Northumberland

Northumberland County Council

Statement of Accounts
2012 – 2013

Contents

Explanatory Foreword

1. Introduction

The following Statement of Accounts for Northumberland County Council presents the overall financial performance and position for the Council for the year ended 31 March 2013 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 pounds unless otherwise stated.

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

- The Council's accounts for 2012-2013; and,
- The group accounts which consolidate the results and balances of the Council with a number of subsidiary entities that it controls (Homes for Northumberland, Arch and Reaction).

For the Council, the Statement of Accounts comprises:

Movement in Reserves Statement

This statement shows the movement in the year for 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 is an economic development, regeneration and private rented housing company.
- 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 former Tynedale District Council to encourage enterprise activities in rural areas. (Dormant from 1 July 2012 and dissolved in 2013-2014).

Independent Auditor's Report

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

2. Outturn against budget for 2012-2013

Revenue

2012-2013 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 £282.26 million for 2012-2013 after taking account of the ring-fenced Dedicated Schools Grant of £189.08 million and the New Homes Bonus Grant of £1.74 million. Efficiencies and other savings totalling £16.63 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	125,654
Council Tax	157,455
Increase in General Fund	(2,762)
Use of Adults Services Reserve	1,915
	282,262

Outturn net expenditure against budgets allocated to Groups totalled £152.40 million against total budgeted resources of £155.60 million giving a net Group underspend of £3.20 million. In addition, the Local Services Group achieved a planned underspend of £1.49 million. There were changes to the Reserves and Provisions which resulted in a net return to the General Fund of £3.00 million. Included in these changes was a return of £15.00 million to the General Fund relating to the Equal Pay Provision and an increase to the Repairs and Maintenance Provision of £8.38 million. The net impact was a return to the General Fund of £7.70 million.

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

	£'000
Balance as at 1 April 2012	22,082
Balance as at 31 March 2013	29,780
Change in year	7,698

The £29.78 million that the Council holds in the General Fund balance combined with other usable revenue reserves, such as a Contingency Reserve (£20.54 million), Insurance Reserve (£9.05 million) and Adults Services Reserve (£9.74 million) and other earmarked reserves totalling £42.28 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 £1.87 million, from £79.73 million to £81.60 million. This is broadly in line with budget predictions. The key changes in earmarked reserve balances have been:

	31 March 2012 £'000	31 March 2013 £'000	Increase / (Decrease) £'000
Contingency Reserve	14,557	20,541	5,984
Single Status Pay Protection	7,157	-	(7,157)

Despite the increase in Earmarked Reserves, the overall net worth of the Council has fallen by £32.85 million in the year. This is due to several factors including a reduction in the value of Land and Buildings of £32.49 million.

Capital

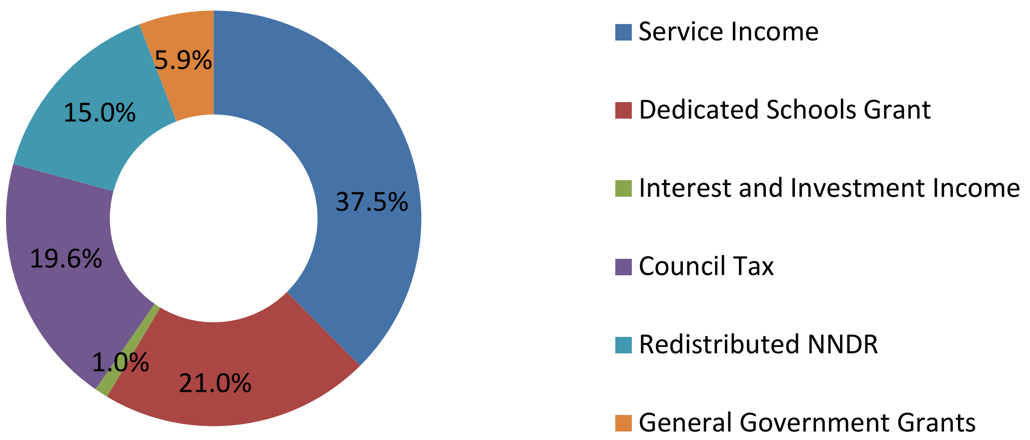
The original capital plan for 2012-2013 approved in February 2012 showed total planned gross expenditure of the order of £92.57 million, financed from a combination of Borrowing, Schools Capital Grants, Academies Programme, other Grants, use of Reserves, Revenue Contributions and Capital Receipts.

The Capital Programme for 2012-2013 included spending re-phased from 2011-2012. Most notable amongst the projects were Putting the Learner First (Ashington), Schools Capital Investment Programme, the Local Transport Plan, South East Northumberland Strategic Link Road, Morpeth Flood Alleviation Scheme, Ashington Town Centre, Ashington Community and Leisure Facility, various Fire and Rescue Schemes and various Housing Improvement Schemes.

3. Income and Expenditure

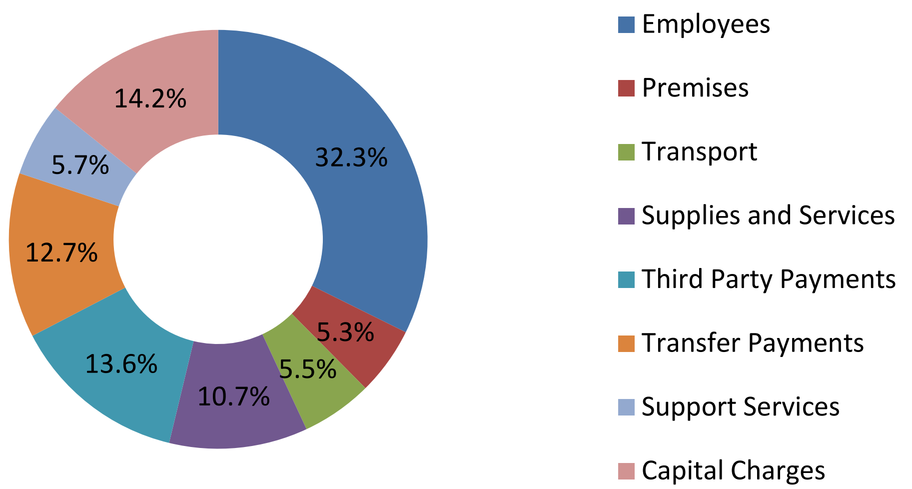
Where the money comes from

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 93.1% of all income during the year with the remaining income being derived from other government grants and interest earned.



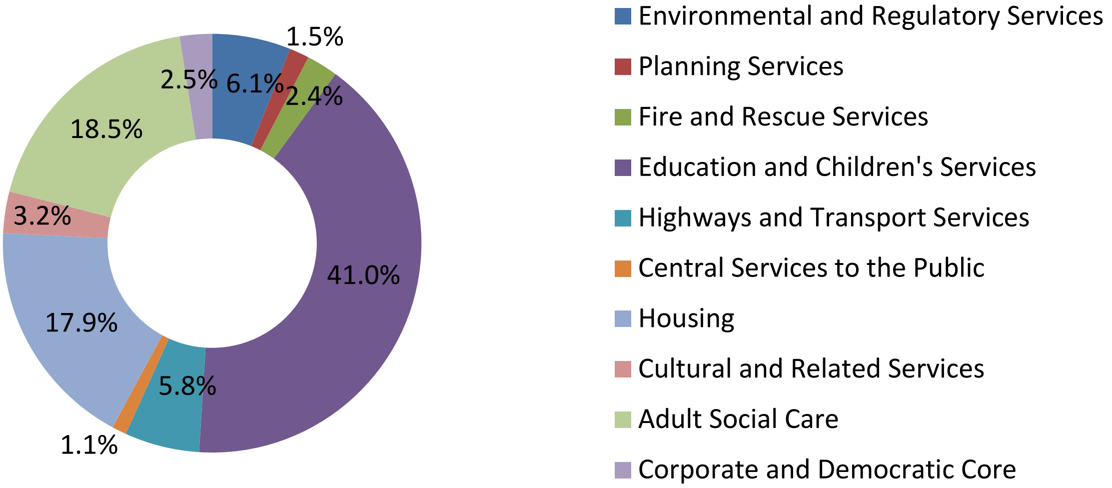
What the money was spent on

A large proportion of the Council's expenditure (32.3%) is staff-related, 10.7% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 26.3%. 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 majority of gross expenditure is spent on Education and Children's Services most of which is financed by the Dedicated Schools Grant. Adult Social Care has the second highest gross expenditure and the highest net expenditure. Housing Services has the third highest gross expenditure.



The Comprehensive Income and Expenditure Statement (page 11) and the Notes to the Financial Statements (pages 14 - 141) 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 £78.24 million of capital expenditure comprising £75.49 million of asset additions (including £26.08 million in respect of capital long term debtors) and £2.75 million Revenue Expenditure to be Financed from Capital under Statute (REFCUS). Please note the REFCUS figure is net of a £9.36 million adjustment relating to part reversal of a prior year capitalisation direction in respect of equal pay claims, following a reduction in the Council's equal pay claim estimates. (A capitalisation direction is a directive issued by the Secretary of State allowing expenditure, that would otherwise be classed as revenue, to be capitalised. The expenditure can be broadly summarised as follows:

Project	£'000
Housing (HRA and General Fund)	11,153
Schools and Children's Services	14,318
Adult Services	1,252
Highways and Transport	19,273
Council and Commercial Property Improvements	5,598
Fire Services Modernisation	2,388
Finance - Capital Loans/Investment	17,680
Regeneration	2,761
Culture, Leisure and Tourism	1,097
Information Services	2,715

5. Finance for Capital Expenditure

The main sources of finance for capital expenditure were borrowing of £14.00 million (17.9%), capital grants of £37.62 million (48.1%), use of capital receipts of £18.40 million (23.5%), Major Repairs Allowance of £6.92 million (8.8%), and contributions from revenue of £1.30 million (1.7%).

