NORTHUMBERLAND

Northumberland County Council

Statement of Accounts
2011 – 2012

Contents

Explanatory Foreword

1. Introduction

The following Statement of Accounts for Northumberland County Council presents the overall financial performance and position for the Authority for the year ended 31st March 2012 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand unless otherwise stated.

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 2011-2012; and,
- The group accounts which consolidate the results and balances of the Council 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.

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.

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.

Group Accounts

The Group accounts include the results and balances for Northumberland County Council together with the following subsidiaries:

- The Arch Group of companies which provide rented accommodation predominately in South East Northumberland and are responsible for economic regeneration across the whole County.
- Homes for Northumberland, an arm's length management organisation responsible for the administration of the Council's social housing portfolio.
- Reaction, a community investment company established by the Council to encourage enterprise activities in rural areas.

Independent Auditor's Report

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

2. Outturn against budget for 2011-2012

Revenue

2011-2012 continued to present significant financial challenges to the Council with the impact of central government funding reductions, exacerbated by increased demands for Council services arising from the economic downturn and demographic pressures.

The County Council approved a net revenue budget of £295.24 million for 2011-2012 after taking account of the ring-fenced Dedicated Schools Grant of £188.50 million. Efficiencies and other savings totalling £46.55 million were needed in order to arrive at a 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 budget was funded through:

	£'000
Formula Grant	132,692
Council Tax	156,471
Decrease in General Fund	6,076
	295,239

Outturn net expenditure against budgets allocated to Groups totalled £289.43 million against total budgeted resources of £294.98 million. The Group budgeted for £6.07 million call on general fund in the year. There was an underspend against this budget of £2.55 million, however this was offset by additional costs relating to equal pay of £5.46 million. The net impact was an underspend of £90,000 resulting in a net call on General Fund of £5.988 million. These equal pay costs are the net position after including £1.08m that was capitalised under a direction from the Department of Communities and Local Government.

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

	£'000
Balance as at 1 April 2011	28,065
Balance as at 31 March 2012	22,082
Change in year	(5,983)

The £22.08 million that the Council holds in the General Fund balance, combined with other usable revenue reserves, such as a Contingency Reserve (£14.56 million), Single Status Reserve (£7.37 million) and other earmarked reserves totalling £2.49 million are considered to be sufficient to meet funding shortfalls over the course of the Medium Term Financial Plan.

During the year, the Council's earmarked reserves increased by £12.31 million, from £68.66 million to £80.97 million. This is broadly in line with budget predictions. The key changes in earmarked reserve balances have been:

	31 March 2011 £m	31 March 2012 £m	Increase £m
Insurance Reserve	9.99	11.00	1.01
Restructuring & Redundancy Reserve (now the Contingency Reserve)	10.90	14.56	3.66
Adults Services Reserve	4.94	10.51	5.57

The Insurance Reserve has increased by £1.01 million following a risk assessment of the prudent balance to carry to meet future potential liabilities. £3.66 million was added to the Restructuring and Redundancy Reserve to meet future financial pressures resulting from anticipated reductions in Central Government funding. The Adults Services Reserve was increased by £5.57 million in the year to meet anticipated future demographic pressures and to support the development of new approaches to the provision of in-house day schemes.

Despite the increase in Earmarked Reserves, the overall net worth of the Council has fallen by £188.76 million in the year. This is mainly the result of an increase in the Council's pension deficit (see below).

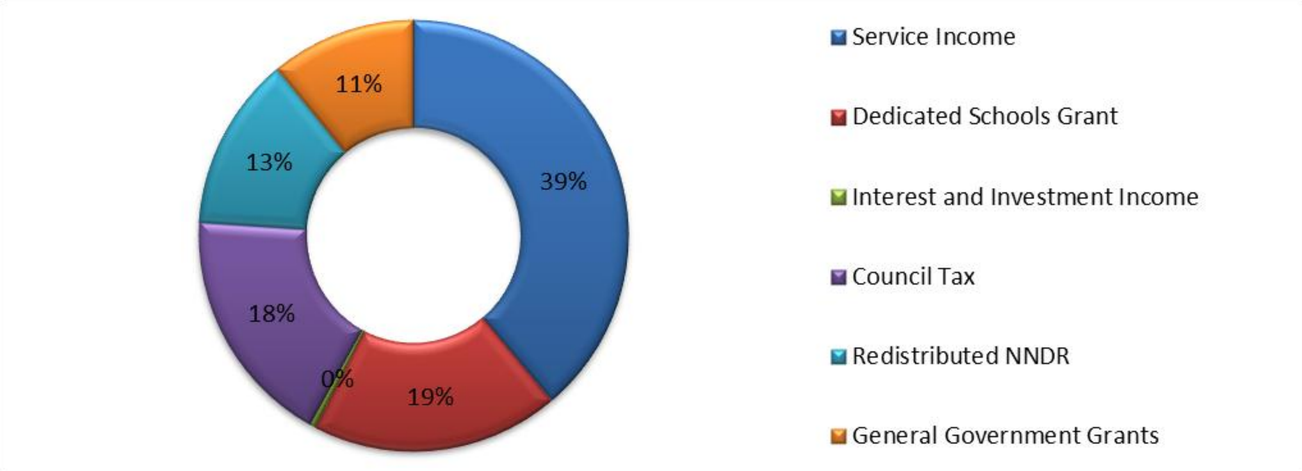
Capital

The original capital plan for 2011-2012 approved in February 2011 showed total planned gross expenditure of the order of £77.76 million, financed from a combination of Borrowing, Schools Capital Grants, Academies Programme, other Grants, use of Reserves, Revenue Contributions and Capital Receipts. The Capital Programme for 2011-2012 included spending re-phased from 2010-2011. Most notable amongst the projects were Putting the Learner First (Ashington and Blyth), various Children's Services schemes, the Local Transport Plan, fleet replacement programme, health and safety / backlog maintenance works, Ashington Town Centre, and various Housing Improvement Schemes.

3. Income and Expenditure

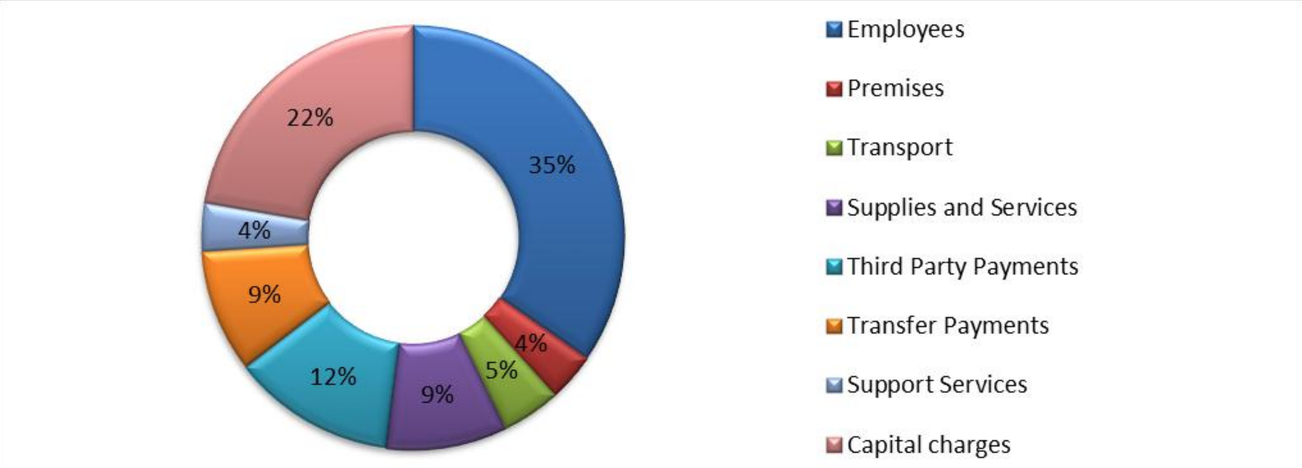
Where the money comes from

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 88.1% of all income during the year with the remaining income being derived from other government grants and interest earned.



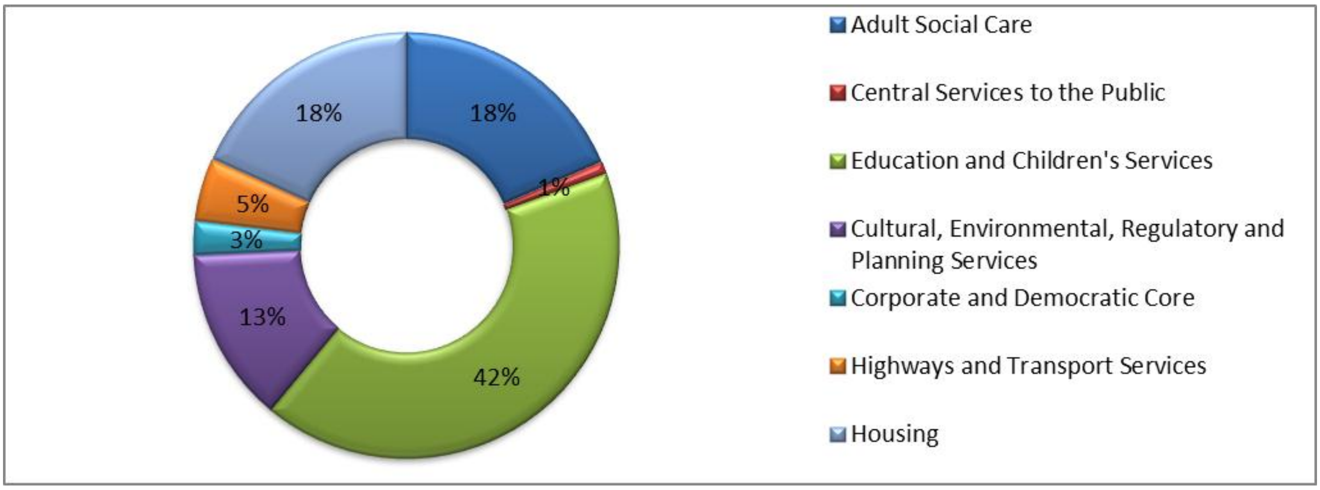
What the money was spent on

A large proportion of the Council's expenditure (35.3%) is staff-related, 10.3% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 27.4%. The balance is mainly related to central costs and capital charges for the use of assets (depreciation and minimum revenue provision).



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 10) and the Notes to the Financial Statements (pages 13 - 117) provide more detail regarding the charts above.

4. 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 £107.86 million of capital expenditure comprising £83.11 million of asset additions (including £3.41 million in respect of capital long term debtors) and £24.75 million revenue expenditure to be financed from capital under statute (including £10.25 million in respect of the HRA Reform Settlement). Of the overall capital spend £31.70 million (29.4%) related to Children's and Educational Services and £22.29 million (20.7%) related to Highways and Transport. Examples of the capital projects delivered are:

Project	£'000
Blyth and Hirst PLF Projects	23,068
Culture, Leisure and Tourism	1,255
Fire Service Modernisation	1,179
Health and Safety/Backlog Maintenance	2,116
Fleet Replacement Programme	4,286
Housing Services	22,940
Local Transport Plan	19,923
Regeneration Projects	5,181
Information Services	4,738

The Council obtained agreement from the Secretary of State to fund from capital resources some of the single status restructuring costs incurred during the year.

5. Finance for Capital Expenditure

The main sources of finance for capital expenditure were borrowings of £33.19 million (30.8%), capital grants of £57.85 million (53.6%), use of capital receipts of £7.85 million (7.3%), Major Repairs Allowance of £6.29 million (5.8%), and contributions from revenue of £2.68 million (2.5%).

6. Treasury Management Activities

The Council's debt and investment position at the end of the period was as follows:

	31-Mar-12	
	Principal (£m)	Rate/Return (%)
Public Works Loans Board	223	3.18
Market Lobo's	233	4.11
Short Term Market Loan	83	0.95
Total Debt	539	3.24
Investments excluding Impaired Deposits and In-House Funds	303	1.52
Total	303	1.52

The Council's aim is to achieve the optimum return (yield) on investments whilst remaining within the authorised levels of security and liquidity, remains the priority.

In previous years, the Council's policy had been to reduce balances and repay debt to mitigate the risks associated with poor counterparty quality for holding surplus balances. Therefore balances were reduced and high rate loans repaid. As a result, the Council was under-borrowed and the 2010-2011 Treasury Management Strategy approved £50 million borrowing to be taken out before the end of March 2011. This was not taken in 2010-2011 and was slipped to 2011-2012. There was also provision for further borrowing over the next two financial years equating to around £91 million to replace internal funding arrangements.

The Council had deposited £23.00 million with Icelandic banks that went into administration in October 2008. To date, £13.72 million of the total deposited has been repaid and the Council is confident that it will recover at least 95% of the outstanding balance. During 2011-2012, it was upheld on appeal that the Council would have preferred creditor status in relation to the remaining balance deposited with one of the Icelandic banks, Glitnir. As a result of this, the Council has reversed the previous impairment (£6.00 million) of the balance held with this bank.

7. Significant charges in the accounts

The accounts include a charge of £6.94 million, disclosed as an exceptional item in the Comprehensive Income and Expenditure Statement, that relates to an increase in the provision for equal pay costs (£6.54 million) and associated administration costs (£0.40 million). Changes to case law during the year have required the Council to revisit the potential liability.

8. 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 2012 the County Council's net liability for future pension costs was £631.72 million. Sixty six 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 2011-2012 was set on the basis of the actuarial valuation of the Fund as at 31 March 2010. This sets the rate payable for the three years ending 31 March 2013 with an aim to fully fund the liabilities within approximately 25 years.

9. Significant Changes in Accounting Policies

After 2010-2011, when the introduction of International Financial Reporting Standards had a profound impact on the presentation of the Councils financial statements, there have been relatively few changes to the accounts in 2011-2012. The most significant of these relates to the inclusion of heritage assets in the Council's Balance Sheet. Heritage assets are a separate class of asset (land, building, or artefact/exhibit) that are held principally for their contribution to knowledge or culture. Previously, many of these assets were either recorded as community assets or were not recognised as assets at all by the Council. The new accounting guidance means that the Council have had to restate the 2010-2011 Balance Sheet to include Heritage Assets. £1.64 million has been transferred from Property, Plant and Equipment to Heritage Assets and an additional balance of £1.66 million has been included in the balance sheet in relation to the new assets recognised for the first time.

Movement in Reserves Statement
for the year ended 31 March 2012

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 10). 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.

Movement in Reserves Statement
for the year ended 31 March 2012

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves As Restated	Total As Restated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1 April 2010	(27,556)	(54,165)	(8,979)	-	(631)	(24,508)	(1,400)	(117,239)	(279,237)	(396,476)
IFRS Restatements - Heritage Assets	-	-	-	-	-	-	-	-	(1,660)	(1,660)
Restated Balance brought forward 1 April 2010	(27,556)	(54,165)	(8,979)	-	(631)	(24,508)	(1,400)	(117,239)	(280,897)	(398,136)
Movement in Reserves during 2010-2011:										-
(Surplus) or 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 11)	10,387	-	(95,813)	-	(407)	8,364	(928)	(78,397)	78,397	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(15,003)	-	(1,992)	-	(407)	8,364	(928)	(9,966)	11,953	1,987
Transfers to/(from) Earmarked Reserves (Note 12)	14,494	(14,494)	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2010-2011	(509)	(14,494)	(1,992)	-	(407)	8,364	(928)	(9,966)	11,953	1,987
Balance at 31 March 2011 carried forward	(28,065)	(68,659)	(10,971)	-	(1,038)	(16,144)	(2,328)	(127,205)	(268,944)	(396,149)
Movement in Reserves during 2011-2012:										-
(Surplus)/Deficit on the provision of services	75,676	-	17,886	-	-	-	-	93,562	-	93,562
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	100,853	100,853
Total Comprehensive Income and Expenditure	75,676	-	17,886	-	-	-	-	93,562	100,853	194,415
Adjustments between accounting basis & funding basis under regulations (Note 11)	(80,766)	-	(18,870)	-	(472)	(2,068)	845	(101,331)	101,331	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(5,090)	-	(984)	-	(472)	(2,068)	845	(7,769)	202,184	194,415
Transfers to/(from) Earmarked Reserves (Note 12)	11,073	(11,073)	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2011-2012	5,983	(11,073)	(984)	-	(472)	(2,068)	845	(7,769)	202,184	194,415
Balance at 31 March 2012 carried forward	(22,082)	(79,732)	(11,955)	-	(1,510)	(18,212)	(1,483)	(134,974)	(66,760)	(201,734)

Comprehensive Income and Expenditure Statement
for the year ended 31 March 2012

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 9).

	Note	2010-2011 Gross Expenditure £'000	2010-2011 Gross Income £'000	2010-2011 Net Expenditure £'000	**2011-2012 Gross Expenditure £'000**	**2011-2012 Gross Income £'000**	**2011-2012 Net Exenditure £'000**
Central Services to the Public		8,660	(3,164)	5,496	**7,771**	**(2,795)**	**4,976**
Cultural and Related Services		22,637	(2,978)	19,659	**20,518**	**(4,471)**	**16,047**
Environmental and Regulatory Services		40,797	(10,268)	30,529	**49,311**	**(13,337)**	**35,974**
Planning Services		23,577	(6,360)	17,217	**19,049**	**(4,854)**	**14,195**
Fire and Rescue Services		30,931	(2,983)	27,948	**23,298**	**(3,264)**	**20,034**
Education and Children's Services		382,197	(269,677)	112,520	**350,141**	**(252,122)**	**98,019**
Highways and Transport Services		38,221	(7,282)	30,939	**40,423**	**(9,983)**	**30,440**
Local Authority Housing (HRA)		26,312	(24,476)	1,836	**31,164**	**(25,879)**	**5,285**
Local Authority Housing (HRA) - Revaluation Losses		90,577	-	90,577	**-**	**-**	**-**
Local Authority Housing (HRA) - Settlement Payment to Government for HRA Self-financing		-	-	-	**10,254**	**-**	**10,254**
Other Housing Services		102,764	(102,979)	(215)	**112,897**	**(107,809)**	**5,088**
Adult Social Care		137,200	(47,366)	89,834	**156,108**	**(69,910)**	**86,198**
Exceptional Costs of Equal Pay	9	513	-	513	**6,937**	**-**	**6,937**
Corporate and Democratic Core		8,264	(613)	7,651	**10,917**	**(375)**	**10,542**
Non Distributed Costs		14,381	(1)	14,380	**3,793**	**(27)**	**3,766**
Non Distributed Costs - Change in inflation factor for retirement benefits		(136,990)	-	(136,990)	**-**	**-**	**-**
Cost of Services		790,041	(478,147)	311,894	**842,581**	**(494,826)**	**347,755**
Other Operating Expenditure	13	90,844	(6,868)	83,976	**73,146**	**(8,513)**	**64,633**
Financing and Investment Income and Expenditure	14	56,003	(18,789)	37,214	**47,421**	**(17,564)**	**29,857**
Taxation and Non-Specific Grant Income	15	-	(364,653)	(364,653)	**-**	**(348,683)**	**(348,683)**
Deficit or (Surplus) on Provision of Services		936,888	(868,457)	68,431	**963,148**	**(869,586)**	**93,562**
(Surplus) on Revaluation of Non Current Assets				(2,644)			**(16,307)**
Actuarial (Gains)/Losses on Pension Assets/Liabilities	48			(63,800)			**117,160**
Other Comprehensive Income and Expenditure				(66,444)			**100,853**
Total Comprehensive Income and Expenditure				1,987			**194,415**

Balance Sheet
as at 31 March 2012

The Balance Sheet shows the value as at 31 March 2012 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	1 April 2010 As Restated £'000	31 March 2011 As Restated £'000	**31 March 2012 £'000**
Property, Plant & Equipment	16	1,404,136	1,243,464	**1,180,021**
Investment Property	18	19,479	15,575	**13,462**
Intangible Assets	19	252	330	**580**
Heritage Assets	17	3,299	3,282	**8,216**
Assets Held for Sale - non current	24	3,424	2,333	**640**
Long Term Investments	20	10,070	7,402	**112,667**
Long Term Debtors	22	3,771	5,773	**10,431**
Long Term Assets		1,444,431	1,278,159	**1,326,017**
Short Term Investments	20	41,843	47,787	**123,973**
Inventories	21	993	1,181	**1,128**
Short Term Debtors	22	53,332	73,674	**59,689**
Cash and Cash Equivalents	23	2,555	56,844	**77,014**
Assets Held for Sale - current	24	20,471	9,916	**9,154**
Current Assets		119,194	189,402	**270,958**
Bank Overdraft	23	(22,227)	(4,602)	**(17,970)**
Short Term Borrowing	20	(14,825)	(43,035)	**(90,568)**
Short Term Creditors	25	(60,342)	(65,143)	**(63,296)**
Provisions	26	(30,015)	(35,247)	**(42,852)**
Current Liabilities		(127,409)	(148,027)	**(214,686)**
Long Term Creditors - PFI	44	(76,434)	(88,603)	**(86,669)**
Long Term Borrowing	51	(234,441)	(294,525)	**(451,217)**
Other Long Term Liabilities	48	(704,960)	(514,660)	**(631,720)**
Capital Grants Receipts in Advance	40	(22,245)	(25,597)	**(10,949)**
Long Term Liabilities		(1,038,080)	(923,385)	**(1,180,555)**
Net Assets		398,136	396,149	**201,734**
Usable Reserves	11 & 12	117,239	127,205	**134,974**
Unusable Reserves	28	280,897	268,944	**66,760**
Total Reserves		398,136	396,149	**201,734**

Cash Flow Statement
as at 31 March 2012

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2012 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	**2011-2012** **£'000**
Net (deficit) on the provision of services		(68,431)	**(93,562)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements	32	146,978	**171,192**
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	33	(57,910)	**(74,737)**
Net cash flows from Operating Activities	29	20,637	**2,893**
Investing Activities	30	(36,114)	**(203,798)**
Financing Activities	31	87,391	**207,707**
Net (increase)/decrease in cash and cash equivalents		71,914	**6,802**
Cash and cash equivalents at the beginning of the reporting period		(19,672)	**52,242**
Cash and cash equivalents at the end of the reporting period	23	52,242	**59,044**

Notes to the Financial Statements

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2011-2012 financial year and its position at the year-end of 31 March 2012. The Accounts and Audit (England) Regulations 2011 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 2011-2012 and the Service Reporting Code of Practice 2010-2011, 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 services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings are accounted for respectively on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The 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 National Non-Domestic Rates), income and expenditure are recognised only to the extent 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 Exceptional Items

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

1.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively 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.

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

1.6 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 contribution 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 the contribution 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.

1.7 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 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 wage and salary rates applicable in the following financial year. Any accrual made is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date; or, an officer's decision to accept voluntary redundancy; and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of 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 enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of seven pension schemes:

- **The Local Government Pension Scheme** (LGPS) administered by Northumberland County Council.
- **The LGPS Unfunded Scheme** administered by Northumberland County Council.
- **The Teachers' Unfunded Scheme** administered by Northumberland County Council.
- **The Firefighters' Pension Scheme** (FPS) administered by Northumberland County Council.
- **The New Firefighters' Pension Scheme** (NFPS) administered by Northumberland County Council.
- **The Firefighters' Injury Pensions and non-scheme Ill-Health Pensions** administered by Northumberland County Council.
- **Teachers' Pensions Scheme** administered by the Teachers' Pensions Agency.

All of the schemes provide members with defined benefits (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

The other six schemes are accounted for as defined benefit schemes:

- The liabilities of these six funds attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds).

- The assets of the pension funds attributable to the Council (where funds exist) are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the Net Pensions Liability is analysed into the following seven 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 Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
Expected return on assets	The annual investment return on fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
Gains or losses on settlements and curtailments	The result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve
Contributions paid to the pension funds	Cash paid as employer's contributions to the pension funds in settlement of liabilities – not accounted for as an expense.

Statutory provisions require the General Fund Balance to be charged with the amount payable by the Council in the year not the amount calculated in accordance with relevant accounting standards. 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. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

1.8 Events after the Reporting Period

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; 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.

1.9 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and 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 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.

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

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

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

Any gains and losses that arise on the 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 Available for Sale Reserve.

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

Any gains and losses that arise on the 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.

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

1.10 Foreign Currency Translation

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

1.11 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 to fund capital expenditure.

1.12 Heritage Assets

Tangible and Intangible Heritage Assets (described here as "Heritage Assets")

The Authority's Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Authority's collections of heritage assets are accounted for as follows.

Museum, Art and Artefact collection

- The Authority's museum and art collections are reported on the Balance Sheet at insurance valuations, which are periodically reviewed.
- The assets have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.
- The collection is relatively static and acquisitions and donations are rare. Where these do occur, acquisitions are initially recognised at cost and donations are recognised at valuation.

Public Sculptures & Memorials

- The Council considers that obtaining valuations for the vast majority of Public Sculptures & Memorials would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. This is because of the nature of the assets held and the lack of comparable values. Other than the recently acquired public art, which is held at cost, the Council does not recognise these heritage assets on the Balance Sheet.
- These assets have indeterminate lives hence the Authority does not consider it appropriate to charge depreciation.

Historic buildings

- Similar to community assets, the Council considers that obtaining valuations for this type of asset would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. The Council holds this class of asset at cost on the Balance Sheet.

Archaeology

- The Council does not consider that reliable cost or valuation information can be obtained for archaeological assets. This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Council does not recognise these assets on the balance sheet.
- The Council's acquisitions principally relate to previously donated assets. The Authority does not make any purchases of archaeological items.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, eg where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment. Heritage assets which have a doubtful provenance or are unsuitable for public display, may be disposed of. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

1.13 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) are 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 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.

1.14 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.

1.15 Inventories

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

1.16 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 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.

1.17 Leases

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

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

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

The 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 (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual 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.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and,

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and 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 received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are 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.

1.18 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of practice 2011-2012 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate 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 Assets Held for Sale.

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

1.19 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 does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- 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.

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 and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal 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
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

Asset	Depreciation Period
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.

1.20 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.
- 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.

1.21 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.

Provision for Back Pay Arising from Unequal Pay Claims

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 Equal 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 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.

1.22 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.

1.23 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.

1.24 Value Added Tax (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.

1.25 Accounting for the Costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its introductory phase which will last until 31 March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions ie carbon dioxide produced as energy is used. As carbon dioxide is emitted (ie as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

2. Change in Accounting Policy – Heritage Assets

The Code of Practice on Local Authority Accounting in the UK has required one change in accounting policy in 2011-2012 accounts. This relates to the recognition of Heritage Assets in the Council's Balance Sheet. Previously, these assets were included in community assets, infrastructure assets or not recognised at all by the Council. Adoption of the new accounting requirements has required the restatement of some balances disclosed in the 2010-2011 Statement of Accounts.

The following table explains the differences between the amounts as at 1 April 2010 presented in the 2010-2011 financial statements and the equivalent amounts following restatement of Heritage Assets.

	1 April 2010	Heritage Assets	1 April 2010 As Restated
	£'000	£'000	£'000
Property, Plant & Equipment	1,405,775	(1,639)	1,404,136
Investment Property	19,479		19,479
Intangible Assets	252		252
Heritage Assets	-	3,299	3,299
Assets Held for Sale	3,424		3,424
Long Term Investments	10,070		10,070
Long Term Debtors	3,771		3,771
Long Term Assets	1,442,771	1,660	1,444,431
Current Assets	119,194		119,194
Current Liabilities	(127,409)		(127,409)
Long Term Liabilities	(1,038,080)		(1,038,080)
Net Assets	396,476	1,660	398,136
Usable Reserves	117,239	-	117,239
Unusable Reserves	279,237	1,660	280,897
Total Reserves	396,476	1,660	398,136

See note 57 for full details of the restatement and its impact on the Statement of Accounts.

3. Changes in Accounting Estimates – Depreciation

A review of the basis of calculation for depreciation charges of the property, plant and equipment of the Council was carried out in year. This resulted in the Council concluding that, in-line with other authorities, a simpler approach using opening balances as at 01 April [(1)] as the basis of calculation would be reasonable - as opposed to full use of a weighted average balance. The change does not affect the overall (lifetime) amount of depreciation charged for an asset, as the asset life and basis of calculation remain unaltered. It simply modifies the proportions charged in the first and final years. The revision results in a decrease in depreciation for 2011-2012 of £0.79m; with a corresponding increase in later years.

[(1)] supported as necessary by exceptional calculations based on weighted averages for major acquisitions or disposals taking place towards the start or end of the year.

4. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

For 2011/12, the only accounting standard that has been published but which has not been adopted by the Code relates to amendments to IFRS 7 Financial Instruments: Disclosures.

The amendments to this standard require specific disclosures related to:

- Transferred financial assets that are not derecognised in their entirety; and
- Transferred financial assets that are derecognised in their entirety, but in which the transferor has some continuing involvement.

The change in accounting policy will be required for accounting periods ending after 1 April 2012.

These amendments will not have a material impact on the financial statements of local authorities.

5. 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 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 £78.09 million for waste and £1.85 million for fire and rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

- The Council currently has outstanding liabilities (£24.14 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.

6. 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 Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Council's Executive and full Council on the basis of budget reports analysed across Service Areas. 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 Service Areas.

