

**NORTHUMBERLAND**

Northumberland County Council

Statement of Accounts  
2010 – 2011

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## Summary of the 2010-2011 Financial Year

The County Council's financial performance and position for 2010-2011 is reported within the various statements in this document.

In the current financial year the County Council adopted International Financial Reporting Standards (IFRS). In order to present comparative figures on an IFRS basis for the year ended 31 March 2010 an IFRS opening balance sheet as at 1 April 2009 has been prepared. Details regarding the main differences on the County Council's balance sheet upon adoption of IFRS on 1 April 2009 are shown in note 2 to the accounts. Details regarding the main differences in the comparative year ending 31 March 2010 are also shown in note 2 to the accounts.

The County Council approved a net revenue budget of £282.3 million for 2010-2011 after taking account of the Dedicated Schools Grant of £159.5 million. Efficiencies and other savings totalling £16.6 million were needed in order to arrive at a reasonably balanced position after assessing what was required in terms of spending capacity to maintain service provision and respond to essential growth pressures, and the consequent impact upon the increase in council tax levels.

The original capital plan for 2010-2011 approved in February 2010 showed total planned gross expenditure of the order of £151.35 million, financed from a combination of Supported Borrowing, Prudential Borrowing, Dedicated Schools Grant, Academies Programme, other Grants, use of Reserves, Revenue Contributions and Capital Receipts. The Capital Programme for 2010-2011 included spending re-phased from 2009-2010, plans from former Northumberland Borough and District Councils, and Housing expenditure. Most notable amongst the projects were Putting the Learner First (Ashington and Blyth), various Children's Services schemes, health and safety schemes, backlog maintenance works, the Local Transport Plan, South East Northumberland Passenger Transport Improvements, Ashington Town Centre, various Housing Improvement Schemes and Haltwhistle Library.

During the year, formal monthly budget monitoring reports have been produced in order to maintain strong financial management within the Council. The net revenue budget was financed by:

	£'000
Council Tax	149,038
Formula Grant	130,239
Decrease in General Fund	3,008
	282,285

Expenditure against service allocated budgets totalled £278.77 million against total resources of £279.28 million representing an in year underspend of £0.51 million. This compares to the provisional outturn position which forecast an overspend of £0.50 million. Redundancy and restructuring costs were lower than originally anticipated.

The underspend is reflected within the General Fund Balance as detailed below:

	£'000
Balance as at 1 April 2010	27,556
Balance as at 31 March 2011	28,065
Change in year	509

Of the balance as at 31 March 2011 £4.41 million relates to agreed slippage into the 2011-2012 financial year. The vast majority of the slippage relates to the Working

## Summary of the 2010-2011 Financial Year

Neighbourhood Fund and supports a phased exit strategy as a result of the Government's decision to cease this funding stream.

The usable balance as at 31 March 2011 therefore equates to £23.66 million, which is forecast to reduce to £17.86 million in line with the agreed 2011-2012 budget by the 31 March 2012.

The original use of reserves anticipated within 2010-2011 was not required as the Council successfully delivered a tranche of additional savings in direct response to in year funding reductions required by the Government.

## Explanatory Foreword

### 1. Information and Financial Statements

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts. The pages which follow cover:

- The Council's accounts for 2010-2011; and
- The group accounts which present the financial performance and position of the Council aggregated with a number of subsidiary entities that it controls.

For the Council the Statement of Accounts comprises:

#### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Council. These reserves are analysed into "usable" (i.e. those that represent resources that can be applied to fund expenditure) and "non usable" other reserves. The surplus or deficit on the provision of services represents the true cost of the provision of the Council's services. This is shown in the Comprehensive Income and Expenditure Statement (see below). This true cost is different to the charge required to be made to the General Fund Balance and the Housing Revenue Account for council tax and rent setting purposes. The Movement in Reserves Statement sets out, in a single line, the adjustments made to reflect the differences between the accounting and regulatory basis of determining the Council's funding requirements. The Statement also shows transfers to or from earmarked reserves undertaken by the Council.

#### **Comprehensive Income and Expenditure Statement**

This reports the income and expenditure associated with the provision of Council services. It also discloses non cash surpluses and deficits relating to the revaluation of Council assets and gains and losses on pension scheme assets and liabilities.

#### **Balance Sheet**

This is fundamental to the understanding of the Council's year end financial position. It shows the balances and reserves at the Council's disposal, its long term indebtedness and summarised information on the assets held.

#### **Cash Flow Statement**

This summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement as cash in hand; cash equivalents are deposits repayable on demand.

#### **Pension Fund Financial Statements**

Financial Statements for the Northumberland County Council Pension Fund provide information about the financial position and performance of the Fund and are an extract from the Pension Fund Annual Report. A copy of the full report is available from the Corporate Director of Finance, County Hall, Morpeth, Northumberland, NE61 2EF.

#### **Firefighters' Pension Fund Financial Statements**

The Firefighters' Pension Scheme statements provide information relating to the transactions in the year.

## **Explanatory Foreword**

### **Housing Revenue Account (HRA) Income and Expenditure Account**

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to show that expenditure on managing tenancies and maintaining dwellings is met by rents charged to tenants. Consequently, the HRA is a statutory account, ring fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa). The movement on the HRA balance in the year is disclosed in the Movement in Reserves Statement (see above).

### **Collection Fund Account**

This account is maintained separately as a statutory requirement, to show the transactions of the Council as a billing authority in relation to Council Tax and Non-domestic Rates. It shows the way in which the income collected has been distributed to precepting authorities.

### **Statement of Responsibilities for the Statement of Accounts**

The Statement of Responsibilities details the responsibilities of the County Council and the Corporate Director of Finance in relation to the accounts. In addition, the statement includes certification by the Corporate Director of Finance that the accounts present a true and fair view of the financial position of the County Council at the reporting date and of its expenditure and income for the year.

### **Annual Governance Statement**

The Annual Governance Statement identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for.

### **Independent Auditor's Report**

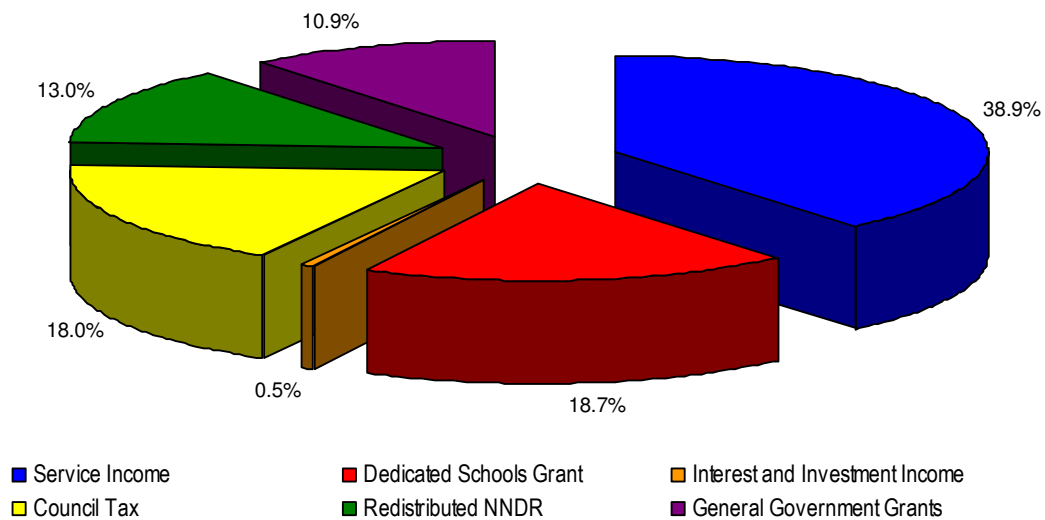
This document presents the External Auditor's report and opinion on the Statement of Accounts.

## Explanatory Foreword

### 2. Income and Expenditure

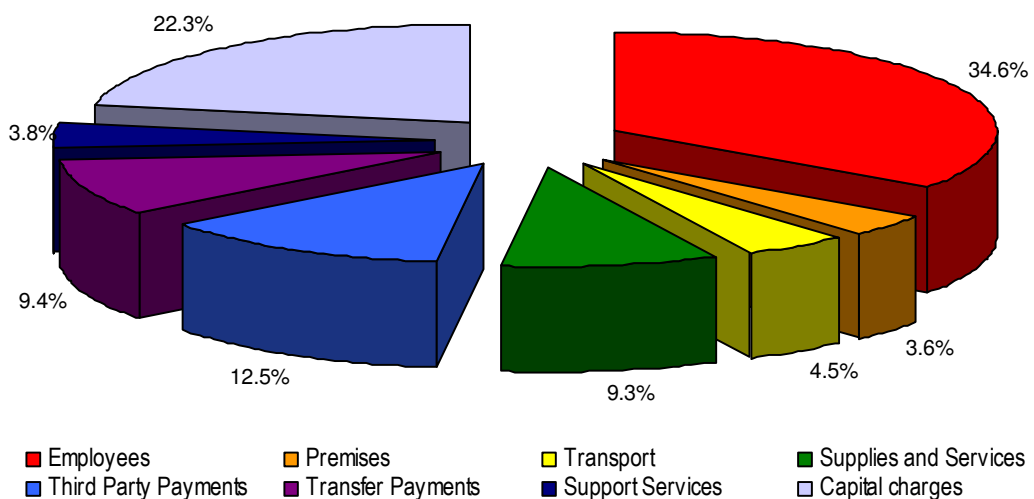
#### Where the money comes from

The Council relies in the main on service income, Dedicated Schools Grant, local taxation and redistributed non domestic rates to fund service provision. These sources of funding accounted for 88.6% of all income during the year with the remaining income being derived from other government grants and interest earned.



#### What the money was spent on

A large proportion of the Council's expenditure (34.6%) is staff-related, 9.3% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 21.9%. The balance is mainly related to central costs and capital charges for the use of assets (depreciation and minimum revenue provision).

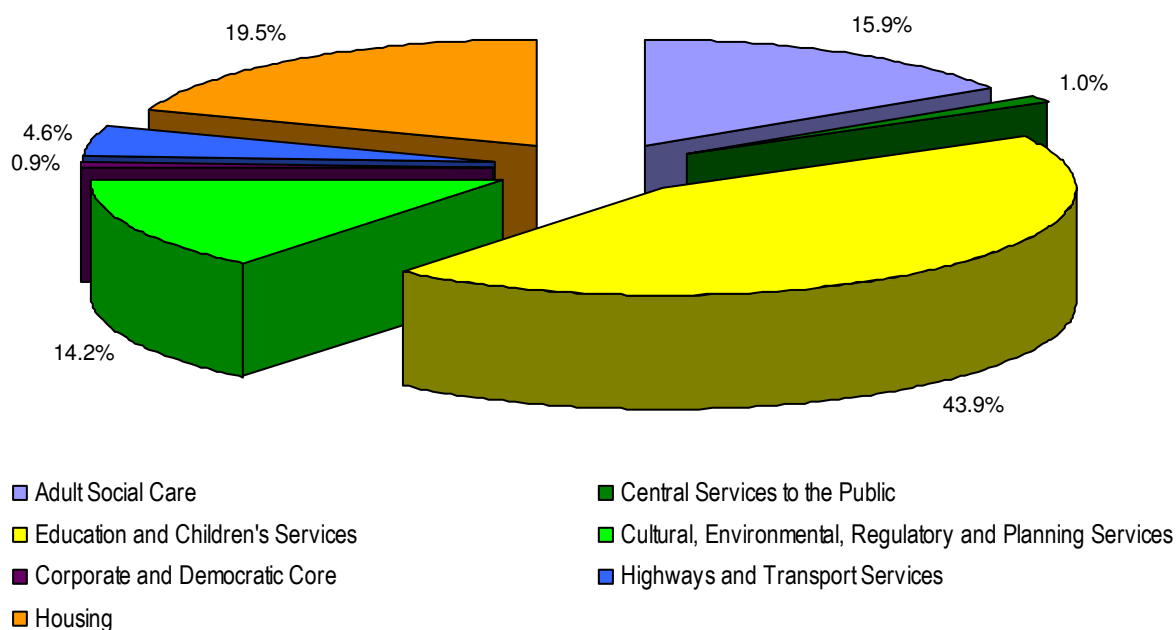




## Explanatory Foreword

### What services were provided?

Gross expenditure on the services provided by the Council is shown below. The bulk of gross expenditure is spent on Education and Children's Services most of which is financed by the Dedicated Schools Grant. Housing Services has the second highest gross expenditure most of which is financed by Housing Subsidy. Adult Social Care has the third highest gross expenditure and the highest net expenditure.



The Comprehensive Income and Expenditure Statement (page 12) and the Notes to the Financial Statements (pages 15 - 131) provide more detail regarding the charts above.

### 3. Capital Expenditure

Each year the Council invests in projects to maintain and develop services. The level of investment is subject to the ability of the Council to finance and run projects within affordable limits as informed by prudential indicators. During the year the Council incurred £116.05 million of capital expenditure comprising £96.48 million of asset additions and £19.57 million revenue expenditure to be financed from capital under statute. Of this, £43.26 million (37.3%) related to Children's and Educational Services and £26.06 million (22.5%) related to Highways and Transport. The Council's fixed assets were also increased by £1.92 million for the Fire and Rescue Private Finance Initiative. Examples of the capital projects delivered are:

Project	£'000
Blyth and Hirst PLF Projects	29,311
Culture, Leisure and Tourism	1,057
Fire Service Modernisation	2,274
Health and Safety/Backlog Maintenance	3,578
Housing Services	7,804
Local Transport Plan	22,332
Regeneration Projects	3,956
Redundancy and restructuring costs	5,622

## Explanatory Foreword

The Council obtained agreement from the Department for Communities and Local Government (DCLG) to fund from capital resources some of the redundancy and restructuring costs incurred during the year.

### 4. Finance for Capital Expenditure

The main sources of finance for capital expenditure were borrowings of £47.69 million (41.1%), capital grants of £57.47 million (49.5%), use of capital receipts of £4.59 million (4.0%), Major Repairs Allowance of £3.59 million (3.1%), and contributions from revenue of £2.71 million (2.3%).

### 5. Pension Deficit

The accounts have been prepared incorporating the requirements of International Reporting Standard (IAS) 19 *Employee Benefits* for the treatment of pension costs. IAS 19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid.

At 31 March 2011 the County Council's net liability for future pension costs was £514.66 million. Sixty one percent of this net liability is attributable to the Local Government Pension Scheme (LGPS), which is a funded scheme, and the rest to unfunded schemes such as the Firefighters' Pension Scheme. For the LGPS, the Council pays an employer's contribution into the Northumberland County Council Pension Fund at a rate set by the Fund's actuary. The rate paid in 2010-2011 was set on the basis of the actuarial valuation of the Fund as at 31 March 2007 and was intended to fully fund the liabilities within approximately 25 years. A new actuarial valuation of the Fund as at 31 March 2010 was completed during 2010-2011. This sets the rate payable for the three years commencing 1 April 2011.

### 6. Significant Changes in Accounting Policies

The transition to IFRS in 2010-2011 has resulted in a number of changes to the accounting policies adopted by the Council. The most significant changes are:

- **Employee Benefits – Holiday Pay Accrual:** The leave year for many Council employees is based on triggers such as birth date or start dates rather than the financial year. As a result, holidays may have been earned but not taken at 31 March. This liability is now reflected in the accounts as a provision. Under the previous accounting arrangements, no such accrual was required. The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. The accrued amounts are therefore transferred to the Accumulated Absences Account until the benefits are used.
- **Leases:** Under the IFRS-based Code, new tests have been introduced to distinguish between finance and operating leases based on considerations of the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. In broad terms, a finance lease transfers substantially all of the risks and rewards of ownership of an asset. This contrasts with the main test applied under previous accounting guidance in which a finance lease existed where the value of the minimum lease payments represented 90% or more of the asset's value. As a result of this change, the classification of some leases held by the Council has changed.

Furthermore, under IFRS, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease was accounted

## Explanatory Foreword

for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where previously it would have been treated as a finance lease; or as a finance lease where it was previously treated as an operating lease. The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

IFRS also requires a consideration of contractual arrangements that involve the use of property, plant and equipment but that do not have the formal status of leases to determine whether they have the substance of a lease. If so, they are brought within the scope of the accounting rules for leases.

- **Grants and Contributions:** Arrangements for grants and contributions have been revised, based on a key principle that amounts receivable should only be kept in the Net Assets section of the Balance Sheet to the extent that the Council has a liability to the grant payer involving the right to have the monies repaid to them if a condition of the grant funding is not met. As soon as conditions have been satisfied, grant (capital and revenue) is credited immediately as income.

The impact of this is particularly marked in relation to capital grants which were previously held in a grants deferred account and recognised as income over the life of the assets they were used to fund.

- **Downward Revaluation and Impairment of Property, Plant and Equipment:** The previous distinction between reductions in fair value attributable to consumption of economic benefits (charged directly to services) and general decreases (written off first against any balance in the revaluation reserve attributable to the relevant asset, with any excess charged to the relevant service) has been removed under the IFRS-based Code. Now, all downward revaluations follow the second of these treatments. The revaluation provisions of the IFRS-based Code take precedence over those relating to impairment. Downward movements for assets carried at revalued amounts are revaluation losses rather than impairment losses.
- **Componentisation of Assets:** Previously, depreciation was charged separately on the land and building elements of property. Under IFRS, this has been extended and now authorities are required to depreciate separately components of an asset whose cost is significant in relation to the total cost of the asset and which have useful lives which differ from that of the whole asset. This requirement applies from 1 April 2010 with existing assets broken down into components as they are revalued or as enhancement work is carried out.
- **Investment Property:** There has been a change in the definition of Investment Property to stress that it covers property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both. Properties meeting the definition are now treated as investments, rather than property, plant and equipment. Annual revaluation is required, and movements in value are posted directly against the Surplus/Deficit on the

## Explanatory Foreword

Provision of Services. Previously, investment properties were held at market value as non-operational fixed assets.

- **Assets Held for Sale:** Where the Council has determined that it will recover the carrying amount of a non-current asset principally through sale rather than continued use; it is now transferred to an Assets Held for Sale balance and treated effectively as an item of inventory. These assets are not subject to depreciation. Downward movements in value are accounted for as impairment losses, but upward movements are limited to amounts that will reverse previous losses. Prior to 2010-2011, these assets continued to be held as fixed assets.

## **Movement in Reserves Statement**

for the year ended 31 March 2011

This statement shows the movement in the year of the reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The “Surplus or Deficit on the Provision of Services” shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement (page 12). These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The “Net Increase/Decrease before Transfers to Earmarked Reserves” line shows the statutory General Fund Balance and Housing Revenue Account Balance before any transfers to or from earmarked reserves undertaken by the Council.

- ① Figures for Northumberland County Council only (including IFRS Restatements)
- ② Figures after Local Government Reorganisation (including IFRS Restatements)

## Movement in Reserves Statement

for the year ended 31 March 2011

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied As Restated	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves As Restated	Total Reserves As Restated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Restated Balance at 1 April 2009 ①	(17,185)	(30,403)	-	(444)	(8,896)	-	(56,928)	(126,629)	(183,557)
Transferred from the Borough and District Councils including IFRS Restatements	(15,260)	(8,336)	(9,388)	(28,316)	(76)	(2,309)	(63,685)	(327,635)	(391,320)
Restated Balance brought forward 1 April ②	(32,445)	(38,739)	(9,388)	(28,760)	(8,972)	(2,309)	(120,613)	(454,264)	(574,877)
<b>Movement in Reserves during 2009-2010:</b>									
Deficit on the provision of services	49,635	-	33,504	-	-	-	83,139	-	83,139
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	95,262	95,262
Total Comprehensive Income and Expenditure	49,635	-	33,504	-	-	-	83,139	95,262	178,401
Adjustments between accounting basis & funding basis under regulations (Note 10)	(59,631)	-	(34,636)	28,129	(15,536)	1,909	(79,765)	79,765	-
Net <b>(Increase)</b> /Decrease before Transfers to Earmarked Reserves	(9,996)	-	(1,132)	28,129	(15,536)	1,909	3,374	175,027	178,401
Transfers to/ <b>(from)</b> Earmarked Reserves (Note 11)	14,885	(15,426)	1,541	-	-	(1,000)	-	-	-
<b>(Increase)</b> /Decrease in 2009-2010	4,889	(15,426)	409	28,129	(15,536)	909	3,374	175,027	178,401
Balance at 31 March 2010 carried forward	(27,556)	(54,165)	(8,979)	(631)	(24,508)	(1,400)	(117,239)	(279,237)	(396,476)
<b>Movement in Reserves during 2010-2011:</b>									
<b>(Surplus)</b> /Deficit on the provision of services	(25,390)	-	93,821	-	-	-	68,431	-	68,431
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(66,444)	(66,444)
Total Comprehensive Income and Expenditure	(25,390)	-	93,821	-	-	-	68,431	(66,444)	1,987
Adjustments between accounting basis & funding basis under regulations (Note 10)	10,387	-	(95,813)	(407)	8,364	(928)	(78,397)	78,397	-
Net <b>(Increase)</b> /Decrease before Transfers to Earmarked Reserves	(15,003)	-	(1,992)	(407)	8,364	(928)	(9,966)	11,953	1,987
Transfers to/ <b>(from)</b> Earmarked Reserves (Note 11)	14,494	(14,494)	-	-	-	-	-	-	-
<b>(Increase)</b> /Decrease in 2010-2011	(509)	(14,494)	(1,992)	(407)	8,364	(928)	(9,966)	11,953	1,987
<b>Balance at 31 March 2011 carried forward</b>	<b>(28,065)</b>	<b>(68,659)</b>	<b>(10,971)</b>	<b>(1,038)</b>	<b>(16,144)</b>	<b>(2,328)</b>	<b>(127,205)</b>	<b>(267,284)</b>	<b>(394,489)</b>



## Comprehensive Income and Expenditure Statement

for the year ended 31 March 2011

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement (page 10).

2009-2010 As Restated				Note	2010-2011		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
7,715	(2,806)	4,909	Central Services to the Public		8,660	(3,164)	5,496
108,964	(23,972)	84,992	Cultural, Environmental, Regulatory and Planning Services		117,942	(22,589)	95,353
325,440	(266,899)	58,541	Education and Children's Services		382,197	(269,677)	112,520
47,743	(6,654)	41,089	Highways and Transport Services		38,221	(7,282)	30,939
58,254	(26,489)	31,765	Local Authority Housing (HRA)		116,889	(24,476)	92,413
95,216	(94,628)	588	Other Housing Services		102,764	(102,979)	(215)
134,652	(48,220)	86,432	Adult Social Care		137,200	(47,366)	89,834
11,230	-	11,230	Exceptional Costs of Equal Pay	8	-	-	-
10,137	(2,019)	8,118	Corporate and Democratic Core		8,777	(613)	8,164
13,139	(6)	13,133	Non Distributed Costs		(122,609)	(1)	(122,610)
812,490	(471,693)	340,797	Cost of Services		790,041	(478,147)	311,894
28,987	(1,993)	26,994	Other Operating Expenditure	12	90,844	(6,868)	83,976
72,691	(20,873)	51,818	Financing and Investment Income and Expenditure	13	56,003	(18,789)	37,214
-	(336,470)	(336,470)	Taxation and Non-Specific Grant Incomes	14	-	(364,653)	(364,653)
914,168	(831,029)	83,139	Deficit or (Surplus) on Provision of Services		936,888	(868,457)	68,431
		(36,537)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				(2,644)
		1,229	(Surplus) or Deficit on Available-for-Sale Financial Assets				-
		130,570	Actuarial (Gains)/Losses on Pension Assets/Liabilities	46			(63,800)
		95,262	Other Comprehensive Income and Expenditure				(66,444)
		(391,320)	Transferred from Former Borough and District Councils				-
		(212,919)	Total Comprehensive Income and Expenditure				1,987

## Balance Sheet

as at 31 March 2011

The Balance Sheet shows the value as at 31 March 2011 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserve 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'.

	Note	31 March 2011 £'000	31 March 2010 As Restated £'000	1 April 2009 As Restated £'000
Property, Plant & Equipment	16	1,245,086	1,405,775	770,502
Investment Property	17	15,575	19,479	786
Intangible Assets	18	330	252	257
Assets Held for Sale	24	2,333	3,424	2,951
Long Term Investments		7,402	10,070	7,481
Long Term Debtors	22	5,773	3,771	2,728
<b>Long Term Assets</b>		<b>1,276,499</b>	<b>1,442,771</b>	<b>784,705</b>
Short Term Investments		47,787	41,843	65,757
Inventories	20	1,181	993	700
Short Term Debtors	22	73,674	53,332	39,929
Cash and Cash Equivalents	23	56,844	2,555	2,435
Assets Held for Sale	24	9,916	20,471	45,406
<b>Current Assets</b>		<b>189,402</b>	<b>119,194</b>	<b>154,227</b>
Bank Overdraft	23	(4,602)	(22,227)	(6,372)
Short Term Borrowing		(43,035)	(14,825)	-
Short Term Creditors	25	(65,143)	(60,342)	(74,379)
Provisions	26	(35,247)	(30,015)	(27,192)
<b>Current Liabilities</b>		<b>(148,027)</b>	<b>(127,409)</b>	<b>(107,943)</b>
Long Term Creditors	42	(88,603)	(76,434)	(17,836)
Provisions	26	-	-	-
Long Term Borrowing	49	(294,525)	(234,441)	(210,235)
Other Long Term Liabilities	46	(514,660)	(704,960)	(410,940)
Capital Grants Receipts in Advance	38	(25,597)	(22,245)	(8,421)
<b>Long Term Liabilities</b>		<b>(923,385)</b>	<b>(1,038,080)</b>	<b>(647,432)</b>
<b>Net Assets</b>		<b>394,489</b>	<b>396,476</b>	<b>183,557</b>
Usable Reserves	10 & 11	127,205	117,239	56,928
Unusable Reserves	28	267,284	279,237	126,629
<b>Total Reserves</b>		<b>394,489</b>	<b>396,476</b>	<b>183,557</b>



## Cash Flow Statement

for the year ended 31 March 2011

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2011 by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

	Note	2010-2011 £'000	2009-2010 As Restated £'000
Net surplus/(deficit) on the provision of services		(68,431)	(83,139)
Adjustments to net surplus or deficit on the provision of services for non-cash movements		146,978	144,008
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(57,910)	(46,213)
<b>Net cash flows from Operating Activities</b>	29	<b>20,637</b>	14,656
Investing Activities	30	(36,114)	31,607
Financing Activities	31	87,391	(77,167)
<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>71,914</b>	(30,904)
Cash and cash equivalents at the beginning of the reporting period		(19,672)	11,232
<b>Cash and cash equivalents at the end of the reporting period</b>	23	<b>52,242</b>	(19,672)

## Notes to the Financial Statements

### 1. Accounting Policies

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2010-2011 financial year and its position at the year-end of 31 March 2011. The Accounts and Audit Regulations 2003 require the Council to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010-2011 and the Best Value Accounting Code of Practice 2010-11, 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.

#### 1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for 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 there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The only exception to the adoption of accruals relates to accounting for income and expenditure by those schools that do not use the full functionality of the Council's finance systems and therefore account on a cash basis. This exception does not have a material impact on the accounts.

Where the Council is acting as an agent for another party (e.g., in the collection of NNDR and council tax), income and expenditure are recognised only to the extent

## Notes to the Financial Statements

that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

### 1.3 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.

### 1.4 Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

### 1.5 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 fixed 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 fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction. This is shown within the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

### 1.6 Employee Benefits

#### Benefits Payable during Employment

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

## Notes to the Financial Statements

is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

### 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 and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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 termination benefits related to pensions enhancements 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.

### Post Employment Benefits

Northumberland County Council participates in seven pension schemes, which meet the needs of particular groups of employees. All the schemes provide members with final salary defined benefit pension rights.

The Council accounts for pension costs for six of these schemes as defined benefit schemes, in accordance with IAS19, *Employee benefits*. In contrast, the Teachers' Pension Scheme is treated as a defined contribution scheme under IAS19, because arrangements for the Scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore the Teachers' Pension Scheme liability for future payment of benefits does not form part of the Net Pensions Liability shown in the Balance Sheet.

The Net Pensions Liability shown in the Balance Sheet is the net of the total liability for all six schemes valued on an actuarial basis, and the Council's attributable share of the Northumberland County Council Pension Fund shown at fair (or bid) value.

The change in the Net Pensions Liability is analysed into six components:

Component	Description
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
Past service cost	The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

## Notes to the Financial Statements

Component	Description
Interest cost	The expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
Expected return on assets	The annual investment return on the Northumberland County Council Pension Fund assets attributable to the Council, based on an average of the expected long term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – debited to the Statement of Total Recognised Gains and Losses
Amount charged against the General Fund Balance for pensions in the year	Amounts payable as employer's contributions to the funded schemes and net retirement benefits paid to pensioners

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year either as employer pension contributions for the funded schemes or as pension payments for the unfunded schemes, and not the amount calculated in accordance with IAS19. There are appropriations to and from the Pensions Reserve in the Movement in Reserves Statement to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable in the year (for the funded schemes) and the pensions paid or payable in the year (for the unfunded schemes).

### 1.7 Events after the Reporting Period

Events after the reporting period 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; and,
- 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.

### 1.8 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 then 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

## Notes to the Financial Statements

payments over the life of the instrument to the amount at which it was originally recognised.

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

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

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/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.

### 1.9 Financial Assets

Financial assets are classified into two types:

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

#### Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment



## Notes to the Financial Statements

loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

### Available-for-Sale Assets

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

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

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

## Notes to the Financial Statements

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

### 1.10 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 attaching 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/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced 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 Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

### 1.11 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 restricted to that incurred during the development phase (research expenditure is not 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. The depreciable amount of an intangible asset is amortised over



## Notes to the Financial Statements

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 (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### 1.12 Interests in Companies and Other Entities

The Council has material interests in companies that have the nature of subsidiaries and is required to prepare group accounts. In the Council's own single-entity accounts, the interests are recorded as financial assets at cost, less any provision for losses.

### 1.13 Inventories

Inventories are included in the Balance Sheet at current replacement cost.

### 1.14 Investment Properties

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 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 (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### 1.15 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.

## Notes to the Financial Statements

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 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 years 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.

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 provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating Leases

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

### The 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 asset in the Balance Sheet.

## Notes to the Financial Statements

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability (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 will be 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 paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. 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 fixed 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.

### Operating Leases

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

### 1.16 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 Best Value Accounting Code of Practice 2010-2011 (BVACOP). 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 and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on surplus assets in Property, Plant and Equipment.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## Notes to the Financial Statements

### 1.17 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. For General Fund items of property, plant and equipment, a de minimis level of £10,000 is applied below which expenditure is charged directly to the Comprehensive Income and Expenditure Statement as it is incurred.

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 fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH);
- all other assets – fair value, determined using 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 fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

## Notes to the Financial Statements

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair 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.

Where decreases in value are identified, the revaluation loss is accounted for by:

- 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 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.

### Impairment

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

Where impairment losses are identified, they are accounted for by:

- 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 insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

### Disposals

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 previously recognised losses. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.



## Notes to the Financial Statements

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 in excess of £10,000 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 fixed 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.

### 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).

It is the view of management that depreciation on Council dwellings within the Housing Revenue Account is equivalent to the Major Repairs Allowance received in year.

The depreciation charge is applied on a straight line basis over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	10, 20, 25, 30, 35, 40, 45, 50, or 55 years (as determined by the valuation officers)
Infrastructure:	
Surface Dressing	10 years
Other	40 years
Vehicles, Plant and Equipment:	
Salt Barns	25 years
Buses	12 years
Fire engines	15 years
Vehicles and equipment under finance lease	2 to 10 years
Other vehicles	5 to 10 years
Mobile Accommodation	10 years
Furniture and Fittings, IT	2 to 11 years
CCTV equipment	10 to 30 years

## Notes to the Financial Statements

Asset	Depreciation Period
Refuse wagons / vehicles	3 to 17 years
Wheeled bins	4 to 8 years
Diggers / forklifts	11 years
Car parking machines	10 to 11 years
Bottle Bank / Bins	5 years
Air / Noise monitoring equipment	10 years
Grounds maintenance equipment	4 to 30 years
Play / sport / gym equipment	5 to 20 years
Street Furniture	10 years
Waste PFI Assets:	
Buildings and Infrastructure	25 to 50 years
Waste Plant Shell	25 years
Equipment	3 to 8 years
Fire PFI Assets:	
Buildings and Infrastructure	25 years

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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.

### 1.18 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 applied to the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## Notes to the Financial Statements

- 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 due to the PFI operator (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.

### 1.19 Provisions, Contingent Liabilities and Contingent Assets

#### 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 instance, 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 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.

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. However, statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. The provision is therefore balanced by an Unequal Pay Back Pay Account created from amounts credited to the General Fund balance in the year the provision was made or modified. The balance on the Unequal Pay Back Pay Account will be debited back to the General Fund balance in the Movement in Reserves Statement in future financial years as payments are made.

#### 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



## Notes to the Financial Statements

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.

### 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.

### 1.20 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/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 and retirement benefits and do not represent usable resources for the Council – these reserves are explained therefore in the relevant policies below.

### 1.21 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but 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.

### 1.22 VAT

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

## 2. Transition to IFRS

The Statement of Accounts for 2010-2011 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009-2010.

## Notes to the Financial Statements

The following tables explain the material differences between the amounts presented in the 2009-2010 financial statements and the equivalent amounts presented in the 2010-2011 financial statements.

### Short Term Accumulated Compensated Absences

Short term accumulated compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken as at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

### Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The Council has four properties where the accounting treatment has changed following the introduction of the Code. Three properties: Merley Croft; Ashmore House; and 22 Coanwood Drive; have been identified as having present value minimum lease payments which are substantially all of the assets fair value at the inception of the lease. One property Dene Park has been identified as having a lease term over 50 years which is likely to be substantially all of the useful life of the asset. These assets were previously on the Balance Sheet as fixed assets. Under the Code these assets have been de-recognised as assets and recognised as long term debtors. As a consequence the financial statements have been amended as follows in accordance with the CIPFA Transition arrangements:

- The Council has derecognised the assets in the balance sheet through the capital adjustment account.
- A long term debtor (Finance lease receivables) has been created with a corresponding entry to a deferred capital receipt.

## Notes to the Financial Statements

- The lease payments to date were debited from the General Fund Service Revenue Account Income. The principal repayment was credited to the long term debtor and the interest element coded to the Finance and Investment Income and expenditure.
- Regulations allow authorities not to classify the repayment of the principal element as a capital receipt but retain it in the General Fund as Income. Therefore the principal element has been transferred from Capital Receipts Deferred to the General Fund in the Movement in Reserves Statement.

### Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Portions of government grants deferred were previously recognised as income in 2009-2010; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- A grant was received in 2009-2010 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the liabilities section of the balance sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.

### Pensions

The Northumberland Fire Brigade Pension Liability reflects the liabilities in respect of current ill-health and other non-scheme ill-health pensioners and includes a reserve in respect of service related future injury and other non-scheme ill-health awards. This is a change in approach to previous years as a result of the move to accounting for employee benefits under international accounting standard IAS19. The previous approach was to state the value of the liabilities of current injury and other non-scheme benefits in the balance sheet and recognise each new injury award as a past service cost. This change has therefore increased the value placed on the liabilities. The balance sheet as at 31 March 2010 has been restated to allow for this change. This approach is consistent with the recommendation of the Audit Commission.

All of these have resulted in the following changes being made to the 2009-2010 financial statements:

## Notes to the Financial Statements

### Comprehensive Income and Expenditure Account for the year ended 31 March 2010 as Restated

	Previously reported 2009-2010 Net Expenditure £'000	Change in BVACOP Analysis £'000	Accumulated Absences £'000	Fixed Assets & Leases £'000	Capital Grants £'000	Firefighters' Pensions £'000	Revenue Grants £'000	2009-2010 Net Expenditure As Restated £'000
Central Services to the Public	4,302	572	33	-	2	-	-	4,909
Court Services	572	(572)	-	-	-	-	-	-
Cultural, Environmental, Regulatory and Planning Services	62,298	15,463	17	(176)	7,246	-	144	84,992
Education and Children's Services	57,956	-	489	-	2,596	-	(2,500)	58,541
Fire Services	15,463	(15,463)	-	-	-	-	-	-
Highways and Transport Services	39,808	-	(13)	(27)	1,284	-	37	41,089
Local Authority Housing (HRA)	38,578	-	-	(4,865)	(1,948)	-	-	31,765
Other Housing Services	148	-	34	-	406	-	-	588
Adult Social Care	86,026	-	(124)	25	882	-	(377)	86,432
Exceptional Costs of Equal Pay	11,230	-	-	-	-	-	-	11,230
Corporate and Democratic Core	11,767	-	12	(2,553)	95	-	(1,203)	8,118
Non Distributed Costs	13,717	-	(1)	(583)	-	-	-	13,133
Cost of Services	341,865	-	447	(8,179)	10,563	-	(3,899)	340,797
Gain/loss on the disposal of fixed assets	(1,993)	1,993	-	-	-	-	-	-
Precepts	3,830	(3,830)	-	-	-	-	-	-
Deficit on trading undertakings	1,118	(1,118)	-	-	-	-	-	-
Interest payable and similar charges	23,319	(23,319)	-	-	-	-	-	-
Amounts payable to the Housing Capital Receipts Pool	498	(498)	-	-	-	-	-	-
Interest and Investment Income	(10,838)	10,838	-	-	-	-	-	-
Pensions interest cost and expected return in pensions assets	38,240	(38,240)	-	-	-	-	-	-
Income from Council Tax	(145,007)	145,007	-	-	-	-	-	-
General Grants	(48,814)	48,814	-	-	-	-	-	-
Redistributed Non-Domestic Rates	(102,850)	102,850	-	-	-	-	-	-

## Notes to the Financial Statements

	Previously reported 2009-2010 Net Expenditure £'000	Change in BVACOP Analysis £'000	Accumulated Absences £'000	Fixed Assets & Leases £'000	Capital Grants £'000	Firefighters' Pensions £'000	Revenue Grants £'000	2009-2010 Net Expenditure As Restated £'000
Other Operating Expenditure	-	2,335	-	24,659	-	-	-	26,994
Financing and Investment Income and Expenditure	-	51,839	(35)	(2,132)	2,186	-	(40)	51,818
Taxation and Non-Specific Grant Incomes	-	(296,671)	-	-	(39,799)	-	-	(336,470)
Deficit on Provision of Services	99,368	-	412	14,348	(27,050)	-	(3,939)	83,139
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets	(19,975)	-	-	(16,562)	-	-	-	(36,537)
Deficit on Revaluation of Available for Sale Financial Assets	1,229	-	-	-	-	-	-	1,229
Actuarial Loss on Pension Assets/Liabilities	127,770	-	-	-	-	2,800	-	130,570
Other Comprehensive Income and Expenditure	109,024	-	-	(16,562)	-	2,800	-	95,262
Transferred from Former Borough and District Councils	(368,055)	-	-	(21,828)	(76)	-	(1,361)	(391,320)
Total Comprehensive Income and Expenditure	(159,663)	-	412	(24,042)	(27,126)	2,800	(5,300)	(212,919)

## Notes to the Financial Statements

### Balance Sheet as at 1 April 2009 As Restated

	Balance at 31 March 2009	Accumulated Absences	Fixed Assets & Leases	Grants	Change in Format	Balance as at 1 April 2009 As Restated
	£'000	£'000	£'000	£'000	£'000	£'000
Property, Plant and Equipment	-	-	-	-	770,502	770,502
Other Land & Buildings	508,550	-	(877)	-	(507,673)	-
Vehicles, Plant and Equipment	22,150	-	693	-	(22,843)	-
Infrastructure	189,903	-	-	-	(189,903)	-
Surplus	-	-	2,634	-	(2,634)	-
Community Assets	245	-	17	-	(262)	-
Assets under Construction	47,187	-	-	-	(47,187)	-
Investment Property	1,554	-	(768)	-	-	786
Intangible Assets	257	-	-	-	-	257
Assets Held for Sale was Surplus Assets held for Disposal	52,471	-	(49,520)	-	-	2,951
Long Term Investments	7,481	-	-	-	-	7,481
Long Term Debtors	1,993	-	735	-	-	2,728
<b>Long Term Assets</b>	<b>831,791</b>	<b>-</b>	<b>(47,086)</b>	<b>-</b>	<b>-</b>	<b>784,705</b>
Short Term Investments	65,757	-	-	-	-	65,757
Inventories was Stock	700	-	-	-	-	700
Short Term Debtors	-	-	-	-	39,929	39,929
Debtors – General	35,539	-	-	-	(35,539)	-
Prepayments	4,390	-	-	-	(4,390)	-
Cash and Cash Equivalents was Cash and Bank	2,435	-	-	-	-	2,435
Assets Held for Sale	-	-	45,406	-	-	45,406
<b>Current Assets</b>	<b>108,821</b>	<b>-</b>	<b>45,406</b>	<b>-</b>	<b>-</b>	<b>154,227</b>
Bank Overdraft	(6,372)	-	-	-	-	(6,372)
Short Term Creditors	-	-	-	-	(74,379)	(74,379)
Creditors	(65,736)	-	-	13,749	51,987	-
Receipts in Advance	(21,481)	-	-	-	21,481	-
Finance Leases	(244)	-	-	-	244	-
Deferred Income	(667)	-	-	-	667	-
Provisions	(20,784)	(6,408)	-	-	-	(27,192)