6. Treasury Management Activities

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

	31 March 2013	
	Principal	Rate/Return
	£'000	%
Public Works Loans Board	214,292	3.21
Market Lobo's	260,600	4.10
Short Term Market Loan	78,943	0.74
Total Debt	553,835	3.28
Investments excluding Impaired Deposits and In-House Funds	304,439	1.72
Total Investments	304,439	1.72

The Council manages its investments in-house and invests with the institutions listed in the Council's approved counterparty list. The Council's aim is to achieve the optimum return on its investments remaining within the authorised levels of security and liquidity. The risk appetite of the Council was low in order to give priority to security of its investments.

The Council invests for a range of periods from overnight to 12 months for banks and building societies dependent on the Council's cash flows, the interest rates on offer, durational limits set out in the approved investment strategy and assumptions about future changes in interest rates. Funds are also placed with other local authorities for longer periods

The market situation and difficulties in the Eurozone continued to make finding new loans difficult and financial commentators have suggested borrowing will become even more difficult. One new longer term loan was agreed in 2012-2013 and shorter term borrowing was in line with authorised limits to replace the repayment of short term loans. Overall the total borrowing figure increased by £14.55 million.

Investment balances have not changed a great deal over the year and enhanced rates have been achieved compared to the market rates during the period, ensuring savings targets have been met.

The Council had £23.00 million deposited with the Icelandic banks and their UK subsidiaries when they went into administration in October 2008. To date £17.61 million has been repaid and the Council is confident that it will recover at least 93% of the original balance.

7. Significant charges in the accounts

The accounts include a credit of £14.44 million, disclosed as an exceptional item in the Comprehensive Income and Expenditure Statement that relates to a reduction in the provision for equal pay and associated administration costs (there was an increase of £6.94 million included in 2011-2012). 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 2013 the County Council's net liability for future pension costs was £699.68 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 2012-2013 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 2014 with an aim to fully fund the liabilities within approximately 25 years.

9. Significant Changes in Accounting Policies

There were no significant changes in accounting policies during 2012-2013.

Movement in Reserves Statement

for the year ended 31 March 2013

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. 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 the 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 2013

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Major Repairs Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total £'000
Balance brought forward 1 April 2011	(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 & Expenditure	-	-	-	-	-	-	-	100,853	100,853
Total Comprehensive Income & 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)
Movement in Reserves during 2012-2013:									
(Surplus)/Deficit on the provision of services	(4,635)	-	(13,963)	-	-	-	(18,598)	-	(18,598)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	51,445	51,445
Total Comprehensive Income & Expenditure	(4,635)	-	(13,963)	-	-	-	(18,598)	51,445	32,847
Adjustments between accounting basis & funding basis under regulations (Note 11)	(4,934)	-	11,790	933	1,925	265	9,979	(9,979)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(9,569)	-	(2,173)	933	1,925	265	(8,619)	41,466	32,847
Transfers to/(from) Earmarked Reserves (Note 12)	1,871	(1,871)	-	-	-	-	-	-	-
(Increase)/Decrease in 2012-2013	(7,698)	(1,871)	(2,173)	933	1,925	265	(8,619)	41,466	32,847
Balance at 31 March 2013 carried forward	(29,780)	(81,603)	(14,128)	(577)	(16,287)	(1,218)	(143,593)	(25,294)	(168,887)

Comprehensive Income and Expenditure Statement

for the year ended 31 March 2013

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).

Comprehensive Income and Expenditure Statement
for the year ended 31 March 2013

	Note	2011-2012 Gross Expenditure £'000	2011-2012 Gross Income £'000	2011-2012 Net Expenditure £'000	2012-2013 Gross Expenditure £'000	2012-2013 Gross Income £'000	2012-2013 Net Expenditure £'000
Central Services to the Public		7,771	(2,795)	4,976	8,035	(3,017)	5,018
Cultural and Related Services		20,518	(4,471)	16,047	22,935	(3,137)	19,798
Environmental and Regulatory Services		49,311	(13,337)	35,974	47,644	(12,897)	34,747
Planning Services		19,049	(4,854)	14,195	10,882	(3,467)	7,415
Fire and Rescue Services		23,298	(3,264)	20,034	17,338	(2,731)	14,607
Education and Children's Services		350,141	(252,122)	98,019	289,563	(233,386)	56,177
Highways and Transport Services		40,423	(9,983)	30,440	40,959	(10,225)	30,734
Local Authority Housing (HRA)		31,164	(25,879)	5,285	9,768	(28,118)	(18,350)
Local Authority Housing (HRA) - Settlement Payment to Government for HRA Self-financing		10,254	-	10,254	-	-	-
Other Housing Services		112,897	(107,809)	5,088	116,702	(112,829)	3,873
Adult Social Care		156,108	(69,910)	86,198	131,919	(46,357)	85,562
Exceptional Costs of Equal Pay	9	6,937	-	6,937	(14,441)	-	(14,441)
Corporate and Democratic Core		10,917	(375)	10,542	13,479	(462)	13,017
Non Distributed Costs		3,793	(27)	3,766	4,795	(46)	4,749
Cost of Services		842,581	(494,826)	347,755	699,578	(456,672)	242,906
Other Operating Expenditure	13	73,146	(8,513)	64,633	40,642	(22,088)	18,554
Financing and Investment Income and Expenditure	14	47,421	(17,564)	29,857	62,598	(20,008)	42,590
Taxation and Non-Specific Grant Income	15	-	(348,683)	(348,683)	-	(322,648)	(322,648)
(Surplus) or Deficit on Provision of Services		963,148	(869,586)	93,562	802,818	(821,416)	(18,598)
(Surplus) or Deficit on Revaluation of Non Current Assets				(16,307)			1,069
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				-			(13,104)
Actuarial (Gains)/Losses on Pension Assets/Liabilities	47			117,160			63,480
Other Comprehensive Income and Expenditure				100,853			51,445
Total Comprehensive Income and Expenditure				194,415			32,847

Balance Sheet
as at 31 March 2013

The Balance Sheet shows the value as at 31 March 2013 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserve includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Note	31 March 2012 £'000	31 March 2013 £'000
Property, Plant & Equipment	16	1,180,021	1,171,977
Investment Property	18	13,462	2,354
Intangible Assets	19	580	791
Heritage Assets	17	8,216	8,210
Assets Held for Sale - non current	24	640	420
Long Term Investments	20	112,667	113,356
Long Term Debtors	20, 22	10,431	37,704
Long Term Assets		1,326,017	1,334,812
Short Term Investments	20	123,973	171,417
Inventories	21	1,128	623
Short Term Debtors	20, 22	59,689	63,558
Cash and Cash Equivalents	20, 23	77,014	46,486
Assets Held for Sale - current	24	9,154	4,030
Intangible Assets	19	-	19
Current Assets		270,958	286,133
Bank Overdraft	20, 23	(17,970)	(26,318)
Short Term Borrowing	20	(90,568)	(56,638)
Short Term Creditors	20, 25	(63,296)	(52,494)
Provisions	26	(42,852)	(25,795)
Revenue Grants Receipts in Advance	20, 40	-	(416)
Current Liabilities		(214,686)	(161,661)
Long Term Creditors - PFI	20, 44	(86,669)	(85,021)
Long Term Borrowing	20, 50	(451,217)	(499,760)
Other Long Term Liabilities	47	(631,720)	(699,680)
Capital Grants Receipts in Advance	20, 40	(10,949)	(5,936)
Long Term Liabilities		(1,180,555)	(1,290,397)
Net Assets		201,734	168,887
Usable Reserves	11, 12	134,974	143,593
Unusable Reserves	28	66,760	25,294
Total Reserves		201,734	168,887

Cash Flow Statement
as at 31 March 2013

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2013 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	2011-2012 £'000	2012-2013 £'000
Net surplus/(deficit) on the provision of services		(93,562)	18,598
Adjustments to net surplus or deficit on the provision of services for non-cash movements	32	171,192	42,309
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	33	(74,737)	(57,761)
Net cash flows from Operating Activities		2,893	3,146
Investing Activities	30	(203,798)	(49,946)
Financing Activities	31	207,707	7,924
Net (increase)/decrease in cash and cash equivalents		6,802	(38,876)
Cash and cash equivalents at the beginning of the reporting period		52,242	59,044
Cash and cash equivalents at the end of the reporting period	23	59,044	20,168

Notes to the Financial Statements

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012-2013 financial year and its position at the year-end of 31 March 2013. 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 2012-2013 and the Service Reporting Code of Practice 2012-2013, 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 Council'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 Council 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

The Council operates 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 working for the Council.

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

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

- The liabilities of these six schemes attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, and former employees, based on assumptions about mortality rates, commutation rates, and projected earnings for current employees, etc.
- Liabilities are discounted to their current value, using the appropriate discount rate (based on the rate of return on high quality corporate bonds).
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities at current bid price
  - unquoted securities at professional estimate
  - unitised securities at current bid price
  - property at 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 or 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

Component	Description
	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 Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of 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 fund	Cash paid as employer's contributions to the pension fund 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.