Notes to the Financial Statements

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

Income and Expenditure 2011-2012	Adult Services	Children's Services	Finance	Fire and Rescue	HRA	Local Services	Public Health and Public Protection	Regeneration	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(62,874)	(45,038)	(17,220)	(1,459)	(26,149)	(69,298)	(6,957)	(2,045)	(29,497)	(260,537)
Interest and Investment Income	-	-	(3,590)	-	(420)	-	-	-	-	(4,010)
Government Grants	(9,507)	(224,024)	(105,947)	(2,244)	-	(3,869)	(654)	(265)	(14)	(346,524)
Total Income	(72,381)	(269,062)	(126,757)	(3,703)	(26,569)	(73,167)	(7,611)	(2,310)	(29,511)	(611,071)
Employee Expenses	32,237	203,449	20,784	13,540	120	44,735	5,287	2,695	24,128	346,975
Other Service Expenses	130,546	113,585	101,878	4,184	15,082	69,541	5,001	8,732	22,599	471,148
Support Service Recharges	3,928	13,351	6,664	1,188	1,013	11,177	2,268	629	3,928	44,146
Interest Payments	-	-	12,681	-	3,127	-	-	-	-	15,808
Precepts and Levies	-	-	5,042	-	-	-	-	-	-	5,042
Total Expenditure	166,711	330,385	147,049	18,912	19,342	125,453	12,556	12,056	50,655	883,119
Net Expenditure	94,330	61,323	20,292	15,209	(7,227)	52,286	4,945	9,746	21,144	272,048

Income and Expenditure 2010-2011	Adult Services	Children's Services	Finance	HRA	Local Services	Public Health and Public Protection	Regeneration and Fire and Rescue	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(48,917)	(57,687)	(16,442)	(24,151)	(61,000)	(5,382)	(7,607)	(31,817)	(253,003)
Interest and Investment Income	-	-	(4,330)	(309)	-	-	-	-	(4,639)
Government Grants	(1,548)	(239,791)	(98,353)	(325)	(3,208)	(281)	(64)	(47)	(343,617)
Total Income	(50,465)	(297,478)	(119,125)	(24,785)	(64,208)	(5,663)	(7,671)	(31,864)	(601,259)
Employee Expenses	33,129	231,068	15,082	94	45,263	7,956	18,185	20,631	371,408
Other Service Expenses	102,900	110,655	92,586	13,312	75,553	1,615	12,753	26,004	435,378
Support Service Recharges	4,898	9,951	7,249	773	10,377	2,190	2,272	4,018	41,728
Interest Payments	-	-	17,792	2,866	-	-	-	-	20,658
Precepts and Levies	-	-	4,379	-	-	-	-	-	4,379
Total Expenditure	140,927	351,674	137,088	17,045	131,193	11,761	33,210	50,653	873,551
Net Expenditure	90,462	54,196	17,963	(7,740)	66,985	6,098	25,539	18,789	272,292

7. Reconciliation of Service Area Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	2010-2011 £'000	**2011-2012** **£'000**
Net expenditure in the Service Area Analysis	272,292	**272,048**
Net expenditure of services and support services not included in the Analysis	168	**787**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	59,464	**90,442**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(20,030)	**(15,522)**
Cost of Services in Comprehensive Income and Expenditure Statement	311,894	**347,755**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Service Area 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.

2011-2012	Service Area Analysis	Services and Support Services not in Analysis	Amounts not reported to managment for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(260,537)	58,068	8,343	1,310	43,963	(148,853)	(13,004)	(161,857)
Interest and investment income	(4,010)	-	-	4,010	-	-	(4,010)	(4,010)
Income from council tax	-	-	-	-	-	-	(154,854)	(154,854)
Government grants and contributions	(346,524)	551	-	-	-	(345,973)	(194,379)	(540,352)
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	(8,513)	(8,513)
Total Income	(611,071)	58,619	8,343	5,320	43,963	(494,826)	(374,760)	(869,586)
Employee expenses	346,975	(28,135)	(25,313)	-	-	293,527	45,005	338,532
Other service expenses	471,148	(19,953)	-	8	(43,963)	407,240	(26,428)	380,812
Support Service recharges	44,146	(7,644)	-	-	-	36,502	7,644	44,146
Depreciation, revaluation,amortisation and impairment	-	(1,017)	107,412	-	-	106,395	5,914	112,309
Interest Payments	15,808	-	-	(15,808)	-	-	15,808	15,808
Precepts & Levies	5,042	-	-	(5,042)	-	-	5,042	5,042
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	520	520
Gain or loss on Disposal of Non-Current Assets	-	(1,083)	-	-	-	(1,083)	67,062	65,979
Total Expenditure	883,119	(57,832)	82,099	(20,842)	(43,963)	842,581	120,567	963,148
(Surplus) or deficit on the provision of services	272,048	787	90,442	(15,522)	-	347,755	(254,193)	93,562

The approach to internal recharging adopted by the Council means that the cost of support services has been fully removed in the 'Other Service Expenses' line.

2010-2011 Comparatives	Service Area Analysis	Services and Support Services not in Analysis	Amounts not reported to managment for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(253,003)	58,856	-	950	58,657	(134,540)	(14,140)	(148,680)
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)	10	-	-	-	(343,607)	(207,900)	(551,507)
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	-	(6,869)	(6,869)
Total Income	(601,259)	58,866	-	5,589	58,657	(478,147)	(390,310)	(868,457)
Employee expenses	371,408	(29,883)	(152,292)	(32)	-	189,201	52,935	242,136
Other service expenses	435,378	(24,001)	-	(550)	(58,657)	352,170	(21,115)	331,055
Support Service recharges	41,728	(5,319)	-	-	-	36,409	5,319	41,728
Depreciation, amortisation and impairment	-	510	211,756	-	-	212,266	(1,800)	210,466
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	-	(5)	-	-	-	(5)	85,880	85,875
Total Expenditure	873,551	(58,698)	59,464	(25,619)	(58,657)	790,041	146,847	936,888
(Surplus) or deficit on the provision of services	272,292	168	59,464	(20,030)	-	311,894	(243,463)	68,431

The approach to internal recharging adopted by the Council means that the cost of support services has been fully removed in the 'Other Service Expenses' line.

8. 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 2012 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	The balance of Property, Plant and Equipment held by the Council at 31 March 2012 was £1,180.03 million. 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 increased it's equal pay provision by £6.53 million in 2011-2012 bringing the total amount provided for since 2008-2009 to £33.11 million of which £24.14 million remains as at 31 March 2012 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 £3.31 million to the provision needed.
Pensions Liability	At 31 March 2012, the Council had a net pensions liability of £631.72 million. 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 £94.44 million. However, the assumptions interact in complex ways. During 2011-2012, the Council's actuaries advised that the net pensions liability had decreased by £0.41 million as a result of estimates being corrected as a result of experience and increased by £95.89 million attributable to updating of the assumptions.
Arrears	At 31 March 2012, the Council had a balance of sundry debtors of £13.7 million. A review of significant balances suggested that an impairment of doubtful debts of 19.7% (£1.33 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 £2.66 million to be set aside as an allowance.

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

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

Exceptional Item Equal Pay

An additional Provision has been made during 2011-2012 in relation to equal pay. The charge made to the Comprehensive Income and Expenditure Statement in relation to this is £6.94 million (£6.54 million in respect of the increase in provision and £0.40 million related to additional administrative costs). It is now anticipated that the total provision required as at 31 March 2012 will be £24.14 million.

10. Events after the reporting period

The Statement of Accounts will be authorised for issue by the Corporate Director of Finance on 30 September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes will be adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event which took place after 31 March 2012 as it provides information that is relevant to an understanding of the Authority's financial position but does not relate to conditions at that date:

- The Property, Plant and Equipment line in the Balance Sheet also contains valuations totalling £4.01m for Meadowdale Middle School. The school was granted academy status in April 2012 and the asset has been transferred out of ownership of the Council.

In addition, the Council has been involved in extensive discussions with Northumbria Healthcare NHS Foundation Trust regarding the provision of possible financial support in the form of a loan. The provision of financial support would benefit the residents of Northumberland by enabling the Foundation Trust to secure savings from its existing PFI contracts which would prevent potential reductions in both the range and quantity of healthcare provision offered across Northumberland in respect of both acute and community services. The arrangement would facilitate an ambitious ten year strategy to invest in both capital infrastructure (the new Cramlington Hospital) and a range of revenue developments. The Council is proposing to make this financial support available under its wellbeing powers contained within Section 2 of the Local Government Act 2000 which permits the Council to "do anything which they consider is likely to achieve …. the promotion or improvement of the economic wellbeing of their area". By enabling the Foundation Trust to secure financial savings from financing costs rather than service delivery and the associated staffing the Council is facilitating wellbeing by protecting healthcare and employment within Northumberland. The Community Strategy supports joint working with our major partners within Northumberland and the proposed financial support builds upon the strong service links that already exist between the Foundation Trust and the Council.

11. Adjustments between Accounting Basis and Funding Basis under Regulations

The following 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. The year end balances are stated in the Movement in Reserves Statement on page 9.

2011-2012	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non current assets	(31,831)	(5,638)	-	-	-	37,469
Revaluation losses/gains on Property Plant and Equipment	(42,883)	(9,827)	-	-	-	52,710
Movements in the market value of Investment Properties	(2,972)	271	-	-	-	2,701
Amortisation of intangible assets	(178)	-	-	-	-	178
Capital grants and contributions applied	51,225	100	-	-	-	(51,325)
Movement in the Donated Assets Account	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	(8,649)	(9,751)	-	-	-	18,400
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	(65,775)	-	-	-	-	65,775
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	12,839	-	-	-	-	(12,839)
Capital expenditure charged against the General Fund and HRA balances	2,152	525	-	-	-	(2,677)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	8,591	-	-	(8,591)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	6,523	-	(6,523)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	8,513	-	(8,513)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	7,847	-	-	(7,847)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(86)	-	86	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(520)	-	520	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(412)	-	-	412
Adjustments primarily involving the Deferred Capital Receipts Reserve:						

2011-2012	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
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	-	-	-	-	-	-
Adjustment primarily involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA	-	5,446	-	-	(5,446)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	6,291	(6,291)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
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	(1,293)	-	-	-	-	1,293
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(35,628)	(42)	-	-	-	35,670
Employer's pensions contributions and direct payments to pensioners payable in the year	35,724	46	-	-	-	(35,770)
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	(1,616)	-	-	-	-	1,616
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:						
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	-	-	-	-	-	-
Adjustment primarily involving the Accumulated Absences Account						
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	(8,344)	-	-	-	-	8,344
Total Adjustments	(80,766)	(18,870)	(472)	(2,068)	845	101,331

2010-2011 Comparative Figures	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
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
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
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)
Adjustments primarily involving the Capital Grants Unapplied Account:						
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)
Adjustments primarily involving the Capital Receipts Reserve:						
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 non current asset disposals	(96)	-	96	-	-	-
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
Adjustments primarily involving the Deferred Capital Receipts Reserve:						

2010-2011 Camparative Figures	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
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	-	-	-	-	-	-
Adjustment primarily involving the Major Repairs Reserve						
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)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
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)
Adjustments primarily involving the Pensions Reserve:						
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)
Adjustments primarily involving the Collection Fund Adjustment Account:						
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)
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:						
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	-	-	-	-	-	-
Adjustment primarily involving the Accumulated Absences Account						
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)
Total Adjustments	10,387	(95,813)	(407)	8,364	(928)	78,397

12. 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 2011-2012.

	2010-11				2011-12		
	Balance as at 1 April 2010	Transfers Out	Transfers In	Balance as at 31 March 2011	**Transfers Out**	**Transfers In**	**Balance as at 31 March 2012**
	£'000	£'000	£'000	£'000	**£'000**	**£'000**	**£'000**
General Fund Reserves:							
Insurance Reserve	4,253	-	5,733	9,986	**(226)**	**-**	**9,760**
Balances held by schools under a scheme of delegation	8,438	-	384	8,822	**-**	**920**	**9,742**
NCC Economic Regeneration Reserve	378	(79)	-	299	**(107)**	**-**	**192**
NCC Adverse Weather Reserve	750	(750)	-	-	**-**	**-**	**-**
NCC Waste PFI Sinking Fund Reserve	6,963	-	-	6,963	**-**	**202**	**7,165**
NCC Fire and Rescue PFI Sinking Fund	-	-	763	763	**-**	**304**	**1,067**
NCC Single Status Reserve	465	(254)	-	211	**-**	**-**	**211**
Planning Delivery Grant	605	-	-	605	**(198)**	**-**	**407**
Restructuring & Redundancy Reserve (now the Contingency Reserve)	10,900	-	-	10,900	**-**	**3,657**	**14,557**
Deprived seaside reserve	-	-	200	200	**-**	**-**	**200**
Salix Fund	-	-	53	53	**(53)**	**-**	**-**
Revenue Grants	19,051	(19,051)	15,995	15,995	**(15,995)**	**8,490**	**8,490**
Adults Services	-	-	4,943	4,943	**-**	**5,563**	**10,506**
Single Status	-	-	7,157	7,157	**-**	**-**	**7,157**
Road Defect Rectification Reserve	414	(414)	-	-	**-**	**-**	**-**
Section 106 Reserve	-	-	-	-	**-**	**1,308**	**1,308**
Local Authority Mortgage Scheme	-	-	-	-	**-**	**36**	**36**
Pension Cost Reserve	-	-	-	-	**-**	**2,970**	**2,970**
Invest to Save	-	-	-	-	**-**	**5,000**	**5,000**
Transformation Projects	-	-	-	-	**-**	**420**	**420**
	52,217	(20,548)	35,228	66,897	**(16,579)**	**28,870**	**79,188**
Transferred from the Borough and District Councils							
ADC Section 106 Monies	134	-	-	134	**(47)**	**-**	**87**
ADC Parks & Open Spaces	215	-	-	215	**-**	**-**	**215**
ADC Housing Capital	354	(76)	-	278	**(36)**	**-**	**242**
TDC Repairs & Renewals Fund	775	-	360	1,135	**(1,747)**	**612**	**-**
TDC Highways Fund	20	(20)	-	-	**-**	**-**	**-**
TDC Kielder Funding Reserve	250	(250)	-	-	**-**	**-**	**-**
WDC Healthy Living Centres	173	(173)	-	-	**-**	**-**	**-**

	2010-11				2011-12		
	Balance as at 1 April 2010	Transfers Out	Transfers In	Balance as at 31 March 2011	**Transfers Out**	**Transfers In**	**Balance as at 31 March 2012**
	£'000	£'000	£'000	£'000	**£'000**	**£'000**	**£'000**
River Blyth Port Health Authority	27	(27)	-	-	**-**	**-**	**-**
	1,948	(546)	360	1,762	**(1,830)**	**612**	**544**
Total General Fund Reserves	54,165	(21,094)	35,588	68,659	**(18,409)**	**29,482**	**79,732**
HRA Account:							
Major Repairs Allowance	1,400	(3,594)	4,522	2,328	**(845)**	**-**	**1,483**
Total Reserves	55,565	(24,688)	40,110	70,987	**(19,254)**	**29,482**	**81,215**

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 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 2012 is £9.76 million (31 March 2011 - £9.99 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.

Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £9.74 million includes school balances of £7.92 million (£7.76 million in 2010-2011), 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 £1.82 million (£1.06 million in 2010-2011). The school balances are made up as follows:

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Unspent Balances	8,634	**8,801**
Overspent Balances	(865)	**(723)**
Loan Outstanding	(8)	**(155)**
	7,761	**7,923**

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 2012 there were three loans outstanding of £0.16 million (2010-2011: £0.01 million) for Berwick High School £0.06 million, Morpeth Chantry Middle School £0.07 million and Hipsburn First School £0.03 million.

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 £0.10 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 £0.20 million will be fully utilised during 2012-2013.

Adverse Weather Reserve

This reserve provided contingency funds for adverse weather conditions over a prolonged period. During 2010-2011, transfers from the reserve totalling £0.75 million were made to support additional spend incurred on adverse weather in that year. 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 2011-2012 and contributed to an earmarked reserve..

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 2011-2012 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, no expenditure was incurred during 2011-2012.

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 (now the Contingency Reserve)

In accordance with the capitalisation bid submitted to CLG a reserve of £10.90 million was 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. An additional £3.7m has been added to this reserve during 2011-2012 to meet future financial pressures resulting from the anticipated reductions in Central Government funding.

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.

Salix Fund

This earmarked reserve was created during 2010-2011 and has been used in relation to carbon reduction schemes. The reserve has now been closed.

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.

Adults Services Reserve

This earmarked reserve was established during 2010-2011 and added to during 2011-2012 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.

Section 106 Reserve

This was established in 2011-2012 to hold Section 106 balances.

Local Authority Mortgage Scheme

Interest received on Local Authority Mortgage Schemes is set aside to meet any potential future mortgage defaults. During 2011-2012 £0.04m was received.

Pension Cost Reserve

This reserve is used to hold sums to offset the pension liabilities of staff transferring to Northumberland Care Trust.

Invest to Save

This reserve was created as a source of funding for projects identified by officers that would, in the short to medium term, allow the council to save money by investing in new technology or changing the way business is conducted.

Transformation Projects

During 2011-12 this reserve was created by Customer & Cultural services to support the transformation of the service and associated projects that will result in savings for the service and for the council. It is anticipated that this reserve will be fully utilised during 2012-2013.

Alnwick District Council – Section 106 Monies

This reserve was established by Alnwick District Council from income received in relation to section 106 agreements, £0.05m was utilised during 2011-2012.

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 2011-2012.

Alnwick District Council – Housing Capital

This reserve was established by Alnwick District Council to fund future Affordable Housing capital expenditure. During 2011-2012, £0.04 million was utilised on funding the Housing Enabling Team.

Tynedale District Council – Repairs & Renewals Fund

This reserve was established by Tynedale District Council.ocal government reorganisation. It has been closed in the year, with the balance transferred to a new Section 106 Reserve.

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 was 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 was incorporated into General Fund reserves.

Housing Revenue Account – Major Repairs Reserve

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.

Movements in the HRA reserve are detailed in note 7 of the Notes to the Housing Revenue Account Income and Expenditure Statement.

13. Other Operating Expenditure

	2010-2011 £'000	**2011-2012** **£'000**
Parish and other precepts	4,379	**5,042**
Payments to the Government Housing Capital Receipts Pool	590	**520**
Downward Valuation of Assets Held for Sale	-	**1,605**
Losses on the disposal of non-current assets	79,007	**57,466**
Total net operating expenditure	83,976	**64,633**

14. Financing and Investment Income and Expenditure

	2010-2011 £'000	**2011-2012** **£'000**
Interest payable and similar charges	17,761	**15,808**
Pensions interest cost and expected return on pensions assets	23,020	**16,870**
Interest receivable and similar income	(1,742)	**(4,010)**
Deficit on trading undertakings	(168)	**(787)**
Income and expenditure in relation to investment properties and changes in their fair value	(1,657)	**1,976**
Total	37,214	**29,857**

15. Taxation and Non-Specific Grant Incomes

	2010-2011 £'000	**2011-2012** **£'000**
Council tax income	(156,762)	**(154,855)**
Non domestic rates	(113,725)	**(98,586)**
Non-ring fenced government grants	(45,058)	**(35,326)**
Capital grants and contributions	(49,108)	**(59,916)**
Total	(364,653)	**(348,683)**

16. Property, Plant and Equipment

Movements on Balances

Movements in 2011-2012:	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
Cost or Valuation:									
At 1 April 2011	237,545	627,029	112,160	300,675	11,847	14,067	50,964	1,354,287	89,581
Additions	6,595	10,362	12,680	15,687	22	2,278	31,684	79,308	65
Reclassifications	-	11,158	1,576	20,981	(577)	1,330	(35,666)	(1,198)	-
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(3,487)	-	-	-	2,109	-	(1,378)	-
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(8,204)	(26,220)	-	-	-	(982)	(18,804)	(54,210)	-
De-recognition - Disposals	(675)	(50,367)	(7,082)	-	(413)	(3,171)	(5,897)	(67,605)	-
De-recognition - Other	-	(979)	-	-	-	-	-	(979)	-
Assets reclassified (to)/from Held for Sale	-	(196)	-	-	-	(3,433)	-	(3,629)	-
At 31 March 2012	235,261	567,300	119,334	337,343	10,879	12,198	22,281	1,304,596	89,646
Accumulated Depreciation and Impairment:									
At 1 April 2011	-	19,313	25,352	64,616	1,309	233	-	110,823	6,259
Depreciation charge	5,447	16,141	6,610	8,931	185	155	-	37,469	3,449
Reclassifications	-	(163)	-	24	(25)	-	-	(164)	-
Depreciation written out to the Revaluation Reserve	-	(12,660)	-	-	-	(50)	-	(12,710)	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	(3,105)	-	-	-	-	-	(3,105)	-
De-recognition - Disposals	-	(887)	(6,690)	-	(85)	(57)	-	(7,719)	-
De-recognition – Other	-	(19)	-	-	-	-	-	(19)	-
At 31 March 2012	5,447	18,620	25,272	73,571	1,384	281	-	124,575	9,708
Net Book Value:									
At 31 March 2012	229,814	548,680	94,062	263,772	9,495	11,917	22,281	1,180,021	79,938
At 31 March 2011	237,545	607,716	86,808	236,059	10,538	13,834	50,964	1,243,464	83,322

The balance of reclassifications (£1.198m) relates to assets transferred to Investments Properties, Heritage Assets and Intangible Assets

Movements in 2010-2011:	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
Cost or Valuation:									
At 1 April 2010	368,671	687,105	111,000	290,928	13,774	12,940	66,476	1,550,894	87,707
Heritage Assets restatement :									
Recategorized	-	-	-	(219)	(1,548)	-	-	(1,767)	-
Newley Recatagorized	-	-	-	-	-	-	-	-	-
Restated Balance at 1 April 2010	368,671	687,105	111,000	290,709	12,226	12,940	66,476	1,549,127	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	300,675	11,847	14,067	50,964	1,354,287	89,581
Accumulated Depreciation and Impairment:									
At 1 April 2010	41,455	24,635	21,251	56,459	1,236	83	-	145,119	2,833
Heritage Assets Restated	-	-	-	-	(128)	-	-	(128)	-
Restated Balance at 1 April 2010	41,455	24,635	21,251	56,459	1,108	83	-	144,991	2,833
Depreciation charge	4,522	15,996	6,449	8,157	201	122	-	35,447	3,433
Reclassifications	-	(295)	-	-	-	295	-	-	-
Depreciation written out to the Revaluation Reserve	-	(13,511)	-	-	-	(244)	-	(13,755)	-
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	1,309	233	-	110,823	6,259
Net Book Value:									
At 31 March 2011	237,545	607,716	86,808	236,059	10,538	13,834	50,964	1,243,464	83,322
At 31 March 2010	327,216	662,470	89,749	234,250	11,118	12,857	66,476	1,404,136	84,874

17. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets held by the Council:

	Museum, Art and Artefact Collection £'000	Public Sculptures and Memorials £'000	Historic Buildings £'000	Total £'000
Cost or Valuation				
1st April 2011	1,669	903	855	3,427
Additions	-	23	60	83
Reclassifications	-	3	-	3
Disposals	(148)	-	-	(148)
Revaluations recognised in revaluation reserve	4,561	365	-	4,926
As at 31 March 2012	6,082	1,294	915	8,291
Accumulated Depreciation and Impairment :				
1st April 2011	61	61	23	145
Depreciation Charge	-	-	-	-
Disposals	(21)	`	-	(21)
Depreciation written out to the Revaluation Reserve	(40)	(9)	-	(49)
Depreciation written out to the Surplus/(Deficit) on the provision of services	-	-	-	-
As at 31 March 2012	-	52	23	75
Net Book Value 31 March 2012	6,082	1,242	892	8,216
Net Book Value 31 March 2011	1,608	842	832	3,282

	Museum, Art and Artefact Collection £'000	Public Sculptures and Memorials £'000	Historic Buildings £'000	Total £'000
Cost or Valuation				
1st April 2010	-	-	-	-
Heritage Assets restatement recategorised from within PPE	427	489	851	1,767
Heritage Assets recognised for the first time at cost	-	414	4	418
Heritage Assets recognised for the first time at valuation	1,242	-	-	1,242
Restated Balance brought forward 1 April 2010	1,669	903	855	3,427
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluations recognised in revaluation reserve	-	-	-	-
Revaluations recognised in Surplus or (Deficit) on the Provision of Service	-	-	-	-
As at 31 March 2012	1,669	903	855	3,427
Accumulated depreciation and Impairment :				
1st April 2010				
Heritage Assets restatement	60	55	13	128
Restated Balance brought forward 1 April 2010	60	55	13	128
Depreciation Charge	1	6	10	17
Disposals	-	-	-	-
Depreciation written out to the Suplus/(Deficit) on the Provision of Service				-
At 31 March 2011	61	61	23	145
Net Book Value 31 March 2011	1,608	842	832	3,282
Restated Net Book Value 31 March 2010	1,609	848	842	3,299

Heritage Assets: Five Year Summary of Transactions

It is not practicable to provide information before 1 April 2010 therefore the summary only covers two years:

	2010-2011 £'000	**2011-2012 £'000**
Cost of Acquisitions of Heritage Assets		
Museum, Art and Artefact Collection	-	**-**
Public Sculptures and Memorials	-	**86**
Historic Buildings	-	**-**
Total Cost of Purchases	-	**86**
Value of Heritage Assets Acquired by Donation		
Museum, Art and Artefact Collection	-	**-**
Public Sculptures and Memorials	-	**-**
Historic Buildings	-	**-**
Total Donations	-	**-**
Disposals of Heritage Assets		
Museum, Art and Artefact Collection	-	**(127)**
Public Sculptures and Memorials	-	**-**
Historic Buildings	-	**-**
Carrying Value	-	**(127)**
Proceeds	-	**-**
Impairment Recognised in Period		
Museum, Art and Artefact Collection	-	**-**
Public Sculptures and Memorials	-	**-**
Historic Buildings	-	**-**
Total Impairments	-	**-**
Revaluations in the Period		
Museum, Art and Artefact Collection	-	**4,600**
Public Sculptures and Memorials	-	**375**
Historic Buildings	-	**-**
Total Revaluations	-	**4,975**

Museum, Art and Artefact Collection

The Council's museum and art collections are reported on the Balance Sheet at insurance valuations. These insurance values are updated periodically by external valuers.

The Art collection includes oil paintings by Oliver Kilbourn and Charles William Mitchell, which are on display in public libraries. These were valued by a firm of fine art auctioneers (Anderson & Garland) as at 1 April 2012.

There are three museum collections:

- The Woodhorn Museum collection is on permanent loan to the Woodhorn Trust and comprises some 2,000 items relating to coal mining heritage and social history.
- A fine art collection based around the work of the Ashington group of Pitmen Painters and other local mining artists.
- The archival collection held at Woodhorn and Berwick Record Office comprises over 3 million items including public records, parish records for the Diocese of Newcastle and records of large estates, companies, organisations and private individuals. It is made up of paper records, audio, film, maps, photographs, works of art, and 13 Colliery banners given to the museum (and therefore the County Council) by the National Union of Miners.

The Berwick Museum collection which is on long term loan to the Woodhorn Trust from the County Council, the Freemen of Berwick and Berwick Town Council, and comprises the Burrell Collection of fine art collection of porcelain, natural history, social history, archaeology and works by local artists.

The Hexham Old Gaol collection, which is on loan to the Woodhorn Trust from Council, relates to the medieval border history of Northumberland and the history of the building itself.

Public Sculptures and Memorials

The Coucil's public sculptures and memorials are difficult to value and are therefore carried at cost on the Balance Sheet. These notably include the "Couple" and "Land Couple" at Newbiggin Bay and the Inspire Art works located mainly along public right-of-way around the County. The Council is also custodian of or has a duty of care for numerous war memorials and drinking fountains across the County.

Historic Buildings

The Heritage Assets category includes historic buildings held principally for their contribution to knowledge or culture where they are not used for operational purposes. These include the Blyth Battery project and Morpeth Clock Tower, and are carried at cost on the Balance Sheet. The majority of historic buildings owned by the Authority are in operational use and are therefore included with the main Property Plant and Equipment section of the Balance Sheet.

Additions and Disposals of Heritage Assets

Additions to Heritage Assets are due to improvements around war memorials such as fencing. The disposals are transfers of Civic Regalia from the County Council to Parish Councils within Northumberland.

18. 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	**2011-2012 £'000**
Rental income from investment property	(950)	**(1,039)**
Direct operating expenses arising from investment property	583	**313**
Net Gain	(367)	**(726)**

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	**2011-2012 £'000**
Balance at start of the year	19,479	**15,575**
Additions	-	**-**
Reclassifications	(3,318)	**877**
Assets reclassified (to)/from Held For Sale	-	**75**
Disposals	(1,718)	**(364)**
Net (losses)/gains from fair value adjustments	1,132	**(2,701)**
Balance at end of the year	15,575	13,462

19. 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 £0.18 million charged to revenue in 2011-2012 was charged to the IT Administration cost centre and then absorbed as an overhead across all the 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 Total Intangible Assets (Other)* £'000	**2011-2012 Total Intangible Assets (Other)* £'000**
Balance at start of year:		
Gross carrying amounts	1,588	**1,929**
Accumulated amortisation	(1,336)	**(1,599)**
Net carrying amount at start of year	252	**330**
Additions:		
- Purchases	341	**308**
Assets reclassified from PPE	-	**154**
Other Disposals	-	**(34)**
Amortisation for the period	(263)	**(178)**
Net carrying amount at end of year	78	**250**
Comprising:		
Gross carrying amounts	1,929	**2,493**
Accumulated amortisation	(1,599)	**(1,913)**

Note * The Council has no internally generated assets.