## Notes to the Financial Statements

	Balance at 31 March 2009	Accumulated Absences	Fixed Assets & Leases	Grants	Change in Format	Balance as at 1 April 2009 As Restated
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Current Liabilities</b>	<b>(115,284)</b>	<b>(6,408)</b>	-	13,749	-	<b>(107,943)</b>
Long Term Creditors	-	-	-	-	(17,836)	(17,836)
Deferred Income	(5,166)	-	-	-	5,166	-
Finance Leases	(12,670)	-	-	-	12,670	-
Long Term Borrowing was Borrowing repayable within a period in excess of 12 months	(210,235)	-	-	-	-	(210,235)
Other Long Term Liabilities was Net Pensions Liability	(410,940)	-	-	-	-	(410,940)
Capital Grants Receipts in Advance was GGCD	(99,112)	-	-	90,691	-	(8,421)
Long Term Liabilities	(738,123)	-	-	90,691	-	(647,432)
<b>Net Assets</b>	<b>87,205</b>	<b>(6,408)</b>	<b>(1,680)</b>	<b>104,440</b>	-	<b>183,557</b>
<b>Usable Reserves</b>	-	-	-	-	56,928	56,928
General Fund Balance	17,185	-	-	-	(17,185)	-
Earmarked Reserves – General Fund	16,653	-	-	13,749	(30,402)	-
Capital Receipts Reserve	444	-	-	-	(444)	-
Capital Grants Unapplied Reserve	-	-	-	8,897	(8,897)	-
<b>Unusable Reserves</b>	-	-	-	-	126,629	126,629
Revaluation Reserve	109,168	-	(942)	-	(108,226)	-
Pensions Reserve	(410,940)	-	-	-	410,940	-
Capital Adjustment Account	372,056	-	(1,473)	81,794	(452,377)	-
Deferred Capital Receipts	1,577	-	735	-	(2,312)	-
Financial Instruments Adjustment Account	(2,751)	-	-	-	2,751	-
Collection Fund Adjustment Account	(837)	-	-	-	837	-
Unequal Pay Back Pay Account	(15,350)	-	-	-	15,350	-
Accumulated Absences Account	-	(6,408)	-	-	6,408	-
<b>Total Reserves</b>	<b>87,205</b>	<b>(6,408)</b>	<b>(1,680)</b>	<b>104,440</b>	-	<b>183,557</b>



## Notes to the Financial Statements

### Balance Sheet as at 31 March 2010 as Restated

	Balance at 31 March 2010	Accumulated Absences	Fixed Assets & Leases	Grants	Pensions	Change in Format	Balance as at 31 March 2010 As Restated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Property, Plant and Equipment	-	-	-	-	-	1,405,775	1,405,775
Council Dwellings	327,259	-	(43)	-	-	(327,216)	-
Other Land & Buildings	665,581	-	(3,111)	-	-	(662,470)	-
Vehicles, Plant and Equipment	89,102	-	647	-	-	(89,749)	-
Infrastructure	234,468	-	-	-	-	(234,468)	-
Surplus	-	-	12,857	-	-	(12,857)	-
Community Assets	12,183	-	356	-	-	(12,539)	-
Assets under Construction	66,696	-	(220)	-	-	(66,476)	-
Investment Property	36,148	-	(16,669)	-	-	-	19,479
Intangible Assets	252	-	-	-	-	-	252
Assets Held for Sale was Surplus Assets held for Disposal	33,210	-	(29,786)	-	-	-	3,424
Long Term Investments	10,070	-	-	-	-	-	10,070
Long Term Debtors	3,071	-	700	-	-	-	3,771
<b>Long Term Assets</b>	<b>1,478,040</b>	<b>-</b>	<b>(35,269)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,442,771</b>
Short Term Investments	41,843	-	-	-	-	-	41,843
Inventories was Stock	993	-	-	-	-	-	993
Short Term Debtors	-	-	-	-	-	53,332	53,332
Debtors – General	49,960	-	-	-	-	(49,960)	-
Prepayments	3,372	-	-	-	-	(3,372)	-
Cash and Cash Equivalents was Cash and Bank	2,555	-	-	-	-	-	2,555
Assets Held for Sale	-	-	20,471	-	-	-	20,471
<b>Current Assets</b>	<b>98,723</b>	<b>-</b>	<b>20,471</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>119,194</b>
Bank Overdraft	(22,227)	-	-	-	-	-	(22,227)
Short Term Borrowing	(14,825)	-	-	-	-	-	(14,825)
Short Term Creditors	-	-	-	-	-	(60,342)	(60,342)
Creditors	(65,747)	-	-	22,944	-	42,803	-
Receipts in Advance	(16,588)	-	-	-	-	16,588	-
Finance Leases	(284)	-	-	-	-	284	-



## Notes to the Financial Statements

	Balance at 31 March 2010	Accumulated Absences	Fixed Assets & Leases	Grants	Pensions	Change in Format	Balance as at 31 March 2010 As Restated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Deferred Income	(667)	-	-	-	-	667	-
Provisions	(23,195)	(6,820)	-	-	-	-	(30,015)
<b>Current Liabilities</b>	<b>(143,533)</b>	<b>(6,820)</b>	<b>-</b>	<b>22,944</b>	<b>-</b>	<b>-</b>	<b>(127,409)</b>
Long Term Creditors	-	-	-	-	-	(76,434)	(76,434)
Deferred Income	(16,011)	-	-	-	-	16,011	-
Finance Leases	(60,423)	-	-	-	-	60,423	-
Long Term Borrowing was Borrowing repayable within a period in excess of 12 months	(234,441)	-	-	-	-	-	(234,441)
Other Long Term Liabilities was Net Pensions Liability	(702,160)	-	-	-	(2,800)	-	(704,960)
Capital Grants Receipts in Advance was GGCD	(173,325)	-	-	151,080	-	-	(22,245)
<b>Long Term Liabilities</b>	<b>(1,186,360)</b>	<b>-</b>	<b>-</b>	<b>151,080</b>	<b>(2,800)</b>	<b>-</b>	<b>(1,038,080)</b>
<b>Net Assets</b>	<b>246,869</b>	<b>(6,820)</b>	<b>(14,797)</b>	<b>174,024</b>	<b>(2,800)</b>	<b>-</b>	<b>396,476</b>
<b>Usable Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,239</b>	<b>117,239</b>
General Fund Balance	27,556	-	-	-	-	(27,556)	-
Earmarked Reserves – General Fund	35,114	-	-	19,050	-	(54,164)	-
Earmarked Reserve - HRA	8,979	-	-	-	-	(8,979)	-
Capital Receipts Reserve	632	-	-	-	-	(632)	-
Capital Grants Unapplied Reserve	-	-	-	24,508	-	(24,508)	-
HRA Major Repairs Reserve	1,400	-	-	-	-	(1,400)	-
<b>Unusable Reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>279,237</b>	<b>279,237</b>
Revaluation Reserve	151,283	-	15,787	-	-	(167,070)	-
Pensions Reserve	(702,160)	-	-	-	(2,800)	704,960	-
Capital Adjustment Account	722,745	-	(31,284)	130,466	-	(821,927)	-
Deferred Capital Receipts	1,215	-	700	-	-	(1,915)	-
Financial Instruments Adjustment Account	3,596	-	-	-	-	(3,596)	-
Collection Fund Adjustment Account	(3,311)	-	-	-	-	3,311	-
Unequal Pay Back Pay Account	(180)	-	-	-	-	180	-
Accumulated Absences Account	-	(6,820)	-	-	-	6,820	-
<b>Total Reserves</b>	<b>246,869</b>	<b>(6,820)</b>	<b>(14,797)</b>	<b>174,024</b>	<b>(2,800)</b>	<b>-</b>	<b>396,476</b>

## Notes to the Financial Statements

### 3. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

For 2010-2011, the only accounting standard that has been published but which has not been adopted by the Code relates to FRS 30 "Heritage Assets". Note 53.1 to the accounts discloses information relating to the impact of this accounting change.

### 4. 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:

- 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.
- The Council had sums deposited with the Icelandic banks and their UK subsidiaries when they went into administration in October 2008. £10.2 million of the sums deposited were considered recoverable at 1 April 2010. Significant impairments had been made against the balances outstanding with Glitnir, because there was no guarantee that UK local authorities would be granted preferential creditor status. During 2010-2011, the Icelandic courts confirmed that local authorities would be considered to have preferential status in the administration process. However, this decision is subject to appeal. Due to the pending appeal, the existing impairment against Glitnir balances has not been reversed during 2010-2011. This approach is contrary to guidance issued by CIPFA which indicates that, in the light of the court decision on preferential status, the impairments on Glitnir deposits could be reversed. However, the Council has considered the legal position relating to these deposits and, because the decision is subject to appeal, considers that the approach adopted is a prudent one.
- The Council is deemed to control the services provided under the outsourcing agreements for both waste management and fire and rescue accommodation. The accounting policies for PFI schemes and similar contracts have been applied to these arrangements and the associated assets (valued at £81.46 million for waste and £1.86 million for fire and rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.
- The Council currently has outstanding liabilities (£18.8 million) resulting from equal pay claims brought by employees seeking compensation for lost back pay. Settlement of these claims is subject to negotiations and there may be other claims that the Council is currently unaware of that may be filed in the future. The provision that has been made in the accounts is based on current legal views and may therefore be subject to revision.
- The financial statements include a provision (£7.3 million) for the settlement of single status with employees. The provision is based on a current assessment of the terms and conditions promoted by the Council. However,

## Notes to the Financial Statements

given the fact that negotiations are ongoing, these figures may be subject to change.

### 5. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive and full Council on the basis of budget reports analysed across Groups. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement).
- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year.
- expenditure on some support services is budgeted for centrally and not charged to Groups.

## Notes to the Financial Statements

The income and expenditure of the Council's principal groups recorded in the budget reports for the year is as follows:

<b>Income and Expenditure 2010-2011</b>	Children's Services	Adult Services	Finance	Local Services	Public Health and Public Protection	Regeneration and Fire and Rescue	Transformation	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(57,687)	(48,774)	(16,442)	(61,000)	(5,382)	(7,607)	(31,817)	(24,151)	(252,860)
Interest and Investment Income	-	-	(4,330)	-	-	-	-	(309)	(4,639)
Government Grants	(239,791)	(1,548)	(98,353)	(3,208)	(281)	(64)	(47)	(325)	(343,617)
<b>Total Income</b>	<b>(297,478)</b>	<b>(50,322)</b>	<b>(119,125)</b>	<b>(64,208)</b>	<b>(5,663)</b>	<b>(7,671)</b>	<b>(31,864)</b>	<b>(24,785)</b>	<b>(601,116)</b>
Employee Expenses	231,068	33,129	15,082	45,263	7,956	18,185	20,631	94	371,408
Other Service Expenses	110,655	102,757	92,586	75,553	1,615	12,753	26,004	13,302	435,225
Support Service Recharges	9,951	4,898	7,249	10,377	2,190	2,272	4,018	773	41,728
Interest Payments	-	-	17,792	-	-	-	-	2,866	20,658
Precepts and Levies	-	-	4,379	-	-	-	-	-	4,379
<b>Total Expenditure</b>	<b>351,674</b>	<b>140,784</b>	<b>137,088</b>	<b>131,193</b>	<b>11,761</b>	<b>33,210</b>	<b>50,653</b>	<b>17,035</b>	<b>873,398</b>
<b>Net Expenditure</b>	<b>54,196</b>	<b>90,462</b>	<b>17,963</b>	<b>66,985</b>	<b>6,098</b>	<b>25,539</b>	<b>18,789</b>	<b>(7,750)</b>	<b>272,282</b>

## Notes to the Financial Statements

Income and Expenditure 2009-2010	Children's Services	Adult Services	Finance	Local Services	Public Health and Public Protection	Regeneration and Fire and Rescue	Transformation	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(56,551)	(40,757)	(9,666)	(63,317)	(5,489)	(4,482)	(37,496)	(25,354)	(243,112)
Interest and Investment Income	-	-	(14,881)	-	-	-	-	-	(14,881)
Government Grants	(245,804)	(13,885)	(97,701)	(9,614)	(1,887)	(5,834)	(977)	(5,585)	(381,287)
<b>Total Income</b>	<b>(302,355)</b>	<b>(54,642)</b>	<b>(122,248)</b>	<b>(72,931)</b>	<b>(7,376)</b>	<b>(10,316)</b>	<b>(38,473)</b>	<b>(30,939)</b>	<b>(639,280)</b>
Employee Expenses	235,911	32,772	29,330	45,971	7,537	18,433	21,056	97	391,107
Other Service Expenses	104,330	101,577	95,124	77,048	2,956	11,311	26,055	14,263	432,664
Support Service Recharges	7,303	4,804	10,313	12,940	1,916	2,242	4,645	936	45,099
Interest Payments	-	-	23,319	-	-	-	-	-	23,319
Precepts and Levies	-	-	3,830	-	-	-	-	-	3,830
<b>Total Expenditure</b>	<b>347,544</b>	<b>139,153</b>	<b>161,916</b>	<b>135,959</b>	<b>12,409</b>	<b>31,986</b>	<b>51,756</b>	<b>15,296</b>	<b>896,019</b>
<b>Net Expenditure</b>	<b>45,189</b>	<b>84,511</b>	<b>39,668</b>	<b>63,028</b>	<b>5,033</b>	<b>21,670</b>	<b>13,283</b>	<b>(15,643)</b>	<b>256,739</b>

## Notes to the Financial Statements

### 6. Reconciliation of Group Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Group income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010-2011 £'000	2009-2010 £'000
Net expenditure in the Group Analysis	272,282	256,739
Net expenditure of services and support services not included in the Analysis	168	(2,788)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	59,474	74,039
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(20,030)	12,807
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>311,894</b>	<b>340,797</b>



## Notes to the Financial Statements

### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Group income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010-2011	Group Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(252,860)	-	-	368	-	(252,492)	(368)	(252,860)
Interest and investment income	(4,639)	-	-	4,639	-	-	(4,639)	(4,639)
Income from council tax	-	-	-	-	-	-	(156,762)	(156,762)
Government grants and contributions	(343,617)	-	-	-	-	(343,617)	(207,890)	(551,507)
<b>Total Income</b>	<b>(601,116)</b>	<b>-</b>	<b>-</b>	<b>5,007</b>	<b>-</b>	<b>(596,109)</b>	<b>(369,659)</b>	<b>(965,768)</b>
Employee expenses	371,408	-	(152,292)	-	-	219,116	23,020	242,136
Other service expenses	435,225	-	-	-	-	435,225	-	435,225
Support Service recharges	41,728	168	-	-	-	41,896	(168)	41,728
Depreciation, amortisation and impairment	-	-	211,766	-	-	211,766	(1,290)	210,476
Interest Payments	20,658	-	-	(20,658)	-	-	20,658	20,658
Precepts & Levies	4,379	-	-	(4,379)	-	-	4,379	4,379
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	591	591
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	79,006	79,006
<b>Total Expenditure</b>	<b>873,398</b>	<b>168</b>	<b>59,474</b>	<b>(25,037)</b>	<b>-</b>	<b>908,003</b>	<b>126,196</b>	<b>1,034,199</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>272,282</b>	<b>168</b>	<b>59,474</b>	<b>(20,030)</b>	<b>-</b>	<b>311,894</b>	<b>(243,463)</b>	<b>68,431</b>

The approach to internal recharging adopted by the Council means that, although the net deficit on the provision of services here agrees to the Comprehensive Income and Expenditure Statement, the gross expenditure and income figures do not.

## Notes to the Financial Statements

2009-2010 Comparatives	Group Analysis	Services and Support Services not in Analysis	Amounts not reported to management for decision making	Amounts not included in I&E	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(243,112)	-	-	-	-	(243,112)	-	(243,112)
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	(14,881)	-	-	14,881	-	-	(16,874)	(16,874)
Income from council tax	-	-	-	-	-	-	(145,007)	(145,007)
Government grants and contributions	(381,287)	-	-	25,075	-	(356,212)	(191,463)	(547,675)
<b>Total Income</b>	<b>(639,280)</b>	<b>-</b>	<b>-</b>	<b>39,956</b>	<b>-</b>	<b>(599,324)</b>	<b>(353,344)</b>	<b>(952,668)</b>
Employee expenses	391,107	-	(16,873)	-	-	374,234	38,240	412,474
Other service expenses	432,664	-	-	-	-	432,664	-	432,664
Support Service recharges	45,099	(2,788)	-	-	-	42,311	2,788	45,099
Depreciation, amortisation and impairment	-	-	90,912	-	-	90,912	2,352	93,264
Interest Payments	23,319	-	-	(23,319)	-	-	23,319	23,319
Precepts & Levies	3,830	-	-	(3,830)	-	-	3,830	3,830
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	498	498
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	24,659	24,659
<b>Total Expenditure</b>	<b>896,019</b>	<b>(2,788)</b>	<b>74,039</b>	<b>(27,149)</b>	<b>-</b>	<b>940,121</b>	<b>95,686</b>	<b>1,035,807</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>256,739</b>	<b>(2,788)</b>	<b>74,039</b>	<b>12,807</b>	<b>-</b>	<b>340,797</b>	<b>(257,658)</b>	<b>83,139</b>

The approach to internal recharging adopted by the Council means that, although the net deficit on the provision of services here agrees to the Comprehensive Income and Expenditure Statement, the gross expenditure and income figures do not.

## Notes to the Financial Statements

### 7. 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 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the assets falls.
Provisions	The Council has made a provision of £26.58 million of which £18.78 million remains as at 31 March 2011 for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £2.66 million to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £81.75 million.  However, the assumptions interact in complex ways. During 2010-2011, the Council's actuaries advised that the net pensions liability had increased by £46.70 million as a result of estimates being corrected as a result of experience and decreased by £27.37 million attributable to updating of the assumptions.

## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31 March 2011, the Council had a balance of sundry debtors of £9.64 million. A review of significant balances suggested that an impairment of doubtful debts of 19.7% (£1.91 million) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £3.81 million to be set aside as an allowance.
Icelandic bank deposits	The Council had a principal sum of £8.0 million deposited with Glitnir Bank, one of the Icelandic banks that went into administration in October 2008. The Council impaired the asset by £7.0 million during 2008 to 2010 on the basis that deposits with Glitnir did not have preferred creditor status. The estimated recoverable amount (principal plus interest) recognised in the balance sheet is £2.1 million. During 2010-2011, the Icelandic courts ruled that deposits with Glitnir should enjoy preferred creditor status. CIPFA has indicated that impairments could be reversed as a result of this judgement. However, the judgement is subject to an appeal and, on this basis, management has decided not to alter the level of impairment in this year's accounts.	Had the Council made the decision to reverse the impairment in 2010-2011, the broad impact would have been a credit to the Comprehensive Income and Expenditure Statement of £7.0 million and an increase in the carrying value of the balance with Glitnir of the same amount.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

### 8. Material Items of Income and Expense Exceptional Item Equal Pay

No further provisions have been made during 2010-2011 in relation to equal pay. It is anticipated that the provision created during 2008-2009 (£15.35 million) and 2009-2010 (£11.23 million) will be sufficient to meet any outstanding liabilities. These costs have however been deferred from being charged to the General Fund under Regulation 31A of the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2003/3146 by the creation of an Equal Pay Back Pay Account pending the actual payment of the claims.

### Change in Pensions Indexation to CPI

With effect from 1 April 2011, increases to public sector pensions will be linked to annual increases in the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). Since, over the long term, CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the defined benefit obligation on the Balance Sheet. The impact of the change to CPI indexation of pension increases has been treated as a benefit change and therefore recognised as a (negative) past service cost reflecting the reduction in the constructive obligation. The negative past service cost totalling £136.99 million for 2010-2011 is shown in note 46 to the

## Notes to the Financial Statements

Financial Statements and as part of the £113.15 million credit for Non Distributed Costs in the Comprehensive Income and Expenditure Statement.

### 9. Events after the Balance Sheet Date

#### Bond issue

In collaboration with a number of other local authorities, after the balance sheet date the Council is in the process of raising £50 million through a bond issue. This is to enable the Council to take advantage of the favourable cost of raising finance in this way in order to fund future planned capital expenditure.

#### Major Capital Schemes

The Council is considering developing and financing three major capital schemes in Northumberland:

- Flood alleviation works in Morpeth;
- A Strategic Link Road north of Morpeth between the A1 and South East Northumberland; and,
- Replacing the Leisure Centre in Ashington.

#### Local Authority Mortgage Scheme

The Council has agreed to participate in the Local Authority Mortgage Scheme (LAMS). Under LAMS, the Council acts as a guarantor to certain home buyers' proposed lenders. The scheme is limited to first time home buyers who have never previously owned a property. Its aim is to assist people who can afford a mortgage but not the initial deposit to enter the "property chain".

The Council's financial risk through LAMS is limited because it will only guarantee up to 20% per first time buyer and has limited the number of buyers such that its total exposure is £2 million.

#### Formation of the Arch Group

During 2010-2011 the Council's status as the sole shareholder in Wansbeck Life Ltd and its subsidiary NCPC Ltd was established. From 1 April 2011 the companies were restructured as the "Arch Group" as follows:

- Arch Corporate Holdings Ltd
- Arch Commercial Enterprises Ltd
- Arch Housing Ltd
- Arch Development Ltd
- Arch Financial Services Ltd

The Group will be used to continue the activities of Wansbeck Life Ltd and its subsidiary NCPC Ltd and to deliver additional services on behalf of the Council.

### 10. 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.

## Notes to the Financial Statements

2010-2011	Note	Usable Reserves				Major Repairs Reserve £'000	Movement in Unusable Reserves £'000
		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non current assets		(30,464)	(4,716)	-	-	-	35,180
Revaluation losses on Property Plant and Equipment		(61,648)	(94,944)	-	-	-	156,592
Movements in the market value of Investment Properties		1,216	(84)	-	-	-	(1,132)
Amortisation of intangible assets		(263)	-	-	-	-	263
Capital grants and contributions applied		23,045	180	-	-	-	(23,225)
Movement in the Donated Assets Account		-	-	-	-	-	-
Revenue expenditure funded from capital under statute		(16,115)	(3,459)	-	-	-	19,574
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		(84,099)	-	-	-	-	84,099
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>							
Statutory provision for the financing of capital investment		11,462	-	-	-	-	(11,462)
Capital expenditure charged against the General Fund and HRA balances		1,470	1,237	-	-	-	(2,707)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement		24,412	1,471	-	(25,883)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account		-	-	-	34,247	-	(34,247)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		5,287	-	(5,287)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure		-	-	4,590	-	-	(4,590)
Contribution from the Capital Receipts Reserve towards administrative costs of		(96)	-	96	-	-	-



## Notes to the Financial Statements

2010-2011	Note	Usable Reserves				Major Repairs Reserve £'000	Movement in Unusable Reserves £'000
		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
non current asset disposals							
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(590)	-	590	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(396)	-	-	396
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve:</i>							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		(25)	-	-	-	-	25
Transfer to the Capital Receipts Reserve upon receipt of cash		-	-	-	-	-	-
<i>Adjustment primarily involving the Major Repairs Reserve</i>							
Reversal of Major Repairs Allowance credited to the HRA		-	4,522	-	-	(4,522)	-
Use of the Major Repairs Reserve to finance new capital expenditure		-	-	-	-	3,594	(3,594)
<i>Adjustments primarily involving the Financial Instruments Adjustment Account:</i>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		79	-	-	-	-	(79)
<i>Adjustments primarily involving the Pensions Reserve:</i>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement		91,130	(20)	-	-	-	(91,110)
Employer's pensions contributions and direct payments to pensioners payable in the year		35,390	-	-	-	-	(35,390)
<i>Adjustments primarily involving the Collection Fund Adjustment Account:</i>							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements		7,724	-	-	-	-	(7,724)
<i>Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:</i>							
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost		-	-	-	-	-	-

## Notes to the Financial Statements

2010-2011	Note	Usable Reserves				Major Repairs Reserve £'000	Movement in Unusable Reserves £'000
		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
of settlements chargeable in the year in accordance with statutory requirements							
<a href="#">Adjustment primarily involving the Accumulated Absences Account</a>							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		2,472	-	-	-	-	(2,472)
<b>Total Adjustments</b>		<b>10,387</b>	<b>(95,813)</b>	<b>(407)</b>	<b>8,364</b>	<b>(928)</b>	<b>78,397</b>

## Notes to the Financial Statements

2009-2010 Comparative Figures	Note	Usable Reserves					Movement in Unusable Reserves £'000
		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non current assets		(28,877)	(5,392)	-	-	-	34,269
Revaluation losses on Property Plant and Equipment		(13,154)	(37,649)	-	-	-	50,803
Movements in the market value of Investment Properties		1,707	(75)	-	-	-	(1,632)
Amortisation of intangible assets		(326)	-	-	-	-	326
Capital grants and contributions applied		18,410	838	-	-	-	(19,248)
Movement in the Donated Assets Account		153	-	-	-	-	(153)
Revenue expenditure funded from capital under statute		(34,801)	(155)	-	-	-	34,956
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		(27,268)	-	-	-	-	27,268
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Statutory provision for the financing of capital investment		10,340	-	-	-	-	(10,340)
Capital expenditure charged against the General Fund and HRA balances		2,940	1,351	-	-	-	(4,291)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement		23,044	1,110	-	(24,154)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account		-	-	-	8,618	-	(8,618)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		4,852	-	(4,852)	-	-	-

## Notes to the Financial Statements

### 2009-2010 Comparative Figures

	Note	Usable Reserves					Movement in Unusable Reserves £'000
		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	
Use of the Capital Receipts Reserve to finance new capital expenditure		-	-	32,887	-	-	(32,887)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals		-	-	-	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.		(498)	-	498	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(404)	-	-	404
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		(35)	-	-	-	-	35
Transfer to the Capital Receipts Reserve upon receipt of cash		-	-	-	-	-	-
<b>Adjustment primarily involving the Major Repairs Reserve</b>							
Reversal of Major Repairs Allowance credited to the HRA		-	5,392	-	-	(5,392)	-
Use of the Major Repairs Reserve to finance new capital expenditure		-	-	-	-	7,301	(7,301)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		7,632	-	-	-	-	(7,632)
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement		(56,114)	(56)	-	-	-	56,170
Employer's pensions contributions and direct payments to pensioners payable in the year		35,250	-	-	-	-	(35,250)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements		(2,474)	-	-	-	-	2,474
<b>Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:</b>							

## Notes to the Financial Statements

2009-2010 Comparative Figures	Note	Usable Reserves					Movement in Unusable Reserves £'000
		General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		-	-	-	-	-	-
<a href="#">Adjustment primarily involving the Accumulated Absences Account</a>							
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		(412)	-	-	-	-	412
<b>Total Adjustments</b>		<b>(59,631)</b>	<b>(34,636)</b>	<b>28,129</b>	<b>(15,536)</b>	<b>1,909</b>	<b>79,765</b>

## Notes to the Financial Statements

### 11. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010-2011.

	2009-10			2010-11			Balance as at 31 March 2011 £'000
	Balance as at 1 April 2009 £'000	Transfers Out £'000	Transfers In £'000	Balance as at 31 March 2010 £'000	Transfers Out £'000	Transfers In £'000	
<b>General Fund Reserves:</b>							
Insurance Reserve	3,036	-	1,217	4,253	-	5,733	<b>9,986</b>
Balances held by schools under a scheme of delegation	8,106	-	332	8,438	-	384	<b>8,822</b>
Economic Regeneration Reserve	604	(226)	-	378	(79)	-	<b>299</b>
Adverse Weather Reserve	750	-	-	750	(750)	-	<b>-</b>
Waste PFI Sinking Fund Reserve	2,952	-	4,011	6,963	-	-	<b>6,963</b>
Fire & Rescue PFI Sinking Fund Reserve	-	-	-	-	-	763	<b>763</b>
Single Status Reserve	1,205	(740)	-	465	(254)	-	<b>211</b>
Planning Delivery Grant	-	-	605	605	-	-	<b>605</b>
Restructuring & Redundancy Reserve	-	-	10,900	10,900	-	-	<b>10,900</b>
Deprived Seaside Reserve	-	-	-	-	-	200	<b>200</b>
Salix Fund	-	-	-	-	-	53	<b>53</b>
Revenue Grants Reserve	13,749	(14,638)	19,940	19,051	(19,051)	15,995	<b>15,995</b>
Adult Services Reserve	-	-	-	-	-	4,943	<b>4,943</b>
Single Status Reserve	-	-	-	-	-	7,157	<b>7,157</b>
Road Defect Rectification Reserve	-	-	414	414	(414)	-	<b>-</b>
	<b>30,402</b>	<b>(15,604)</b>	<b>37,419</b>	<b>52,217</b>	<b>(20,548)</b>	<b>35,228</b>	<b>66,897</b>
Transferred from the Borough and District Councils							
Revenue Grants Reserve	1,362	(1,362)	-	-	-	-	<b>-</b>
ADC Section 106 Monies	134	-	-	134	-	-	<b>134</b>
ADC Parks & Open Spaces	215	-	-	215	-	-	<b>215</b>
ADC Planning	250	(250)	-	-	-	-	<b>-</b>
ADC Community Development	18	(18)	-	-	-	-	<b>-</b>
ADC Capital Reserve	236	(236)	-	-	-	-	<b>-</b>
ADC Housing Capital	424	(70)	-	354	(76)	-	<b>278</b>
BBC Asset Maintenance	54	(54)	-	-	-	-	<b>-</b>
BVBC Insurance Reserve	263	(263)	-	-	-	-	<b>-</b>
BVBC Insurance Risk Management Reserve	5	(5)	-	-	-	-	<b>-</b>
TDC Deferred Capital Receipts	(21)	-	21	-	-	-	<b>-</b>



## Notes to the Financial Statements

	Balance as at 1 April 2009	2009-10		Balance as at 31 March 2010	2010-11		Balance as at 31 March 2011
		Transfers Out	Transfers In		Transfers Out	Transfers In	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TDC Capital Reserve	438	(438)	-	-	-	-	-
TDC Repairs & Renewals Fund	1,137	(362)	-	775	-	360	1,135
TDC Highways Fund	20	-	-	20	(20)	-	-
TDC Planned Maintenance Fund	623	(623)	-	-	-	-	-
TDC Insurance Reserve	286	(286)	-	-	-	-	-
TDC Kielder Funding Reserve	250	-	-	250	(250)	-	-
WDC Insurance Reserve	397	(397)	-	-	-	-	-
WDC Capital Contingency	435	(435)	-	-	-	-	-
WDC Partnership Development	129	(129)	-	-	-	-	-
WDC Woodhorn Colliery Operations	297	(297)	-	-	-	-	-
WDC Job Evaluation	106	(106)	-	-	-	-	-
WDC Energy Efficiency	132	(132)	-	-	-	-	-
WDC DSO Insurance	46	(46)	-	-	-	-	-
WDC Regeneration Team	30	(30)	-	-	-	-	-
WDC Lynemouth Coastal Works	31	(31)	-	-	-	-	-
WDC Members Improvement Schemes	5	(5)	-	-	-	-	-
WDC CCTV	176	(176)	-	-	-	-	-
WDC Environmental Services	17	(17)	-	-	-	-	-
WDC Healthy Living Centres	173	-	-	173	(173)	-	-
WDC DSO Reserve	122	(122)	-	-	-	-	-
WDC Vehicles Renewal Reserve	520	(520)	-	-	-	-	-
River Blyth Port Health Authority	27	-	-	27	(27)	-	-
	8,337	(6,410)	21	1,948	(546)	360	1,762
<b>Total General Fund Reserves</b>	<b>38,739</b>	<b>(22,014)</b>	<b>37,440</b>	<b>54,165</b>	<b>(21,094)</b>	<b>35,588</b>	<b>68,659</b>
<b>HRA Account:</b>							
Major Repairs Allowance	2,309	(7,301)	6,392	1,400	(3,594)	4,522	2,328
<b>Total Reserves</b>	<b>41,048</b>	<b>(29,315)</b>	<b>43,832</b>	<b>55,565</b>	<b>(24,688)</b>	<b>40,110</b>	<b>70,987</b>

### Insurance Reserve

The insurance reserve was first established in 1974 and has accumulated over the years by charging services a higher premium than that paid to the Council's insurers. The additional premiums are used to cover those risks not insured externally. In any particular year, claim settlements resulting in payments out of the

## Notes to the Financial Statements

insurance fund can exceed or be less than premiums collected so that the level of the reserve may decrease or increase in year.

The balance on the reserve as at 31 March 2011 is £9.99 million (31 March 2010 - £4.25 million) and is assessed as sufficient to cover unforeseen levels of claim settlements in future years.

The County Council pays the first £0.10 million of each building claim, apart from schools which are consortia constructed, in which case it is 20% of the claim. The County Council also pays the first £0.12 million of each public liability and employer's liability claim for all services. Motor vehicle claims are paid by the County Council in respect of its own damage and up to £0.12 million for third party claims.

Additional funds have been included in the Insurance reserve in 2010-2011 to cover potential liabilities arising from the Council's exposure resulting from the deterioration in MMI's financial position (note 47).

### Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £8.82 million includes school balances of £7.76 million (£8.03 million in 2009-2010), which are retained by schools under the Council's Local Management of Schools scheme and are not available for use by the County Council, and school-related balances totalling £1.06 million (£0.40 million in 2009-2010). The school balances are made up as follows:

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Unspent Balances	8,634	8,909
Overspent Balances	(865)	(857)
Loan Outstanding	(8)	(17)
	7,761	8,035

The Council has agreed a Loan Scheme to enable Nursery, First, Middle, High and Special Schools to borrow money from the aggregate balances of the delegated budgets of schools. At 31 March 2011 there was one loan outstanding of £0.01 million (2009-2010: £0.02 million) for Warkworth First School.

Schools' balances are committed to be spent on the education service.

### Economic Regeneration Reserve

The reserve was established from the sale of the County Council's waste disposal company. It is used to lever other contributions and add to the Council's initial stake in four key areas within the Economic Regeneration Strategy: inward investment, support for existing companies, key projects in communities and development opportunities or major projects.

During the year there was expenditure from the reserve of £0.08 million in support of the Economic Regeneration Strategy. The reserve earned interest of two thousand pounds during the year.

It is anticipated that the remaining balance of £0.30 million will be fully utilised within 2011-2012.

## Notes to the Financial Statements

### **Adverse Weather Reserve**

This reserve provided contingency funds for adverse weather conditions over a prolonged period. During the year, transfers from the reserve totalling £0.75 million were made to support additional spend incurred on adverse weather in the period. The reserve has now been closed. These costs will be met from the General Fund in future years.

### **Waste PFI Sinking Fund Reserve**

In order to smooth the impact on the Comprehensive Income and Expenditure Statement over the life of the contract, the Council set aside a proportion of the PFI grant from 2009-2010 and contributed to an earmarked reserve. This reserve is planned to be fully utilised over the next four financial years.

### **Fire & Rescue PFI Sinking Fund Reserve**

The cost of the Fire and Rescue PFI contract which commenced in 2010-2011 will increase significantly in later years. In order to smooth the impact on the Comprehensive Income and Expenditure Statement over the life of the contract, the Council has set aside a proportion of the PFI grant from 2010-2011 and contributed to an earmarked reserve. This reserve will be drawn upon to compensate for increased costs during the later years of the contract.

### **Single Status Reserve**

This reserve was originally established to build up funding to cover the final settlement from the 1997 National Single Status Agreement and has already been used to fund an interim settlement. The position has been complicated by a number of equal pay claims brought by employees seeking increases in current pay rates and compensation for lost back pay. The reserve is now held to fund the costs of defending equal pay claims and the negotiation of the Single Status Agreement. Expenditure of £0.25 million was incurred during 2010-2011 in respect of legal fees and additional HR support.

### **Planning Delivery Grant**

This reserve was created through former District and Borough Councils and will contribute towards expenditure incurred on delivery of the Local Development Framework.

### **Restructuring & Redundancy Reserve**

In accordance with the capitalisation bid submitted to CLG a reserve of £10.90 million has been established to cover future redundancy and restructuring costs. The Council's scheme has been revised to ensure such future costs are effectively managed, and resources are protected for service delivery.

### **Deprived Seaside Reserve**

This reserve has been created following the receipt of a revenue grant to support the 25 most deprived seaside local authorities to boost action in tackling worklessness, and drive regeneration in seaside towns.

## Notes to the Financial Statements

### Salix Fund

This earmarked reserve was created during 2010-2011 and is to be used as a rolling funding pot in relation to carbon reduction schemes.

### Revenue Grants Reserve

Revenue government grants on occasion are paid to local authorities but have a number of conditions attached. The introduction of IFRS has resulted in an amendment to the accounting treatment: where no grant conditions exist or conditions have been met the grant is transferred into the Comprehensive Income and Expenditure Statement. If however expenditure has not yet been incurred the grants are transferred into an earmarked reserve and then subsequently released back into revenue once expenditure is complete.

### Adult Services Reserve

This earmarked reserve has been established during 2010-2011 for the purposes of supporting commissioning priorities in relation to nursing and residential care services; and to help support provisional plans for the development of an alternative organisational form for in-house day services.

### Single Status Reserve

This reserve has been created to provide for pay protection costs which are estimated to be liable over the coming years as a result of single status. The reserve covers both schools and non-schools liabilities.

### Road Defect Rectification Reserve

During 2009-2010 the Executive recommended to the County Council that the Council establish a Road Defect Rectification Reserve in response to the exceptional damage caused to the public highway as a result of the severe weather. The reserve was non-recurrent and was fully utilised during 2010-2011.

### Alnwick District Council – Section 106 Monies

This reserve was established by Alnwick District Council from income received in relation to section 106 agreements. The reserve has not been utilised during 2010-2011.

### Alnwick District Council – Parks & Open Spaces

This reserve was established by Alnwick District Council during 2005-2006 and 2006-2007 with total funding of £0.22 million from capital receipts. It was to be utilised in a similar way to Section 106 agreements, to fund work within the District's parks and open spaces. The reserve has not been utilised during 2010-2011.

### Alnwick District Council – Housing Capital

This reserve was established by Alnwick District Council to fund future Affordable Housing capital expenditure. During 2010-2011, £0.08 million was utilised on funding the Housing Enabling Team.

### Tynedale District Council – Repairs & Renewals Fund

This reserve was established by Tynedale District Council to fund repairs and renewals costs and has continued to be in operation since local government reorganisation. During 2010-2011 section 106 receipts amounted to £0.59 million whilst payments were £0.23 million resulting in an overall increase in the reserve of £0.36m.

## Notes to the Financial Statements

### Tynedale District Council – Highways Fund

This reserve was established by Tynedale District Council to fund additional highways costs. The reserve was not utilised during 2009-2010 or 2010-2011 and has now been amalgamated into General Fund reserves, with any additional budget requirements being dealt with through the normal procedures.

### Tynedale District Council – Kielder Funding Reserve

This reserve has been released into General Fund reserves.

### Wansbeck District Council – Healthy Living Centres

This reserve was established by WDC in 2007-2008 to fund the ongoing provision of Healthy Living Centres. The reserve was not utilised in 2009-2010, and has been released into General Fund reserves during 2010-2011.

### River Blyth Port Health Authority

This reserve was established on the 1 April 2009 as a result of local government reorganisation. During 2010-2011 the reserve has been incorporated into General Fund reserves.

### Housing Revenue Account – Major Repairs Reserve

Movements in the HRA reserve during the year are shown below:

Transferred from the former Borough and District Councils	Balance as at 1 April 2009 £'000	Deficit £'000	Transfers In £'000	Balance as at 1 April 2010 £'000	Surplus £'000	Balance as at 31 March 2011 £'000
ADC – Housing Capital	434	(254)		180		
BVBC – Major Repairs Reserve	1,343	(1,396)	1,000	947		
WDC – Earmarked HRA	532	(259)		273		
NCC Major Repairs Reserve	2,309	(1,909)	1,000	1,400	928	2,327

The Major Repairs Reserve shows the movement in the Major Repairs Allowance. The surplus for the year reflects the variance between Major Repairs Allowance received and the amount used in financing capital expenditure.

## 12. Other Operating Expenditure

	2010-2011 £'000	2009-2010 £'000
Parish and other precepts	4,379	3,830
Payments to the Government Housing Capital Receipts Pool	590	498
Losses on the disposal of non-current assets	79,007	22,666
Total net operating expenditure	83,976	26,994

## Notes to the Financial Statements

### 13. Financing and Investment Income and Expenditure

	2010-2011 £'000	2009-2010 £'000
Interest payable and similar charges	17,761	23,319
Pensions interest cost and expected return on pensions assets	23,020	38,240
Interest receivable and similar income	(1,742)	(10,838)
Deficit on trading undertakings	(168)	2,788
Income and expenditure in relation to investment properties and changes in their fair value	(1,657)	(1,691)
<b>Total</b>	<b>37,214</b>	<b>51,818</b>

### 14. Taxation and Non-Specific Grant Incomes

	2010-2011 £'000	2009-2010 £'000
Council tax income	(156,762)	(145,007)
Non domestic rates	(113,725)	(102,850)
Non-ring fenced government grants	(45,058)	(48,814)
Capital grants and contributions	(49,108)	(39,799)
<b>Total</b>	<b>(364,653)</b>	<b>(336,470)</b>

### 15. Acquired Operations

On 1 April 2009 Northumberland County Council became the new Unitary Council for Northumberland replacing the existing two-tier structure that had been in place within Northumberland until 31 March 2009, which consisted of the following Authorities:

- Northumberland County Council (NCC);
- Alnwick District Council (ADC);
- Berwick-upon-Tweed Borough Council (BBC).
- Blyth Valley Borough Council (BVBC);
- Castle Morpeth Borough Council (CMBC);
- Tynedale District Council (TDC); and
- Wansbeck District Council (WDC).

For the purposes of Local Government Reorganisation, Northumberland County Council was the continuing authority and the services were transferred from the other councils to the County Council.

The functions and assets of River Blyth Port Health Authority (RBPHA) were also transferred to the County Council on the 1 April 2009 by separate order.

There were no operations acquired during 2010-2011, although the ownership and status of Wansbeck Life and the Northern Coalfields Development Company was established.