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 either the term of the replacement loan or the remaining term 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 Council 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 Financial Instruments Reserve and the gain or loss is recognised in the Surplus or Deficit on the 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 Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are 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 Revenue Grants Receipts in Advance. 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 Council's Heritage Assets are held with the aim of increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets 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 Council's collections of heritage assets are accounted for as follows.

Museum, Art and Artefact Collection

- The Council's museum and art collections are reported on the Balance Sheet on the basis of their insurance valuations. These valuations are periodically reviewed.
- The Council does not consider it appropriate to charge depreciation on the assets as they have high residual values and indeterminate lives.
- 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 and 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 Council'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 Council 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 Council'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 Council 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, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment. 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 Council'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 and Expenditure 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 2012-2013 (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 (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at 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.

Where increases in value are identified, the increase is accounted for either by:

- Matching the increase with a credit to the Revaluation Reserve to recognise unrealised gains; or,
- where the increase reverses a revaluation decrease on the same asset that was charged to the Comprehensive Income and Expenditure Statement, the revaluation gain is credited to the Comprehensive Income and Expenditure Statement up to the amount of the previously recognised loss, net of depreciation that would have been charged had the loss not been recognised.

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, writing down the carrying amount of the asset against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, writing down the carrying amount of the asset 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, writing down the carrying amount of the asset against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or insufficient balance, writing down the carrying amount of the asset 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.

Subsequent decreases in fair value less costs to sell are charged directly to the Comprehensive Income and Expenditure Account. Gains in fair value are only recognised to the extent that they reverse a loss previously recognised in the surplus or deficit on provision of services. No depreciation is charged on assets held for sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified as non-current assets and valued at the lower of either:

- their carrying amount before classification as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, or;
- their recoverable amount at the date of the decision not to sell.

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
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 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 (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period), 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 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 i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

2. Change in Accounting Policy

There have been no changes to accounting policies during 2012-2013.

3. Changes in Accounting Estimates

The Equal Pay provision is now based on the claims received and an average settlement amount of £3,087.67 per claim. An uplift percentage of 16.95% has been added to cover any new claims received. It is still not certain that all valid claims have been received by the Council.

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

For 2012-2013, the accounting standards that have been published but which have not yet been adopted by the Code relate to:

- amendments to IAS 1 Presentation of Financial Statements (other comprehensive income June 2011);

  The change requires authorities to disclose separately the gains or losses reclassifiable into the Surplus or Deficit on the Provision of Services. The gains and losses are already separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

- amendments to IFRS 7 Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011);

  The amendments introduce new disclosures requirements relating to transferred financial assets and the offsetting of financial assets and liabilities. The new requirements are not expected to have an impact on the Council's accounts and disclosures.

- amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets, December 2010);

As the Council is not liable to Corporation Tax the standard will not apply to the Council's accounts; however, there may be an impact on the Group Accounts if a subsidiary company of the Council is liable to Corporation Tax.

- IFRS 13 Fair Value Measurement (May 2011);

  On 1 January 2013 IFRS 13 Fair Value Measurement came into effect. It aims to improve the consistency of the fair value measurement and disclosure requirements across the IFRSs that use fair value. However, the CIPFA/LASAAC Code Board is reviewing the adoption of this standard in the Code of Practice and has decided to defer its adoption to the 2014-2015 Code (This standard does not therefore need to be reported under the requirements of paragraph 3.3.4.3 of the Code).

- A revised IAS 19 will come into force for accounting periods beginning on or after 1 January 2013 (i.e. from the 2013-2014 financial statements of the Council). If the revised IAS 19 were adopted for the accounting period ending 31 March 2013 then this would increase the expenses recognised for funded benefits from £28.56 million to £43.28 million. There is no effect on the balance sheet.

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 contracts 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 £76.51 million for waste and £1.79 million for fire and rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

- The Council currently has outstanding liabilities (£6.96 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 are 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.

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 2012-2013	Adult Services	Children's Services	Finance	Fire and Rescue	HRA	Local Services	Public Health and Public Protection	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(38,660)	(39,253)	(17,468)	(1,402)	(28,079)	(43,847)	(6,167)	(57,655)	(232,531)
Interest and Investment Income	(12)	(38)	(7,887)	-	(420)	-	-	-	(8,357)
Government Grants	(9,173)	(208,990)	(111,505)	(1,793)	(38)	(6,220)	(202)	(483)	(338,404)
Total Income	(47,845)	(248,281)	(136,860)	(3,195)	(28,537)	(50,067)	(6,369)	(58,138)	(579,292)
Employee Expenses	32,827	176,781	20,899	13,421	128	31,377	5,544	15,265	296,242
Other Service Expenses	101,672	97,117	109,833	4,192	13,024	70,930	4,791	42,501	444,060
Support Service Recharges	3,933	13,778	7,784	1,219	1,030	10,795	1,952	11,652	52,143
Interest Payments	-	3	21,630	-	4,347	-	-	-	25,980
Precepts and Levies	-	-	6,169	-	-	-	-	-	6,169
Total Expenditure	138,432	287,679	166,315	18,832	18,529	113,102	12,287	69,418	824,594
Net Expenditure	90,587	39,398	29,455	15,637	(10,008)	63,035	5,918	11,280	245,302

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)	(44,944)	(17,220)	(1,459)	(26,149)	(69,392)	(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)	(268,968)	(126,757)	(3,703)	(26,569)	(73,261)	(7,611)	(2,310)	(29,511)	(611,071)
Employee Expenses	32,237	203,435	20,784	13,540	120	44,749	5,287	2,695	24,128	346,975
Other Service Expenses	130,546	102,778	101,878	4,184	15,082	80,348	5,001	8,732	22,599	471,148
Support Service Recharges	3,928	12,611	6,664	1,188	1,013	11,917	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	318,824	147,049	18,912	19,342	137,014	12,556	12,056	50,655	883,119
Net Expenditure	94,330	49,856	20,292	15,209	(7,227)	63,753	4,945	9,746	21,144	272,048

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.

	2011-2012 £'000	2012-2013 £'000
Net expenditure in the Service Area Analysis	272,048	245,302
Net expenditure of services and support services not included in the Analysis	787	(9,403)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management for decision making	90,442	32,062
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(15,522)	(25,055)
Cost of Services in Comprehensive Income and Expenditure Statement	347,755	242,906

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.

2012-2013	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	(232,531)	61,898	(5,450)	(89)	57,715	(118,457)	(11,461)	(129,918)
Interest and investment income	(8,357)	-	-	8,357	-	-	(8,357)	(8,357)
Income from council tax	-	-	-	-	-	-	(156,530)	(156,530)
Government grants and contributions	(338,404)	188	-	-	-	(338,216)	(166,308)	(504,524)
Gain or loss on Disposal of Non-Current Assets	-	-	-	-		-	(22,088)	(22,088)
Total Income	(579,292)	62,086	(5,450)	8,268	57,715	(456,673)	(364,744)	(821,417)
Employee expenses	296,242	(26,458)	(5,460)	-	-	264,324	41,992	306,316
Other service expenses	444,060	(24,858)	-	(1,174)	(57,715)	360,313	(24,459)	335,854
Support Service recharges	52,143	(11,031)	-	-	-	41,112	11,031	52,143
Depreciation, revaluation,amortisation and impairment	-	(9,142)	42,972	-	-	33,830	7,487	41,317
Interest Payments	25,980	-	-	(25,980)	-	-	25,980	25,980
Precepts & Levies	6,169	-	-	(6,169)	-	-	6,169	6,169
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	954	954
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	34,086	34,086
Total Expenditure	824,594	(71,489)	37,512	(33,323)	(57,715)	699,579	103,240	802,819
(Surplus) or deficit on the provision of services	245,302	(9,403)	32,062	(25,055)	-	242,906	(261,504)	(18,598)

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.

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.

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 2013 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 2013 was £1,171.98 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 asset falls.
Provisions	The Council has decreased its equal pay provision by £15.00 million in 2012-2013 bringing the total amount provided for since 2008-2009 down to £18.12 million. Of this £6.96 million remains as at 31 March 2013 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 £1.81 million to the provision needed.
Pensions Liability	At 31 March 2013, the Council had a net pensions' liability of £699.68 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 pension's 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 £101.55 million. However, the assumptions interact in complex ways. During 2012-2013, the Council's actuaries advised that the net pensions liability for funded LGPS benefits had decreased by £1.69 million as a result of estimates being corrected as a result of experience and

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		increased by £97.72 million attributable to the updating of the assumptions.
Arrears	At 31 March 2013, the Council had a balance of sundry debtors of £13.40 million. A review of significant balances suggested that an impairment of doubtful debts of 10.8% (£1.45 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 £2.90 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

A reduction to the Provision has been made during 2012-2013 in relation to equal pay. The credit made to the Comprehensive Income and Expenditure Statement in relation to this is £14.44 million (£15.00 million in respect of the decrease in provision and £0.56 million related to additional administrative costs). In previous years the costs were deferred from being charged to the General Fund under Regulation 31A of the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2003/3146 by the creation of an Equal Pay Back Pay Account pending actual payment of the claims. This reduction has in part been met through the reversal of these entries and from a return to the General Fund of the amount taken in 2011-2012 of £5.46 million following the increase in provision required at that time. It is now anticipated that the total provision required as at 31 March 2013 will be £6.96 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 2013. 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 2013, 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 events which took place after 31 March 2013:

Academy Conversions

The following schools were converted to an academy on 1 June 2013 and now form the Blyth Quays Trust:

- Malvins Close Primary School
- Croftway Primary School
- Morpeth Road First School

The Property, Plant and Equipment line in the Balance Sheet contains valuations totalling £13.33 million for the schools which were transferred out of Council ownership. The Usable Reserves for the Council also include £0.60 million in relation to these schools.

