u>2,982,039</u> | NET ASSETS OF THE FUND AVAILABLE TO PAY BENEFITS AT 31 MARCH | | | <u>2,786,247</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.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-----------------------|---------|---------|---------|---------|---------|
| Contributing Members | 18,530 | 18,630 | 19,219 | 20,116 | 20,901 |
| Pensioners in Payment | 17,715 | 18,139 | 18,618 | 19,404 | 20,109 |
| Pensioners Deferred | 14,451 | 15,104 | 15,746 | 15,987 | 16,420 |

In comparison to the figures reported at 31 March 2019, the number of pensionable employees in the Fund at 31 March 2020 has increased by 785 (3.90%), the number of pensioners has increased by 705 (3.63%) and deferred pensioners have increased by 433 (2.71%).

Contributions represent the total amounts receivable from:

- employing authorities (of which there were 115 at 31 March 2020), 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.

| 2018-19 | | | 2019-20 | |
|----------------|----------------|-------------------------|----------------|-----------------|
| Benefits | Contributions | | Benefits | Contributions |
| £000 | £000 | | £000 | £000 |
| 94,357 | -59,075 | Administering Authority | 93,368 | -62,686 |
| 24,210 | -31,424 | Scheduled Bodies | 25,785 | -34,213 |
| 7,936 | -8,569 | Admission Bodies | 7,664 | -9,130 |
| 126,503 | -99,068 | | 126,817 | -106,029 |

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 2019/20 (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 2019/20, the results of which determined the contribution rates effective from 1 April 2020 to 31 March 2023. 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 2019/20 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 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;
- 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;
- investments in private equity funds and unquoted infrastructure funds are valued based on the fund's share of the net assets in the private equity fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows;
- 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.

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.
- The outbreak of Covid 19 has had a significant impact on global financial markets. The Fund's basis of valuation for each class of financial investment is set out in Note 4: Statement of Accounting Policies and there have been no changes to the valuation techniques used in the year. A significant proportion of the Fund's investments relate to Level 1 assets where there is a readily available daily bid market price, and Level 2 assets where the fair value can be determined based on other market data or market prices.

A small proportion (7%) of the Fund's investments relate to Level 3 assets, unquoted property assets. As none of these investments are publicly listed, there is a degree of estimation involved in the valuations. The impact of Covid 19 has resulted in a significant reduction in the number of transactions in the market and consequently the relevant observable data available upon which to base a valuation judgement. As such, a material valuation uncertainty clause has been included in a number of valuation reports due to the possible impact of Covid 19. Therefore there is less certainty and a higher degree of caution should be attached to our valuations of Level 3 property assets than would normally be the case. There is a risk that current valuations may be under or over stated in the accounts.

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 94% as at 31 March 2019 (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"> - 86% if life expectancy increases by 2 years - 78% if discount rate falls by 1% - 78% if inflation increases by 1% - 82% if equities fall by 25% - 91% if pensionable pay increases by 1% |
| Private Equity and Infrastructure | Private equity, infrastructure and global property are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation. | The Fund has a total of £2.91m included for private equity and £3.70m for infrastructure. Based on the sensitivity numbers included in Note 17 there is a possibility that this could be under or over stated in the accounts by £1.06m, and £0.63m respectively. |
| Fair Value of Investments | The Accounts are as at 31 March 2020 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 £193.1m at 31/3/20 (£171.0m at 31/3/19). This consists of the Fund's unlisted property holding, private equity and private infrastructure. 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 £28.17m (£23.77m at 31/3/19), 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 2020 which require any adjustments to be made to these accounts.

8. Contributions Receivable

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--------------------------------|-----------------|
| | Employer contributions: | |
| -63,158 | Normal | -68,437 |
| -4,247 | Augmentation | -2,738 |
| -7,293 | Deficit funding | -8,662 |
| | Member contributions: | |
| -24,298 | Normal | -26,111 |
| -72 | Additional contributions | -81 |
| -99,068 | | -106,029 |
| -59,075 | Administering Authority | -62,686 |
| -31,424 | Scheduled Bodies | -34,213 |
| -8,569 | Admission Bodies | -9,130 |
| -99,068 | | -106,029 |

9. Transfers in From Other Pension Funds

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|----------------------|-----------------|
| -4,033 | Individual Transfers | -8,910 |
| -4,033 | | -8,910 |

10. Benefits Payable

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| 102,008 | Pensions | 107,103 |
| 26,989 | Commutations and lump sum retirement benefits | 22,017 |
| 1,944 | Lump sum death benefits | 1,999 |
| -4,438 | Recharged benefits | -4,302 |
| 126,503 | | 126,817 |
| 94,357 | Administering Authority | 93,368 |
| 24,210 | Scheduled Bodies | 25,785 |
| 7,936 | Admission Bodies | 7,664 |
| 126,503 | | 126,817 |

11. Payments To and On Account of Leavers

| 2018-19 | | | 2019-20 | |
|--------------|--|---|---------------|--------|
| £000 | | | £000 | |
| 256 | | Refunds to members leaving service | | 332 |
| 1 | | Payments for members joining state scheme | | 72 |
| 6,367 | | Individual transfers to other schemes | | 12,152 |
| 6,624 | | | 12,556 | |

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.

| 2018-19 | | | 2019-20 | |
|---------|---------------|--------------------------------|---------|---------------|
| £000 | £000 | | £000 | £000 |
| | 996 | Administration expenses | | 1,124 |
| | | Investment Management expenses | | |
| 11,202 | | Management fees | 9,109 | |
| 203 | | Performance fees | 410 | |
| 158 | | Custody fees | 136 | |
| 1,914 | | Transaction costs | 3,827 | |
| | 13,477 | | | 13,482 |
| | 985 | Oversight and Governance costs | | 983 |
| | 15,458 | | | 15,589 |

Included within oversight and governance costs is the external audit fee payable to Mazars LLP in 2019/20 of £0.032m (£0.025m in 2018/19). Included in the 2019/20 audit fee is £9,060 for audit work undertaken on behalf of auditors of fund employers 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 2019/20 in respect of non-audit work.

13. Investment Income

| 2018-19 £ 000 | | 2019-20 £ 000 |
|------------------|--|------------------|
| -2,659 | Interest from bonds | -2,829 |
| -9,997 | Dividends from equities | -9,197 |
| -847 | Interest on cash deposits | -742 |
| -13,010 | Income from pooled investment vehicles | -17,756 |
| -26,513 | | -30,524 |

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 2019/20 to manage the Pension Fund's assets:

- Aberdeen Standard Investments
- 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)
- Border to Coast Pension Partnership (BCPP)

Durham County Council is one of twelve equal partners in the Border to Coast Pension Partnership Ltd (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 be transferred to BCPP as and when BCPP launch investment funds which match our investment strategy and satisfy due diligence. BCPP will be responsible for managing investments in line with the investment strategy and asset allocation requirements as instructed by the Fund.

In line with the Fund's strategic asset allocation, during 2019/20, the Fund started to invest in private markets through BCPP and successfully transferred all of its global equity allocation to the Pool.

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

| 31 March 2019 | Asset Class | 31 March 2020 |
|---------------|---------------------------------|---------------|
| % | | % |
| 40 | Global equities | 40 |
| 15 | Global Bonds | 15 |
| 0 | Dynamic Asset Allocation | 0 |
| 8 | Global property | 13 |
| 10 | Private Markets | 10 |
| 7 | Emerging Market Equities | 7 |
| 20 | Investment grade sterling bonds | 15 |
| 100 | | 100 |

Although the strategic asset allocation was reviewed and agreed during 2019/20, funds have yet to be transferred into BCPP as we await the required product launch. Due to the requirement to pool our assets, asset reallocation has temporarily been suspended and consequently 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 2019 | | | | 31 March 2020 | |
|---|---------------|--------------------|---------------------------------|------------------|---------------|
| £000 | % | Investment Manager | Asset Class | £000 | % |
| <u>Investments managed by BCPP asset pool:</u> | | | | | |
| - | 0.00 | | Global Equities | 976,643 | 35.32 |
| - | 0.00 | | Private Equity | 2,907 | 0.11 |
| - | 0.00 | | Infrastructure | 3,696 | 0.13 |
| 0 | 0 | | | 983,246 | 35.56 |
| <u>Investments managed outside of BCPP asset pool:</u> | | | | | |
| 487,448 | 16.63 | Aberdeen Standard | Global Equities | - | 0.00 |
| 401,460 | 13.70 | AB | Global Bonds | 391,519 | 14.16 |
| 566,360 | 19.33 | BNYM | Global Equities | - | 0.00 |
| 477,375 | 16.29 | BlackRock | Dynamic Asset Allocation | 385,835 | 13.96 |
| 218,754 | 7.46 | CBRE | Global property | 227,434 | 8.23 |
| 215,055 | 7.34 | Mondrian | Emerging Market Equities | 184,824 | 6.68 |
| 563,271 | 19.22 | RLAM | Investment grade sterling bonds | 591,121 | 21.38 |
| 833 | 0.03 | BCPP | Unquoted UK Equity | 833 | 0.03 |
| 2,930,556 | 100.00 | | | 1,781,566 | 64.44 |
| 2,930,556 | 100.00 | | | 2,764,812 | 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 2020 excludes loans of £0.252m, cash invested by the administering authority of £32.720m, other investment assets of £11.349m and other investment liabilities of £24.998m (£0.279m, £36.933m, £29.495m and £18.486m respectively as at 31 March 2019).

Of the total value of net investment assets reported in the Net Assets Statement as at 31 March 2020, £2,764m (99.31%) is invested through Investment Managers (£2,931m or 98.38% at 31 March 2019).