## Notes to the Financial Statements

### 16. Property, Plant and Equipment Movements on Balances

<b>Movements in 2010-2011:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>									
At 1 April 2010 As Restated	368,671	687,105	111,000	290,928	13,774	12,940	66,476	1,550,894	87,707
Additions	7,616	26,658	3,095	3,071	20	79	55,938	96,477	13,449
Reclassifications	-	27,804	846	6,895	369	6,028	(41,942)	-	-
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(10,748)	-	-	-	(363)	-	(11,111)	-
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(138,217)	(38,766)	-	-	-	(3,759)	(24,690)	(205,432)	(11,532)
De-recognition - Disposals	(525)	(41,010)	(2,781)	-	(768)	(858)	(4,482)	(50,424)	(43)
De-recognition - Other	-	(8,981)	-	-	-	-	-	(8,981)	-
Assets reclassified (to)/from Held for Sale	-	(15,033)	-	-	-	-	(12)	(15,045)	-
Other movements in Cost or Valuation	-	-	-	-	-	-	(324)	(324)	-
At 31 March 2011	237,545	627,029	112,160	300,894	13,395	14,067	50,964	1,356,054	89,581
<b>Accumulated Depreciation and Impairment:</b>									
At 1 April 2010 As Restated	41,455	24,635	21,251	56,459	1,236	83	-	145,119	2,833
Depreciation charge	4,522	15,996	6,449	8,157	218	122	-	35,464	3,433
Reclassifications	-	(295)	-	-	-	295	-	-	-
Depreciation written out to the Revaluation Reserve	-	(13,511)	-	-	-	(244)	-	(13,755)	-



## Notes to the Financial Statements

<b>Movements in 2010-2011:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(45,977)	(2,840)	-	-	-	(23)	-	(48,840)	-
De-recognition - Disposals	-	(2,932)	(2,348)	-	-	-	-	(5,280)	(7)
De-recognition – Other	-	(742)	-	-	-	-	-	(742)	-
Assets reclassified (to)/from Held for Sale	-	(998)	-	-	-	-	-	(998)	-
At 31 March 2011	-	19,313	25,352	64,616	1,454	233	-	110,968	6,259
Net Book Value:									
At 31 March 2011	237,545	607,716	86,808	236,278	11,941	13,834	50,964	1,245,086	83,322
At 31 March 2010 As Restated	327,216	662,470	89,749	234,469	12,538	12,857	66,476	1,405,775	84,874

## Notes to the Financial Statements

Comparative Movements in 2009-2010 As Restated:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>									
At 1 April 2009 As Restated	-	524,592	25,515	229,148	245	-	47,187	826,687	27,393
NCC IFRS Restatement	-	(896)	1,036	-	17	2,634	-	2,791	-
NCC Restated Balance brought forward 1 April	-	523,696	26,551	229,148	262	2,634	47,187	829,478	27,393
Transferred from the Borough and District Councils	387,837	144,785	20,847	40,655	15,135	-	3,934	613,193	-
Borough and District Councils IFRS Restatement	-	(4,418)	-	-	333	11,957	-	7,872	-
Restated balance brought forward 1 April 2009	387,837	664,063	47,398	269,803	15,730	14,591	51,121	1,450,543	27,393
Additions	9,535	13,091	61,657	11,561	482	263	33,654	130,243	60,314
Reclassifications	2,674	(2,038)	1,900	9,564	246	1,513	(18,263)	(4,404)	-
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	27,390	70	-	(2,248)	(3,013)	-	22,199	-
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(30,905)	(14,651)	-	-	(436)	(414)	(36)	(46,442)	-
De-recognition - Disposals	(470)	(729)	(25)	-	-	-	-	(1,224)	-
Other movements in cost or valuation	-	(21)	-	-	-	-	-	(21)	-
At 31 March 2010 As Restated	368,671	687,105	111,000	290,928	13,774	12,940	66,476	1,550,894	87,707

## Notes to the Financial Statements

Comparative Movements in 2009-2010 As Restated:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Accumulated Depreciation and Impairment:</b>									
At 1 April 2009	-	16,042	3,365	39,245	-	-	-	58,652	509
NCC IFRS Restatement	-	(19)	343	-	-	-	-	324	-
NCC Restated Balance brought forward 1 April	-	16,023	3,708	39,245	-	-	-	58,976	509
Transferred from the Borough and District Councils As Restated	29,649	10,000	11,355	9,742	1,346	-	-	62,092	-
Borough and District Councils IFRS Restatement	-	(91)	-	-	7	-	-	(84)	-
Restated balance brought forward 1 April 2009	29,649	25,932	15,063	48,987	1,353	-	-	120,984	509
Depreciation charge	5,393	15,427	5,550	7,624	188	84	3	34,269	2,324
Additions	-	-	-	-	-	-	-	-	-
Reclassifications	-	(403)	662	(152)	(211)	4	(3)	(103)	-
Depreciation written out to the Revaluation Reserve	-	(14,242)	-	-	(88)	(1)	-	(14,331)	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	6,413	(2,042)	-	-	(6)	(4)	-	4,361	-
De-recognition - Disposals	-	(37)	(24)	-	-	-	-	(61)	-
At 31 March 2010 As Restated	41,455	24,635	21,251	56,459	1,236	83	-	145,119	2,833
<b>Net Book Value</b>									
At 31 March 2010 As Restated	327,216	662,470	89,749	234,469	12,538	12,857	66,476	1,405,775	84,874
At 31 March 2009 As Restated	-	507,673	22,843	189,903	262	2,634	47,187	770,502	26,884

## Notes to the Financial Statements

### 17. Investment Property

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:

	2010-2011 £'000	2009-2010 £'000
Rental income from investment property	(950)	(997)
Direct operating expenses arising from investment property	583	739
Net Gain	(367)	(258)

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

	2010-2011 £'000	2009-2010 As Restated £'000
Balance at start of the year	19,479	1,554
NCC IFRS Restatement	-	(768)
	19,479	786
Transferred from the Borough and District Councils	-	25,277
Borough and District Councils IFRS Restatement	-	(13,812)
Restated balance brought forward 1 April 2009	19,479	12,251
Additions	-	1
Reclassifications	(3,318)	5,595
Disposals	(1,718)	-
Net (losses)/gains from fair value adjustments	1,132	1,632
Balance at end of the year	15,575	19,479

### 18. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are:

	Internally Generated Assets	Other Assets
5 years	None	BI Applications Software
5 years	None	IEG Software

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.26 million charged to revenue in 2010-2011 was charged to the IT Administration cost centre and then absorbed as an overhead across all the

## Notes to the Financial Statements

service headings in the Comprehensive Income and Expenditure Statement. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2010-2011			2009-2010		
	Internally Generated Assets £'000	Other Assets £'000	Total £'000	Internally Generated Assets £'000	Other Assets £'000	Total £'000
Balance at start of year:						
Gross carrying amounts	-	1,588	1,588	-	806	806
Accumulated amortisation	-	(1,336)	(1,336)	-	(549)	(549)
Net carrying amount at start of year	-	252	252	-	257	257
Transferred from the Borough and District Councils:						
Gross carrying amounts	-	-	-	-	782	782
Accumulated amortisation	-	-	-	-	(461)	(461)
Restated balance brought forward 1 April	-	252	252	-	578	578
Additions:						
Purchases	-	341	341	-	-	-
Amortisation for the period	-	(263)	(263)	-	(326)	(326)
Net carrying amount at end of year	-	330	330	-	252	252
Comprising:						
Gross carrying amounts	-	1,929	1,929	-	1,588	1,588
Accumulated amortisation	-	(1,599)	(1,599)	-	(1,336)	(1,336)
	-	330	330	-	252	252

## 19. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long - Term			Current		
	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
<b>Investments</b>						
Loans and receivables	7,402	10,070	7,481	47,787	41,843	65,757
Total Investments	7,402	10,070	7,481	47,787	41,843	65,757
<b>Debtors</b>						
Loans and receivables	5,773	3,771	2,728	73,674	53,332	39,929
Total Debtors	5,773	3,771	2,728	73,674	53,332	39,929
<b>Borrowings</b>						
Financial liabilities at amortised cost	(294,525)	(234,441)	(210,235)	(43,035)	(14,825)	-

## Notes to the Financial Statements

	Long - Term			Current		
	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Total Borrowings	(294,525)	(234,441)	(210,235)	(43,035)	(14,825)	-
<b>Other Long Term Liabilities</b>						
PFI and finance lease liabilities	(88,603)	(76,434)	(17,836)	(231)	(284)	(244)
Total Other Long Term Liabilities	(88,603)	(76,434)	(17,836)	(231)	(284)	(244)
<b>Creditors</b>						
Financial liabilities at amortised cost	(25,597)	(22,245)	(8,421)	(65,143)	(60,342)	(74,379)
Total Creditors	(25,597)	(22,245)	(8,421)	(65,143)	(60,342)	(74,379)

### Financial Instruments Gains/Losses

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

## Notes to the Financial Statements

	2010-2011					2009-2010				
	Financial Liabilities measured at Amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Assets and Liabilities at fair value through profit and loss	Total	Financial Liabilities measured at Amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for Sale	Assets and Liabilities at fair value through profit and loss	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Interest expense	(12,867)	-	-	-	(12,867)	(23,319)	-	-	-	(23,319)
Impairment losses	-	732	-	-	732	-	-	-	-	-
Total expense in surplus or deficit on the provision of services	(12,867)	732	-	-	(12,135)	(23,319)	-	-	-	(23,319)
Interest income	-	1,636	-	-	1,636	-	10,838	-	-	10,838
Interest income accrued on impaired financial assets	-	549	-	-	549	-	-	-	-	-
Total income in surplus or deficit on the provision of services	-	2,185	-	-	2,185	-	10,838	-	-	10,838
Gain on revaluation	-	-	-	-	-	-	-	1,229	-	1,229
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	1,229	-	1,229
Net gain/(loss) for the year	(12,867)	2,917	-	-	(9,950)	(23,319)	10,838	1,229	-	(11,252)



## Notes to the Financial Statements

### Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2011		31 March 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB - Maturity	119,573	122,348	60,699	66,449
PWLB - Annuity	1,186	1,928	138	1,990
PWLB - EIP	4	6	4	6
LOBOs	173,600	195,513	173,600	203,435
Temporary Loans	43,035	43,035	14,825	14,825
Cash Overdrawn	4,602	4,602	22,227	22,227
Market Loans	162	162	-	-
Financial Liabilities	342,162	367,594	271,493	308,932
Long-Term Creditors	114,200	114,200	98,679	98,679
<b>Total Liabilities</b>	<b>456,362</b>	<b>481,794</b>	<b>370,172</b>	<b>407,611</b>

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders above current market rates.

## Notes to the Financial Statements

	31 March 2011		31 March 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Cash	56,844	56,844	2,555	2,555
Short-Term Investments	47,787	47,859	41,843	41,849
Long Term Investments	7,402	7,402	10,070	10,070
Loans and Receivables	112,033	112,105	54,468	54,474
Long Term Debtors	5,773	5,773	3,771	3,771
<b>Total Assets</b>	<b>117,806</b>	<b>117,878</b>	<b>58,239</b>	<b>58,245</b>

The differences are attributable to fixed interest instruments receivable being held by the Council whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables. This shows a notional future gain (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest above current market rates.

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

## Notes to the Financial Statements

### 20. Inventories

	Consumable Stores			Maintenance Materials			Total		
	2010-2011 £'000	2009-2010 £'000	1 April 2009 £'000	2010-2011 £'000	2009-2010 £'000	1 April 2009 £'000	2010-2011 £'000	2009-2010 £'000	1 April 2009 £'000
Balance outstanding at start of year	472	457	679	521	243	322	993	700	1,001
Transferred from former Borough and District Councils	-	197	-	-	206	-	-	403	-
Revised Opening Balance	472	654	679	521	449	322	993	1,103	1,001
Purchases	3,882	4,046	-	2,894	2,366	-	6,776	6,412	-
Recognised as an expense in the year	(3,603)	(4,144)	(222)	(2,985)	(2,294)	(79)	(6,588)	(6,438)	(301)
Written off balances	-	(84)	-	-	-	-	-	(84)	-
Balance outstanding at year-end	751	472	457	430	521	243	1,181	993	700

### 21. Construction Contracts

At 31 March 2011 the Council had no construction contracts in progress.

## Notes to the Financial Statements

### 22. Debtors

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
<b>Short Term</b>			
Central government bodies	13,781	12,287	5,304
Other local authorities	5,906	5,631	-
NHS bodies	5,615	1,883	4,264
Public corporations and trading funds	8,547	2,828	-
Other entities and individuals	39,825	30,703	30,361
<b>Total Short Term</b>	<b>73,674</b>	<b>53,332</b>	<b>39,929</b>
<b>Long Term</b>			
NCC - Probation	681	723	765
NCC - Airport Loan Notes	394	788	1,182
NCC - Car Loans to Employees	51	112	26
NCC - Soft Loans (Adoptive Parents)	14	17	20
NCC – Finance Lease Receivables	-	-	735
Northumberland College	2,727	-	-
North Country Leisure - Soft Play	3	-	-
North Country Leisure - Office Accommodation	111	-	-
North Country Leisure - Ten Pin Bowling	607	-	-
Tynedale Golf Club	2	-	-
Finance Lease Receivable	676	701	-
ADC – Anchor Trust (Erection of dwellings at West Crescent)	57	57	-
ADC – Anchor Trust (Erection of dwellings at Bailiffgate)	13	15	-
ADC – Anchor Trust (Erection of dwellings at Percy Street)	24	26	-
ADC - Amble Development Trust	4	8	-
ADC - Alnwick Playhouse Trust	1	3	-
BVBC - Right to Buy Mortgages	-	7	-
BVBC - Lydia's House Project	20	20	-
CMBC – Large Scale Voluntary Transfer Project Costs	-	706	-
CMBC – Your Homes Newcastle	349	360	-
CMBC - Anchor Housing Association	21	23	-
CMBC – 1985 Act Sales	-	16	-
TDC – Loans to Parishes	18	19	-
TDC – Leisure Tynedale	-	154	-
TDC –Tyne Green Golf Club	-	3	-
WDC – HRA Mortgages	-	12	-
WDC – Housing Act Advances Mortgages	-	1	-
<b>Total Long Term</b>	<b>5,773</b>	<b>3,771</b>	<b>2,728</b>
<b>Total Debtors</b>	<b>79,447</b>	<b>57,103</b>	<b>42,657</b>

## Notes to the Financial Statements

### 23. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Cash and Bank Balances	56,844	2,555	2,435
Bank overdraft	(4,602)	(22,227)	(6,372)
<b>Total Cash and Cash Equivalents</b>	<b>52,242</b>	<b>(19,672)</b>	<b>(3,937)</b>

### 24. Assets Held for Sale

	Current		Non-Current	
	2010-2011 £'000	2009-2010 As Restated £'000	2010-2011 £'000	2009-2010 As Restated £'000
Balance at 1 April	20,471	-	3,424	52,471
NCC IFRS Restatements	-	45,406	-	(49,520)
Restated NCC Balance Sheet figure 1 April	20,471	45,406	3,424	2,951
Transferred from the Borough and District Councils	-	-	-	12,371
Borough and District Council IFRS Restatements	-	1,888	-	(11,329)
Restated Balance brought forward 1 April	20,471	47,294	3,424	3,993
Assets newly classified as held for sale:				
Property, Plant and Equipment	2,929	275	11,131	68
Other assets/liabilities in disposal groups	-	-	3,509	-
Revaluation Losses	(18,000)	(24,653)	(9,064)	(7)
Revaluation gains	-	1	-	6
Assets declassified as held for sale:				
Property, Plant and Equipment	(13)	(1,000)	-	(636)
Other assets/liabilities in disposal groups	-	-	(191)	-
Assets sold	(3,431)	(1,446)	(81)	-
Transfers from non current to current	7,960	-	(7,960)	-
Other movements	-	-	1,565	-
<b>Balance outstanding at year-end</b>	<b>9,916</b>	<b>20,471</b>	<b>2,333</b>	<b>3,424</b>

### 25. Creditors

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Central government bodies	5,891	1,877	11,847
Other local authorities	79	949	17,157
NHS bodies	2,701	2,274	6,483
Public corporations and trading funds	995	493	-
Other entities and individuals	55,477	54,749	38,892
<b>Total</b>	<b>65,143</b>	<b>60,342</b>	<b>74,379</b>

## Notes to the Financial Statements

### 26. Provisions

Short Term	Redundancy Costs	Unequal Pay Back Pay	Single Status	Accumulated Absences	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2009	5,434	15,350	-	-	-	20,784
IFRS Restatement	-	-	-	6,408	-	6,408
Restated NCC Balance Sheet figure at 1 April 2009	5,434	15,350	-	6,408	-	27,192
Transferred from the Borough and District Councils	2,821	-	-	-	441	3,262
Amounts used in 2009-2010	(5,558)	(6,254)	-	(6,408)	(320)	(18,540)
Additional provisions made in 2009- 2010	-	11,230	-	6,820	51	18,101
Balance at 1 April 2010	2,697	20,326	-	6,820	172	30,015
Additional provisions made in 2010- 2011	4,758	-	7,267	4,348	20	16,393
Amounts used in 2010-2011	(1,441)	(1,551)	-	(6,820)	(60)	(9,872)
Unused amounts reversed in 2010-2011	(1,256)	-	-	-	(33)	(1,289)
Short Term Balance at 31 March 2011	4,758	18,775	7,267	4,348	99	35,247
<b>Long Term</b>						
Balance at 1 April 2010	-	-	-	-	-	-
Additional provisions made in 2010- 2011	-	-	-	-	-	-
Long Term Balance at 31 March 2011	-	-	-	-	-	-
Balance at 31 March 2011	4,758	18,775	7,267	4,348	99	35,247

#### Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2010-2011 (and for comparative amounts during 2009-2010) and as such the Council has a constructive obligation to meet these costs. The amount included is the best estimate of the liability as at the Balance Sheet date.

#### Unequal Pay Back Pay

This account represents the estimated liability resulting from equal pay claims brought by employees seeking compensation for lost back pay and has been charged to the Comprehensive Income and Expenditure Statement.

#### Single Status

A single status provision has been created within the 2010-2011 accounts to provide for back pay and protection costs which are estimated to the liable over the forthcoming years as a result of single status. The provision covers both schools and non-schools liabilities.

#### Accumulated Absences

Accumulated absence refers to contractual benefits received by employees,

## Notes to the Financial Statements

entitlement to which is built up as they provide services to the Council. The most significant of these is holiday pay. The liability represented by this provision is the estimated cost to the Council of providing holidays that are untaken at the year-end.

The provision is included in the accounts on the basis of an estimate of the liability: thus there is a degree of uncertainty about the closing balance. All of the liability recognised at 31 March 2011 will be extinguished in 2011-2012 as the relevant leave is taken by employees.

### Other Provisions

All other provisions are individually insignificant.

### 27. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 11.

### 28. Unusable Reserves

	31 March 2011	31 March 2010	1 April 2009
	£'000	As Restated £'000	As Restated £'000
Revaluation Reserve	159,568	167,070	108,226
Pensions Reserve	(514,660)	(704,960)	(410,940)
Capital Adjustment Account	617,322	821,927	452,377
Deferred Capital Receipts Reserve	1,494	1,915	2,312
Financial Instruments Adjustment Account	3,675	3,596	(2,751)
Collection Fund Adjustment Account	4,413	(3,311)	(837)
Unequal Pay Back Pay Account	(180)	(180)	(15,350)
Accumulated Absences Adjustment Account	(4,348)	(6,820)	(6,408)
Total Unusable Reserves	267,284	279,237	126,629

### Revaluation Reserve

The balance on this reserve represents the accumulated gains on the revalued fixed assets held by the Council since 1 April 2007 less that part of the depreciation charge that has been incurred only because the assets have been revalued. Whilst these gains increase the net worth of the Council they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated. On disposal the Revaluation Reserve value for an asset is written to the Capital Adjustment Account.



## Notes to the Financial Statements

	2010-2011 £'000	2009-2010 As Restated £'000
Balance at 1 April	167,070	109,168
NCC IFRS Restatement	-	(942)
Restated NCC Balance Sheet figure 1 April	167,070	108,226
Transferred from the Borough and District Councils	-	25,844
Borough and District Councils IFRS Restatement	-	178
Restated Balance brought forward 1 April	167,070	134,248
Upward revaluation of assets	21,226	45,488
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(18,582)	(8,951)
Difference between fair value depreciation and historical cost depreciation	(4,367)	(2,670)
Accumulated gains on assets sold or scrapped	(5,779)	(1,045)
Balance at 31 March	159,568	167,070

### Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS19 *Retirement Benefits* for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pensions Reserve represents the net liability for future pension costs.

	2010-2011 £'000	2009-2010 £'000
Balance at 1 April	(704,960)	(410,940)
Transferred from the former Borough and District Councils	-	(142,530)
Restated Balance brought forward 1 April	(704,960)	(553,470)
Actuarial gains or losses on pensions assets and liabilities	63,800	(127,770)
Reversal 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	91,110	(56,170)
Employer's pensions contributions and direct payments to pensioners payable in the year	35,390	35,250
Restatement regarding Fire ill health and non scheme ill health pensioners (see note 2 to the financial statements)	-	(2,800)
Balance at 31 March	(514,660)	(704,960)

## Notes to the Financial Statements

### Capital Adjustment Account

The balance on the account represents the timing difference between the amount of historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

	2010-2011 £'000	2009-2010 £'000
Balance at 1 April	821,927	372,056
NCC IFRS Restatement	-	80,322
Restated NCC Balance Sheet figure 1 April	821,927	452,378
Transferred from the Borough and District Councils	-	423,736
Borough and District Councils IFRS Restatement	-	21,650
Restated Balance brought forward 1 April	821,927	897,764
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non current assets	(35,180)	(34,269)
Deficit on Available-for-Sale financial assets	-	(1,229)
Revaluation losses on Property, Plant and Equipment	(156,592)	(50,803)
Amortisation of intangible assets	(263)	(326)
Revenue expenditure funded from capital under statute	(19,574)	(50,126)
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	(84,099)	(27,269)
Recognition of Donated Assets	-	153
Adjusting amounts written out of the Revaluation Reserve	10,146	3,715
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	4,590	32,887
Use of the Major Repairs Reserve to finance new capital expenditure	3,594	7,301
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	23,225	19,248
Application of grants to capital financing from the Capital Grants Unapplied Account	34,247	8,618
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	11,462	10,340
Capital expenditure charged against the General Fund and HRA balance	2,707	4,291
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,132	1,632
Balance at 31 March	617,322	821,927

### 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.

Under IFRS the balance of the principal element of Finance Lease Receivables is

## Notes to the Financial Statements

held in this account until the lease rental is received at which time the Finance Lease Receivables Debtor Account and the Deferred Capital Receipts Reserve are reduced.

	2010-2011 £'000	2009-2010 As Restated £'000
Balance at 1 April	1,915	1,577
Recognition of Finance Lease Receivables under IFRS	-	988
Recognition of Finance Lease Receivables principal repaid to date	-	(253)
Restated NCC Balance Sheet figure at 1 April	1,915	2,312
Transferred from the Borough and District Councils	-	42
Restated balance brought forward 1 April	1,915	2,354
Finance Lease receivables principal	(25)	(35)
Transfer to the Capital Receipts Reserve upon receipt of cash	(396)	(404)
Balance at 31 March	1,494	1,915

### Financial Instruments Adjustment Account

This represents the difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the net charge required against the General Fund Balance in respect of Financial Assets and Financial Liabilities in the Movement in Reserves Statement. The adjustment to the General Fund Balance is required by statutory regulations whereas the Comprehensive Income and Expenditure Statement needs to meet the requirements of the Code.

	2010-2011 £'000	2009-2010 £'000
Balance at 1 April	3,596	(2,751)
Transferred from the Borough and District Councils	-	(1,285)
Restated Balance brought forward 1 April	3,596	(4,036)
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	4,078
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(703)	(659)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	782	4,213
Balance at 31 March	3,675	3,596

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

## Notes to the Financial Statements

	2010-2011 £'000	2009-2010 £'000
Balance at 1 April	(3,311)	(837)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	7,724	(2,474)
Balance at 31 March	4,413	(3,311)

### Unequal Pay Back Pay Account

This account represents the estimated liability resulting from equal pay claims brought by employees seeking compensation for lost back pay and is used to defer the charge to the General Fund pending the actual payment of the claims. During 2009-2010 the estimated liability increased to £26.58 million. The Council submitted a request to the DCLG to enable the expenditure to be financed from capital which was subsequently granted at a limit of £26.40 million. This capitalisation approval was fully utilised in 2009-2010. The residual balance on the account will be charged to General Fund balances once the final claims are settled in 2011-2012.

	2010-2011 £'000	2009-2010 £'000
Balance at 1 April	(180)	(15,350)
Increase in provision for back pay in relation to Equal Pay cases	-	(11,230)
Capitalisation approval	-	26,400
Cash settlements paid in the year	-	-
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-
Balance at 31 March	(180)	(180)

### Accumulated Absences Adjustment Account

The Accumulated Absences Adjustment 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.

	2010-2011 £'000	2010-2011 £'000	2009-2010 £'000	2009-2010 £'000
Balance at 1 April		(6,820)		(6,408)
Settlement or cancellation of accrual made at the end of the preceding year	6,820		6,408	
Amounts accrued at the end of the current year	(4,348)		(6,820)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		2,472		(412)
Balance at 31 March		(4,348)		(6,820)

## Notes to the Financial Statements

### 29. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2010-2011 £'000	2009-2010 £'000
Interest received	(4,016)	(4,286)
Interest paid	12,448	18,115
Dividends received	-	(167)

### 30. Cash Flow Statement – Investing Activities

	2010-2011 £'000	2009-2010 £'000
Purchase of property, plant and equipment, investment property and intangible assets	88,638	78,359
Purchase of short term and long term investments	3,151	569,806
Other payments for investing activities	3,449	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,836)	(4,742)
Proceeds from short term and long term investments	(1,293)	(620,832)
Other receipts from investing activities	(52,995)	(54,198)
Net cash flows from investing activities	36,114	(31,607)

### 31. Cash Flow Statement – Financing Activities

	2010-2011 £'000	2009-2010 £'000
Cash receipts of short term and long term borrowing	(116,888)	(3,422)
Other receipts from financing activities	-	-
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	316	1,140
Repayments of short- and long term borrowing	29,181	79,449
Other payments for financing activities	-	-
Net cash flows from financing activities	(87,391)	77,167

### 32. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2010-2011.

## Notes to the Financial Statements

### 33. Trading Operations

The Council has established trading units where the service manager is required to operate in a commercial environment and generate income from other parts of the Council or other organisations. The turnover and expenditure of the trading units is shown below.

	2010-11			2009-2010		
	Income	Cost	(Surplus) Deficit	Income	Cost	(Surplus) Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Catering</b> Daily school meals service to all but 31 of the County's schools (15,023 meals per day). Civic catering for specific functions, operation of the staff restaurant and, operating an outdoor residential educational centre.	(6,830)	8,020	1,190	(7,363)	8,769	1,406
<b>Cleaning and Caretaking</b> Building cleaning and caretaking at schools and other establishments, facilities management at County Hall & Hepscott Park.	(9,887)	9,966	79	(7,526)	8,587	1,061
<b>Property</b> A comprehensive architectural design, property maintenance and consultancy advice service.	(5,204)	5,302	98	(5,610)	7,766	2,156
<b>Central and Other Services</b> The Council operates several central services with a financial break-even objective or achievement of agreed budgets.	(36,942)	37,999	1,057	(35,050)	35,401	351
<b>Loss on Trading Operations</b>	<b>(58,863)</b>	<b>61,287</b>	<b>2,424</b>	<b>(55,549)</b>	<b>60,523</b>	<b>4,974</b>

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. refuse collection), whilst others are support services to the Council's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Net Operating Expenditure of Continuing Operations. Only a residual amount of the net surplus on trading operations is charged as Financing and Investment Income and Expenditure (see Note 13):

	2010-2011	2009-2010
	£'000	£'000
Net deficit on trading operations	2,424	4,974
Support services recharged to Expenditure of Continuing Operations	(2,271)	(2,186)
Net deficit credited to Other Operating Expenditure	153	2,788



## Notes to the Financial Statements

### 34. Members' Allowances

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

	2010-2011 £'000	2009-2010 £'000
Salaries	224	224
Allowances	1,216	1,240
Expenses	69	76
<b>Total</b>	<b>1,509</b>	<b>1,540</b>

### 35. Officers' Remuneration

The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment No. 2) (England) Regulations 2009 require authorities to disclose the number of employees whose remuneration in the year was £50,000 and above, shown in bands of £5,000. Remuneration is defined as all amounts paid to or receivable by an employee, expense allowances chargeable to tax and the money value of benefits.

Remuneration Band	2010-2011		2009-2010	
	All Employees	Employees who received severance payments	All Employees	Employees who received severance payments
£50,000 to £54,999	148	15	145	11
£55,000 to £59,999	67	10	64	8
£60,000 to £64,999	45	5	42	6
£65,000 to £69,999	27	11	21	5
£70,000 to £74,999	13	4	9	5
£75,000 to £79,999	12	6	16	4
£80,000 to £84,999	7	4	7	1
£85,000 to £89,999	14	5	7	2
£90,000 to £94,999	11	7	6	6
£95,000 to £99,999	2	2	5	3
£100,000 to £104,999	5	3	8	5
£105,000 to £109,999	3	1	3	2
£110,000 to £114,999	3	1	3	2
£115,000 to £119,999	-	-	1	-
£120,000 to £124,999	2	2	-	-
£125,000 to £129,999	2	2	1	-
£130,000 to £134,999	1	1	-	-
£135,000 to £139,999	1	1	2	-
£140,000 to £144,999	-	-	-	-
£145,000 to £149,999	-	-	1	1
£150,000 to £154,999	-	-	-	-
£155,000 to £159,999	-	-	1	1
£160,000 to £164,999	1	1	-	-
£165,000 to £169,999	-	-	-	-
£170,000 to £174,999	1	-	-	-
£175,000 to £179,999	1	-	-	-
£180,000 to £184,999	-	-	-	-
£185,000 to £189,999	1	1	1	-
£190,000 to £194,999	-	-	-	-



## Notes to the Financial Statements

Remuneration Band	2010-2011		2009-2010	
	All Employees	Employees who received severance payments	All Employees	Employees who received severance payments
£195,000 to £199,999	-	-	-	-
£235,000 to £239,999	1	1	-	-
£285,000 to £289,999	-	-	1	1
£295,000 to £299,999	-	-	-	-
£320,000 to £324,999	1	1	-	-
<b>Total</b>	<b>369</b>	<b>84</b>	<b>344</b>	<b>63</b>

The change in the profile of number of employees within each band reflects salary increments and pay awards, early retirements and part-year effects of staff joining or leaving the County Council within the year.

## Notes to the Financial Statements

The Accounts and Audit (Amendment No. 2) (England) Regulations 2009 require authorities to disclose the remuneration of Senior Officers. These officers are also included in the table on pages 83 and 84.

### 2010-2011

Post Holder Information	Salary	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in kind	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
	£	£	£	£	£	£	£	£
<i>Senior Officers emoluments – salary is £150,000 or more per year</i>								
Chief Executive Steve Stewart	<b>172,498</b>	-	-	-	-	<b>172,498</b>	-	<b>172,498</b>
<i>Senior Officers emoluments – salary is between £50,000 and £150,000 per year</i>								
Deputy Chief Executive – Kate Roe ①	<b>67,069</b>	-	<b>1,930</b>	-	-	<b>68,999</b>	<b>12,139</b>	<b>81,138</b>
Corporate Director of Children’s Services – Paul Moffat ②	<b>104,246</b>	-	-	-	<b>811</b>	<b>105,057</b>	<b>18,869</b>	<b>123,926</b>
Corporate Director of Local Services, Caroline Bruce③	<b>61,958</b>	-	<b>1,832</b>	-	-	<b>63,790</b>	<b>11,214</b>	<b>75,004</b>
Corporate Director of Adult Services - Daljit Lally④	<b>169,450</b>	-	-	-	<b>7,221</b>	<b>176,671</b>	<b>30,670</b>	<b>207,341</b>
Corporate Director of Finance - Steven Mason	<b>111,342</b>	-	-	-	<b>5,869</b>	<b>117,211</b>	<b>20,153</b>	<b>137,364</b>
Acting Chief Fire Officer - Alex Bennett ⑤	<b>92,437</b>	-	-	-	-	<b>92,437</b>	<b>19,689</b>	<b>112,126</b>
Executive Director of Performance ⑥	<b>3,458</b>	-	-	<b>107,063</b>	<b>71</b>	<b>110,592</b>	<b>626</b>	<b>111,218</b>
Executive Director of Place - Richard Robson ⑦	<b>126,782</b>	-	-	<b>190,423</b>	<b>3,608</b>	<b>320,813</b>	<b>16,689</b>	<b>337,502</b>
Director of Corporate Services ⑧	<b>46,956</b>	-	-	<b>189,000</b>	<b>2,005</b>	<b>237,961</b>	<b>8,499</b>	<b>246,460</b>
Director of Community Safety & Chief Fire Officer - Brian Hesler ⑨	<b>37,565</b>	-	-	-	-	<b>37,565</b>	<b>1,000</b>	<b>38,565</b>

#### Notes:

- ① Appointment effective from 27 September 2010. Annual equivalent salary £132,500.
- ② Jointly funded post with the Northumberland Care Trust with the Care Trust paying a £20,000 contribution to the post's costs. Appointment effective from 1 January 2011. Annual equivalent salary £125,000. Post holder previously Director of Family Services.
- ③ Appointment effective from 27 September 2010. Annual Equivalent salary £122,500.
- ④ Jointly funded post with the Northumberland Care Trust, each organisation pays 50% of costs. Salary figure includes arrears from previous year. Annual equivalent salary £130,000.

## Notes to the Financial Statements

- ⑤ Appointment effective from 1 December 2010. Post holder previously Deputy Chief Fire Officer.
- ⑥ Left 9 April 2010.
- ⑦ Left 30 November 2010.
- ⑧ Left 31 August 2010.
- ⑨ 18½ hours per week, left 30 November 2010.

Each of the above posts carried significant responsibility particularly in a large unitary Council formed as a result of Local Government Re-organisation.

2009-2010 Post Holder Information	Salary	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in kind	Total remuneration	Pension contributions	Total remuneration incl. pension contributions
	£	£	£	£	£	£	£	£
<b>Senior Officers emoluments – salary is £150,000 or more per year</b>								
Chief Executive, Steve Stewart	188,458	-	-	-	-	188,458	-	188,458
<b>Senior Officers emoluments – salary is between £50,000 and £150,000 per year</b>								
Executive Director of People ①	143,430	-	-	140,000	2,004	285,434	25,961	311,395
Executive Director of Place, Richard Robson	135,746	-	-	-	4,101	139,847	24,570	164,417
Executive Director of Performance	135,746	-	-	-	2,832	138,578	24,570	163,148
Executive Director of Adult Services, Daljit Lally ②	122,940	-	-	-	6,900	129,840	22,252	152,092
Director of Corporate Services	112,695	-	-	-	4,752	117,447	20,398	137,845
Director of Resources, Steven Mason	112,694	-	-	-	2,245	114,939	20,398	135,337
Director of Community Safety & Chief Fire Officer, Brian Hesler	109,514	-	-	-	-	109,514	22,004	131,518

Note:

- ① The Executive Director of People was a jointly funded post with the Northumberland Care Trust with the Care Trust paying a £20,000 contribution to the post's costs. The Executive Director left his post on 30 March 2010.
- ② The Executive Director of Adult Services is a jointly funded post with the Northumberland Care Trust and each organisation pays 50% of the costs.

## Notes to the Financial Statements

### 36. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2010-2011 £'000	2009-2010 £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	505	607
Fees payable to the appointed auditor in respect of statutory inspections	49	17
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	63	19
Fees payable to the appointed auditor by Northumberland County Council as successor body to and in respect of services delivered in connection with the demised District and Borough Authorities	16	179
Fees payable in respect of any other services provided by the appointed auditor during the year	24	94
<b>Total</b>	<b>657</b>	<b>916</b>

#### Notes:

The fees shown are gross and £25k will be recovered from the Audit Commission.

The value of audit fees for grant work related to the 2010-2011 accounts is not known at this stage. The figure that has been included is related to fees paid in 2010-2011 in respect of prior year grant claims. This is consistent with the figure provided in previous years.

Fees payable in respect of other services provided by the appointed auditor are in relation to fees paid to the Audit Commission relating to the National Fraud Initiative, and to Deloitte relating to tax services and consultancy fees.

Fees payable with regard to audit and inspection work are based on estimates in respect of work done and still to be completed relating to 2010-2011.

### 37. Dedicated Schools Grant

The County Council's expenditure on schools is funded by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a Council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resource but has not done so during this year.

## Notes to the Financial Statements

Details of the deployment of DSG receivable for 2010-2011 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2010-2011	17,096	143,155	<b>160,251</b>
Brought forward from 2009-2010	902	(212)	<b>690</b>
Agreed budgeted distribution in 2010-2011	17,998	142,943	<b>160,941</b>
Actual Central Expenditure	(19,876)	-	<b>(19,876)</b>
Actual ISB deployed to Schools	-	(143,169)	<b>(143,169)</b>
Carried forward to 2011-2012	(1,878)	(226)	<b>(2,104)</b>

The deficit on central expenditure is the direct result of the requirement to provide £3.70 million in respect of Single Status.

### 38. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010-2011:

	2010-2011 £'000	2009-2010 £'000
<b>Credited to Taxation and Non Specific Grant Income Revenue</b>		
Revenue Support Grant	<b>16,514</b>	23,739
Local Authority Business Growth Incentive Grant	-	119
Area Based Grant	<b>28,543</b>	24,956
<b>Total Revenue</b>	<b>45,057</b>	48,814
<b>Capital</b>		
Big Lottery	<b>289</b>	1,341
Commission for Architecture and Built Environment (CABE)	<b>1,000</b>	500
DCLG	-	786
DCLG - Disabled Facilities Grant	<b>981</b>	665
DCLG - Equality and Diversity	<b>34</b>	-
DCLG - Fire Brigade Modernisation Fund	<b>631</b>	674
DCLG - Growth Fund	<b>1,835</b>	4
DCLG - Local Enterprise Growth Initiative	-	47
DCLG - Performance Reward Grant	-	1,480
DCLG - Planning Delivery Grant	-	385
DCLG - Single Housing Investment Programme	<b>1,651</b>	1,796
DfE - Playbuilder	<b>461</b>	376
DfE - Secure Unit Grants	<b>1,075</b>	318
Department for Energy and Climate Change	<b>154</b>	-
Department for Environment, Food and Rural Affairs (Waste Infrastructure)	<b>199</b>	541
Department for Transport	<b>2,022</b>	5,460
Department of Health	<b>307</b>	308
English Heritage	<b>75</b>	84
Environment Agency	<b>217</b>	267
Football Foundation	<b>374</b>	261
Gateshead NHS Primary Care Trust	<b>91</b>	-

## Notes to the Financial Statements

	2010-2011 £'000	2009-2010 £'000
Heritage Lottery Fund	-	101
Home Office - Safer Stronger Communities	60	146
Homes and Communities Agency	2,759	-
One North East	212	431
Other	474	692
Single Programme	4,238	4,725
Sport England	(134)	276
Standards Fund	25,083	19,399
Sure Start	2,833	2,249
Sustrans	2,187	90
<b>Total Capital</b>	<b>49,108</b>	<b>43,402</b>
<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>94,165</b>	<b>92,218</b>
<b>Grants Credited to Services</b>		
<b>Revenue</b>		
Big Lottery – Play Workers / Play Fund	101	-
Bus Service Grant	104	-
Child Development Grant	162	147
Children's and Young People Grant	747	402
Communities for Health	-	268
Concessionary Fares Grant	1,254	1,088
Consortium Support Grant	376	-
Contactpoint	176	218
Council Tax Benefit Subsidy Grant	99,406	93,053
Countryside Agency	188	208
Criminal Justice Grant	277	358
Dedicated Schools Grant	163,056	162,774
Discretionary Rent Allowance Subsidy	670	126
Enhanced Services Programme	58	8
European Community Grants	182	154
European Regional Development Fund	1,128	98
Football Foundation Grant	86	-
Future Jobs Fund	946	-
Gaining Ground Funding	68	-
Grant in Support of ISB	11,223	11,680
Homelessness Grant	390	152
Housing Subsidy	1,289	1,985
Integrated Children's Systems Grant	-	50
Integrated Working Workforce Reform Grant	62	67
LAA Reward Grant	2,383	81
LD Campus Closure Programme	125	66
Local Carbon Framework Pilot	249	-
Local Enterprise Growth Initiative	1,501	617
Lottery Funding	151	133
Migration Impacts Grant	251	98
Minor Repairs / Adaptations Grant	185	-
National Institute of Adult Continuing Education – Transformation Fund	89	-
Other Grants	2,091	6,121
Other Local Authorities	106	94

## Notes to the Financial Statements

	2010-2011 £'000	2009-2010 £'000
Planning Delivery Grant	154	592
Positive Futures	85	81
Private Finance Initiative	4,557	3,141
Redress Review Grant	-	100
Schools Sports Partnership Grant	254	-
Single Programme Grant	1,544	1,326
Skills Funding Agency (Formerly Learning & Skills Council)	2,426	-
Social Care IT Infrastructure Grant	88	149
Social Care Reform Grant	936	1,239
Sport England	493	504
Standards Fund	20,223	20,315
Strategic Housing and Investment Programme	90	-
Stroke After Care Grant	99	99
Supporting People	-	7,166
Sure Start	10,727	9,169
Targeted Mental Health in Schools	218	288
Teacher Development Agency	408	696
Transport Management Plan Grant	-	379
Unaccompanied Asylum Seeking Children Grant	46	80
Young Peoples Learning Agency (Formerly Learning & Skills Council)	29,869	27,073
Young People Substance Misuse Partnership	124	128
Youth Opportunity Fund	123	351
<b>Total Revenue Grants</b>	<b>361,544</b>	<b>352,922</b>
<b>Donations</b>	<b>362</b>	<b>295</b>
Contributions to Shared Schemes	158	370
Contributions towards Music	1,591	1,557
Contributions towards Swimming	402	471
CWDC NVQ income	103	37
Youth Justice Board	805	807
Milk Subsidy	152	193
European Elections	413	443
Northumberland Care Trust	14,859	14,404
Other Contributions	6,287	5,780
Parental Contributions	283	261
Police Authority Contribution	293	282
Probation Contribution	64	64
PTA / School Fund Contributions	543	543
S117 Health Contribution	1,549	1,511
Social Care Demonstration Site	243	133
Student Placement Contributions	349	66
<b>Total Donations</b>	<b>28,456</b>	<b>27,217</b>
<b>Total Credited to Services</b>	<b>390,000</b>	<b>380,139</b>

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 Grant Awarding Body. The balances at the year-end are as follows:



## Notes to the Financial Statements

	31 March 2011	31 March 2010
	£'000	£'000
<b>Capital Grant Receipts in Advance</b>		
Big Lottery	63	120
Commission for Architecture and Built Environment (CABE)	-	100
DCLG - Disabled Facilities Grant	-	93
DCLG - Fire Brigade Modernisation Fund	25	-
DCLG - Growth Fund	-	965
Department for Environment, Food and Rural Affairs	-	56
Department for Transport	950	1,778
Environment Agency	406	198
Football Foundation	18	63
Gateshead NHS Primary Care Trust	139	230
Home Office (Safer Stronger Communities)	5	-
Homes and Communities Agency	1,679	3,354
Northumberland Healthcare Trust	2,330	2,145
One North East	59	158
Other	242	324
Standards Fund	19,665	12,661
Sure Start	16	-
<b>Total Capital Grant Receipts in Advance</b>	<b>25,597</b>	<b>22,245</b>
<b>Revenue Grant Receipts in Advance</b>		
Anti Social Behaviour Grant	-	38
Big Lottery – Play Workers / Play Fund	59	53
Children's and Young People Grant	-	22
Climate Change Grant	-	23
Contactpoint	-	138
Community Transport Support	151	-
CWDC NVQ income	169	-
Dedicated Schools Grant	-	690
Diversity Recruitment Target Grant	-	29
Enhanced Services Programme	-	25
European Community Grants	-	68
European Regional Development Fund	160	-
Growth Fund	-	106
Hadrian Industrial Access	-	110
Homelessness Grant	167	183
Integrated Working Workforce Reform Grant	-	40
LAA Reward Grant	45	2,423
Local Authority Business Growth Initiative	-	22
Local Enterprise Growth Initiative	2,933	458
Local Carbon Framework Pilot	49	-
Migration Impacts Grant	177	283
Minor Repairs / Adaptations Grant	-	75
New Burdens	-	135
North East Improvement and Efficiency Partnership	82	94
ONE North East	3,389	5,405
Other Grants	1,457	1,570
Planning Delivery Grant	123	721
Planning Strategy Grant	-	207
Righting Wrong	-	40
Single Programme Grant	1,330	634

## Notes to the Financial Statements

	31 March 2011	31 March 2010
	£'000	£'000
Schools Sports Partnership Grant	303	-
Social Care IT Infrastructure Grant	66	44
Social Care Reform Grant	821	-
Sport England	111	176
Standards Fund	2,816	1,817
Strategic Housing and Investment Programme	84	281
Support for Training	226	-
Supporting People	-	864
Workstep Grant	-	32
<b>Total Revenue Grant Receipts in Advance</b>	<b>14,718</b>	<b>16,806</b>
Young Peoples Learning Agency	396	492
Donations	2	-
Contributions to Shared Schemes	119	-
Partner Contributions Strategic Housing Market Assessment	-	54
Other Contributions	759	1,650
Social Care Demonstrator Site	-	48
<b>Total Revenue Receipts in Advance</b>	<b>15,994</b>	<b>19,050</b>
<b>Total Receipts in Advance</b>	<b>41,591</b>	<b>41,295</b>

### 39. Related Parties

Information in respect of material transactions with related parties not disclosed elsewhere within the Statement of Accounts is presented below.