Loan to Northumbria Healthcare NHS Foundation Trust

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 was 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”. However, the wellbeing power has now been replaced with a General Power of Competence under Section 1 of the Localism Act 2011 which states “A local authority has power to do anything that individuals generally may do”. By enabling the Foundation Trust to secure financial savings from financing costs rather than service delivery and the associated staffing the Council is 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.

Loan to Northumberland College

The Council has been involved in extensive discussions with Northumberland College regarding the provision of possible financial support in the form of a loan. The provision of financial support would benefit the residents and students in Northumberland by enabling the College to undertake extensive capital works at both its Ashington and Kirkley Hall sites to provide improved and new learning environments. The College was successful in its grant application to the Skills Funding Agency (SFA) and grant totalling £3.00 million was awarded. However, the cost of the works is significantly higher than £3.00 million and the SFA expect the College to provide match funding. As the College has very close links with the County Council and the improvement of the facilities at the College contributes to the Council’s overall aims and objectives the Council was 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 well-being of their area,
- the promotion or improvement of the social well-being of their area, and
- the promotion or improvement of the environmental well-being of their area.

However, the wellbeing power has now been replaced with a General Power of Competence under Section 1 of the Localism Act 2011 which states “A local authority has power to do anything that individuals generally may do”.

By enabling the College to secure external funding and provide new and improved learning environments the Council is supporting economic growth within Northumberland. The Community Strategy supports joint working with our major partners within Northumberland and the proposed financial support builds upon the strong links that already exist between the College and the Council. This decision will be subject to the Council's normal risk appraisal procedures prior to any loan being made.

Elections

County Council and Parish and Town Council elections were held on 2 May 2013. The Labour Group along with the Independent Members will form the administration of the Council and were appointed at the meeting of the County Council on 22 May 2013.

Transfer of County Council Staff to DigEco

In order to fulfill its ambition to create a digital delivery structure that raises the ambitions of businesses and communities, bringing together a series of related digital activities, the Executive at its meeting on 11 February 2013 agreed to create a digital delivery company. The structure would have an economic growth emphasis and would be incorporated into the Arch Commercial Holdings Limited. On 1 May 2013 three members of staff were seconded to DigEco. They will plan, manage and deliver the Superfast Broadband programme and its projects and work streams.

Transfer of NHS Staff to the County Council

In November 2010 the Government set out its intention for a major reform of public health in England, envisioning a major new role for local authorities (Healthy Lives, Healthy People, Our Strategy for Public Health in England). This role was confirmed and set out in greater detail in 'Healthy Lives, Healthy People: update and the way forward' published by the Department of Health in July 2011. The paper promised publication of a suite of Public Health System Reform Updates to complete the operational design of the public health system.

Under the new arrangements, the Council became responsible for undertaking many of the public health activities currently provided within the NHS public health service, e.g. population health and healthcare needs assessment, providing public health advice and support to partners, overseeing local delivery of national screening and immunisation programmes and ensuring population protection plans are in place. In addition the public health service will commission a range of services to promote and protect the health of the population, e.g. sexual health services, health improvement programmes, the child measurement and health check programmes.

Transfer of the public health function consolidates the role of the Council in assessing population needs – the Council's Director of Public Health and Protection remains jointly responsible with the Corporate Directors of Children's Services and of Adult Services and Housing for the preparation of the Joint Strategic Needs Assessment, which is designed to inform the Health and Wellbeing Strategy drawn up by the new Council-led Health and Wellbeing Board. The Health and Wellbeing Strategy is intended to act as a guide to all commissioners of health and care and support services, promoting an integrated approach to population needs.

On 1 April 2013, seven members of staff transferred from the Health Service to the Council. As part of the Local Government Finance Settlement, a grant of £13.04 million will be paid to the Council in order to fulfil these duties.

Credit Rating Downgrade of the Co-operative Bank

At the beginning of May, one of the credit rating agencies (Moody's Investor Services) downgraded the credit ratings of the Co-operative Bank, which is the Council's bank. The Council performs its day to day banking with the Co-operative Bank but it does not invest money with the Bank on a long term basis. The Council continues to take the necessary action to minimise the risk involved.

National Non Domestic Rating Appeals

From 1 April 2013 new arrangements for the retention of business rates come into effect. Local Authorities in general will be allowed to retain a proportion of the business rates collected within their area. For Northumberland this will generally be 50%. In addition from 1 April 2013 Local Authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This will include amounts that were paid over to Central Government under the old business rates scheme in respect of 2012-2013 and prior years. Previously, such amounts would not have been recognised as income by the Council, but would have been transferred to The Department for Communities and Local Government (DCLG). No adjustments have been made within the 2012-2013 accounts as liability is not assumed and recognised until 1 April 2013. The estimated value of this liability is £3.90 million.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure from the Council's other customers. The Council's Treasury Management Policy sets out the limits for investments. From 2013-2014 the Council's policy continues to be the security of principal, however the portfolio has been diversified to help manage risk and increase lending capacity. The policy changed at 1 April 2013 and now has the following limits for the investment of surplus funds:

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities	N/A	N/A	Unlimited	15 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
Enhanced Cash Funds	AAA	Aaa	£15m (Group Limit £60m)	1 day's notice
UK Clearing Banks/ Building	AA-	Aa3	£25m (Group limit £30m)	3 months
Societies	A-	A2	£15m (Group limit £30m)	12 months
High Grade Foreign Banks	A-	A3	£10m (Country limit £30m)	3 months
	A-	A3	£5m (Group limit £25m)	3 months
Deposits or Corporate Bonds	A-	A3	£10m	5 years
Building Societies which have assets in excess of £10,000m	N/A	N/A	£12m	6 months
Building Societies which have assets in excess of £1,000m	N/A	N/A	£5m	3 months

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.

2012-2013	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	(31,740)	(6,657)	-	-	-	38,397
Revaluation (losses)/gains on Property Plant and Equipment	(9,820)	11,318	-	-	-	(1,498)
Movements in the market value of Investment Properties	(78)	-	-	-	-	78
Amortisation of intangible assets	(178)	-	-	-	-	178
Capital grants and contributions applied	31,948	787	-	-	-	(32,735)
Movement in the Donated Assets Account	-	-	-	-	-	-
Revenue expenditure funded from capital under statute	(2,747)	-	-	-	-	2,747
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	(33,779)	(1,088)	-	-	-	34,867
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	18,478	-	-	-	-	(18,478)
Capital expenditure charged against the General Fund and HRA balances	528	775	-	-	-	(1,303)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,963	-	-	(2,963)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	4,888	-	(4,888)
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	20,072	-	(18,207)	-	-	(1,865)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	18,397	-	-	(18,397)

2012-2013	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
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(185)	-	185	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(954)	-	954	-	-	-
Transfer from Deferred Capital Receipts Reserve			(396)			396
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	2,001	-	-	-	-	(2,001)
Transfer to the Capital Receipts Reserve upon receipt of cash	(35)	-	-	-	-	35
Adjustment primarily involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA	-	6,657	-	-	(6,657)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	6,922	(6,922)
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	(671)	-	-	-	-	671
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(41,070)	(70)	-	-	-	41,140
Employer's pensions contributions and direct payments to pensioners payable in the year	36,592	68	-	-	-	(36,660)
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	(1,889)	-	-	-	-	1,889

2012-2013	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
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	180	-	-	-	-	(180)
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	5,450	-	-	-	-	(5,450)
Total Adjustments	(4,934)	11,790	933	1,925	265	(9,979)

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
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)
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	-	-	-

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
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:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(35)	-	-	-	-	35
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	-	-	-	-	-	-

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
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

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 2012-2013.

	Balance as at 1 April 2011	2011-2012 Transfers Out	Transfers In	Balance as at 31 March 2012	Transfers Out	2012-2013 Transfers In	Balance as at 31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund Reserves:							
Insurance Reserve	9,986	(226)	-	9,760	(720)	-	9,040
Balances held by schools under a scheme of delegation	8,822	-	920	9,742	(57)	-	9,685
NCC Economic Regeneration Reserve	299	(107)	-	192	(28)	-	164
NCC Waste PFI Sinking Fund Reserve	6,963	-	202	7,165	(3,648)	7,472	10,989
NCC Fire and Rescue PFI Sinking Fund	763	-	304	1,067	(317)	164	914
NCC Single Status Reserve	211	-	-	211	(211)	-	-
Planning Delivery Grant	605	(198)	-	407	(125)	-	282
Contingency Reserve	10,900	-	3,657	14,557	-	5,984	20,541
Deprived Seaside Reserve	200	-	-	200	(14)	-	186
Salix Fund	53	(53)	-	-	-	-	-
Revenue Grants	15,995	(15,995)	8,490	8,490	(8,490)	7,634	7,634
Adults Services	4,943	-	5,563	10,506	(769)	-	9,737
Single Status	7,157	-	-	7,157	(7,157)	-	-
Section 106 Reserve	-	-	1,308	1,308	(164)	203	1,347
Local Authority Mortgage Scheme	-	-	36	36	-	85	121
Pension Cost Reserve	-	-	2,970	2,970	-	-	2,970
Invest to Save	-	-	5,000	5,000	(1,069)	-	3,931
Transformation Projects	-	-	420	420	-	-	420
Rural Growth Network	-	-	-	-	-	3,143	3,143
Market Traders Levy	-	-	-	-	-	4	4
	66,897	(16,579)	28,870	79,188	(22,769)	24,689	81,108

	Balance as at 1 April 2011	2011-2012 Transfers Out	Transfers In	Balance as at 31 March 2012	2012-2013 Transfers Out	Transfers In	Balance as at 31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transferred from the Borough and District Councils:							
ADC Section 106 Monies	134	(47)	-	87	(8)	-	79
ADC Parks & Open Spaces	215	-	-	215	-	-	215
ADC Housing Capital	278	(36)	-	242	(41)	-	201
TDC Repairs & Renewals Fund	1,135	(1,747)	612	-	-	-	-
	1,762	(1,830)	612	544	(49)	-	495
Total General Fund Reserves	68,659	(18,409)	29,482	79,732	(22,818)	24,689	81,603
HRA Account:							
Major Repairs Allowance	2,328	(845)	-	1,483	(265)	-	1,218
Total Reserves	70,987	(19,254)	29,482	81,215	(23,083)	24,689	82,821

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 2013 is £9.04 million (31 March 2012 - £9.76 million) and is assessed as sufficient to cover unforeseen levels of claim settlements in future years.