Reconciliation of Movements in Investments 2019/20

| Investment category | Value at 31 March 2019 | Purchases at cost | Sales proceeds | Change in market value | Value at 31 March 2020 |
|------------------------------|------------------------------|----------------------|-------------------|---------------------------|------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Equities | 348,884 | 144,241 | -174,844 | -41,945 | 276,336 |
| Bonds | 575,582 | 2,459,266 | -2,430,894 | 20,836 | 624,790 |
| Infrastructure | | 3,838 | | -142 | 3,696 |
| Pooled investment vehicles | 1,962,121 | 1,428,673 | -1,429,090 | -153,950 | 1,807,754 |
| | 2,886,587 | 4,036,018 | -4,034,828 | -175,201 | 2,712,576 |
| Derivative contracts: | | | | | |
| Futures, margins & options | 1,711 | 5,622 | -7,609 | 2,540 | 2,264 |
| Forward foreign currency | 1,348 | 55,940 | -58,770 | -1,262 | -2,744 |
| | 2,889,646 | 4,097,580 | -4,101,207 | -173,923 | 2,712,096 |
| Other investment balances: | | | | | |
| Loans | 279 | | | | 252 |
| Other cash deposits | 77,843 | | | -12,374 | 85,436 |
| Dividend accruals | 1,642 | | | | 1,594 |
| Tax recovery | 639 | | | | 725 |
| Other investment balances | 8,728 | | | | -15,968 |
| Net Investment Assets | 2,978,777 | | | -186,297 | 2,784,135 |

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 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 |

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 2019 | | | 31 March 2020 | |
|--|-----------|--|---------------|------------------|
| £000 | £000 | | £000 | £000 |
| ASSETS INVESTED THROUGH FUND MANAGERS | | | | |
| Bonds | | | | |
| 514,079 | | UK - Public sector - quoted | 562,076 | |
| 56,628 | | Overseas - Public sector - quoted | 56,829 | |
| 4,875 | | Overseas - Corporate - quoted | 5,885 | |
| | 575,582 | | | 624,790 |
| Equities | | | | |
| 32,258 | | UK quoted | 42,148 | |
| 833 | | UK unquoted | 833 | |
| 315,793 | | Overseas quoted | 230,447 | |
| - | | Overseas Unquoted | 2,908 | |
| | 348,884 | | | 276,336 |
| | | Infrastructure | | 3,696 |
| Pooled Investment Vehicles | | | | |
| 117,374 | | Managed funds - non property - UK quoted | 81,236 | |
| 1,633,504 | | Managed funds - non property - overseas quoted | 1,507,070 | |
| 1,703 | | Unit Trusts - property - UK quoted | 1,388 | |
| 17,968 | | Unit Trusts - property - UK unquoted | 19,426 | |
| 38,511 | | Unit Trusts - property - Overseas quoted | 31,564 | |
| 153,061 | | Unit Trusts - property - Overseas unquoted | 167,070 | |
| | 1,962,121 | | | 1,807,754 |
| Derivative Contracts | | | | |
| 7,052 | | Assets | 15,898 | |
| -3,993 | | Liabilities | -16,378 | |
| | 3,059 | | | -480 |
| 40,910 | 40,910 | Fund Managers' Cash | 52,716 | 52,716 |
| 2,930,556 | | NET ASSETS INVESTED THROUGH FUND MANAGERS | | 2,764,812 |
| OTHER INVESTMENT BALANCES | | | | |
| 36,933 | | Short term investments (via DCC Treasury Management) | 32,720 | |
| 279 | | Loans | 252 | |
| 29,495 | | Other investment assets | 11,349 | |
| -18,486 | | Other investment liabilities | -24,998 | |
| 2,978,777 | | NET INVESTMENT ASSETS | | 2,784,135 |

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 2019 | | Derivative Contracts | 31 March 2020 | |
|---------------|---------------------|---|----------------|--------------------|
| £000 | £000 | | £000 | £000 |
| | | Forward foreign currency | | |
| 4,798 | | Assets | 8,291 | |
| <u>-3,450</u> | | Liabilities | <u>-11,035</u> | |
| | 1,348 | Net Forward foreign currency | | -2,744 |
| | | Futures | | |
| 1,302 | | Assets | 5,820 | |
| <u>-543</u> | | Liabilities | <u>-2,123</u> | |
| | 759 | Net Futures | | 3,697 |
| | | Options | | |
| 952 | | Assets | 1,787 | |
| <u>0</u> | | Liabilities | <u>-3,220</u> | |
| | 952 | Net Options | | -1,433 |
| | <u>3,059</u> | Net market value of derivative contracts | | <u>-480</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 2020 and 31 March 2019.

31 March 2020

| Settlement | Currency bought | Local Value | Currency sold | Local Value | Asset Value £000 | Liability Value £000 |
|---------------|-----------------|----------------|---------------|--------------|---------------------|----------------------------|
| 0 to 1 month | GBP | 69,729,236 | EUR | -71,855,092 | | -2,126 |
| 0 to 1 month | EUR | 5,800,000 | SEK | -4,954,002 | 180 | |
| 0 to 1 month | SEK | 31,278,994 | EUR | -2,566,886 | | -21 |
| 0 to 1 month | SEK | 31,244,107 | EUR | -2,566,886 | | -23 |
| 0 to 1 month | EUR | 54,645,000 | USD | -49,296,137 | | -928 |
| 0 to 1 month | GBP | 5,610,385 | JPY | -5,978,420 | | -368 |
| 0 to 1 month | JPY | 1,000,000,000 | GBP | -7,566,723 | | -94 |
| 0 to 1 month | USD | 4,168,416 | GBP | -3,200,000 | 161 | |
| 0 to 1 month | GBP | 107,751,242 | USD | -113,166,758 | | -5,416 |
| 0 to 1 month | USD | 8,330,000 | GBP | -6,386,905 | 329 | |
| 0 to 1 month | USD | 30,000,000 | GBP | -24,201,921 | | -14 |
| 0 to 1 month | USD | 7,300,000 | HKD | -5,908,844 | | -23 |
| 0 to 1 month | USD | 10,500,000 | IDR | -7,181,986 | 1,284 | |
| 0 to 1 month | IDR | 30,943,500,000 | USD | -1,693,138 | | -159 |
| 0 to 1 month | IDR | 30,933,000,000 | USD | -1,693,138 | | -160 |
| 0 to 1 month | IDR | 30,939,300,000 | USD | -1,693,138 | | -159 |
| 0 to 1 month | IDR | 14,479,500,000 | USD | -790,131 | | -72 |
| 0 to 1 month | IDR | 17,354,750,000 | USD | -947,351 | | -87 |
| 0 to 1 month | IDR | 30,071,725,000 | USD | -1,648,794 | | -158 |
| 0 to 1 month | USD | 8,340,000 | JPY | -6,824,278 | | -100 |
| 0 to 1 month | USD | 10,500,000 | KRW | -8,212,280 | 253 | |
| 0 to 1 month | USD | 1,970,000 | KRW | -1,574,393 | 14 | |
| 0 to 1 month | USD | 2,950,000 | KRW | -2,359,310 | 19 | |
| 0 to 1 month | KRW | 6,984,675,000 | USD | -4,474,747 | 145 | |
| 0 to 1 month | KRW | 2,683,800,000 | USD | -1,741,523 | 33 | |
| 0 to 1 month | KRW | 5,343,537,500 | USD | -3,487,078 | 47 | |
| 0 to 1 month | KRW | 2,665,735,000 | USD | -1,737,492 | 26 | |
| 0 to 1 month | KRW | 1,523,970,000 | USD | -991,701 | 16 | |
| 0 to 1 month | USD | 15,800,000 | SGD | -12,426,730 | 312 | |
| 0 to 1 month | USD | 1,905,000 | SGD | -1,516,009 | 20 | |
| 0 to 1 month | USD | 5,430,000 | SGD | -4,331,698 | 46 | |
| 0 to 1 month | SGD | 3,384,266 | USD | -1,866,494 | 50 | |
| 0 to 1 month | SGD | 3,360,463 | USD | -1,866,494 | 37 | |
| 0 to 1 month | SGD | 6,705,621 | USD | -3,728,956 | 69 | |
| 0 to 1 month | SGD | 3,352,857 | USD | -1,864,478 | 35 | |
| 0 to 1 month | SGD | 10,038,766 | USD | -5,595,450 | 90 | |
| 0 to 1 month | SGD | 3,348,995 | USD | -1,866,494 | 30 | |
| 0 to 1 month | SGD | 3,344,890 | USD | -1,864,478 | 30 | |
| 0 to 1 month | USD | 26,500,000 | TWD | -21,149,396 | 216 | |
| 0 to 1 month | TWD | 126,862,106 | USD | -3,409,462 | | -19 |
| 0 to 1 month | TWD | 120,881,400 | USD | -3,241,165 | | -11 |
| 0 to 1 month | TWD | 130,867,750 | USD | -3,511,263 | | -14 |
| 0 to 1 month | TWD | 65,078,300 | USD | -1,749,584 | | -10 |
| 0 to 1 month | TWD | 120,559,800 | USD | -3,241,165 | | -19 |
| 0 to 1 month | TWD | 120,399,000 | USD | -3,241,165 | | -24 |
| 0 to 1 month | TWD | 23,034,150 | USD | -616,789 | | -1 |
| 0 to 1 month | TWD | 60,380,400 | USD | -1,620,583 | | -7 |
| 0 to 1 month | TWD | 3,610,800 | USD | -96,751 | | 0 |
| 0 to 1 month | TWD | 23,769,544 | USD | -637,964 | | -3 |
| 1 to 3 months | GBP | 1,742,031 | EUR | -1,891,867 | 65 | |
| 1 to 3 months | GBP | 218,056 | USD | -260,533 | 8 | |
| 1 to 3 months | GBP | 39,409 | USD | -47,086 | 1 | |
| 1 to 3 months | GBP | 278,635 | AUD | -555,876 | 5 | |