Notes to the Financial Statements

20. Financial Instruments

Categories of Financial Instruments

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

	Long - Term			Current		
	1 April 2010	31 March 2011	**31 March 2012**	1 April 2010	31 March 2011	**31 March 2012**
	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Investments						
Loans and receivables(principal)	10,070	7,402	**112,640**	41,843	47,787	**122,586**
Add: Accrued Interest	-	-	**27**	-	-	**1,387**
Total Investments	10,070	7,402	112,667	41,843	47,787	123,973
Debtors						
Loans and receivables	3,771	5,773	**10,431**	53,332	73,674	**66,715**
Total Debtors	3,771	5,773	**10,431**	53,332	73,674	**66,715**
Borrowings						
Financial liabilities at amortised cost	(234,441)	(296,401)	**(453,065)**	(14,825)	(40,219)	**(86,216)**
Add: Accrued Interest	-	-	**-**	-	(2,829)	**(4,366)**
Add : Amortised premiums/(discounts)	-	1,876	**1,848**	-	**13**	**14**
Total Borrowings	(234,441)	(294,525)	(451,217)	(14,825)	(43,035)	(90,568)
Other Long Term Liabilities						
PFI and finance lease liabilities	(76,434)	(88,603)	**(86,669)**	(284)	(231)	**(1,440)**
Total Other Long Term Liabilities	(76,434)	(88,603)	**(86,669)**	(284)	(231)	**(1,440)**
Creditors						
Financial liabilities at amortised cost	(22,245)	(25,597)	**(10,949)**	(60,342)	(64,912)	**(68,882)**
Total Creditors	(22,245)	(25,597)	**(10,949)**	(60,342)	(64,912)	**(68,882)**

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:

	2010-2011					**2011-2012**				
	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)	**(21,977)**	**-**	**-**	**-**	**(21,977)**
Impairment losses		732			732		**6,394**			**6,394**
Total expense in surplus or deficit on the provision of services	(12,867)	732	-	-	(12,135)	**(21,977)**	**6,394**	**-**	**-**	**(15,583)**
Interest income	-	1,636	-	-	1,636	**-**	**3,923**	**-**	**-**	**3,923**
Interest income accrued on impaired financial assets	-	549	-	-	549	**-**	**529**	**-**	**-**	**529**
Total income in surplus or deficit on the provision of services	-	2,185	-	-	2,185	**-**	**4,452**	**-**	**-**	**4,452**
Gain on revaluation	-	-	-	-	-	**-**	**-**	**-**	**-**	**-**
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-	**-**	**-**	**-**	**-**	**-**
Net gain/(loss) for the year	(12,867)	2,917	-	-	(9,950)	**(21,977)**	**10,846**	**-**	**-**	**(11,131)**

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-Mar-11		**31-Mar-12**	
	Carrying Amount	Fair Value	**Carrying Amount**	**Fair Value**
	£'000	£'000	**£'000**	**£'000**
PWLB - Maturity	119,573	122,348	**131,322**	**150,444**
PWLB - Annuity	1,186	1,928	**1,205**	**1,974**
PWLB - EIP	4	6	**90,619**	**96,256**
LOBOs	173,600	195,513	**235,477**	**229,525**
Temporary Loans	43,035	43,035	**77,836**	**77,836**
Cash Overdrawn	4,602	4,602	**17,970**	**17,970**
Market Loans	162	162	**5,326**	**5,326**
Financial Liabilities	342,162	367,594	**559,755**	**579,331**
Long-Term Creditors	114,200	114,200	**97,618**	**97,618**
Total Liabilities	456,362	481,794	**657,373**	**676,949**

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 2012) arising from a commitment to pay interest to lenders above current market rates.

	31-Mar-11		**31-Mar-12**	
	Carrying Amount	Fair Value	**Carrying Amount**	**Fair Value**
	£'000	£'000	**£'000**	**£'000**
Cash	56,844	56,844	**77,014**	**77,014**
Short-Term Investments	47,787	47,859	**123,973**	**123,973**
Long Term Investments	7,402	7,402	**112,667**	**114,904**
Loans and Receivables	112,033	112,105	**313,654**	**315,891**
Long Term Debtors	5,773	5,773	**10,431**	**10,431**
Total Assets	117,806	117,878	**324,085**	**326,322**

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 2012) 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.

21. Inventories

	Consumable Stores		Maintenance Materials		Total	
	31 March 2011 £'000	**31 March 2012 £'000**	31 March 2011 £'000	**31 March 2012 £'000**	31 March 2011 £'000	**31 March 2012 £'000**
Balance at start of year	472	**751**	521	**430**	993	**1,181**
Purchases	3,882	**2,979**	2,894	**3,778**	6,776	**6,757**
Recognised as an expense in the year	(3,603)	**(2,905)**	(2,985)	**(3,876)**	(6,588)	**(6,781)**
Written off balances	-	**-**	-	**(29)**	-	**(29)**
Balance at end of year	751	825	430	303	1,181	**1,128**

22. Debtors

	31 March 2011 £'000	31 March 2012 £'000
Short Term		
Central government bodies	13,781	**12,416**
Other local authorities	5,906	**4,960**
NHS bodies	5,615	**2,149**
Public corporations and trading funds	8,547	**387**
Other entities and individuals	39,825	**39,777**
Total Short Term	73,674	**59,689**
Long Term		
NCC - Probation	681	**681**
NCC - Airport Loan Notes	394	**-**
NCC - Car Loans to Employees	51	**24**
NCC - Soft Loans (Adoptive Parents)	14	**11**
NCC - Homes for Northumberland	-	**1,384**
Lloyds TSB Lend a Hand Scheme	-	**2,000**
Northumberland College	2,727	**2,565**
Northumbria Healthcare Trust LGPS Loan	-	**2,775**
Northumbria Healthcare Trust LGPS Soft Loan Notional Interest	-	**(568)**
North Country Leisure - Soft Play	3	**-**
North Country Leisure - Office Accommodation	111	**101**
North Country Leisure - Ten Pin Bowling	607	**571**
Tynedale Golf Club	2	**-**
Finance Lease Receivable	676	**641**
HFN Soft Loan Notional Interest	-	**(252)**
ADC – Anchor Trust (Erection of dwellings at West Crescent)	57	**57**
ADC – Anchor Trust (Erection of dwellings at Bailiffgate)	13	**12**
ADC – Anchor Trust (Erection of dwellings at Percy Street)	24	**22**
ADC - Amble Development Trust	4	**-**
ADC - Alnwick Playhouse Trust	1	**-**
BVBC - Right to Buy Mortgages	-	**-**
BVBC - Lydia's House Project	20	**20**
CMBC – Large Scale Voluntary Transfer Project Costs	-	**-**
CMBC – Your Homes Newcastle	349	**338**
CMBC - Anchor Housing Association	21	**20**
CMBC – 1985 Act Sales	-	**-**
TDC – Loans to Parishes	18	**17**
TDC – Leisure Tynedale	-	**-**
TDC –Tyne Green Golf Club	-	**-**
WDC – HRA Mortgages	-	**-**
WDC – Housing Act Advances Mortgages	-	**12**
Total Long Term	5,773	**10,431**
Total Debtors	79,447	**70,120**

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 2012 £'000
Cash and Bank Balances	56,844	**77,014**
Bank overdraft	(4,602)	**(17,970)**
Total Cash and Cash Equivalents	52,242	**59,044**

24. Assets Held for Sale

	Current		Non-Current	
	2010-2011	2011-2012	2010-2011	2011-2012
	£'000	£'000	£'000	£'000
Balance at 1 April	20,471	**9,916**	3,424	**2,333**
Assets newly classified as held for sale:				
Property, Plant and Equipment	2,929	**3,629**	11,131	**(75)**
Other assets/liabilities in disposal groups	-	-	3,509	-
Revaluation Losses	(18,000)	**(1,412)**	(9,064)	**(193)**
Revaluation gains	-	-	-	-
Assets declassified as held for sale:				
Property, Plant and Equipment	(13)	-	-	-
Other assets/liabilities in disposal groups	-	-	(191)	-
Assets sold	(3,431)	**(3,779)**	(81)	**(625)**
Transfers from non current to current	7,960	**800**	(7,960)	**(800)**
Other movements	-		1,565	
Balance outstanding at year-end	9,916	**9,154**	2,333	**640**

25. Creditors

	31 March 2011	**31 March 2012**
	£'000	**£'000**
Central government bodies	(5,891)	**(9,461)**
Other local authorities	(79)	**(2,325)**
NHS bodies	(2,701)	**(4,522)**
Public corporations and trading funds	(995)	**(3,572)**
Other entities and individuals	(55,477)	**(43,416)**
Total	(65,143)	**(63,296)**

26. Provisions

	Redundancy Costs	Unequal Pay Back Pay	Single Status	Accumulated Absences	Other	Ford Castle	Planning and Public	CRC Provision	School Meals Fund	MMI Liability	Total
Short Term	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2010	(2,697)	(20,326)	-	(6,820)	(172)	-	-	-	-	-	(30,015)
Amounts used in 2010-2011	1,441	1,551	-	6,820	60	-	-	-	-	-	9,872
Additional provisions made in 2010-2011	(4,758)	-	(7,267)	(4,348)	(20)	-	-	-	-	-	(16,393)
Unused amounts reversed in 2010-2011	1,256	-	-	-	33	-	-	-	-	-	1,289
Balance at 1 April 2011	(4,758)	(18,775)	(7,267)	(4,348)	(99)	-	-	-	-	-	(35,247)
Additional provisions made in 2011-2012	(2,935)	(6,538)	-	(12,692)	(54)	(825)	(415)	(437)	(100)	(1,239)	(25,235)
Amounts used in 2011-2012	4,464	1,172	7,267	4,348	17	-	-	-	-	-	17,268
Unused amounts reversed in 2011-2012	294	-	-	-	68	-	-	-	-	-	362
Short Term Balance at 31 March 2012	(2,935)	(24,141)	-	(12,692)	(68)	(825)	(415)	(437)	(100)	(1,239)	(42,852)
Long Term											
Balance at 1 April 2011	-	-	-	-	-	-	-	-	-	-	-
Additional provisions made in 2011-2012	-	-	-	-	-	-	-	-	-	-	-
Long Term Balance at 31 March 2012	-	-	-	-	-						-
Balance at 31 March 2012	(2,935)	(24,141)	-	(12,692)	(68)	(825)	(415)	(437)	(100)	(1,239)	(42,852)

Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2011-2012 (and for comparative amounts during 2010-2011) 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 was recognised in the 2010-2011 accounts to provide for back pay and protection costs which were estimated to the liable during 2011-12 as a result of single status. The provision covered both schools and non-schools liabilities and has been fully utilised

Accumulated Absences

Accumulated absence refers to contractual benefits received by employees, 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 2012 will be extinguished in 2012-2013 as the relevant leave is taken by employees.

MMI Liability

£1.25 million has been included in provisions to meet potential future liabilities arising from the Council's participation in a Scheme of Arrangement with MMI (see Note 49 for full details). £1.25 million is considered to be the likely liability falling to the Council if MMI does not achieve a solvent run-off. The timing of the crystallisation of these liabilities depends on the management of its assets and liabilities by MMI and is therefore uncertain.

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 in Note 11.

28. Unusable Reserves

	1 April 2010 As Restated £'000	31 March 2011 As Restated £'000	**31 March 2012 £'000**
Revaluation Reserve	168,730	161,228	**168,470**
Pensions Reserve	(704,960)	(514,660)	**(631,720)**
Capital Adjustment Account	821,927	617,322	**536,656**
Deferred Capital Receipts Reserve	1,915	1,494	**1,047**
Financial Instruments Adjustment Account	3,596	3,675	**2,382**
Collection Fund Adjustment Account	(3,311)	4,413	**2,797**
Unequal Pay Back Pay Account	(180)	(180)	**(180)**
Accumulated Absences Adjustment Account	(6,820)	(4,348)	**(12,692)**
Total Unusable Reserves	280,897	268,944	**66,760**

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.

	2010-2011 As Restated £'000	**2011-2012 £'000**
Balance at 1 April	167,070	**161,228**
Heritage Restatement	1,660	**-**
Restated Balance 1 April	168,730	**161,228**
Upward revaluation of assets	21,226	**36,493**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(18,582)	**(20,186)**
Difference between fair value depreciation and historical cost depreciation	(4,367)	**(3,622)**
Accumulated gains on assets sold or scrapped	(5,779)	**(5,169)**
Amount written off to the Capital Adjustment Account (Re Investment Assets)	-	**(274)**
Balance at 31 March	161,228	**168,470**

Pensions Reserve

Pension costs are recognised in the year in which the benefit entitlements are earned by 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	**2011-2012 £'000**
Balance at 1 April	(704,960)	**(514,660)**
Actuarial gains or losses on pensions assets and liabilities	63,800	**(117,160)**
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	**(35,670)**
Employer's pensions contributions and direct payments to pensioners payable in the year	35,390	**35,770**
Restatement regarding Fire ill health and non scheme ill health pensioners (see note 2 to the financial statements)	-	
Balance at 31 March	(514,660)	**(631,720)**

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	**2011-2012 £'000**
Balance at 1 April	821,927	**617,322**
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)	**(37,469)**
Deficit on Available-for-Sale financial assets	-	**(1,605)**
Revaluation losses on Property, Plant and Equipment	(156,592)	**(51,105)**
Amortisation of intangible assets	(263)	**(178)**
Revenue expenditure funded from capital under statute *	(19,574)	**(18,400)**
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)	**(65,775)**
Recognition of Donated Assets	-	**-**
Adjusting amounts written out of the Revaluation Reserve	10,146	**9,065**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	4,590	**7,847**
Use of the Major Repairs Reserve to finance new capital expenditure	3,594	**6,291**
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	23,225	**51,325**
Application of grants to capital financing from the Capital Grants Unapplied Account	34,247	**6,523**
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	11,462	**12,839**
Capital expenditure charged against the General Fund and HRA balance	2,707	**2,677**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	1,132	**(2,701)**
Balance at 31 March	617,322	**536,656**

*Includes the reversal of Icelandic Impairments

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 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	**2011-2012 £'000**
Balance at 1 April	1,915	**1,494**
Finance Lease receivables principal	(25)	**(35)**
Transfer to the Capital Receipts Reserve upon receipt of cash	(396)	**(412)**
Balance at 31 March	1,494	**1,047**

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 SORP Code.

	2010-2011 £'000	**2011-2012 £'000**
Balance at 1 April	3,596	**3,675**
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	-	**-**
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(703)	**(726)**
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	**(567)**
Balance at 31 March	3,675	**2,382**

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.

	2010-2011 £'000	**2011-2012 £'000**
Balance at 1 April	(3,311)	**4,413**
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	**(1,616)**
Balance at 31 March	4,413	**2,797**

Unequal Pay Back Pay Account

The Unequal Back Pay Account compensates for the differences between the rate at which the Authority provides for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund balance until such time as cash might be paid out to claimants.

	2010-2011 £'000	**2011-2012 £'000**
Balance at 1 April	(180)	**(180)**
Increase in provision for back pay in relation to Equal Pay cases	-	-
Capitalisation approval	-	-
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	**2011-2012 £'000**	**2011-2012 £'000**
Balance at 1 April		(6,820)		**(4,348)**
Settlement or cancellation of accrual made at the end of the preceding year	6,820		**4,348**	
Amounts accrued at the end of the current year	(4,348)		**(12,692)**	
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		**(8,344)**
Balance at 31 March		(4,348)		**(12,692)**

29. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2010-2011 £'000	**2011-2012 £'000**
Interest received	(4,016)	**(4,701)**
Interest paid	12,448	**23,445**
Dividends received	-	**-**

30. Cash Flow Statement – Investing Activities

	2010-2011 £'000	**2011-2012 £'000**
Purchase of property, plant and equipment, investment property and intangible assets	(88,638)	**(81,474)**
Purchase of short term and long term investments	(3,151)	**(388,250)**
Other payments for investing activities	(3,449)	**(2,322)**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	4,836	**8,167**
Proceeds from short term and long term investments	1,293	**214,393**
Other receipts from investing activities	52,995	**45,688**
Net cash flows from investing activities	(36,114)	**(203,798)**

31. Cash Flow Statement – Financing Activities

	2010-2011 £'000	**2011-2012 £'000**
Cash receipts of short term and long term borrowing	116,888	**309,561**
Other receipts from financing activities	-	**5,809**
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(316)	**(1,457)**
Repayments of short- and long term borrowing	(29,181)	**(106,206)**
Other payments for financing activities	-	**-**
Net cash flows from financing activities	87,391	**207,707**

32. Cash Flow Statement – Net Deficit on the Provision of Services for Non-Cash Movements

	2010-2011 £'000	**2011-2012 £'000**
Depreciation	30,658	**37,469**
Impairment and downward valuations	179,096	**52,710**
Amortisation	263	**178**
Material Impairment losses on Investments debited to surplus or deficit on the provision of services in year.	(1,132)	**-**
Soft Loans (non-subsidiary) - Interest adjustment credited to the Income and Expenditure Account during year	3	**568**
Increase/Decrease in Interest Creditors	586	**1,537**
Increase/Decrease in Creditors	14,713	**(2,608)**
Increase/Decrease in Interest and Dividend Debtors	(1,528)	**(2,618)**
Increase/Decrease in Debtors	(30,602)	**7,921**
Increase/Decrease in Inventories	(188)	**53**
Pension Liability	(126,500)	**(100)**
Contributions to/(from) provisions	5,233	**7,605**
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	84,099	**65,775**
Amount by which Council Tax income included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation	(7,723)	**-**
Carrying amount of short and long term investments sold	-	**-**
Movement in Investment Property Values	-	**2,702**
	146,978	**171,192**

33. Cash Flow Statement – Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities

	£'000	**£'000**
Capital Grants credited to surplus or deficit on the provision of services	(53,351)	**(59,917)**
Proceeds from the sale of short and long term investments	(1,293)	**-**
Premiums or Discounts on the repayment of financial liabilities	1,888	**(6,394)**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,154)	**(8,426)**
	(57,910)	**(74,737)**

34. Acquired and Discontinued Operations

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

35. 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 in the following table.

	2010-2011 Income	Cost	(Surplus) / Deficit	2011-2012 Income	Cost	(Surplus) / Deficit
	£'000	£'000	£'000	**£'000**	**£'000**	**£'000**
Catering Daily school meals service to all but 51 of the County's schools (11,145 meals per day). Civic catering for specific functions and operation of the staff restaurant.	(6,830)	8,020	1,190	**(6,389)**	**6,745**	**356**
Cleaning and Caretaking Building cleaning and caretaking at schools and other establishments, facilities management at County Hall & Hepscott Park.	(9,887)	9,966	79	**(10,899)**	**10,959**	**60**
Property A comprehensive architectural design, property maintenance, consultancy advice service and management of the estates portfolio.	(5,204)	5,302	98	**(5,207)**	**6,032**	**825**
Central and Other Services The Council operates several central services with a financial break-even objective or achievement of agreed budgets.	(36,942)	37,999	1,057	**(33,416)**	**31,388**	**(2,028)**
Total Trading Operations	(58,863)	61,287	2,424	**(55,911)**	**55,124**	**(787)**

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 14):

	2010-2011	2011-2012
	£'000	**£'000**
Net deficit on trading operations	168	**(787)**
Support services recharged to Expenditure of Continuing Operations	-	**-**
Net deficit credited to Other Operating Expenditure	168	**(787)**

36. Members' Allowances

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

	2010-2011	2011-2012
	£'000	**£'000**
Salaries	224	**172**
Allowances	1,216	**1,233**
Expenses	69	**75**
Total	1,509	**1,480**

37. 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 All Employees	**2011-2012 All Employees**
£50,000 to £54,999	140	**127**
£55,000 to £59,999	58	**70**
£60,000 to £64,999	40	**36**
£65,000 to £69,999	17	**22**
£70,000 to £74,999	9	**12**
£75,000 to £79,999	5	**7**
£80,000 to £84,999	2	**6**
£85,000 to £89,999	9	**11**
£90,000 to £94,999	4	**3**
£95,000 to £99,999	-	**3**
£100,000 to £104,999	2	**1**
£105,000 to £109,999	2	**-**
£110,000 to £114,999	2	**-**
£115,000 to £119,999	-	**2**
£120,000 to £124,999	-	**-**
£125,000 to £129,999	-	**2**
£130,000 to £134,999	-	**-**
£135,000 to £139,999	-	**1**
£140,000 to £144,999	-	**1**
£145,000 to £149,999	-	**-**
£150,000 to £154,999	-	**-**
£155,000 to £159,999	-	**-**
£160,000 to £164,999	-	**-**
£165,000 to £169,999	-	**-**
£170,000 to £174,999	1	**1**
£175,000 to £179,999	1	**-**
£180,000 to £184,999	-	**-**
£185,000 to £189,999	-	**-**
£190,000 to £194,999	-	**-**
£195,000 to £199,999	-	**-**
£190,000 to £194,999	-	**-**
£195,000 to £199,999	-	**-**
£200,000 to £204,999	-	**-**
£205,000 to £209,999	-	**-**
£210,000 to £214,999	-	**-**
£215,000 to £219,999	1	**-**
Total	293	**305**

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.

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 page 69.

2011-2012

Post Holder Information	Salary £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in kind £	Total Remuneration £	Pension Contributions £	Total Remuneration incl. Pension Contributions £
Senior Officers emoluments – salary is £150,000 or more per year								
Chief Executive Steve Stewart	170,234	-	-	-	-	**170,234**	-	**170,234**
Senior Officers emoluments – salary is between £50,000 and £150,000 per year								
Deputy Chief Executive – Kate Roe	132,500	-	6,995	-	4,425	**143,920**	19,610	**163,530**
Corporate Director of Children's Services – Paul Moffat	125,000	-	-	-	3874	**128,874**	18,500	**147,374**
Corporate Director of Local Services, Caroline Bruce	122,500	-	1,743	-	4425	**128,668**	18,130	**146,798**
Corporate Director of Adult Services - Daljit Lally ①	130,000	-	-	-	7,541	**137,541**	19,240	**156,781**
Corporate Director of Finance - Steven Mason	114,706	-	197	-	10,410	**125,313**	17,423	**142,736**
Chief Fire Officer - Alex Bennett	98,129	-	-	-	-	**98,129**	20,901	**119,030**

Notes:

① Jointly funded post with the Northumbria Healthcare Foundation Trust, each organisation pays 50% of costs.

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 £
Senior Officers emoluments – salary is £150,000 or more per year								
Chief Executive Steve Stewart	172,498	- -		-	-	**172,498**	-	**172,498**
Senior Officers emoluments – salary is between £50,000 and £150,000 per year								
Deputy Chief Executive – Kate Roe ①	67,069	-	1,930	-	-	**68,999**	12,139	**81,138**
Corporate Director of Children's Services – Paul Moffat ②	104,246	- -		-	811	**105,057**	18,869	**123,926**
Corporate Director of Local Services, Caroline Bruce ③	61,958	-	1,832	-	-	**63,790**	11,214	**75,004**
Corporate Director of Adult Services - Daljit Lally ④	169,450	- -		-	7,221	**176,671**	30,670	**207,341**
Corporate Director of Finance - Steven Mason	111,342	- -		-	5,869	**117,211**	20,153	**137,364**
Acting Chief Fire Officer - Alex Bennett ⑤	92,437	- -		-	-	**92,437**	19,689	**112,126**
Executive Director of Performance ⑥	3,458	- -		107,063	71	**110,592**	626	**111,218**
Executive Director of Place - Richard Robson ⑦	126,782	- -		190,423	3,608	**320,813**	16,689	**337,502**
Director of Corporate Services ⑧	46,956	- -		189,000	2,005	**237,961**	8,499	**246,460**
Director of Community Safety & Chief Fire Officer -Brian Hesler ⑨	37,565	- -		-	-	**37,565**	1,000	**38,565**

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.

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.

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages	
	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012	2010-2011	2011-2012
£0 - £20,000	-	85	276	353	276	438	2,287,593	2,974,860
£20,001 - £40,000	-	14	86	65	86	79	2,479,736	2,147,797
£40,001 - £60,000	-	2	32	17	32	19	1,512,263	924,359
£60,001 - £80,000	-	1	13	4	13	5	924,848	357,801
£80,001 - £100,000	-	1	6	6	6	7	523,710	644,978
£100,001 - £150,000	-	-	5	1	5	1	556,647	136,756
£150,001 - £200,000	-	-	1	-	1	-	172,559	-
£200,001 - £250,000	-	-	1	2	1	2	341,963	429,083
	-	103	420	448	420	551	8,799,319	7,615,634

The table above discloses exit packages that have been agreed, accrued for and charged to the Council’s Comprehensive Income and Expenditure Statement in 2011-2012. The table above includes a provision for £2.94 million which has been agreed and is payable to 163 officers.

38. 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	**2011-2012 £'000**
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	505	**425**
Fees payable to the appointed auditor in respect of statutory inspections	49	**32**
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	63	**54**
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	**0**
Fees payable in respect of any other services provided by the appointed auditor during the year	24	**23**
Total	657	**534**

Notes:

The value of audit fees for grant work related to the 2012-2013 accounts is not known at this stage. The figure that has been included is related to fees paid in 2011-2012 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 2011-2012.

39. 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.

Details of the deployment of DSG receivable for 2011-2012 are as follows:

	Schools Budget Funded by DSG Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2011-2012	-	-	189,077
Brought forward from 2010-2011	-	-	(2,104)
Agreed budgeted distribution in 2011-2012	15,222	171,751	186,973
In Year Adjustments	3,570	(10,557)	(6,987)
Final Budget Distribution for 2011-12	18,792	161,194	179,986
Actual Central Expenditure	(16,878)	-	(16,878)
Actual ISB deployed to Schools	-	(161,194)	(161,194)
Carried forward to 2012-2013	1,914	-	1,914

40. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure: Statement in 2011-2012:

	2010-2011 As Restated £'000	**2011-2012 £'000**
Credited to Taxation and Non Specific Grant Income		
Revenue		
Revenue Support Grant	16,514	**30,473**
Council Tax Freeze Grant	-	**3,750**
New Homes Bonus Grant	-	**1,103**
Area Based Grant	28,544	**-**
Total Revenue	45,058	**35,326**
Capital		
Big Lottery	289	**618**
Commission for Architecture and Built Environment (CABE)	1,000	**-**
DCLG	-	**-**
DCLG - Disabled Facilities Grant	981	**1,238**
DCLG - Equality and Diversity	34	**-**
DCLG - Fire Brigade Modernisation Fund	631	**785**
DCLG - Fire Control Room	-	**1,400**
DCLG - Growth Fund	1,835	**-**
DCLG - Local Enterprise Growth Initiative	-	**983**
DCLG - Single Housing Investment Programme	1,651	**-**
DCSF - Schools Capital Maintenance Grant	-	**6,812**
DfE - Playbuilder	461	**-**
DfE - Secure Unit Grants	1,075	**1,195**
Department for Energy and Climate Change	154	**18**
Department for Environment, Food and Rural Affairs (Waste Infrastructure)	199	**-**
Department for Environment, Food and Rural Affairs (Flood Rescue Grant)	-	**36**
Department for Transport	2,022	**16,946**
Department of Health	307	**678**
European Regional Development Fund	-	**166**
English Heritage	75	**3**
Environment Agency	217	**1,324**
Football Foundation	374	**140**
Gateshead NHS Primary Care Trust	91	**139**
Heritage Lottery Fund	-	**177**
Home Improvement Agency	-	**417**
Home Office - Safer Stronger Communities	60	**-**
Homes and Communities Agency	2,759	**550**
Northumberland Health Care Trust	-	**211**
One North East	212	**(1,030)**
Other	474	**651**
Single Programme	4,238	**-**

	2010-2011 As Restated £'000	2011-2012 £'000
Sport England	(134)	-
Standards Fund	25,083	25,248
Sure Start	2,833	-
Sustrans	2,187	1,211
Total Capital	49,108	59,916
Total Credited to Taxation and Non Specific Grant Income	94,166	95,242
Grants Credited to Services		
Revenue		
Big Lottery – Play Workers / Play Fund	101	-
Bus Service Grant	104	-
Child Development Grant	162	-
Children's and Young People Grant	747	-
Climate Change	-	80
Concessionary Fares Grant	1,254	-
Consortium Support Grant	376	-
Contactpoint	176	-
Council Tax Benefit Subsidy Grant	99,406	105,428
Countryside Agency	188	106
Criminal Justice Grant	277	90
Cycle Scheme	-	106
Dedicated Schools Grant	163,056	182,090
Discretionary Rent Allowance Subsidy	670	57
Early Intervention Grant	-	12,421
Enhanced Services Programme	58	-
European Community Grants	182	79
European Regional Development Fund	1,128	1,198
Fire Control Grant	-	400
Fire Revenue Grant	-	146
Football Foundation Grant	86	75
Future Jobs Fund	946	198
Gaining Ground Funding	68	-
Grant in Support of ISB	11,223	3,058
Homes and Communities	-	270
Housing Subsidy	1,289	-
Integrated Working Workforce Reform Grant	62	-
LAA Reward Grant	2,383	(45)
LD Campus Closure Programme	125	-
Learning Disability and Health Reform	-	8,900
Local Carbon Framework Pilot	249	-
Local Enterprise Growth Initiative	1,501	(10)
Local Services Support Grant	829	1,372
Lottery Funding	151	24
Migration Impacts Grant	251	-
Minor Repairs - Adaptations Handyperson	185	-
National Institute of Adult Continuing Education – Transformation Fund	89	-
Neighbourhood Front Runners Grant	-	80
Other Grants	2,091	2,192
Other Local Authorities	106	-
Planning Delivery Grant	154	-
Positive Futures	85	85
Preventing Homelessness Grant	-	99
Private Finance Initiative	4,557	4,760
Schools Sports Partnership Grant	254	270
Single Programme Grant	1,544	334
Skills Funding Agency	2,426	2,461
Social Care IT Infrastructure Grant	88	112
Social Care Reform Grant	936	(10)
Sport England	493	332
Standards Fund	20,223	375

	2010-2011 As Restated £'000	**2011-2012** **£'000**
Strategic Housing and Investment Programme	90	**-**
Stroke After Care Grant	99	**-**
Support for Training	-	**91**
Sure Start	10,727	**-**
Sustainable Transport Fund	-	**151**
Targeted Mental Health in Schools	218	**-**
Teacher Development Agency	408	**266**
Unaccompanied Asylum Seeking Children Grant	46	**83**
Winter Maintenance Grant	-	**3,112**
Young Peoples Learning Agency	29,869	**24,148**
Young People Substance Misuse Partnership	124	**168**
Youth Opportunity Fund	123	**-**
Total Revenue Grants	361,983	**355,152**
Donations		
Contributions to Shared Schemes	158	**215**
Contributions towards Music	1,591	**1,418**
Contributions towards Swimming	402	**363**
CWDC NVQ income	103	**324**
Donations	362	**170**
Youth Justice Board	805	**858**
Milk Subsidy	152	**254**
European Elections	413	**366**
Northumberland Care Trust	14,859	**12,654**
Other Contributions	6,287	**5,411**
Parental Contributions	283	**292**
Police Authority Contribution	293	**83**
Probation Contribution	64	**64**
PTA / School Fund Contributions	543	**417**
S117 Health Contribution	1,549	**1,721**
Social Care Demonstration Site	243	**426**
Student Placement Contributions	349	**27**
Total Donations	28,456	**25,063**
Total Credited to Services	390,439	**380,215**

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:

	31 March 2011 £'000	**31 March 2012 £'000**
Capital Grant Receipts in Advance		
Big Lottery	63	**-**
DCLG - Fire Brigade Modernisation Fund	25	**-**
Department for Transport	950	**278**
Environment Agency	406	**710**
Football Foundation	18	**-**
Gateshead NHS Primary Care Trust	139	**-**
Home Office (Safer Stronger Communities)	5	**5**
Homes and Communities Agency	1,679	**1,129**
Northumberland Healthcare Trust	2,330	**2,122**
One North East	59	**34**
Other	242	**165**
Standards Fund	19,665	**6,490**
Sure Start	16	**16**
Total Capital Grant Receipts in Advance	25,597	**10,949**
Revenue Grant Receipts in Advance		
Contributions to Local Resilience Forum	44	**-**
Contributions to Northumberland Sport	188	**-**
Contributions to Woodland Management Schemes	23	**-**
Countryside Agency	3	**55**
Cycle Grant	-	**21**
English Heritage Grants	-	**28**
Environment Agency Coast Protection Grant	-	**20**
European Elections	15	**18**
European Marine Site Project	-	**29**
Flood Alleviation Grant	25	**-**
Groundwork NE Grant	-	**33**
KickStart Grant	-	**26**
Natural England Growing Wild Project	22	**-**
New Burdens Grant	-	**76**
Other Contributions	8	**2**
Other Grants	9	**18**
Parental Contributions	-	**21**
Scottish Advisory Unit	30	**-**
Social Care Demonstration Grant	43	**-**
Work Programme Grant	-	**223**
Total Revenue Grant Receipts in Advance	410	**570**
Total Receipts in Advance	26,007	**11,519**

41. 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 2011-2012 that are considered to be related parties:

- Homes for Northumberland
- Arch Group
- Rural Enterprise Action

Arch Group 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. There were no transactions with Rural Enterprise Action.