Related parties of a Local Authority include Central Government, Other Local Authorities and Precepting Bodies, Subsidiary and Associated Companies, Joint Ventures, Pension Funds, Members and Chief Officers.

#### 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.

#### Subsidiaries

The Council had three subsidiary companies in 2010-2011 that are considered to be related parties:

- Homes for Northumberland;
- Wansbeck Life Ltd; and
- Northern Coalfields Property Company

Wansbeck Life and Northern Coalfields Property Company paid £8,600 in relation to Non Domestic Rates to Northumberland County Council during the year, and there were no balances outstanding with these companies at the year-end.

## Notes to the Financial Statements

Transactions and balances with Homes for Northumberland were as follows:

	£'000
Expenditure made by the Council to Homes for Northumberland in 2010-2011	12,119
Income to the Council from Homes for Northumberland in 2010-2011	2,207
Amounts due to the Council from Homes for Northumberland at 31 March 2011	2,807
Amounts owed by the Council to Homes for Northumberland at 31 March 2011	2,926

### Precepts

Precept transactions in relation to Northumberland County Council, Northumbria Police Authority and various Town and Parish Councils are shown in note 3 to the Collection Fund Account.

### Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2010-2011 the Pension Fund had an average balance of £1.3 million loaned to the Council for which it received interest of £0.01 million. The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2010-2011 these costs amounted to £0.58 million (2009-2010 £0.58 million). £4.0 million was due to the Council at 31 March 2011 (£0.84 million was due to the Council at 31 March 2010).

### Other Bodies

Transactions with other related parties are detailed below:

	Receipts £'000	Payments £'000
Northumbrian Water Authority - Precept	-	259
Northumberland Sea Fisheries Committee - Precept	-	557
Northumberland National Park Authority	(14)	35
Northumberland Pension Fund:		
Payment of employer's pension contributions in respect of employees	-	26,724

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2010-2011 goods and services were commissioned from organisations in which Councillors had an interest. Also, funding composed of Single Programme and other grants was paid to organisations in which members had an interest. All interests were declared by the appropriate Members. Members had interests in 109 organisations with transactions totalling £43.41 million.

During 2010-2011, goods and services amounting to £66.10 million were provided by the Council to 75 organisations in which Councillors had an interest.

Included in the above sums are amounts due from the Council of £4.06 million and due to the Council of £16.41 million as at 31 March 2011.

During the year, the Council paid grants totalling £2.50 million to voluntary organisations and individuals. The grants were made with proper consideration of declarations of interest.

### Officers

During 2010-2011 goods and services were provided to or commissioned from organisations in which officers had an interest. All interests were declared by the

## Notes to the Financial Statements

appropriate officers. Officers had interests in 8 organisations with transactions totalling £4.99 million in respect of goods or services provided to the Council and transactions totalling £0.92 million in respect of goods or services provided by the Council.

Included in the above sums are amounts due from the Council of £0.08 million and due to the Council of £0.04 million as at 31 March 2011.

Schedules of related party transactions are available to inspect upon request.

### **Regional Chamber Funding Agreement for 2010-2011 – Association of North East Councils**

The Department for Communities and Local Government pays grant as a contribution towards the implementation of the Association of North East Councils (designated as the Regional Chamber) delivery plan.

Northumberland County Council acts as the Accountable Body for the Association of North East Councils and the grant, which can be claimed in advance of spending, is payable to the County Council and then claimed by the Association when the expenditure has been incurred.

In 2010-11 Northumberland County Council reimbursed grant monies to ANEC amounting to £0.7 million in relation to this funding. The remaining funding for the year was paid direct to ANEC by CLG. This area of funding ceased during the year following the Government spending review; as a result the Council holds no monies relating to this at the year end.

Copies of the accounts for the Association of North East Councils are available from the Association.

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

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

## Notes to the Financial Statements

	2010-2011 £'000	2009-2010 As Restated £'000
Opening Capital Financing Requirement	460,410	350,100
Restatement of 2009-2010 Opening Position following IFRS Review	-	12,932
<b>Capital investment</b>		
Property, plant and equipment	96,477	130,243
Revenue Expenditure Funded From Capital under Statute	19,574	50,126
<b>Sources of finance</b>		
Capital receipts	(4,590)	(32,887)
Government grants and other contributions	(57,472)	(27,866)
Sums set aside from revenue/Major Repairs Reserve:	(3,594)	(7,301)
Direct revenue contributions	(2,707)	(4,291)
Finance lease principal	(285)	(306)
Minimum Revenue Provision	(11,462)	(10,340)
<b>Closing Capital Financing Requirement</b>	<b>496,351</b>	<b>460,410</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (supported by government financial assistance)	19,516	20,809
Increase in underlying need to borrowing (unsupported by government financial assistance)	15,053	26,913
Assets acquired under finance leases	(285)	(306)
Minimum Revenue Provision	(11,462)	(10,340)
Assets acquired under PFI / PPP contracts	13,119	73,234
<b>Increase in Capital Financing Requirement</b>	<b>35,941</b>	<b>110,310</b>

### 41. Leases

#### Council as Lessee

#### Finance Leases

The Council has a number of vehicles and fire fighting 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 2011 £'000	31 March 2010 £'000
Vehicles, Plant, Furniture and Equipment	1,157	1,441

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the asset 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:

## Notes to the Financial Statements

	31 March 2011 £'000	31 March 2010 £'000
Finance lease liabilities (net present value of minimum lease payments):		
current	290	350
non current	908	1,139
Finance costs payable in future years	221	280
<b>Minimum lease payments</b>	<b>1,419</b>	<b>1,769</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £'000	31 March 2010 £'000	31 March 2011 £'000	31 March 2010 £'000
Not later than one year	290	350	258	285
Later than one year and not later than five years	910	982	710	875
Later than five years	219	437	189	281
	<b>1,419</b>	<b>1,769</b>	<b>1,157</b>	<b>1,441</b>

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

### Operating Leases

The Council uses cars, commercial vehicles, refuse vehicles, fire equipment and appliances and information technology equipment financed by entering into operating leases, with typical lives of six years.

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

	31 March 2011 £'000	31 March 2010 £'000
Not later than one year	1,965	332
Later than one year and not later than five years	1,526	1,346
Later than five years	99	514
	<b>3,590</b>	<b>2,192</b>

The expenditure charged to the Fire and Rescue Service, Fleet Transport and other relevant departments line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2010-2011 £'000	2009-2010 £'000
Minimum lease payments	2,372	2,402

## Notes to the Financial Statements

### Council as Lessor Finance Leases

The Council has the following leased out properties which are categorised as Finance Leases under the IFRS Code.

Name	Term (Years)	Commencement Date	End Date	Rent Amount £
Merley Croft, Morpeth	25	01.02.1999	31.01.2024	62,000
Ashmore House, Ashington	25	01.04.1998	31.03.2023	26,000
22 Coanwood Drive, Cramlington	20	12.08.1991	11.08.2011	5,700
Dene Park	99	01.01.1993	31.12.2092	-
Dene Park	60	01.10.1978	30.09.2038	-

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2011 £'000	31 March 2010 £'000
Finance lease debtor (net present value of minimum lease payments):		
current	34	25
non current	641	675
Unearned finance income	435	503
Unguaranteed residual value of property	467	467
<b>Gross investment in the lease</b>	<b>1,577</b>	<b>1,670</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2011 £'000	31 March 2010 £'000	31 March 2011 £'000	31 March 2010 £'000
Not later than one year	90	94	90	94
Later than one year and not later than five years	352	354	352	354
Later than five years	1,135	1,222	668	756
	<b>1,577</b>	<b>1,670</b>	<b>1,110</b>	<b>1,204</b>

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

The following table shows the reconciliation of long term creditors to the PFI and other finance lease liabilities:

Long term finance lease liability	2010-2011 £'000	2009-2010 £'000	1 April 2009 £'000
Waste PFI	58,909	59,266	11,054
Fire PFI	12,955	-	-
Other finance leases (Note 41)	908	1,139	1,616
<b>Total Finance Lease Liability</b>	<b>72,772</b>	<b>60,405</b>	<b>12,670</b>



## Notes to the Financial Statements

Long term deferred credits	2010-2011 £'000	2009-2010 £'000	1 April 2009 £'000
Waste PFI	15,831	16,029	5,166
Total Deferred Credits	15,831	16,029	5,166
Total Long Term Creditors	88,603	76,434	17,836

The Council has entered into two PFI schemes as detailed below.

### 42.1 Waste PFI

Payments to the service provider under this scheme depend upon a number of factors, including the performance of the contract.

The figures below provide information on the movement of the Waste PFI assets held on the Council's Balance Sheet during 2010-2011:

	Plant Shell £'000	Project Assets £'000	2010-2011 £'000	2009-2010 £'000
Cost brought forward 1 April	13,566	74,141	87,707	27,393
Disposals in year	-	(43)	(43)	-
Additions in year	-	-	-	60,314
Cost carried forward 31 March	13,566	74,098	87,664	87,707
Restated accumulated depreciation brought forward 1 April	(271)	(2,562)	(2,833)	(509)
Disposals	-	7	7	-
Depreciation charge for year	(522)	(2,855)	(3,377)	(2,324)
Depreciation at 31 March	(793)	(5,410)	(6,203)	(2,833)
Net book value carried forward 31 March	12,773	68,688	81,461	84,874

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2010-2011:

	Plant Shell £'000	Project Assets £'000	2010-2011 £'000	2009-2010 £'000
Lease liability brought forward 1 April	11,877	47,389	59,266	11,297
Additions	15	-	15	49,658
Payments made in year	-	(46)	(46)	(1,689)
Liability carried forward 31 March	11,892	47,343	59,235	59,266

The following table provides the best estimates of payments in future periods, on the assumption that the contractor provides a reliable service. Variable elements of the charge have been inflated in line with predicted RPI increases.

	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	As at 31 March 2011 Total £'000	As at 31 March 2010 £'000
Within one year	1,003	326	6,783	11,120	19,232	17,664
Within two to five years	4,217	2,180	27,848	47,911	82,156	79,251

## Notes to the Financial Statements

	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	As at 31 March 2011 Total	As at 31 March 2010
	£'000	£'000	£'000	£'000	£'000	£'000
Within six to ten years	5,763	4,520	36,389	67,290	113,962	109,757
Within eleven to fifteen years	6,363	9,137	37,562	77,122	130,184	124,163
Within sixteen to twenty years	7,025	18,193	36,491	88,294	150,003	141,974
Within twenty to twenty-five years	6,143	24,878	25,284	79,794	136,099	161,956
Within twenty-six to thirty years	-	-	-	-	-	-
	30,514	59,234	170,357	371,531	631,636	634,765

### 42.2 Fire & Rescue PFI

The Fire PFI project (NEFRA 1) has been brought into the accounts in 2010-2011.

Payments to the service provider under this scheme depend upon a number of factors, including the performance of the contract.

The figures below provide information on the movement of the Fire and Rescue PFI assets held on the Council's Balance Sheet during 2010-2011:

	2010-2011 £'000
Cost brought forward 1 April	-
Recognition of deferred asset within fixed assets	13,449
Revaluation Loss	(11,532)
Cost carried forward 31 March	1,917
Depreciation charge for year	(56)
Depreciation at 31 March	(56)
Net book value carried forward 31 March	1,861

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2010-2011:

	2010-2011 £'000
Lease liability brought forward 1 April	-
Additions	13,449
Contribution to build	(324)
Payments made in year	(27)
Liability carried forward 31 March	13,098

The following table provides the best estimates of payments in future periods, on the assumption that the contractor provides a reliable service. Variable elements of the charge have been inflated in line with predicted RPI increases.

## Notes to the Financial Statements

	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	As at 31 March 2011 Total
	£'000	£'000	£'000	£'000	£'000
Within one year	158	143	1,389	544	2,234
Within two to five years	674	776	5,408	2,300	9,158
Within six to ten years	942	1,460	6,276	3,316	11,994
Within eleven to fifteen years	1,066	2,309	5,394	3,908	12,677
Within sixteen to twenty years	1,206	3,723	3,908	4,612	13,449
Within twenty to twenty-five years	1,221	4,687	1,318	4,526	11,752
Within twenty-six to thirty years	-	-	-	-	-
	5,267	13,098	23,693	19,206	61,264

### 43. Impairment Losses

There were no impairment losses in relation to Property, Plant and Equipment and Intangible Assets balances for 2010-2011.

### 44. Termination Benefits

The Council terminated the contracts of a number of employees in 2010-2011, incurring liabilities of £6.54 million (£5.49 million in 2009-2010). Of this total, £0.49 million was paid to the Executive Director of Performance, the Executive Director of Place and the Director of Corporate Services, in the form of compensation for loss of office, as disclosed in note 35. The remaining £6.05 million was paid to 404 officers from a number of services as part of the savings required by the Council's Medium Term Financial Plan.

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

#### Teachers' Pensions Scheme

Teachers employed by the Council are offered membership of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2009-2010 the County Council paid £13.41 million (£13.7 million in 2009-2010) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay (14.1% in 2009-2010).

Contributions for March 2010 payroll totalling £1.11 million remained payable at the year end for the Teachers' Pension Scheme. This amount was paid over early in 2011-2012.

The Scheme is a defined benefit final salary scheme. It is not possible for the Council to identify its share of the underlying liabilities in the scheme and it is therefore classified as a defined contribution scheme for the purposes of the accounting requirements of IAS19 and does not form part of the pensions' deficit described in note 46.

The Council is responsible for the costs of any early retirement (the Teachers' unfunded scheme) and this is included in the pension deficit described in note 46.

## Notes to the Financial Statements

### 46. Defined Benefit 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 that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in seven post employment schemes. Six of these are treated as defined benefit schemes as outlined below, the other scheme, the Teachers' Pension Scheme, is included in note 45.

**The Local Government Pension Scheme (LGPS)** for employees other than teachers and firefighters is administered by Northumberland County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

**The LGPS Unfunded Scheme** for employees other than teachers and firefighters is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. The LGPS unfunded scheme provides enhanced pensions for certain former employees who have been granted early retirement by the Council. In November 2003 the Council made a policy decision to pay the capital cost of any future early retirements into the Pension Fund in the year of retirement in order to cap the liability for this scheme at that point.

**The Teachers' Unfunded Scheme** for teachers only is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. The Teachers' unfunded scheme provides enhanced pensions for certain former employees who have been granted early retirement by the Council. In January 2004 the Council made a policy decision to pay the capital cost of any future early retirement to the Teachers' Pension Agency in the year of retirement in order to cap the liability for this scheme at that point.

**The Firefighters' Pension Scheme (FPS)**, also known as the 1992 Scheme, is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. Under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 the Council and employees pay contributions into a notional fund. The fund is topped up by Government grant if the receipts into it are insufficient to meet the cost of pension and other payments. Any surplus in the fund is recouped by Government in the year.

## Notes to the Financial Statements

**The New Firefighters' Pension Scheme (NFPS)**, also known as the 2006 Scheme, is administered by Northumberland County Council. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pension liabilities. The funding arrangements are as described above for the FPS.

**The Firefighters' Injury Pensions and non-scheme Ill-Health Pensions** are administered by Northumberland County Council. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they fall due. These pensions are not covered by the funding arrangements as described above for the FPS and are paid for by the Council on a pay-as-you-go basis.

### 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 we are 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:

	LGPS	Firefighters' Schemes <sup>Ⓞ</sup> As Restated**	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
<b>2010-11</b>					
<b>Comprehensive Income and Expenditure Statement</b>					
Cost of Services:					
• Current service cost	(20.38)	(2.48)	-	-	(22.86)
• Past service cost	114.53	16.20	2.91	3.35	136.99
Financing and Investment Income and Expenditure:					
• Interest cost	(55.06)	(7.25)	(1.92)	(2.08)	(66.31)
• Expected return on scheme assets	43.29	-	-	-	43.29
Total post employment benefit charged to the deficit on the provision of services	82.38	6.47	0.99	1.27	91.11
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:					
• Actuarial gains and losses	58.31	4.25	0.62	0.62	63.80
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	140.69	10.72	1.61	1.89	154.91

## Notes to the Financial Statements

	LGPS £m	Firefighters' Schemes <sup>Ⓞ</sup> As Restated** £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m
<b>Movement in Reserves - General Fund Balance:</b>					
• Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	(140.69)	(10.72)	(1.61)	(1.89)	(154.91)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
• Employer's contributions payable to the scheme	(26.10)	-	-	-	(26.10)
• Net retirement benefits payable to pensioners	-	(4.29)	(2.33)	(2.67)	(9.29)
<b>2009-2010</b>					
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services:</b>					
• Current service cost	(15.98)	(1.86)	-	-	(17.84)
• Past service cost	-	(0.09)	-	-	(0.09)
<b>Financing and Investment Income and Expenditure:</b>					
• Interest cost	(52.89)	(7.10)	(2.25)	(2.43)	(64.67)
• Expected return on assets in the scheme	26.43	-	-	-	26.43
Total post employment benefit charged to the deficit on the provision of services	(42.44)	(9.05)	(2.25)	(2.43)	(56.17)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:</b>					
• Actuarial gains and losses	(90.39)	(33.42)	(3.11)	(3.65)	(130.57)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	(132.83)	(42.47)	(5.36)	(6.08)	(186.74)
<b>Movement in Reserves - General Fund Balance:</b>					
• Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	132.83	39.67	5.36	6.08	183.94
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
• Employer's contributions payable to the scheme	(25.21)	-	-	-	(25.21)
• Net retirement benefits payable to pensioners	-	(4.93)	(2.39)	(2.72)	(10.04)

## Notes to the Financial Statements

\*\* See Note 2 to the financial statements.

Note ① the Firefighters' schemes' details are shown below:

	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	** Injury and non scheme Ill Health As Restated £m	Total £m
<b>2010-11</b>				
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of Services:				
• Current service cost	(2.12)	(0.24)	(0.12)	(2.48)
• Past service cost	15.48	0.16	0.56	16.20
Financing and Investment Income and Expenditure:				
• Interest cost	(6.91)	(0.08)	(0.26)	(7.25)
• Expected return on scheme assets	-	-	-	-
Total post employment benefit charged to the deficit on the provision of services	6.45	(0.16)	0.18	6.47
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:				
• Actuarial gains and losses	3.83	0.11	0.31	4.25
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	10.28	(0.05)	0.49	10.72
<b>Movement in Reserves - General Fund Balance:</b>				
• Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	(10.28)	0.05	(0.49)	(10.72)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
• Net retirement benefits payable to pensioners	(4.20)	0.06	(0.15)	(4.29)
<b>2009-2010</b>				
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of Services:				
• Current service cost	(1.71)	(0.15)	-	(1.86)
• Past service cost	-	-	(0.09)	(0.09)
Financing and Investment Income and Expenditure:				



## Notes to the Financial Statements

	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	** Injury and non scheme Ill Health As Restated	Total
	£m	£m	£m	£m
• Interest cost	(6.92)	(0.05)	(0.13)	(7.10)
Total post employment benefit charged to the deficit on the provision of services	(8.63)	(0.20)	(0.22)	(9.05)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:				
• Actuarial gains and losses	(29.81)	(0.47)	(3.14)	(33.42)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	(38.44)	(0.67)	(3.36)	(42.47)
<b>Movement in Reserves - General Fund Balance:</b>				
• Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	38.44	0.67	3.36	42.47
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
• Net retirement benefits payable to pensioners	(4.88)	0.10	(0.15)	(4.93)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2010-2011 is a gain of £63.8 million (£127.8 million loss in 2009-2010).

## Notes to the Financial Statements

### Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the schemes' liabilities (defined benefit obligation):

	LGPS	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	Firefighters' Injury & non scheme Ill Health As Restated*	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April 2010	1,090.71	138.40	1.41	5.21	38.29	41.59	1,315.61
Current service cost	20.38	2.12	0.24	0.12	-	-	22.86
Interest cost	55.06	6.91	0.08	0.26	1.92	2.08	66.31
Contributions by scheme participants	6.77	0.61	0.08	-	-	-	7.46
Actuarial (gains)/losses on liabilities	(70.14)	(3.83)	(0.11)	(0.31)	(0.62)	(0.62)	(75.63)
Net benefits paid out	(29.28)	(4.81)	(0.02)	(0.15)	(2.33)	(2.67)	(39.26)
Past service cost	(114.53)	(15.48)	(0.16)	(0.56)	(2.91)	(3.35)	(136.99)
Closing balance as at 31 March 2011	958.97	123.92	1.52	4.57	34.35	37.03	1,160.36
Opening balance as at 1 April 2009	533.35	104.84	0.64	2.00	23.45	38.23	702.51
Increase from LGR acquisitions	269.61	-	-	-	11.87	-	281.48
	802.96	104.84	0.64	2.00	35.32	38.23	983.99
Current service cost	15.98	1.71	0.15	-	-	-	17.84
Interest cost	52.89	6.92	0.05	0.13	2.25	2.43	64.67
Contributions by scheme participants	7.10	0.65	0.08	-	-	-	7.83
Actuarial (gains)/losses on liabilities	236.70	29.81	0.47	0.34	3.11	3.65	274.08
Net benefits paid out	(24.92)	(5.53)	0.02	(0.15)	(2.39)	(2.72)	(35.69)
Past service cost	-	-	-	0.09	-	-	0.09
Closing balance as at 31 March 2010	1,090.71	138.40	1.41	2.41	38.29	41.59	1,312.81

Note \* See Note 2 to the financial statements.

## Notes to the Financial Statements

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2010-2011 £m	2009-2010 £m
Opening balance as at 1 April	610.65	291.57
Increase from LGR acquisitions	-	138.95
	<b>610.65</b>	<b>430.52</b>
Expected return on assets	43.29	26.43
Actuarial gains/(losses) on assets	(11.83)	146.31
Contributions by the employer	26.10	25.21
Contributions by participants	6.77	7.10
Net benefits paid out	(29.28)	(24.92)
Closing balance as at 31 March	<b>645.70</b>	<b>610.65</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £31.5 million (£172.7 million in 2009-2010).

## Notes to the Financial Statements

### Scheme History

	LGPS	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	Firefighters' Injury & non scheme III Health As Restated*	LGPS unfunded	Teachers' unfunded	Total
	£m	£m	£m	£m	£m	£m	£m
As at 31 March 2011							
Fair value of assets	<b>645.70</b>	-	-	-	-	-	<b>645.70</b>
Present value of liabilities	<b>(958.97)</b>	<b>(123.92)</b>	<b>(1.52)</b>	<b>(4.57)</b>	<b>(34.35)</b>	<b>(37.03)</b>	<b>(1,160.36)</b>
Surplus/(deficit)	<b>(313.27)</b>	<b>(123.92)</b>	<b>(1.52)</b>	<b>(4.57)</b>	<b>(34.35)</b>	<b>(37.03)</b>	<b>(514.66)</b>
As at 31 March 2010							
Fair value of assets	610.65	-	-	-	-	-	610.65
Present value of liabilities	(1,090.71)	(138.40)	(1.41)	(5.21)	(38.29)	(41.59)	(1,315.61)
Surplus/(deficit)	(480.06)	(138.40)	(1.41)	(5.21)	(38.29)	(41.59)	(704.96)
As at 31 March 2009							
Fair value of assets	291.57	-	-	-	-	-	291.57
Present value of liabilities	(533.35)	(104.84)	(0.64)	(2.00)	(23.45)	(38.23)	(702.51)
Surplus/(deficit)	(241.78)	(104.84)	(0.64)	(2.00)	(23.45)	(38.23)	(410.94)
As at 31 March 2008							
Fair value of assets	373.67	-	-	-	-	-	373.67
Present value of liabilities	(485.43)	(95.95)	(0.42)	(2.18)	(22.60)	(36.98)	(643.56)
Surplus/(deficit)	(111.76)	(95.95)	(0.42)	(2.18)	(22.60)	(36.98)	(269.89)
As at 31 March 2007							
Fair value of assets	388.23	-	-	-	-	-	388.23
Present value of liabilities	(529.20)	(105.12)	(0.14)	(2.43)	(24.21)	(46.41)	(707.51)
Surplus/(deficit)	(140.97)	(105.12)	(0.14)	(2.43)	(24.21)	(46.41)	(319.28)

Note \* See note 2 to the financial statements.

The liabilities show the underlying commitments that the Council has in the long run to pay post employment retirement benefits. The total pensions liability of £514.7 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall net worth of only £468.4 million.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

## Notes to the Financial Statements

- the deficit on the LGPS will be recovered over a period of approximately twenty five years, by the payment of employer contributions at a level set by the fund's actuary, reassessed triennially;
- finance is only required to be raised to cover the LGPS unfunded scheme, the Teachers' unfunded scheme and the Firefighters' Injury Pensions and non-scheme Ill-Health Pensions when the pensions are actually paid;
- finance is only required to be raised to cover the FPS and the NFPS employer contributions, as the net cost of the schemes are met by government grant.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £25.4 million, in addition to which strain on fund contributions may be required. For the LGPS unfunded and Teachers' unfunded schemes in the year to 31 March 2012 the Council expects to pay £2.4 million and £2.8 million respectively directly to beneficiaries. For the FPS in the year to 31 March 2012 the Council expects to pay £4.3 million directly to beneficiaries. For the NFPS in the year to 31 March 2012 the Council expects to pay £0.1 million directly to beneficiaries. For the Injury Pensions and non scheme Ill-Health Pensions in the year to 31 March 2012 the Council expects to pay £0.2 million directly to beneficiaries.

### 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. Aon Hewitt Limited, an independent firm of actuaries, has assessed all of the liabilities for the pension schemes shown in the accounts, the figures being based on the latest full valuations of the schemes. For the LGPS the latest full actuarial valuation of the Fund took place as at 31 March 2010. For the FPS and NFPS the latest full actuarial valuation took place as at 31 March 2008. For the Injury Pensions and non-scheme Ill-Health Pensions the latest full actuarial valuation took place as at 31 March 2009 and for the LGPS unfunded scheme and the Teachers' unfunded scheme, the latest full actuarial valuation took place as at 31 March 2008.

The principal assumptions used by the actuary have been:

	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
As at 31 March 2011				
Long term expected rate of return on assets in the scheme:				
Equities	8.4%	-	-	-
Property	7.9%	-	-	-
Government bonds	4.4%	-	-	-
Corporate bonds	5.1%	-	-	-

## Notes to the Financial Statements

	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
Cash	1.5%	-	-	-
Other	8.4%	-	-	-
Total	7.3%	-	-	-
<b>Mortality assumptions:</b>				
Longevity at age 65 for current pensioners:				
Men	22.2	22.2	22.2	22.2
Women	24.4	24.3	24.4	24.4
Longevity at age 65 for future pensioners:				
Men	24.1	24.6	-	-
Women	26.4	26.7	-	-
Rate of inflation - RPI	3.7%	3.6%	3.6%	3.6%
Rate of inflation - CPI	2.8%	2.7%	2.7%	2.7%
Rate of general long term increase in salaries*	5.2%	5.1%	-	-
Rate of increase to pensions in payment**	2.8%	2.7%	2.7%	2.7%
Rate of increase to deferred pensions	2.8%	-	-	-
Discount rate	5.5%	5.5%	5.5%	5.5%
<b>Commutation:</b>				
% take up of the maximum amount permitted to convert annual pension into retirement lump sum				
Past service pension rights	50%	-	-	-
Future service pension rights	75%	-	-	-
NFPS members that commute 25% of their pension	-	75%	-	-
FPS members that commute 25% of their pension	-	90%	-	-
As at 31 March 2010				
<b>Long term expected rate of return on assets in the scheme:</b>				
Equities	8.0%	-	-	-
Property	8.5%	-	-	-
Government bonds	4.5%	-	-	-
Corporate bonds	5.5%	-	-	-
Cash	0.7%	-	-	-

## Notes to the Financial Statements

	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
Other	8.0%	-	-	-
Total	7.2%	-	-	-
<b>Mortality assumptions:</b>				
Longevity at age 65 for current pensioners:				
Men	22.0	22.1	22.0	22.0
Women	24.0	24.2	24.0	24.0
Longevity at age 65 for future pensioners:				
Men	24.2	24.4	-	-
Women	26.1	26.4	-	-
Rate of inflation - RPI	3.9%	3.8%	3.8%	3.8%
Rate of inflation - CPI	N/A	N/A	N/A	N/A
Rate of general long term increase in salaries*	5.4%	5.3%	-	-
Rate of increase to pensions in payment**	3.9%	3.8%	3.8%	3.8%
Rate of increase to deferred pensions	3.9%	3.8%	-	-
Discount rate	5.5%	5.5%	5.5%	5.5%
<b>Commutation:</b>				
% take up of the maximum amount permitted to convert annual pension into retirement lump sum				
Past service pension rights	50%	-	-	-
Future service pension rights	75%	-	-	-
NFPS members that commute 25% of their pension	-	75%	-	-
FPS members that commute 25% of their pension	-	90%	-	-

Note \* in addition, the actuary has allowed for the same age related promotional salary scales as used at the most recent full actuarial valuation of the LGPS as at 31 March 2010 and the Firefighters' schemes as at 31 March 2008.

Note \*\* in excess of Guaranteed Minimum Pension increases where appropriate.

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.



## Notes to the Financial Statements

The Firefighters' Pension Schemes, LGPS unfunded scheme and the Teachers' unfunded scheme have no assets to cover their liabilities. The Northumberland County Council Pension Fund's assets consist on the following categories, by proportion of the total assets held:

	As at 31 March 2011	As at 31 March 2010
	%	%
Equities	68.4	70.4
Property	5.2	5.3
Government bonds	18.4	15.0
Corporate bonds	7.1	7.7
Cash/other	0.9	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Notes to the Financial Statements

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010-2011 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	LGPS		Firefighters' Pension Scheme		Firefighters' Injury & non scheme III Health		LGPS unfunded		Teachers' unfunded		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
2010-2011												
Differences between expected and actual return on assets	(11.83)	(1.8)	-	-	-	-	-	-	-	-	(11.83)	(1.8)
Experience gains/(losses) on liabilities*	46.27	4.8	0.43	0.4	0.02	0.4	0.26	0.8	0.28	0.8	47.26	4.1
2009-2010												
Differences between expected and actual return on assets	146.31	24.0	-	-	-	-	-	-	-	-	146.31	24.0
Experience gains/(losses) on liabilities*	9.82	0.9	1.66	1.2	0.07	1.3	1.19	3.1	1.28	3.1	14.02	1.1
2008-2009												
Differences between expected and actual return on assets	(117.26)	(40.2)	-	-	-	-	-	-	-	-	(117.26)	(40.2)
Experience gains/(losses) on liabilities*	(2.09)	(0.4)	(7.78)	(7.4)	0.18	9.0	(0.28)	(1.2)	(0.46)	(1.2)	(10.43)	(1.5)
2007-2008												
Differences between expected and actual return on assets	(49.17)	(13.2)	-	-	-	-	-	-	-	-	(49.17)	(13.2)
Experience gains/(losses) on liabilities*	6.19	1.3	(0.86)	(0.9)	(0.03)	(1.4)	(0.16)	(0.7)	6.64	18.0	11.78	1.8

The history of experience gains and losses is not available for all of the schemes shown above for 2006-2007.

No amounts have been shown for the New Firefighters' Pension Scheme in the table above because all amounts are nil.

## Notes to the Financial Statements

### 47. Contingent Liabilities

The Environment Agency required a Performance Deed to be agreed as a condition of the Waste Management Licence being granted for the Denwick Quarry Landfill Site. The Performance Deed was set at £0.21 million and is payable if the Council defaults on the duties and liabilities set out in the Licence. The landfill formally closed on 8 November 2004 but the contingent liability will remain until the Environment Agency issues a formal Site Closed Notice and environmental monitoring ends after a period of at least 5 years and possibly up to 10 years until it is agreed the site is stable. The likelihood of the County Council having to make this payment is rated as extremely low as the costs of restoring the site have been fully provided for in the operational costs of the site. The physical restoration works were substantially completed in July 2005. At a meeting in November 2005 with the Environment Agency and DEFRA the final restoration works were accepted as satisfactory and the site is now in a formal five year aftercare programme. The Site Closure Plan was submitted, following a site meeting with the Environment Agency in April 2006 and this has been agreed. It is expected to return the land to pasture in 2011. In the unlikely event of having to make a payment it is unlikely that the Council would be able to recover this from any third party.

In September 1992 Municipal Mutual Insurance (MMI), the County Council's former insurers, ceased accepting new business. MMI and its policyholders, including local authorities, have established a Scheme of Arrangement for the orderly run down of the company. MMI's future liabilities under its old policies cannot be fully quantified until the claims, current and yet to be made, have been settled. There is the possibility that, at some time in the future, MMI will not have enough assets to meet the claims and liabilities. The Scheme of Arrangement provides that, if there is a likelihood of a shortfall, MMI can reclaim from the major policy holders part of the claims paid from 1 October 1992. The County Council has a contingent liability in this respect. As at 31 March 2011, the total amount of the Council's claims to date subject to reclamation is £4.3 million. Prior to 2010-2011 the view of the MMI Board was that a solvent run-off of the company would be achievable. However, the position has deteriorated in the year following a Court of Appeal judgement on MMI's obligations related to asbestos and the asbestos-related disease of mesothelioma. Based upon figures at 30 September 2010, the MMI Finance Director reported that the run-off projection did not show break-even and that the company's solvency was dependent upon a number of factors, with the situation being very volatile. £5 million has been included in an earmarked reserve to meet any future liabilities arising if the Scheme of Arrangement is triggered.

Local Authorities have for many years made levied charges under guidance from the Ministry of Justice in respect of searches completed in connection with property purchases. Recently the Information Commissioners Office has determined that the information contained within these searches is Environmental, and is covered by the Environmental Information Regulations and should, therefore, be available to personal callers free of charge. This determination means that the Council may be liable to refund fees levied against personal callers since 2005 in respect of such property searches. The Council is currently reviewing its exposure to future liabilities.

## Notes to the Financial Statements

### 48. Contingent Assets

There were no contingent assets as at 31 March 2011.

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

#### Risk Management

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments.
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on the risk implications for the organisation.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure from the Council's customers. The Council's Treasury Management Policy sets out the limits for investments. The policy changed once during 2010-2011 due to difficulty investing surplus cash within the current policy limits. The policy at the year end had the following limits for the investment of surplus monies:

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities	N/A	N/A		12 months
DMO	N/A	N/A	£50m	12 months
Nationalised Banks	N/A	N/A	£25m	12 months
Money Market Funds	AAA	Aaa	£25m	Instant access
UK Clearing Banks/ Building Societies	AA+	Aa1	£25m	12 months
	AA-	Aa3	£15m (Group limit £25m)	12 months
	A	A2	£12m (Group limit £25m)	6 months
	A-	A2	£12m (Group limit £25m)	3 month

No Treasury Management Policy limits were exceeded during the reporting period.

In 2008-2009 the Council experienced defaults on seven loans, made to Icelandic banks and has made an impairment provision of £6.37 million in 2008-2009, £5.85 million in 2009-2010 and £0.73 million in 2010-2011 for potential losses on the original investments. This is a provisional estimate at this stage and is subject to revision during the winding up process for these banks.

#### Icelandic Bank Defaults

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £23 million deposited

## Notes to the Financial Statements

across four of these institutions, with varying maturity dates and interest rates as follows:

	Date Invested	Maturity Date	As at 1 Apr 2010 £'000	Accrued Interest 2010-2011 £'000	Repaid 2010-2011 £'000	Impairment 2010-2011 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Landsbanki	08.02.08	06.02.09	3,896	217	-	(37)	5.43%	4,076	5%
Glitnir	08.02.08	06.02.09	1,987	111	-	-	5.45%	2,098	71%
Landsbanki	11.03.08	11.03.09	766	46	-	(8)	5.80%	804	5%
Heritable	26.03.08	29.12.08	476	25	(156)	(1)	6.00%	344	15%
Kaupthing Singer & Friedlander	02.04.08	02.01.09	1,014	45	(557)	336	6.05%	838	18%
Kaupthing Singer & Friedlander	04.04.08	05.01.09	1,350	60	(742)	449	6.05%	1,117	18%
Landsbanki	10.09.08	10.12.08	744	45	-	(8)	5.83%	781	5%
<b>Total</b>			<b>10,233</b>	<b>549</b>	<b>(1,455)</b>	<b>731</b>		<b>10,058</b>	

The carrying amount before impairment is calculated assuming that interest is continued to be accrued at the same interest rate as the original investment. The estimated recoverable amount, equal to the fair value, is the value carried in the Balance Sheet.

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

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

### Heritable Bank

Heritable bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008. The current position on actual payments received and estimated future payouts is as shown in the table below and, in-line with CIPFA guidance, the Council has used these estimates to calculate the impairment based on recovering 84.98p in the £.

Date	Repayment Percentage
Received to date	50.08
April 2011	6.25
July 2011	5.00
October 2011	5.00
January 2012	5.00
April 2012	5.00
July 2012	5.00
October 2012	3.65

## Notes to the Financial Statements

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 6 October 2009.

### **Kaupthing Singer and Friedlander Ltd**

The current position on actual payments received and estimated future payouts is shown in the table below. In-line with CIPFA guidance, the Council has decided to recognise an impairment based on it recovering 82p in the £.

Date	Repayment Percentage
Received to Date	53.00
May 2011	5.00
January 2012	8.00
July 2012	8.00
January 2013	8.00

### **Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. The current position on estimated future payouts is shown in the table below. In-line with CIPFA guidance, the Council has used these estimates to calculate the impairment based on recovering 94.85p in the £.

Date	Repayment Percentage
Received to Date	0.00
December 2011	22.17
December 2012	8.87
December 2013	8.87
December 2014	8.87
December 2015	8.87
December 2016	8.87
December 2017	8.87
December 2018	19.46

Recovery is however subject to the following uncertainties:

- Whilst the Icelandic courts have initially confirmed that deposits enjoy preferential creditor status, this is currently subject to appeal.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Council's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Based on initial estimates, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

## Notes to the Financial Statements

Recoveries are expressed as a percentage of the Council's claim in the administration, which it is expected may validly include interest accrued up to 22 April 2009

### Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. This indicates that full recovery of the principal and interest to 24 April 2009 is likely to be achieved.

However, recovery is subject to the following uncertainties and risks:

- Whilst the Icelandic courts have initially confirmed that deposits enjoy preferential creditor status, this is currently subject to appeal.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Council's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. Based on initial estimates, if preferential creditor status is not achieved the recoverable amount may only be 29p in the £.

In light of the views previously expressed by the Glitnir winding-up board – that Local Authorities do not have priority status - and the potential risk that the above court decision could be overturned, the Council has taken a more pessimistic and prudent approach with regard to Glitnir deposits and decided to recognise an impairment based on it not securing preferential creditor status. The impairment calculation is therefore still based on recovery of only 29% of the original investment, plus interest up to 24 April 2009. The estimated future recoveries used in the impairment calculation are shown in the table below:

Date	Repayment Percentage
Received to Date	0.00
October 2011	4.35
October 2012	4.35
October 2013	4.35
October 2014	4.35
October 2015	11.60

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

The appeal confirms the decision of the Icelandic Court the Council would recover 100% of its original investment.

### Customer Debt

The Council has £12.06 million (2009-2010: £8.74 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:



## Notes to the Financial Statements

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Less than three months	7,517	2,783
Three to six months	592	844
Six months to one year	1,355	2,490
More than one year	2,591	2,618
<b>Total</b>	<b>12,055</b>	<b>8,735</b>

At 31 March 2011 the Council held a provision of £1.91 million (2009-2010: £1.67 million) for doubtful debts against the risk of non-payment.

### Financial Guarantees

The Council manages its liquidity position through the risk management procedures set out earlier (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 reviewed its exposure to financial guarantees provided in the event of default by other organisations. The only area of risk identified is in relation to guarantees provided to two external employers participating in the Local Government Pension Scheme. Two formal agreements are in place in respect of Queen Hall Arts and Groundwork Northumberland, but the risk of either guarantee being called upon is assessed as negligible.