| Settlement | Currency bought | Local Value | Currency sold | Local Value | Asset Value £000 | Liability Value £000 |
|--|-----------------|-------------|---------------|----------------|---------------------|-------------------------|
| 1 to 3 months | GBP | 518,707 | AUD | -1,034,820 | 9 | |
| 1 to 3 months | GBP | 24,411,095 | JPY | -3,254,975,453 | 41 | |
| 1 to 3 months | GBP | 40,993,265 | EUR | -44,519,185 | 1,524 | |
| 1 to 3 months | GBP | 21,295 | USD | -25,443 | 1 | |
| 1 to 3 months | GBP | 1,239,097 | SEK | -14,827,034 | 32 | |
| 1 to 3 months | GBP | 17,530,144 | AUD | -34,972,638 | 289 | |
| 1 to 3 months | GBP | 3,313,986 | JPY | -441,886,922 | 6 | |
| 1 to 3 months | GBP | 68,346,261 | USD | -81,660,112 | 2,588 | |
| 1 to 3 months | GBP | 2,274,724 | DKK | -18,436,640 | 84 | |
| 1 to 3 months | GBP | 1,294,123 | USD | -1,661,000 | 0 | -44 |
| 1 to 3 months | GBP | 7,769,634 | EUR | -8,943,000 | 0 | -155 |
| 1 to 3 months | USD | 1,646,000 | GBP | -1,268,771 | 57 | 0 |
| 1 to 3 months | GBP | 1,953,847 | EUR | -2,234,000 | 0 | -26 |
| 1 to 3 months | GBP | 15,021,579 | USD | -19,345,000 | 0 | -563 |
| 1 to 3 months | EUR | 3,884,000 | GBP | -3,433,275 | 8 | 0 |
| 1 to 3 months | GBP | 5,131,124 | EUR | -5,643,000 | 131 | 0 |
| 1 to 3 months | USD | 1,519,000 | GBP | -1,312,668 | 0 | -89 |
| 1 to 3 months | EUR | 2,559,000 | GBP | -2,409,759 | 0 | -142 |
| | | | | | 8,291 | -11,035 |
| Net forward foreign currency contracts at 31 March 2020 | | | | | | -2,744 |

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 |

| Settlement | Currency bought | Local Value | Currency sold | Local Value | Asset Value £000 | Liability Value £000 |
|--|-----------------|-------------|---------------|----------------|---------------------|-------------------------|
| 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 |

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>2019-20</u> | | Expires | Product Description | Currency | Market Value at 31 March 20 £000 | £000 |
|---|---------------|---------|-----------------------|----------|-------------------------------------|---------------|
| Assets | | | | | | |
| Overseas equity | 1 to 3 months | | EURO STOXX 50 JUN 20 | EUR | 339 | |
| Overseas equity | 1 to 3 months | | CBOE VIX MAY 20 | USD | 907 | |
| Overseas fixed interest | 1 to 3 months | | US 10YR NOTE JUN 20 | | 1,646 | |
| | | | 19/6/2020 | USD | | |
| Overseas equity | 0 to 1 month | | CBOE VIX APR 20 | USD | <u>2,928</u> | |
| Total assets | | | | | | 5,820 |
| Liabilities | | | | | | |
| Overseas equity | 3 to 6 months | | CBOE VIX AUG 20 | USD | -269 | |
| Overseas equity | 3 to 6 months | | CBOE VIX JUL 20 | USD | -181 | |
| Overseas equity | 1 to 3 months | | S&P500 EMINI JUN 20 | USD | -690 | |
| UK equity | 1 to 3 months | | FTSE 100 INDEX JUN 20 | GBP | -983 | |
| Total liabilities | | | | | | -2,123 |
| Net Futures Contracts at 31 March 2020 | | | | | | 3,697 |

| 2018-19 | | Expires | Product Description | Currency | Market Value at 31 March 19 | |
|---|---------------|----------------------------------|----------------------------|-----------------|------------------------------------|--------------|
| | | | | | £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 |

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.

2019-20

| Type | Expires | Product Description | Currency | Market Value at 31 March 20 £000 |
|-------------------------------------|----------------|---|----------|--|
| Assets | | | | |
| Overseas equity | 1 to 3 months | EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 C @ 3550.000 | EUR | 12 |
| Overseas equity | 1 to 3 months | NASDAQ 100 INDEX ND 01-JAN-2050 19/6/2020 P @ 7200.000 | USD | 732 |
| Overseas equity | 6 to 12 months | EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 4000.000 | EUR | 11 |
| Overseas equity | 6 to 12 months | EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 2900.000 | EUR | 1032 |
| Total assets | | | | 1,787 |
| Liabilities | | | | |
| Overseas equity | 1 to 3 months | EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2125.000 | EUR | -182 |
| Overseas equity | 1 to 3 months | EURO STOXX 50 INDEX 01-JAN-2050 19/6/2020 P @ 2450.000 | EUR | -662 |
| Overseas equity | 6 to 12 months | EURO STOXX 50 INDEX 01-JAN-2050 18/12/2020 C @ 3050.000 | EUR | -681 |
| Overseas equity | 0 to 1 month | SPX VOLATILITY INDEX UX 01-JAN-2050 15/4/2020 C @ 37.500 | USD | -1384 |
| Overseas equity | 1 to 3 months | SPX VOLATILITY INDEX UX 01-JAN-2050 20/5/2020 C @ 45.000 | USD | -311 |
| Total liabilities | | | | -3,220 |
| Net Options at 31 March 2020 | | | | -1,433 |

2018-19

| 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 |

Investments Exceeding 5% of the Fund available to pay benefits at 31 March

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

| At 31 March 2019 | | Name of Fund | Investment Manager | At 31 March 2020 | |
|------------------|-------|------------------------------|--------------------|------------------|-------|
| £m | % | | | £m | % |
| 566.36 | 18.99 | BNYM Long Term Global Equity | BNYM | - | - |
| 487.45 | 16.35 | AAM L and P World Equity | Aberdeen Standard | - | - |
| - | - | GLOBAL EQUITY ALPHA A ACC | BCPP | 976.64 | 35.05 |
| 401.46 | 13.46 | Diversified Yield Plus | AB | 391.52 | 14.05 |

16. Financial Instruments**Classification of Financial Instruments**

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

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

| 2018-19 | | | 2019-20 | | |
|------------------------------------|------------------------------------|---|------------------------------------|------------------------------------|---|
| Fair value through profit and loss | Financial assets at amortised cost | 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 | | | | | |
| 348,884 | | | 276,336 | | |
| 575,582 | | | 624,790 | | |
| - | | | 3,696 | | |
| 1,962,121 | | | 1,807,754 | | |
| 7,052 | | | 15,898 | | |
| | 279 | | | 252 | |
| | 40,910 | | | 52,716 | |
| | 36,933 | | | 32,720 | |
| | 29,495 | | | 11,349 | |
| | 10,259 | | | 9,537 | |
| 2,893,639 | 117,876 | - | 2,728,474 | 106,574 | - |
| Financial liabilities | | | | | |
| -3,993 | | | -16,378 | | |
| | | -25,483 | | | -32,423 |
| -3,993 | - | -25,483 | -16,378 | - | -32,423 |
| 2,889,646 | 117,876 | -25,483 | 2,712,096 | 106,574 | -32,423 |
| 2,982,039 | | | 2,786,247 | | |
| Net Assets at 31 March | | | Net Assets at 31 March | | |

Net gains and losses on financial instruments

| 31 March 2019 £000 | | 31 March 2020 £000 |
|-----------------------|--|-----------------------|
| | Financial Assets | |
| 198,275 | Fair Value through profit and loss | -173,923 |
| 993 | Financial assets measured at amortised cost | -12,374 |
| | Financial Liabilities | |
| - | Fair Value through profit and loss | - |
| - | Financial liabilities measured at amortised cost | - |
| <u>199,268</u> | Total | <u>-186,297</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 2020 and 31 March 2019, grouped into Levels 1, 2 and 3, based on the level at which the fair value is observable. The tables also include assets and liabilities held at amortised cost in order to balance to the totals shown in the Net Asset Statement.

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|------------------------|-------------------------------|--|------------------|
| Values at 31 March 2020 | Level 1 | Level 2 | Level 3 | Total |
| | £000 | £000 | £000 | £000 |
| Financial Assets | | | | |
| Financial Assets at fair value through profit and loss | 2,526,250 | 9,125 | 193,099 | 2,728,474 |
| Financial Liabilities at amortised cost | 106,574 | | | 106,574 |
| Total Financial Assets | 2,632,824 | 9,125 | 193,099 | 2,835,048 |
| Financial Liabilities | | | | |
| Financial Liabilities at fair value through profit and loss | -5,343 | -11,035 | | -16,378 |
| Financial Liabilities at amortised cost | -32,423 | | | -32,423 |
| Total Financial Liabilities | -37,766 | -11,035 | - | -48,801 |
| Net Financial Assets | 2,595,058 | -1,910 | 193,099 | 2,786,247 |

| | 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 |

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

| Period 2019/20 | Market value 01 April 2019 £000 | Purchases during the year and derivative payments £000 | Sales during the year and derivative payments £000 | Unrealised gains/ (losses) £000 | Realised gains/ (losses) £000 | Market value 31 March 2020 £000 |
|-------------------------------|---------------------------------------|---|--|--|--|---------------------------------------|
| Pooled Investment Vehicles | 171,029 | 23,498 | -14,737 | 3,969 | 2,736 | 186,495 |
| Private Equity | 0 | 2,907 | -125 | 126 | 0 | 2,908 |
| Infrastructure | 0 | 3,854 | -15 | -143 | 0 | 3,696 |
| | 171,029 | 30,259 | -14,877 | 3,952 | 2,736 | 193,099 |

RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

| Period 2018/19 | Market value 01 April 2018 £000 | Purchases during the year and derivative payments £000 | Sales during the year and derivative payments £000 | Unrealised gains/ (losses) £000 | Realised gains/ (losses) £000 | Market value 31 March 2019 £000 |
|-------------------------------|---------------------------------------|---|--|--|--|---------------------------------------|
| Pooled Investment Vehicles | 158,015 | 31,258 | -30,778 | 10,514 | 2,020 | 171,029 |
| | 158,015 | 31,258 | -30,778 | 10,514 | 2,020 | 171,029 |

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.