Transactions and balances with Homes for Northumberland were as follows:

	£'000
Expenditure made by the Council to Homes for Northumberland in 2011-2012	12,119
Income to the Council from Homes for Northumberland in 2011-2012	2,207
Amounts due to the Council from Homes for Northumberland at 31 March 2012	2,807
Amounts owed by the Council to Homes for Northumberland at 31 March 2012	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 2011-2012 the Pension Fund had an average balance of £1.93 million borrowed from the Council for which it paid 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 2011-2012 these costs amounted to £0.58 million (2010-2011 £0.58 million). £3.56 million was due to the Council at 31 March 2012 (£4.00 million was due to the Council at 31 March 2011).

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	-	27,525

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2011-2012 goods and services were commissioned from organisations in which Councillors had an interest. Also, funding consists of other grants paid to organisations in which members had an interest. All interests were declared by the appropriate Members. Members had interests in 107 organisations with transactions totalling £43.63 million.

During 2011-2012, goods and services amounting to £15.98 million were provided by the Council to 83 organisations in which Councillors had an interest.

Included in the above sums are amounts due from the Council of £0.68 million and due to the Council of £1.44 million as at 31 March 2012.

Officers

During 2011-2012 goods and services were provided to or commissioned from organisations in which officers had an interest. All interests were declared by the appropriate officers. Officers had interests in 8 organisations with transactions totalling £16.48 million in respect of goods or services provided to the Council.

During 2011-12 goods and services amounting to £47.08 million were provided by the Council to 7 organisations in which Officers had an interest.

Included in the above sums are amounts due from the Council of £0.24 million and due to the Council of £2.29 million as at 31 March 2012.

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

42. 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.

	2010-2011 £'000	**2011-2012 £'000**
Opening Capital Financing Requirement	460,410	**496,351**
Capital investment		
Property, plant and equipment	96,477	**79,699**
Capital Long Term Debtors	-	**3,412**
Revenue Expenditure Funded From Capital under Statute (REFCUS)	19,574	**24,746**
Reversal of Capitalisation re Icelandic Impairments (REFCUS)	-	**(6,346)**
Sources of finance		
Capital receipts	(4,590)	**(7,847)**
Government grants and other contributions	(57,472)	**(57,848)**
Sums set aside from revenue/Major Repairs Reserve:	(3,594)	**(6,291)**
Direct revenue contributions	(2,707)	**(2,677)**
Minimum Revenue Provision	(11,747)	**(12,839)**
Closing Capital Financing Requirement	496,351	**510,360**
Explanation of movements in year		
Increase in underlying need to borrowing (supported by government financial assistance)	19,516	**-**
Increase in underlying need to borrowing (unsupported by government financial assistance)	15,053	**26,847**
Minimum Revenue Provision	(11,747)	**(12,838)**
Assets acquired under PFI / PPP contracts	13,119	**-**
Increase in Capital Financing Requirement	35,941	**14,009**

43. 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 2012 £'000**
Vehicles, Plant, Furniture and Equipment	1,157	**907**

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:

	31 March 2011 £'000	**31 March 2012 £'000**
Finance lease liabilities (net present value of minimum lease payments):		
Current	231	**218**
Non Current	908	**689**
Finance costs payable in future years	280	**205**
Minimum lease payments	1,419	**1,112**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011 £'000	**31 March 2012 £'000**	31 March 2011 £'000	**31 March 2012 £'000**
Not later than one year	290	**274**	258	**233**
Later than one year and not later than five years	910	**620**	710	**581**
Later than five years	219	**218**	189	**93**
	1,419	**1,112**	1,157	**907**

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 2012** £'000
Not later than one year	2,776	**2,554**
Later than one year and not later than five years	3,833	**5,178**
Later than five years	5,136	**4,526**
	11,745	**12,258**

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

	31 March 2011 £'000	**31 March 2012** £'000
Minimum lease payments	3,172	**3,250**

Council as Lessor

Finance Leases

The Council has the following leased out properties which are categorised as Finance Leases:

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
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 2012 £'000**
Finance lease debtor (net present value of minimum lease payments):		
current	34	**35**
non current	641	**606**
Unearned finance income	435	**379**
Unguaranteed residual value of property	467	**467**
Gross investment in the lease	1,577	**1,487**

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 2012 £'000**	31 March 2011 £'000	**31 March 2012 £'000**
Not later than one year	90	**88**	90	**88**
Later than one year and not later than five years	352	**352**	352	**352**
Later than five years	1,135	**1,047**	668	**580**
	1,577	**1,487**	1,110	**1,020**

Operating Leases

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

- For provision of community services, such as sports facilities and playgroups
- For economic development purposes to provide suitable affordable accommodation for local businesses

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

	31 March 2011 £'000	**31 March 2012 £'000**
Not later than one year	1,096	**960**
Later than one year and not later than five years	1,330	**527**
Later than five years	1,044	**952**
	3,470	**2,439**

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

44. 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	1 April 2010 £'000	31 March 2011 £'000	**31 March 2012 £'000**
Waste PFI	(59,266)	(58,909)	**(58,517)**
Fire PFI	-	(12,955)	**(12,786)**
Other finance leases (Note 41)	(1,139)	(908)	**(689)**
Total Finance Lease Liability	(60,405)	(72,772)	**(71,992)**

Long term deferred credits	1 April 2010 £'000	31 March 2011 £'000	**31 March 2012 £'000**
Waste PFI	(16,029)	(15,831)	**(14,677)**
Total Deferred Credits	(16,029)	(15,831)	**(14,677)**
Total Long Term Creditors	(76,434)	(88,603)	**(86,669)**

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

45.1 Waste PFI

2011-2012 was the fifth year of a twenty-eight year integrated Waste PFI contract covering the construction, maintenance and operation of a range of waste treatment facilities and reception, storage, transport, recycling, composting, energy recovery and landfill disposal of household and commercial wastes collected by the County Council. The Authority has the rights under the agreement to use the various waste facilities for the provision of Waste Services.

The contract specifies a minimum standard for the services to be provided by the contractor. In the event of a service performance shortfall or if facilities become unavailable deductions will be made to the Unitary Charge payable. The contractor took on the obligation to ensure at all times that the Services at each centre meet all the requirements of the Agreement, the Services Specification, the Service Delivery Proposals, Good Industry Practice, Guidance and all applicable Authorities' Policies and Legislation.

The Buildings and any plant and equipment at the end of the Agreement will be transferred to the Authority for nil consideration, with the exception of an extension to an existing Energy from Waste facility located outside of the Council's administrative area that will revert to the Contractor as it will be at the end of its useful operational life.

The Authority has the right to terminate the Agreement by giving the agreed notice period and paying the Authority Default Termination Sum, as detailed in the Agreement.

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 2011-2012:

	2010-2011 £'000	2011- 12 Plant Shell £'000	2011-12 Project Assets £'000	**2011-2012 £'000**
Cost brought forward 1 April	87,707	13,566	74,098	**87,664**
Disposals in year	(43)	-	-	**0**
Additions in year	-	-	-	**0**
Cost carried forward 31 March	87,664	13,566	74,098	**87,664**
Restated accumulated depreciation brought forward 1 April	(2,833)	(793)	(5,410)	**(6,203)**
Disposals	7	-	-	**0**
Depreciation charge for year	(3,377)	(522)	(2,850)	**(3,372)**
Depreciation at 31 March	(6,203)	(1,315)	(8,260)	**(9,575)**
Net book value carried forward 31 March	81,461	12,251	65,838	**78,089**

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2011-2012:

	2010-2011 £'000	2011- 12 Plant Shell £'000	2011-12 Project Assets £'000	**2011-2012 £'000**
Lease liability brought forward 1 April	59,266	11,892	47,343	**59,235**
Additions	15	-	-	**0**
Payments made in year	(46)	(62)	(265)	**(327)**
Liability carried forward 31 March	59,235	11,830	47,078	**58,908**

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.

	As at 31 March 2011 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	**As at 31 March 2012 Total £'000**
Within one year	19,232	1,052	391	7,010	11,794	**20,247**
Within two to five years	82,156	4,420	2,538	28,796	50,552	**86,306**
Within six to ten years	113,962	6,041	4,998	37,625	71,210	**119,874**
Within eleven to fifteen years	130,184	6,670	10,700	38,802	81,243	**137,415**
Within sixteen to twenty years	150,003	7,364	20,615	37,188	93,225	**158,392**
Within twenty-one to twenty-five years	136,099	4,782	19,666	19,403	62,388	**106,239**
Within twenty-six to thirty years	-	-	-	-	-	**-**
	631,636	30,329	58,908	168,824	370,412	**628,473**

45.2 Fire & Rescue PFI

2011-12 was the second year of a 25 year PFI contract for the construction, maintenance and operation of 2 Fire Stations, in Pegswood and West Hartford. The Authority has the rights under the Agreement to use the stations for the provision of the Fire & Rescue Services.

The contract specifies a minimum standard for the services to be provided by the contractor. In the event of a service performance shortfall or if the facilities become unavailable, deductions will be made to the Unitary Charge payable. The contractor took on the obligation to ensure at all times the Services at each Station meet all the requirements of the Agreement, the Services Specification, the Service Delivery Proposals, Good Industry Practice, Guidance and all applicable Authorities' Policies and Legislation.

The buildings and any plant and equipment at the end of the Agreement will be transferred to the Authority for nil consideration.

The Authority has the right to terminate the Agreement by giving the agreed notice period and paying the Default Termination Sum, as detailed in the Agreement.

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 2011-2012:

	2010-2011 £'000	**2011-2012** **£'000**
Cost brought forward 1 April	-	**1,917**
Recognition of deferred asset within fixed assets	13,449	**-**
Additions in year	-	**65**
Revaluation Loss	(11,532)	**-**
Cost carried forward 31 March	1,917	**1,982**
Restated Accumulated depreciation brought forward 1 April	-	**(56)**
Depreciation charge for year	(56)	**(77)**
Depreciation at 31 March	(56)	**(133)**
Net book value carried forward 31 March	1,861	**1,849**

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2011-2012:

	2010-2011 £'000	**2011-2012** **£'000**
Lease liability brought forward 1 April	-	**13,098**
Additions	13,449	-
Contribution to build	(324)	-
Payments made in year	(27)	**(148)**
Liability carried forward 31 March	13,098	**12,950**

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.

	As at 31 March 2011 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	**As at 31 March 2012 Total £'000**
Within one year	2,234	166	164	1,378	567	**2,275**
Within two to five years	9,158	707	857	5,354	2,419	**9,337**
Within six to ten years	11,994	988	1,595	6,158	3,504	**12,245**
Within eleven to fifteen years	12,677	1,117	2,534	5,178	4,131	**12,960**
Within sixteen to twenty years	13,449	1,264	4,101	3,528	4,876	**13,769**
Within twenty-one to twenty-five years	11,752	984	3,699	798	3,587	**9,068**
Within twenty-six to thirty years	-	-	-	-	-	**-**
	61,264	5,226	12,950	22,394	19,084	**59,654**

46. Impairment Losses

There were no impairment losses other than downward revaluations in relation to Property, Plant and Equipment and Intangible Assets balances for 2011-2012.

47. 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 2011-12 the County Council paid £12.24 million (£13.41 million in 2010-2011) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay (14.1% in 2010-2011).

Contributions for March 2012 payroll totalling £0.93 million remained payable at the year end for the Teachers' Pension Scheme. This amount was paid over early in 2012-2013.

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 48.

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 48.

48. 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 47.

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.

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 ①	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
2011-2012					
Comprehensive Income and Expenditure Statement					
Cost of Services:					
• Current service cost	**(19.12)**	**(2.39)**	-	-	**(21.51)**
• Past service cost	**(1.35)**	**(1.69)**	-	-	**(3.04)**
• Gain/loss on settlements or curtailments	**5.75**	-	-	-	**5.75**
Financing and Investment Income and Expenditure:					
• Interest cost	**(52.70)**	**(7.20)**	**(1.82)**	**(1.96)**	**(63.68)**
• Expected return on scheme assets	**46.81**	-	-	-	**46.81**
Total post employment benefit charged to the deficit on the provision of services	**(20.61)**	**(11.28)**	**(1.82)**	**(1.96)**	**(35.67)**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:					
• Actuarial gains and losses	**(107.90)**	**(2.81)**	**(3.14)**	**(3.31)**	**(117.16)**
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	**(128.51)**	**(14.09)**	**(4.96)**	**(5.27)**	**(152.83)**
Movement in Reserves - General Fund Balance:					
• Reversal of net charges made to the deficit for the provision of services for post employment benefit	**128.51**	**14.09**	**4.96**	**5.27**	**152.83**
Actual amount charged against the General Fund Balance for pensions in the year:					
• Employer's contributions payable to the scheme	**(26.98)**	-	-	-	**(26.98)**
• Net retirement benefits payable to pensioners	-	**(3.71)**	**(2.37)**	**(2.71)**	**(8.79)**
2010-2011					
Comprehensive Income and Expenditure Statement					
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 assets in the scheme	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
Movement in Reserves - General Fund Balance:					
• Reversal of net charges made to the deficit for the provision of services for post employment benefits	(140.69)	(10.72)	(1.61)	(1.89)	(154.91)
Actual amount charged against the General Fund Balance for pensions in the year:					

	LGPS	Firefighters' Schemes ①	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
• 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)

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

	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	Injury and non scheme Ill Health £m	Total £m
2011-12				
Comprehensive Income and Expenditure Statement				
Cost of Services:				
• Current service cost	**(2.01)**	**(0.27)**	**(0.11)**	**(2.39)**
• Past service cost	**(1.69)**	**-**	**-**	**(1.69)**
Financing and Investment Income and Expenditure:				
• Interest cost	**(6.86)**	**(0.09)**	**(0.25)**	**(7.20)**
Total post employment benefit charged to the deficit on the provision of services	**(10.56)**	**(0.36)**	**(0.36)**	**(11.28)**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:				
• Actuarial gains and losses	**(2.18)**	**(0.91)**	**0.28**	**(2.81)**
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement:	**(12.74)**	**(1.27)**	**(0.08)**	**(14.09)**
Movement in Reserves - General Fund Balance:				
• Reversal of net charges made to the deficit for the provision of services for post employment benefits	**12.74**	**1.27**	**0.08**	**14.09**
Actual amount charged against the General Fund Balance for pensions in the year:				
• Net retirement benefits payable to pensioners	**(3.67)**	**0.10**	**(0.14)**	**(3.71)**
2010-11				
Comprehensive Income and Expenditure Statement				
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)
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
Movement in Reserves - General Fund Balance:				
• Reversal of net charges made to the deficit for the provision of services for post employment benefits	(10.28)	0.05	(0.49)	(10.72)
Actual amount charged against the General Fund Balance for pensions in the year:				
• Net retirement benefits payable to pensioners	(4.20)	0.06	(0.15)	(4.29)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011-2012 is a loss of £117.16 million (£63.80 million gain in 2010-2011).

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	LGPS unfunded Scheme	Teachers unfunded Scheme	Total
	£m	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April 2011	**(958.97)**	**(123.92)**	**(1.52)**	**(4.57)**	**(34.35)**	**(37.03)**	**(1,160.36)**
Current service cost	**(19.12)**	**(2.01)**	**(0.27)**	**(0.11)**	**-**	**-**	**(21.51)**
Interest cost	**(52.70)**	**(6.86)**	**(0.09)**	**(0.25)**	**(1.82)**	**(1.96)**	**(63.68)**
Contributions by scheme participants	**(6.59)**	**(0.57)**	**(0.10)**	**-**	**-**	**-**	**(7.26)**
Actuarial (gains)/losses on liabilities	**(93.21)**	**(2.18)**	**(0.91)**	**0.28**	**(3.14)**	**(3.31)**	**(102.47)**
Net benefits paid out	**30.17**	**4.24**	**-**	**0.14**	**2.37**	**2.71**	**39.63**
Business Combinations	**(0.70)**	**-**	**-**	**-**	**-**	**-**	**(0.70)**
Settlements	**7.19**	**-**	**-**	**-**	**-**	**-**	**7.19**
Past service cost	**(1.35)**	**(1.69)**	**-**	**-**	**-**	**-**	**(3.04)**
Closing balance as at 31 March 2012	**(1,095.28)**	**(132.99)**	**(2.89)**	**(4.51)**	**(36.94)**	**(39.59)**	**(1,312.20)**
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)

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

	Local Government	
	2010-2011	**2011-2012**
	£m	**£m**
Opening balance as at 1 April	610.65	**645.70**
Expected return on assets	43.29	**46.81**
Actuarial gains/(losses) on assets	(11.83)	**(14.69)**
Contributions by the employer	26.10	**26.98**
Contributions by participants	6.77	**6.59**
Business Combinations	-	**0.54**
Settlements	-	**(1.28)**
Net benefits paid out	(29.28)	**(30.17)**
Closing balance as at 31 March	645.70	**680.48**

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 £32.12 million (£31.46 million in 2010-2011).

Scheme History

	LGPS	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	Firefighters' Injury & non scheme Ill Health	LGPS unfunded	Teachers' unfunded	Total
As at 31 March 2012	£m	£m	£m	£m	£m	£m	£m
Fair value of assets	**680.48**	**-**	**-**	**-**	**-**	**-**	**680.48**
Present value of liabilities	**(1,095.28)**	**(132.99)**	**(2.89)**	**(4.51)**	**(36.94)**	**(39.59)**	**(1,312.20)**
Surplus/(deficit)	**(414.80)**	**(132.99)**	**(2.89)**	**(4.51)**	**(36.94)**	**(39.59)**	**(631.72)**
As at 31 March 2011							
Fair value of assets	645.70	-	-	-	-	-	645.70
Present value of liabilities	(958.97)	(123.92)	(1.52)	(4.57)	(34.35)	(37.03)	(1,160.36)
Surplus/(deficit)	(313.27)	(123.92)	(1.52)	(4.57)	(34.35)	(37.03)	(514.66)
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)

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 £631.72 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 £207.39 million.

However, statutory arrangements for funding the deficit mean that the financial position of the Council 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;
- 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 2013 is £26.40 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 2013 the Council expects to pay £2.49 million and £2.85 million respectively directly to beneficiaries. For the FPS in the year to 31 March 2013 the Council expects to pay £3.88 million directly to beneficiaries net of member contributions. For the NFPS in the year to 31 March 2013 the Council expects a net surplus of £0.10 million after allowing for member contributions. For the Injury Pensions and non scheme Ill-Health Pensions in the year to 31 March 2013 the Council expects to pay £0.15 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 2011. For the Injury Pensions and non-scheme Ill-Health Pensions the latest full actuarial valuation took place as at 31 March 2011 and for the LGPS unfunded scheme and the Teachers' unfunded scheme, the latest full actuarial valuation took place as at 31 March 2012.

The principal assumptions used by the actuary have been:

	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
As at 31 March 2012				
Long term expected rate of return on assets in the scheme:				
Equities	8.1%	-	-	-
Property	7.6%	-	-	-
Government bonds	3.1%	-	-	-
Corporate bonds	3.7%	-	-	-
Cash	1.8%	-	-	-
Other	8.1%	-	-	-
Total	6.9%	-	-	-
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	22.4	22.5	22.4	22.4
Women	24.5	24.9	24.5	24.5
Longevity at age 65 for future pensioners:				
Men	24.2	24.2	-	-
Women	26.5	26.8	-	-
Rate of inflation - RPI	3.5%	3.5%	3.4%	3.4%
Rate of inflation - CPI	2.5%	2.5%	2.4%	2.4%
Rate of general long term increase in salaries*	5.0%	5.0%	-	-
Rate of increase to pensions in payment**	2.5%	2.5%	2.4%	2.4%
Rate of increase to deferred pensions	2.5%	-	-	-
Discount rate	4.7%	4.7%	4.6%	4.6%
Commutation:				
% take up of the maximum amount permitted to convert annual pension into retirement lump sum				
Pre 1 April 2010 pension rights	50.0%	-	-	-
Post 1 April 2010 pension rights	75.0%	-	-	-
NFPS members that commute 25% of their pension	-	75.0%	-	-
FPS members that commute 25% of their pension	-	90.0%	-	-
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%	-	-	-
Cash	1.5%	-	-	-
Other	8.4%	-	-	-
Total	7.3%	-	-	-

	LGPS	Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
Mortality assumptions:				
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%
Commutation:				
% take up of the maximum amount permitted to convert annual pension into retirement lump sum:				
Past service pension rights	50.0%	-	-	-
Future service pension rights	75.0%	-	-	-
NFPS members that commute 25% of their pension	-	75.0%	-	-
FPS members that commute 25% of their pension	-	90.0%	-	-

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 2011.

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 2012.

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 2012**
	%	**%**
Equities	68.4	**69.6**
Property	5.2	**5.0**
Government bonds	18.4	**14.0**
Corporate bonds	7.1	**10.6**
Cash/other	0.9	**0.8**
Total	100	**100**

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011-2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	LGPS		Firefighters' Pension Scheme		New Firefighters' Pension Scheme		Firefighters' Injury & non scheme Ill Health		LGPS unfunded		Teachers' unfunded		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
2011-2012														
Differences between expected and actual return on assets	**(14.69)**	**(2.2)**	-	-	-	-	-	-	-	-	-	-	**(14.69)**	**(2.2)**
Experience gains/(losses) on liabilities*	**(9.07)**	**(0.8)**	**9.22**	**6.9**	**(0.56)**	**(19.4)**	**0.37**	**8.2**	**(0.78)**	**(2.1)**	**(0.90)**	**(2.3)**	**(1.72)**	**(0.1)**
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	7.2
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	9.6
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)	(1.2)

49. 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 2012. 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 2012, the total amount of the Council's claims to date subject to reclamation was £4.80 million (£4.3 million as at 31 March 2011). The MMI's position has deteriorated in 2011-2012 following a Supreme Court judgement on MMI's obligations related to asbestos and the asbestos-related disease of mesothelioma and the triggering of the Scheme of arrangement has become more likely.

The Council had earmarked £5.0 million in the Insurance Reserve to finance future MMI liabilities. Because of the deterioration in MMI's financial position during 2011-2012, £1.25 million has been transferred out of the earmarked reserve and included as a provision on the Balance Sheet.

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.

50. Contingent Assets

During 2011-2012, the Council filed a claim with the High Court to reclaim from HMRC a proportion of Landfill Tax that the Council has suffered from 1996 to 2012. The claim is based on an argument that some of the material sent to landfill was used for engineering purposes and should not have attracted the tax. The council's advisors have indicated that the claim has a high likelihood of success. However, it is not possible to quantify the level of any recovery of tax at this point.

51. 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 twice during 2011-2012 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	Unlimited	10 years
DMO	N/A	N/A	Unlimited	Unlimited
Nationalised Banks	N/A	N/A	£35m (Group Limit £70m)	12 months
Money Market Funds	AAA	Aaa	£25m (Group Limit £150m)	Instant access
UK Clearing Banks/ Building Societies	AA+	Aa1	£25m (group Limit £50m)	3 months
	AA-	Aa3	£15m (Group limit £30m)	3 months
	A	A2	£12m (Group limit £25m)	3 months
	A-	A2	£5m (Group limit £25m)	3 months

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 and £5.85 million in 2009-2010. During 2010-2011 and 2011-2012 Impairment reversals have been processed through the accounts due to an increasing likelihood of recovery (£0.73 million in 2010-2011 and £6.394 million in 2011-2012). 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 across four of these institutions, with varying maturity dates and interest rates as follows:

	Date Invested	Maturity Date	As at 1 April 2011 £'000	Accrued Interest 2011-2012 £'000	Repaid 2011-2012 £'000	Impairment 2011-2012 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Landsbanki	08.02.08	06.02.09	4,076	213	(1,576)	221	5.43	2,934	0
Glitnir	08.02.08	06.02.09	2,098	117	(8,197)	5,982	5.45	-	0
Landsbanki	11.03.08	11.03.09	804	45	(316)	48	5.80	581	0
Heritable	26.03.08	29.12.08	344	14	(184)	25	6.00	199	12
Kaupthing Singer & Friedlander	02.04.08	02.01.09	838	41	(309)	36	6.05	606	17
Kaupthing Singer & Friedlander	04.04.08	05.01.09	1,117	55	(412)	48	6.05	808	17
Landsbanki	10.09.08	10.12.08	781	44	(303)	34	5.83	556	0
Total			10,058	529	(11,297)	6,394		5,684	

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.

Following the issue of a further dividend from the Landsbanki winding up board on 24 May 2012, CPIFA issued a revised LAAP Bulletin on 13 June 2012. This included an accelerated schedule for the recovery of the remaining sums due from Landbanki, which would result in a marginally higher carrying value as at 31st March 2012 (of around £183k) than that calculated under the earlier guidance (issued in May 2012), and a corresponding impairment credit to the Comprehensive Income and Expenditure Statement. The revised figures are not considered to represent a material change. Therefore, due to the timing of the update, and the fact that the Authority's Statement of Accounts position for 2011-2012 had already been drafted, the impact of the changes has not been included in the Accounts.

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 88p in the £.

Date	Repayment Percentage (%)
Received to date	67.90
April 2012	3.79
July 2012	3.50
October 2012	3.50
January 2013	3.50
April 2013	5.81

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 83.5p in the £.

Date	Repayment Percentage (%)
Received to Date	63.00
May 2012	10.00
January 2013	5.00
January 2014	5.50

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 Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in February 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.35%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

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 100p in the £.

Date	Repayment Percentage (%)
Received to Date	30.00
May 2012	12.20
December 2012	7.00
December 2013	7.00
December 2014	7.00
December 2015	7.00
December 2016	7.00
December 2017	7.00
December 2018	7.00
December 2019	8.80

Recovery is however subject to the following uncertainty and risk:

- 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.

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. The Icelandic Supreme Court decision to grant UK local authorities priority status, the winding up board made a distribution to creditors in a basket of currencies in March 2012.

An element of the distribution is in Icelandic Kroner which has been placed in an escrow account in Iceland and is earning interest of 3.4%. This element of the distribution has been retained in Iceland due to currency controls currently operating in Iceland and as a result is subject to exchange rate risk, over which the Council has no control.

The distribution has been made in full settlement representing 100% of the claim.

Customer Debt

The Council has £7.81 million (2010-2011: £12.06 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Less than three months	7,517	**2,618**
Three to six months	592	**821**
Six months to one year	1,355	**2,671**
More than one year	2,591	**1,701**
Total	12,055	**7,811**

At 31 March 2012 the Council held a provision of £1.33 million (2010-2011: £1.91 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.