### Liquidity Risk

As the Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that the Council will be unable to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. This risk is significantly reduced through the use of Lender Option Buyer Option (LOBO) Loans which give flexibility on the timing of repayment.

## Notes to the Financial Statements

The Council's long term borrowing can be analysed as follows:

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
<b>Analysis by Loan Type</b>		
Public Works Loans Board	120,763	60,841
Other Market Loans	162	-
LOBO (Market Loans)	173,600	173,600
	<b>294,525</b>	<b>234,441</b>
<b>Analysis of Loans by Maturity</b>		
Less than 1 year	-	-
Between 1 and 2 years	188	-
Between 2 and 5 years	1,352	15
Between 5 and 10 years	60,030	1,449
Between 10 and 20 years	2,470	2,419
Between 20 and 30 years	1,656	2,647
Between 30 and 40 years	11,753	2,500
Between 40 and 50 years	60,476	68,811
Between 50 and 60 years	22,600	22,600
In excess of 60 years	134,000	134,000
	<b>294,525</b>	<b>234,441</b>

The values quoted above are nominal amounts. All trade and other payables are due to be paid in less than one year.

### Market Risk – Interest Rate 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 Account will rise;
- Borrowings at fixed rates – the fair value of the liabilities associated with borrowings will fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Account will rise;
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Comprehensive Statement of Income and Expenditure and impact upon the General Fund Balance. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Prudential Code sets an upper limit of 50% for borrowings in variable rate loans as

## Notes to the Financial Statements

a percentage of net outstanding principal sums. Prudential indicators are monitored each month and cover actual borrowing, the operational boundary for external debt and the authorised limit for external debt.

The money market is monitored in conjunction with the prevailing Public Works Loan Board rates and the most advantageous arrangements selected to overcome temporary cash deficiencies due to an unfavourable cash flow position. All borrowing on the money market will, under normal circumstances, be conducted through the list of approved brokers. On occasions however, it may be necessary due to the small amounts involved to deal direct with individual lenders. Similarly loans can be arranged directly with the Public Works Loan Board.

The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provides compensation for a proportion of higher costs. However, it is difficult to quantify the impact due to adjustment factors within the grant mechanism which vary year on year. Market risk is further reduced by the use of LOBOs shown above.

If interest rates had been 1% higher as at 31 March 2011 with all other variables held constant, the effect would have been:

	31 March 2011 £'000
Increase in Interest Payable on Variable Rate Borrowings	1,211
Increase in Interest Receivable on Variable Rate Investments	(2,144)
Increase in Government Grant receivable for financing costs	(4,625)
Impact on Surplus or Deficit on the Provision of Services	(5,558)
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	(48,766)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The increase in interest payable on long term borrowings is due to the fact that the Council has £173.60 million of LOBO borrowing which has now gone past its initial fixed interest period and is subject to the potential to be called by the lender at specific intervals ranging from 2 years to 5 years. If a loan were called, the Council would be exposed to a potential change in interest rate.

### Market Risk – Price Risk

The Council does not invest in equity shares but does have shareholdings in Newcastle Airport Local Authority Holding Company and Wansbeck Life Limited. Further information on the holding is contained in Note 55 Subsidiary or Associated Companies.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. The shares in Newcastle Airport Local Authority Holding Company are classified as "available for sale" and are included at fair value. The shares in Wansbeck Life Limited are included at historic cost.

## Notes to the Financial Statements

### 50. General Government Grants

The General Government Grants shown in the Comprehensive Income and Expenditure Statement comprises the following:

	2010-2011 £'000	2009-2010 £'000
Revenue Support Grant	16,514	23,739
Local Authority Business Growth Incentive Grant	-	119
Area Based Grant	28,543	24,956
	<b>45,057</b>	<b>48,814</b>

### 51. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2011:

	Total Cost £m	Future Payments £m
Ashington Town Centre	9.00	8.45
Blyth Putting the Learner First Project	29.71	2.94
Connect 2 Cycleways	4.36	1.69
East Heddon and Hexhamshire Estate	1.21	0.28
Hartford Bridge Travellers Site	1.20	0.25
Hirst Putting the Learner First Project	51.20	24.09
ICT Investment Programme	2.40	1.01
Prudhoe Creative and Media Innovative Diploma Centre	4.60	2.43

### 52. Revenue Provision

The Council is required by statute to set aside a minimum revenue provision for the redemption of debt. Accounting regulations allow authorities to make a 'prudent' provision, based on guidance issued by the Government. The total provision for 2010-2011 of £11.46 million was calculated using both the 'regulatory' (£10.34 million) and 'asset life' (£1.12 million) methods from the guidance. The total provision for 2009-2010 of £10.34 million was calculated using both the 'regulatory' (£9.93 million) and 'asset life' (£0.41 million) methods from the guidance.

	2010-2011 £'000	2009-2010 £'000
Amount Charged as Depreciation (excluding finance leases and depreciation on HRA assets)	30,464	34,104
Amount Charged as Amortisation	263	326
Less: Government Grants and Contributions Released	-	(16,351)
Amount Transferred (to)/from the Capital Adjustment Account	(19,265)	(7,739)
Revenue Provision	<b>11,462</b>	<b>10,340</b>

### 53. Valuation of Fixed Assets

Land and buildings are revalued according to a five year rolling program unless the Council is made aware of any material change. Assets subject to additions in excess of £30,000 are revalued as at the date of scheme financial closure.

Material change is defined as an alteration to the physical attributes of an individual property or the nature of its location.

## Notes to the Financial Statements

Those properties which have not been valued in this financial year were valued as at the date of the last valuation reported.

The freehold and leasehold properties which are contained in the Council's Schedule of Assets Requiring Valuation have been valued as at 1 April 2010 unless stated otherwise. The work has been coordinated by internal Senior Estates Surveyors (MRICS) of Northumberland County Council, County Hall, Morpeth, Northumberland NE61 2EF. The valuations have been undertaken in part by the internal Senior Estates Surveyors and in part by external valuers at Mouchel, York House, Thornfield Business Park, Standard Way, Northallerton DL6 2XQ.

Leasehold properties at rack rent or with a short unexpired term have not been valued on the grounds that their values are not material. Values of £10,000 or less are considered to be de minimis and have not been reported.

Actual valuations are as shown on the individual reports. The valuations are on the under-mentioned basis in accordance with the RICS Appraisal and Valuation Standards (6<sup>th</sup> Edition) and the CIPFA/LASAAC Code of Practice on Local Authority Accounting. Except that:

- a) Not all properties were inspected. This was neither practical nor considered necessary by the Valuer for the purpose of the valuation. Where applicable details of inspections carried out are shown in the Valuation.
- b) No structural/building survey or survey of possible contamination of the properties has been undertaken.
- c) There has been no inspection or testing of any electrical, heating or other building services apparatus.
- d) Unless specially instructed to verify, the Valuer has relied on the best available information obtained from the County Council Records.

The report does not purport to express an opinion about or advise upon the condition of un-inspected parts of the asset and should not be taken as making any implied representation or statement about such parts.

Unless otherwise stated in the Valuation Report, fixed Plant and Machinery is included in the valuation of any buildings.

Properties regarded by the Council as operational were valued on the basis of Existing Use Value or, where this could not be assessed because there was no known market for the asset; the Depreciated Replacement Cost (DRC) method of obtaining Market Value was adopted. Properties valued on a DRC basis have been subject to the test of adequate service potential through the Corporate Asset Management process. Where a DRC figure has been provided, then in addition, a Market Value for an alternative use or an opinion where possible as to whether that value would be significantly higher or lower has been provided.

Properties regarded by the Council as non-operational have been valued on the basis of the Market Value.

In accordance with the Code and CIPFA guidelines Fair Value is equivalent to Market Value.

## Notes to the Financial Statements

In the case of operational buildings an assessment of the remaining useful life has been provided assuming prudent continuing maintenance.

The sources of information and assumptions made in producing the various valuations are set out in the Valuation Report.

The valuation figures incorporated in the accounts are the aggregate of separate valuations of parts of the Schedule of Assets and not a valuation or apportioned valuation of the Schedule of Assets valued as a whole.

### Valuation of Fixed Assets Carried at Current Value

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out by Senior Estates Surveyors (MRICS). The basis of valuation is set out above.

	Council Dwellings	Other Land and Buildings	Community Assets	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	5,506	11,941	71,642	-	89,089
Valued at Current Value in:						
2006-2007	-	61,800	-	-	-	61,800
2007-2008	70,907	47,696	-	-	-	118,603
2008-2009	-	57,685	-	-	-	57,685
2009-2010	-	63,043	-	13,305	12,325	88,673
2010-2011	166,638	371,986	-	1,861	1,509	541,994
<b>Total</b>	<b>237,545</b>	<b>607,716</b>	<b>11,941</b>	<b>86,808</b>	<b>13,834</b>	<b>957,844</b>

Note \* Due to the re-categorisation of assets, an approximation to historical cost has been made in some cases.

### 53.1 Heritage Assets: Impact of the Adoption of the New Standard on the 2011-2012 Financial Statements – Effective for the 2011-2012 Financial Year

The Code of Practice on Local Council Accounting in the United Kingdom 2011-2012 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Council, which will need to be adopted fully by the County Council in the 2011-2012 financial statements.

The County Council is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new heritage assets standard that been issued but is not yet required to be adopted. As set out above, full adoption of the standard will be required for the 2011-2012 financial statements. However, the County Council is required to make disclosure of the estimated effect of the new standard in these (2010-2011) financial statements. The new standard will require that a new class of asset, Heritage Assets, is disclosed separately on the face of the County Council's Balance Sheet in the 2011-2012 financial statements.



## Notes to the Financial Statements

Heritage Assets are assets that are held by the Council principally for their contribution to knowledge or culture. The heritage assets held by the Council include:

- Museum exhibits;
- Works of art; and
- Historic buildings.

These assets are currently accounted for at depreciated historical cost (or at a valuation where the assets have been donated) and are classified as "Community Assets" in Property, Plant and Equipment in the balance sheet.

These assets are currently carried at a value of £1.3 million.

The Code will require that heritage assets are measured at valuation in the 2011-2012 financial statements (including the 2010-2011 comparative information). The 2011-2012 Code will permit some relaxations in the valuation requirements of heritage assets and this will mean that the Council is able to recognise more of its collections of heritage assets in the Balance Sheet. The County Council anticipates that it will be able to recognise its art collection and civic regalia on the Balance Sheet using as its base the detailed insurance valuations (which are based on market values) held by the Council in respect of the collection.

### 54. Analysis of Net Assets Employed

Assets are employed by the General Fund and the Housing Revenue Account as follows:

	Council Dwellings	Land and Buildings	Community Assets	Infrastructure	Vehicles, Plant & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	-	600,296	11,941	236,278	86,792	935,307
HRA	237,545	7,420	-	-	16	244,981
	237,545	607,716	11,941	236,278	86,808	1,180,288

### 55. Subsidiary or Associated Companies Newcastle International Airport 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 (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. Northumberland County Council has a shareholding of 1,508 shares representing a 15.08% interest in the company.



## Notes to the Financial Statements

The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134 million and the Council's share of this valuation (15.08% of 51%) was £10.31 million. The valuation of NIAL Holdings Limited is reviewed annually. During 2009-2010 the valuation of the shareholding reduced by £1.23 million to nil. With the exception of the original cost of the shares, (£1,508) which was treated as a loss in the Comprehensive Income and Expenditure Statement, the fall in value was offset against the Capital Adjustment Account where increases in value prior to 2008-2009 were accounted for. The nil valuation has been maintained within the 2010-2011 accounts.

A report commissioned from Grant Thornton in 2009-2010 provided the basis for the Council to update the previous valuation exercise carried out internally based on market intelligence provided by Deloitte LLP.

The Local Authority shareholders received £95 million in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100 million issued by the Company in the form of short and long term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25 million long term loan notes are being paid in ten annual instalments, starting in 2005-2006, of which the Council will receive £3.9 million over the 10 years.

Northumberland County Council's 15.08% shareholding in Newcastle Airport Local Authority Holding Company Limited is an effective shareholding of 7.62% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Ltd).

The principal activity of Newcastle International Airport Ltd (Registered No 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year.

Dividends paid for year-end 31 December 2010 amounted to £nil. Dividends paid for year-end 31 December 2009 amounted to £nil.

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Limited made a loss before tax of £4.82 million and a loss after tax of £1.79 million for the year ended 31 December 2010.

A request for a copy of NIAL Group Limited accounts should be made in writing to the Head of Finance, South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

### Wansbeck Life Limited

Following the Local Government Re-organisation which occurred on 1 April 2009 the Council took possession of the investments and holdings of Wansbeck District Council. Included within these holdings was an investment in Wansbeck Life Limited which comprised 100% of the ordinary share capital and 50% of the voting share capital. Following changes during 2010-2011 to the composition of the Board of Directors of Wansbeck Life Limited it has been confirmed that Northumberland County Council, by virtue of these shareholdings and its control of members of the

## Notes to the Financial Statements

Board, is in a position to exert control over this entity and its wholly owned subsidiary Northern Coalfields Property Company Limited.

Group accounts have been prepared for 2010-2011 within these statements incorporating the un-audited year end position for both Wansbeck Life and its subsidiary Northern Coalfields Property Company Limited. As from 1 April 2011 these companies have been dissolved and reconstituted under the umbrella of Arch Corporate Holdings, which remain under the control of the Council.

The latest financial results of Wansbeck Life Limited and Northern Coalfields Property Company Limited are summarised below:

Wansbeck Life Limited	2010-2011 £'000	2009-2010 £'000
(Loss) on ordinary activities before taxation	(239)	(83)
(Loss) on ordinary activities after taxation	(214)	(50)

Northern Coalfields Property Company Limited	2010-2011 £'000	2009-2010 £'000
Profit on ordinary activities before taxation	166	691
Profit on ordinary activities after taxation	80	501

Homes for Northumberland is a subsidiary of Northumberland County Council which was created following Local Government Reorganisation and is the authority's Arms Length Management Organisation with responsibility for management and maintenance of the Housing Revenue Dwelling stock.

Financial results are as follows:

Homes for Northumberland	2010-2011 £'000	2009-2010 £'000
Profit/(Loss) on ordinary activities before taxation	3,292	(373)
Profit/(Loss) on ordinary activities after taxation	3,228	(373)

### 56. Trust Funds

The County Council is responsible for looking after one small charitable fund that has been set aside for specific educational aid (Choppington Schools Educational Fund). This fund is not included in the County Council's Balance Sheet. The fund is invested in Equities Investment Fund for Charities, Charishare Common Investment Funds and with the County Council. The value of the trust as at 31 March 2011 was £0.01 million, (£0.01 million as at 31 March 2010 and at 1 April 2009). Income received during 2010-2011 through dividends was £226 (£111 in 2009-2010, £271 in 2008-2009). There was no expenditure incurred during 2010-2011 (no expenditure incurred during 2009-2010 or 2008-2009). The increase in the value of the fund was due to an increase in the value of the equities held.

The Council administers individual bank accounts for those people in the care of the County Council. At the 31 March 2011 the balance on these accounts was £3.11 million (£2.33 million at 31 March 2010, £2.29 million at 1 April 2009) and is not included in the Balance Sheet.

The Council also held funds totalling £0.01 million at 31 March 2011 for Thropton First School which is a foundation school. This amount is not included in the

## Notes to the Financial Statements

Balance Sheet. However, at 31 March 2010 the school was in deficit and this was included as a debtor in the Balance Sheet; and at 1 April 2009 the Council held funds totalling £0.01 million.

The Council also held funds for the following Trust schools:

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
Ashington Partnership:			
Ashington Community High School	76	403	316
Bothal Middle School	69	262	89
Ashington Hirst Park Middle School	53	64	150
Ashington Wansbeck First School	15	24	(14)
Ashington Central First School	161	177	86
<b>Total Ashington Partnership</b>	<b>374</b>	<b>930</b>	<b>627</b>
West Partnership:			
Haydon Bridge High School	125	54	69
Allendale Community	90	73	30
Bellingham Middle School	110	108	66
Bellingham First School	27	26	52
<b>Total West Partnership</b>	<b>352</b>	<b>261</b>	<b>217</b>

The Council controls income received from non-County bodies for particular clients and client groups. At the end of 2010-2011 this income totalled £0.04 million (£0.05 million at 31 March 2010 and 1 April 2009) and has been excluded from the Council's Balance Sheet.

The Council holds personal allowance money paid to clients in residential care. At the end of 2010-2011 this totalled £0.05 million (£0.01 million at 31 March 2010 and 1 April 2009) and has been excluded from the Balance Sheet.

The Council controls funds which may have been donated or are the result of fund-raising efforts and are to be used for named children or activities and are classed as Amenity Funds. At the end of 2010-2011 these funds totalled £0.01 million (£0.11 million at the end of 2009-2010, and £0.10 million at 1 April 2009) and have been excluded from the Council's Balance Sheet.

The Council holds Disability Living Allowance money of £998 at the end of 2010-2011 (£0.01 million at the end of 2009-2010 and 1 April 2009) paid to children in their care. This money is held until it is spent on the children and is not included in the Balance Sheet.

The Council acts as the Payroll provider for the Northumberland Church of England Academy (NCEA) which was established with effect from 1 September 2009. As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on the Academy's behalf. During 2010-2011 £0.72 million (2009-2010 £0.37 million) employers' contributions (14.1% of pensionable pay) and £0.33 million (2009-2010 £0.17 million) employees' contributions, 6.4% of pensionable pay, were paid over to the Teachers' Pensions Agency for the period April 2010 to February 2011. Contributions for the March 2011 payroll totalling £0.07 million employers' contributions and £0.03 million employees' contributions

## Notes to the Financial Statements

remained payable at the year end. These amounts were paid over in April 2011 and have been excluded from the Balance Sheet.

The Council held no money on behalf of the Association of North East Councils (Regional Chamber Funding) at the end of 2010-2011 (£0.28 million in 2009-2010, and £0.37 at 1 April 2009).

The Council did hold funds on behalf of the Northumberland Care Alliance £0.05 million at the end of 2009-2010 (£1,896 at the end of 2008-2009). The Alliance was allocated funding from Skills for Care (formerly the Training Organisation for Personal Social Services) and this was used to reimburse independent care providers who claimed for the achievement of training qualifications. This amount was not included in the Balance Sheet. The money was transferred to revenue during 2010-2011.

The Council used to deduct money from employees on behalf of the Staff Club and then pay it over to the club. At 31 March 2009 the Council held £298 which was excluded from the Balance Sheet. During 2009-2010 the Staff Club closed and this money was expended.

The Council also holds funds on behalf of the following organisations. The balances have been excluded from the Balance Sheet:

	31 March 2011 £'000	31 March 2010 £'000	1 April 2009 £'000
R. Bell Bequest	4	4	5
The Northumberland Children's Fund	113	130	464
Northumberland Sports Fund	79	79	79
North Stobswood Open Cast Coal Site	275	275	275
Corbridge Section 278 Agreement (Catalyst Healthcare)	-	9	9
English Partnerships A189	43	43	43
Aldi Stores Limited	-	-	39
Society of IT Managers	-	2	2
New Ridley Road Stocksfield	13	13	-
Choppington Educational Foundation	1	1	-
Cramlington Town Council	-	23	-
Woodhorn Museum	-	533	-
County Chief Auditors Network	5	4	-
	<b>533</b>	<b>1,116</b>	<b>916</b>

Notes:

### R. Bell Bequest

This money is for the future benefit of the clients residing in Tynedale House. The management committee of the home are currently deciding how it should be used.

### The Northumberland Children's Fund

This money is made available for the benefit of young people in Northumberland by way of a grant. Grants totalling £0.02 million have been paid to organisations in 2010-2011 (2009-2010 grants of £0.04 million paid and £0.30 million placed in investments).

## Notes to the Financial Statements

### Northumberland Sports Fund

The money is held as a fund for use by Northumberland Sport partners to pump prime projects which also involve securing additional external funding - projects must be in line with the original 'charitable' purpose of the Northumberland Foundation relevant to young people accessing the benefits of taking part in sport and physical activity - e.g. health, social inclusion, education and learning, developing personal skills and fulfilling potential, general physical recreation for fun and enjoyment. It is anticipated that this will be spent in 2011-2012, encouraging young people to take part in sports activities with an Olympic theme.

### North Stobswood Open Cast Coal Site

Northumberland County Council is holding this money from the developer in advance of the required restoration bond being put in place. Once the bond is in place the money will be returned to the developer.

### Corbridge Road Section 278 Agreement – Catalyst Healthcare

This project is now complete and the maintenance period has expired. The balance was returned to the developer during 2010-2011.

### English Partnerships A189

This money is to be repaid in 2012 if it is not utilised. Northumberland County Council may be instructed to either provide more landscaping or extend the current cycleway.

### Aldi Stores Limited

This was a Section 278 Agreement. Work was completed and the funds returned to the developer.

### Society of IT Managers

The Council's former Head of ICT was Chair of this local authority group. The funds held were transferred in 2010-2011.

### New Ridley Road Stocksfield

This is a Section 38 Agreement. The Bond will be held until work on the surface water sewer is complete.

### Choppington Education Foundation

This is a Charitable Trust attached to Choppington First School. The Trust awards small grants to children resident in Choppington.

### Cramlington Town Council

The Council held money on behalf of Cramlington Town Council at the beginning of 2010-2011 and carried out financial transactions on its behalf. Once the Town Council opened its own bank account it took control of all transactions.

### Woodhorn Museum

Woodhorn became a Trust on 1 April 2009; it did not have a bank account so the Council managed the funds. The Council was not holding any money for Woodhorn Museum at the end of 2010-2011.

### County Chief Auditors Network

The Council acts as Treasurer on behalf of the County Chief Auditors Network and manages the funds on behalf of this group.



## Notes to the Financial Statements

### 57. Landfill Allowance Trading Scheme (LATS)

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDA) in the UK to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It also provides the legal framework for the Landfill Allowances Trading Scheme (LATS), which applies only to WDAs in England and commenced operation on 1 April 2005. The scheme allocates tradable landfill allowances to each WDA in England.

LATS operating in England is a 'cap and trade scheme'. The scheme allocates tradable landfill allowances to each WDA in England up to the amount of the WDA's cap. Northumberland County Council is a WDA and has been allocated an annual allocation of landfill allowances. One allowance is equal to one tonne of BMW waste. The County Council must therefore have sufficient allowances to meet the tonnage of BMW that has been committed to landfill in that year.

The County Council may use these allowances to meet its liability for its actual BMW landfill usage, sell any available allowances to another WDA or purchase additional allowances from a WDA. Under the Landfill Allowance Trading Scheme rules any surplus allowance available at the end of 2009-2010 could not be carried forward to 2010-2011.

The Council's allocation for 2010-2011 was 64,718 tonnes. The estimated usage for 2010-2011 was 12,955 tonnes, leaving a surplus of 51,763 tonnes. The Council has sold 50,000 tonnes of surplus 2010-2011 allowances at a rate of £1.95 per tonne which generated total income of £0.1 million. Attempts to trade the remaining 2010-2011 surplus of 1,763 tonnes have not been successful and there is no interest to date.

The Environment Agency's latest estimate of the amount of biodegradable waste land filled in 2010-2011 is 7,727,355 tonnes against an allocation of 9,953,331 tonnes; a surplus of 2,225,976 tonnes. 2010-2011 LATS are advertised on the DEFRA bulletin board for as little as £0.50 per tonne.

The 2010-2011 Code guidance states that only assets whose fair value can reliably be measured should be recognised on the Balance Sheet. Due to the lack of demand and insufficient sales to allow a reliable fair value to be attributed, the County Council has again adopted a prudent approach and again valued the LATS with a net realisable value of zero.

## Housing Revenue Account (HRA) Income and Expenditure Statement

for the year ended 31 March 2011

This account reflects the statutory obligation to “ring-fence” and show separately the financial transactions relating to the provision of housing. 2009-2010 was the first year that the County Council operated a Housing Revenue Account. Prior to Local Government reorganisation on 1 April 2009 this was a Borough and District Council function.

	Note	2010-2011 £'000	2009-2010 £'000
<b>Expenditure</b>			
Repairs and maintenance		4,886	4,803
Supervision and management		8,064	8,037
Rents, rates, taxes and other charges		715	2,009
Depreciation and impairment of Fixed Assets		103,203	43,271
Debt management expenses		31	15
Bad debt expense		-	194
Movement in the allowance for Bad Debt	13	(10)	(75)
		<b>116,889</b>	<b>58,254</b>
<b>Income</b>			
Dwelling rents (gross)		(22,811)	(22,136)
Non dwelling rents (gross)	4	(319)	(324)
Charges for services and facilities		(1,021)	(1,013)
HRA Subsidy receivable	10	(325)	(3,016)
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		<b>92,413</b>	<b>31,765</b>
HRA services' share of Corporate and Democratic Core		<b>464</b>	<b>361</b>
Net cost for HRA Services		<b>92,877</b>	<b>32,126</b>
HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement			
Taxation and Non-Specific grant income		(1,651)	(1,948)
Interest payable and similar charges		2,419	3,178
Interest and investment income		(105)	(163)
Pensions interest cost and expected return on pensions assets		38	87
Amortised premiums		447	444
Amortised discounts		(204)	(220)
Deficit for the year on HRA Services		<b>93,821</b>	<b>33,504</b>



## Movement on the Housing Revenue Account Statement for the year ended 31 March 2011

This statement shows how the HRA Income and Expenditure Statement deficit reconciles to the movement in the HRA balance for the year.

	Note	2010-2011 £'000	2009-2010 £'000
Balance on the HRA at the end of the previous year		<b>(8,979)</b>	-
Deficit for the year on the HRA Income and Expenditure Statement		<b>93,821</b>	33,504
Adjustments between accounting basis and funding basis under Statute	1	<b>(95,813)</b>	<b>(33,095)</b>
Net increase before transfers to or from reserves		<b>(1,992)</b>	409
Transferred from the Borough and District Councils		-	<b>(9,388)</b>
Increase in year on the HRA		<b>(1,992)</b>	<b>(8,979)</b>
Balance on the HRA at the end of the current year		<b>(10,971)</b>	<b>(8,979)</b>

## Notes to the HRA Income and Expenditure Statement

### 1. Note to the Movement on the Housing Revenue Account Statement

	Note	2010-2011 £'000	2009-2010 £'000
Analysis of adjustments between accounting basis and funding basis under Statute included within the Movement on the HRA Statement			
Depreciation and impairment		(94,944)	(37,649)
Movements in market value of investment properties		(84)	(75)
Movements in Accumulated Absences Account		-	-
Revenue expenditure funded from capital under statute		(3,459)	(155)
Capital grants and contributions unapplied credited to the HRA Income and Expenditure Statement		1,651	1,948
HRA share of contributions to the Pensions Reserve		(20)	(56)
Transfer to/from Major Repairs Reserve	7	(194)	1,000
Transfer to General Fund		-	541
Capital expenditure funded by the HRA	8	1,237	1,351
		(95,813)	(33,095)

### 2. Capital Charges (Item 8 Debit and Credit)

The cost of capital charge to the HRA is prescribed via the Item 8 debit and credit calculations. With the exception of debt management expenses these are shown after net cost of services. Depreciation is included in Net Cost of Services to reflect the true cost of the use of assets and is met by the Major Repairs Allowance funded through Housing Subsidy. In addition impairment of HRA fixed assets is charged to the HRA Income and Expenditure Statement and reversed through the Statement of Movement on the HRA Balance.

### 3. Gross Rent Income

Gross rent income is the total rent income due for the year after allowance is made for voids and irrecoverables. Average rents were £51.85 per week (£51.66 in 2009-2010), an increase of £1.51 or 3.0% compared with 2009-2010 on a 52 week basis.

### 4. Other Rent Income

The other rent income attributable to the Housing Revenue Account is as follows:

	2010-2011 £'000	2009-2010 £'000
Garages	(261)	(261)
Shops	(37)	(40)
Miscellaneous	(21)	(23)
Total	(319)	(324)

## Notes to the HRA Income and Expenditure Statement

### 5. Housing Stock

	2010-2011 No.	2009-2010 No.
Houses and Bungalows	7,219	7,226
Flats	1,288	1,290
Houses in Multiple Occupation	10	10
<b>Total</b>	<b>8,517</b>	<b>8,526</b>

Housing stock has been restated to agree with the Authority's Housing Revenue Account Base Data Return.

### 6. Housing Revenue Account Fixed Assets

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Surplus Asset £'000	Investment Properties £'000	Assets held for disposal £'000	Total £'000
Gross book value 31 March 2010							
As Restated	368,671	10,777	582	347	802	858	382,037
Additions	7,616	-	-	-	-	-	7,616
Disposals	(525)	(19)	(484)	-	(135)	(858)	(2,021)
Movement in Work in Progress	-	-	-	-	(158)	-	(158)
Revaluations	(138,217)	(3,063)	-	-	-	-	(141,280)
Gross book value 31 March 2011	<b>237,545</b>	<b>7,695</b>	<b>98</b>	<b>347</b>	<b>509</b>	<b>-</b>	<b>246,194</b>
Depreciation at 1 April 2010	41,455	795	555	-	-	-	42,805
Charged in year	4,522	185	9	-	-	-	4,716
Surplus or (Deficit) on the provision of services	(45,977)	-	-	-	-	-	(45,977)
Disposals	-	(3)	(482)	-	-	-	(485)
Revaluations	-	(702)	-	-	-	-	(702)
Depreciation at 31 March 2011	-	<b>275</b>	<b>82</b>	-	-	-	<b>357</b>
Net book value at 31 March 2010							
As Restated	327,216	9,982	27	347	802	858	339,232
Net book value at 31 March 2011	<b>237,545</b>	<b>7,420</b>	<b>16</b>	<b>347</b>	<b>509</b>	<b>-</b>	<b>245,837</b>

The value of council dwellings at 31 March 2011 of £290.48 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £785.09 million. This shows that the economic cost to government of providing council housing at less than open market value is £494.61 million.

The value of land has not been valued separately from the buildings and has only been split on subsequent revaluations. Therefore, the value of the land within 'other land and buildings' is £2.73 million. Surplus Assets consists of land valued at £0.35 million, and investment properties include £0.01 million worth of land

## Notes to the HRA Income and Expenditure Statement

### 7. Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve with the main credit to the reserve being an amount equivalent to the total depreciation charges for all HRA assets. Under Item 8 of part 6 of the Local Government and Housing Act 1989 the difference between the depreciation credit to the reserve and the Major Reserves Allowance (MRA) is transferred back to the HRA. The Council is able to charge capital expenditure directly to the reserve, along with any voluntary set aside to repay debt. The movement in the MRA is shown below:

	2010-2011 £'000	2009-2010 £'000
<b>Income</b>		
Depreciation on Fixed Assets		
Council dwellings	(4,716)	(5,392)
	(4,716)	(5,392)
Appropriations transfer from the HRA	-	(1,000)
	(4,716)	(6,392)
<b>Expenditure</b>		
Capital expenditure funded from the Reserve		
Transfer to HRA	194	-
Houses	3,594	7,301
	3,788	7,301
<b>(Surplus) / Deficit for the year</b>	<b>(928)</b>	<b>909</b>
Balance brought forward 1 April	(1,400)	-
Transferred from the Borough and District Councils	-	(2,309)
Restated balance brought forward 1 April	(1,400)	(2,309)
Balance carried forward 31 March	(2,328)	(1,400)

### 8. HRA Capital Expenditure and Financing

	2010-2011 £'000	2009-2010 £'000
<b>Capital Expenditure</b>		
Houses	5,746	9,536
Other	2,373	-
	8,119	9,536
<b>Financing</b>		
Borrowing	2,548	662
Government Grants	740	222
Direct Revenue Financing	1,237	1,351
Major Repairs Reserve	3,594	7,301
<b>Total</b>	<b>8,119</b>	<b>9,536</b>

### 9. Capital Receipts

The Local Government Act 2003 stipulates that income from the disposal of assets must be split into usable and reserved elements. The reserved element is paid over to the national pool and the usable element can be used to fund capital expenditure. A summary of receipts for the year is included below:

## Notes to the HRA Income and Expenditure Statement

	Gross Receipt £'000	Usable Element £'000	Reserved Element £'000
Houses	829	239	590
<b>Total</b>	<b>829</b>	<b>239</b>	<b>590</b>

### 10. Housing Revenue Account Subsidy

The breakdown of the HRA Subsidy in 2010-2011 is shown below:

	2010-2011 £'000	2009-2010 £'000
Management and maintenance	(13,055)	(12,474)
Charges for capital	(1,623)	(2,359)
Notional rent income	22,745	22,286
ALMO allowance	(3,869)	(3,869)
Major repairs allowance	(5,522)	(6,392)
Major repairs allowance adjustment	1,000	-
Prior year adjustments	(1)	(208)
<b>Total</b>	<b>(325)</b>	<b>(3,016)</b>

The prior year adjustment relates to the variance between the audited Housing Subsidy figures for 2009-2010 and those that were included within the Statement of Accounts, due to audit adjustments made to subsidy claims post year end.

The ALMO allowance is not payable with effect from 1 April 2011.

### 11. Accounting for Pensions (IAS19)

The net impact on the HRA as a result of IAS19 was a credit of £0.02 million representing the excess of current service cost over pension contributions, as a result of implementing IAS19.

The net charge resulting from implementing IAS19 is reversed within the HRA meaning there is no effect on the amount to be met from Government Grants and Rents.

### 12. Tenant Arrears

At the end of the last collection week, tenant arrears were as follows:

	As at 31 March 2011		As at 31 March 2010	
	£'000	%	£'000	%
<b>Rents</b>				
Current tenants	526	2.31	733	3.31
Former tenants	315	1.38	260	1.18
<b>Balance at 31 March</b>	<b>841</b>	<b>3.69</b>	<b>993</b>	<b>4.49</b>

### 13. Provision for Bad Debts

The provision for bad debts at 31 March 2011 is shown below:

	2010-2011 £'000	2009-2010 £'000
Balance at 1 April	486	-
Transferred from the Borough and District Councils	-	561
Restated balance brought forward 1 April	486	561
Decrease in provision	(10)	(75)
<b>Balance at 31 March</b>	<b>476</b>	<b>486</b>

## Notes to the HRA Income and Expenditure Statement

### 14. Homes for Northumberland

Homes for Northumberland is an Arms Length Management Organisation (ALMO) that is paid a management fee by the Council to carry out many of the activities previously performed by HRA employees in the former Alwick, and Blyth authorities. In 2010-2011 the Management Fee payable to Homes for Northumberland was £11.90 million (£11.61 million in 2009-2010).

## Collection Fund Account

for the year ended 31 March 2011

On 1 April 2009 the County Council acquired services from the six former Northumberland Borough and District Councils under Local Government Reorganisation; this included the responsibility for collecting Council Tax and National Non Domestic Rates. This statement summarises the transactions of the Collection Fund, a statutory fund distinct from the General Fund of the County Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the County Council) for whom the income has been raised.

The costs of administering collection are accounted for in the General Fund. The Collection Fund balance is consolidated into the County Council's Balance Sheet.

	Note	2010-2011 £'000	2009-2010 £'000
<b>Income</b>			
Income from Council Tax		(140,479)	(135,915)
Transfers from General Fund – Council Tax Benefits		(23,375)	(21,983)
Income collectable from non domestic ratepayers		(63,878)	(64,269)
		<b>(227,732)</b>	<b>(222,167)</b>
<b>Expenditure</b>			
<b>Precepts and demands</b>			
Northumberland County Council	3	148,526	144,406
Parish and Town Councils	3	3,563	3,075
Northumbria Police Authority	3	9,047	8,795
<b>Non domestic rates</b>			
Payments to National Pool		63,065	63,166
Costs of collection		471	461
Interest payment		110	122
<b>Other contributions and payments</b>			
Increased provision for bad debts:			
Council Tax	4	(2,425)	4,248
National Non Domestic rates		231	520
Contribution from General Fund		(3,051)	-
Deficit for the year		<b>(8,195)</b>	2,626
Balance brought forward 1 April		3,513	-
Transferred from the Borough and District Councils		-	887
Restated balance brought forward 1 April		<b>3,513</b>	887
Balance carried forward 31 March	3	<b>(4,682)</b>	3,513



## Notes to the Collection Fund Account

### 1. Council Tax

Under the Local Government Finance Act 1992, council tax replaced community charge as the local tax directly supporting local authority expenditure. It was introduced on 1 April 1993. The Collection Fund account reflects the requirement for the County Council to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates (NNDR) and for any residual surplus or deficit arising from community charge transactions.

Council tax is broadly based on the capital value of domestic property as estimated at 1st April 1991 and classified into 8 bands. Charges are calculated by dividing the preceptors' income requirements by the council tax base (the total number of properties in each band, adjusted for discounts and expressed as an equivalent number of Band D dwellings). This gives the basic amount of council tax for a band D property, which when multiplied by the specified proportion (as follows) will give the individual amount due.

	2010-2011	2009-2010
Council tax base (Band D equivalent @ 99% of collection rate)	108,115	108,143
Council tax (Band D property)	1,456.40	£1,416.65

Council Tax Band	Proportion	No. of Properties 2010-2011 No.	No of Band D equivalent Properties 2010-2011 No.	Council Tax Charge 2010-2011 £
A (Disabled)	5/9	-	116	809.11
A	6/9	69,635	39,245	970.93
B	7/9	22,633	15,603	1,132.76
C	8/9	18,355	14,629	1,294.58
D	9/9	14,824	13,677	1,456.40
E	11/9	9,676	10,892	1,780.04
F	13/9	6,215	8,392	2,103.69
G	15/9	3,805	5,910	2,427.33
H	18/9	464	743	2,912.80
<b>Total</b>		<b>145,607</b>	<b>109,207</b>	

Council Tax Band	Proportion	No. of Properties 2009-2010 No.	No of Band D equivalent Properties 2009-2010 No.	Council Tax Charge 2009-2010 £
A (Disabled)	5/9	-	115	
A	6/9	68,976	39,082	944.43
B	7/9	22,393	15,753	1,101.84
C	8/9	18,135	14,759	1,259.24
D	9/9	14,609	13,575	1,416.65
E	11/9	9,507	10,926	1,731.46
F	13/9	6,135	8,385	2,046.27
G	15/9	3,738	5,902	2,361.08
H	18/9	422	738	2,833.30
<b>Total</b>		<b>143,915</b>	<b>109,235</b>	

## Notes to the Collection Fund Account

### 2. National Non-Domestic Rates

Non-domestic rates are organised on a national basis. Local businesses are required to pay, subject to transitional arrangements, an amount calculated by applying a sum specified by central government (expressed as a rate in the pound) to the rateable value of their property.

The County Council is responsible for collecting and paying over this amount to the NNDR pool administered by central government. The government redistributes sums paid into the pool on the basis of a fixed amount per head of population.

	2010-2011	2009-2010
Rate in the pound	41.4p	48.5p
Total non-domestic rateable value per NNDR system	£198,413,071	£156,611,381

### 3. Precepts and Demands on the Collection Fund

The following authorities made precepts or demands on the Collection Fund in 2010-2011 and 2009-2010:

	Precept	Share of surplus	2010-2011 Total
	£'000	£'000	£'000
Northumberland County Council	148,526	4,413	152,939
Parish and Town Councils	3,563	-	3,563
Northumbria Police Authority	9,047	269	9,316
<b>Total</b>	<b>161,136</b>	<b>4,682</b>	<b>165,818</b>

	Precept	Share of deficit	2009-2010 Total
	£'000	£'000	£'000
Northumberland County Council	144,406	(3,311)	141,095
Parish and Town Councils	3,075	-	3,075
Northumbria Police Authority	8,795	(202)	8,593
<b>Total</b>	<b>156,276</b>	<b>(3,513)</b>	<b>152,763</b>

### 4. Council Tax Bad Debt Provision

A detailed analysis of the collection rates for council tax has resulted in a decrease in the annual provision against debts that the council considers will ultimately be non-collectable. The decrease in provision in 2010-2011 is £2.43 million (2009-2010 £4.25 million increase) which brings the total provision to £6.31 million (2009-2010 £9.27 million).

Collection rates were originally anticipated to fall as a result of the disruption caused by LGR and the impact of merging six separate systems and operations. The collection rate has however improved and is now close to the national average.

## Group Accounts Explanatory Foreword

Financial Year 2010-2011 is the first year Northumberland County Council has prepared group accounts.

The former Wansbeck District Council and Blyth Borough Council both had subsidiary companies but had not previously consolidated these into the statement of accounts. Homes for Northumberland was thought to be immaterial for Blyth Valley Borough Council. Whilst the accounts of Wansbeck District Council for 2008-2009 and subsequently Northumberland County Council for 2009-2010 were qualified on the basis of non consolidation of Wansbeck Life and its wholly owned subsidiary of Northern Coalfields Property Company.

Group accounts have been prepared for 2010-2011 within these statements incorporating the un-audited year end position of Homes for Northumberland, Wansbeck Life and its subsidiary Northern Coalfields Limited.

### **Wansbeck Life and Northern Coalfields Property Company**

Following the restructuring which occurred on 1 April 2009 as part of Local Government Reorganisation the Council took possession of the investments and holdings of Wansbeck District Council. Included within these holdings was an investment in Wansbeck Life Limited which comprised 100% of the ordinary share capital and 50% of the voting share capital. Following recent changes to the composition of the Board of Directors of Wansbeck Life Limited it has been confirmed that Northumberland County Council, by virtue of these shareholdings and its control of the Board, is in a position to exert control over this entity and its wholly owned subsidiary Northern Coalfields Limited.

Wansbeck Life's principal activities are to:

- Further the needs to the community within the boundaries of the area currently known as Wansbeck
- Regenerate or develop the community, within the meaning of section 126 of the Housing Grants, Construction and Regeneration Act 1996.
- Protect, restore and enhance the environment of the community through the purchase, lease and management of land in the community.
- Provide land, amenities or services, or provide, construct, repair or improve buildings, for the community as a whole or for members or the community either exclusively or together with other persons.
- To encourage and give advice on the forming of community land trusts for the benefit of sections of the community, or for the benefit of neighbouring communities and providing services for, and give advice on the securing of such organisations and other voluntary organisations concerned with regeneration and development.