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

Additional funds have been provided for in reserves from the 2010-2011, 2011-2012 and 2012-2013 financial years to cover potential liabilities arising from the Council's exposure resulting from the deterioration in MMI's financial position; this reserve is now £1.35 million. (Note 48 on page 122).

Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £9.68 million includes school balances of £8.16 million (£7.92 million in 2011-2012), 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 £1.52 million (£1.82 million in 2011-2012). The school balances are made up as follows:

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Unspent Balances	8,801	9,170
Overspent Balances	(723)	(877)
Loan Outstanding	(155)	(136)
	7,923	8,157

The Council has agreed a Loan Scheme to enable First, Middle, High and Special Schools to borrow money from the aggregate balances of the delegated budgets of schools. At 31 March 2013 there were four loans outstanding of £0.14 million (2011-2012: £0.16 million) for Berwick High School £0.04 million, Morpeth Chantry Middle School £0.05 million, Corbridge Middle School £0.03 million and Hipsburn First School £0.02 million.

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

NCC 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 £0.03 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 £0.16 million will be fully utilised during 2013-2014.

NCC Waste PFI Sinking Fund Reserve

The cost of the Waste PFI contract 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 contributed to an earmarked reserve. This reserve will be drawn upon to compensate for increased costs during the later years of the contract. During 2012-2013 an additional £7.47 million has been added to the reserve and £3.65 million was utilised to fund Minimum Revenue Provision expenditure.

NCC Fire and 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 contributed to an earmarked reserve. This reserve will be drawn upon to compensate for increased costs during the later years of the contract. During 2012-2013 an additional £0.16 million has been added to the reserve and £0.32 million was utilised to fund Minimum Revenue Provision expenditure.

NCC 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 was then 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; however, no expenditure was incurred during 2011-2012 or 2012-2013. The provision has now been returned to revenue and the reserve closed.

Planning Delivery Grant

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

Contingency Reserve

In accordance with the capitalisation bid submitted to DCLG 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 £3.66 million was added to this reserve during 2011-2012 and during 2012-2013 a further £5.98 million to meet future financial pressures resulting from the anticipated reductions in Central Government funding. The total of this reserve is now £20.54 million.

Deprived Seaside Reserve

This reserve has been created following the receipt of a revenue grant to support the twenty five 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 reserve is funded from the Adult and Housing Services revenue budgets to support future service reconfiguration.

Single Status Reserve

This reserve was created to provide for pay protection costs which were estimated to be liable for 2011-2012 and 2012-2013 as a result of single status. The reserve covers both schools and non-schools liabilities. No expenditure was incurred during 2011-2012 or 2012-2013. The implementation of Single Status is now complete and the provision has now been returned to revenue and the reserve closed.

Section 106 Reserve

The reserve was created in 2011-2012 to hold Section 106 balances. Planning obligations under Section 106 of the Town and Country Planning Act 1990 (as amended), commonly known as s106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development and are often referred to as ‘developer contributions’. Common uses include Affordable Housing Schemes, Highway contributions or contributions to Sport and Play Provision. The monies are held until the particular provision is undertaken. During 2012-2013 £0.20 million was received from developers with £0.16 million used to fund schemes.

Local Authority Mortgage Scheme

Interest received on Local Authority Mortgage Schemes is set aside to meet any potential future mortgage defaults. Northumberland County Council has previously agreed to be part of Sectors Local Authority Mortgage Scheme. The scheme is designed to provide mortgages to first time buyers to help them onto the property ladder. The Council currently works in partnership with Lloyds Bank and provides a cash backed indemnity to Lloyds who in turn, subject to applicants meeting their lending criteria, award mortgages to first time buyers at a lower rate of interest. In return for the cash backed indemnity the Council receives interest payments from Lloyds. In 2012-2013 £0.08 million was received by the Council.

Pension Cost Reserve
This reserve is used to hold sums to offset the pension liabilities of staff transferring to Northumbria Healthcare NHS Foundation 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. It has been agreed to utilise the funds to support the schools that have been included in the PFI Scheme.

Transformation Projects
During 2011-2012 this reserve was created by Customer and 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 2013-2014.

Rural Growth Network
The Rural Growth Network (RGN) Programme is one of five national pilots being funded by The Department for Environment, Food and Rural Affairs (DEFRA). Northumberland County Council is undertaking the applicant and accountable body role for the programme which is being delivered across rural areas in Northumberland, Durham and Gateshead. The £3.14 million has been paid to Northumberland County Council under section 31 of the Local Government Act 2003, and is to be used for the development of Rural Business Hubs and business development and networking support as detailed in the annual delivery plans. The scheme commenced on 1 October 2012 and is scheduled for completion in March 2015.

Market Traders Levy
Each week market traders pay an additional levy which will be used to fund future market related expenditure.

Alnwick District Council – Section 106 Monies
This reserve was established by Alnwick District Council from income received in relation to Section 106 agreements, £0.01 million was utilised during 2012-2013.

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 2012-2013.

Alnwick District Council – Housing Capital
This reserve was established by Alnwick District Council to fund future Affordable Housing capital expenditure. There was expenditure of £0.04 million in 2012-2013.

Tynedale District Council – Repairs & Renewals Fund
This reserve was established by Tynedale District Council prior to Local Government Reorganisation. This reserve was closed during 2011-2012 and the balance transferred to the Section 106 Reserve. The money was confirmed as Section 106 money.

Housing Revenue Account – Major Repairs Reserve

The Major Repairs Reserve shows the movement in the Major Repairs Allowance. The deficit for the year reflects the variance between depreciation contributions 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 on page 146.

13. Other Operating Expenditure

	2011-2012 £'000	2012-2013 £'000
Parish and other precepts	5,042	6,169
Payments to the Government Housing Capital Receipts Pool	520	954
(Upward)/Downward Valuation of Assets Held for Sale	1,605	(1,655)
Losses on the disposal of non-current assets	57,466	13,086
Total net operating expenditure	64,633	18,554

14. Financing and Investment Income and Expenditure

	2011-2012 £'000	2012-2013 £'000
Interest payable and similar charges	15,808	25,980
Pensions interest cost and expected return on pensions assets	16,870	15,390
Interest receivable and similar income	(4,010)	(8,357)
(Surplus)/Deficit on trading undertakings	(787)	9,403
Income and expenditure in relation to investment properties and changes in their fair value	1,976	174
Total Financing and Investment Income and Expenditure	29,857	42,590

15. Taxation and Non-Specific Grant Incomes

	2011-2012 £'000	2012-2013 £'000
Council tax income	(154,855)	(156,530)
Non domestic rates	(98,586)	(119,571)
Non-ring fenced government grants	(35,326)	(10,849)
Capital grants and contributions	(59,916)	(35,698)
Total Taxation and Non Specific Grant Income	(348,683)	(322,648)

16. Property, Plant and Equipment

Movements in 2012-2013:	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 2012	235,261	567,300	119,334	337,343	10,879	12,198	22,281	1,304,596	89,646
Additions	7,152	9,971	7,283	11,597	11	(11)	12,577	48,580	1,725
Reclassifications	3,957	(4,929)	1,034	5,849	3	3,650	(9,584)	(20)	20
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(2,106)	-	-	-	52	-	(2,054)	-
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	11,318	(13,217)	-	-	-	(215)	-	(2,114)	-
De-recognition - Disposals	(2,259)	(4,794)	(2,803)	-	(405)	(1,525)	(1,983)	(13,769)	-
De-recognition - Other	-	(6,024)	-	-	-	(408)	-	(6,432)	-
Assets reclassified (to)/from Held for Sale	-	228		-	-	42	-	270	-
Other movements in Cost or Valuation	(12,163)	-	-	-	-	-	-	(12,163)	-
At 31 March 2013	243,266	546,429	124,848	354,789	10,488	13,783	23,291	1,316,894	91,391
Accumulated Depreciation and Impairment:									
At 1 April 2012	5,447	18,620	25,272	73,571	1,384	281	-	124,575	9,708
Depreciation/Impairment charge	6,556	14,997	6,856	9,672	153	163	-	38,397	3,387
Reclassifications	160	(302)	-	-	-	142	-	-	-
Depreciation written out to the Revaluation Reserve	-	(985)	-	-	-	-	-	(985)	-