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

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Analysis by Loan Type		
Public Works Loans Board	120,763	**212,444**
Other Market Loans	162	**5,173**
LOBO (Market Loans)	173,600	**233,600**
	294,525	**451,217**
Analysis of Loans by Maturity		
Less than 1 year	-	**-**
Between 1 and 2 years	188	**13,707**
Between 2 and 5 years	1,352	**36,775**
Between 5 and 10 years	60,030	**92,538**
Between 10 and 20 years	2,470	**29,474**
Between 20 and 30 years	1,656	**60**
Between 30 and 40 years	11,753	**40,937**
Between 40 and 50 years	60,476	**66,126**
Between 50 and 60 years	22,600	**40,600**
In excess of 60 years	134,000	**131,000**
	294,525	**451,217**

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 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 2012 with all other variables held constant, the effect would have been:

	As at 31 March 2012 £'000
Increase in Interest Payable on Variable Rate Borrowings	**1,586**
Increase in Interest Receivable on Variable Rate Investments	**(2,144)**
Increase in Government Grant receivable for financing costs	**(5,169)**
Impact on Surplus or Deficit on the Provision of Services	**(5,727)**
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	**(61,816)**

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 59 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.

52. General Government Grants

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

	2010-2011 £'000	**2011-2012 £'000**
Revenue Support Grant	(16,514)	**(30,473)**
Area Based Grant	(28,543)	**-**
Council Tax Freeze	-	**(3,750)**
New Homes Bonus Grant	-	**(1,103)**
	(45,057)	**(35,326)**

53. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2012:

	Total Cost	Future Payments
	£m	£m
Ashington Town Centre	9.00	6.80
Berwick Breakwater Refurbishment	1.57	0.45
East Heddon and Hexhamshire Estate	1.98	0.26
Hartford Bridge Travellers Site	1.20	0.05
Hirst Putting the Learner First Project	51.32	3.07

54. 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 2011-2012 of £12.839 million was calculated using both the 'regulatory' (£10.839 million) and 'asset life' (£2.00 million) methods from the guidance. The 2010-2011 provision was also based on 'regulatory' (£10.34 million) and 'asset life' (£1.12 million).

55. 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 £100,000 with an Existing Use valuation basis, in excess of £1m with a DRC basis and new assets in excess of £2.5m, 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.

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 2011 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 by internal Senior Estates Surveyors.

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^{th} 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.

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 *	Heritage Assets *	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	5,430	9,495	1,760	81,394	86	98,165
Valued at Current Value in:							
2007-2008	-	16,646	-	-	-	622	17,268
2008-2009	-	15,536	-	-	-	-	15,536
2009-2010	-	36,076	-	1,242	12,668	7,894	57,880
2010-2011	163,338	40,401	-	-	-	1,468	205,207
2011-2012	66,476	434,591	-	4,706	-	1,858	507,631
Total	229,814	548,680	9,495	7,708	94,062	11,928	901,687

Note:

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

56. Heritage Assets: Further Information

Museum, Art and Artefact Collection

The Woodhorn Museum collection is on permanent loan to the Woodhorn Trust from the County Council and comprises some 2,000 items relating to coal mining heritage and social history. It includes a Fine art collection based around the work of the Ashington group of Pitmen Painters and other local mining artists. The museum is open all year.

The Berwick Museum and Art Gallery is located in the Berwick-Upon-Tweed Barracks (operated by English Heritage), which is on long term loan to the Woodhorn Trust from the County Council, the Freemen of Berwick and Berwick Town Council. It comprises the Burrell Collection of fine art which includes paintings by Degas and Boudin; a collection of oriental porcelain, natural history, social history, archaeology; and works by local artists. The museum is open between April and September.

The Hexham Old Gaol collection, which is on loan to the Woodhorn Trust from the County Council, relates to the medieval border history of Northumberland and the history of the building itself, which is the oldest purpose-built prison in England. The museum is open from April to November also by appointment.

Archive Collection

The Archive collection is split between two offices – Woodhorn and the Berwick-upon –Tweed Record Office. The latter holds records relating to the geographical area held by Berwick-upon-Tweed Borough Council which extends from Berwick, south to Ellingham and across to the Cheviots. Records relating to the remainder of the present County of Northumberland are held at Woodhorn. The collection ensures the preservation of historic artefacts, records and Local Studies material relating to the County of Northumberland and to make these available for consultation by the public. The Archive holds in excess of four linear miles of records related to almost all aspects of the history of Northumberland. There are also around eight thousand 3-D objects and the Local Studies Reference and Master Collections. All of the holdings are kept in secure environmentally controlled strongrooms to ensure their long term preservation.

The collections are available to view in public searchrooms unless they are subject to statutory closure periods or restrictions imposed by the owners. For researchers unable to visit the offices personally there is a Postal Research Service.

Further details can be found on the Woodhorn Museum website www.experiencewoodhorn.com

Public Sculptures and Memorials

Much of the Public Art is a result of the Inspire Initiative set up in 2003 with the aim to change perceptions, make a contemporary environment and raise aspirations for the future, in the priority regeneration areas in Northumberland.

The Council is also custodian or has a duty of care of a variety of monuments and memorials throughout the County details of which can be found from the Public Monuments and Sculpture Association Nation recording project (www.pmsa.org.uk) and the North East War memorial project (www.newmp.org.uk).

Historic Buildings

The Heritage assets category includes Historic buildings held principally for their contribution to knowledge or culture where they are not used for operational purposes.

The Heritage assets historic buildings include the Blyth Battery, a coastal defence artillery battery, built in 1916 to defend the port of Blyth and the submarine base there during World War I, and upgraded for re-use during World War II. It is the most intact, accessible and intelligible coast defence battery on the North East and Yorkshire coast, with individual buildings and features of considerable rarity. In 2008 conservation work restored the historic fabric of the buildings, created useable visitor space in the Magazine and Shelter buildings, and provided interpretation such as a waymarked trail around the site. Blyth Battery Volunteers open the Battery to the public, put on events and look after the site.

Also included is the Morpeth Clock Tower, which was constructed sometime between 1604 and 1634 out of recycled Medieval stone. It is one of only eight remaining examples of its kind in England. The clock tower is open to visitors all year round.

The County Historic Environment Record detailed below holds records of all of the historic buildings within the County.

Historic Environment Records

The County Council owns the County Historic Environment Record (HER) which is a database, and associated GIS data sets, recording all known archaeological sites and historic buildings within the County, as well as the Northumberland National Park. The coastal limit of the Record is presently the low water mark. It contains summary information gathered from a variety of sources since the mid 20th century and acts as a signpost to more detailed records held in other collections. The HER collects information about archaeological and historic sites and landscapes from the earliest period of human activity to the later 20th century. . In addition to the digital data, the HER is supplemented by photographic and aerial photographic collections, GIS historic mapping and an extensive grey literature library

The HER is a public information service available to everyone. The HER is based at County Hall in Morpeth. Information is available from the HER in a number of different ways, such as by letter, email (archaeology@northumberland.gov.uk), fax or telephone, or make an appointment to visit in person. Alternatively, a shortened version of the HER is available on the Keys to the Past website (www.keystothepast.info) , or in full on the Archaeology Data Service website (http:/ads.ahds.ac.uk/catalogue).

Preservation Management

Northumberland County Council, has a statutory responsibility to provide an Archive Service and, under the terms of a Service Level Agreement the Woodhorn Trust, is engaged by Northumberland County Council to manage this service and the museums.

Woodhorn Charitable Trust is an independent charity which manages Woodhorn as a museum and visitor attraction and houses the Northumberland Archives. The Trust also manages the Berwick-upon-Tweed Record Office – a branch of the County Archives Service, Berwick Museum and Art Gallery, Hexham Old Gaol.

57. Heritage Assets: Change in Accounting Policy required by the Code of Practice for Local Authority Accounting in the United Kingdom

The *Code of Practice on Local Authority Accounting in the United Kingdom 2011-2012* introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our summary of significant accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

Heritage Assets

For 2011-2012 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the authority were held at valuation as a proxy for historical cost. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's accounting policies (Note 1.12).

In applying the new accounting policy, the Authority has identified that the assets that were previously held as community assets and infrastructure assets within property, plant and equipment at £1.64 million should now be recognised as heritage assets and measured at £1.64 million. These assets relate to a proportion of the Berwick Museum's collection; historic buildings and public sculptures and memorials. The Authority will also recognise an additional £1.66 million for the recognition of heritage assets that were not previously recognised in the Balance Sheet. This increase is recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010-2011 comparative figures have thus been restated in the 2011-2012 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £3.30 million. The element that was previously recognised in property, plant and equipment has been reclassified and written down by £1.64 million. The revaluation reserve has increased by £1.66 million.

- The fully restated 1 April 2010 Balance Sheet is provided on page 30. The adjustments that have been made to that Balance Sheet over the version published in the 2010-2011 Statement of Accounts are as follows:

Effect on Opening Balance Sheet 1 April 2010

	Opening Balances as at 1 April 2010 £'000	Restatement £'000	Restatement required to Opening Balances as at 1 April 2010 £'000
Property, Plant and Equipment	1,405,775	1,404,136	(1,639)
Heritage Assets	-	3,299	3,299
Long Term Assets	1,405,775	1,407,435	1,660
Total Net Assets	396,476	398,136	1,660
Unusable Reserves	279,237	280,897	1,660
Net Worth/Total Reserves	396,476	398,136	1,660

Comprehensive Income and Expenditure Statement

During 2010-2011, no transactions effected the Comprehensive Income and Expenditure Statement. There has thus been no restatement of any of the lines of the Comprehensive Income and Expenditure Statement.

Movement in Reserves Statement – Unusable Reserves 2010-2011

The restatement of the relevant lines of the Movement in Reserves Statement, as of 31 March 2011, as a result of the application of this new accounting policy is presented in the table below.

	As Previously Stated 31 March 2011 £'000	As Restated 31 March 2011 £'000	Restatement 2011 £'000
Balance as at the end of the previous reporting period - 31 March 2010	(279,237)	(280,897)	(1,660)
Surplus or (Deficit) on the Provision of Services	-	-	-
Other Comprehensive Income and Expenditure	(66,444)	(66,444)	-
Adjustment between the accounting basis and the funding basis under regulation	78,397	78,397	-
Increase in year	11,953	11,953	-
Balance at the end of the current reporting period 31 March 2011	(267,284)	(268,944)	(1,660)

Effect on Balance Sheet 31 March 2011

The resulting restated Balance Sheet for 31 March 2011 is provided on page 11. The adjustments that have been made to that Balance Sheet over the version published in the 2010-2011 Statement of Accounts are as follows:

	Opening Balances as at 1 April 2011	As Restated 31 March 2011	Restatement 2011
	£'000	£'000	£'000
Property, Plant and Equipment	1,245,086	1,243,464	(1,622)
Heritage Assets	-	3,282	3,282
Long Term Assets	1,276,499	1,278,159	1,660
Total Net Assets	394,489	396,149	1,660
Unusable Reserves	267,284	268,944	1,660
Net Worth/Total Reserves	394,489	396,149	1,660

The effect of the change in accounting policy in 2010-2011 has been that heritage assets are recognised at £3.28 million on the Balance Sheet resulting in an increase to the Revaluation Reserve of £1.66 million and property, plant and equipment being restated by the amount of heritage assets previously recognised at cost in property, plant and equipment) of £1.62 million.

58. 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	Heritage Assets	Infrastructure	Vehicles, Plant and Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	-	576,614	9,815	7,707	263,772	94,055	951,963
HRA	229,814	5,954	-	-	-	7	235,775
	229,814	582,568	9,815	7,707	263,772	94,062	1,187,738

59. 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.

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 £134m and the Council's share of this valuation (15.08% of 51%) was £10.31m. The valuation is reviewed each year to consider whether a full independent valuation of the holding is required. A full independent valuation was last carried out in May 2010. This provided a range of valuations which valued the Council's shareholding between nil and £0.649m. On the grounds of prudency the Council decided to use the lower valuation estimate of nil. There has been no significant change in external factors since this valuation that would materially affect the value of the shareholding.

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 2011 amounted to £nil. Dividends paid for year-end 31 December 2010 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 £2.88 million and a profit after tax of £1.40 million for the year ended 31 December 2011.

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.

Arch (Corporate Holdings) Ltd

Arch (Corporate Holdings) Ltd was formed on the 1 April 2011 and is the development Arm of Northumberland County Council. Arch Corporate holdings is 100% owned by Northumberland County Council and in turn it owns 100% of the share capital of :-

- Arch (Commercial Enterprise) Limited (Formerly Wansbeck Life Ltd)
- Arch (Housing) Limited (Formerly Northern Coalfields Property Company)
- Arch (Development Projects) Limited (newly formed 1 April 2011)
- Arch (Financial Services) Ltd (newly formed 1 April 2011)

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 Board, is in a position to exert control over this entity and its wholly owned subsidiary Northern Coalfields Property Company Limited. Wansbeck Life Limited changed its name to Arch (Commercial Enterprises) ltd as of the 1 April 2011 and is now wholly owned by Arch (Corporate Holdings) Limited, likewise Northern Coalfields Property Company also changed its name to Arch (Housing) Limited with effect from 1 April 2011. Trading has occurred within Arch (Commercial Enterprise) Limited, Arch (Housing) Limited and Arch (Development Projects) Limited, whilst Arch (Financial Services) Limited has remained dormant throughout 2011-2012.

Group accounts have been prepared for 2011-2012 within these statements incorporating the un-audited year end position for Arch (Commercial Enterprise) Limited, Arch (Housing) Limited and Arch (Development Projects) Limited.

The latest financial results are summarised below:

Arch (Commercial Enterprise) Limited	2010-2011 £'000	**2011-2012 £'000**
(Loss) on ordinary activities before taxation	(239)	**(116)**
(Loss) on ordinary activities after taxation	(214)	**(96)**

Arch (Housing) Limited	2010-2011 £'000	**2011-2012 £'000**
Profit /(Loss) on ordinary activities before taxation	166	**(232)**
Profit/(Loss) on ordinary activities after taxation	80	**(257)**

Arch (Development Projects) Limited	2010-2011 £'000	**2011-2012 £'000**
Profit on ordinary activities before taxation	n/a	**0**
Profit on ordinary activities after taxation	n/a	**0**

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	**2011-2012 £'000**
Profit /(Loss) on ordinary activities before taxation	3,292	**(449)**
Profit/(Loss) on ordinary activities after taxation	3,228	**(432)**

Rural Enterprise Action CIC

Financial year 2011-2012 will be the first year that Northumberland County Council has chosen to consolidate the accounts of the rural Enterprise Action CIC into its group accounts. The principal activity of the company is that of encouraging enterprise activities within rural areas.

Rural Enterprise Action CIC	2010-2011 £'000	**2011-2012 £'000**
Profit /(Loss) on ordinary activities before taxation	(98)	**96**
Profit/(Loss) on ordinary activities after taxation	n/a	n/a

60. 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 shares as at 31 March 2012 was £6,075 (£5,782 as at 31 March 2011). Income received during 2011-2012 through dividends was £238 (£226 in 2010-2011). There was no expenditure incurred during 2011-2012 (no expenditure incurred during 2010-2011). The increase in the value of the fund was due to an increase in the value of the equities held. Funds held by the Council total £1,683.

The Council administers individual bank accounts for those people in the care of the County Council. At the 31 March 2012 the balance on these accounts was £3.86 million (£3.11 million at 31 March 2011, £2.33 million at 31 March 2009) and is not included in the Balance Sheet.

The Council also held no funds at 31 March 2012 (£0.01 million at 31 March 2011) for Thropton First School (which is a foundation school) as the school was in deficit and this was included as a debtor in the Balance Sheet.

The Council also held funds for the following Trust schools:

	1 April 2010 £'000	31 March 2011 £'000	**31 March 2012 £'000**
Ashington Partnership:			
Ashington Community High School	403	76	**751**
Bothal Middle School	262	69	**194**
Ashington Hirst Park Middle School	64	53	**154**
Ashington Wansbeck First School	24	15	**14**
Ashington Central First School	177	161	**73**
Total Ashington Partnership	930	374	**1,186**
West Partnership:			
Haydon Bridge High School	54	125	**332**
Allendale Community	73	90	**41**
Bellingham Middle School	108	110	**97**
Bellingham First School	26	27	**10**
Total West Partnership	261	352	**480**

The Council controls income received from non-County bodies for particular clients and client groups. At the end of 2011-2012 this income totalled £0.06 million (£0.04 million at 31 March 2011 and £0.05 million at 1 April 2010) 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 2011-2012 this totalled £0.04 million (£0.05 million at 31 March 2011 and £0.01 million 1 April 2010) 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 2011-2012 these funds totalled £0.04 million (£0.01 million at the end of 2010-2011, and £0.11 million at 1 April 2010) and have been excluded from the Council's Balance Sheet.

The Council holds Disability Living Allowance money of £0.01 million at the end of 2011-2012 (£998 at the end of 2010-2011) paid to children in its 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 4 Academies - the Northumberland Church of England Academy (NCEA - since 01/09/2009), Cramlington Learning Village Academy (since 1 September 2011), Berwick Academy (since 1 November 2011) and The Three Rivers Academy (since 1 December 2011). As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2011-12, £1.52million (2010-11 £0.78 million) employers' contributions (14.1% of pensionable pay) and £0.69 million (2010-2011 £0.36 million) employees' contributions, 6.4% of pensionable pay, were paid over to the Teachers' Pensions Agency. Contributions for the March 2012 payroll totalling £0.20 million employers' contributions and £0.09 million employees' contributions remained payable at the year end. These amounts were paid over in April 2012 and have been excluded from the Balance Sheet.

	2011-2012		
	Employee's Contribution	Employer's Contribution	Total
	£'000	£'000	£'000
Academy :			
NCEA	375	827	1,202
Cramlington Learning Village	152	335	487
Berwick	55	121	176
3 Rivers	110	235	345
Total	692	1,518	2,210

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

	1 April 2010	31 March 2011	**31 March 2012**
	£'000	£'000	**£'000**
R. Bell Bequest	4	4	**2**
The Northumberland Children's Fund	130	113	**(1)**
Northumberland Sports Fund	79	79	**79**
North Stobswood Open Cast Coal Site	275	275	**275**
Corbridge Section 278 Agreement (Catalyst Healthcare)	9	-	-
English Partnerships A189	43	43	-
Dransfield Properties Ltd	-	-	800
Society of IT Managers	2	-	-
New Ridley Road Stocksfield	13	13	**13**
Choppington Educational Foundation	1	1	**1**
Cramlington Town Council	23	-	-
Woodhorn Museum	533	-	-
County Chief Auditors Network	4	5	-
	1,116	533	**1,169**

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 to groups which benefit young people in Northumberland and Newcastle by way of a grant. Grants totalling £114,000 were paid to organisations in 2011-2012. The fund is currently in deficit while funds are liquidated from the Brewin Dolphin investment portfolio, which stands at £1.3m, however this is outside of County Council control.

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 2012-2013, 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

The unused balance was repaid in 2011-2012.

Dransfield Properties Ltd

This money is held under a section 278 agreement for highway works following the development of a supermarket at Low Stanners, Morpeth. The Bond will be repaid in instalments following completion of necessary work.

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 has acted as a Treasurer to the County Chief Auditors Network and manages the funds on behalf of this group. This responsibility, and the funds, were transferred in 2011-2012.

61. 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 2010-2011 can be carried forward to 2011-2012.

In March 2010 the Council traded 40,000 tonnes of its allowances for 2011-12 to secure income of £78,000. This meant that the Council retained allowances for 2011-2012 totalling 18,285 tonnes. This forecast requirement for 2011-2012 was based on the Council making full use of its Energy from Waste (EfW) facility in Tees Valley, developed under its long term Waste Private Finance Initiative Contract which is expected to reduce the Council's BMW landfill requirements to around 11,000 tonnes per annum. However, the adjoining EfW plant at Tees Valley currently utilised by the local authorities in Teesside had to undergo major refurbishment works during 2011-2012 during which time waste would have been transported by road for disposal to landfill. In order to reduce the environmental impacts associated with road haulage of waste during the adjoining EfW's refurbishment period the County Council agreed to release some of its EfW capacity to the various Teeside Councils on the understanding that they would transfer the landfill allowances that they would otherwise have had to use to the County Council at no cost. The County Council has therefore landfilled an estimated 38,994 tonnes of BMW during 2011-2012 and currently only has allowances to cover 18,285 tonnes - but will receive a further 28,473 tonnes of allowances from the various Teeside Councils that will meet this requirement and leave a surplus of 7,763 tonnes that are currently being offered for sale as they cannot be carried forward into 2012-2013 under Landfill Allowance Trading Scheme rules.

Attempts to trade the remaining 2011-2012 surplus are unlikely to be successful, as there is currently a total of 428,520 tonnes of allowances for 2011-2012 being offered for sale on the DEFRA bulletin board and only expressions of interest in purchasing allowances totalling 130,550 tonnes – giving an oversupply of 297,950 tonnes of allowances being offered for sale. Recent trading activity on the DEFRA bulletin board in 2012 (where prices have been disclosed) shows that 2011-2012 allowances are being traded at prices ranging from £0.09 to £0.25 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 and any surplus allowances not being able to carry forward into 2012-2013, the County Council has again adopted a prudent approach and again valued the LATS with a net realisable value of zero.

It should also be noted that the Landfill Allowance Trading Scheme will come to an end after 2012-2013.

62. Construction Contracts

At 31 March 2012 the Council had no construction contracts in progress.

Housing Revenue Account (HRA) Income and Expenditure Statement
for the year ended 31 March 2012

This account reflects the statutory obligation to "ring-fence" and show separately the financial transactions relating to the provision of housing. The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

	Note	2010-2011 £'000	**2011-2012 £'000**
Expenditure			
Repairs and maintenance		4,886	**4,726**
Supervision and management		8,064	**7,870**
Rents, rates, taxes and other charges		715	**728**
Negative HRA Subsidy Payable	10	-	**2,326**
Depreciation and impairment of Fixed Assets		103,203	**14,962**
Sums directed by the Secretary of State that are expenditure in accordance with the Code		-	**10,254**
Debt management costs		31	**34**
Movement in the allowance for Bad Debt (not specified by the Code)	13	(10)	**(42)**
Total Expenditure		116,889	**40,858**
Income			
Dwelling rents (gross)		(22,811)	**(24,376)**
Non dwelling rents (gross)	4	(319)	**(325)**
Charges for services and facilities		(1,021)	**(1,178)**
HRA Subsidy receivable	10	(325)	**-**
Total Income		(24,476)	**(25,879)**
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		92,413	**14,979**
HRA services' share of Corporate and Democratic Core		464	**560**
Net cost for HRA Services		92,877	**15,539**
HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement			
Capital Grants and Contributions Receivable		(1,651)	**(100)**
Interest payable and similar charges		2,866	**3,128**
Interest and investment income		(309)	**(691)**
Pensions interest cost and expected return on pensions assets		38	**10**
Deficit for the year on HRA Services		93,821	**17,886**

Movement on the Housing Revenue Account Statement
for the year ended 31 March 2012

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	**2011-2012** **£'000**
Balance on the HRA at the end of the previous year		(8,979)	**(10,971)**
Deficit for the year on the HRA Income and Expenditure Statement		93,821	**17,886**
Adjustments between accounting basis and funding basis under Statute	1	(95,813)	**(18,870)**
Net increase before transfers to or from reserves		(1,992)	**(984)**
Balance on the HRA at the end of the current year		(10,971)	**(11,955)**

Notes to the HRA Income and Expenditure Statement

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

	Note	2010-2011 £'000	**2011-2012** **£'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)	**(9,827)**
Movements in market value of investment properties		(84)	**271**
Revenue expenditure funded from capital under statute		(3,459)	**(9,751)**
Capital grants and contributions unapplied credited to the HRA Income and Expenditure Statement		1,651	**100**
HRA share of contributions to the Pensions Reserve		(20)	**4**
Transfer to/from Major Repairs Reserve	7	(194)	**(192)**
Transfer to General Fund		-	-
Capital expenditure funded by the HRA	8	1,237	**525**
		(95,813)	**(18,870)**

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 an 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 £55.62 per week (£51.85 in 2010-2011), an increase of £3.77 or 7.3% compared with 2010-2011 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	**2011-2012** **£'000**
Garages	(261)	**(271)**
Shops	(37)	**(26)**
Miscellaneous	(21)	**(28)**
Total	(319)	**(325)**

5. Housing Stock

	2010-2011 No.	**2011-2012 No.**
Houses and Bungalows	7,219	**7,212**
Flats	1,288	**1,330**
Houses in Multiple Occupation	10	**10**
Total	8,517	**8,552**

Council Stock increased by thirty five dwellings in 2011-2012. There were ten sales under the Right to Buy Scheme', purchase of two dwellings within Blyth, one Community House brought back into dwelling stock and the completion of forty two new flats at Ropery Court, Alnwick.

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	Total £'000
Gross book value 1 April 2011	237,545	7,695	98	347	509	246,194
Additions	6,595	-	-	-	-	6,595
Disposals	(675)	(14)	-	-	(54)	(743)
Movement Work in Progress	-	-	-	-	-	-
Revaluations	(8,204)	(1,632)	-	-	271	(9,565)
Gross book value 31 March 2012	**235,261**	**6,049**	**98**	**347**	**726**	242,481
Depreciation at 1 April 2011	-	275	82	-	-	357
Charged in year	5,447	182	9	-	-	5,638
Disposals	-	(5)	-	-	-	(5)
Revaluations	-	(10)	-	-	-	(10)
Depreciation at 31 March 2012	**5,447**	**442**	**91**	**-**	**-**	5,980
Net book value at1 April 2011	237,545	7,420	16	347	509	245,837
Net book value at 31 March 2012	**229,814**	**5,607**	**7**	**347**	**726**	236,501

The value of council dwellings at 31 March 2012 of £229.81 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £621.12 million. This shows that the economic cost to government of providing council housing at less than open market value is £391.31 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 £1.47 million. Surplus Assets consists of land valued at £0.35 million, and investment properties include £0.01 million worth of land.

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:

Notes to the HRA Income and Expenditure Statement

	2010-2011 £'000	**2011-2012 £'000**
Income		
Depreciation on Fixed Assets		
Council dwellings	(4,716)	**(5,638)**
	(4,716)	**(5,638)**
Appropriations transfer from the HRA	-	**-**
	(4,716)	**(5,638)**
Expenditure		
Capital expenditure funded from the Reserve		
Transfer to HRA	194	**192**
Houses	3,594	**6,291**
	3,788	**6,483**
(Surplus) / Deficit for the year	(928)	**845**
Balance brought forward 1 April	(1,400)	**(2,328)**
Balance carried forward 31 March	(2,328)	**(1,483)**

8. HRA Capital Expenditure and Financing

	2010-2011 £'000	**2011-2012 £'000**
Capital Expenditure		
Houses	5,746	**19,280**
Other	2,373	**-**
	8,119	**19,280**
Financing		
Borrowing	2,548	**12,364**
Government Grants	740	**100**
Direct Revenue Financing	1,237	**525**
Major Repairs Reserve	3,594	**6,291**
Total	8,119	**19,280**

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:

	Gross Receipt £'000	Usable Element £'000	Reserved Element £'000
Houses	690	192	498
Total	690	192	498

10. Housing Revenue Account Subsidy

The breakdown of the HRA Subsidy in 2011-2012 is shown below:

	2010-2011 £'000	**2011-2012 £'000**
Management and maintenance	(13,055)	**(13,531)**
Charges for capital	(1,623)	**(3,110)**
Notional rent income	22,745	**24,391**
ALMO allowance	(3,869)	**-**
Major repairs allowance	(5,522)	**(5,447)**
Major repairs allowance adjustment	1,000	**-**
Prior year adjustments	(1)	**23**
Total	(325)	**2,326**

The prior year adjustment relates to the variance between the audited Housing Subsidy figures for 2010-2011 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

The net impact on the HRA as a result of IAS19 was a credit of £0.004 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 2012**	
	£'000	%	**£'000**	**%**
Rents				
Current tenants	526	2.31	**497**	**2.04**
Former tenants	315	1.38	**302**	**1.24**
Balance at 31 March	841	3.69	**799**	**3.28**

13. Provision for Impairment of Debt

The provision for bad debts at 31 March 2013 is shown below:

	2010-2011	**2011-2012**
	£'000	**£'000**
Balance at 1 April	486	**476**
Transferred from the Borough and District Councils	-	**-**
Restated balance brought forward 1 April	486	**476**
Decrease in provision	(10)	**(49)**
Balance at 31 March	476	**427**

During 2011-2012 there was also a contribution of £7,048.70 to meet the impairment of debts relating to shops and miscellaneous garage sites.

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 Alnwick, and Blyth authorities. In 2011-2012 the Management Fee payable to Homes for Northumberland was £11.03 million (£11.90 million in 2010-2011).