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 2019/20 reporting period. The analysis assumed that all other variables remain the same.

| Manager | Asset type | Asset value at 31 March 2020 £000 | Potential market movements % | Value on increase £000 | Value on decrease £000 |
|--|-------------------------|--|---------------------------------------|------------------------------|------------------------------|
| AB | Broad Bonds | 391,518 | 7.0% | 418,924 | 364,112 |
| BlackRock | DAA | 349,557 | 11.9% | 391,154 | 307,960 |
| CBRE | Unlisted property | 186,497 | 14.2% | 212,980 | 160,014 |
| CBRE | Listed property | 32,952 | 25.6% | 41,388 | 24,516 |
| Mondrian | Emerging market equity | 181,549 | 30.3% | 236,558 | 126,540 |
| RLAM | UK Index Linked Gilts | 586,424 | 9.4% | 641,548 | 531,300 |
| BCPP | Unquoted UK Equity | 833 | 0.0% | 833 | 833 |
| BCPP | Global equity | 976,643 | 22.6% | 1,197,364 | 755,922 |
| BCPP | Private Equity | 2,907 | 36.5% | 3,968 | 1,846 |
| BCPP | Infrastructure | 3,696 | 17.0% | 4,324 | 3,068 |
| | Loans | 252 | 0.0% | 252 | 252 |
| | Cash | 85,436 | 0.0% | 85,436 | 85,436 |
| | Net derivative assets | -480 | 0.0% | -480 | -480 |
| | Net investment balances | -13,649 | 0.0% | -13,649 | -13,649 |
| Total change in net investment assets available | | 2,784,135 | | 3,220,600 | 2,347,670 |

| 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 |

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 2020 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 2020 £000 | Change in year in the net assets available to pay benefits | |
|--|--|---|-----------------|
| | | +25 BPS £000 | -25 BPS £000 |
| Cash and cash equivalents | 85,436 | 214 | -214 |
| Fixed interest securities | 63,884 | 160 | -160 |
| Total change in net investment assets available | 149,320 | 374 | -374 |

| Asset type | Asset Values at 31 March 2019 £000 | Change in year in the net assets available to pay benefits | |
|--|--|---|-----------------|
| | | +25 BPS £000 | -25 BPS £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 |

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 20 | increase | decrease |
| | | | | £000 | £000 | £000 |
| AB | Broad Bonds | 0% | 0% | 391,518 | 391,518 | 391,518 |
| BlackRock | DAA | 5% | 10% | 349,557 | 351,305 | 347,809 |
| CBRE | Global Property | 15% | 10% | 219,449 | 222,741 | 216,157 |
| Mondrian | Emerging market equity | 100% | 15% | 181,549 | 208,781 | 154,317 |
| RLAM | UK Index Linked Gilts | 0% | 0% | 586,424 | 586,424 | 586,424 |
| BCPP | Unquoted UK Equities | 0% | 0% | 833 | 833 | 833 |
| BCPP | Global Equity | 86% | 10% | 976,643 | 1,060,634 | 892,652 |
| BCPP | Private Equity | 100% | 10% | 2,907 | 3,198 | 2,616 |
| BCPP | Infrastructure | 100% | 10% | 3,696 | 4,066 | 3,326 |
| | Loans | 0% | 0% | 252 | 252 | 252 |
| | Cash | 21% | 10% | 85,436 | 87,230 | 83,642 |
| | Net derivative assets | 0% | 0% | -480 | -480 | -480 |
| | Net investment balances | 0% | 0% | -13,649 | -13,649 | -13,649 |
| Total change in net investment assets available | | | | 2,784,135 | 2,902,853 | 2,665,417 |

| 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 |

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, the risk is mitigated by the Custodian's high "tier one" capital ratio, conservative balance sheet management and a high and stable credit rating. As at 31 March 2020, this level of exposure to the Custodian is 1.9% of the total value of the portfolio (1.4% as at 31 March 2019).

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 pension fund has experienced no defaults from fund managers, brokers or bank accounts over the past five years.

The cash holding under its treasury management arrangements was £32.720m as at 31 March 2020 (£36.933m as at 31 March 2019). This was held with the following institutions:

| | Rating as at 31 March 2020 | Balances as at 31 March 2020 £000 | Rating as at 31 March 2019 | Balances as at 31 March 2019 £000 |
|--------------------------------|---------------------------------------|--|---------------------------------------|--|
| Bank Deposit Accounts | | | | |
| Handelsbanken | F1+ | 3,025 | F1+ | 3,129 |
| Fixed Term Deposits | | | | |
| Bank of Scotland | F1 | 4,929 | F1 | 5,230 |
| Close Brothers | F1 | 2,464 | F1 | 1,307 |
| Goldman Sachs | | | F1 | 1,307 |
| Santander UK Plc | F1 | 4,929 | F1 | 5,885 |
| Landesbank Hessen-Thuringen | | | | |
| Girozentrale (Helaba) | F1+ | 1,232 | | |
| UK Local Authorities | N/A | 13,862 | N/A | 19,944 |
| Unrated Building Societies | N/A | 2,156 | | |
| Income Bond | | | | |
| National Savings & Investments | N/A | 123 | N/A | 131 |
| Other | | | | |
| Money Market Funds | N/A | - | N/A | - |
| Total | | 32,720 | | 36,933 |

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. As disclosed in Note 19, The Fund expects all liabilities to be paid within 12 months of the year end.

18. Analysis of Debtors

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| | Included in the Net Assets Statement as: | |
| 208 | Long Term Assets | - |
| 29,495 | Other Investment Assets | 11,349 |
| 10,051 | Current Assets | 9,537 |
| 39,754 | | 20,886 |

All of the £20.886m is due to be received within 12 months after the year end.

19. Analysis of Creditors

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|---|-----------------|
| | Included in the Net Assets Statement as: | |
| -18,486 | Investment Liabilities - Other balances | -24,998 |
| -6,997 | Current Liabilities | -7,425 |
| -25,483 | | -32,423 |

All of the £32.423m 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 Utmost (formerly 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 2019 £000 | * Purchases £000 | Sales £000 | Change in Market Value £000 | Value at 31 March 2020 £000 |
|----------------------------------|-----------------------------------|---------------------|---------------|-----------------------------------|-----------------------------------|
| Utmost (formally Equitable Life) | 1,596 | 10 | 356 | 190 | 1,440 |
| Prudential | 6,874 | 1,681 | 673 | -138 | 7,744 |
| Standard Life | 1,712 | 174 | 181 | -104 | 1,601 |
| Total | 10,182 | 1,865 | 1,210 | -52 | 10,785 |

* Purchases represent the amounts paid to AVC providers in 2019/20

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 | |
|---|---|--|--|
| | | 2018/19 | 2019/20 |
| Contributions receivable | Amounts receivable from employers in respect of contributions to the Pension Fund | £99.068m | £106.030m |
| Debtors | Amounts due in respect of employers and employee contributions | £7.770m | £8.020m |
| Creditors | Amounts due to the Administering Authority in respect of administration and investment management expenses | £1.608m | £1.830m |
| 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 | £1.608m | £1.830m |
| 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 £0.200m | Loans outstanding £0.185m |
| 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 = £36.119m Interest = £0.262m | Balance = £38.895m Interest = £0.319m |

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 2020 there were 4 Members of the Pension Fund Committee in receipt of pension benefits from Durham County Council Pension Fund; 1 further Member was a deferred member 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:

| 2018-19 £000 | | 2019-20 £000 |
|-----------------|--------------------------|-----------------|
| 87 | Short-term benefits | 103 |
| 23 | Post-employment benefits | 15 |
| <u>110</u> | | <u>118</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 2019.

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 2019 actuarial valuation the Fund was assessed as being 94% funded (81% at 31 March 2016). This corresponded to a deficit of £195.5m (£529.3m at 31 March 2016).

The aim is to achieve 100% solvency over a period of 18 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) is 17.9% 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 18 years from 1 April 2020, is 21.8% 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 18 years from 1 April 2020 would be £12.5m per annum, increasing at 3.1% per annum. This is equivalent to approximately 3.0% 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 2019 | Valuation as at 31 March 2016 |
|---|--|--|
| Financial Assumptions | | |
| Discount rate for periods in service | 4.25% pa | 4.5% pa |
| Discount rate for periods after leaving service | 4.25% pa | 4.5% pa |
| Rate of revaluation of pension accounts | 2.1% pa | 2.0% pa |
| Rate of pension increases on: | | |
| - non Guaranteed Minimum Pensions | 2.1% pa | 2.0% pa |
| - post 1988 Guaranteed Minimum Pensions | 1.9% pa | 1.8% pa |
| Pensionable pay increase | 3.1% pa | 3.5% pa |
| Demographic Assumptions | | |
| Post-retirement mortality assumption (normal health) - base table | Standard SAPS S2N tables with scaling factors for actives and deferreds of 110% (males) and 105% (females) and 100% for pensioners | Standard SAPS S2P tables with scaling factors of 95% for men and 100% for women |
| Post-retirement mortality assumption - future improvements | CMI 2018 projections with Sk=7.5, A=0.0 long annual improvement rate of 1.5% | CMI 2014 core projections with long annual improvement rate of 1.5% |
| Retirement cash sum | Each member is assumed to surrender pension on retirement, such that total cash received is 85% 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 2019.