Movements in 2012-2013:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	(1,511)	-	-	-	(43)	-	(1,554)	-
De-recognition - Disposals	-	(168)	(2,602)	-	(109)	(63)	-	(2,942)	-
De-recognition – Other	-	(410)	-	-	-	(1)	-	(411)	-
Assets reclassified (to)/from Held for Sale	-	-			-	-	-	-	-
Other movements in Cost or Valuation	(12,163)	-	-	-	-	-	-	(12,163)	-
At 31 March 2013	-	30,241	29,526	83,243	1,428	479	-	144,917	13,095
Net Book Value:									
At 31 March 2013	243,266	516,188	95,322	271,546	9,060	13,304	23,291	1,171,977	78,296
At 31 March 2012	229,814	548,680	94,062	263,772	9,495	11,917	22,281	1,180,021	79,938

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)	-	(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

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
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

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:				
As at 1st April 2012	6,082	1,294	915	8,291
Additions	-	-	12	12
Reclassifications	-	-	-	-
Disposals	-	(18)	-	(18)
Revaluations recognised in Revaluation Reserve	-	-	-	-
As at 31 March 2013	6,082	1,276	927	8,285
Accumulated Depreciation and Impairment :				
As at 1st April 2012	-	52	23	75
Depreciation Charge	-	-	-	-
Disposals	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	-	-	-
As at 31 March 2013	-	52	23	75
Net Book Value 31 March 2013	6,082	1,224	904	8,210
Net Book Value 31 March 2012	6,082	1,242	892	8,216

	Museum, Art and Artefact Collection £'000	Public Sculptures and Memorials £'000	Historic Buildings £'000	Total £'000
Cost or Valuation				
As at 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 :				
As at 1st April 2011	61	61	23	145
Depreciation Charge	-	-	-	-
Disposals	(21)	`	-	(21)
Depreciation written out to the Revaluation Reserve	(40)	(9)	-	(49)
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

Heritage Assets: Five Year Summary of Transactions

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

	2010-2011	2011-2012	2012-2013
	£'000	£'000	£'000
Cost of Acquisitions of Heritage Assets			
Museum, Art and Artefact Collection	-	-	-
Public Sculptures and Memorials	-	86	-
Historic Buildings	-	-	12
Total Cost of Purchases	-	86	12
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	-	-	(18)
Historic Buildings	-	-	-
Carrying Value	-	(127)	(18)
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 included in the Balance Sheet on the basis of their insurance valuation. These valuations are periodically reviewed.

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 two thousand 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 three 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 thirteen 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, 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 the Council, relates to the medieval border history of Northumberland and the history of the building itself.

Public Sculptures and Memorials

The Council'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 rights-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 Council are in operational use and are therefore included with the main Property Plant and Equipment section of the Balance Sheet.

Disposals of Heritage Assets

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:

	2011-2012 £'000	2012-2013 £'000
Rental income from investment property	(1,039)	(55)
Direct operating expenses arising from investment property	313	6
Net Gain	(726)	(49)

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.

During the 2012-2013 financial year the majority of the Council's investment property was sold to Arch Commercial Enterprises Ltd.

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

	2011-2012 £'000	2012-2013 £'000
Balance at the start of the year	15,575	13,462
Additions	-	-
Reclassifications	877	-
Assets reclassified (to)/from Held For Sale	75	-
Disposals	(364)	(10,885)
Net (losses)/gains from fair value adjustments	(2,701)	(223)
Balance at the end of the year	13,462	2,354

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	Customer Relationship Management System
3 years	None	Vehicle Tracking System
3 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 2012-2013 was charged to the Information Services Administration cost centre and then absorbed as an overhead across all of 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:

	Current		Long Term	
	2011-2012	2012-2013	2011-2012	2012-2013
	Total Intangible Assets (Other)* £'000	Total Intangible Assets (Other)* £'000	Total Intangible Assets (Other)* £'000	Total Intangible Assets (Other)* £'000
Balance at start of year:				
Gross carrying amounts	-	-	1,929	2,493
Accumulated amortisation	-	-	(1,599)	(1,913)
Net carrying amount at the start of year	-	-	330	580
Additions:				
- Purchases	-	19	308	369
Assets reclassified from PPE	-	-	154	20
Other Disposals	-	-	(34)	-
Amortisation for the period	-	-	(178)	(178)
Net carrying amount at the end of year	-	19	580	791
Comprising:				
Gross carrying amounts	-	19	2,493	2,882
Accumulated amortisation	-	-	(1,913)	(2,091)
	-	19	580	791

Note * The Council has no internally generated assets.

20. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2012	31 March 2013	31 March 2012	31 March 2013
	£'000	£'000	£'000	£'000
Investments:				
Loans and receivables (principal)	112,640	96,617	122,586	170,030
Add: Accrued Interest	27	-	1,387	1,387
Loans and receivables at amortised cost	112,667	96,617	123,973	171,417
Available for sale financial assets	-	13,399	-	-
Unquoted equity investment at cost	-	3,340	-	-
Total Investments	112,667	113,356	123,973	171,417
Debtors:				
Loans and receivables	10,431	37,704	59,689	63,558
Total Debtors	10,431	37,704	59,689	63,558
Borrowings:				
Financial liabilities at amortised cost	(453,065)	(501,593)	(86,216)	(52,242)
Add: Accrued Interest	-	-	(4,366)	(4,411)
Add : Amortised premiums/(discounts)	1,848	1,833	14	15
Total Borrowings	(451,217)	(499,760)	(90,568)	(56,638)
Other Long Term Liabilities:				
PFI and finance lease liabilities	(86,669)	(85,021)	(1,440)	(1,633)
Total Other Long Term Liabilities	(86,669)	(85,021)	(1,440)	(1,633)
Creditors:				
Financial liabilities at amortised cost	(10,949)	(5,936)	(61,856)	(51,277)
Total Creditors	(10,949)	(5,936)	(61,856)	(51,277)

Notes to the Financial Statements

Material Soft Loans Made by the Council

The Council has made a number of soft loans to voluntary and other organisations at less than market rates (soft loans). Details of these advances are identified in the following table:

Loan Title	Contracted Rate	Fair Value Rate	Opening (FV) Balance 1 April 2012	New Advances in Year	Fair Value adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (FV) 31 March 2013
			£'000	£'000	£'000	£'000	£'000	£'000
Homes for Northumberland - Allendale Properties	4.50%	6.00%	1,223	-	-	(90)	6	1,139
Homes for Northumberland - Redundancies	0.00%	2.79%	-	1,386	(74)	-	-	1,312
Northumberland Healthcare Trust - Local Gov Pension Scheme	1.50%	5.00%	2,446	-	-	-	110	2,556
Persimmon Homes - Deferred Capital Receipt (Wellesley Site)	0.00%	5.25%	-	2,271	(270)	-	-	2,001
Loans to Adoptive Parents	0.00%	3.70%	15	-	-	(4)	-	11
NCC Staff - Cycle to Work Scheme	0.00%	3.70%	57	62	(2)	(72)	2	47
Berwick Core - Solar Panels	4.00%	9.34%	-	80	(16)	(7)	3	60
Amble Development Trust	0.00%	9.00%	3	-	-	(4)	1	-
Alnwick Playhouse	0.00%	9.00%	1	-	-	(1)	-	-

Valuation Assumptions

The interest rate at which the fair value of soft loans has been made is arrived from either the prevailing market rate of interest for a similar instrument and for an organisation with a similar credit rating or, where it is difficult to identify the prevailing rate of interest, by taking the Council's prevailing cost of borrowing and adding an allowance for the risk that the loan might not be repaid by the borrower.

Loans to Arch Housing

A further three loans, totalling £5.08 million, were also advanced during 2012-2013 to Arch (Corporate Holdings) Ltd, the Council's arms-length regeneration company, in respect of the purchase of housing and investment properties. The loans attract interest of between 3.63% and 5.75%. The Council does not consider that soft loan adjustments are appropriate for these loans, on the basis that the rates are comparable to those available to similar organisations. At the time the advances were made, rates ranging from 1.70% to 5.08% were available to housing sector organisations.

Notes to the Financial Statements

Financial Instruments Gains and Losses

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

	2011-2012					2012-2013				
	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	(21,977)	-	-	-	(21,977)	(26,080)		-	-	(26,080)
Impairment losses		6,394			6,394	-	211	-	-	211
Fee Expense	-	-	-	-	-	(70)	-	-	-	(70)
Total expense in surplus or deficit on the provision of services	(21,977)	6,394	-	-	(15,583)	(26,150)	211	-	-	(25,939)
Interest income	-	3,923	-	-	3,923	-	7,853	-	-	7,853
Interest income accrued on impaired financial assets	-	529	-	-	529	-	236	-	-	236
Total income in surplus or deficit on the provision of services	-	4,452	-	-	4,452	-	8,089	-	-	8,089
Gain on revaluation	-	-	-	-	-	-	-	-	-	-
Surplus/(deficit) arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	-	-	-
Net gain/(loss) for the year	(21,977)	10,846	-	-	(11,131)	(26,150)	8,300	-	-	(17,850)

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, the carrying amount is assumed to approximate to fair value;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March 2012		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB - Maturity	131,322	150,444	131,337	153,007
PWLB - Annuity	1,205	1,974	1,101	1,856
PWLB - EIP	90,619	96,256	82,054	88,467
LOBOs	235,477	229,525	262,617	263,899
Temporary Loans	77,836	77,836	35,442	35,529
Cash Overdrawn	17,970	17,970	26,318	26,318
Market Loans	5,326	5,326	43,847	43,847
Financial Liabilities	559,755	579,331	582,716	612,923
Long-Term Creditors	97,618	97,618	90,957	90,957
Total Liabilities	657,373	676,949	673,673	703,880

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 2013) arising from a commitment to pay interest to lenders above current market rates.