## Group Accounts Explanatory Foreword

Northern Coalfields priority is to:

- Provide decent homes for the people of south east Northumberland through the provision of rental and residential property in such a way that there will be spin-off benefits in terms of economic regeneration and environmental improvement. In addition the company strives to rectify the misconception of the area and the company will continue to play its part in improving the lives of its tenants and other residents of the area.

As of 1 April 2011 Wansbeck Life and Northern Coalfields Limited were restructured and renamed under the umbrella of Arch Corporate Holdings. The new group remains under the control of the Council.

### Homes for Northumberland

Homes for Northumberland is an Arms Length Management Organisation which currently delivers Northumberland County Council's Landlord Services. Homes for Northumberland was established in April 2009 when the in-house managed stock from the former Alwick District was brought under the umbrella of Blyth Valley Housing following full S105 Tenant Consultation. Blyth Valley Housing was an Arms Length Management Organisation established by Blyth Valley Borough Council to access Decent Homes Grant to enable it to bring its council housing stock up to decency by the Government's target of 2010. This has now been achieved at a time of unprecedented change and the inception of the new Council; it was felt that this was the best option for council tenants. It therefore now manages approximately 8,500 homes on behalf of the Council.

Homes for Northumberland is a company limited by guarantee. The Council is the single shareholder of this company. It is led by a Strategic Board consisting of twelve directors (four are nominated by the Council, four are independent and four are tenants or leaseholders). Local governance is through two area boards consisting of 15 members, also with a three way split – with two tenant and two independent members nominated to the Strategic Board. The organisation is currently undertaking a Governance Review which proposes the reduction of Area Committees to 12. Homes for Northumberland is within the control of Northumberland County Council through a formal management agreement.

Its activities are funded via the Council's Housing Revenue Account; the organisation receives Annual Management Fee from the Council which is increased each year by inflation. The costs in 2010-2011 were £11.899 million.

The key services Homes for Northumberland provide for the Council are:

- Housing and Estate Management
- Rent collection and arrears management
- Responsive Repairs and Maintenance
- Planned repairs and major works (including Decent Homes)

## Group Accounts Explanatory Foreword

- Leasehold Management
- Resident Participation
- Resolving Anti-Social Behaviour

### 1. Information and Financial Statements

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts. The pages which follow are the groups final accounts for 2010-2011 and comprise:

#### Statement of Accounting Policies

This explains the basis of the figures in the accounts.

#### Group Movement in Reserves Statement

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

#### Group Comprehensive Income and Expenditure Statement

This reports the net cost for the year of all group functions and demonstrates how that cost has been met from general government grants and income from local taxpayers.

#### Group Balance Sheet

This is fundamental to the understanding of the group's year end financial position. It shows the balances and reserves at the group's disposal and its long term indebtedness, the net current assets employed in its operations, and summarised information on the fixed assets held.

#### Group Cash Flow Statement

This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

## **Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement**

for the year ended 31 March 2011

This statement shows the movement in the year on the different reserves held by the group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Deficit on the Provision of Services line shows the true economic cost of providing the group's services, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. In preparing the group accounts all statutory main group statements have been incorporated, along with specific notes where balances are materially different from those within the Council's accounts.

## Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

for the year ended 31 March 2011

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Council's share of usable reserve of subsidiaries	Council's share of unusable reserve of subsidiaries	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2009	(17,185)	(30,403)	-	(444)	(8,896)	-	(56,928)	(126,629)	-	-	(183,557)
Transferred In from Subsidiaries	-	-	-	-	-	-	-	-	(12,317)	(23,017)	(35,334)
Transferred from the Borough and District Councils	(15,260)	(8,336)	(9,388)	(28,316)	(76)	(2,309)	(63,685)	(327,635)	-	-	(391,320)
Restated Balance brought forward 1 April	(32,445)	(38,739)	(9,388)	(28,760)	(8,972)	(2,309)	(120,613)	(454,264)	(12,317)	(23,017)	(610,211)
<b>Movement in Reserves during 2009-2010:</b>											
Deficit on the provision of services	54,060	-	32,400	-	-	-	86,460	-	-	-	86,460
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	95,262	1,613	(1,363)	95,512
Total Comprehensive Income and Expenditure	54,060	-	32,400	-	-	-	86,460	95,262	1,613	(1,363)	181,972
<b>Adjustments Between Group Accounts and Council Accounts</b>	(4,425)	-	1,104	-	-	-	(3,321)	-	3,321	-	-
Adjustments between accounting basis & funding basis under regulations	(59,631)	-	(34,636)	28,129	(15,536)	1,909	(79,765)	79,765	-	-	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(9,996)	-	(1,132)	28,129	(15,536)	1,909	3,374	175,027	4,934	(1,363)	181,972
Transfers (to)/from Earmarked Reserves	14,885	(15,426)	1,541	-	-	(1,000)	-	-	-	-	-
(Increase)/Decrease in 2009-2010	4,889	(15,426)	409	28,129	(15,536)	909	3,374	175,027	4,934	(1,363)	181,972
<b>Balance at 31 March 2010 carried forward</b>	<b>(27,556)</b>	<b>(54,165)</b>	<b>(8,979)</b>	<b>(631)</b>	<b>(24,508)</b>	<b>(1,400)</b>	<b>(117,239)</b>	<b>(279,237)</b>	<b>(7,383)</b>	<b>(24,380)</b>	<b>(428,239)</b>
<b>Movement in Reserves during 2010-2011:</b>											
Deficit on the provision of services	(19,633)	-	88,605	-	-	-	68,972	-	-	-	68,972
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(66,444)	3,054	(5,929)	(69,319)
Total Comprehensive Income and Expenditure	(19,633)	-	88,605	-	-	-	68,972	(66,444)	3,054	(5,929)	(347)
<b>Adjustments Between Group Accounts and Council Accounts</b>	(5,757)	-	5,216	-	-	-	(541)	-	541	-	-
Adjustments between accounting basis & funding basis under regulations	10,387	-	(95,813)	(407)	8,364	(928)	(78,397)	78,397	-	-	-
Net (Increase)/Decrease before Transfers to	(15,003)	-	(1,992)	(407)	8,364	(928)	(9,966)	11,953	3,595	(5,929)	(347)



**Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement**  
for the year ended 31 March 2011

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Council's share of usable reserve of subsidiaries	Council's share of unusable reserve of subsidiaries	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Earmarked Reserves											
Transfers (to)/from Earmarked Reserves	14,494	(14,494)	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2010-2011	(509)	(14,494)	(1,992)	(407)	8,364	(928)	(9,966)	11,953	3,595	(5,929)	(347)
<b>Balance at 31 March 2011 carried forward</b>	<b>(28,065)</b>	<b>(68,659)</b>	<b>(10,971)</b>	<b>(1,038)</b>	<b>(16,144)</b>	<b>(2,328)</b>	<b>(127,205)</b>	<b>(267,284)</b>	<b>(3,788)</b>	<b>(30,309)</b>	<b>(428,586)</b>

## Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement for the year ended 31 March 2011

2009-2010	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Council's share of usable reserve of subsidiaries £'000	Council's share of unusable reserve of subsidiaries £'000	Total Council Reserves £'000
Rent Payable to NCC by Homes for Northumberland	(56)	-	56	-	-	-	-	-	-	-	-
Service level agreement payable to NCC by Homes for Northumberland	(1,834)	-	1,834	-	-	-	-	-	-	-	-
Management fee payable by NCC to Homes for Northumberland	220	-	(220)	-	-	-	-	-	-	-	-
Fleet charge to NCC by Homes for Northumberland	(209)	-	209	-	-	-	-	-	-	-	-
Homes for Northumberland 2009-2010 Deficit		-	(375)	-	-	-	(375)	-	375	-	-
NCPC and Wansbeck Life 2009-2010 Surplus	(2,546)	-	-	-	-	-	(2,546)	-	2,546	-	-
Homes for Northumberland IAS 19	-	-	(400)	-	-	-	(400)	-	400	-	-
<b>Total Adjustment between Group Accounts and Council Accounts 2009-2010</b>	<b>(4,425)</b>	<b>-</b>	<b>1,104</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,321)</b>	<b>-</b>	<b>3,321</b>	<b>-</b>	<b>-</b>

## Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement for the year ended 31 March 2011

2010-2011	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Council's share of usable reserve of subsidiaries	Council's share of unusable reserve of subsidiaries	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rent Payable to NCC by Homes for Northumberland	(215)	-	215	-	-	-	-	-	-	-	-
Service level agreement payable to NCC by Homes for Northumberland	(1,834)	-	1,834	-	-	-	-	-	-	-	-
Management fee payable by NCC to Homes for Northumberland	220	-	(220)	-	-	-	-	-	-	-	-
Fleet charge to NCC by Homes for Northumberland	(159)	-	159	-	-	-	-	-	-	-	-
Homes for Northumberland 2010-2011 Surplus	-	-	118	-	-	-	118	-	(118)	-	-
NCPC and Wansbeck Life 2010-2011 Surplus/(Deficit)	(3,769)	-	-	-	-	-	(3,769)	-	3,769	-	-
Homes for Northumberland IAS 19	-	-	3,110	-	-	-	3,110	-	(3,110)	-	-
<b>Total Adjustment between Group Accounts and Council Accounts 2010-2011</b>	<b>(5,757)</b>	<b>-</b>	<b>5,216</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(541)</b>	<b>-</b>	<b>541</b>	<b>-</b>	<b>-</b>

## Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2011

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

2010-2011 Group	Council Only			Group		
	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Central Services to the Public	8,660	(3,164)	5,496	8,660	(3,164)	5,496
Cultural, Environmental, Regulatory and Planning Services	117,942	(22,589)	95,353	120,354	(20,931)	99,423
Education and Children's Services	382,197	(269,677)	112,520	382,197	(269,677)	112,520
Highways and Transport Services	38,221	(7,282)	30,939	38,221	(7,282)	30,939
Local Authority Housing (HRA)	116,889	(24,476)	92,413	113,014	(26,183)	86,831
Other Housing Services	102,764	(102,979)	(215)	106,741	(105,362)	1,379
Adult Social Care	137,200	(47,366)	89,834	137,200	(47,366)	89,834
Corporate and Democratic Core	8,777	(613)	8,164	8,777	(613)	8,164
Non Distributed Costs	(122,609)	(1)	(122,610)	(122,609)	(1)	(122,610)
Cost Of Services	790,041	(478,147)	311,894	792,555	(480,579)	311,976
Other Operating Expenditure	90,844	(6,868)	83,976	90,844	(6,868)	83,976
Financing and Investment Income and Expenditure	56,003	(18,789)	37,214	56,337	(18,789)	37,548
Taxation and Non-Specific Grant Incomes	-	(364,653)	(364,653)	-	(364,653)	(364,653)
Deficit on Provision of Services	936,888	(868,457)	68,431	939,736	(870,889)	68,847
Tax Expenses of Associates			-			125
Group (Surplus)/Deficit			68,431			68,972
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets			(2,644)			(2,759)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets			-			-
Actuarial (Gains)/Losses on Pension Assets/Liabilities			(63,800)			(66,560)
Other Comprehensive Income and Expenditure			(66,444)			(69,319)
Total Comprehensive Income and Expenditure			1,987			(347)

## Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2011

2009-2010 Group	Council Only			Group		
	Gross	Gross	Net	Gross	Gross	Net
	Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Central Services to the Public	7,715	(2,806)	4,909	7,715	(2,806)	4,909
Cultural, Environmental, Regulatory and Planning Services	108,964	(23,972)	84,992	109,399	(22,433)	86,966
Education and Children's Services	325,440	(266,899)	58,541	325,440	(266,899)	58,541
Highways and Transport Services	47,743	(6,654)	41,089	47,743	(6,654)	41,089
Local Authority Housing (HRA)	58,254	(26,489)	31,765	58,588	(28,567)	30,021
Other Housing Services	95,216	(94,628)	588	99,184	(96,381)	2,803
Adult Social Care	134,652	(48,220)	86,432	134,652	(48,220)	86,432
Exceptional Costs of Equal Pay	11,230	-	11,230	11,230	-	11,230
Corporate and Democratic Core	10,137	(2,019)	8,118	10,137	(2,019)	8,118
Non Distributed Costs	13,139	(6)	13,133	13,139	(6)	13,133
Cost Of Services	812,490	(471,693)	340,797	817,227	(473,985)	343,242
Other Operating Expenditure	28,987	(1,993)	26,994	29,638	(1,993)	27,645
Financing and Investment Income and Expenditure	72,691	(20,873)	51,818	72,953	(21,067)	51,886
Taxation and Non-Specific Grant Incomes	-	(336,470)	(336,470)	-	(336,503)	(336,503)
Deficit on Provision of Services	914,168	(831,029)	83,139	919,818	(833,548)	86,270
Tax Expenses of Associates			-			190
Group Deficit			83,139			86,460
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets			(36,537)			(37,048)
(Surplus) or Deficit on Available-for-Sale Financial Assets			1,229			-
Actuarial (Gains)/Losses on Pension Assets/Liabilities			130,570			132,560
Other Comprehensive Income and Expenditure			95,262			95,512
Transferred from Former Borough and District Councils			(391,320)			(391,320)
<b>Total Comprehensive Income and Expenditure</b>			<b>(212,919)</b>			<b>(209,348)</b>

## Group Balance Sheet

as at 31 March 2011

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the group. The net assets of the group (assets less liabilities) are matched by the reserves held by the group. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the group is not able to use to provide services. This category of reserve 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'.

## Group Balance Sheet

as at 31 March 2011

31 March 2010				31 March 2011	
Council Only £'000	Group £'000		Note	Council Only £'000	Group £'000
1,405,775	1,409,684	Property, Plant & Equipment	1	1,245,086	1,249,471
19,479	60,481	Investment Property	2	15,575	54,417
252	252	Intangible Assets		330	330
3,424	3,424	Assets Held for Sale		2,333	2,333
10,070	10,070	Long-Term Investments		7,402	7,402
3,771	3,771	Long-Term Debtors		5,773	5,773
<b>1,442,771</b>	<b>1,487,682</b>	<b>Long-Term Assets</b>		<b>1,276,499</b>	<b>1,319,726</b>
41,843	41,843	Short Term Investments		47,787	48,537
993	1,270	Inventories		1,181	1,438
53,332	55,042	Short-Term Debtors	7	73,674	71,243
2,555	5,747	Cash and Cash Equivalents	3	56,844	58,214
-	14	Taxation		-	25
20,471	20,471	Assets Held for Sale		9,916	9,916
<b>119,194</b>	<b>124,387</b>	<b>Current Assets</b>		<b>189,402</b>	<b>189,373</b>
(22,227)	(23,271)	Bank Overdraft	3	(4,602)	(4,602)
(14,825)	(15,096)	Short-Term Borrowing		(43,035)	(43,035)
(60,342)	(61,067)	Short-Term Creditors	8	(65,143)	(64,249)
(30,015)	(30,164)	Provisions		(35,247)	(35,247)
-	(32)	Corporation tax liability		-	-
-	(15)	Deferred Tax liability	13	-	(156)
<b>(127,409)</b>	<b>(129,645)</b>	<b>Current Liabilities</b>		<b>(148,027)</b>	<b>(147,289)</b>
(76,434)	(80,609)	Long-Term Creditors		(88,603)	(92,382)
-	-	Provisions		-	-
(234,441)	(234,441)	Long-Term Borrowing		(294,525)	(294,525)
(704,960)	(716,890)	Other Long-Term Liabilities	16	(514,660)	(520,720)
(22,245)	(22,245)	Capital Grants Receipts in Advance		(25,597)	(25,597)
<b>(1,038,080)</b>	<b>(1,054,185)</b>	<b>Long-Term Liabilities</b>		<b>(923,385)</b>	<b>(933,224)</b>
396,476	428,239	Net Assets		394,489	428,586
117,239	124,622	Usable Reserves		127,205	130,993
279,237	303,617	Unusable Reserves	9	267,284	297,593
396,476	428,239	Total Reserves		394,489	428,586



## Group Cash Flow Statement

for the year ended 31 March 2011

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

31 March 2010			Note	31 March 2011	
Council Only £'000	Group £'000			Council Only £'000	Group £'000
(83,139)	(86,460)	Net surplus or deficit on the provision of services		(68,431)	(68,972)
144,008	148,319	Adjustments to net surplus or deficit on the provision of services for non-cash movements		146,978	145,758
(46,213)	(46,281)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(57,910)	(59,535)
14,656	15,578	<b>Net cash flows from Operating Activities</b>	4	<b>20,637</b>	<b>17,251</b>
31,607	30,566	Investing Activities	5	(36,114)	(34,733)
(77,167)	(77,252)	Financing Activities	6	87,391	88,619
(30,904)	(31,108)	<b>Net increase or decrease in cash and cash equivalents</b>		<b>71,914</b>	<b>71,137</b>
11,232	13,584	Cash and cash equivalents at the beginning of the reporting period		(19,672)	(17,524)
(19,672)	(17,524)	<b>Cash and cash equivalents at the end of the reporting period</b>	3	<b>52,242</b>	<b>53,613</b>

## Notes to the Group Financial Statements

### Accounting Policies

The group accounting policies are specified within the Council only statement. There are some slight divergences from these policies within the groups as stated below:

### Capital Expenditure

There is no de-minimis level for capital expenditure for Wansbeck Life or Northern Coalfields Property Company.

### Depreciation

Depreciation is charged on the following basis:

Asset	Depreciation Period
<b>Wansbeck Life</b>	
Leasehold Property	Straight line over lease period (30/50 years)
Plant and Machinery	10% per annum reducing balance
Plant and Machinery	33% per annum straight line
<b>Northern Coalfields Property Company</b>	
Leasehold Property	2% Straight line
Plant and Machinery	15%-33% reducing balance

### Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### 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

## Notes to the Group Financial Statements

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

## Notes to the Group Financial Statements

### 1. Group Property, Plant and Equipment Movements on Balances

Movements in 2010-2011:	Council Only							Subsidiaries		Group		
	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets Included in Property, Plant and Equipment £'000	Other Land and Buildings £'000	Vehicles, Plant, & Equipment £'000	Total Assets £'000
<b>Cost or Valuation:</b>												
At 1 April 2010 As Restated	368,671	687,105	111,000	290,928	13,774	12,940	66,476	1,550,894	87,707	3,514	762	1,555,170
Additions	7,616	26,658	3,095	3,071	20	79	55,938	96,477	13,449	-	2,237	98,714
Reclassifications	-	27,804	846	6,895	369	6,028	(41,942)	-	-	48	(48)	-
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(10,748)	-	-	-	(363)	-	(11,111)	-	-	-	(11,111)
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(138,217)	(38,766)	-	-	-	(3,759)	(24,690)	(205,432)	(11,532)	(1,675)	-	(207,107)
De-recognition - Disposals	(525)	(41,010)	(2,781)	-	(768)	(858)	(4,482)	(50,424)	(43)	-	-	(50,424)
De-recognition - Other	-	(8,981)	-	-	-	-	-	(8,981)	-	-	-	(8,981)
Assets reclassified (to)/from Held for Sale	-	(15,033)	-	-	-	-	(12)	(15,045)	-	-	-	(15,045)
Other movements in Cost or Valuation	-	-	-	-	-	-	(324)	(324)	-	-	-	(324)
At 31 March 2011	237,545	627,029	112,160	300,894	13,395	14,067	50,964	1,356,054	89,581	1,887	2,951	1,360,892

## Notes to the Group Financial Statements

Movements in 2010-2011:	Council Only							Subsidiaries		Group		
	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets Under Construction £'000	Total Property, Plant and Equipment £'000	PFI Assets Included in Property, Plant and Equipment £'000	Other Land and Buildings £'000	Vehicles, Plant, & Equipment £'000	Total Assets £'000
<b>Accumulated Depreciation and Impairment:</b>												
At 1 April 2010 As Restated	41,455	24,635	21,251	56,459	1,236	83	-	145,119	2,833	-	367	145,486
Depreciation charge	4,522	15,996	6,449	8,157	218	122	-	35,464	3,433	86	-	35,550
Reclassifications	-	(295)	-	-	-	295	-	-	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	(13,511)	-	-	-	(244)	-	(13,755)	-	-	-	(13,755)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(45,977)	(2,840)	-	-	-	(23)	-	(48,840)	-	-	-	(48,840)
De-recognition - Disposals	-	(2,932)	(2,348)	-	-	-	-	(5,280)	(7)	-	-	(5,280)
De-recognition – Other	-	(742)	-	-	-	-	-	(742)	-	-	-	(742)
Assets reclassified (to)/from Held for Sale	-	(998)	-	-	-	-	-	(998)	-	-	-	(998)
At 31 March 2011	-	19,313	25,352	64,616	1,454	233	-	110,968	6,259	86	367	111,421
<b>Net Book Value:</b>												
At 31 March 2011	237,545	607,716	86,808	236,278	11,941	13,834	50,964	1,245,086	83,322	1,801	2,584	1,249,471
At 31 March 2010 As Restated	327,216	662,470	89,749	234,469	12,538	12,857	66,476	1,405,775	84,874	3,514	395	1,409,684

## Notes to the Group Financial Statements

### 2. Investment Property

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

2009-2010 As Restated			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
1,554	1,554	Balance at start of the year	19,479	19,479
(768)	(768)	NCC IFRS Restatement	-	-
786	786		19,479	19,479
25,277	25,277	Transferred from the Borough and District Councils	-	-
-	41,002	Transferred from Subsidiaries	-	41,002
(13,812)	(13,812)	Borough and District Councils IFRS Restatement	-	-
12,251	53,253	Restated balance brought forward 1 April 2009	19,479	60,481
1	1	Additions	-	-
5,595	5,595	Reclassifications	(3,318)	(3,318)
-	-	Disposals	(1,718)	(1,718)
1,632	1,632	Net (losses)/gains from fair value adjustments	1,132	(1,028)
19,479	60,481	Balance at end of the year	15,575	54,417

Dwelling stock within Northern Coalfields Property Company has been classified as investment property as the rental charges are in excess of 80% of the rent levels charged within privately rented accommodation.

### 3. Group Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
2,555	2,555	Cash held by the Council	56,844	56,844
(22,227)	(23,271)	Cash overdrawn within the Council	(4,602)	(2,416)
-	1,044	Cash Held by Homes for Northumberland	-	(2,186)
-	2,148	Cash Held by subsidiaries	-	1,370
(19,672)	(17,524)	<b>Total Cash and Cash Equivalents</b>	<b>52,242</b>	<b>53,612</b>

## Notes to the Group Financial Statements

### 4. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
(4,286)	(4,298)	Interest received	(4,016)	(4,016)
18,115	18,161	Interest paid	11,861	11,893
(167)	(167)	Dividends received	-	-

### 5. Group Cash Flow Statement – Investing Activities

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
78,359	79,400	Purchase of property, plant and equipment, investment property and intangible assets	88,638	88,638
569,806	569,806	Purchase of short-term and long-term investments	3,151	3,151
-	-	Other payments for investing activities	3,449	3,449
(4,742)	(4,742)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,836)	(4,836)
(620,832)	(620,832)	Proceeds from short-term and long-term investments	(1,293)	(1,293)
(54,198)	(54,198)	Other receipts from investing activities	(52,995)	(54,376)
(31,607)	(30,566)	<b>Net cash flows from investing activities</b>	<b>36,114</b>	<b>34,733</b>



## Notes to the Group Financial Statements

### 6. Group Cash Flow Statement – Financing Activities

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
(3,422)	(3,422)	Cash receipts of short-term and long-term borrowing	(116,888)	(118,245)
-	-	Other receipts from financing activities	-	-
1,140	1,140	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	316	316
79,449	79,534	Repayments of short- and long-term borrowing	29,181	29,310
77,167	77,252	<b>Net cash flows from financing activities</b>	<b>(87,391)</b>	<b>(88,619)</b>

### 7. Group Short Term Debtors

2009-2010 As Restated			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
		<b>Short Term Debt</b>		
12,287	12,287	Central government bodies	13,781	13,781
5,631	5,631	Other local authorities	5,906	5,906
1,883	1,883	NHS bodies	5,615	5,615
2,828	2,828	Public corporations and trading funds	8,547	8,547
30,703	32,413	Other entities and individuals	39,825	37,394
53,332	55,042	<b>Total Short Term Debtors</b>	<b>73,674</b>	<b>71,243</b>

## Notes to the Group Financial Statements

### 8. Group Short Term Creditors

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
1,877	1,877	Central government bodies	5,891	5,891
949	949	Other local authorities	79	79
2,274	2,274	NHS bodies	2,701	2,701
493	493	Public corporations and trading funds	995	995
54,749	55,474	Other entities and individuals	55,477	54,583
60,342	61,067	<b>Total Short Term Creditors</b>	<b>65,143</b>	<b>64,249</b>

### 9. Group Unusable Reserves

Unusable reserves reflect the balances included within the parent company of Northumberland County Council with the exception of the Revaluation and Pensions reserve and the introduction of the called up share capital reserve, with the differences detailed below.

2009-2010 As Restated			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
167,070	203,380	Revaluation Reserve	159,568	195,937
(704,960)	(716,890)	Pensions Reserve	(514,660)	(520,720)
821,927	821,927	Capital Adjustment Account	617,322	617,322
1,915	1,915	Deferred Capital Receipts Reserve	1,494	1,494
3,596	3,596	Financial Instruments Adjustment Account	3,675	3,675
(3,311)	(3,311)	Collection Fund Adjustment Account	4,413	4,413
(180)	(180)	Unequal Pay Back Pay Account	(180)	(180)
(6,820)	(6,820)	Accumulating Absences Adjustment Account	(4,348)	(4,348)
279,237	303,617		267,284	297,593

\* Separate disclosure notes have not been reproduced for these accounts as the group balances are the same as those quoted within the main set of accounts.

#### Revaluation Reserve

The balance on this reserve represents the accumulated gains on the re-valued fixed assets held by the group since 1 April 2007 less that part of the depreciation charge that has been incurred only because the assets have been re-valued. Whilst these gains increase the net worth of the Group they would only result in an increase in spending power if the

## Notes to the Group Financial Statements

relevant assets were sold and capital receipts generated. On disposal the Revaluation Reserve value for an asset is written to the Capital Adjustment Account.

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
109,168	109,168	<b>Balance at 1 April</b>	<b>167,070</b>	<b>167,070</b>
(942)	(942)	NCC IFRS restatement	-	-
108,226	108,226	<b>Restated NCC Balance at 1 April</b>	<b>167,070</b>	<b>167,070</b>
25,844	25,844	Transferred from the Borough and District Councils	-	-
178	178	Borough and Districts IFRS restatement	-	-
-	33,101	Amounts held within subsidiaries	-	<b>36,310</b>
134,248	167,349	Restated Balance brought forward 1 April	<b>167,070</b>	<b>203,380</b>
45,488	50,711	Upward revaluation of assets	<b>21,226</b>	<b>21,285</b>
(8,951)	(10,965)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	<b>(18,582)</b>	<b>(18,582)</b>
(2,670)	(2,670)	Difference between fair value depreciation and historical cost depreciation	<b>(4,367)</b>	<b>(4,367)</b>
(1,045)	(1,045)	Accumulated gains on assets sold or scrapped	<b>(5,779)</b>	<b>(5,779)</b>
-	-	Amount written off to the Capital Adjustment Account	-	-
167,070	203,380	<b>Balance at 31 March</b>	<b>159,568</b>	<b>195,937</b>

## Notes to the Group Financial Statements

### Pensions Reserve

The accounts have been prepared incorporating the requirements of IAS19 *Retirement Benefits* for the treatment of pension costs. IAS19 requires that pension costs are recorded in the year in which the benefit entitlements are earned by the employees rather than the year in which the pensions and the employer's contributions are actually paid. The Pensions Reserve represents the net liability for future pension costs.

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
(410,940)	(410,940)	Balance at 1 April-Northumberland County Council	(704,960)	(704,960)
-	(8,070)	Balance at 1 April-Homes for Northumberland	-	(11,930)
(142,530)	(142,530)	Transferred from the former Borough and District Councils	-	-
(553,470)	(561,540)	Restated Balance brought forward 1 April	(704,960)	(716,890)
(127,770)	(129,760)	Actuarial gains or losses on pensions assets and liabilities	63,800	66,560
(56,170)	(57,590)	Reversal 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	91,110	93,190
-	(1,470)	Net increase in liabilities from disposals and acquisitions	-	-
35,250	36,270	Employer's pensions contributions and direct payments to pensioners payable in the year	35,390	36,420
(2,800)	(2,800)	Restatement regarding Fire ill health and non scheme ill health pensioners (see note 2 to the financial statements)	-	-
(704,960)	(716,890)	Balance at 31 March	(514,660)	(520,720)

## Notes to the Group Financial Statements

### Share Capital

Share capital is classified into two categories that authorised to be issued and the amount issued (allotted, called up and fully paid). The amount represented within the unusable reserves is the issued amount.

2009-2010			2010-2011	
Council Only	Group		Council Only	Group
£	£		£	£
		<b>Authorised</b>		
-	500	500 Ordinary shares of £1 each – Wansbeck Life	-	500
-	500	500 Voting shares of £1 each – Wansbeck Life	-	500
-	200	200 Ordinary shares of £1 each – Northern Coalfields Property Company	-	200
-	1,200	Total authorised share capital	-	1,200

2009-2010			2010-2011	
Council Only	Group		Council Only	Group
£	£		£	£
		<b>Allotted, called up and fully paid</b>		
-	99	99 Ordinary shares of £1 each	-	99
-	200	175 (200 2009-2010) Voting shares of £1 each	-	175
-	100	100 Ordinary shares of £1 each	-	100
-	399	Total allotted, called up and fully paid	-	374

Ordinary shares bear a right to income and capital as provided in the articles of association of the company. Holders of ordinary shares are not entitled to vote at general meetings of the company except on a resolution to wind up the company.

Voting shares do not bear a right to income and capital, save, in the case of capital, to the nominal amount paid up on the shares. Holders of voting shares are entitled to vote at general meetings of the company.

## Notes to the Group Financial Statements

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

#### Northern Coalfields Property Company

One of the County Council's subsidiaries, Northern Coalfields Property Company Limited, operates a defined contribution scheme for the benefit of senior employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

The total contributions paid in the year amounted to £0.02 million (2009-2010: £0.01 million and contributions of £0.01 million were accrued).

### 11. Group Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments across the group are not materially different from those within the Council only statements.

### 12. Group Valuation of Fixed Assets

#### Valuation of Fixed Assets Carried at Current Value

The following statement shows the progress of the Group's rolling five year programme for the revaluation of fixed assets. The valuations are carried out by Senior Estates Surveyors (MRICS).

	Council Dwellings	Land and Buildings	Council Community Assets	Non Operational Land and Buildings	Surplus Assets	Subsidiaries Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Group Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	5,506	11,941	71,642	-	-	-	89,089
Valued at Current Value in:								
2005-2006	-	61,800	-	-	-	-	-	61,800
2006-2007	-	47,696	-	-	-	-	-	47,696
2007-2008	70,907	57,685	-	-	-	-	-	128,592
2008-2009	-	63,043	-	13,305	12,325	-	-	88,673
2010-2011	166,638	371,986	-	1,861	1,509	1,801	2,584	546,379
<b>Total</b>	<b>237,545</b>	<b>607,716</b>	<b>11,941</b>	<b>86,808</b>	<b>13,834</b>	<b>1,801</b>	<b>2,584</b>	<b>962,229</b>

## Notes to the Group Financial Statements

### 13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
-	12	Provision brought Forward	-	15
-	3	Profit and Loss account movement arising during the year	-	141
-	15	<b>Provision to Carry forward</b>	-	156

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
-	15	<b>Excess of taxation allowances over depreciation on fixed assets</b>	-	6

### 14. Group Deferred Income - Included within Capital Grants Receipts in Advance within Consolidated Balance Sheet

2009-2010			2010-2011	
Council Only £'000	Group £'000		Council Only £'000	Group £'000
		<b>Received and Receivable:</b>		
-	3,249	Balance as at 31 March	-	3,530
-	281	Received during Financial Year	-	-
-	3,530	<b>Balance to carry forward</b>	-	3,530
		<b>Amortisation:</b>		
-	(277)	Amortised during previous years	-	(345)
-	(68)	Credited to profit and loss account during financial year	-	(1,624)
-	(345)	<b>Total amortisation</b>	-	(1,969)
-	3,185	<b>Net balance at 31 March</b>	-	1,561



## Notes to the Group Financial Statements

Additional deferred income was released into the profit and loss account during 2010-2011 to partially offset impairment on the Wansbeck Enterprise Centre.

### 15. The Nature and Extent of Significant Restrictions within the Group

The payment of dividend is restricted between Northern Coalfields Property Company Ltd to Wansbeck Life, however no such payments were made during 2009-2010 and 2010-2011.

Northern Coalfields also provides for a payment to Wansbeck life in relation to tax losses that are to be surrendered by Wansbeck Life.

### 16. Defined Benefit Pension Schemes

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

The Council participates in seven post employment schemes, in addition Homes for Northumberland participates in the Local Government Pension Scheme (LGPS), the disclosures below show a comparison between the parent authority's LGPS scheme with that of Homes for Northumberland.

**The Local Government Pension Scheme** for employees other than teachers and firefighters is administered by Northumberland County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

## Notes to the Group Financial Statements

### Transactions Relating to Post-employment Benefits

The group 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 we are 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 Council only 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:

	Council Only £m	Homes for Northumberland £m	Group Total £m
<b>2010-11</b>			
<b>Comprehensive Income and Expenditure Statement</b>			
Cost of Services:			
• Current service cost	(20.38)	(0.90)	(21.28)
• Past service cost	114.53	3.26	117.79
Financing and Investment Income and Expenditure:			
• Interest cost	(55.06)	(1.49)	(56.55)
• Expected return on scheme assets	43.29	1.21	44.5
Total post employment benefit charged to the deficit on the provision of services	82.38	2.08	84.46
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
• Actuarial gains and losses	58.31	2.76	61.07
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	140.69	4.84	145.53
<b>Statement of Movement on the General Fund Balance:</b>			
• Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	(140.69)	(4.84)	(145.53)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
• Employer's contributions payable to the scheme	(26.10)	(1.03)	(27.13)
• Net retirement benefits payable to pensioners	-	-	-

## Notes to the Group Financial Statements

	Council Only	Homes for Northumberland	Group Total
	£m	£m	£m
2009-2010			
Comprehensive Income and Expenditure Statement			
Cost of Services:			
• Current service cost	(15.98)	(0.77)	(16.75)
• Past service cost	-	-	-
Financing and Investment Income and Expenditure:			
• Interest cost	(52.89)	(1.34)	(54.23)
• Expected return on assets in the scheme	26.43	0.69	27.12
Total post employment benefit charged to the deficit on the provision of services	(42.44)	(1.42)	(43.86)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
• Actuarial gains and losses	(90.39)	(1.99)	(92.38)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	(132.83)	(3.41)	(136.24)
Statement of Movement on the General Fund Balance:			
• Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	132.83	3.41	136.24
Actual amount charged against the General Fund Balance for pensions in the year:			
• Employer's contributions payable to the scheme	(25.21)	(1.02)	(26.23)
• Net retirement benefits payable to pensioners	-	-	-

## Notes to the Group Financial Statements

### Assets and Liabilities in Relation to Post-Employment Benefits

Reconciliation of present value of the schemes' liabilities (defined benefit obligation):

	LGPS £m	Homes for Northumberland £m	Group Total £m
Opening balance as at 1 April 2010	1,090.71	28.63	1,119.34
Current service cost	20.38	0.90	21.28
Interest cost	55.06	1.49	56.55
Contributions by scheme participants	6.77	0.31	7.08
Actuarial (gains)/losses on liabilities	(70.14)	(3.54)	(73.68)
Net benefits paid out	(29.28)	(0.18)	(29.46)
Past service cost	(114.53)	(3.26)	(117.79)
Closing balance as at 31 March 2011	958.97	24.35	983.32
Opening balance as at 1 April 2009	533.35	17.54	550.89
Increase from LGR acquisitions	269.61	-	269.61
	802.96	17.54	820.5
Current service cost	15.98	0.77	16.75
Interest cost	52.89	1.34	54.23
Contributions by scheme participants	7.10	0.29	7.39
Actuarial (gains)/losses on liabilities	236.70	5.87	242.57
Net benefits paid out	(24.92)	(0.10)	(25.02)
Net Increase in liabilities from disposal and acquisition	-	2.92	2.92
Past service cost	-	-	-
Closing balance as at 31 March 2010	1,090.71	28.63	1,119.34

## Notes to the Group Financial Statements

Reconciliation of fair value of the scheme (plan) assets:

	2010-2011		2009-2010	
	Local Government Pension Scheme £m	Homes for Northumberland £m	Local Government Pension Scheme £m	Homes for Northumberland £m
Opening balance as at 1 April	610.65	16.70	291.57	9.47
Increase from LGR acquisitions	-	-	138.95	-
Expected return on assets	43.29	1.21	26.43	0.69
Actuarial gains/(losses) on assets	(11.83)	(0.78)	146.31	3.88
Contributions by the employer	26.10	1.03	25.21	1.02
Contributions by participants	6.77	0.31	7.1	0.29
Net increase in assets from disposal and acquisition	-	-	-	1.45
Net benefits paid out	(29.28)	(0.18)	(24.92)	(0.10)
Closing balance as at 31 March	645.70	18.29	610.65	16.70

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £31.89 million (£169.5 million in 2009-2010).

## Notes to the Group Financial Statements

### Scheme History

	LGPS £m	Homes for Northumberland £m	Other Parent Authority Schemes £m	Group Total £m
As at 31 March 2011				
Fair value of assets	<b>645.70</b>	<b>18.29</b>	-	<b>663.99</b>
Present value of liabilities	<b>(958.97)</b>	<b>(24.35)</b>	<b>(201.39)</b>	<b>(1,184.71)</b>
Surplus/(deficit)	<b>(313.27)</b>	<b>(6.06)</b>	<b>(201.39)</b>	<b>(520.72)</b>
As at 31 March 2010				
Fair value of assets	610.65	16.70	-	627.35
Present value of liabilities	<b>(1,090.71)</b>	<b>(28.63)</b>	<b>(224.90)</b>	<b>(1,344.24)</b>
Surplus/(deficit)	<b>(480.06)</b>	<b>(11.93)</b>	<b>(224.90)</b>	<b>(716.89)</b>

The liabilities show the underlying commitments that the group has in the long run to pay post employment retirement benefits. The total pensions liability of £520.72 million has a substantial impact on the net worth of the group as recorded in the Balance Sheet, resulting in an overall net worth of only £501.105 million.

However, statutory arrangements for funding the deficit mean that the financial position of the group remains healthy:

- the deficit on the LGPS will be recovered over a period of approximately twenty five years, by the payment of employer contributions at a level set by the fund's actuary, reassessed triennially;

## Notes to the Group Financial Statements

### 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. Aon Hewitt Limited, an independent firm of actuaries, has assessed all of the liabilities for the pension schemes shown in the accounts, the figures being based on the latest full valuations of the schemes. For the LGPS the latest full actuarial valuation of the Fund took place as at 31 March 2010

The principal assumptions used by the actuary have been:

	LGPS	Homes for Northumberland
As at 31 March 2011		
<b>Long term expected rate of return on assets in the scheme:</b>		
Equities	8.4%	8.4%
Property	7.9%	7.9%
Government bonds	4.4%	4.4%
Corporate bonds	5.1%	5.1%
Cash	1.5%	1.5%
Other	8.4%	8.4%
Total	7.3%	7.3%
<b>Mortality assumptions:</b>		
Longevity at age 65 for current pensioners:		
Men	22.2	22.2
Women	24.4	24.4
Longevity at age 65 for future pensioners:		
Men	24.1	24.1
Women	26.4	26.4
Rate of inflation - RPI	3.7%	3.7%
Rate of inflation - CPI	2.8%	2.8%
Rate of general long term increase in salaries	5.2%	5.2%
Rate of increase to pensions in payment	2.8%	2.8%
Rate of increase to deferred pensions	2.8%	2.8%
Discount rate	5.5%	5.4%
<b>Commutation:</b>		
% take up of the maximum amount permitted to convert annual pension into retirement lump sum		
Past service pension rights	50%	50%
Future service pension rights	75%	75%



## Notes to the Group Financial Statements

	LGPS	Homes for Northumberland
NFPS members that commute 25% of their pension	-	-
FPS members that commute 25% of their pension	-	-
As at 31 March 2010		
Long term expected rate of return on assets in the scheme:		
Equities	8.0%	8.0%
Property	8.5%	8.5%
Government bonds	4.5%	4.5%
Corporate bonds	5.5%	5.5%
Cash	0.7%	0.7%
Other	8.0%	8.0%
Total	7.2%	7.2%
Mortality assumptions:		
Longevity at age 65 for current pensioners:		
Men	22.0	22.0
Women	24.0	24.0
Longevity at age 65 for future pensioners:		
Men	24.2	24.2
Women	26.1	26.1
Rate of inflation - RPI	3.9%	4.0%
Rate of inflation – CPI	N/A	N/A
Rate of general long term increase in salaries	5.4%	5.5%
Rate of increase to pensions in payment	3.9%	4.0%
Rate of increase to deferred pensions	3.9%	4.0%
Discount rate	5.5%	5.6%
Commutation:		
% take up of the maximum amount permitted to convert annual pension into retirement lump sum		
Past service pension rights	50%	50%
Future service pension rights	75%	75%
NFPS members that commute 25% of their pension	-	-
FPS members that commute 25% of their pension	-	-

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of

## Notes to the Group Financial Statements

return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2011.

The Northumberland County Council Pension Fund's assets consist on the following categories, by proportion of the total assets held:

	As at 31 March 2011		As at 31 March 2010	
	Local Government Pension Scheme %	Homes for Northumberland %	Local Government Pension Scheme %	Homes for Northumberland %
Equities	68.4	68.4	70.4	70.4
Property	5.2	5.2	5.3	5.3
Government bonds	18.4	18.4	15.0	15.0
Corporate bonds	7.1	7.1	7.7	7.7
Cash/other	0.9	0.9	1.6	1.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010-2011 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

	£m	LGPS %	Homes for Northumberland £m	Homes for Northumberland %	Group Total £m
<b>2010-2011</b>					
Differences between expected and actual return on assets	<b>(11.83)</b>	<b>(1.8)</b>	<b>(0.78)</b>	<b>(4.3)</b>	<b>(12.61)</b>
Experience gains/(losses) on liabilities	<b>46.27</b>	<b>4.8</b>	<b>2.93</b>	<b>12.0</b>	<b>49.2</b>
<b>2009-2010</b>					
Differences between expected and actual return on assets	146.31	24.0	3.88	23.2	150.19
Experience gains/(losses) on liabilities	9.82	0.9	0.04	0.1	9.86

The history of experience gains and losses is not available for all of the schemes shown above for prior years.