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 2016 are provided for comparison purposes.

| | Value as at 31 March 2019 £m | Value as at 31 March 2016 £m |
|---|------------------------------------|------------------------------------|
| Fair value of net assets | 2,982 | 2,321 |
| Actuarial present value of the promised retirement benefits | 4,512 | 3,365 |
| Surplus / -deficit in the Fund as measured for IAS26 purposes | -1,530 | -1,044 |

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 2019 (% p.a.) | 31 March 2016 (% p.a.) |
|---|---------------------------|---------------------------|
| Discount rate | 2.4 | 3.4 |
| CPI Inflation * | 2.2 | 1.8 |
| Rate of increase to pensions in payment | 2.2 | 1.8 |
| Rate of increase to deferred pensions * | 2.2 | 1.8 |
| Rate of general increase in salaries ** | 3.2 | 3.3 |

* In excess of Guaranteed Minimum Pension increases in payment for members whose State Pension Age is on or before 5 April 2016 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:

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory requirement of the desirability of maintaining as nearly constant a primary rate of employer contribution rates as possible;
- enables overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the

- regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating and admitted bodies;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met; and
 - takes a prudent longer-term view of funding the Fund's liabilities.

The intention is for this Strategy to apply comprehensively for the Fund as a whole to reflect its best interests, recognising that there will always be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the Statement, it must remain a single Strategy for the Administering Authority to implement and maintain.

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 2019/20

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 2020.

COVID19 PANDEMIC

2. The initial surge in COVID-19 cases in the UK happened in early March 2020, the final month of the period to which the AGS relates, while the review of effectiveness and AGS preparation were underway. When the UK government published the [coronavirus action plan](#), much of the Council's resources were directed towards the pandemic response. This statement includes a description of how the Council's governance systems were deployed and adapted.

CONTEXT

3. 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

4. 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.
5. 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.
6. 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.
7. 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

8. 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.
9. 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.
10. The governance framework has been in place across the council for the year ended 31 March 2020 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

11. 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.
12. 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](#). Changes following the annual review of the [Constitution](#) were due to be submitted for approval by the Council in May 2020, but this was postponed due to the COVID-19 pandemic.
13. 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 [County Durham Vision 2035](#). The Head of Strategy is the designated scrutiny officer to discharge the functions required under the Localism Act 2011.
14. 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 2019/20.

REVIEW OF EFFECTIVENESS

15. 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.

16. 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

17. 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.

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 2020. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to give substantial or moderate assurance, except in seven 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. Based on the work undertaken during the year, internal audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2019/2020.

20. This opinion is however qualified, in light of the current COVID-19 pandemic and the impact of this on the Council. The opinion given above is based on internal audit work undertaken, and completed, prior to emergency measures being implemented as a result of the pandemic. These measures have resulted in a significant level of strain being placed on normal procedures and control arrangements. The level of impact is

also changing as the situation develops. It is therefore not possible to quantify the additional risk arising from the current short-term measures or the overall impact on the framework of governance, risk management and control that have been put in place.

21. Aligned to the seven principles of good governance, a detailed account of how the Council's governance arrangements have operated during 2019/20 is included in **appendix A**. An update on improvements identified in the 2018/19 Annual Governance Statement is included in **appendix B**.
22. The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out in **appendix D**, aligned to the principles of good governance.

CONCLUSION

23. 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 2019/20 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 five actions as part of ongoing improvements to further strengthen governance arrangements in 2020/21. 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 2019/20

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 2019/20.

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 2020, the Council agreed to a [members' allowance scheme for 2020/21](#), 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, which is responsible for promoting and maintaining high standards of conduct by councillors](#), was presented to Council in January 2020. The [Work Programme 2020/21](#) was approved in March 2020.
4. In September 2019, the Standards Committee agreed that proposed changes to the [Code of Our Values, Behaviours and Conduct](#) be considered by the Constitution Working Group and by full Council. The amendments provide clarification on employees' obligations in relation to [gifts and hospitality](#).
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.
6. Cabinet approved the introduction of the [WASPI Concessionary Travel Scheme](#) to assist approximately 35,000 women across County Durham who have been most impacted by the changes to the Government's State Pension Age.

Respecting the rule of law

7. 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.

8. 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. The team was also a finalist in the IRRV Excellence Awards in Counter Fraud category. Since 2015, the team has uncovered or intercepted over £7.9m of fraud, investigating over 3,500 cases across the authority, handling a diverse range of investigations.

Principle B: Ensuring openness and comprehensive stakeholder engagement

Openness

9. 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, for example, by the decision made by Cabinet on the [Leisure Transformation Programme](#), which set out the case for change for the Council's leisure centre offer, including building new leisure centre facilities, refreshing existing buildings and progressing towards an extensive new programme of activities and amenities.

Engaging comprehensively with institutional stakeholders

10. 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.

Examples of partnership working are included in regular 'Council Activity Reports' to Cabinet: -

- (a) The council, with its partners, works hard to promote County Durham as a place for businesses to grow and invest, and provides and supports several key [strategic employment sites](#), which continue to grow and flourish.
 - (b) Working with its partners to support people across the county, some of whom are in work but on a low income, who are struggling to pay their rent, mortgage or household bills. Specific initiatives include the [Welfare Assistance Scheme](#).
 - (c) County Durham has seen continued growth and investment in cultural, sporting and heritage activity during the past few years thanks to support from the county council and its partners, including the [#Durham19](#) campaign.
11. 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.

12. [DurhamWorks](#) is a partnership programme between the Council and seven other organisations, working together to support young people into education, training or employment. The programme has been granted a further £12 million of EU funding and extended to 2021 having so far signed up 7,300 young people, 3,600 of those having progressed into some form of employment, education 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.
13. In May 2019, Cabinet refreshed the [SEND Strategy](#) for supporting work across local partners for children, young people and young adults with Special Educational Needs and Disabilities (SEND).

Engaging with individual citizens and service users effectively

14. The Consultation Officer Group supports the Council's approach to engaging stakeholders and oversees major consultations, which help improve services and influence decision-making.
15. The [Statement of Community Involvement](#) describes how we will involve communities, businesses and organisations in the preparation of the County Durham Plan (Local Plan) and on planning application decisions. It also sets out our advice on how town and parish councils and Neighbourhood Forums should seek to involve and consult on the preparation of Neighbourhood Plans.
16. As the new proposed savings for 2020/21 are not expected to impact upon front line service provision, the focus of the consultation on [Medium Term Financial Plan 2020/21 to 2023/24](#) has been to utilise the extensive exercises that were recently carried out as part of the development of the County Durham Vision 2035 to inform the proposed investment priorities.
17. Public consultation exercises were undertaken during the year on a range of issues, including the new Durham History Centre, how to tackle climate change, how we spend our money to help children with special educational needs or a disability, and on proposals to increase the council tax premium charge for long term empty properties. The full list can be found on the [Consultations](#) pages of the website.
18. 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.

The Council receives regular updates from AAPs for example, [Weardale AAP](#) (projects delivered), [Derwent Valley AAP](#) (priorities, action plans and forthcoming Projects) and [East Durham AAP](#) (participatory budgeting, Youth Forum and Cyber Crime Project, ATOMS Education Project and Social Isolation).

19. 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.
20. [Durham County News](#), the Council's magazine for residents is issued to every household in the County four times a year in line with the [recommended code of practice for local authority publicity](#).
21. To support the delivery of the Children and Young People's Strategy 2019-2022, Cabinet [agreed to the implementation of recommendations](#) that will enhance engagement with children and young people, including annual elections to appoint CYP representatives to a new County Durham Youth Council.

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

Defining outcomes

22. The Council conducts a number of strategic assessments of need, which have been brought together into an [Integrated Needs Assessment](#) (INA). This brings together the evidence base and a wide range of strategic assessments to inform strategic planning across the council and by the county's thematic partnerships. The [INA](#) provides links to data, analysis, external frameworks, local profiles, strategies and plans relevant to life in County Durham. An online data mapping site is being developed.
23. The [County Durham Vision 2035](#) was agreed by the County Durham Partnership and Cabinet in September 2019. This vision will be delivered through an integrated framework of partnership and organisational plans and strategies across the County Durham Partnership. A Strategic Partnership Governance Review is currently taking place to ensure the governance arrangements are fit for purpose and will be completed by May 2020. The vision had been built following extensive public consultation, where residents, businesses, partners and visitors were asked what they would like to see in the future for the county. Building on the success of the last ten years the new vision would replace the current 'Altogether Better' vision from 2009.
24. The Vision was launched by [County Durham Partnership](#) on 25/10/19.
25. The vision is structured around three externally focused results-based ambitions of 'more and better jobs', 'long and independent lives' and 'connected communities'.
 - (a) The More and Better Jobs ambition has a wide-ranging focus which includes not only development of the economy and creating jobs, but also working with young people and adults to help them into work, through good quality education and training.
 - (b) The Long and Independent Lives ambition focuses strongly on the health and wellbeing of the local population, including ensuring that all of our children and young people get the best start in life, and services for children with special educational needs and disabilities (SEND) are improved. The ambition has a strong focus on improving mental as well as physical wellbeing.
 - (c) The Connected Communities ambition focuses on making life better in local communities across the County. On how we ensure that children and young people have safe lives in safe communities where people support each other, and have access to high quality housing, good transport links and vibrant town and village

centres. As it is a broad ambition, performance reporting is split into two areas of focus: safer communities, and sustainable communities.

26. [Children and Young People's Services Commissioning Plan 2019-21](#)

27. On 11/9/19, Cabinet agreed the draft updated Poverty Action Strategy and Poverty Action Plan, through which the council and its partners aim to address and alleviate poverty in the county.