	31 March 2012		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Cash	77,014	77,014	46,486	46,486
Short-Term Investments	123,973	123,973	171,417	171,417
Long Term Investments	112,667	114,904	113,356	118,505
Loans and Receivables	313,654	315,891	331,259	336,408
Long Term Debtors	10,431	10,431	37,704	37,704
Total Assets	324,085	326,322	368,963	374,112

The differences are attributable to fixed interest instruments receivable being held by the Council where the 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 2013) 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 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Balance at start of year	751	825	430	303	1,181	1,128
Purchases	2,979	3,447	3,778	3,682	6,757	7,129
Recognised as an expense in the year	(2,905)	(3,848)	(3,876)	(3,776)	(6,781)	(7,624)
Written off balances	-	8	(29)	(18)	(29)	(10)
Balance at end of year	825	432	303	191	1,128	623

22. Debtors

	31 March 2012 £'000	31 March 2013 £'000
Short Term:		
Central government bodies	12,416	16,680
Other local authorities	4,960	9,270
NHS bodies	2,149	4,230
Public corporations and trading funds	387	615
Other entities and individuals	39,777	32,763
Total Short Term	59,689	63,558
Long Term:		
NCC - Probation	681	-
NCC - Airport Loan Notes	-	11,916
NCC - Car Loans to Employees	24	2
NCC - Soft Loans (Adoptive Parents)	11	8
NCC - Homes for Northumberland	1,384	1,370
NCC - Homes for Northumberland Soft Loan Notional Interest	(252)	(246)
NCC - Homes for Northumberland Redundancy Costs Loan	-	850
NCC - Persimmon Homes Deferred Payment (Wellesley Site)	-	1,466
Lloyds TSB Lend a Hand Scheme	2,000	2,000
Northumberland College	2,565	2,396
Northumbria Healthcare Trust LGPS Loan	2,775	2,080
Northumbria Healthcare Trust LGPS Loan Notional Interest	(568)	-
North Country Leisure - Office Accommodation	101	91
North Country Leisure - Ten Pin Bowling	571	534
Haltwhistle Leisure Centre Loan for Solar Panels	-	25
Prudhoe Town Council Cemetery Loan	-	5
Kielder Parish Council Loan for Mower	-	4
Harlteyburn Parish Council Loan for Legal Advice	-	4
Berwick CoRE PV Panels Loan	-	53
ARCH Loan - Housing	-	1,370
ARCH Loan - B & Q	-	2,783
ARCH Loan - Assets Tranche 1	-	9,930
Finance Lease Receivable	641	606
ADC – Anchor Trust (Erection of dwellings at West Crescent)	57	57
ADC – Anchor Trust (Erection of dwellings at Bailiffgate)	12	10
ADC – Anchor Trust (Erection of dwellings at Percy Street)	22	19
BVBC - Lydia's House Project	20	-
CMBC – Your Homes Newcastle	338	327
CMBC - Anchor Housing Association	20	19
TDC – Loans to Parishes	17	15
WDC – Housing Act Advances Mortgages	12	10
Total Long Term	10,431	37,704
Total Debtors	70,120	101,262

23. Cash and Cash Equivalents

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

	31 March 2012 £'000	31 March 2013 £'000
Cash and Bank Balances	77,014	46,486
Bank overdraft	(17,970)	(26,318)
Total Cash and Cash Equivalents	59,044	20,168

24. Assets Held for Sale

	Current		Non-Current	
	2011-2012 £'000	2012-2013 £'000	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	9,916	9,154	2,333	640
Assets newly classified as held for sale:				
Property, Plant and Equipment	3,629	257	(75)	-
Revaluation Losses	(1,412)	(271)	(193)	(220)
Revaluation gains	-	2,146	-	-
Assets declassified as held for sale:				
Property, Plant and Equipment	-	(527)	-	-
Assets sold	(3,779)	(7,116)	(625)	-
Transfers from non current to current	800	-	(800)	-
Other movements	-	387	-	-
Balance outstanding at year-end	9,154	4,030	640	420

25. Creditors

	31 March 2012 £'000	31 March 2013 £'000
Central government bodies	(9,461)	(7,910)
Other local authorities	(2,325)	(991)
NHS bodies	(4,522)	(1,630)
Public corporations and trading funds	(3,572)	(216)
Other entities and individuals	(43,416)	(41,747)
Total	(63,296)	(52,494)

26. Provisions

Short Term	Redundancy Costs £'000	Unequal Pay Back Pay £'000	Single Status £'000	Accumulated Absences £'000	Other £'000	Ford Castle £'000	Planning and Public Protection £'000	CRC Provision £'000	School Meals Fund £'000	MMI Liability £'000	Repairs & Maintenance £'000	Total £'000
Balance at 1 April 2011	(4,758)	(18,775)	(7,267)	(4,348)	(99)	-	-	-	-	-	-	(35,247)
Amounts used in 2011-2012	4,464	1,172	7,267	4,348	17	-	-	-	-	-	-	17,268
Additional provisions made in 2011-2012	(2,935)	(6,538)	-	(12,692)	(54)	(825)	(415)	(437)	(100)	(1,239)	-	(25,235)
Unused amounts reversed in 2011-2012	294	-	-	-	68	-	-	-	-	-	-	362
Balance at 1 April 2012	(2,935)	(24,141)	-	(12,692)	(68)	(825)	(415)	(437)	(100)	(1,239)	-	(42,852)
Amounts used in 2012-2013	2,202	2,181	-	12,692	27	445	101	437	72	-	-	18,157
Additional provisions made in 2012-2013	(260)	-	-	(7,242)	-	-	-	(421)	-	(114)	(8,375)	(16,412)
Unused amounts reversed in 2012-2013	314	14,998	-	-	-	-	-	-	-	-	-	15,312
Short Term Balance at 31 March 2013	(679)	(6,962)	-	(7,242)	(41)	(380)	(314)	(421)	(28)	(1,353)	(8,375)	(25,795)
Long Term												
Long Term Balance at 31 March 2013	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2013	(679)	(6,962)	-	(7,242)	(41)	(380)	(314)	(421)	(28)	(1,353)	(8,375)	(25,795)

Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2012-2013 (and for comparative amounts during 2011-2012) 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 2011-2012 as a result of single status. The provision covered both schools and non-schools liabilities and was fully utilised in 2011-2012

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 2013 will be extinguished in 2013-2014 as the relevant leave is taken by employees.

MMI Liability

£1.35 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 48 on page 122 for full details). £1.35 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.

Repairs and Maintenance

A sum of £8.38 million has been set aside to provide for future repairs and maintenance liabilities.

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 on page 8 and in Note 12 on page 53.

28. Unusable Reserves

	31 March 2012 £'000	31 March 2013 £'000
Revaluation Reserve	168,470	157,291
Pensions Reserve	(631,720)	(699,680)
Capital Adjustment Account	536,656	556,585
Deferred Capital Receipts Reserve	1,047	2,617
Financial Instruments Adjustment Account	2,382	1,711
Collection Fund Adjustment Account	2,797	908
Available for Sale Financial Instruments Reserve	-	13,104
Unequal Pay Back Pay Account	(180)	-
Accumulated Absences Adjustment Account	(12,692)	(7,242)
Total Unusable Reserves	66,760	25,294

Revaluation Reserve

The balance on this reserve represents the accumulated gains on the re-valued 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 re-valued. 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.

	2011-2012 £'000	2012-2013 £'000
Balance 1 April	161,228	168,470
Upward revaluation of assets	36,493	1,205
Downward revaluation of assets and impairment losses not charged to the Surplus or (Deficit) on the Provision of Services in the Comprehensive Income and Expenditure Statement	(20,186)	(2,274)
Difference between fair value depreciation and historical cost depreciation	(3,622)	(3,413)
Accumulated gains on assets sold or scrapped	(5,169)	(6,697)
Amount written off to the Capital Adjustment Account	(274)	-
Balance at 31 March	168,470	157,291

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.

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	(514,660)	(631,720)
Actuarial gains or (losses) on pensions assets and liabilities	(117,160)	(63,480)
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	(35,670)	(41,140)
Employer's pensions contributions and direct payments to pensioners payable in the year	35,770	36,660
Balance at 31 March	(631,720)	(699,680)

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.

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	617,322	536,656
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	(37,469)	(38,397)
Deficit on Available-for-Sale financial assets	(1,605)	1,655
Revaluation losses on Property, Plant and Equipment	(51,105)	(157)
Amortisation of intangible assets	(178)	(178)
Revenue expenditure funded from capital under statute *	(18,400)	(2,747)
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)	(34,867)
Recognition of Donated Assets	-	-
Adjusting amounts written out of the Revaluation Reserve	9,065	10,110
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	7,847	20,262
Use of the Major Repairs Reserve to finance new capital expenditure	6,291	6,922
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	51,325	32,735
Application of grants to capital financing from the Capital Grants Unapplied Account	6,523	4,888
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	12,839	18,478
Capital expenditure charged against the General Fund and HRA balance	2,677	1,303
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(2,701)	(78)
Balance at 31 March	536,656	556,585

*Includes reversal of capitalisation direction

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.

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	1,494	1,047
Finance Lease receivables principal	(35)	(35)
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-	2,001
Transfer to the Capital Receipts Reserve upon receipt of cash	(412)	(396)
Balance at 31 March	1,047	2,617

Financial Instruments Adjustment Account

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

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	3,675	2,382
Proportion of premiums/discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(726)	(727)
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	(567)	56
Balance at 31 March	2,382	1,711

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.