## Pension Fund Accounts

### Introduction

Northumberland County Council is the statutory administering authority for the Northumberland County Council Pension Fund (“the Fund”). The Council administers the Fund for its own employees and about forty other approved employers. The Fund excludes provision for teachers and fire fighters for whom separate arrangements exist. A full list of employers participating in the Fund is shown in note 19 to these accounts.

Responsibility for the Fund rests with the County Council. The County Council has delegated its responsibility for determining investment policy to the Pension Fund Panel. The Corporate Director of Finance has lead officer responsibility for the Fund. Day to day management of the Fund is delegated to the Pensions Manager and day to day management of the Fund’s investments is delegated to the external fund managers.

Matters relating to benefit administration are largely governed by the Local Government Pension Scheme regulations. In relation to investments, the Pension Fund Panel sets the overall investment strategy for the Fund which takes into account the Fund’s pension liabilities and the prospects for future investment returns. To manage the Fund’s assets in accordance with the agreed investment strategy, the County Council has appointed external investment managers each of whom has specific responsibility for part of the Fund’s investment portfolio.

The County Council uses the services of The WM Company to independently measure the performance of the investment strategy and the contributions of the individual managers. Performance is monitored against the Fund’s tailored asset allocation benchmark rather than a peer group benchmark.

The total market value of the Fund, net of liabilities, has increased from £719 million to £763 million as the annual return on the Fund (comprising income and realised/unrealised gains/losses on investments) together with receipts to the Fund have exceeded the payments made from the Fund in the year.

The most significant change in the Fund account was the realised and unrealised profit on investments of £42 million experienced during 2010-2011, reflecting the positive return on investments experienced by funds generally over that period.

The overall annual return on the Fund was 6.4% for the year (40.8% in 2009-2010), which compared to the Fund specific benchmark annual return of 7.6%.

The degree of long term growth of the Pension Fund is seen as a more reliable indicator of performance, as short term fluctuations are evened out. In this context the overall annualised return on the Fund for the ten years to 31 March 2011 was 5.5%, which compares with the benchmark annualised return of 5.8%. Real returns for the ten-year period were higher than the growth in average earnings and RPI/CPI increases.

There were two major changes in the management of the Fund during 2010-2011:

- ECM’s appointment as active bond manager was terminated in November 2010 and the assets transferred temporarily to Legal & General to be managed passively while the search for a replacement manager was undertaken. Wellington was then appointed as active bond manager and the assets were transferred from Legal & General to Wellington in March 2011.
- Half of the UK equity portfolio managed actively by AllianceBernstein was transferred to Legal & General to be managed passively in October 2010.

## Pension Fund Accounts

Membership of the Fund at 31 March 2011 is summarised below:

	31 March 2011	31 March 2010
Active members	8,078	8,628
Pensioner members	7,006	6,713
Deferred members	7,004	6,522
	<b>22,088</b>	21,863

The Fund membership shown above as at 31 March 2010 does not agree to the membership at the same date shown in Aon Hewitt's Data Summaries in Appendix 2 to the Statement of Accounts. This is because the membership shown above is taken from the 2009-2010 Statement of Accounts which was based on the most up to date information from the pension administration system at the time of preparation, whereas the membership shown in Appendix 2 is based on the pension administration system approximately four months later, which had been updated to reflect late notifications of changes affecting the membership as at 31 March 2010.

The County Council also produces a separate Annual Report for the Northumberland County Council Pension Fund giving more detailed information on the Fund and its accounts for the year to 31 March 2011.

### Basis of Preparation

The Pension Fund accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, and comply with the provisions of Chapter 2 of the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007) ("the Pensions SORP"), except if reference to the contrary is made.

With effect from 2010-2011 local authorities have been required to prepare their accounts under IFRS. There have been no changes to the accounting policies for the Pension Fund arising from the adoption of the IFRS-based Code.

## Pension Fund Accounts

### Accounting Policies

#### Investments

- **Valuation of Investments**

Investments are shown at their market value which has been determined as follows:

- (1) Quoted securities are valued at the bid price quotations at close of business on 31 March 2011;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2011;
- (3) Other unlisted securities are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers;
- (4) Overseas securities and cash are translated into sterling at the rate ruling at the net assets statement date;
- (5) Futures are valued at fair value which is determined using the exchange prices at the net assets statement date.

- **Investment Income**

Dividends and interest on stocks are credited to the Fund in the year in which they become ex-dividend. Interest receivable on loans and deposits is accounted for on an accruals basis. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31 March 2011 where amounts were still outstanding at the year end.

- **Investment Gains and Losses**

Realised and unrealised gains and losses on investments arising in the year to 31 March 2011 are credited to the Fund.

- **Investment Transactions**

Investment transactions arising up to 31 March 2011 but not settled until later are accrued in the accounts.

#### Contributions

Contributions represent the total amounts receivable from the various employers participating in the Fund in respect of their own contributions and those of their pensionable employees. The employers' contributions are made at rates determined by the Fund's Actuary.

Contributions due at 31 March 2011 are accrued in the accounts but no provision is made for employees' and employers' contributions relating to sums due on pay awards not yet settled.

#### Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

#### Transfer Values

Transfer values are those sums paid to or received from other pension schemes for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

## Pension Fund – Fund Account

for the year ended 31 March 2011

	Note	2010-2011 £'000	2009-2010 £'000
<b>Contributions and benefits</b>			
Contributions	1	40,110	47,730
Transfers in from other pension funds	2	4,532	2,724
		<b>44,642</b>	<b>50,454</b>
Benefits	3	(40,650)	(46,791)
Payments to and on account of leavers	4	(5,126)	(4,108)
Administrative expenses	5	(1,058)	(1,050)
		<b>(46,834)</b>	<b>(51,949)</b>
Net withdrawals from dealings with members		<b>(2,192)</b>	<b>(1,495)</b>
<b>Returns on investments</b>			
Investment income	6	5,055	5,844
Taxes on income		(48)	(55)
Profit and losses on disposal of investments and changes in the value of investments	7	42,350	197,715
Investment management expenses	8	(1,845)	(1,696)
Net returns on investments		<b>45,512</b>	<b>201,808</b>
Net increase in net assets available for benefits during the year		<b>43,320</b>	<b>200,313</b>
Net assets of the Fund at 1 April		<b>719,227</b>	<b>518,914</b>
At 31 March		<b>762,547</b>	<b>719,227</b>

## Pension Fund – Net Assets Statement

as at 31 March 2011

	Note	As at 31 March 2011 £'000	As at 31 March 2010 £'000
<b>UK Investments</b>			
Quoted Equities		50,626	90,427
Pooled Investment Vehicles			
Property Equity		39,095	37,306
Index Linked		231,882	184,514
Ventures and Partnerships		140,761	107,066
		42	49
<b>Overseas Investments</b>			
Quoted Equities		38,713	40,260
Futures		4	7
Other Fixed Interest		54,591	54,311
Pooled Investment Vehicles			
Equity		150,692	146,696
Ventures and Partnerships		52,886	47,103
	7	759,292	707,739
Other Investment Balances	7	4,135	3,425
	7	763,427	711,164
Cash Deposits		2,137	5,059
Current Assets	9	1,672	4,105
Current Liabilities	10	(4,689)	(1,101)
<b>Net Assets of the Fund at 31 March</b>	11	<b>762,547</b>	<b>719,227</b>

The accounts summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS26 (also prepared by the actuary) on page 192 and at Appendix 2 to the Statement of Accounts and these accounts should be read in conjunction with that.



## Pension Fund – Notes to the Financial Statements

### 1. Contributions

	2010-2011 £'000	2009-2010 £'000
Employers' normal contributions		
Administering authority	23,832	25,218
Scheduled bodies	3,074	2,612
Admitted bodies	2,123	2,211
Employers' other contributions		
Strain on the Fund following early retirement	2,719	9,100
Augmentation of service	15	15
Members		
Normal	8,347	8,574
	<b>40,110</b>	<b>47,730</b>

Normal contributions receivable from employers include deficit funding payments. It is not possible to quantify the deficit funding element without incurring disproportionate cost.

### 2. Transfers in from other pension funds

	2010-2011 £'000	2009-2010 £'000
Individual transfers in from other schemes	4,532	2,724

### 3. Benefits

	2010-2011 £'000	2009-2010 £'000
Pensions		
Administering authority	29,423	28,214
Scheduled bodies	1,208	1,040
Admitted bodies	1,068	954
Commutation of pensions and lump sum retirement benefits	8,392	15,864
Lump sum death benefits	559	719
	<b>40,650</b>	<b>46,791</b>

### 4. Payments to and on account of leavers

	2010-2011 £'000	2009-2010 £'000
Refunds to members leaving service	2	2
Individual transfers to other schemes	4,934	3,530
Group transfers to other schemes	190	576
	<b>5,126</b>	<b>4,108</b>

## Pension Fund – Notes to the Financial Statements

### 5. Administrative Expenses

	2010-2011 £'000	2009-2010 £'000
Administration and processing	658	672
Actuarial and advisory fees	300	224
Audit fee	36	36
Other	64	118
	<b>1,058</b>	<b>1,050</b>

### 6. Investment Income

	2010-2011 £'000	2009-2010 £'000
Dividends from equities	3,040	3,724
Income from pooled investment vehicles	1,971	2,138
Net interest on cash deposits	13	(18)
Other	31	-
	<b>5,055</b>	<b>5,844</b>

### 7. Investments

	Value at 1 April 2010 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Profit and losses on disposal of investments and change in value of investments £'000	Value at 31 March 2011 £'000
Actively managed investments	314,362	140,058	(181,675)	11,395	284,140
Derivative contracts	7	241	(320)	76	4
Passively managed investments	393,370	133,903	(83,069)	30,944	475,148
	707,739	274,202	(265,064)	42,415	759,292
Other investment balances	3,425			(65)	4,135
<b>Total</b>	<b>711,164</b>			<b>42,350</b>	<b>763,427</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, and stamp duty. Transaction costs incurred in the year amounted to £339,408 (£416,721 in 2009-2010). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

## Pension Fund – Notes to the Financial Statements

### Derivative Contracts

Type of future	Expiration	Economic exposure value	Market value
		£'000	£'000
E-mini S&P 500 exchange traded	Less than one year	453	6
Eurex E-Stoxx 50 exchange traded	Less than one year	252	2
FTSE 100 exchange traded	Less than one year	118	2
TSE TOPIX exchange traded	Less than one year	130	(6)
		953	4

Derivative receipts and payments represent the realised gains and losses on futures contracts. The Fund's objective is to equitise a small proportion of cash in the global equity portfolio, to ensure that the portfolio maintains a high exposure to equity markets and to use currency forward contracts for defensive hedging.

### Other Investment Balances

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Amounts due to broker	(4)	(7)
Outstanding trades	29	60
Outstanding dividends, tax and other investment income	571	564
Cash deposits	3,472	2,772
Cash margin	67	36
	4,135	3,425

### 8. Investment Management Expenses

Investment management fees are calculated as a percentage of the market value of the portfolio managed with an adjustment for under or over performance compared to the appropriate index for two fund managers. Custody is charged for separately.

### 9. Current Assets

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Due from Northumberland County Council	-	844
Contributions due from employers in respect of		
Employers	171	2,392
Members	52	671
Strain on the Fund contributions due from employers	29	132
Retirement grants prepaid	1,395	66
Other	25	-
	1,672	4,105

## Pension Fund – Notes to the Financial Statements

These can be further analysed as follows:

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Central government bodies	56	60
Other local authorities	12	3,462
Public corporations and trading funds	58	347
Bodies external to general government	1,546	236
	<b>1,672</b>	<b>4,105</b>

### 10. Current Liabilities

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Due to Northumberland County Council	4,000	-
Retirement/death grants due	110	628
Investment management and custodial fees due	305	269
Other	274	204
	<b>4,689</b>	<b>1,101</b>

These can be further analysed as follows:

	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Other local authorities	4,000	-
Bodies external to general government	689	1,101
	<b>4,689</b>	<b>1,101</b>

### 11. Analysis of Investments

The total market value of the Fund as at 31 March 2011 was £762.5 million compared with a value of £719.2 million as at 31 March 2010, which can be analysed as follows:

	As at 31 March 2011		As at 31 March 2010
	£m	%	£m
UK and overseas equities	471.9	61.9	461.9
Fixed interest and index linked	195.4	25.6	161.4
Property unit trusts	39.1	5.1	37.3
Ventures and partnerships	52.9	7.0	47.1
Other investment balances	4.1	0.5	3.4
Cash deposits and net current (liabilities)/assets	<b>(0.9)</b>	<b>(0.1)</b>	8.1
	<b>762.5</b>	<b>100.0</b>	<b>719.2</b>

## Pension Fund – Notes to the Financial Statements

The majority of the Fund's value is held in equities. Analysis by geographical area is as follows:

	As at 31 March 2011		As at 31 March 2010
	£m	%	£m
United Kingdom	282.5	59.9	274.9
Europe	54.0	11.4	57.3
North America	69.4	14.7	64.3
Japan	31.4	6.7	32.0
Pacific	18.1	3.8	17.5
Other	16.5	3.5	15.9
	<b>471.9</b>	<b>100.0</b>	<b>461.9</b>

Analysis of UK equity investments by industrial sector is as follows:

	As at 31 March 2011		As at 31 March 2010
	£m	%	£m
Basic materials	5.5	2.0	7.9
Consumer goods	5.3	1.8	8.9
Consumer services	10.1	3.6	15.0
Financials	8.3	2.9	17.2
Health care	3.1	1.1	6.0
Industrials	4.7	1.7	11.2
Oil and gas	8.0	2.8	14.3
Technology	0.8	0.3	1.2
Telecommunications	3.8	1.4	6.2
Utilities	1.0	0.3	1.9
Other (including managed funds)	231.9	82.1	185.1
	<b>282.5</b>	<b>100.0</b>	<b>274.9</b>

### Fund Value and Proportions

The values and proportions of the Fund's assets managed externally are as follows:

	As at 31 March 2011		As at 31 March 2010
	£m	%	£m
Legal & General Investment Management	475.1	62.2	393.4
AllianceBernstein (UK equities)	50.4	6.6	93.7
European Credit Management	-	-	54.3
Wellington Management International	54.6	7.2	-
Schroder Investment Management	19.2	2.5	18.1
BlackRock	20.3	2.7	19.4
AllianceBernstein (global equities)	42.2	5.5	40.3
M&G Investments	48.2	6.3	44.8
Morgan Stanley (private equity)	39.2	5.1	35.8
NB Alternatives (private equity)	14.2	1.9	11.3
	<b>763.4</b>	<b>100.0</b>	<b>711.1</b>

Net current liabilities (net of cash deposits) of £0.9 million are not externally managed and not, therefore, shown in the analysis above.

## Pension Fund – Notes to the Financial Statements

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

### 12. Significant Holdings

As at 31 March 2011, the Fund had holdings in certain pooled investment vehicles which individually represented more than 5% of the total value of Fund net assets. These holdings were:

- £91.8 million (12.0%) in the UK Equity Index Fund and £70.4 million (9.2%) in the Over Five Year Index-Linked Gilts Fund both managed by Legal & General Investment Management and held in each of two (identical) insurance contracts.
- £54.6 million (7.2%) in the Sterling Core Bond Plus Portfolio managed by Wellington Management International.

### 13. Securities Lending

The Fund participates in a securities lending programme managed by its custodian, Northern Trust. All loans are fully collateralised with OECD AAA sovereign debt. Stock released as at 31 March 2011 was £4.4 million (£0.7 million as at 31 March 2010).

### 14. Additional Voluntary Contributions (AVCs)

Scheme members may make AVCs that are invested with the Fund's nominated AVC provider. A wide range of investment types is offered to members and benefits obtained are on a money purchase basis. These contributions are not included in these accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which prohibits administering authorities from crediting AVCs to the Pension Fund.

During 2010-2011 members were able to invest in an AVC plan with Prudential. Prudential was engaged as AVC provider to the Fund in February 2001 to replace Equitable Life, and all new AVCs taken out after that date were with Prudential. Equitable Life replaced Phoenix Life Limited and some members have continued to contribute to existing AVC investments with both Equitable Life and Phoenix Life Limited.

Aggregate contributions paid by members during 2010-2011 to AVC investments were £450,686 (£536,303 in 2009-2010) to Prudential, £120 (£198 in 2009-2010) to Equitable Life, and £7,563 (£16,666 in 2009-2010) to Phoenix Life Limited.

As at 31 March 2011, the aggregate value of the AVC investments with Prudential was £1,676,666 (£1,970,179 as at 31 March 2010), with Equitable Life was £63,773 (£64,343 as at 31 March 2010), and with Phoenix Life Limited was £98,186 (£129,090 as at 31 March 2010).

### 15. Related Party Transactions

Northumberland County Council administers the Pension Fund. During 2010-2011 the Pension Fund had an average balance of £1.3 million loaned to the Council for which it received interest of £10,170. The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2010-2011 these costs amounted to £576,250 (2009-2010 £576,250). £3,999,719 was due to the Council at 31 March 2011 (£843,935 due from the Council at 31 March 2010).

## Pension Fund – Notes to the Financial Statements

Employer contributions for Pension Fund Panel members and senior management who are members of the Scheme are paid in accordance with the rates set by the actuary in the Rates and Adjustments certificate, and active member contributions are paid in accordance with rates set in the Local Government Pension Scheme Regulations. The terms and conditions which apply to Panel members and senior managers are the same as those which apply to all other Scheme members. Five voting Panel members were members of the Scheme as at 31 March 2011 (five as at 31 March 2010).

### 16. Fund's Operations and Membership

Northumberland County Council Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The benefits of the scheme are defined and guaranteed in law. The LGPS is contracted out of the State Second Pension (S2P) and must provide benefits that are broadly equivalent to, or better than members would have received had they been members of S2P. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

Northumberland County Council Pension Fund collects contributions from members of the LGPS and from their employers. It pays pensions and related expenses, and it reimburses Northumberland County Council for the costs incurred in administering the LGPS. Surplus funds are invested with external fund managers for long term growth.

Local authority employees other than those aged over 75, on contracts of less than three months, teachers and firefighters are automatically admitted to the LGPS, unless they opt out. The list of all participating employers in the Northumberland County Council Pension Fund as at 31 March 2011 is shown in note 18 below.

Northumberland County Council is the administering authority for the Northumberland County Council Pension Fund under the Local Government Pension Scheme Regulations, and has delegated its responsibility for determining investment policy and monitoring performance to the Pension Fund Panel.

Following the amalgamation of the former borough and district councils in Northumberland with Northumberland County Council which took place with effect from 1 April 2009 the Pension Fund Panel has comprised six County Council representatives, one non-voting employer representative, one non-voting Scheme member representative and two non-voting Trade Union representatives. Prior to 1 April 2009 the Panel included three district council representatives.

External fund managers have been appointed to make the day-to-day investment decisions.

As at 31 March 2011 there were six external fund managers, namely Legal & General Investment Management, M&G Investments, AllianceBernstein, Wellington Management International, BlackRock, and Schroder Investment Management.

As at 31 March 2011 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Capital North East.

The Northern Trust Company provides custodial services for the Fund.



## Pension Fund – Notes to the Financial Statements

### 17. Statement of Investment Principles (SIP)

The Northumberland County Council Pension Fund's SIP is maintained as a separate document. A copy can be obtained from the Corporate Director of Finance, Northumberland County Council, Finance Department, County Hall, Morpeth, Northumberland NE61 2EF.

### 18. Outstanding Commitments

As at 31 March 2011 the Fund had outstanding commitments to four private equity investments.

	Year of commitment	Initial commitment	Drawdowns made	Outstanding commitment as at 31 March 2011	
Morgan Stanley Private Markets III	2006	\$50.0m	\$38.4m	\$11.6m	<b>£7.2m</b>
Morgan Stanley GDO Fund	2006	\$10.0m	\$7.2m	\$2.8m	<b>£1.8m</b>
NB Crossroads Fund XVIII	2007	\$27.0m	\$21.9m	\$5.1m	<b>£3.2m</b>
Morgan Stanley Private Markets IV	2007	\$30.0m	\$13.6m	\$16.4m	<b>£10.3m</b>
<b>Total outstanding commitments</b>					<b>£22.5m</b>

The sterling amounts shown above for the commitments outstanding as at 31 March 2011 are based on the exchange rates at the close of business on that date.

### 19. Fund Membership as at 31 March 2011

		Active members	Pensioner members	Deferred members
Northumberland County Council - Employees		6,720	6,500	6,276
- Councillors		27	3	9
Local	Amble Joint Burial Committee	-	1	-
Government	Ashington Education Achievement Zone	-	-	4
Pension	Bede Academy	75	1	8
Scheme	Blyth Valley & Wansbeck Joint Crematorium	-	9	1
Employers	Committee	-	9	1
(known as	Corbridge Parish Council	2	-	-
"Scheduled	Hexham Town Council	5	3	1
Bodies")	Homes for Northumberland Ltd	199	39	74
	Morpeth Town Council	5	1	-
	Northumberland College	152	106	172
	Northumberland Church of England Academy	271	9	22
	Northumberland National Park	69	16	68
	Northumberland Sea Fisheries Committee	8	4	2
	Northumberland Valuation Tribunal	1	7	1
	Northumbria Magistrates Courts Committee	-	70	75
	Ponteland Parish Council	-	1	-
Admitted	Age UK Northumberland	13	9	12
Bodies	Bell View Day Centre	-	-	1
	Berwick Borough Housing Ltd	15	3	4
	Berwick Bridges Trust	-	1	5
	Blyth Valley Arts and Leisure Trust	91	13	43
	Blyth Resource and Initiative Centre	-	-	1
	Bullough Cleaning Services Ltd	13	2	3
	Community Action Northumberland	5	20	23

## Pension Fund – Notes to the Financial Statements

	Active members	Pensioner members	Deferred members
Creative Management Services Ltd	6	-	4
CSB Contract Services	-	-	4
Feversham School	-	23	19
Groundwork Northumberland	-	-	4
Helping Hands Community Care	1	-	-
Haltwhistle Regeneration	-	-	1
Isos Housing Ltd	38	39	22
North Country Leisure	71	9	49
Northumberland Aged Mineworkers Homes Association	8	6	-
Northumberland Care Trust	83	49	46
Northumberland County Blind Association	5	2	8
Northumberland Guidance Company	-	13	15
Northumbrian Leisure Resorts Ltd	-	-	2
Northumbrian Water (Ex Coquet Water Board)	-	1	-
Queens Hall Arts Centre	4	2	1
Superclean Services	9	-	1
Tees Active Ltd	1	-	-
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	3
Three Rivers Housing Association Ltd	3	-	-
Tweed Bridges Trust	-	1	-
Wansbeck Homes	140	22	15
Woodhorn Charitable Trust	36	2	2
Other Bodies pre 1974	-	15	-
	8,078	7,006	7,004

## Pension Fund Performance

### Annual Returns

Over the year, the Fund underperformed its benchmark by 1.1%\* (expressed on a geometric basis).

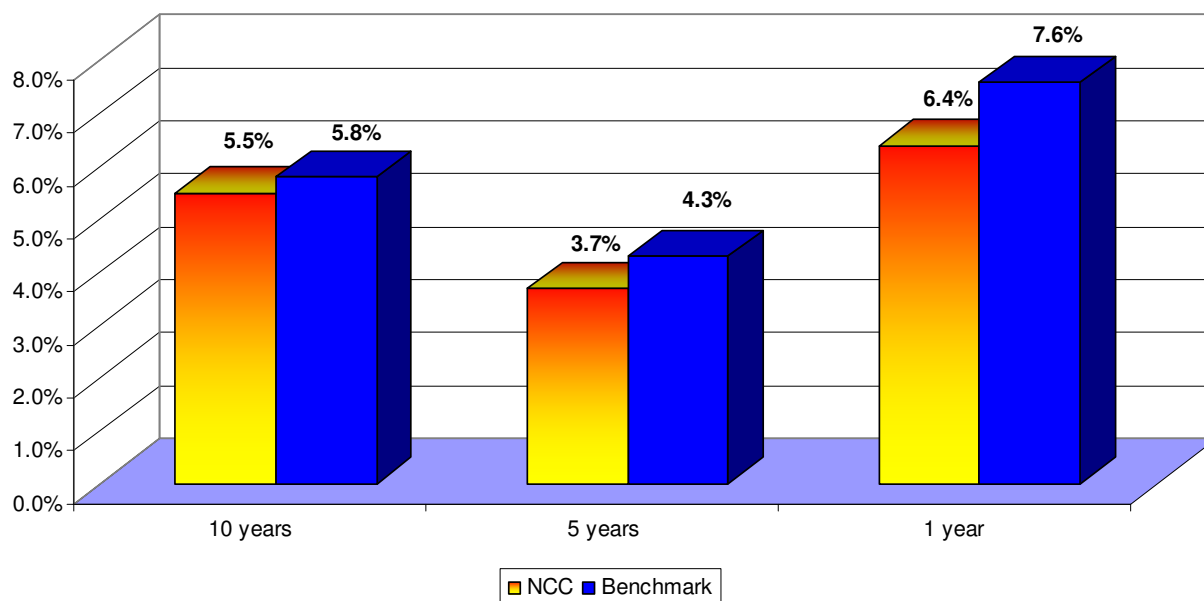
Year Ending 31 March	2007	2008	2009	2010	2011
NCC Combined Portfolio	7.7%	-2.4%	-24.0%	40.8%	6.4%
Benchmark	7.2%	-2.0%	-20.0%	36.7%	7.6%

\* Relative performance is shown as the geometric difference between the Fund return and its benchmark rather than the arithmetic difference. This is in line with industry standard and to allow for accurate linking of relative returns over time.

### Annualised Returns

The following shows the Northumberland Fund's longer term returns compared with a combination of the WM Local Authority Universe, and the Fund specific benchmark.

Comparison of Annualised Returns



The Fund's performance has been analysed relative to the WM Local Authority Universe to the end of March 2002. Thereafter, a customised benchmark has been used.

## Pension Fund Performance

### Analysis of Returns

Investment Category	Returns for year ended 31 March 2011	
	Combined Fund %	Benchmark %
Legal & General (Index tracker)	6.3	7.3
AllianceBernstein (UK equities)	7.0	8.7
AllianceBernstein (Global equities)	4.6	7.9
M&G Investments (Global equities)	7.6	8.2
BlackRock (Property)	9.9	9.1
Schroder (Property)	10.0	9.1
Combined Fund	6.4	7.6

### Performance Commentary

The Northumberland County Council Pension fund produced a positive return in 2010-2011 which was well above the growth in average earnings of 1.7% for the same period.

The Fund returned 6.4% in the year which gave a relative return of -1.1% below benchmark over the period. The main drivers for underperformance were the negative contributions made by equity stock selection and asset allocation in UK index-linked gilts.

In general, most of the fund managers failed to beat their associated benchmarks with Schroder and BlackRock achieving a relative return of 0.8% and 0.7% respectively above benchmark being the exceptions.

The WM Local Authority Pension Fund Universe for 2010-2011 gave an average return of 8.2%. The range of returns was 10.1% for the 5th ranked to 6.4% for the 95th ranked funds. The Northumberland County Council Pension Fund was ranked 93<sup>rd</sup> in the period.

Over five years the Fund returned 3.7% (annualised) which is slightly below the benchmark return of 4.3% giving a relative underperformance of -0.6%. This is due to the long term effect of the downturn in 2008-2009.

Over ten years the Fund achieved a return of 5.5% (annualised). This compares well with the RPI return of 3.0% and the growth in average earnings (4.0% p.a.) but is below the Fund's benchmark return of 5.8% for the same period.

## Statement of the Actuary for the year ended 31 March 2011

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Northumberland County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

### Actuarial Position

1. Rates of contributions paid by the participating employers during 2010-2011 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £719 million) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating employers (in aggregate) with effect from 1 April 2011 was as set out below:
  - 15.7% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of up to 30 years from 1 April 2011, amounting to £11.8 million in 2011-2012. The shortfall contributions for each employer (bar Northumberland County Council) are anticipated to increase on 1 April 2014 (and every three years thereafter) by 16.8% (representing three years of the salary increase assumptions of 5.3% p.a. compound). Contributions in respect of Northumberland County Council are anticipated to increase at 5.3% per annum commencing from 1 April 2014.

This would imply an average employer contribution rate of about 22.8% of pensionable pay in total based on a recovery period of 25 years, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.

4. The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
5. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.
6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of employers, using the projected unit actuarial method.

## Statement of the Actuary for the year ended 31 March 2011

7. The main actuarial assumptions were as follows:

<b>Discount rate</b>	
Scheduled Bodies (excluding Academies)	6.8% per annum
Admission Bodies and Academies	
In service	6.0% per annum
Left service	5.0% per annum
Rate of general pay increases	5.3% per annum
Rate of increases to pensions in payment	3.3% per annum
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of Northumberland County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Northumberland County Council, in respect of this statement.

Aon Hewitt Limited

6 June 2011

## Firefighters' Pension Fund

Fund Account for the year ended 31 March 2011	2010-2011 £'000	2009-2010 £'000
<b>Contributions</b>		
From employer - normal	1,277	1,355
From employer – ill health	139	-
From members	686	729
	<b>2,102</b>	<b>2,084</b>
<b>Transfers in</b>		
Individual transfers from other schemes	3	90
	<b>2,105</b>	<b>2,174</b>
<b>Benefits</b>		
Pensions	(3,599)	(3,441)
Commutations and lump sum retirement benefits	(1,236)	(2,157)
	<b>(4,835)</b>	<b>(5,598)</b>
<b>Payments to and on account of leavers</b>		
Individual transfers to other schemes	-	(8)
<b>Net amount payable before top-up grant</b>	<b>2,730</b>	<b>3,432</b>
Top-up grant payable by the Government	(2,730)	(3,432)
<b>Net Amount Payable for the year</b>	<b>-</b>	<b>-</b>

<b>Net Assets Statement</b> as at 31 March 2011	As at 31 March 2011 £'000	As at 31 March 2010 £'000
<b>Current assets</b>		
Commutation lump sums paid in advance	-	-
Top-up grant receivable from the Government	963	2,162
<b>Current liabilities</b>		
Amount payable to the General Fund	(963)	(2,162)
	<b>-</b>	<b>-</b>



## Notes to the Firefighters' Pension Fund Financial Statements

### 1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the Firefighters' Pension Schemes and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the Balance Sheet date.

Note 46 to the Council's Financial Statements shows the liability to pay pensions and benefits which fall due after the Balance Sheet date, in accordance with IAS 19 *Retirement benefits*.

### 2. Accounting Policies

The principal accounting policies are as follows:

#### Contributions

Contributions represent the total amounts receivable from the Council and the pensionable employees. The employer's contributions are made at rates determined by the Government Actuary's Department, at a nationally applied rate of 21.3% (of pensionable pay) for the 1992 Firefighters' Pension Scheme, and 11.0% for the 2006 Firefighters' Pension Scheme. Also, the Council is required to make payments into the pension fund in respect of ill-health retirements, when they are granted.

No provision is made in the accounts for employees' and employer's contributions relating to sums due on pay awards not yet settled.

#### Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

No provision is made in the accounts for the liability to pay pensions and other benefits after the net assets statement date.

#### Transfer Values

Transfer values are those sums paid to or received from other pension schemes and the Firefighters' Pension Scheme outside England for individuals and relate to periods of previous pensionable employment.

Transfer values received and transfer values paid are accounted for on a receipts and payments basis.

### 3. Fund's Operations

New financial arrangements came into effect from 1 April 2006 for both the 1992 and the 2006 Firefighters' Pension Schemes under the Firefighters' Pension Scheme (Amendment) (England) Order 2006. The financial arrangements have no impact on the terms and conditions of each scheme.

Both Firefighters' schemes are statutory unfunded pension schemes, administered by the Council. The benefits for both schemes are defined and guaranteed in law. Both schemes are contracted out of the State Second Pension (S2P) and must provide benefits that are broadly equivalent to or better than the benefits members would have received had they been members of S2P. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

## Notes to the Firefighters' Pension Fund Financial Statements

Prior to 1 April 2006, the Council administered and paid firefighters' pensions on a 'pay-as-you-go' basis, which meant that employees' contributions were paid into the Council's operating account from which pension awards were made and no employer contributions were made. Following the change in financial arrangements on 1 April 2006, the Council has continued to administer and pay firefighters' pensions, but this is now from a separate local firefighters' pension fund. Employee contributions, employer contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by Government. Therefore the fund is balanced to nil each year by receipt of pension top-up grant or by paying the surplus back to the Government.

The Schemes are unfunded and therefore the fund has no investment assets.

## Annual Governance Statement

### The County Council's responsibilities

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

### The Corporate Director of Finance's responsibilities

The Corporate Director of Finance is responsible for the preparation of the County Council's statement of accounts in accordance with proper practices as set out in the IFRS-based CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this statement of accounts the Corporate Director of Finance has:

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

The Corporate Director of Finance has also:

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

#### Issue Date

The date that these financial statements are authorised for issue is 30 June 2011. All known material events that have occurred up to and including 30 June which relate to 2010-2011 or before have been reflected in the accounts.

#### Corporate Director of Finance Certificate

I certify that the Statement of Accounts presents fairly the financial position of the County Council and the Northumberland Pension Fund as at 31 March 2011 and their income and expenditure for the year ended 31 March 2011.

**Steven Mason**  
**Corporate Director of Finance**  
**30 September 2011**

## Annual Governance Statement

### 1. Scope of responsibility

Northumberland County Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the ways in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for ensuring that there is a sound system of governance in place. Governance incorporates the system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”. The statement explains how the Council has complied with the code, and also how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the publication of a statement on internal control. This document is subject to review, using a cross-functional team.

### 2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework for the Council was in place from 1 April 2010, and has been further developed throughout the year ended 31 March 2011 and up to the date of approval of the statement of accounts. Development will continue through the coming year.

### 3. The governance framework

The key elements of systems and processes which comprise the Council’s governance arrangements include the areas set out below, stating the linkages to the six dimensions of governance, as stated by the Audit Commission.

#### ***Focussing on the Council’s purpose and better outcomes for citizens***

Following its inception on 1 April 2009, the Council has worked during the year to establish its vision and future direction. The overarching, long-term aims are

## Annual Governance Statement

provided by the Sustainable Community Strategy (SCS) – “Northumberland: Resilient for the Future”, which formalises the organisation’s “Vision and Values”.

The Corporate Strategy outlines the Council's vision and overarching policy drivers for the next three to five years. It is structured around four strategic priorities; these broadly align to the cross-cutting “Big Partnership Issues” which drive the SCS ensure a clear line of sight from the place based strategy through to the council's own planning framework.

By developing a clear consistency of purpose between the Council and wider sector led partnerships, services can more readily align resources to key priorities and ensure services to customers are joined up and user friendly. Much has changed already and more changes are ahead, particularly for public sector organisations. The Council, along with its strategic partners, will need to be more flexible and agile in their response to issues such as the economic downturn and safeguarding of children and more creative in the way services are funded, designed and commissioned.

The Council engages and consults with its stakeholders to ensure that their needs are best reflected in any plans for service development and appropriate governance arrangements ensure that the Council's commitments are met.

A suite of performance measures are used by the Council as a monitoring and review mechanism to ensure that services are delivered at an appropriate standard. The Council has adopted a new performance framework that reflects the removal of the National Indicator Set as a statutory requirement and instead focuses on achieving a better balance between quantitative indicators and qualitative intelligence to help us understand and meet the aspirations of our customers. These are monitored through quarterly performance reports to the Executive, the latter being published on the Internet, and considered at quarterly meetings of Strategic Management Team (SMT), Performance Clinics and the Members Performance Management Working Group. This process is supported by formal budget monitoring through the Executive and Scrutiny. Each area of the business also produces a service plan incorporating further local performance measures. These plans link into corporate aims and objectives, whilst also providing targets and milestones at an operational level.

There has not been a Use of Resources assessment published by the Audit Commission relating to 2010, although external assessments of Children’s and Adults Services continue to be positive within a climate of reducing resources, and the inspection of Housing showed that it provided a ‘fair service with promising prospects for improvement’. The review of the Benefits Service showed a fair service with promising prospects for improvement. Since the report processing times have continued to improve. The Council has met its e-government finance responsibilities and is preparing for a new performance framework that is more public and Elected Member-facing, with a view to producing an Annual Performance Report by the end of March 2012.

The principal objective in dealing with the current budget preparation has been to achieve a balanced budget for 2011-2012, ensuring that the required level of savings is delivered. This has required the new Council to review its priorities, and ensure that they are sustainable in light of resources.

## Annual Governance Statement

### ***Operating effectively in clearly defined roles***

Roles and responsibilities of executive, non-executive, scrutiny and officer functions are clearly defined through terms of reference and job descriptions, ensuring effective leadership. Regular appraisals for staff ensure an awareness of the requirements and expectations of each role.

Terms of reference for all Committees can be found on the website. Clear delegation arrangements are set out in the Finance & Contract Rules, which form part of the Council's Constitution. A revised constitution and financial regulations will be submitted to council in September this year, and any necessary amendments are approved on an ad hoc basis. It is likely that a further review will take place after the 2013 council elections.

A constructive working relationship exists between officers and elected members, which ensures that both are able to operate to optimal effect.

### ***Promoting and demonstrating values of good governance through behaviour***

A framework of policy and procedure is in place, as set out in the Finance & Contract rules. This framework is supported by codes of conduct for members and officers, along with a Code of Corporate Governance. The role of the Standards Committee includes monitoring compliance with codes of conduct for members, and investigating any complaints of breaches.

The Council's Monitoring Officer has responsibility for ensuring that the Council acts within its legal powers at all times, and the Section 151 Officer is responsible for ensuring the proper administration of the Council's financial affairs. Within their respective roles, both have a duty to report formally any adverse matters, a requirement which is set out in the Constitution.

The Council operates a whistleblowing policy, and has a robust complaints process, designed to ensure that all issues are properly investigated. Both processes are handled corporately within the Finance and Transformation Groups, maintaining consistency across the organisation.

A dedicated resource is employed within Internal Audit to lead investigations into breaches of policy and suspected irregularities, with an element of the role being dedicated to pro-active work, and developing an anti-fraud culture. The Audit Committee receive regular updates on all Fraud investigations.

### ***Taking proper decisions and managing risk***

All strategic decisions being presented to the Executive must be supported by the relevant level of risk analysis, determined by the degree of risk inherent within the proposal. This risk assessment is recorded within the standard report template, to ensure that the responsible officer's view is formally recorded. Schemes involving a significant level of risk must be subject to a detailed review by the Risk Appraisal Panel. This panel comprises a number of key elected members and officers. The process is set out in the Council's constitution, and in greater detail in the Council's risk management framework, a document which is reviewed and approved annually by officers and members, and which is available to the public via the internet.

The Council's Constitution describes how decisions are to be made, and the processes which must be followed to ensure efficiency, transparency and accountability. Decisions are made by the Executive, working within the agreed budget and policy framework. The Executive is held to account by four Overview &



## Annual Governance Statement

Scrutiny Committees. Minutes and papers for Executive and Scrutiny meetings are published on the website, to ensure transparency of process. Notice of forthcoming decisions to be taken by the Executive is published via the forward plan. Meetings are generally held in the public domain, although of necessity a small number of items may be considered in private. Regulatory matters are normally dealt with by specific committees established for the purpose.

To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior officers, in line with powers set out in the Constitution.

### ***Developing the capacity and capability of senior officers and Councillors***

Development needs of senior officers are identified through the appraisal process, which is carried out at least once per year. A skills framework has been developed, applicable to all managers, which sets out the key skills and attributes which senior officers must display. Through a process of self-assessment, validated by managers, any training needs are identified. Members have their own personal development plans and a training programme. New staff and members are enrolled onto an induction programme to ensure a common understanding.

### ***Engaging with stakeholders***

An engagement strategy has been developed for the new authority, to ensure that services are developed and delivered in an appropriate manner. This strategy will be built into the new corporate planning process, to give a consistent approach. To provide guidance for staff, a comprehensive toolkit resource has also been produced.

A new engagement tool is being developed for the new authority. An interactive website is being set up, which will be used to manage future consultation exercises. Any feedback received through this route is made available on the website.

## **4. Review of effectiveness of the governance framework**

Northumberland County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. It discharges this responsibility through the Audit Committee, which is tasked with considering the framework. During the year, the Head of Audit has fully documented the complete assurance framework, to ensure that all components are properly considered. This document has formed the basis of the Audit Committee's review.

The review of effectiveness is informed by the work of the senior managers within the authority, who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

There are a number of bodies involved in the process to maintain and review the effectiveness of the governance framework, as follows:

### ***Full Council***

The Authority as a whole is responsible for agreeing the Constitution, which underpins the governance arrangements. A new Constitution is currently being developed, to reflect the governance of the new Council. This work is being led by a working group comprising officers and members. Through appropriate appointments to its committees, the Council can ensure that governance is in place



## Annual Governance Statement

throughout the organisation, and is operating effectively. The setting of high standards of self-governance provides a clear and demonstrable lead to partners and the public.

### ***The Executive***

The Executive has responsibility for making decisions within the policy and budget framework as agreed by the Council. They monitor and scrutinise progress against targets and performance. Executive members are actively involved in the risk management process, reviewing the methodology and the risk register every 6 months.

### ***The Audit Committee***

The Audit Committee plays a key role in the assurance process, receiving regular reports throughout the year from both internal and external audit. It is able to assess the effectiveness of internal audit on an ongoing basis, and to review management's response to audit recommendations. This enables it to consider the adequacy and effectiveness of the system of internal control.

The Committee is also actively involved in the risk management process, receiving a quarterly update and a formal annual report from the Risk Manager. One of the Committee has been designated as risk champion amongst elected members. The Committee meets at least six times per annum, with additional ad hoc meetings as required. The terms of reference of the Committee have been reviewed during the year, to ensure compliance with CIPFA guidelines.

### ***Scrutiny Committees***

The Council operates 4 Scrutiny Committees – Strategic Services; Community Services; Family & Children's Services, and Health. These committees have responsibility for monitoring the provision of services, and recommending changes to policy. Issues of public concern are considered, and the Committees provide challenge to the Executive's decision making process.