28. [The County Durham Strategic Partnership Approach to Early Help for Children, Young People and Families](#) sets out our partnership vision, priorities and approach for providing effective, targeted and coordinated 'early help' in County Durham in order to address inequalities, promote opportunity and secure better outcomes for children, young people and their families. The strategy focuses on supporting family and community resilience. The strategy also outlines the collective responsibility across key partners for identifying children and young people who require additional help and support.

29. In July 2019, the [Youth Justice Plan 2019-2021, incorporating a review of performance and activity for 2018-2019, and improvement plans, staffing and budgets for 2019-2020](#), was presented to Council.

30. County Durham Housing Strategy 2019 to 2024. In July 2019, Cabinet adopted the [Housing Strategy](#), the aims of which are better housing support for residents and the [Homelessness Strategy](#), which aims to prevent homelessness by providing housing advice, assistance and support for older and vulnerable people.

Sustainable economic, social and environmental benefits

31. Despite this very challenging financial period, the scale and sustained level of government spending cuts and the impact on the council's finances, this report includes some very positive outcomes for the people of County Durham including: -

- (a) significant one-off investment in a broad range of priority front line services;
- (b) continued support to protect low income working age households through the continuation of the existing Council Tax Reduction Scheme;
- (c) ongoing work with health partners to ensure health and social care funds are maximised for the benefit of vulnerable people;
- (d) significant capital investment in leisure provision, town centres and infrastructure, including new transport schemes.

32. In February 2019, the Council declared a Climate Change Emergency, and set targets to reduce its own carbon emissions and make County Durham carbon neutral by 2050. Response to consultation demonstrated that residents supported and wanted to be actively involved in taking forward the [Climate Change Emergency Response Plan](#), which was approved by Cabinet in February 2020. In July 2019, Cabinet was updated on the successful completion of the six-year, invest-to-save [Street Lighting Energy Reduction Project](#), which has been the biggest single contributor to the Council's reduction in carbon emissions. A 69% reduction in annual energy consumption was achieved, saving 8,413 tonnes in carbon emissions.

33. The [County Council of Durham Roads and Street Works Permit Scheme](#) aims to reduce disruption caused by street works in County Durham by enabling our highways team to manage the number and duration of works taking place on the county's roads at any one time. This would help to minimise disruption, which in turn would support economic growth and reduce carbon emissions.

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

Determining and planning interventions

34. 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.
 - (c) [Review of School Provision – Wolsingham School & Sixth Form](#)
 - (d) [Mainstream Primary and Secondary Formula Funding 2020-21](#)
 - (e) [Options for the future of the two schools that constitute the Durham Federation](#)
35. In February 2020, in response to a request for analysis and insight into the impact of welfare reform and austerity, Cabinet considered a report which provided key messages and selected analyses for County Durham for the Index of Deprivation 2019 from the Ministry of Housing, Communities and Local Government. Members were concerned with the increased levels of deprivation, and wider analysis will be undertaken of the impact on vulnerable residents, including struggling families and children living in poverty, and communities.
36. 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.
37. The [Medium Term Financial Plan 2020/21 to 2023/24 \(MTFP\)](#) was approved by the Council in February 2020. 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

38. 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 the £15.7m of savings proposed for MTFP(10) period results in the council having saved £250 million since 2011/12. The Council's strategy since 2010/11 has been to protect front line services as far as possible and the 2020/21 proposals are in line with this strategy both in terms of savings being realised and additional investment. 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.
39. 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.
- (a) In relation to the *More and Better Jobs* ambition, we are continuing to invest, building on our growing tourism and cultural activity, creating new infrastructure and developing new business parks with the potential to create thousands of jobs. We are developing focused improvement plans, reviewing educational provision across the county (including elective home education), offering intensive support to young people not in education, employment and training, and addressing inequality across employment through our work to become a Disability Confident Leader.
 - (b) In relation to our *Long and Independent Lives* ambition, we continue to support people to stop smoking, reduce exposure to second-hand smoke and promote campaigns such as Stoptober. Our partnership approach to help people achieve a healthy weight focuses on the Best Start in Life, the physical and food environments, with actions to increase physical activity in schools, promote active travel and improve the regulation of hot food takeaways. We have established a workforce leads network to ensure a consistent approach to mental health training across partners and are developing a tailored approach to mental health awareness across small-to-medium sized businesses. We are working closely with the CCG and health providers to monitor key areas of work, including waiting times for therapeutic services and have allocated additional resource to our SEND Casework Team, which continues to experience high demand.
 - (c) In relation to our *Connected Communities* ambition, we are using focused improvement plans, initiatives and interventions to mitigate against the challenges we face in relation to violence against the person, shoplifting, criminal damage and arson, of which County Durham is recording high levels. For example, two dedicated neighbourhood wardens now patrol Durham City centre, we are putting in place a multi-agency training programme in relation to licensing, have implemented a plan for student fresher week in relation to water safety and started planning for the 2020 cold-water shock campaign.

40. 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.
41. 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.
42. In October 2019, Cabinet approved the establishment of an Internal Enforcement Agent Service for the collection of council tax, business rates, parking fines and fixed penalty notices, commercial rents, sundry debt and housing benefit overpayments. Benefits include a more joined-up, streamlined and flexible approach to debt recovery and management, more direct control over the standards of behaviour and the actions taken by the service, ensuring that the Council's values and behaviours are embedded within the service.
43. Cabinet approved a report on the governance structure of the newly-established [Local Lettings Agency](#), which will support Housing and Homelessness Strategies. Delegated authority was given to the Corporate Director for Regeneration and Local Services to lease properties from landlords on an individual basis for use in discharging the Council's duties under the Homelessness Reduction Act.

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

Developing the Council's capacity

44. 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.
45. 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.
46. The Council's Inspire Programme seeks to enable flexible working through digital and mobile technology, make our workspaces 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.

47. The new [Digital Strategy](#) sets out the Council's digital ambitions for the County. It provides a framework within which these ambitions can be delivered and aligns to the interlocking objectives of the revised Council Vision and the Transformation Programme. The new strategy is set out under three main themes: Digital Customer; Digital Organisation; Digital Communities.
48. The latest version of Office 365 has been rolled out across the council, offering a number of new tools that proved invaluable, especially during the lockdown period of the response to COVID19: -
- Virtual meetings hosted with online agendas and papers.
 - Greater collaboration enabled through storing, sharing and even simultaneous co-authoring of documents.
 - Communications between staff enhanced through functions that show colleagues' availability, and enable instant messaging, screen-sharing and continuous connectivity through a range of devices.
 - Sharing of information, posts and conversations in public and private online spaces.
49. The Council approved a proposal by the Chief Executive to [restructure the corporate management team](#), ensuring leadership is aligned to the council's strategic priorities and that appropriate resources are in place to deliver the wider partnership vision for the county. Two posts were deleted, Corporate Director of Regeneration and Local Services and Director of Transformation and Partnerships, with the creation of two posts of Corporate Director, Regeneration, Economy and Growth and Corporate Director, Neighbourhoods and Climate Change.
50. In relation to the Transformation and Partnerships service grouping, Transformation and Strategy services were realigned to the Resources Service Grouping. The Communications and Marketing service grouping was realigned directly to the Chief Executive. The Partnerships and Community Engagement service will be realigned to the new Director of Neighbourhoods and Climate Change but in the interim, the head of service reported to the Corporate Director of Adults and Health.
51. As part of the development of a Health and Social Care Plan for County Durham, the Council approved the establishment of a Head of Integrated Strategic Commissioning within Adult and Health Services, to be jointly funded by the Council and the respective Clinical Commissioning Groups.
52. 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](#).

53. Overview and Scrutiny arrangements have been enhanced following Government Guidance issued last year. This work has included further developing member training, updating member role descriptors, improving our liaison and reporting links between NECA/Regional Scrutiny and COSMB and also additional reporting is being introduced to Council.

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

54. 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.
55. The Durham Learning and Development system hosts our new Performance and Development Review scheme, which was launched for leaders and managers, then rolled out to core employees from July 2019. The Durham Leadership Way programme outlines the expectations of leaders and managers together with a development and support offer. The Durham Leadership and Management Development Programme includes several mandatory courses, including coaching as a management style and mental health awareness for managers. Other courses are linked to corporate priorities, management skills and your personal development.
56. 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 2020, there were 226 apprentices across a range of occupational areas and levels, and 280 employees were upskilling through an apprenticeship.
57. 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.
58. 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.
59. The Valuing our Employees Framework, which was developed in consultation with employees, was rolled out with the aim of creating a supportive working culture. The framework includes a range of initiatives about employee engagement, recognition, benefits, ideas and innovation.

60. The Council successfully achieved the gold National Better Health at Work award for its work on improving employee health and wellbeing, including awareness training for managers and training for mental health first aiders.
61. 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

62. 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](#) and [November 2019](#), and [February 2020](#). In July 2019, the Council received a [report from the Chairman of the Audit Committee](#) on its work between September 2018 and August 2019, and how the Committee continues to provide for good governance across the Council.
63. 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](#).
64. 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.
65. 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.

(e) Recovery from the effects of the COVID-19 pandemic.

Managing performance

66. The [County Durham Partnership](#), which is the strategic partnership for the County, is made up of key public, private and voluntary sector partners. Its' role includes monitoring performance towards implementing [County Durham Vision 2035](#), and considering strategically how plans align and where efficiencies and value can be maximised through integration, shared services and joint commissioning.
67. 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.
68. To manage and measure service improvement, the Council has a locally led planning and performance management framework that links to the [County Durham Vision 2035](#) and the [Council Plan](#). The format of performance reports has been realigned to the ambitions in the new Council vision. We are developing online (near) real-time performance dashboards using business intelligence and reporting services tools to provide more immediate views and visualisations of performance as part of a business intelligence programme. Examples available in children's social care and customer services.
69. 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.
70. 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

71. 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 [May](#), [September](#) and [November 2019](#), and in [February 2020](#).
72. 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

73. The designated Senior Information Risk Officer is the Corporate Director of Resources, 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.