Collection Fund Account
for the year ended 31 March 2012

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	**2011-2012 £'000**
Income			
Council tax receivable		(140,479)	**(141,217)**
Transfers from General Fund			
Council Tax Benefits		(23,375)	**(23,486)**
Transitional Relief		0	**0**
Discounts for prompt payment		0	**0**
Income collectable from Business Ratepayers		(63,878)	**(71,621)**
Income collectable in respect of Business Rate Supplements		0	**0**
Total Income		(227,732)	**(236,324)**
Expenditure			
Precepts and demands			
Northumberland County Council	3	148,526	**149,954**
Parish and Town Councils	3	3,563	**4,216**
Northumbria Police Authority	3	9,047	**9,307**
Business Rates			
Payments to the National Pool		63,065	**70,207**
Costs of collection		471	**473**
Interest payment		110	**56**
Impairment of debts/appeals			
Write off of uncollectable amounts		(2,194)	**1,526**
Allowance for impairment			
Contribution to/(from) General Fund		(3,051)	**2,300**
Total Expenditure		219,537	**238,039**
Movement on fund balance		(8,195)	**1,715**
Opening fund balance		3,513	**(4,682)**
Closing fund balance	3	(4,682)	**(2,967)**

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	**2011-2012**
Council tax base (Band D equivalent @ 99% of collection rate)	108,115	**109,184**
Council tax (Band D property)	£1,456.40	**1,456.40**

Council Tax Band	Proportion	No. of Properties 2011-2012 No.	No of Band D equivalent Properties 2011-2012 No.	Council Tax Charge 2011-2012 £
A (Disabled)	5/9	-	111	809.11
A	6/9	69,832	39,473	970.93
B	7/9	22,698	15,644	1,132.76
C	8/9	18,477	14,740	1,294.58
D	9/9	14,828	13,689	1,456.40
E	11/9	9,728	10,955	1,780.04
F	13/9	6,252	8,430	2,103.69
G	15/9	3,821	5,944	2,427.33
H	18/9	473	747	2,912.80
Total		146,109	109,733	

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
Total		145,607	109,207	

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	**2011-2012**
Rate in the pound	41.4p	**43.3p**
Total non-domestic rateable value per NNDR system	£198,413,071	**£200,809,764**

3. Precepts and Demands on the Collection Fund

The following authorities made precepts or demands on the Collection Fund in 2010-2011 and 2011-2012:

	2011-2012		
	Precept	Share of surplus	Total
	£'000	£'000	£'000
Northumberland County Council	149,954	2,797	152,751
Parish and Town Councils	4,216	-	4,216
Northumbria Police Authority	9,307	170	9,477
Total	163,477	2,967	166,444

	2010-2011		
	Precept	Share of deficit	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
Total	161,136	4,682	165,818

4. Council Tax Bad Debt Provision

A detailed analysis of the collection rates for council tax has resulted in an increase in the annual provision against debts that the council considers will ultimately be non-collectable. The increase in provision in 2011-2012 is £0.64 million (2010-2011 £2.43 million decrease) which brings the total provision to £6.73 million (2010-2011 £6.31 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

These group accounts consolidate the results and balances of the Council with those of its wholly owned subsidiaries:

- Arch Group
- Homes for Northumberland
- Rural Enterprise Action

Arch Group

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 (now Arch (Commercial Enterprise) Limited) which comprised 100% of the ordinary share capital and 50% of the voting share capital. Following changes to the composition of the Board of Directors during 2010-2011 it was confirmed that Northumberland County Council, by virtue of these shareholdings and its control of the Board was in a position to exert control over the entity.

Arch (Commercial Enterprise) Limited 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.

Arch (Housing) Limited’s priority is to:

- Provide decent homes for the people of 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.

Arch (Development Projects) Limited’s priority is to:

- Act as the Development Arm of Northumberland County Council and deliver an element of the Council’s capital programme, specifically in the priority areas of in need of regeneration.

Arch (Developments Projects) Ltd is a new company formed on the 1 April 2011. It draws down working capital from Northumberland County Council in advance of need in order to deliver the 2012-2013 through 2014-2015 capital programme. Transactions during 2011-2012 have been limited to an initial drawdown of the capital programme to facilitate set up costs and recruitment to the staffing structure.

Group Accounts Explanatory Foreword

Arch Financial Services Ltd's priority is to:

- To unlock investment opportunities through external funding and re-invigorate stalled capital/investment projects were possible.

Arch (Finan6cial Services) Ltd is also a new company which was formed on the 1 April 2011; however, it has remained dormant throughout 2011-2012.

Arch (Corporate Holdings) Ltd's priority is to:

- Provide efficient and effective professional management to the group of subsidiaries.

Arch (Corporate Holdings) Ltd was also formed on the 1 April 2011 as the holding company of the four subsidiaries stated above; the management structure has been steadily populated during the second half of 2011-2012. The financial transactions for 2011-2012 have flowed through its subsidiary companies and are therefore incorporated into their performance. It is envisaged that, as the Arch Group grows and develops, specific managerial and group overheads will be financed through this holding company through a formal drawdown of dividends.

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 Alnwick 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. It 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 12 members each, also with a three way split – with two tenant and two independent members nominated to the Strategic Board. 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 an Annual Management Fee from the Council. The costs in 2011-2012 were £11.03 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)
- Leasehold Management
- Resident Participation
- Resolving Anti-Social Behaviour

Group Accounts Explanatory Foreword

Rural Enterprise Action CIC

The principal activity of the company is that of encouraging enterprise activities within rural areas. The company was reliant on Northumberland County Council to enable its day to day working capital requirement; however the main projects undertaken by the company ceased with effect from 31 December 2011 due to no further funding being available. It became dormant on 1 July 2012.

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 group's final accounts for 2011-2012 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 2012

The following 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 2012

	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 2010	(27,556)	(54,165)	(8,979)	(631)	(24,508)	(1,400)	(117,239)	(279,237)	(7,383)	(24,380)	(428,239)
IFRS Restatments for Heritage Assets	-	-	-	-	-	-	-	(1,660)	-	-	(1,660)
Restated Balance brought Forward 1st April 2010	(27,556)	(54,165)	(8,979)	(631)	(24,508)	(1,400)	(117,239)	(280,897)	(7,383)	(24,380)	(429,899)
Movement in Reserves during 2010-2011:											
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)
Adjustments Between Group Accounts and Council Accounts	(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 Earmarked Reserves	(15,003)	-	(1,992)	(407)	8,364	(928)	(9,966)	11,953	3,595	(5,929)	(347)
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)
Balance at 31 March 2011 carried forward	(28,065)	(68,659)	(10,971)	(1,038)	(16,144)	(2,328)	(127,205)	(268,944)	(3,788)	(30,309)	(430,246)
Additional consolidated subsidiary (Re-action)	-	-	-	-	-	-	-	-	97	-	97
Restated Balance as at 31 March 2011	(28,065)	(68,659)	(10,971)	(1,038)	(16,144)	(2,328)	(127,205)	(268,944)	(3,691)	(30,309)	(430,149)

Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement
for the year ended 31 March 2012

	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
Restated Balance as at 31 March 2011	(28,065)	(68,659)	(10,971)	(1,038)	(16,144)	(2,328)	(127,205)	(268,944)	(3,691)	(30,309)	(430,149)
Movement in Reserves during 2011-2012:											
Deficit on the provision of services	78,445	-	15,830	-	-	-	94,275	-	-	-	94,275
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	100,853	-	5,995	106,848
Total Comprehensive Income and Expenditure	78,445	-	15,830	-	-	-	94,275	100,853	-	5,995	201,123
Adjustments Between Group Accounts and Council Accounts	(2,769)	-	2,056	-	-	-	(713)	-	973	(260)	-
Adjustments between accounting basis & funding basis under regulations	(80,766)	-	(18,870)	(472)	(2,068)	845	(101,331)	101,331	-	-	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(5,090)	-	(984)	(472)	(2,068)	845	(7,769)	202,184	973	5,735	201,123
Transfers (to)/from Earmarked Reserves	11,073	(11,073)	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in 20110-2012	5,983	(11,073)	(984)	(472)	(2,068)	845	(7,769)	202,184	973	5,735	201,123
Balance at 31 March 2012 carried forward	(22,082)	(79,732)	(11,955)	(1,510)	(18,212)	(1,483)	(134,974)	(66,760)	(2,718)	(24,574)	(229,026)

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

for the year ended 31 March 2012

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)	-	-
Total Adjustment between Group Accounts and Council Accounts 2010-2011	(5,757)	-	5,216	-	-	-	(541)	-	541	-	-

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

for the year ended 31 March 2012

2011-2012	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	(318)	-	318	-	-	-	-	-	-	-	-
Service level agreement payable to NCC by Homes for Northumberland	(1,786)	-	1,786	-	-	-	-	-	-	-	-
Management fee payable by NCC to Homes for Northumberland	1	-	(1)	-	-	-	-	-	-	-	-
Fleet charge to NCC by Homes for Northumberland	(376)	-	376	-	-	-	-	-	-	-	-
Homes for Northumberland IAS 19		-	260	-	-	-	260	-	-	(260)	-
Reaction Surplus	96	-		-	-	-	96	-	(96)	-	-
Homes for Northumberland 2011-2012 Surplus		-	(683)	-	-	-	(683)	-	683	-	-
NCPC and Wansbeck Life 2011-2012 Surplus/(Deficit)	(386)	-	-	-	-	-	(386)	-	386	-	-
											-
Total Adjustment between Group Accounts and Council Accounts 2011-2012	(2,769)	-	2,056	-	-	-	(713)	-	973	(260)	-

Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2012

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.

2011-2012 Group	Council Only			Group		
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Central Services to the Public	7,771	(2,795)	4,976	7,771	(2,795)	4,976
Culture and related Services	20,518	(4,471)	16,047	20,518	(1,991)	18,527
Environmental and Regulatory Services	49,311	(13,337)	35,974	49,773	(13,739)	36,034
Planning Services	19,049	(4,854)	14,195	19,049	(4,854)	14,195
Fire and Rescue Services	23,298	(3,264)	20,034	23,298	(3,264)	20,034
Education and children's Services	350,141	(252,122)	98,019	350,141	(252,122)	98,019
Highways and Transport Services	40,423	(9,983)	30,440	40,423	(9,983)	30,440
Local Authority Housing (HRA)	31,164	(25,879)	5,285	30,792	(27,563)	3,229
Local Authority Housing (HRA)-Settlement Payment to Government for HRA self financing	10,254	-	10,254	10,254	-	10,254
Other Housing Services	112,897	(107,809)	5,088	115,579	(110,322)	5,257
Adult Social Care	156,108	(69,910)	86,198	156,108	(69,910)	86,198
Exceptional costs of Equal Pay	6,937	-	6,937	6,937	-	6,937
Corporate and Democratic Core	10,917	(375)	10,542	10,917	(375)	10,542
Non Distributed costs	3,793	(27)	3,766	3,793	(27)	3,766
Cost Of Services	842,581	(494,826)	347,755	845,353	(496,945)	348,408
Other Operating Expenditure	73,146	(8,513)	64,633	73,146	(8,513)	64,633
Financing and Investment Income and Expenditure	47,421	(17,564)	29,857	47,502	(17,585)	29,917
Taxation and Non-Specific Grant Incomes	-	(348,683)	(348,683)	-	(348,683)	(348,683)
Deficit on Provision of Services	963,148	(869,586)	93,562	966,001	(871,726)	94,275
Tax Expenses of Associates			-			-
Group (Surplus)/Deficit			93,562			94,275
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets			(16,307)			(12,882)
Actuarial (Gains)/Losses on Pension Assets/Liabilities			117,160			119,730
Other Comprehensive Income and Expenditure			100,853			106,848
Total Comprehensive Income and Expenditure			194,415			201,123

Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2012

2010-2011 Group	Council Only			Group		
	Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Central Services to the Public	8,660	(3,164)	5,496	8,660	(3,164)	5,496
Culture and related Services	26,096	(2,978)	23,118	26,096	(2,978)	23,118
Environmental and Regulatory Services	40,797	(10,268)	30,529	43,209	(8,610)	34,599
Planning Services	20,118	(6,360)	13,758	20,118	(6,360)	13,758
Fire and Rescue Services	18,506	(2,983)	15,523	18,506	(2,983)	15,523
Fire and Rescue Services-Revlauation Losses	12,425	-	12,425	12,425	-	12,425
Education and children's Services	340,534	(269,677)	70,857	340,534	(269,677)	70,857
Education and children's Services-Revaluation Losses	41,663	-	41,663	41,663	-	41,663
Highways and Transport Services	38,221	(7,282)	30,939	38,221	(7,282)	30,939
Local Authority Housing (HRA)	26,312	(24,476)	1,836	22,437	(26,183)	(3,746)
Local Authority Housing (HRA)-Revaluation Losses	90,577	-	90,577	90,577	-	90,577
Local Authority Housing (HRA)-Settlement Payment to Government for HRA self financing	-	-	-	-	-	-
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
Exceptional costs of Equal Pay	513	-	513	513	-	513
Corporate and Democratic Core	8,264	(613)	7,651	8,264	(613)	7,651
non Distributed costs	14,381	(1)	14,380	14,381	(1)	14,380
Non Distributed Costs-change in inflation factor for retirement benefits	(136,990)	-	(136,990)	(136,990)	-	(136,990)
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)
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 Balance Sheet
as at 31 March 2012

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'.

	Note	31 March 2011 Council Only £'000	31 March 2011 Group £'000	**31 March 2012 Council Only £'000**	**31 March 2012 Group £'000**
Property, Plant & Equipment	1	1,243,464	1,247,850	**1,180,021**	**1,186,244**
Investment Property	2	15,575	54,417	**13,462**	**47,605**
Intangible Assets		330	330	**580**	**580**
Heritage Assets		3,282	3,282	**8,216**	**8,216**
Assets Held for Sale		2,333	2,333	**640**	**640**
Long-Term Investments		7,402	7,402	**112,667**	**112,667**
Long-Term Debtors		5,773	5,773	**10,431**	**10,431**
Long-Term Assets		1,278,159	1,321,387	**1,326,017**	**1,366,383**
Short Term Investments		47,787	48,536	**123,973**	**123,973**
Inventories		1,181	1,438	**1,128**	**1,353**
Short-Term Debtors	7	73,674	71,345	**59,689**	**59,424**
Cash and Cash Equivalents	3	56,844	58,307	**77,014**	**78,332**
Taxation		-	25		**28**
Assets Held for Sale		9,916	9,916	**9,154**	**9,154**
Current Assets		189,402	189,567	**270,958**	**272,264**
Bank Overdraft	3	(4,602)	(4,602)	**(17,970)**	**(17,970)**
Short-Term Borrowing	17	(43,035)	(43,035)	**(90,568)**	**(90,950)**
Short-Term Creditors	8	(65,143)	(64,541)	**(63,296)**	**(63,997)**
Provisions		(35,247)	(35,247)	**(42,852)**	**(42,852)**
Corporation tax liability		-	-	**-**	**-**
Deferred Tax liability	13	-	(156)	**-**	**(19)**
Current Liabilities		(148,027)	(147,581)	**(214,686)**	**(215,788)**
Long-Term Creditors		(88,603)	(92,382)	**(86,669)**	**(86,686)**
Provisions		-	-	**-**	
Long-Term Borrowing	18	(294,525)	(294,525)	**(451,217)**	**(456,108)**
Other Long-Term Liabilities	16	(514,660)	(520,720)	**(631,720)**	**(640,090)**
Capital Grants Receipts in Advance		(25,597)	(25,597)	**(10,949)**	**(10,949)**
Long-Term Liabilities		(923,385)	(933,224)	**(1,180,555)**	**(1,193,833)**
Net Assets		396,149	430,149	**201,734**	**229,026**
Usable Reserves		127,205	130,896	**134,974**	**137,692**
Unusable Reserves	9	268,944	299,253	**66,760**	**91,334**
Total Reserves		396,149	430,149	**201,734**	**229,026**

Group Cash Flow Statement

for the year ended 31 March 2012

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.

	Note	31 March 2011		**31 March 2012**	
		Council Only	Group	**Council Only**	**Group**
		£'000	£'000	**£'000**	**£'000**
Net surplus or deficit on the provision of services		(68,431)	(68,972)	**(93,562)**	**(94,275)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements		146,978	145,758	**171,192**	**171,744**
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)	**(74,737)**	**(74,737)**
Net cash flows from Operating Activities	4	20,637	17,251	**2,893**	**2,732**
Investing Activities	5	(36,114)	(34,733)	**(203,798)**	**(203,509)**
Financing Activities	6	87,391	88,619	**207,707**	**207,434**
Net increase or decrease in cash and cash equivalents		71,914	71,137	**6,802**	**6,657**
Cash from additional Subsidiary consolidated			92		
Cash and cash equivalents at the beginning of the reporting period		(19,672)	(17,524)	**52,242**	**53,705**
Cash and cash equivalents at the end of the reporting period	3	52,242	53,705	**59,044**	**60,362**

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 the Arch Group.

Depreciation

Depreciation is charged on the following basis:

Asset	Depreciation Period
Arch (Commercial Enterprise) Limited	
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
Arch (Housing) Limited	
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 Group when there is reasonable assurance that:

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

Amounts recognised as due 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

	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	Other Land and Buildings	Vehicles, Plant, & Equipment	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation:												
At 1 April 2011 As Restated	237,545	627,029	112,160	300,675	11,847	14,067	50,964	1,354,287	89,581	1,887	2,951	1,359,125
Additions	6,595	10,362	12,680	15,687	22	2,278	31,684	79,308	65	722	150	80,180
Reclassifications	-	11,158	1,576	20,981	(577)	1,330	(35,666)	(1,198)	-	2,075	(2,075)	(1,198)
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(3,487)	-	-	-	2,109	-	(1,378)	-	1,450	-	72
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(8,204)	(26,220)	-	-	-	(982)	(18,804)	(54,210)	-	-	-	(54,210)
De-recognition - Disposals	(675)	(50,367)	(7,082)	-	(413)	(3,171)	(5,897)	(67,605)	-	(206)	(202)	(68,013)
De-recognition - Other	-	(979)	-	-	-	-	-	(979)	-	-	-	(979)
Assets reclassified (to)/from Held for Sale	-	(196)	-	-	-	(3,433)	-	(3,629)	-	-	-	(3,629)
Other movements in Cost or Valuation								-				-
At 31 March 2012	235,261	567,300	119,334	337,343	10,879	12,198	22,281	1,304,596	89,646	5,928	824	1,311,348

	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Accumulated Depreciation and Impairment:												
At 1 April 2011 As Restated	-	19,313	25,352	64,616	1,309	233	-	110,823	6,259	86	367	111,276
Depreciation charge	5,447	16,141	6,610	8,931	185	155	-	37,469	3,449	78	128	37,675
Reclassifications	-	(163)	-	24	(25)	-	-	(164)	-	(86)	86	(164)
Depreciation written out to the Revaluation Reserve	-	(12,660)	-	-	-	(50)	-	(12,710)	-	-	-	(12,710)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	(3,105)	-	-	-	-	-	(3,105)	-	-	-	(3,105)
De-recognition - Disposals	-	(887)	(6,690)	-	(85)	(57)	-	(7,719)	-	-	(130)	(7,849)
De-recognition – Other	-	(19)	-	-	-	-	-	(19)	-	-	-	(19)
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2012	5,447	18,620	25,272	73,571	1,384	281	-	124,575	9,708	78	451	125,104
Net Book Value:												
At 31 March 2012	229,814	548,680	94,062	263,772	9,495	11,917	22,281	1,180,021	79,938	5,850	373	1,186,244
At 31 March 2011 As Restated	237,545	607,716	86,808	236,059	10,538	13,834	50,964	1,243,464	83,322	1,802	2,584	1,247,850

2. Investment Property

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

	2010-2011 Council Only	Group	**2011-2012 Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Balance at start of the year	19,479	19,479	**15,575**	**54,417**
Transferred from Subsidiaries	-	41,002	**-**	**-**
Restated balance brought forward 1 April 2009	19,479	60,481	**15,575**	**54,417**
Additions	-	-	**-**	**429**
Reclassifications	(3,318)	(3,318)	**877**	**877**
Assets reclassified (to)/from held for sale	-	-	**75**	**75**
Disposals	(1,718)	(1,718)	**(364)**	**(364)**
Net (losses)/gains from fair value adjustments	1,132	(1,028)	**(2,701)**	**(7,829)**
Balance at end of the year	15,575	54,417	**13,462**	**47,605**

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:

	2010-2011 Council Only	Group	**2011-2012 Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Cash held by the Council	56,844	56,844	**77,014**	**77,014**
Cash overdrawn within the Council	(4,602)	(2,416)	**(17,970)**	**(14,051)**
Cash Held by Homes for Northumberland	-	(2,186)	**-**	**(3,919)**
Cash Held by subsidiaries	-	1,463	**-**	**1,318**
Total Cash and Cash Equivalents	52,242	53,705	**59,044**	**60,362**

4. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2010-2011 Council Only	Group	**2011-2012 Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Interest received	(4,016)	(4,016)	**(4,701)**	**(4,722)**
Interest paid	12,448	11,893	**23,445**	**23,526**
Dividends received	-	-	-	-

Notes to the Group Financial Statements

5. Group Cash Flow Statement – Investing Activities

	2010-2011 Council Only	Group	2011-2012 Council Only	Group
	£'000	£'000	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	88,638	88,638	**81,474**	**81,935**
Purchase of short-term and long-term investments	3,151	3,151	**388,250**	**388,250**
Other payments for investing activities	3,449	3,449	**2,322**	**2,322**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,836)	(4,836)	**(8,167)**	**(8,167)**
Proceeds from short-term and long-term investments	(1,293)	(1,293)	**(214,393)**	**(215,143)**
Other receipts from investing activities	(52,995)	(54,376)	**(45,688)**	**(45,688)**
Net cash flows from investing activities	36,114	34,733	**203,798**	**203,509**

6. Group Cash Flow Statement – Financing Activities

	2010-2011 Council Only	Group	2011-2012 Council Only	Group
	£'000	£'000	£'000	£'000
Cash receipts of short-term and long-term borrowing	(116,888)	(118,245)	**(309,561)**	**(309,561)**
Other receipts from financing activities	-	-	**(5,809)**	**(5,809)**
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	316	316	**1,457**	**1,457**
Repayments of short- and long-term borrowing	29,181	29,310	**106,206**	**106,479**
Net cash flows from financing activities	(87,391)	(88,619)	**(207,707)**	**(207,434)**

7. Group Short Term Debtors

	2010-2011 Council Only	Group	2011-2012 Council Only	Group
	£'000	£'000	£'000	£'000
Short Term Debt				
Central government bodies	13,781	13,781	**12,416**	**12,416**
Other local authorities	5,906	5,906	**4,960**	**4,960**
NHS bodies	5,615	5,615	**2,149**	**2,149**
Public corporations and trading funds	8,547	8,547	**387**	**387**
Other entities and individuals	39,825	37,496	**39,777**	**39,512**
Total Short Term Debtors	73,674	71,345	**59,689**	**59,424**

8. Group Short Term Creditors

	2010-2011 Council Only	Group	2011-2012 Council Only	Group
	£'000	£'000	£'000	£'000
Central government bodies	(5,891)	(5,891)	**(9,461)**	**(9,461)**
Other local authorities	(79)	(79)	**(2,325)**	**(2,325)**
NHS bodies	(2,701)	(2,701)	**(4,522)**	**(4,522)**
Public corporations and trading funds	(995)	(995)	**(3,572)**	**(3,572)**
Other entities and individuals	(55,477)	(54,875)	**(43,416)**	**(44,117)**
Total Short Term Creditors	(65,143)	(64,541)	**(63,296)**	**(63,997)**

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.

		2010-2011 Council Only	2010-2011 Group	**2011-2012 Council Only**	**2011-2012 Group**
		£'000	£'000	**£'000**	**£'000**
Revaluation Reserve		161,228	197,597	**168,470**	**201,414**
Pensions Reserve		(514,660)	(520,720)	**(631,720)**	**(640,090)**
Capital Adjustment Account	*	617,322	617,322	**536,656**	**536,656**
Deferred Capital Receipts Reserve	*	1,494	1,494	**1,047**	**1,047**
Financial Instruments Adjustment Account	*	3,675	3,675	**2,382**	**2,382**
Collection Fund Adjustment Account	*	4,413	4,413	**2,797**	**2,797**
Unequal Pay Back Pay Account	*	(180)	(180)	**(180)**	**(180)**
Accumulating Absences Adjustment Account	*	(4,348)	(4,348)	**(12,692)**	**(12,692)**
		268,944	299,253	66,760	91,334

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

	2010-2011 Council Only	2010-2011 Group	**2011-2012 Council Only**	**2011-2012 Group**
	£'000	£'000	**£'000**	**£'000**
Balance at 1 April	167,070	203,380	**161,228**	**197,597**
NCC IFRS restatement-Heritage Assets	1,660	1,660	**-**	**-**
Restated NCC Balance at 1 April	168,730	205,040	**161,228**	**197,597**
Upward revaluation of assets	21,226	21,285	**36,493**	**37,943**
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(18,582)	(18,582)	**(20,186)**	**(25,061)**
Difference between fair value depreciation and historical cost depreciation	(4,367)	(4,367)	**(3,622)**	**(3,622)**
Accumulated gains on assets sold or scrapped	(5,779)	(5,779)	**(5,169)**	**(5,169)**
Amount written off to the Capital Adjustment Account	-	-	**(274)**	**(274)**
Balance at 31 March	161,228	197,597	**168,470**	**201,414**

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		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Balance at 1 April-Northumberland County Council	(704,960)	(704,960)	**(514,660)**	**(514,660)**
Balance at 1 April-Homes for Northumberland	-	(11,930)	-	**(6,060)**
Restated Balance brought forward 1 April	(704,960)	(716,890)	**(514,660)**	**(520,720)**
Actuarial gains or losses on pensions assets and liabilities	63,800	66,560	**(117,160)**	**(119,730)**
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	**(41,420)**	**(42,210)**
Net increase in liabilities from disposals and acquisitions	-	-	-	-
Employer's pensions contributions and direct payments to pensioners payable in the year	35,390	36,420	**41,520**	**42,570**
Restatement regarding Fire ill health and non scheme ill health pensioners (see note 2 to the financial statements)	-	-	-	-
Balance at 31 March	(514,660)	(520,720)	**(631,720)**	**(640,090)**

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.

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£	£	**£**	**£**
Authorised				
500 Ordinary shares of £1 each – Wansbeck Life	-	500	-	500
500 Voting shares of £1 each – Wansbeck Life	-	500	-	500
200 Ordinary shares of £1 each – Northern Coalfields Property Company	-	200	-	200
Total authorised share capital	-	1,200	-	1,200

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£	£	**£**	**£**
Allotted, called up and fully paid				
99 Ordinary shares of £1 each	-	99	-	99
175 (200 2009-2010) Voting shares of £1 each	-	175	-	175
100 Ordinary shares of £1 each	-	100	-	100
Total allotted, called up and fully paid	-	374	-	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.

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 (2010-2011: £0.02 million).

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						Subsidiaries		Group
	Council Dwellings	Land and Buildings	Community Assets	Non Operational Land and Buildings	Heritage Assets	Surplus Assets	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	5,430	81,394	9,495	1,760	86	-	-	98,165
Valued at Current Value in:									-
2007-2008	-	16,646	-	-	-	622	-	-	17,268
2008-2009	-	15,536	-	-	-	-	-	-	15,536
2009-2010	-	36,076	12,668	-	1,242	7,894	-	-	57,880
2010-2011	163,338	40,401	-	-	-	1,468	1,665	373	207,245
2011-2012	66,476	434,591	-	-	4,706	1,858	4,185	-	511,816
Total	229,814	548,680	94,062	9,495	7,708	11,928	5,850	373	907,910

13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Provision brought Forward	-	(15)	-	**(156)**
Profit and Loss account movement arising during the year	-	(141)	-	**137**
Provision to Carry forward	0	(156)	0	**(19)**

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

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Excess of taxation allowances over depreciation on fixed assets	-	17	-	**17**

14. Group Deferred Income

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Received and Receivable:				
Balance as at 31 March	-	3,530	-	-
Received during Financial Year	-	-	-	-
Balance to carry forward	-	3,530	**-**	**-**
Amortisation:				
Amortised during previous years	-	(345)	-	-
Transferred into Revaluation Reserve	-	(2,014)	-	-
Credited to profit and loss account during financial year	-	(1,171)	-	-
Total amortisation	-	(3,530)	**-**	**-**
Net balance at 31 March	-	-	**-**	**-**

The deferred income was released into the consolidated profit and loss account and revaluation reserve during 2010-2011.

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

The payment of dividend has historically been restricted between Northern Coalfields Property Company Ltd to Wansbeck Life. In future should any such payment occur the dividends will be paid from any of the subsidiaries to Arch Corporate Holdings Ltd; no such payments were made during 2009-2010, 2010-2011 and 2011-2012.

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.