### ***Risk Appraisal Panel***

This body is responsible for ensuring that risks relating to key projects are appropriately identified and managed. Recommendation to proceed will only be given where all relevant risks have been considered, and the outcome is considered acceptable.

### ***Standards Committee***

Standards Committee reviews the governance framework, and also has responsibility for ensuring adherence to the Code of Conduct for members. The Committee comprises 6 councillors and 6 independent members, one of whom chairs the meeting.

### ***Internal Audit***

The Council's Internal Audit Service plays a key role in the assessment of the control environment, and will make suggestions for improvement where necessary.

The service operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government. Work is focussed around areas of high risk to which the Council is or may be exposed. An annual work plan, forming part of a 3 year strategy, is presented to the Audit Committee for approval, following consultation with key stakeholders, including external audit, and endorsement by the Corporate Director of Finance. The scope of work extends to include other entities and

## Annual Governance Statement

partners with whom the Council works, such as the Northumberland Care Trust, Homes for Northumberland and Blyth Valley Arts & Leisure.

The Council is currently exploring the potential for sharing Internal Audit and Risk Management Services with North Tyneside Council (NTC). This will evaluate possible options with regard to future delivery of these services at both organisations. In the interim it has been agreed that NTC's Senior Manager (Audit, Risk and Procurement) will fulfil the role of Chief Internal Auditor (Shared Services) pursuant to a secondment arrangement between NTC and the Council.

Audits where either limited or no assurance can be offered are reported to Audit Committee. Members review the management responses to recommendations, and subsequently receive confirmation that these recommendations have been implemented. During 2010-2011, only limited assurance was offered in 15 areas. Two reports were presented with a conclusion of no assurance. Action plans have been agreed in respect of all recommendations made, and key issues have been discussed during Audit Committee meetings.

The Head of Audit provides an annual summary of the results and conclusions of the year's work, which includes an opinion on the internal control environment for the whole Council. This summary is presented to the Audit Committee at its June meeting, prior to the sign off of the financial statements.

### ***External review by other agencies and inspectorates***

The face of national performance review and regulation has changed significantly since the Coalition Government gained political control in May 2010. The National Indicator Set has been discontinued as has the Comprehensive Area Assessment (CAA), as well as the Audit Commission itself. In its place is a new emphasis on self regulation by the sector, exemplified through peer reviews, citizen's reviews, self assessment, and e-transparency. This is supported through two national frameworks, namely the statutory returns local government is required to make to Central Government and the Business Plans of each Central Government department. The Council's new performance management framework reflects these changes.

Although CAA has now ceased, the Council's overview and scrutiny committees have monitored the progress made on the Improvement Plan arising from the last CAA.

- Ofsted's rating for Children's Services in the Council concludes that it performs well. Where there are poor outcomes or inequalities, actions are being taken to address these.
- The Care Quality Commission judges Adult Social Services (through Northumberland Care Trust) to be performing well. The Care Trust is performing either excellently or well on each of the seven aspects in its assessment.

Housing and Benefits Review both received a fair rating with promising prospects for improvement. A report is presented to the Audit Committee on a quarterly basis, listing any external inspections which have taken place and any actions in progress as a result. This provides a central overview of the inspection regime.

## Annual Governance Statement

### *Management Review*

Individual managers are responsible for reviewing their aspects of the control environment periodically throughout the year. This process is supported through a risk assessment of service plans across the organisation – significant risks identified through this process are escalated as appropriate.

The review of effectiveness of the governance framework is informed by the Strategic Risk Management Group. Through a consultation process, all senior management are given the opportunity to contribute to the review and the statement, ensuring that any areas of weakness are identified.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 5. Significant governance issues

### *Issues identified in 2009-2010*

- The effects of local government reorganisation (LGR) within Northumberland continued to pose challenges across the Council. Problems were identified in a number of areas, particularly in relation to the former Blyth Valley Borough Council (BVBC) and Wansbeck District Council (WDC). Considerable resources have been expended in an attempt to resolve these difficulties.
- With regard to BVBC, the financial statements for 2008-2009 were qualified by the external auditors, as was the Value for Money conclusion, due to a range of factors, including poor project management, revenue and benefit income streams and reporting to members. These issues result in there being uncertainty with regard to some of the closing balances in the BVBC accounts. Such balances formed a component of the opening position for the Council in 2009-2010, and hence there was a risk that the Council's accounts may have also been qualified in 2009-2010, if the components of opening balances attributable to BVBC could not be verified.
- Difficulties with WDC accounts related to the potential need to produce group accounts in relation to Wansbeck Life and Northern Coalfields Housing Company. Due to poor record keeping, it was difficult to determine the precise situation with regard to share ownership, although it was later confirmed that group accounts were required. This did result in a qualification to the 2009-2010 accounts for Northumberland Council as there was insufficient time to produce group accounts once the ownership issue was clarified. There is also an ongoing investigation into chief officer salaries at WDC. The audit opinion on WDC accounts for 2008-2009 resulted in a disclaimer that the auditor was unable to form an opinion as to whether the financial statements presented fairly, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.
- The management structure of Northumberland County Council in place during 2009-2010 was such that the Section 151 Officer was not formally part of the Senior Management Team. This potentially weakens the organisation's governance arrangements, and is not in line with CIPFA recommendations.
- During the year, Internal Audit had been able to offer only limited assurance in respect of 6 audits. In line with normal procedures, these were reported to

## Annual Governance Statement

Audit Committee, and action plans to address failings will be reviewed during follow up work.

### *Issues Arising in 2010-2011*

- Significant staffing and senior management changes have taken place during the year. One consequence of this was that the Section 151 Officer was included in the Senior Management team, which strengthens governance arrangements, although the overall changes and uncertainty could impact on the controls and governance during the year.
- Group Accounts have been produced to incorporate the activities of three Council controlled companies. The governance arrangements for Homes for Northumberland are well established and are comparable to those of the Council. Wansbeck Life and Northern Coalfield Property Company (Arch group from 1<sup>st</sup> April 2011) have operated under interim governance arrangements during the year.
- Investigations into Wansbeck Chief Officer Salaries identified significant unauthorised salary increases during the final years of the authority that have resulted in significant increases in the redundancy and pension payments made to the former chief officers.
- Due to conflicting priorities, there was an issue relating to review and approval of the risk management framework and corporate strategic risk register during 2010-2011. Whilst the framework was reviewed and agreed by SMT, it did not go to Strategic Group for member approval and the corporate strategic risk register was not signed off in detail by SMT or members. The risk register did undergo fundamental review and progress updates on its development were included in the quarterly performance management reporting to SMT, and a copy went to Audit Committee for their inclusion in the process. In addition, risks were added through the escalation process as appropriate.
- Major financial savings have been required during the year. There is a potential that the reduction in staffing levels could lead to a reduction in the effectiveness or application of controls.
- Penetration Testing and Internal Self-Assessment highlighted areas where the Council was not fully complying with the Government Secure Extranet (GCSx) Code of Connection. This was subsequently highlighted in the Corporate Risk Register.
- There was a data security breach during the year, where some pension's statements were issued with National Insurance numbers visible. This was reported to the Information Commissioner and suitable procedures have been put in place to prevent a similar incident recurring.
- Customer and Cultural Service, a new service grouping established in January 2011 have identified a number of issues to be resolved in relation to performance management.
- During the year, Internal Audit has been able to offer only limited assurance in respect of 15 audits. No assurance was provided for two audits relating to income collection and VAT in individual service areas. In line with normal

## Annual Governance Statement

procedures, these were reported to Audit Committee, and action plans to address failings will be reviewed during follow up work.

- The resource constraints under which Finance operates has placed considerable pressure on a small group of key staff to complete the accounts. This has been exacerbated by the requirement to implement IFRS and to prepare group accounts in respect of Wansbeck Life, the Northern Coalfields Property Company (both now part of the Arch Group) and Homes for Northumberland. This has resulted in delays to the completion of the audit process and a number of revisions to the accounts. These changes have not impacted on the financial position of the Council but have related to technical capital accounting issues. The Corporate Director of Finance has accepted the need to strengthen the Finance team and is aiming to appoint a dedicated Capital Accountant to address these issues.

### **Actions to address issues**

In response to the issues identified above, the Council will undertake a range of actions, including the following priority areas:

#### **Wansbeck DC**

Action will be taken to recover any amounts due from former Chief Officers at Wansbeck DC.

#### **Staffing structures**

New staffing structures are now substantially in place or will be completed early in the new financial year 2011-2012.

#### **Internal Audit reports**

Focus of internal audit work on high risk areas.

Robust follow up of recommendations, to ensure proper and timely implementation.

#### **Risk Management**

Top level ownership of the risk management process within Northumberland County Council is now being re-launched.

The corporate strategic risk register is subject to fundamental review; streamlining and integrating identified risks more closely with the aims of the Council as embodied within the corporate planning framework. The exercise will challenge SMT to further consider the detail of controls which are deemed to mitigate the risks and the associated sources of assurance that these controls are operating effectively.

#### **Arch Group**

New governance arrangements are to be introduced following the restructure of the companies.

#### **Customer and Cultural Services performance management**

A review has been initiated by the Customer and Cultural Services management team and a number of improvement actions are underway to ensure that a new performance Management framework is in place by autumn 2011.

#### **Code of Connection**

An action plan was formulated to address key areas of non-compliance. This was agreed with CESG who were acting as the External Accreditation Board on behalf of Government Connect. Since then, a Security Working Group has been established



## Annual Governance Statement

and the Deputy Chief Executive has been nominated as the Senior Information Risk Owner (SIRO). There is a Project Plan in place with several work packages; these have been prioritised where possible to ensure areas of high risk are given urgent attention.

### Capital Accounting

The Corporate Director of Finance has begun the recruitment of an additional three staff into Business Support recognising that, in local benchmarking, the team operates with 50% of the staffing seen in other councils.

## 6. Conclusion

We propose over the coming year to take steps to address the above matters, and ensure the robustness of governance arrangements within the authority. Through the Audit Committee, the actions taken in response to identified weaknesses will be actively monitored. We are satisfied that these actions will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review. The planned review of our Code of Corporate Governance will give further assurance that the control framework is appropriate.

This statement has been prepared having regard for issues within the financial year to which the Statement of Accounts relates. Any significant events or developments relating to the governance system between the end of the financial year and the date on which the Statement of Accounts is signed are also reflected.

### Signed:

**Jeff Reid**  
**Leader of the County Council**

**Steve Stewart**  
**Chief Executive**

**Steven Mason**  
**Section 151 Officer**

# Independent Auditors' Report to the Members of Northumberland County Council

## Opinion on the Authority, Group and firefighters' pension fund accounting statements

We have audited the Authority and Group accounting statements and the firefighters' pension fund accounting statements of Northumberland County Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the *Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, the Collection Fund*, the related notes numbered 1 to 57 (Authority accounting statements), notes 1 to 14 (Housing Revenue Account), notes 1 to 4 (Collection Fund) and notes 1 to 16 (group accounting statements). The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes numbered 1 to 3. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Northumberland County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' 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 Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Corporate Director of Finance and auditors

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the Authority and Group's Statement of Accounts, including the firefighters' pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority, Group and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority, Group and Pension Fund; and the overall presentation of the accounting statements. We read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



# **Independent Auditors' Report to the Members of Northumberland County Council**

## **Opinion on accounting statements**

In our opinion the accounting statements:

- give a true and fair view of the state of Northumberland County Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the firefighters' pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

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

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Opinion on the pension fund accounting statements**

We have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Northumberland County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' 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 Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Corporate Director of Finance and auditors**

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

# Independent Auditors' Report to the Members of Northumberland County Council

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. We read all the information in the explanatory introduction to identify material inconsistencies with the audited accounting statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, *other than liabilities to pay pensions and other benefits after the end of the scheme year*; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## Opinion on other matters

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

## Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

### Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditors' responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

# Independent Auditors' Report to the Members of Northumberland County Council

## Basis of conclusion

We have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

We planned my 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 Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, *Northumberland County Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

## Certificate

We certify that we have completed the audit of the Authority and Group accounts of Northumberland County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

David Wilkinson (Engagement Lead) for and on behalf of Deloitte LLP  
Appointed Auditor  
Newcastle-upon-Tyne, UK

6 October 2011

### **Accrual**

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

### **Actuary**

An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary determines the rate of employer contributions due to the Pension Fund every three years.

### **Actuarial Gains and Losses**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

### **Amortised**

Written off over a suitable period of time.

### **Annual Governance Statement**

A document published with the Statement of accounts that sets out the governance framework in place during the year and sources of assurance about the governance framework.

### **Appropriations**

Amounts transferred between the service and revenue or capital reserves.

### **Available-for-sale Asset**

A category of financial instrument which includes investments traded in an active market and equity instruments other than those for which a reliable value cannot be determined.

### **Audit of Accounts**

An independent examination of the Council's financial affairs.

### **Balance Sheet**

A summary of an Authority's financial position at the year end. It shows the balances and reserves at an Authority's disposal and its long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on fixed assets held.

### **Best Value Accounting Code of Practice (BVACOP)**

The Code of Practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

### **Budget**

A statement of the Council's expected level of service and spending over a set period, usually one year.

### **Budget Requirement**

Planned spending to be met from council tax, general government grant and national non domestic rates.

### **Capital Adjustment Account**

The balance represents the timing differences between the amount of historical cost that has been consumed and the amount that has been financed in accordance with statutory purposes.

### **Capital Asset**

An item bought to improve, build, prepare or replace plant, machinery, buildings, land and other structures.

### **Capital Charge**

A charge for depreciation to service accounts to reflect the cost of fixed assets used in the provision of services.

### **Capital Expenditure**

Expenditure on the acquisition of a fixed asset; or, expenditure which adds to the life or value of an existing fixed asset.

### **Capital Receipt**

The income obtained from selling a capital asset. This is either set aside to the Capital Financing Account for the repayment of loans or used to finance new capital expenditure.

### **Capital Reserves**

Created to provide an alternative source for financing future capital expenditure and to ensure some stability in the level of capital programmes that can be financed.

### **Cash Flow Statement**

Summarises the inflows and outflows of cash arising from transactions with third parties for capital and revenue purposes. It provides a link between the Balance Sheet at the beginning of the year, the Comprehensive Income and Expenditure Statement for the year and the Balance Sheet at the end of the year.

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

### **Collection Fund**

The fund administered by an authority collecting council tax.

### **Comprehensive Income and Expenditure Statement**

This account sets out the Council's income and expenditure for the year. It brings together all the services and functions performed by the County Council in one statement in accordance with the Best Value Accountancy service expenditure analysis.

### **Constitution**

The fundamental principles by which the Council operates and is governed.

### **Contingencies**

Sums set aside to meet either the potential costs of activities expected to occur during the year, over and above those costs included in the services budgets (pay and price), or items which are difficult to predict in terms of financial impact or timing (uncertain items).

### **Contingent Asset**

A possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

### **Contingent Liability**

A contingent liability is either:

- A possible obligation arising from past events whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the Council's control; or

- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

### **Corporate and Democratic Core**

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected multi-purpose authorities. The cost of these activities are thus over and above those that would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **Corporate Governance**

The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

### **Council Tax**

The means of raising money locally to pay for local authority services. This is a property based tax where the amount levied depends upon the valuation of each dwelling.

### **Credit risk**

The exposure to risk that customers, banks and financial institutions are unable to meet their financial commitments to the Council

### **Creditors**

Amounts owed by the Council for goods or services that it has received but for which payment has not been made by the year end.

### **Current Assets and Liabilities**

Current assets are items that are, or can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term. By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

### **Current Service Cost (IAS19 term)**

Employer pension contributions charged during the year have been removed from the Comprehensive Income and Expenditure Statement and replaced with an amount (i.e. current service cost) which reflects the increase in the scheme liabilities expected to arise from employee membership of the scheme during the annual accounts period.

### **Debtors**

Amounts owed to the Council at the year end where services have been delivered but payment has not been received.

### **Dedicated Schools Grant (DSG)**

Ring fenced grant monies provided by the Department for Education that can only be applied to meet expenditure properly included in the Schools Budget.

### **Deferred Consideration**

The value of assets leased to contractors which results in an explicit or implicit reduction in contract payments

### **Defined Benefit Scheme**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.



### **Defined Contribution Scheme**

A pension or other retirement benefit scheme into which the 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 employee benefits relating to employee service in the current and prior periods.

### **Delegated Budgets**

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

### **Depreciated Replacement Cost**

A method of assessing market value where there is no comparable evidence available and equating to the current cost of reproducing or replacing an asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

### **Depreciation**

The theoretical loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

### **E-Business Suite**

The Council's Enterprise Resource Planning System which provides an integrated solution rather than linked legacy systems such as general ledger, purchasing, accounts payable, accounts receivable, cash management, payroll etc.

### **Earmarked Reserves**

These reserves represent monies set aside that can only be used for a specific usage or purpose.

### **Estimation Uncertainty**

Potential error included in the accounts as a result of estimates used to generate particular balances.

### **Expected Rate of Return on Pensions Assets**

For a funded, defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets of the scheme.

### **Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

### **Finance Leases**

A lease that transfers most of the risks and rewards of ownership of an asset to the lessee.

### **Financial Instruments**

Contracts that give rise to a financial asset in one entity and a financial liability or equity holding in another entity.

### **Financial Instruments Adjustment Account**

This represents the difference between the amounts charged to the Comprehensive Income and Expenditure Statement and the recharge against the General Fund balance in respect of financial assets and liabilities.



### **General Fund**

The Council's main revenue fund to which all revenue transactions are credited and from which revenue liabilities are discharged.

### **Government Grants**

Revenue grants and contributions are credited to the appropriate service revenue account. Capital grants and contributions are credited to the Government Grants and Contributions Deferred Account.

### **Holiday Pay Accrual**

A provision representing the liability relating to holidays earned but untaken at the financial year-end.

### **Housing Revenue Account**

This account reflects the statutory obligation to "ring-fence" and show separately the financial transactions relating to the provision of housing. Included within the section on the HRA is the Statement of Movement on the HRA which discloses how the HRA Income & Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year.

### **Impairment**

The deterioration of an asset, through damage, dilapidation etc, which affects the value of that asset.

### **Income**

Money which the Council receives, or expects to receive, from any source, including fees, charges, sales and grants.

### **Infrastructure**

Fixed assets belonging to the Council which do not necessarily have a resale value, and for which a useful life span cannot be readily assessed.

### **Intangible Assets**

Non financial fixed assets that do not have physical substance but are identifiable and are controlled by the organisation through custody or legal rights.

### **Interest Cost (Pensions)**

For a defined benefit scheme, the expected increase during a period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **Inventory**

The amount of unused or unconsumed materials held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

### **Investments**

Short term investments comprise of temporary surplus funds with banks or similar institutions.

### **Lender Option Borrower Option (LOBO)**

A LOBO is a loan from a financial institution where the interest rate is agreed at the outset of the arrangement. The lender then has the option to increase the rate at specific agreed periodic intervals through the term of the loan. If at one of these points the lender exercises the option to increase the interest rate on the loan the borrower has the option to repay the loan and end the agreement.

### Liquidity Risk

The exposure to the risk of insufficient funding to meet commitments

### Long Term Borrowing

The main element of long term borrowing is comprised of loans that have been raised to finance capital investment projects.

### Market Value

The monetary value of an asset as determined by current market conditions.

### Minimum Revenue Provision (MRP)

The statutory minimum amount that must be charged to the Comprehensive Income and Expenditure Statement in each financial year to repay external debt.

### Monitoring Officer

The Monitoring Officer has responsibility for ensuring that the Council acts within its legal powers at all times and has a duty to report formally on any adverse matters. A requirement which is set out in the Constitution.

### Movement in Reserves Statement

Statement showing whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

### National Non-Domestic Rates

The government levies a standard rate on all properties used for commercial purposes. The rates are collected on behalf of the government by District and Unitary Councils, and are then redistributed nationally on the basis of resident population. This is paid by way of a general grant to local authorities, to support local authority revenue expenditure.

### Net Book Value

The amount at which fixed assets are included in the Balance Sheet i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### Net Debt

This comprises cash in hand, cash overdrawn, short term investments and long term borrowing.

### Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### Net Realisable Value

The open market value of an asset in its existing use (or open market value in the case of non operational assets) less the expenses to be incurred realising the asset.

### Non Distributed Costs

Overhead costs for which no user now benefits so are not apportioned to services.

### Non Operational Assets

Fixed assets not used or consumed by the Council in the delivery of services or for the service or strategic objectives of the Council such as investment properties.

### Operating Leases

A lease other than a finance lease.

### **Operational Assets**

Fixed assets 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 for the service or strategic objectives of the Council.

### **Past Service Cost**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### **Pension Liabilities**

See scheme liabilities.

### **Precept**

The amount of money levied on the County Council by other public bodies.

### **Prepayments**

Amounts paid by the Council in the year of account that related to goods and services not received until subsequent years.

### **Private Finance Initiative**

Long term contracts with the private sector to procure the design, build and running of assets for the delivery of public services.

### **Property, Plant and Equipment**

Non-current assets that yield benefits to the Council and the services they provide for a period of more than one year.

### **Provisions**

Provisions represent sums set aside for any liabilities of uncertain amount or timing that have been incurred.

### **Rack Rent**

The full market rent of land or buildings.

### **Receipts in Advance**

Amounts received by the Council during the year of account relating to services delivered in subsequent years.

### **Remuneration**

All sums paid to or receivable by an employee, and includes sums due by way of expenses allowances (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash.

### **Reserves**

The surpluses built up in the Revenue Reserve. Except where specified for other purposes amounts may be used from reserves to reduce the Council tax precept.

### **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange in services rendered by employees.

### **Revaluation Reserve**

The accumulated gains in value on fixed assets held by the Council since 1 April 2007 less the part of depreciation charges that have been incurred because the assets have been valued.

### **Revenue Expenditure**

Revenue expenditure is spending on day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies & services.

### **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of fixed assets.

### **Revenue Support Grant**

A general grant paid by Central Government to local authorities, to support local authority revenue expenditure.

### **Scheme Liabilities**

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

### **Section 151 Officer**

The Officer designated to assume overall responsibility for the administration of the financial affairs of the County Council and for the preparation of the Council's Statement of Accounts.

### **Settlements and Curtailments (Pensions)**

Settlements are liabilities settled at a cost materially different to the Pensions Reserve during the year. Curtailments represent the cost arising from early payment of accrued pensions in respect of any redundancies during the year.

### **Soft loan**

Loans, normally to voluntary sector organisations, below the market rate of interest.

### **Total Cost**

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

# Whole of Pension Fund Disclosures under IAS26

*Northumberland County Council Pension Fund*

*1 June 2011*

Prepared for  
Northumberland County Council

Prepared by  
Chris Archer FIA



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## 1 Introduction

<b>Addressee</b>	This work has been commissioned by Northumberland County Council in its capacity as Administering Authority to the Fund.
<b>Scope of Work and related documents</b>	<p>The purpose of this document is to provide information required by the Northumberland County Council Pension Fund (the "Fund") to assist in meeting its disclosure requirements under the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the "Code of Practice").</p> <p>The scope of the work that we have agreed to carry out for the Fund is set out in our IAS26 Terms of Reference document dated 01 March 2011 (the "Terms of Reference"), and our advice on the assumptions was set out in our assumptions letter dated 24 May 2011 (the "Assumptions Letter").</p> <p>These documents form an integral part of the advice required for this exercise ("component reports") and should therefore be read in conjunction with this report.</p> <p>Readers should also acquaint themselves with the Reports on the Actuarial Valuations of the Fund as at 31 March 2010 and 31 March 2007. These contain more detailed descriptions of the approach taken to the valuations. In particular, they contain further detail on the demographic assumptions, and the treatment of the data. They also contain more detailed descriptions of the actuarial techniques used to place a present value on the liabilities.</p> <p>The results of the calculations provided in this document constitute a valuation exercise in accordance with the principles of IAS19. The accounting reference date ("ARD") to which this document relates is 31 March 2010.</p>
<b>Background</b>	<p>The Code of Practice indicates that the Fund accounts for the year ending 31 March 2011 should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS19 rather than on the funding assumptions.</p> <p>CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits and further detail on these can be found in our Terms of Reference document noted above.</p> <p>The Administering Authority has chosen "Option C" which was confirmed to us in an e-mail dated 13 April 2011. Option C requires the actuarial valuation of the liabilities on an IAS19 basis to be prepared at formal triennial valuations only, the most recent</p>

being as at 31 March 2010. CIPFA have indicated that comparator figures are also required from the previous valuation date, 31 March 2007. Under Option C this, together with other related information should be disclosed in an actuarial report (i.e. this document) which will accompany the accounts.

The calculations contained in this document have been carried out on a basis consistent with our understanding of IAS19.

Figures required for other purposes should be calculated in accordance with the specific requirements of those purposes. It must not be assumed that figures produced for the purposes of IAS19 (IAS26), which we present in this document, have any relevance beyond the scope of the International Financial Reporting Standards requirements.

The economic and demographic assumptions used to prepare the figures in this document are summarised in Section 2.

I confirm that I am a Fellow of the Institute and Faculty of Actuaries.

**Compliance with Actuarial Standards**

This report is subject to, and complies with, the following Technical Actuarial Standards ('TAS') issued by the Board for Actuarial Standards:

- Pensions Technical Actuarial Standard;
- TAS R: Reporting Actuarial Information;
- TAS M: Modelling, and
- TAS D: Data

**Document structure**

This document is structured as follows:

- Section 1 summarises the scope and legal considerations regarding the work we have undertaken.
- Section 2 sets out the results of our calculations together with some comments on the calculations and an illustration of the financial impact of the switch in pension increases to CPI.
- Appendix A summarises the data used in our calculations.
- Appendix B sets out a brief explanation of the method we have used in preparing the figures.
- Appendix C provides a summary of the IAS19 accounting standard as it applies in the more limited context of IAS26.

**Disclaimer**

This document is prepared on the instructions of Northumberland County Council in relation to the preparation of specified disclosure items as required for the Fund's financial reporting under IAS26. It has been prepared at the date, for the purpose and on the basis set out in this document and for the benefit and use of Northumberland County Council as Administering Authority



to the Fund.

This document should not be used or relied upon by any other person for any other purpose including, without limitation, other professional advisers to the Administering Authority.

All third parties are hereby notified that this document shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this document.

We neither warrant nor represent (either expressly or by implication) to any third party who receives this document that the information contained within is fair, accurate or complete, whether at the date of its preparation or at any other time.

Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to any other person other than to meet any statutory requirements (such as preparation and the audit of the Fund's accounts) and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than Northumberland County Council. This document was based on data available to us at the effective date of our calculations and takes no account of developments after that date except where explicitly stated otherwise.

With respect to data on which we have relied in producing this document, whilst we have taken certain limited steps to satisfy ourselves that the data provided to us is of a quality sufficient for the purposes of our investigation, including carrying out certain basic tests for the purpose of detecting manifest inconsistencies, it is not possible for us to confirm the accuracy or completeness of the detailed information provided. Whilst the Administering Authority may have relied on others for the maintenance of accurate data, it is their responsibility to ensure the adequacy of these arrangements and ultimately the Administering Authority that bears the primary responsibility for the accuracy of such information provided. The information used is summarised in various sections of this document and Appendix A.

**Recent changes to pension increases**

Section 6.5.5.1(a) of the Code requires that the Administering Authority should disclose a description of the Fund and the effect of any changes to the Fund during the accounting period.

In his budget on 22 June 2010, the Chancellor announced the following:

*"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing*

*costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."*

The change to CPI would appear to fall within the requirement of 6.5.5.1(a) and CIPFA have subsequently confirmed that an appropriate disclosure should be made that describes the change and assesses the financial impact.

We have interpreted the Chancellor's announcement as meaning that, with effect from 1 April 2011, increases to local government pensions in payment and deferred pensions, in respect of both past and future accrual, will be linked to annual increases in the Consumer Price Index (CPI), rather than the Retail Price Index (RPI).

Since over the long term CPI increases are expected to be lower than RPI increases, this gives rise to a reduction in the actuarial present value of the promised retirement benefits.

In Section 2 we provide the results of our calculations together with an approximate estimate of the financial impact of this change to the pension increase assumption as measured using financial assumptions appropriate to IAS19. For the purposes of this exercise we have assumed that the switch to CPI indexation occurred on 31 March 2010. We do not believe this simplification will introduce any material inaccuracy.

Further information regarding the derivation of the CPI and RPI assumptions can be found in our assumptions letter.

## **Methodology**

### **Value of the assets**

IAS19 requires that assets be valued at Fair Value which is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. For the purposes of this exercise we have taken the asset values directly from the Fund's audited annual accounts as at 31 March 2010 and 31 March 2007.

### **Treatment of Risk Benefits**

To value the risk benefits we have valued service related benefits based on service completed to the date of calculations only.

**Expenses**

Scheme administration expenses are not reserved for in the Net Present Value of Actuarial Liabilities, consistent with the treatment adopted for individual employers who require IAS19 disclosures. If the Fund wishes the administration expenses to be treated in a different way they should discuss this further with their auditor and their usual contact at Aon Hewitt.

**IFRIC 14**

IFRIC 14 is an interpretation of paragraph 58 of the IAS 19 accounting standard setting out limits to the amount of surplus that can be disclosed by organisations. We do not believe it has any relevance to IAS26.

**Volatility of results**

Results under the IAS26 reporting standard can change dramatically depending on market conditions. The liabilities are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are invested in equities. Changing markets in conjunction with discount rate volatility will lead to volatility in the funded status of the Fund and thus to volatility in the net pension asset.

If at any time you want us to provide you with an update of the IAS26 or you would like to indicate the sensitivity of the results to a change in some of the assumptions please let us know.

## 2 Information Required for IAS26

### Introduction

IAS26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS26 terminology for what IAS19 refers to as the "defined benefit obligation".

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme. The Fund provides defined benefits, based on members' Final Pensionable Pay.

### Actuarial present value of promised retirement benefits

Paragraph 6.5.2.8 of CIPFA's Code of Practice on local authority accounting for 2010/11 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed. CIPFA have also indicated that comparator values at the 2007 valuation should also be provided.

The results at both dates are shown in the table below. The corresponding fair value of Fund assets is also shown in order to show the level of surplus or deficit within the Fund when the liabilities are valued using IAS19 assumptions. We do not believe the Authority needs to show these additional items if it does not wish to do so.

	<b>Value as at 31 March 2010 £M</b>	<b>Value as at 31 March 2007 £M</b>
Fair value of net assets	719.0	669.0
Actuarial present value of the promised retirement benefits	1,209.3	974.2
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(490.3)	(305.2)

**Assumptions**

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS26 took place at 31 March 2010. The principal assumptions used by the Fund's independent qualified actuaries were:

	<b>31 March 2010</b> (% p.a.)	<b>31 March 2007</b> (% p.a.)
Discount rate	5.5	5.3
RPI Inflation	3.9	3.2
CPI Inflation	3.0	N/A
Rate of increase to pensions in payment*	3.9	3.2
Rate of increase to deferred pensions*	3.9	3.2
Rate of general increase in salaries **	5.4	4.7

*\* In excess of Guaranteed Minimum Pension increases in payment where appropriate*

*\*\* In addition, we have allowed for the same age related promotional salary scales as set out in the 2010 Valuation Report for the 31 March 2010 measurement date and the 2007 Valuation Report for the 31 March 2007 measurement date.*

**Principal demographic assumptions**

<b>Post retirement mortality</b>	<b>31 March 2010</b>	<b>31 March 2007</b>
<b>Males</b>		
Base table	Standard SAPS Normal Health All Amounts tables (S1NMA)	Standard tables PNMA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	100%	115%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 1.0% p.a.
Future lifetime from age 65 (currently aged 65)	22.1	20.9
Future lifetime from age 65 (currently aged 45)	24.0	22.8
<b>Females</b>		
Base table	Standard SAPS Normal Health All Amounts tables (S1NFA)	Standard tables PNFA00 making allowance for improvements in mortality in line with the Medium Cohort factors to 2007
Scaling to above base table rates **	100%	115%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.	In line with Medium Cohort improvements with an underpin to the improvements of 0.5% p.a.
Future lifetime from age 65 (currently aged 65)	24.3	23.0
Future lifetime from age 65 (currently aged 45)	26.3	24.2

\* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

\*\* The scaling factors shown apply to normal health retirements

	31 March 2010	31 March 2007
<b>Commutation</b>	<p>Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.</p> <p>Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.</p>	<p>Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum.</p> <p>Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.</p>

**Changes in benefits during the accounting period**

As set out earlier we believe the switch to using CPI for pension increases falls under paragraph 6.5.5.1 of the Code of Practice and our suggested wording is set out below.

In his budget on 22 June 2010, the Chancellor announced the following:

*"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."*

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.

The Fund's actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value



of the promised retirement benefits would have reduced by £131.2M i.e. the actuarial present value of promised retirement benefits would have been £1,078.1M.

**Volatility of Results**

Our calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement.

Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used.

The present value of the defined benefit obligations are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will therefore lead to volatility in the funded status of the Fund disclosed under IAS26 as amended by the Code of Practice.

**Appendix A Data Summaries (2010 & 2007)**
**Active members at 31 March 2010 (31 March 2007)**

		<b>Number</b>	<b>Average age</b>	<b>Total Pensionable Pay (£000 p.a.)</b>	<b>Average Pensionable Pay (£ p.a.)</b>	<b>Average service (years)</b>
<b>Men</b>	<b>2010</b>	<b>2,369</b>	<b>46.4</b>	<b>53,296</b>	<b>22,497</b>	<b>13.5</b>
	2007	2,753	46.6	59,961	21,682	13.6
<b>Women</b>	<b>2010</b>	<b>6,079</b>	<b>45.2</b>	<b>79,053</b>	<b>13,004</b>	<b>6.6</b>
	2007	6,578	44.4	77,866	11,837	6.1
<b>Total</b>	<b>2010</b>	<b>8,448</b>	<b>45.5</b>	<b>132,349</b>	<b>15,666</b>	<b>8.5</b>
	2007	9,331	45.0	137,557	14,742	8.3

*Note: Pay is that over the year to the Valuation Date. Annualised pay is included for entrants in the last year. Part time pay is included for part-timers.*

**Deferred pensioners at 31 March 2010 (31 March 2007)**

		<b>Number</b>	<b>Average age</b>	<b>Total pension (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2010</b>	<b>1,758</b>	<b>44.5</b>	<b>3,529</b>	<b>2,008</b>
	2007	1,551	48.5	3,141	2,025
<b>Women</b>	<b>2010</b>	<b>4,857</b>	<b>44.6</b>	<b>4,526</b>	<b>932</b>
	2007	3,941	46.9	3,851	977
<b>Total</b>	<b>2010</b>	<b>6,615</b>	<b>44.5</b>	<b>8,055</b>	<b>1,218</b>
	2007	5,492	47.6	6,992	1,273

*Note: The deferred pensions have been increased to the Valuation Date and include increases granted in April 2010 (2007: April 2007).*

*In addition to the numbers above there were 511 members who had yet to decide whether to take a transfer payment. Suitable allowance has been made for these in our calculations.*

**Pensioners at 31 March 2010 (31 March 2007)**

		<i>Number</i>	<i>Average age</i>	<i>Total pensions (£000 p.a.)</i>	<i>Average pension (£ p.a.)</i>
<b>Men</b>	<b>2010</b>	<b>2,532</b>	<b>69.4</b>	<b>19,166</b>	<b>7,570</b>
	<i>2007</i>	<i>2,261</i>	<i>68.4</i>	<i>15,165</i>	<i>6,707</i>
<b>Women</b>	<b>2010</b>	<b>3,291</b>	<b>68.6</b>	<b>9,444</b>	<b>2,870</b>
	<i>2007</i>	<i>2,666</i>	<i>68.2</i>	<i>6,934</i>	<i>2,601</i>
<b>Dependants</b>	<b>2010</b>	<b>943</b>	<b>76.5</b>	<b>2,344</b>	<b>2,485</b>
	<i>2007</i>	<i>945</i>	<i>76.6</i>	<i>2,208</i>	<i>2,337</i>
<b>Total</b>	<b>2010</b>	<b>6,766</b>	<b>70.0</b>	<b>30,954</b>	<b>4,575</b>
	<i>2007</i>	<i>5,872</i>	<i>69.1</i>	<i>24,307</i>	<i>4,139</i>

*Note: The pensions have been increased to the Valuation Date and include increases granted in April 2010 (2007: April 2007).*

*The 2010 figures include 45 children (2007: 54) who are in receipt of pensions. Suitable allowance has been made for these in our calculations.*

**Appendix B Explanation of actuarial methods used**

**Benefits valued** This work relates to benefits payable from the Fund (as currently set out in LGPS Regulations at the relevant times) and related arrangements. These benefits include retirement pensions and benefits on members' death and leaving service.

A summary of the benefits that have been valued can be found in the reports on the actuarial valuations of the Fund as at 31 March 2010 and 31 March 2007.

To value the risk benefits (i.e. ill-health and death in service benefits) we have used the projected unit method. This is the same method as was used last year, where figures were provided by us.

Unfunded defined benefit obligations e.g. discretionary pensions benefits being paid under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations (generally referred to as Compensatory Added Years), have not been valued as they do not form part of the Fund, however, they may be required in the IAS19 figures prepared for individual employers within the Fund.

**Data** The valuation of accrued pension benefits for IAS19 purposes requires detailed information in respect of each member such as date of birth, gender, date of joining the fund, their accrued pension and so forth.

This information was supplied by the Administering Authority for the 2010 and 2007 formal actuarial valuations of the Fund in the form of a standardized data extract from the Authority's administration systems.

The formal valuation process (which is a precursor to the valuation for IAS19 purposes) involves a series of structured validation tests on the data items for integrity and reasonableness. These tests, together with any actions taken in respect of specific data issues, are documented as part of the normal valuation process.

Where tests reveal issues with the data, the Administering Authority is contacted with a view to resolving all data queries. Only when the data queries have been resolved to the satisfaction of the Fund Actuary, will the valuation proceed.

We can confirm that no data issues were identified at either the 2010 or the 2007 valuations that would have any material effect on the calculations presented in this report. Overall, it is our opinion that the data presented at both valuations is sufficiently accurate, relevant and complete for the Administering Authority to rely on the resulting IAS19 (IAS26) figures.

**Assumptions** IAS 19 sets out the following general requirements for the setting of assumptions:

- Actuarial assumptions shall be unbiased and mutually compatible; and
- Financial assumptions shall be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

Furthermore IAS 19 requires that the assumed discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds and in countries where there is no deep market in such bonds, the market yield (at the balance sheet date) on government bonds shall be used.

CIPFA have informed us that under IAS26 the assumptions are ultimately the responsibility of the Administering Authority. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

The key financial assumptions are set out on the first page of Section 2 and the derivation of the assumptions is set out in our assumptions letter dated 24 May 2011.

## **Method and calculations**

### **Figures as 31 March 2007**

Our calculations are based on the liabilities of the Fund as a whole determined in the most recent actuarial valuation of the Fund on a going concern basis. The valuation results are then adjusted by allowing for the IAS19 financial assumptions using an approximate change of basis approach and using summary data from the 2007 valuation such as average ages, and average retirement ages, suitably weighted.

Due to the approximate method used, the results shown in Section 2 may differ from the results if a full actuarial valuation was performed at the measurement date. Please refer to our Terms of Reference document dated 1 March 2011 for further details of the potential magnitude of differences.

### **Figures at 31 March 2010**

Figures at 31 March 2010 have been based on a full calculation of the liabilities using the same method as for the full 2010 triennial valuation Fund, but with IAS19 financial assumptions used.

## **Assets**

The assets for the Fund at each measurement date (shown in section 2) are taken from audited accounts, with no additional adjustments. Between the two valuation dates the definition of Fair Value in IAS19 changed so the assets at 31 March 2007 are shown at mid value, whereas the assets at 31 March 2010 are shown at bid value.

## Appendix C Summary of IAS19 as it applies to IAS26

### Introduction

Below, we give a brief overview of IAS19, which is primarily intended to cover employer accounting for the cost of employee benefits.

- The current version of IAS19 largely dates from 1998.
- In 2002, the International Accounting Standards Board (IASB) revised IAS19 with respect to the impact of the limit on any net balance sheet asset.
- In December 2004, the IASB issued amendments to IAS19. These amendments are mandatory for fiscal years starting on or after 1 January 2006. The changes made to IAS 19 fall into the following three categories:
  1. Introducing an additional option for the recognition of gains and losses;
  2. Amending the application of IAS19 for multi-employer plans and group plans, and
  3. Introducing additional disclosure requirements.

Below, we provide a description of some of the main concepts used in IAS 19 as they apply in the context of IAS26. We refer to the IAS19 concepts by using the terms defined in Statement of Financial Accounting Standard No. 87 (FAS87), which are more widely used.

### Funded status

Under IAS19, the Funded Status is equal to the difference between:

- The Defined Benefit Obligation (the actuarial present value of promised retirement benefits); and
- The fair value of the assets.

If the assets are higher than the Defined Benefit Obligation, the employer is over-funded or in "surplus". Otherwise it is under-funded or in "deficit".

### Actuarial assumptions

Paragraphs 72 to 91 of IAS19 deal with the selection of the actuarial assumptions to be used in IAS19 calculations. Those assumptions, which should be unbiased and mutually compatible, are broken down into:

#### Demographic assumptions

Dealing with matters such as

- Mortality;
- Turnover;
- Disability; and

- Early retirement.

**Financial assumptions**

Dealing with items such as:

- The discount rate;
- Future salary increases; and
- The expected rate of return on plan assets.

The assumptions are said to be "unbiased" if they are neither imprudent nor excessively conservative. They are said to be "mutually compatible" if they reflect the economic relationships between factors such as inflation, rates of salary increases, return on plan assets and discount rates.

For example, all assumptions, which depend on a particular inflation level (such as assumptions about interest rates and salary increases) in any given future period, should assume the same inflation level in that period.

**Discount rate**

Paragraph 78 states that the rate used to discount post-employment benefit obligations should be determined by reference to market yields, at the balance sheet date, on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the benefit obligation.

Paragraph 81 provides for the situation where there is no deep market in bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, entities may 'estimate the discount rate for longer durations by extrapolating current market rates along the yield curve'.

**Future salary increases**

Paragraph 84 states that estimates of future salary increases should take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.