Strong public financial management

74. 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.

75. In February 2020, an update was given to Audit Committee on the Council's [accounting policies](#) to be applied in the preparation of the 2019/20 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 2018/19](#)
- (b) [Final Outturn for the General Fund and Collection Fund 2018/19](#)
- (c) [Update on the delivery of the Medium Term Financial Plan 8](#)
- (d) [Update on the delivery of the Medium Term Financial Plan 9](#)
- (e) [Report under Section 25 of Local Government Act 2003 - Reserves](#)
- (f) [Pension Fund Annual External Audit Letter 2018/19](#)

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

Implementing good practice in transparency

76. 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.

77. 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

78. The Local Code of Corporate Governance is reviewed annually before being considered for approval by the Audit Committee and County Council.

79. The [Statement of Accounts 2018/19](#), incorporating the Annual Governance Statement, was approved by the Audit Committee in July 2019, 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.
80. 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 2019](#)
 - (b) [Health and Wellbeing Board Annual Report 2018/19](#)
 - (c) [Local Safeguarding Children Board Annual Report 2018/19](#)
 - (d) [Corporate Parenting Panel Annual Report 2018-19](#)
 - (e) [Transport Asset Management Plan Annual Update](#)
 - (f) [Protecting the Public Purse Annual Report 2019/20](#)

Assurance and effective accountability

81. 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 2020. 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.
82. Revised versions of the [Internal Audit Strategy, Charter and Plan for 2019/20](#) were approved by Audit Committee in May 2019.
83. In November 2017, Ofsted and the Care Quality Commission (CQC) undertook an inspection of the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. They determined that a written statement of action was required because of four areas of weakness in the area's practice relating to strategic leadership and governance, performance management, strategic planning and commissioning arrangements and co-production with young people and families. Since this inspection, partners in the local area agreed an action plan with the regulators in mid-2018 and have implemented significant improvements to address the areas of weakness identified at the inspection. Ofsted and CQC carried out a revisit of the Local Area in January 2020 under the SEND inspection framework to assess the progress made in implementing the improvements. They determined that the area has made sufficient progress in addressing all four significant weaknesses identified at the 2017 SEND inspection and that formal monitoring and challenge visits from DfE and NHS England will cease. The local partnership has refreshed its action plan since the visit to support further improvements across education, health and care.
84. Following an inspection of children's social care services in September 2019, Ofsted's overall judgement was that services 'require improvement to be good'. Whilst Ofsted determined that management oversight, challenge and consistency of social work practice were not fully embedded in all service areas, they also identified that the "the local authority has taken swift and decisive action to strengthen services. Pace has increased since the focused visit in January 2019, and solid improvements can be seen in many service areas, including at the front door and for children in care. Firm

foundations are in place to sustain and build on the improvements made.” Services for Looked After Children and Care Leavers were judged to be ‘good’. Since the inspection, the Council has agreed a quality improvement plan with Ofsted. There is a well-established governance structure in place to support and monitor the improvement plan, which is chaired by the Head of Children’s Social Care. Progress against the plan is due to be discussed with Ofsted at the Annual Conversation meeting in October 2020.

85. 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) The [External Audit Annual Letter 2018/19](#) summarises the work undertaken for Durham County Council and Durham County Council Pension Fund for the year.
 - (b) The [Audit Completion Report \(Statement of Accounts\)](#) summarises the external auditor’s conclusions for the year ended 31 March 2019.
 - (c) The [External Audit, Audit Strategy Memorandum, February 2020](#) sets out the audit plan in respect of the audit of Durham County Council for the year ending 31 March 2020.
 - (d) External Audit Progress reports in [November 2019](#) and [February 2020](#).
 - (e) The [Audit Completion Report \(Pension Fund\)](#) summarises the external auditor’s conclusions for the year ended 31 March 2019.
86. In May 2019, Audit Committee approved revised [Terms of Reference](#) incorporating the Chartered Institute of Public Finance and Accountancy’s model Terms of Reference defined in the Practical Guidance for Local Authorities 2018. The Committee also completed a core knowledge and [self-assessment](#) against the good practice for Audit Committees in Local Authorities guidance, and no significant gaps were identified.
87. In June 2020, the Audit Committee approved responses to a range of [questions from the External Auditor](#) to provide evidence of how management and those charged with governance are discharging their responsibilities, to discharge their duties under International Standards for Auditing.
88. Aycliffe Secure Centre, which offers specialist secure accommodation for young people, was given an outstanding review by Ofsted. Inspectors reported the centre as ‘outstanding’ in all four areas it assessed, building on its ‘good’ rating at Ofsted’s last two visits.
89. Three Council teams were shortlisted in the prestigious Local Government Chronicle Awards, which celebrate excellence in local government. Our Corporate Parenting Panel is nominated in the Children’s Services category; our economic investment in Durham is competing in the Driving Growth category; and our Durham Resilience Project, which works to improve mental health in schools, will represent us in the Public Health category.

APPENDIX B: Update on improvements identified in the 2018/19 Annual Governance Statement

Following the production of the Annual Governance Statement for 2018/19, nine improvement actions were identified for 2019/20.

| 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, March 2020 |
| <p>Update: Status: Substantially complete The hearing sessions for the Examination in Public of the County Durham Plan were held from October to December 2019. The Inspector's interim report is expected in the spring where several modifications to the Plan will be recommended. These will then be consulted on and the final Plan is expected to be adopted in the Summer/Autumn 2020. The action plan has been implemented and has successfully brought the Plan to this point. Future timescales are now at the discretion of the Inspector. Therefore, although the Plan has not yet been adopted the action plan has served its purpose.</p> | | |
| 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 |
| <p>Update: Status: Substantially complete County Durham Vision 2035 was approved by Council on 23 October 2019 and launched by the County Durham Partnership on 25 October 2019.</p> | | |
| 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 |
| <p>Update: Status: In progress, carry forward to 2020/21 The review is in progress and monitoring will be carried forward to 2020/21.</p> | | |
| 4 | Develop revised Children's Performance Management Framework. | Head of Strategy/ Strategic Manager Safeguarding Professional Practice (CYPS), June 2019 |
| <p>Update: Status: Complete The revised Children's Performance Management Framework is complete and continues to drive improvement within the service.</p> | | |
| 5 | Implement and embed the new Corporate Property and Land Service, as approved by CMT and members, adopting the corporate landlord model. Establish a combined and integrated management board with direct service delivery of NHS community and adult social care services being overseen by a | Head of Planning and Assets (ReaL), March 2020 |

| No. | Actions to be taken | Lead Officer |
|---|--|--|
| | Chief Officer on behalf of all partners (paragraphs 10, 53 to 55 – managing performance). | |
| <p>Update: Status: In progress, carry forward to 2020/21 An appointment was made to a newly created post of Head of Corporate Property and Land, and management of the Council's estate has been unitised under this service. A new Corporate Landlord Service Delivery Model is being implemented during 2020/21.</p> | | |
| 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 |
| <p>Update: Status: Complete An evidence base has been prepared which is current and is being used to inform discussions with the NELEP regarding the North East Local Industrial Strategy, and the development of a County Durham Industrial Strategy.</p> | | |
| 7 | Undertake a review of governance arrangements of the County Durham Partnership. | Head of Partnerships and Community Engagement, December 2019 |
| <p>Update: Status: In progress, carry forward to 2020/21 The strategic governance review of the County Durham Partnership will be complete for May 2020 and presented to the County Durham Partnership for approval.</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>Update: Status: In progress, carry forward to 2020/21 The recommendations from a public consultation on proposals for reviewing nine priority service areas were approved in January 2020 by Cabinet, who also agreed the financial strategy to reduce expenditure by £1.5 million per year and spend within grant available over the next five years. Work is currently underway to identify financial savings targets for each area of the HNB budget</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>Update: Status: Complete The Council's duty will be met through the Placement Sufficiency Strategy 2020 - 2025 supported by the Placement Resource Panel, the Fostering to Adopt initiative and Foster Xtra initiative.</p> | | |

APPENDIX C: Proposed Governance Improvements required during 2020/21

As a result of the review of governance arrangements, and the work of both internal and external audit, five improvement actions have been identified to further strengthen governance arrangements in 2020/21. These are shown in the table below.

| No. | Actions to be taken | Lead Officer & Timescale |
|--|--|--|
| 1 | Brought forward from 2019/20 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 2021 |
| Links to the Local Code of Corporate Governance (ref): Optimising the achievement of intended outcomes with robust mechanisms for making decisions, which are reviewed continually (4.34). | | |
| 2 | Brought forward from 2019/20 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 2021 |
| 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). | | |
| 3 | Brought forward from 2019/20 Undertake a review of governance arrangements of the County Durham Partnership. | Head of Partnerships and Community Engagement May 2020 |
| Links to the Local Code of Corporate Governance (ref): Engaging effectively with institutional stakeholders and developing formal and informal partnerships (4.21). | | |
| 4 | Brought forward from 2019/20 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 2021 |
| 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) | | |
| 5 | The governance surrounding the Council's companies require refinement and efforts have begun to ensure all necessary documentation is in place and that key officers are aware of their roles and responsibilities with regards to the companies they are involved with. | Head of Legal and Democratic Services March 2021 |
| Links to the Local Code of Corporate Governance (ref): Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements (3.14) | | |

| No. | Actions to be taken | Lead Officer & Timescale |
|--|--|---|
| 6 | Implement the actions identified in the Children’s Social Care Services improvement plan agreed with Ofsted. | Head of Children’s Social Care Annual review of progress |
| <p>Links to the Local Code of Corporate Governance (ref): The Council welcomes peer challenge, reviews and inspections from regulatory bodies and seeks to ensure that recommendations are implemented (4.67).</p> | | |

APPENDIX D: COVID-19 Implications for Governance

The ways in which the Council's governance systems have been deployed and adapted in response to the COVID-19 pandemic are set out below, aligned to the principles of good governance. A more detailed account is available in the [report to Cabinet](#) on 5 June 2020.