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 N'land £m	Group Total £m
2011-12			
Comprehensive Income and Expenditure Statement			
Cost of Services:			
• Current service cost	**(21.51)**	**(0.80)**	**(22.31)**
• Past service cost	**(3.04)**	-	**(3.04)**
• Gain/loss on settlement or curtailment	**5.75**		**5.75**
Financing and Investment Income and Expenditure:			
• Interest cost	**(63.68)**	**(1.30)**	**(64.98)**
• Expected return on scheme assets	**46.81**	**1.31**	**48.12**
Total post employment benefit charged to the deficit on	**(35.67)**	**(0.79)**	**(36.46)**
Other post employment benefit charged to the			
• Actuarial gains and losses	**(117.16)**	**(2.57)**	**(119.73)**
Total post employment benefit charged to the	**(152.83)**	**(3.36)**	**(156.19)**
Statement of Movement on the General Fund Balance:			
• Reversal of net charges made to the deficit for the	**152.83**	**3.36**	**156.19**
Actual amount charged against the General Fund			
• Employer's contributions payable to the scheme	**(26.98)**	**(0.87)**	**(27.85)**
• Net retirement benefits payable to pensioners	**(8.79)**	-	**(8.79)**
2010-11			
Comprehensive Income and Expenditure Statement			
Cost of Services:			
• Current service cost	(22.86)	(0.90)	(23.76)
• Past service cost	136.99	3.26	140.25
Financing and Investment Income and Expenditure:			
• Interest cost	(66.31)	(1.49)	(67.80)
• Expected return on scheme assets	43.29	1.21	44.50
Total post employment benefit charged to the deficit on	91.11	2.08	93.19
Other post employment benefit charged to the			
• Actuarial gains and losses	63.80	2.76	66.56
Total post employment benefit charged to the	154.91	4.84	159.75
Statement of Movement on the General Fund Balance:			
• Reversal of net charges made to the deficit for the	(154.91)	(4.84)	(159.75)
Actual amount charged against the General Fund			
• Employer's contributions payable to the scheme	(26.10)	(1.03)	(27.13)
• Net retirement benefits payable to pensioners	(9.29)	-	(9.29)

Assets and Liabilities in Relation to Post-Employment Benefits

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

	Council only £m	Homes for N'land £m	Group Total £m
Opening balance as at 1 April 2011	(1,160.36)	(24.35)	(1,184.71)
Current service cost	(21.51)	(0.80)	(22.31)
Interest cost	(63.68)	(1.30)	(64.98)
Contributions by scheme participants	(7.26)	(0.29)	(7.55)
Actuarial (gains)/losses on liabilities	(102.47)	(2.15)	(104.62)
Net benefits paid out	39.63	0.18	39.81
Business Combinations	(0.70)	-	(0.70)
Settlements	7.19	0.72	7.91
Past service cost	(3.04)	-	(3.04)
Closing balance as at 31 March 2012	(1,312.20)	(27.99)	(1,340.19)
Opening balance as at 1 April 2010	(1,315.61)	(28.63)	(1,344.24)
	-	-	
Current service cost	(22.86)	(0.90)	(23.76)
Interest cost	(66.31)	(1.49)	(67.80)
Contributions by scheme participants	(7.46)	(0.31)	(7.77)
Actuarial (gains)/losses on liabilities	75.63	3.54	79.17
Net benefits paid out	39.26	0.18	39.44
Past service cost	136.99	3.26	140.25
Closing balance as at 31 March 2011	(1,160.36)	(24.35)	(1,184.71)

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

	2010-2011		**2011-2012**	
	Council only £m	Homes for N'land £m	**Council Only £m**	**Homes for N'land £m**
Opening balance as at 1 April	610.65	16.70	**645.70**	**18.29**
Expected return on assets	43.29	1.21	**46.81**	**1.31**
Actuarial gains/(losses) on assets	(11.83)	(0.78)	**(14.69)**	**(0.42)**
Contributions by the employer	26.10	1.03	**26.98**	**0.87**
Contributions by participants	6.77	0.31	**6.59**	**0.29**
Business combinations	-	-	**0.54**	**-**
Settlements	-	-	**(1.28)**	**(0.54)**
Net benefits paid out	(29.28)	(0.18)	**(30.17)**	**(0.18)**
Closing balance as at 31 March	645.70	18.29	**680.48**	**19.62**

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 (£31.89 million in 2010-2011).

Scheme History

	Council Only £m	Homes for N'land £m	Group Total £m
As at 31 March 2012			
Fair value of assets	680.48	19.62	700.10
Present value of liabilities	(1,312.20)	(27.99)	(1,340.19)
Surplus/(deficit)	(631.72)	(8.37)	(640.09)
As at 31 March 2011			
Fair value of assets	645.70	18.29	663.99
Present value of liabilities	(1,160.36)	(24.35)	(1,184.71)
Surplus/(deficit)	(514.66)	(6.06)	(520.72)

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 £640.09 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 £234.69 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;

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
As at 31 March 2012		
Long term expected rate of return on assets in the scheme:		
Equities	8.1%	8.1%
Property	7.6%	7.6%
Government bonds	3.1%	3.1%
Corporate bonds	3.7%	3.7%
Cash	1.8%	1.8%
Other	8.1%	8.1%
Total	6.9%	6.9%
Mortality assumptions:		
Longevity at age 65 for current pensioners:		
Men	22.4	22.4
Women	24.5	24.5

Longevity at age 65 for future pensioners:		
Men	24.2	24.2
Women	26.5	26.5
Rate of inflation - RPI	3.5%	3.6%
Rate of inflation - CPI	2.5%	2.6%
Rate of general long term increase in salaries	5.0%	5.1%
Rate of increase to pensions in payment	2.5%	2.6%
Rate of increase to deferred pensions	2.5%	2.6%
Discount rate	4.7%	4.8%
Commutation:		
% take up of the maximum amount permitted to convert annual pension into retirement		
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	-	-

As at 31 March 2011		
Long term expected rate of return on assets in the scheme:		
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%
Mortality assumptions:		
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%
Commutation:		
% take up of the maximum amount permitted to convert annual pension into retirement		
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 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 2012.

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

	Local Government Pension Scheme %	Homes for N'land %	Local Government Pension Scheme %	Homes for N'land %
Equities	68.40	68.40	69.60	69.60
Property	5.20	5.20	5.00	5.00
Government bonds	18.40	18.40	14.00	14.00
Corporate bonds	7.10	7.10	10.60	10.60
Cash/other	0.90	0.90	0.80	0.80
Total	100.00	100.00	100.00	100.00

Notes to the Group Financial Statements

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011-2012 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	Council Only		Homes for Northumberland		Group Total
	£m	%	£m	%	£m
2011-2012					
Differences between expected and actual return on assets	**(14.69)**	**(2.20)**	**(0.42)**	**(2.10)**	**(15.11)**
Experience gains/(losses) on liabilities	**(1.72)**	**(0.10)**	**(0.07)**	**(0.30)**	**(1.79)**
2010-2011					
Differences between expected and actual return on assets	(11.83)	(1.80)	(0.78)	2.93	(12.61)
Experience gains/(losses) on liabilities	47.26	7.20	2.93	12.00	50.19

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

17. Group Short Term Borrowing

The Group's short term borrowing can be analysed as follows:

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Borrowings				
Financial liabilities at amortised cost	(40,219)	(40,219)	**(86,216)**	**(86,521)**
Add: Accrued Interest	(2,829)	(2,829)	**(4,366)**	**(4,443)**
Add : Amortised premiums/(discounts)	13	13	**14**	**14**
Total Borrowings	(43,035)	(43,035)	**(90,568)**	**(90,950)**

18. Group Long Term Borrowing

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

	2010-2011		**2011-2012**	
	Council Only	Group	**Council Only**	**Group**
	£'000	£'000	**£'000**	**£'000**
Analysis by Loan Type				
Public Works Loans Board	120,763	120,763	**212,444**	**212,444**
Other Market Loans	162	162	**5,173**	**10,064**
LOBO (Market Loans)	173,600	173,600	**233,600**	**233,600**
	294,525	294,525	**451,217**	**456,108**
Analysis of Loans by Maturity				
Less than 1 year	-	-	-	-
Between 1 and 2 years	188	188	**13,707**	**13,707**
Between 2 and 5 years	1,352	1,352	**36,775**	**36,775**
Between 5 and 10 years	60,030	60,030	**92,538**	**92,538**
Between 10 and 20 years	2,470	2,470	**29,474**	**32,980**
Between 20 and 30 years	1,656	1,656	**60**	**60**
Between 30 and 40 years	11,753	11,753	**40,937**	**40,937**
Between 40 and 50 years	60,476	60,476	**66,126**	**67,511**
Between 50 and 60 years	22,600	22,600	**40,600**	**40,600**
In excess of 60 years	134,000	134,000	**131,000**	**131,000**
	294,525	294,525	**451,217**	**456,108**

Pension Fund Accounts
for the year ended 31 March 2012

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 26 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 investment 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 £763 million to £802 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 £39 million experienced during 2011-2012, reflecting the positive return on investments experienced by funds generally over that period.

The overall annual return on the Fund was 5.3% for the year (6.4% in 2010-2011), which compared to the Fund specific benchmark annual return of 4.8%.

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 2012 was 6.2%, which compares with the benchmark annualised return of 6.3%. Fund 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 2011-2012:

- AllianceBernstein's appointment as active UK equity manager was terminated in June 2011 and the residual half of the UK equity portfolio managed by AllianceBernstein was transferred to Legal & General to be passively managed, the first half of the portfolio having been transferred in October 2010.

- AllianceBernstein's appointment as active global equity manager was terminated in July 2011 and the assets transferred to M & G to be actively managed.

Pension Fund Accounts

for the year ended 31 March 2012

Membership of the Fund at 31 March 2012 is summarised below:

	31 March 2011	**31 March 2012**
Active members	8,078	**7,847**
Pensioner members	7,006	**7,304**
Deferred members	7,004	**7,310**
	22,088	**22,461**

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 2012.

Pension Fund – Fund Account
for the year ended 31 March 2012

	Note	2010-2011 £'000	**2011-2012 £'000**
Contributions and benefits			
Contributions	5	40,110	**42,455**
Transfers in from other pension funds	6	4,532	**3,455**
		44,642	**45,910**
Benefits	7	(40,650)	**(42,828)**
Payments to and on account of leavers	8	(5,126)	**(2,717)**
Administrative expenses	9	(1,058)	**(1,003)**
		(46,834)	**(46,548)**
Net withdrawals from dealings with members		(2,192)	**(638)**
Returns on investments			
Investment income	10	5,055	**2,845**
Taxes on income		(48)	**(29)**
Changes in the market value of investments	11	42,350	**39,110**
Investment management expenses	12	(1,845)	**(1,460)**
Net returns on investments		45,512	**40,466**
Net increase in net assets available for benefits during the year		43,320	**39,828**
Net assets of the Fund at 1 April		719,227	**762,547**
At 31 March		762,547	**802,375**

Pension Fund – Net Assets Statement
as at 31 March 2012

	Note	31 March 2011 £'000	**31 March 2012 £'000**
UK Investments			
Quoted			
Equities		50,626	**-**
Pooled Investment Vehicles			
Property		39,095	**39,869**
Equity		231,882	**291,598**
Index Linked		140,761	**112,948**
Ventures and Partnerships		42	**34**
Overseas Investments			
Quoted			
Equities		38,713	**-**
Futures		4	**-**
Other Fixed Interest		54,591	**85,842**
Pooled Investment Vehicles			
Equity		150,692	**210,621**
Ventures and Partnerships		52,886	**58,907**
	11	759,292	**799,819**
Other Investment Balances	11	4,135	**1,506**
	11	763,427	**801,325**
Cash Deposits		2,137	**4,584**
Current Assets	13	1,672	**583**
Current Liabilities	14	(4,689)	**(4,117)**
Net Assets of the Fund at 31 March	15	762,547	**802,375**

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 179 and at Appendix 2 to the Statement of Accounts and these accounts should be read in conjunction with that.

1. Basis of preparation

The accounts have been prepared in accordance with the CIPFA/LASAAC 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)*, except if reference to the contrary is made.

2. Accounting policies

The accounts have been prepared on an accruals basis, except for transfers of benefits to and from other schemes which are accounted for on a receipts and payments basis, and except that the net asset statement does not include liabilities to pay pensions after the end of the Fund year.

The principal accounting policies are as follows:

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 2012;

(2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2012;

(3) Other unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships;

(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 2012 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 2012 are credited to the Fund.

- *Investment transactions*

Investment transactions arising up to 31 March 2012 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 2012 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.

Administrative expenses

Direct and indirect staff costs for the pension team, together with apportioned costs for the use of Northumberland County Council's premises, systems and services are charged to the Fund.

Events after the reporting period

Events that occurred after 31 March 2012 which provide evidence of conditions that existed as at 31 March 2012 are included in the accounts Events that are indicative of conditions that arose after 31 March 2012 are not included, except for events with material effect which are disclosed in the notes to the accounts.

Financial instruments

All of the Fund's assets and liabilities, as shown in the net asset statement, are classified as financial instruments, and the principal accounting policies applied in accounting for them are described elsewhere in this note.

Obligations to pay promised retirement benefits

The actuarial present value of promised retirement benefits is shown in a separate actuarial report accompanying the accounts, entitled "Whole of Pension Fund Disclosures under IAS26" and shown as Appendix 3 to the Annual Report. This treatment follows "Option C", as set out in IAS26 *Accounting and Reporting by Retirement Benefit Plans.*

3. Critical judgements in applying accounting policies

The most significant judgements in applying accounting policies are as follows:

Unquoted private equity investments

Private equity investments are valued based on forward looking estimates and judgements made by the general partners (i.e. those controlling the partnerships) to the funds invested in.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits, as disclosed in Appendix 3, is prepared by the Fund actuary adopting "Option C" of IAS26. Option C requires actuarial valuation of the liabilities on an IAS19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2010. The liability disclosed in Appendix 3 is subject to significant variances depending on the assumptions adopted.

4. Assumptions made about the future and other major sources of estimation uncertainty

The items in the Net Assets Statement as at 31 March 2012 and Appendix C involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Unquoted private equity investments	There are no publicly listed prices for the Fund's investments in private equity and therefore there is a degree of estimation and judgement involved in the valuations used.	Total private equity investments disclosed in the accounts amount to £59 million. The Fund's performance measurement service provider, WM Company, estimates potential volatility consistent with a one standard deviation movement in the change in value of private equity as an asset class over the latest three years of 10.4%. This equates to a tolerance of +/- £6 million.
Actuarial present value of promised retirement benefits	Estimation of Fund deficit depends on a number of complex judgements relating to the discount rate used, and factors such as projected salary growth and inflation, commutation rates and mortality rates. The Fund actuary provides advice about the assumptions used in calculating the deficit. The effects of changes in individual assumptions can be measured.	An increase of 0.5% in the discount rate assumption would decrease the pension liability by approximately £112m. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately £12 million. A one year increase in assumed life expectancy would increase the pension liability by approximately £37 million.

There are no new relevant accounting standards which have been issued but not yet adopted by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

5. Contributions

	2010-2011 £'000	**2011-2012 £'000**
Employers' normal contributions		
Administering authority	23,832	**15,425**
Scheduled bodies	3,074	**2,473**
Admitted bodies	2,123	**2,455**
Employers' other contributions		
Deficit Funding	-	**11,956**
Strain on the Fund following early retirement	2,719	**1,944**
Augmentation of service	15	**15**
Members		
Normal	8,347	**8,187**
	40,110	**42,455**

Normal contributions receivable in 2010-2011 from employers included deficit funding payments. In 2011-2012 deficit funding payments are shown separately from employers' normal contributions because following the 2010 actuarial valuation of the Fund, which came in to force from 1 April 2011, the deficit recovery contributions have been separately identified.

6. Transfers in from other pension funds

	2010-2011 £'000	**2011-2012** **£'000**
Group transfers in from other schemes	-	**239**
Individual transfers in from other schemes	4,532	**3,216**
	4532	**3455**

7. Benefits

	2010-2011 £'000	**2011-2012** **£'000**
Pensions		
Administering authority	29,423	**31,379**
Scheduled bodies	1,208	**1,446**
Admitted bodies	1,068	**1,250**
Commutation of pensions and lump sum retirement benefits	8,392	**8,036**
Lump sum death benefits	559	**717**
	40,650	**42,828**

8. Payments to and on account of leavers

	2010-2011 £'000	**2011-2012** **£'000**
Refunds to members leaving service	2	**1**
Individual transfers to other schemes	4,934	**2,718**
Net repayments for members joining state scheme	-	**(2)**
Group transfers to other schemes	190	**-**
	5,126	**2,717**

9. Administrative Expenses

	2010-2011 £'000	**2011-2012** **£'000**
Administration and processing	658	**654**
Actuarial and advisory fees	300	**254**
Audit fee	36	**34**
Other	64	**61**
	1,058	**1,003**

10. Investment Income

	2010-2011 £'000	**2011-2012** **£'000**
Dividends from equities	3,040	**821**
Income from pooled investment vehicles	1,971	**2,016**
Net interest on cash deposits	13	**(11)**
Other	31	**19**
	5,055	**2,845**

11. Investments

	Value at 1 April 2011 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'000	**Value at 31 March 2012 £'000**
Actively managed investments	284,140	121,927	(145,201)	10,148	**271,014**
Derivative contracts	4	3,842	(3,837)	(9)	**-**
Passively managed investments	475,148	157,505	(132,857)	29,009	**528,805**
	759,292	283,274	(281,895)	39,148	**799,819**
Other investment balances	4,135	-	-	(38)	**1,506**
Total	763,427			39,110	**801,325**

	Value at 1 April 2010 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in Market Value £'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
Total	711,164			42,350	763,427

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 £68,629 (£339,408 in 2010-2011) with the decrease from the previous year being due to the Fund terminating AllianceBernstein's appointments during 2011-2012. AllianceBernstein's appointments with the Fund operated on a segregated basis with transaction costs separately identified. 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.

Derivative Contracts

Derivative receipts and payments in 2011/2012 represent the realised gains and losses on futures contracts held by (the external manager) AllianceBernstein to equitise cash in the global equity portfolio. The Fund terminated AllianceBernstein's appointment during 2011-2012 and therefore had no derivative contracts at 31 March 2012.

Other Investment Balances

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Amounts due to broker	(4)	**-**
Outstanding trades	29	**-**
Outstanding dividends, tax and other investment income	571	**627**
Cash deposits	3,472	**879**
Cash margin	67	**-**
	4,135	**1,506**

12. Investment Management Expenses

The Fund Account shows investment management fees and custody charges charged to the Fund. 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 one fund manager. Custody is charged for separately. Indirect costs charged within pooled investment vehicles are not separately provided to the Fund.

13. Current Assets

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Contributions due from employers in respect of		
Employers	171	**326**
Members	52	**59**
Strain on the Fund contributions due from employers	29	**91**
Retirement grants prepaid	1,395	**107**
Other	25	**-**
	1,672	**583**

These can be further analysed as follows:

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Central government bodies	56	**28**
Other local authorities	12	**47**
NHS Bodies	-	**58**
Public corporations and trading funds	58	**-**
Bodies external to general government	1,546	**450**
	1,672	**583**

14. Current Liabilities

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Due to Northumberland County Council	(4,000)	**(3,558)**
Retirement/death grants due	(110)	**(235)**
Investment management and custodial fees due	(305)	**(163)**
Other	(274)	**(161)**
	(4,689)	**(4,117)**

These can be further analysed as follows:

	As at 31 March 2011 £'000	**As at 31 March 2012 £'000**
Other local authorities	(4,000)	**(3,558)**
NHS Bodies	-	**(4)**
Bodies external to general government	(689)	**(555)**
	(4,689)	**(4,117)**

15. Analysis of Investments

The total market value of the Fund as at 31 March 2012 was £802.38 million (£762.55 million as at 31 March 2011), which can be analysed as follows:

	As at 31 March 2011 £m	**%**	**As at 31 March 2012 £m**
UK and overseas equities	471.92	**62.6**	**502.22**
Fixed interest and index linked	195.35	**24.8**	**198.79**
Property unit trusts	39.10	**5.0**	**39.87**
Ventures and partnerships	52.93	**7.3**	**58.94**
Other investment balances	4.13	**0.2**	**1.51**
Cash deposits and net current (liabilities)/assets	(0.88)	**0.1**	**1.05**
	762.55	**100.0**	**802.38**

The majority of the Fund's value is held in equities. Analysis by geographical area is as follows:

	As at 31 March 2011 £m	**%**	**As at 31 March 2012 £m**
United Kingdom	282.51	**58.1**	**291.60**
Europe	54.05	**11.1**	**55.89**
North America	69.36	**11.2**	**56.33**
Japan	31.40	**5.3**	**26.71**
Pacific	18.11	**3.4**	**17.01**
Other	16.49	**10.9**	**54.68**
	471.92	**100.0**	**502.22**

Analysis of UK equity investments by industry sector is as follows:

	As at 31 March 2011 £m	%	**As at 31 March 2012 £m**
Basic materials	8.27	**1.9**	**5.51**
Consumer goods	9.29	**3.0**	**8.85**
Consumer services	16.02	**4.7**	**13.79**
Financials	15.36	**3.3**	**9.45**
Health care	6.21	**3.6**	**10.50**
Industrials	15.89	**6.0**	**17.46**
Oil and gas	13.46	**2.7**	**7.93**
Technology	7.35	**3.5**	**10.27**
Telecommunications	4.51	**-**	**-**
Utilities	1.55	**0.9**	**2.71**
Other (including managed funds)	184.60	**70.4**	**205.13**
	282.51	**100.0**	**291.60**

The previously reported analysis of investments by industry sector has been changed to include the effective equity holdings via M&G's pooled investment vehicle, as well as the directly held investments. The purpose of making this change is to assist the reader of the accounts in understanding the Fund's exposure to actively managed equities by industry sector irrespective of whether the equities are directly held or held in a pooled investment vehicle.

Fund Value and Proportions

The values and proportions of the Fund's assets managed externally are as follows:

	As at 31 March 2011 £m	%	**As at 31 March 2012 £m**
Legal & General Investment Management	475.16	**66.0**	**529.09**
AllianceBernstein (UK equities)	50.41	**-**	**-**
Wellington Management International	54.59	**10.7**	**85.85**
Schroder Investment Management	19.16	**2.5**	**20.01**
BlackRock	20.32	**2.6**	**20.59**
AllianceBernstein (global equities)	42.18	**-**	**0.10**
M&G Investment Management	48.19	**10.8**	**86.36**
Morgan Stanley (private equity)	39.25	**5.6**	**44.93**
NB Alternatives (private equity)	14.17	**1.8**	**14.40**
	763.43	**100.0**	**801.33**

Net current liabilities (net of cash deposits) of £1.05 million are not externally managed and not, therefore, shown in the analysis above.

All fund managers operating the pooled investment vehicles are registered in the United Kingdom.

16. Significant Holdings

As at 31 March 2012, 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:

- £102.59 million (12.8%) in the UK Equity Index Fund and £56.46 million (7.0%) 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.

- £86.36 million (10.8%) in the Global Leaders Fund managed by M&G Investment Management.

- £62.90 million (7.8%) in the Sterling Core Bond Plus Portfolio managed by Wellington Management International.

17. Securities Lending

Prior to July 2011 when Fund assets were transferred from AllianceBernstein's management to M&G's management, the Fund participated in a securities lending programme managed by its custodian, Northern Trust. Under the programme, all loans were fully collateralised with OECD AAA sovereign debt. From July 2011 the Fund ceased participation in the programme as it no longer held assets managed on a segregated basis. No stock was released as at 31 March 2012 (£4.42 million was released as at 31 March 2011).

18. 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 2011-2012 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 2011-2012 to AVC investments were £266,638 (£450,686 in 2010-2011) to Prudential, £129 (£120 in 2010-2011) to Equitable Life, and £4,990 (£7,563 in 2010-2011) to Phoenix Life Limited.

As at 31 March 2012, the aggregate value of the AVC investments with Prudential was £1,709,912 (£1,676,666 as at 31 March 2011), with Equitable Life was £49,794 (£63,773 as at 31 March 2011), and with Phoenix Life Limited was £56,793 (£98,186 as at 31 March 2011).

19. Related Party Transactions

Northumberland County Council administers the Pension Fund. During 2011-2012 the Pension Fund had an average balance of £1.9 million borrowed from the Council for which it paid interest of £12,220 (and an average balance of £1.3 million loaned to the Council during 2010-2011 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 2011-2012 these costs amounted to £576,250 (£576,250 in 2010-2011). £3,557,714 was due to the Council at 31 March 2012 (£3,999,719 at 31 March 2011).

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 2012 (five as at 31 March 2011).

20. 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.

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 2012 is shown in Note 26 below.

Northumberland County Council Pension Fund collects contributions from active members of the LGPS and their employers. It pays pensions and related expenses, and reimburses Northumberland County Council for the costs incurred in administering the LGPS. Surplus funds, not needed for the day-to-day expenses, are invested with external fund managers for long term growth.

As a funded scheme, contributions received from employers and employees and transfer values received are invested in the Fund to meet the benefits when they fall due. Future returns on investments and future benefits payable are not known in advance, therefore the employer contributions payable are regularly reviewed (every three years) by the Fund actuary to ensure their adequacy for the Fund's long term solvency. The last statutory actuarial valuation of the Fund was carried out as at 31 March 2010. Investment, inflation and longevity risks are carried by the employers and not by the individual Scheme members.

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.

The Pension Fund Panel comprises six County Council representatives, one non-voting employer representative, one non-voting Scheme member representative and two non-voting Trade Union representatives.

External fund managers have been appointed to make the day-to-day investment decisions.

As at 31 March 2012 there were five external fund managers, namely Legal & General Investment Management, M&G Investments Management, Wellington Management International, BlackRock, and Schroder Investment Management.

As at 31 March 2012 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.

21. 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, County Hall, Morpeth, Northumberland, NE61 2EF.

22. Outstanding Commitments

As at 31 March 2012 the Fund had outstanding commitments to four private equity investments.

	Initial commitment	Capital Payments Made	Outstanding commitment as at 31 March 2012	
	$m	$m	$m	£m
Morgan Stanley Private Markets III	50.00	43.42	6.58	4.12
Morgan Stanley GDO Fund	10.00	8.48	1.52	0.95
NB Crossroads Fund XVIII	27.00	22.41	4.59	2.87
Morgan Stanley Private Markets IV	30.00	21.30	8.70	5.44
Total outstanding commitments				13.38

Outstanding capital commitments totalled £13.4 million as at 31 March 2012 (£22.5m as at 31 March 2011). Capital is payable by the Fund to these private equity investments when called. Amounts called are irregular in value and timing, and are typically spread over a period of up to ten years. The maximum unexpired commitment period as at 31 March 2012 was four years for Morgan Stanley Private Markets Fund III and Morgan Stanley GDO Fund, and five years for NB Crossroads Fund XVIII and Morgan Stanley Private Markets Fund IV.

23. Events after the end of the reporting period

The Fund finalised a commitment of $43.00 million (£26.91 million) to Global Infrastructure Partners II-C L.P. (GIP), an infrastructure fund of funds, in May 2012. The first capital contribution was paid to GIP by the Fund in May 2012.

24. Financial Instruments

The value of financial instruments, classified into one of three levels according to the quality and reliability of information used to determine values, is as follows:

	As at 31 March 2012		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial Assets at Fair Value through profit and loss	740,878	58,941	799,819
Loans and Receivables	6,673	-	6,673
Financial (liabilities) at amortised cost	(4,117)	-	(4,117)
Net financial assets	743,434	58,941	802,375

	As at 31 March 2011		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial Assets at Fair Value through profit and loss	706,364	52,928	759,292
Loans and Receivables	7,944	-	7,944
Financial (liabilities) at amortised cost	(4,689)	-	(4,689)
Net financial assets	709,619	52,928	762,547

Level 1 means financial instruments valued using unadjusted quoted prices in active markets for identical assets or liabilities; level 2 means financial instruments valued using mainly observable market data and level 3 means financial instruments valued using unobservable inputs.

The majority of the Fund assets are valued based on quoted prices and are classified as level 1. The Fund has no financial instruments classified as level 2 and has private equity investments classified as level 3 which are based on the valuations provided by the general partners to the funds invested in. Private equity investments are categorised as "ventures and partnerships" in the Net Assets Statement.

Net gains and losses on financial instruments can be analysed as follows:

	2010-2011	**2011-2012**
	£'000	**£'000**
Financial Assets at Fair Value through profit and loss	42,415	**39,148**
Loans and Receivables	(65)	**(38)**
Total net gains on financial instuments	42,350	**39,110**

25. Nature and Extent of Risk Arising from Financial Instruments

Overall Fund risk

All Fund assets and liabilities, as disclosed in the Net Assets Statement, are classified as financial instruments. However, as stated at the foot of the Net Assets Statement, it excludes the most significant Fund liability, namely the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which values such pension obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS26 shown in Appendices 2 and 3 respectively to this report.

The sole purpose of holding Fund assets is to invest contributions received from employees and employers, together with transfer values received and investment income, so that there are sufficient funds available to pay pensions when the active and deferred members become pensioner members.

The primary risk for the Fund is the risk that Fund assets do not match the liabilities over the long term. It is the gap between the assets and liabilities, known as the funding deficit (or surplus), which is most relevant to the Fund's participating employers, who are responsible for meeting the funding deficit. Focussing on the risks surrounding the assets alone therefore gives only a partial picture. For example, should UK gilt yields increase this would reduce the value of the Fund's holdings in UK gilts, but it would also reduce the actuarial value placed on the liabilities to pay pensions by considerably more, and therefore reduce any funding deficit.

Overall Fund risk and the actions taken to manage that risk are described in the Fund's Statement of Investment Principles and in the Funding Strategy Statement, both maintained as separate documents which can be obtained from the Corporate Director of Finance.

The key controls are:

- The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates;
- the asset liability modelling study which is carried out every three years or more frequently if necessary, to consider alternative asset allocations for the Fund and the long term impact on employer contribution rates; and
- quarterly monitoring by the Pension Fund Panel of the Fund investments and of the updated estimated funding position.

The remainder of this note only considers risk in relation to the financial instruments disclosed on the Net Assets Statement.

Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk on its externally managed investment portfolio, on cash deposits managed in-house, and on the contributions receivable from the Fund's participating employers.

The market values of investments usually reflect an assessment of credit risk in their pricing and as a result the risk of loss is implicitly provided for in the fair value of the Fund's investments. Credit risk is also managed through the selection and monitoring of the Fund's custodian and investment managers, and via their contracts with the Fund. All investment managers and the custodian are required to provide the Fund with an up to date AAF06/01 report, or equivalent, annually. The Fund's active bond manager, Wellington Management International, considers credit risk as part of its portfolio construction.

Credit risk on cash deposits managed in-house is managed by Northumberland County Council's Treasury Management Team, following the Council's Treasury Management Policy. This policy is described in detail in Northumberland County Council's Annual Report.

Credit risk on contributions receivable from employers is minimised by regular monitoring of the monthly receipt of payments from employers. There is no provision for doubtful debts against the amounts due from employers as at 31 March 2012. The LGPS Regulations require that a risk assessment of any new transferee admitted body is carried out, and that a bond or guarantee is obtained where necessary. The Pension Fund Panel must approve the admission of any new community admission body. Bonds or guarantees have been obtained for the Fund's admitted employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

None of the Fund's financial assets are past due or impaired.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The Fund holds in-house cash resources to meet day-to-day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, units in the Fund's holdings with Legal & General Investment Management can be realised at short notice and at minimal cost.

With the exception of investments in private equity, there are no commitments to contribute further capital to any of the existing Fund investments. When private equity capital calls are received, payment is made out of in-house cash surpluses, or, if there are insufficient funds available, units held with Legal & General are realised. Note 22 to the accounts shows further information about outstanding commitments to private equity investments.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements, and the asset mix.

Market risk is inherent in the investments that the Fund holds. To mitigate market risk, the Fund invests in a diversified portfolio, to include a variety of asset classes, geographical regions and industrial sectors. The Fund is also managed by five different investment managers, each with different investment styles and strategies, and different benchmarks and performance targets. The LGPS Regulations contain prescribed limits to prevent overconcentration in certain asset classes and encourage diversification. Full details of asset allocation and management structure are described in the Fund's Statement of Investment Principles maintained as a separate document which can be obtained from the Corporate Director of Finance.

The purpose of diversifying the portfolio of assets in the Fund is to reduce the impact of price movements, because it is unlikely that all asset classes will move in the same direction at the same time.

To manage market risk, the Pension Fund Panel and its adviser regularly review the Fund's asset allocation and management structure, and monitor investment managers' performance on a quarterly basis.

Market risk can be divided into three elements, namely other price risk, interest rate risk and currency risk. These are considered further below.

Market risk - other price risk

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Fund is exposed to other price risk on all of its investment assets. This risk is mitigated by asset and manager diversification. Price risk can be quantified as follows:

	As at 31 March 2012 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	291,598	15.6	337,116	246,080
Overseas Equities	210,621	15.1	242,488	178,754
Index Linked	112,948	7.7	121,589	104,307
Other Fixed Interest	85,842	11.7	95,903	75,781
Property	39,869	6.5	42,460	37,278
Ventures and Partnerships	58,941	10.4	65,065	52,817
Other Investment Balances	1,506	-	1,506	1,506
Total Investment Assets	801,325		906,127	696,523

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. The analysis shown above assumes all other potential variables remain the same, and ignores the effect of diversification on the value on increase/decrease at total investment assets level. The price risk shown above includes interest rate risk and currency risk as they cannot be separated out of market price movements.

Market risk - interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of interest rate changes. The Fund is exposed to interest rate risk on its bond investment assets. This risk is mitigated by asset and manager diversification. Interest rate risk can be quantified as follows:

	As at 31 March 2012 £'000	Value following 1% decrease in interest rates £'000	Value following 1% increase in interest rates £'000
Index Linked	112,948	135,312	90,584
Other Fixed Interest	85,842	91,397	80,287
Total Fixed Interest Investments	197,890	226,709	170,871

Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The analysis above shows the likely effect of a 1% increase or decrease in interest rates on the value of the bond instruments held by the Fund. It assumes all other potential variables remain the same, and ignores the effect a change in interest rates might have on the value of other investments held.

Market risk - currency risk

Currency risk is the risk of the value of a financial instrument changing as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that were purchased in any currency other than sterling. This risk is mitigated by asset and manager diversification. Currency risk can be quantified as follows:

	As at 31 March 2012 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Equities :				
Europe	55,895	7.8	60,267	51,523
North America	56,326	9.2	61,534	51,118
Japan	26,709	13.3	30,260	23,158
Pacific	17,008	7.2	18,230	15,786
Other	54,683	7.9	58,998	50,368
Other Fixed Interest	85,842	6.5	91,462	80,222
ventures and Partnerships	58,907	9.8	64,652	53,162
Total Overseas Investments	355,370		385,403	325,337

Potential value changes are determined based on the observed historical volatility of currency movements relative to sterling. The potential volatilities are consistent with a one standard deviation movement in currencies relative to sterling over the latest three years. The analysis shown above assumes all other potential variables remain the same, and ignores the effect of diversification on the value on increase/decrease at total overseas investments level.

26. Fund Membership as at 31 March 2012

	Active members	Pensioner members	Deferred members
Northumberland County Council			
Employees	6,343	6,722	6,499
Councillors	25	4	10
Local Government Pension Scheme Employers (known as "Scheduled			
Amble Joint Burial Committee	-	1	-
Ashington Education Achievement Zone	-	-	3
Bede Academy	78	4	14
Berwick Academy	45	-	-
Blyth Valley & Wansbeck Joint Crematorium Committee	-	9	1
Cramlington Learning Village Academy	65	1	1
Corbridge Parish Council	2	-	-
Hexham Town Council	5	4	-
Homes for Northumberland Ltd	177	42	84
Morpeth Town Council	5	1	-
Northumberland College	153	116	194
Northumberland Church of England Academy	251	25	46
Northumberland National Park	54	22	77
Northumberland Inshore Fisheries and Conservation Authority	9	4	2
Northumberland Valuation Tribunal	1	7	1
Northumbria Magistrates Courts Committee	-	73	72
Three Rivers Learning Trust Academy	120	-	3
Ponteland Parish Council	-	1	-
West Bedlington Town Council	1	-	-
Admitted Bodies			
Age UK Northumberland	11	10	12
Bell View Day Centre	-	-	1
Berwick Borough Housing Ltd	12	4	6
Berwick Bridges Trust	-	2	4
Blyth Valley Arts and Leisure Trust	95	14	46
Blyth Resource and Initiative Centre	-	-	1
Bullough Cleaning Services Ltd	11	2	6
Community Action Northumberland	5	20	23
Creative Management Services Ltd	6	-	4
CSB Contract Services	-	-	4
Feversham School	-	24	17
Groundwork Northumberland	-	-	4
Helping Hands Community Care	1	-	-
Haltwhistle Regeneration	-	-	1
Isos Housing Ltd	28	47	24
North Country Leisure	69	9	51
Northumberland Aged Mineworkers Homes Association	8	6	-
Northumberland Care Trust	3	-	-
Northumberland County Blind Association	5	2	8
Northumberland Guidance Company	-	13	15
Northumbrian NHS Healthcare Foundation Trust	71	56	49
Northumbrian Leisure Resorts Ltd	-	-	2
Northumbrian Water (Ex Coquet Water Board)	-	1	-
Queens Hall Arts Centre	4	2	1
Superclean Services	6	-	2
Tees Active Ltd	1	-	-
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	2
Three Rivers Housing Association Ltd	2	1	-
Tweed Bridges Trust	-	1	-
Wansbeck Homes	137	23	16
Woodhorn Charitable Trust	36	2	1
Other Bodies pre 1974	-	25	-
	7,847	7,304	7,310

Pension Fund Performance

Annual Returns

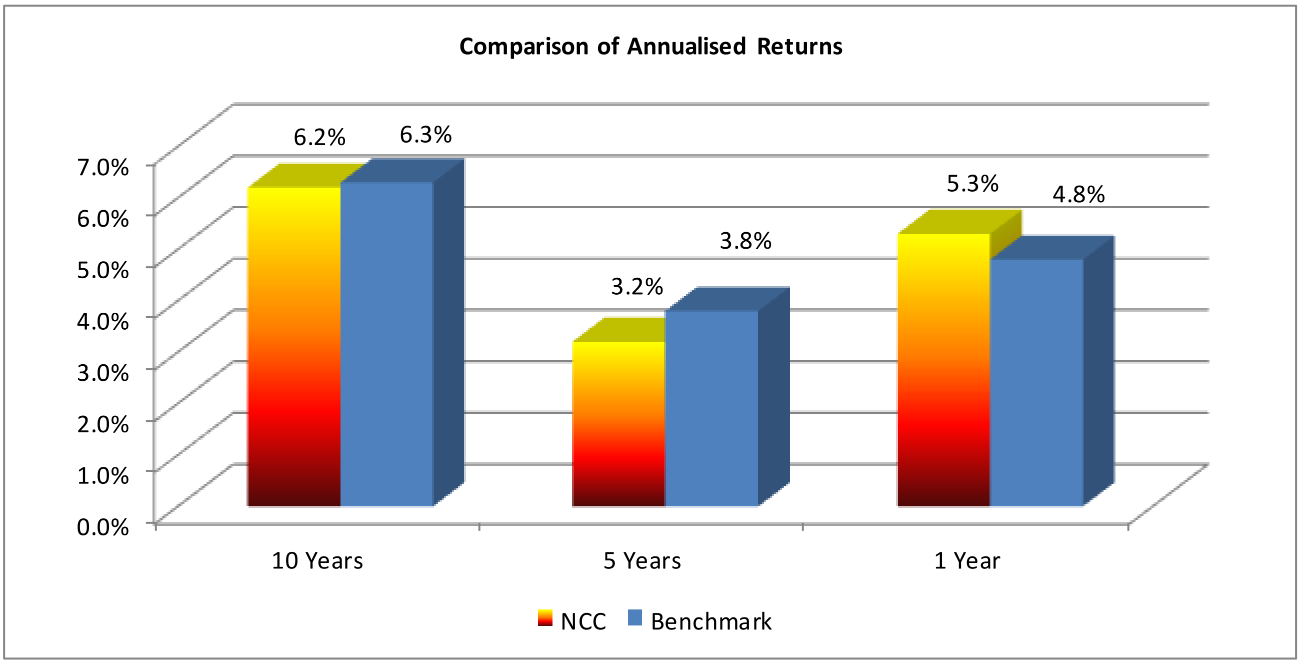
Over the year, the Fund outperformed its benchmark by 0.5%* (expressed on a geometric basis).

Year Ending 31 March	2008 (%)	2009 (%)	2010 (%)	2011 (%)	**2012 (%)**
Fund Performance	-2.4	-24.0	40.8	6.4	**5.3**
Benchmark	-2.0	-20.0	36.7	7.6	**4.8**

* 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 the fund specific benchmark.



Analysis of Returns

Investment Category	Returns for year ended 31 March 2012 Fund %	Benchmark %
Legal & General (Index tracker)	6.2	6.0
M&G Investments (Global equities)	-4.2	0.4
Wellington (Bonds)	14.0	11.3
BlackRock (Property)	5.8	5.7
Schroder (Property)	5.8	5.7
Combined Fund	5.3	4.8

Performance Commentary

The Northumberland County Council Pension Fund produced a positive return of 5.3% in 2011-2012 which was well above the growth in average earnings of 0.1% for the same period.

Pension Fund Performance

The Fund return of 5.3% in the year was ahead of its benchmark over the period. Asset allocation added 0.1%, the positive impact from overweighting in index linked bonds being largely offset by relative positions (overweightings and underweightings) in other asset classes. Stock selection added 0.2% due to outperformance in active bonds.

Manager performance was mixed. Wellington performed well, beating its benchmark by 2.4%. Schroder, Legal & General and BlackRock marginally beat their associated benchmarks whilst M&G underperformed its benchmark by 4.6%.

The WM Local Authority Pension Fund Universe for 2011-2012 produced an average return of 2.6%. The range of returns was 8.2% for the 5th ranked to 0.5% for the 95th ranked fund (with the rankings expressed as percentiles). The Northumberland County Council Pension Fund was ranked 13th in the period.

Over five years the Fund returned 3.2% (annualised) which is below the benchmark return of 3.8% giving a relative underperformance of 0.6% and a ranking of 45th in the Local Authority Universe. This is due to the long-term effect of the downturn in 2008-2009.

Over ten years the Fund achieved a return of 6.2% (annualised). This compares well with the RPI return of 3.3% and the growth in average earnings of 2.5% and ranks 16th in the Local Authority Universe but is marginally below the Fund's benchmark return of 6.3% for the same period.

Statement of the Actuary for the year ended 31 March 2012

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. 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 £719M) covering 78% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

2. 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.

3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 30 March 2011 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount Rate for periods in service	
Scheduled Bodies	6.8% per annum
Admission Bodies and Academies	6.0% per annum
Discount Rate for periods after leaving service	
Scheduled Bodies	6.8% per annum
Admission Bodies and Academies	5.0% per annum
Rate of Pay Increases	5.3% per annum
Rate of Increases in Pensions in Payment (in excess of Guaranteed Minimum Pension)	3.3% per annum

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their 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 actuarial 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, the Administering Authority of the Fund, in respect of this statement.

Aon Hewitt Limited

1 June 2012

Fund Account for the year ended 31 March 2011		2010-2011 £'000	**2011-2012** **£'000**
Contributions			
	From employer - normal	1,277	**1,227**
	From employer – ill health	139	**139**
	From members	686	**665**
		2,102	**2,031**
Transfers in			
	Individual transfers from other schemes	3	**42**
		2,105	**2,073**
Benefits			
	Pensions	(3,599)	**(3,778)**
	Commutations and lump sum retirement benefits	(1,236)	**(480)**
		(4,835)	**(4,258)**
Payments to and on account of leavers			
	Individual transfers to other schemes	-	**-**
Net amount payable before top-up grant		2,730	**2,185**
Top-up grant payable by central Government		(2,730)	**(2,185)**
Net Amount Payable for the year		-	**-**

Net Assets Statement as at 31 March 2012		As at 31 March 2011 £'000	**As at** **31 March** **2012** **£'000**
Current assets			
	Transfer Values Received - Debtor	-	**11**
	Top-up grant receivable from central Government	963	**202**
Current liabilities			
	Amount payable to the General Fund	(963)	**(213)**
		-	**-**

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 48 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.

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.

Statement of Responsibilities

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").

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.

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 2012. All known material events that have occurred up to and including 30 June which relate to 2011-2012 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 2012 and their income and expenditure for the year ended 31 March 2012.

Steven P Mason

Steven Mason

Corporate Director of Finance

28 September 2012

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". This Annual Governance 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.

This Statement also applies to the Council's wholly owned subsidiaries:

- The Arch Group Ltd – which is responsible for the provision of commercial and residential property and acts as the development arm of the Council;
- Homes for Northumberland – an arm's length management organisation that conducts landlord functions on behalf of the Council; and
- Rural Enterprise Action CIC (Reaction) – which promoted enterprise activities in rural areas (dormant since 1 January 2012).

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 on-going 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 and the wider Group was in place from 1 April 2011, and has been further developed throughout the year ended 31 March 2012 and up to the date of approval of the statement of accounts. Development of the framework 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. These areas are based on the six dimensions of governance defined by the Audit Commission.

The development of governance arrangements within the subsidiaries is at different stages:

- The Arch Group was formed from Wansbeck Life and the Northern Coalfield Property Company on 1 April 2011. Significant enhancements to the governance arrangements for the Group are underway.

- Homes for Northumberland is a well-established company with a full suite of policies and procedures. The company has recently adopted the National Housing Federation's Code of Governance and is working towards compliance with this. However, a detailed review of the application of some of the company's procedures has identified significant issues related to the application of relevant policies and procedures (see below).

- Reaction became dormant on 1 January 2012. As a small company, its activities were established within a framework documented in the memorandum and articles of association. The board of the company was comprised solely of senior officers from the Council and the council's Chief Legal officer acted as the company secretary.

Focussing on the Council's purpose and better outcomes for citizens

Following its inception on 1 April 2009, the Council has worked to establish its vision and future direction. The overarching, long-term aims are provided by the Sustainable Community Strategy (SCS) – "Northumberland: Resilient for the Future", which formalises the organisation's "Vision and Values".

The Council's Corporate Strategy "Stronger Together" 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 to ensure a clear line of sight from the place based strategy through to the council's own planning framework.

Since 2009, Northumberland County Council has been transforming itself in order to start to deliver its vision of 'Leading Northumberland to a greater future'. However, as with every UK local authority, it is now faced with the prospect of further unprecedented change as it seeks to deliver customer focused public services in a variety of increasingly innovative and more cost effective ways. By developing a clear consistency of purpose between the Council, its subsidiaries and wider, sector-led partnerships, services can more readily align resources to key priorities and ensure services to customers are flexible, joined up and user-friendly.

Responding to these challenges requires a clear focus on:

Rebalancing the economy; supporting, enabling and encouraging economic growth, more private sector jobs and enterprise in order to develop improved financial independence

Responding to the unique nature of Northumberland; the importance of ensuring public services can be effectively delivered across a unique place that includes vast geography and diverse rural and urban based communities

Enabling more personal choice, better access and improved wellbeing; the provision of a variety of different access channels to a range of different public services, potentially delivered by different providers that suit the needs of the individual and communities at the time of need

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 performance framework that achieves a balance between quantitative indicators and qualitative intelligence to help the Council to understand and meet the aspirations of its customers. Performance is monitored through quarterly 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.

The approach to the alignment of the subsidiaries with the Council's objectives varies:

- The Leader, Deputy Leader, the Leaders of the two main opposition parties and the Council's Chief Executive sit on Arch's board. Large regeneration projects managed by the Group are monitored through a joint Investment Board with both Arch and Council representation.

- Homes for Northumberland operates under a management agreement with the Council. Two of the Council's Corporate Directors sit on the company's board as part of a temporary arrangement.

- The board of Reaction consisted solely of senior managers from the Council.

In 2011-2012, Adults Services continued to have positive inspection results. Ofsted inspections of Northumberland schools generated results that were better than the national average. A joint inspection of Safeguarding and Looked After Services to Children and Young People in Northumberland was graded as "outstanding". There have been no benefits or housing inspections during the year. Work is continuing on an action plan generated in response to a Strategic Housing Inspection carried out in 2010: most of the recommendations have been addressed.

The principal objective in dealing with the current budget preparation has been to achieve a balanced budget for 2012-2013, 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.

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. Both the Constitution and the Finance and Contract Rules were updated in 2011-2012. It is likely that a further review will take place in 2012-2013 to reflect changes introduced through the Localism Act.

In relation to finance, the Council's management arrangements conform with the requirements of CIPFA's "Statement on the role of the Chief Financial officer in Local Government".

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 procedures is in place, as set out in the Finance & Contract rules. These rules were updated during 2011-2012. 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.

There are codes of conduct in place at Arch and Homes for Northumberland.

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 and 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.

The risk management frameworks in Arch and Homes for Northumberland are in the process of review and development.

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 competency 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 baseline.

Changes have been made at in the senior management in the Arch Group and in Homes for Northumberland during the year. The changes in Arch reflect the increasing responsibilities that the company has for economic development in Northumberland.

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. Central to this has been the establishment of an Engagement Board with a remit to cover:

- Public engagement; and
- Employee engagement.

The work of the Board in the year has informed decision making and helped to evaluate the Council's progress against its corporate objectives.

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.

For 2011-2012, Heads of Service have provided evidence-based assurance statements setting out how their areas have complied with principles of good governance and any areas that need to be addressed.

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 was approved in July 2011. This will be updated again in 2012-2013 to reflect changes required by the Localism Act. This work is being led by the Chief Legal Officer in consultation with the Constitutional Working Group comprising elected members from all political groups. Through appropriate appointments to its committees, the Council can ensure that governance is in place 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 six 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 on-going 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 four Scrutiny Committees – Economic Prosperity and Strategic Services; Care and Well-Being, Communities and Place, Families and Children's Services. 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 is an informal body. It provides an opportunity for members and senior officers to discuss emerging issues. This Risk Appraisal Panel is not part of the Council's decision making process. Formal decisions are made in relevant committees or under delegation.

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 six councillors and six independent members, one of whom chairs the meeting. From 1 July 2012, the membership of the Standards Committee was revised to meet the requirements of the Localism Act 2011.

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 three 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 partners with whom the Council works, such as the Northumberland Care Trust, Homes for Northumberland and Blyth Valley Arts & Leisure. Arch does not have an internal audit function.

During the year, the Council established a shared arrangement with North Tyneside Council for Internal Audit and Risk Management Services.

5. Significant governance issues

Issues Arising in 2010-2011

Issues identified	*Current position*
Governance arrangements at Arch Group and Homes for Northumberland • 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 April 2011) have operated under interim governance arrangements during the year.	• Detailed reviews in 2011-2012 of the risk and financial management arrangements at Homes for Northumberland have identified significant failings in the processes in operation. • To address these issues, new arrangements are being implemented and there have been changes in the senior management of the company. • The governance arrangements in the Arch Group have continued to be developed in the year but are not fully embedded. • Across both entities, we will continue to monitor development of the systems through 2012-2013.
Wansbeck Chief Officer salaries • 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.	• Legal action and/or mediation will continue in relation to this issue in 2012-2013. • We will monitor progress with these cases.
Risk Management Framework • Due to conflicting priorities, there was an issue relating to the 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.	• The procedural issues associated with the approval of the framework and the risk registers have been addressed. • This issue is now closed.

Issues identified	*Current position*
Impact of reduced staff levels on the control environment • 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.	• Financial pressures continue to present issues for the Council. It has been raised again in 2011-2012 in a wider context (see below).
Government Secure Extranet Code of Connection • 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.	• Penetration testing has been carried out again during 2011-2012. The resulting self-assessment submission was sent to CESG in October 2011 and accreditation to GCSx was granted for the next 12 months. • This issue is now closed.
Data security breach • 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.	• Data security continues to be an issue for the Council. It has been raised again in 2011-2012.
Performance management in Customer and Cultural Service • Customer and Cultural Service, a new service grouping established in January 2011, identified a number of issues to be resolved in relation to performance management.	• A number of issues were addressed during 2011-2012. This includes the development and implementation of a performance and risk management framework. A programme of activity is continuing into 2012-2013.
Internal audit results • 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 procedures, these were reported to Audit Committee, and action plans to address failings will be reviewed during follow up work.	• A suite of recommendations was established in relation to each of these audits. Actions taken in response to these recommendations have been followed up through the Audit Committee. • This issue is now closed.

Issues identified	*Current position*
Accounts preparation • 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.	• The Finance team has been strengthened and the 2011-2012 accounts were prepared to timetable. • This issue is now closed.

Issues identified in 2011-2012

Issues identified	*Action taken to address the issues*
Impact of the economic downturn • The primary issue facing the Council continues to be the impact that the national economic situation is having on the Local Government Finance Settlement as Central Government seeks to rebalance public expenditure. This is exacerbated by an increased demand for services from the Council arising from the economic downturn. • The Council has saved over £100m since 2009 and anticipates saving an additional £74m over the next three years. • Reductions of this scale will have a profound impact on the way the council delivers services and on our internal operations. For example, there is a concern that on-going reductions in staffing levels could lead to a reduction in the effectiveness or application of controls.	• A balanced budget for 2012-2013 has been agreed as part of a three-year medium term financial plan. • The Council has reviewed the financial resilience of individual Groups to identify those most at risk of overspending in future periods. We have also embarked on a value for money benchmarking exercise to establish other authorities that may be able to help Northumberland to deliver better quality services at lower cost. • Improvement and efficiency programmes have been implemented by Groups at risk of overspending. • A service review programme has continued through 2011-2012 (and is being strengthened for 2012-2013) to challenge the way in which services are delivered. • Budget preparation for 2012-2013 has begun earlier during 2011-2012 to increase the confidence in the process. • In relation to treasury management, the Council has taken advantage of historically low interest rates to borrow now to fund future programmes. Surplus funds arising from this strategy have been placed with other local authorities to maximise security.
Overspends in Groups • In aggregate, for 2011-2012, the Council achieved a broadly breakeven position against its revenue budget. However, this masks a significant (£3.42 million) overspend in Local Services in the year. • Coupled with the difficult economic circumstances faced by the Council, overspends of this magnitude have the potential to jeopardise the financial standing of the Council.	• Local Services has identified savings of £6.00 million. These savings have been incorporated into the Group's base budget for 2012-2013. • A steering group has been established to monitor the achievement of the proposed savings. • The steering group has already been successful in stabilising expenditure in Local Services and in monitoring and challenging performance against budget.

Issues identified	*Action taken to address the issues*
Data security • The Council has suffered seven separate losses of personal data in 2011-2012. Five of these have been reported to the Information Commissioner's Office (ICO). The remaining two are currently being reviewed and considered internally for reporting. • Of the five that were reported, none resulted in formal regulatory action.	• An action plan is in place to address recommendations raised by the ICO in relation to the five reported cases. • We have agreed to a "consensual audit" of our information security arrangements with the ICO. This will provide us with an independent opinion on compliance with the Data protection Act. • A number of staff in Information Services have undertaken training in data protection and are awaiting their results in the ISEB Certificate in data Protection. • More widely, training on data protection has been made available to all staff through*" InfoAware*". • Staff in Children's Services have undertaken a bespoke training programme on data protection/information awareness.
Data management • The Council continues to rely on historic data transferred from demised district and borough councils during LGR in 2009. The availability and accessibility of this data is, in some cases causing operational problems for officers.	• Activities are underway to review, catalogue and minimise historic data held by the Council in order to make it more accessible. • Consideration is being given to establishing a data management policy for the Council. • Consideration is also being given to the procurement of an electronic document management system to use across the Council to improve data handling.
Compliance with policies and procedures • Evidence from a number of sources, including HR, finance, accounts payable and payroll, indicates that managers are not consistently complying with policies and procedures implemented by the Council. • This weakens the overall control environment of the organisation.	• Internal Audit has targeted work in some of these areas. The audit Committee will monitor progress against the recommendations raised by Internal Audit. • Steps have been taken to capture data and report on areas that demonstrate a lack of compliance. These include, for example, invoices on hold (which mainly relate to purchases that have not used standard Council processes) and overdue debt. This will be used to make Groups accountable for performance in these areas.

Issues identified	*Action taken to address the issues*
Business Continuity Planning • At the start of 2011-2012, business continuity arrangements across the Council were at different stages of development. • During the year, an exercise was carried out to make all Groups complete a Business Impact Analysis to a common format. This exercise has led to the completion of a Corporate BCP. • BCPs for individual Groups will be developed from the Corporate BCP.	• The existing BCPs will continue to be updated and this will be monitored through the Fire and Rescue Service. • Steps will be taken to test the BCPs in 2012-2013.

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 and firefighters' pension fund financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of Northumberland County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The Authority financial 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 Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes numbered 1 to 62 (Authority), 1 to 14 (Housing Revenue Account), 1 to 4 (Collection fund) and 1 to 16 (Group). The firefighters' pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes numbered 1 to 3. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 auditor

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 Statement of Accounts, which include the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Northumberland County Council as at 31 March 2012 and of its expenditure and income for the year then ended;

- give a true and fair view of the financial position of the Group as at 31 March 2012 and of its expenditure and income 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 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

• in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;

• we issue a report in the public interest under section 8 of the Audit Commission Act 1998;

• we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or

• we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes number 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 auditor

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 Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the annual report 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.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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.

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 us 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.

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

We have undertaken our 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 2011, 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 2012.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the 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 2011, 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 2012.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

David Wilkinson FCA, CF (Engagement Lead)

for and on behalf of Deloitte LLP

Appointed Auditor

Newcastle-upon-Tyne, UK

28 September 2012

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 an appropriate 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 Statement of Accounts.

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 long term and current assets employed in its operations, together with summarised information on fixed assets held.

Budget

A statement of the Council's expected level of income and expenditure 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

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 ion 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.

Service Reporting Code of Practice (SeRCOP)

The SeRCOP replaced the Best Value Accounting Code of Practise (BVACOP) on the 1st April 2011. It provides guidance on financial reporting to stakeholders but does not provide guidance on the Statement of Accounts. The overall framework adopted by S*e*RCOP will support the objective to establish the widest range of financial reporting requirements, in order that data consistency and comparability are achieved. S*e*RCOP particularly aims to meet the demands of both the Best Value and the Transparency initiatives and its various stakeholders. It contains a standard definition of services and total cost.

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

Addressee

This work has been commissioned by Northumberland County Council in its capacity as Administering Authority to the Fund.

Scope of Work and related documents

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").

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").

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.

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.

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.

Background

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.

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.

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 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.

	Value as at 31 March 2010 £M	Value as at 31 March 2007 £M
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:

	31 March 2010 (% p.a.)	31 March 2007 (% 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

Post retirement mortality	31 March 2010	31 March 2007
Males		
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
Females		
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
Commutation	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

Changes in benefits during As set out earlier we believe the switch to using CPI for pension increases falls under

the accounting period	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)**

		Number	*Average age*	*Total Pensionable Pay (£000 p.a.)*	*Average Pensionable Pay (£ p.a.)*	*Average service (years)*
Men	**2010**	**2,369**	**46.4**	**53,296**	**22,497**	**13.5**
	2007	*2,753*	*46.6*	*59,961*	*21,682*	*13.6*
Women	**2010**	**6,079**	**45.2**	**79,053**	**13,004**	**6.6**
	2007	*6,578*	*44.4*	*77,866*	*11,837*	*6.1*
Total	**2010**	**8,448**	**45.5**	**132,349**	**15,666**	**8.5**
	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)**

		Number	*Average age*	*Total pension (£000 p.a.)*	*Average pension (£ p.a.)*
Men	**2010**	**1,758**	**44.5**	**3,529**	**2,008**
	2007	*1,551*	*48.5*	*3,141*	*2,025*
Women	**2010**	**4,857**	**44.6**	**4,526**	**932**
	2007	*3,941*	*46.9*	*3,851*	*977*
Total	**2010**	**6,615**	**44.5**	**8,055**	**1,218**
	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)**

		Number	*Average age*	*Total pensions (£000 p.a.)*	*Average pension (£ p.a.)*
Men	**2010**	**2,532**	**69.4**	**19,166**	**7,570**
	2007	*2,261*	*68.4*	*15,165*	*6,707*
Women	**2010**	**3,291**	**68.6**	**9,444**	**2,870**
	2007	*2,666*	*68.2*	*6,934*	*2,601*
Dependants	**2010**	**943**	**76.5**	**2,344**	**2,485**
	2007	*945*	*76.6*	*2,208*	*2,337*
Total	**2010**	**6,766**	**70.0**	**30,954**	**4,575**
	2007	*5,872*	*69.1*	*24,307*	*4,139*

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.