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

1. Our core values have been invaluable in shaping the response: -
 - (a) We will work together to achieve the best for people.
 - (b) We put people and communities at the heart of everything we do and value our employees.
 - (c) We value, trust and support each other.
 - (d) We embrace change and look for better ways to deliver services.

Ensuring openness and comprehensive stakeholder engagement

2. Working with strategic partners through the Local Resilience Forum on collective capacity and capability, protection from the virus, managing deaths and planning for the future.
3. Management of the crisis has been overseen at a corporate and cross-agency regional level:
 - Regional command and control arrangements have been established. These are being led by NHS England and based upon the established North East Pandemic Influenza Framework which includes coronavirus. Well established close working arrangements are in place between Durham County Council and PHE for health protection outbreaks and will continue during this outbreak.
 - County Durham and Darlington Local Resilience Forum (LRF) is also working with Northumbria LRF and Cleveland LRF to co-ordinate activities across the region to ensure effective planning across all agencies for Covid-19. Each LRF has set up a Strategic Co-ordinating Group, known as a Gold Command Group, and they are also meeting as a cross region group.
 - Our leadership team continues to meet daily (virtually) to provide direction to the council's response, with regular input from Cabinet.
 - COVID-19 planning meetings have been taking place since January 2020.
4. We have maintained effective engagement with individual citizens and service users during the crisis. Examples of this include:
 - We have set up a helpline, webpage and support network to help people in County Durham who are struggling during the Coronavirus pandemic. County Durham Together is a virtual support hub for those self-isolating. It can help with a range of requests including food supplies, deliveries, general help and guidance, as well as access to someone who can listen and support.
 - Supporting key voluntary services through our 14 Area Action Partnerships (AAPs). Each AAP Facebook site is also used to highlight the support that is available locally, and we have set up a [website](#) enabling people to register with us as a volunteer so that we can try to match them with local residents who need support. We have also signposted people to register as an [NHS Volunteer Responder](#)

- Local communications and updates are being channelled through a [single point of entry](#)
 - We have increased support and advice to businesses and individuals with financial worries in relation to personal wellbeing and mental health, including directing them to organisations that can help them look after their mental health during the lockdown
 - Following the announcement of the Government's £500 million Hardship Fund, we have taken swift action to ensure those receiving Local Council Tax Support receive this additional relief as soon as possible where applicable.
 - Our Housing Solutions team has continued to carry out daily checks on people identified as sleeping rough in the County and we are working with accommodation providers to secure suitable housing.
5. We quickly engaged with key suppliers to support them through the crisis in line with fresh government guidance to maintain delivery of essential goods and services.
6. We maintained daily contact with care homes in the county to check on their requirements for support and personal protective equipment.
7. Regular contact was maintained with education providers to provide support on school closures, business continuity management and messaging.

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

8. The Council's new vision, which is structured around three externally focused results-based ambitions of 'more and better jobs', 'long and independent lives' and 'connected communities', is highly pertinent and will drive our efforts during the recovery from the pandemic.
9. While the impacts of the COVID-19 outbreak have been catastrophic, the Council will seek to learn from the experience and look for opportunities to maintain the positive effects. These include modern ways of working and reduced travel and carbon emissions.

Determining the interventions necessary to optimise the achievement of the intended outcomes

10. We have made, and will continue to make, the interventions necessary during the pandemic and the post-pandemic period to optimise the achievement of our objective of sustainable economic benefits by:
- Working hard with colleagues at Business Durham and Visit County Durham to keep businesses, employees and the self-employed informed of the support being offered nationally, as well as reviewing the support we provide locally.
 - Actively encouraging businesses to take advantage of the Coronavirus Job Retention Scheme.
 - Lobbying the Government to assist the self-employed and we are now directing sole traders in County Durham to information about the support being offered through HRMC.
 - Offering virtual employability sessions to job seekers.

- Providing grants to help cover the cost of home working technology through the Digital Drive County Durham programme.

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

11. With council meetings suspended, decision making has been maintained through delegated authority with Corporate Management Team scrutinising and overseeing the decisions being made. Cabinet Members and the leaders of the council's political groups have continued to meet to be briefed on developments, and regular email briefings have been provided to all elected Members.
12. The Council acted quickly to establish, and refine, governance arrangements specifically for responding to the pandemic.
13. In recent years, the Council's Inspire Programme has enabled flexible working through digital/mobile technology and supported virtual meetings between teams across the organisation.
14. To respond to the pandemic and support the new working arrangements, the council introduced a comprehensive emergency human resources policy with new absence management arrangements and enhanced family and compassionate leave policies to support staff affected by COVID-19.
15. Despite the difficult barriers to service delivery arising from the pandemic, we have implemented new ways of working to maintain high service levels, particularly on those areas of priority need. Examples of this include:
 - Concentrating on providing priority services including public health, adults and children's social care, refuse collections and looking after the local environment.
 - Stopping all non-essential face-to-face contact and moved to only digital and telephone communication where possible.
 - Mobilising more than 1,500 employees to work in different ways including working from home.
 - More than 3,500 employees have now completed a COVID-19 questionnaire online to enable the Council to be in a position to draw on employees with the right skills to help us to keep providing front line and critical services and to help the most vulnerable. The Corporate Management Team made the decision that all employees must complete the questionnaire to provide a cross-council assessment of our employees' skills
 - Helped maintain the capability of the Council's human resources by developing a new course on COVID-19 for staff.

Managing risks, data and performance through robust internal control and strong public financial management

16. Inevitably, the pandemic has initiated many significant risks, which are recorded in the [COVID-19 risk register](#), as reported to Audit Committee on 29 June 2020. To manage these effectively, the Council has:
 - Reviewed over 250 business continuity plans.

- Identified and assessed key risks caused by the COVID-19 crisis, which are monitored by the leadership team to ensure that they are being managed effectively.
- Utilised the internal counter-fraud team to advise and support on measures to counter criminals who are exploiting the COVID-19 pandemic to defraud people in a variety of ways.
- Publicised scam awareness on various topics and alerted staff to the risk of fraud.

17. It is recognised that enforced swift implementation of emergency procedures increases the risk of a breakdown in internal control systems. Regular monitoring and discussion through the COVID-19 governance arrangements seek to eliminate the incidence of fraud and error.

18. Working with the NHS, foundation trusts, primary care and community services and Durham University, the council developed a comprehensive dataset which has been used to identify individuals who may be particularly vulnerable to COVID-19 as a disease and the wider impacts of the pandemic. The model and dataset informed the development of the community support hub, the prioritisation of services and provision of support.

19. The potential financial impact of the pandemic response is huge and there is no guarantee that they will be covered by government funding. Guidance on COVID-19 expenditure was promptly issued to budget managers and requisitioners, and the frequency of monitoring and reporting was escalated.

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

20. Internal Audit have been consulted and involved in the Council's response to COVID-19 from the outset.

21. Internal Audit have played a part in the continuous audit of the risk management and governance processes of the Council's response to COVID-19.

22. New cost centres have been created to accurately report the level of COVID-19 expenditure which will be reviewed by Internal Audit in 2020/2021.

23. Where procurement rules have been relaxed Internal Audit have been informed and again the application will be reviewed in 2020/2021.

24. Large volume payments with respect to Small Business Grant and Hospitality and Leisure Grant Schemes are currently being subjected to a post payment assurance review. The initial controls for the payments were discussed with the Chief Internal Auditor and Corporate Fraud Manager prior to application. Any fraud and error as a result has been underwritten by the Secretary of State for Business, Energy and Industrial Strategy such due to the pace payments were made.

25. At the end of 2019, the County Durham Partnership developed a new vision for the county. The council is in the process of developing a new council plan to better enable us to work with partners to achieve the vision and to continue to develop as an organisation. Progressing this work will be key to moving beyond COVID-19 response

and recovery. We also need to ensure that the learning and new service models which resulted from the close community and business engagement that is very much a part of the COVID-19 response and recovery work, are a core part of future planning.

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.

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.

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.

Curtailment

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Debtors

Persons or bodies who owe sums to the council.

Dedicated Schools Grant (DSG)

A specific grant paid to Local Authorities to fund the cost of running their schools.

Deferred Capital Receipts

These represent capital income still to be received after disposals have taken place.

Deficit

A deficit arises when expenditure exceeds income or when expenditure exceeds available budget.

Defined Benefit Scheme

Also known as a final salary scheme. Defined benefit pension schemes prescribe the amounts members will receive as a pension regardless of contributions and investment performance. Employers are obliged to fund any shortfalls.

Defined Contribution Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employees benefits relating to employee service in the current year and prior periods.

Delegated Budgets

Budgets for which schools or other services have complete autonomy in spending decisions.

DfE

Department for Education

Depreciation

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

Derecognition

Financial assets and liabilities will need to be removed from the Balance Sheet once performance under the contract is complete or the contract is terminated.

Derivatives

Derivatives are financial instruments that derive their value from the price or rate of some underlying item.

Direct Revenue Financing (DRF)

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

Direct Service Organisations (DSOs)

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

Earmarked Reserves

The council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

Equities

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

Exceptional Items

Material items deriving from events or transactions that fall within the ordinary activities of the council, but which need to be separately disclosed by virtue of their size and/or incidence to give a fair presentation of the accounts.

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper

practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources.

Fair Value

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

FIDs and Manninen

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

Finance Lease

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

Financial Instrument

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

Financial Instruments Adjustment Account (FIAA)

This account is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Transfers are made to ensure that the General Fund records the amount required by the applicable regulations or statutory guidance, the FIAA carries the excluded surplus or deficit.

Financial 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.