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	4,413	2,797
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)	(1,889)
Balance at 31 March	2,797	908

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Disposed of and the gains are realised.

In 2012-2013 the Council purchased an additional £0.30 million of shares in Newcastle International Airport. In addition, the Council revalued its original shareholding in the airport which resulted in an increase in value from zero to £13.10 million. Including the new shares, the overall value of the Council shareholding in the airport increased from zero to £13.40 million. The revaluation increase of £13.10 million is reflected in the Available for Sale Financial Instruments Reserve:

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	-	-
Upward Revaluation of Investment	-	13,104
Downward Revaluation of Investment	-	-
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement	-	-
Balance at 31 March	-	13,104

Unequal Pay Back Pay Account

The Unequal Back Pay Account compensates for the differences between the rate at which the Council 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.

	2011-2012 £'000	2012-2013 £'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	-	180
Balance at 31 March	(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.

	2011-2012 £'000	2011-2012 £'000	2012-2013 £'000	2012-2013 £'000
Balance at 1 April		(4,348)		(12,692)
Settlement or cancellation of accrual made at the end of the preceding year	4,348		12,692	
Amounts accrued at the end of the current year	(12,692)		(7,242)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable		(8,344)		5,450
Balance at 31 March		(12,692)		(7,242)

29. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2011-2012 £'000	2012-2013 £'000
Interest received	(4,701)	(6,741)
Interest paid	23,445	26,147

30. Cash Flow Statement – Investing Activities

	2011-2012 £'000	2012-2013 £'000
Purchase of property, plant and equipment, investment property and intangible assets	(81,474)	(49,884)
Purchase of short term and long term investments	(388,250)	(155,635)
Other payments for investing activities	(2,322)	(26,132)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,167	21,852
Proceeds from short term and long term investments	214,393	122,361
Other receipts from investing activities	45,688	37,492
Net cash flows from investing activities	(203,798)	(49,946)

31. Cash Flow Statement – Financing Activities

	2011-2012 £'000	2012-2013 £'000
Cash receipts of short term and long term borrowing	309,561	109,794
Other receipts from financing activities	5,809	(4,109)
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(1,457)	(2,535)
Repayments of short- and long term borrowing	(106,206)	(95,226)
Other payments for financing activities	-	-
Net cash flows from financing activities	207,707	7,924

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

	2011-2012 £'000	2012-2013 £'000
Depreciation	37,469	38,397
Impairment and downward valuations	52,710	(1,498)
Amortisation	178	178
Soft Loans (non-subsidiary) - Interest adjustment credited to the Income and Expenditure Statement during year	568	(56)
Increase/(Decrease) in Interest Creditors	1,537	45
Increase/(Decrease) in Creditors	(2,608)	(7,159)
(Increase)/Decrease in Interest and Dividend Debtors	(2,618)	(1,544)
(Increase)/Decrease in Debtors	7,921	(8,773)
(Increase)/Decrease in Inventories	53	505
Increase/(Decrease) in Receipts in Advance	-	(154)
Increase/(Decrease) in Pension Liability	(100)	4,480
Contributions to/(from) provisions	7,605	(17,057)
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	65,775	34,867
Movement in Investment Property Values	2,702	78
Net Deficit on the Provision of Services for Non-Cash Movements	171,192	42,309

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

	2011-2012 £'000	2012-2013 £'000
Capital Grants credited to the surplus or deficit on the provision of services	(59,917)	(35,698)
Proceeds from the sale of short and long term investments	-	-
Premiums or Discounts on the repayment of financial liabilities	(6,394)	-
Material Impairment losses on Investments debited to the surplus or deficit on the provision of services in year.	-	(211)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(8,426)	(21,852)
Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities	(74,737)	(57,761)

34. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2012-2013.

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.

	2011-2012 Income	Cost	(Surplus) / Deficit	2012-2013 Income	Cost	(Surplus) / Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
Catering Daily school meals service to 93 of the County's schools (10,679 meals per day). Civic catering for sepcific functions and operation of the staff restaurant.	(6,389)	6,745	356	(5,025)	5,287	262
Cleaning and Caretaking Building cleaning and caretaking at schools and other establishments, facilities management at County Hall & Hepscott Park.	(10,899)	10,959	60	(17,255)	26,837	9,582
Property A comprehensive architectural design, property maintenance, consultancy advice service and management of the estates portfolio.	(5,207)	6,032	825	(5,947)	6,250	303
Central and Other Services The Council operates several central services with a financial break-even objective or achievement of agreed budgets.	(33,416)	31,388	(2,028)	(33,860)	33,116	(744)
Total Trading Operations	(55,911)	55,124	(787)	(62,087)	71,490	9,403

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). During 2012-2013 a sum of £8.38 million has been set aside to provide for future repairs and maintenance. A provision of £7.24 million has also been included as a result of the downward valuation of several properties during 2012-2013. 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 on page 60):

	2011-2012	2012-2013
	£'000	£'000
Net (surplus)/deficit on trading operations	(787)	9,403
Support services recharged to Expenditure of Continuing Operations	-	-
Net (surplus)/deficit credited to Other Operating Expenditure	(787)	9,403

36. Members' Allowances

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

	2011-2012	2012-2013
	£'000	£'000
Salaries	172	169
Allowances	1,233	1,222
Expenses	75	66
Total	1,480	1,457

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	2011-2012 All Employees	2012-2013 All Employees
£50,000 to £54,999	127	108
£55,000 to £59,999	70	77
£60,000 to £64,999	36	24
£65,000 to £69,999	22	29
£70,000 to £74,999	12	8
£75,000 to £79,999	7	8
£80,000 to £84,999	6	8
£85,000 to £89,999	11	10
£90,000 to £94,999	3	4
£95,000 to £99,999	3	-
£100,000 to £104,999	1	1
£105,000 to £109,999	-	-
£110,000 to £114,999	-	-
£115,000 to £119,999	2	1
£120,000 to £124,999	-	1
£125,000 to £129,999	2	1
£130,000 to £134,999	-	2
£135,000 to £139,999	1	-
£140,000 to £144,999	1	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	-	-
£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	-	-
Total	305	284

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

Notes to the Financial Statements

The Accounts and Audit (Amendment No. 2) (England) Regulations 2009 require authorities to disclose the remuneration of Senior Officers. These officers are also included in the table on page 89. There have been no bonuses or compensatory remuneration been made to any of the senior officers in 2012- 2013 (2011- 2012 nil).

2012-2013	Salary	Expense Allowances	Benefits in kind	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
Post Holder Information	£	£	£	£	£	£
Senior Officers emoluments – salary is £150,000 or more per year						
Chief Executive Steve Stewart	170,324	-	-	170,324	25,208	195,532
Senior Officers emoluments – salary is between £50,000 and £150,000 per year						
Deputy Chief Executive – Kate Roe	136,518	4,487	-	141,005	19,610	160,615
Corporate Director of Children's Services – Paul Moffat	126,533	-	4,746	131,279	18,500	149,779
Corporate Director of Local Services, Caroline Bruce [1]	63,259	-	-	63,259	27,086	90,345
Corporate Director of Local Services, Barry Rowland [2]	49,229	-	-	49,229	-	49,229
Corporate Director of Adult Services - Daljit Lally [3]	133,817	-	256	134,073	19,240	153,313
Corporate Director of Finance - Steven Mason	108,010	205	18,799	127,014	17,443	144,457
Chief Fire Officer - Alex Bennett	102,000	-	-	102,000	21,726	123,726

Notes:

1 Left 30 September 2012

2 Appointment effective from 12 November 2012. Annual equivalent salary £127,500

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

The Code of Practice on Local Authority Accounting in the UK also requires disclosure of the total amount of any bonuses paid to or receivable by the senior officer and the total amount of any compensation for loss of employment paid to or receivable by the senior officer. There have been no such payments in 2011-2012 or 2012-2013.

2011-2012	Salary	Expense Allowances	Benefits in kind	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
Post Holder Information	£	£	£	£	£	£
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 NHS Foundation Trust, each organisation pays 50% of costs

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	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013
							£	£
£0 - £20,000	-	68	315	93	315	161	2,141,569	1,085,656
£20,001 - £40,000	-	5	53	19	53	24	1,417,064	634,695
£40,001 - £60,000	-	1	13	3	13	4	641,025	190,706
£60,001 - £80,000	-	-	3	-	3	-	203,729	-
£80,001 - £100,000	-	-	3	2	3	2	277,250	171,777
£100,001 - £150,000	-	-	-	-	-	-	-	-
£150,001 - £200,000	-	-	-	-	-	-	-	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
	-	74	387	117	387	191	4,680,637	2,082,834
Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings	103	-	61	38	164	38	2,934,997	678,572
Total cost included in Comprehensive Income and Expenditure Statement	103	74	448	155	551	229	7,615,634	2,761,406

The Council’s Comprehensive Income and Expenditure Statement includes a provision for £0.68 million which has been agreed and is payable to 38 officers. These costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement.

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 for non-audit services provided by the Council's external auditors:

	2011-2012 £'000	2012-2013 £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	425	274
Fees payable to the appointed auditor in respect of statutory inspections	32	-
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	54	22
Fees payable in respect of any other services provided by the appointed auditor during the year	23	24
Total	534	320

Notes:

Fees payable with regard to audit and grant work are based on estimates in respect of work done and still to be completed relating to 2012-2013.

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.

39. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). An element of DSG is recouped by the Department to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2011. The Schools Budget includes elements for a range of education services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012-2013 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2012-2013			187,010
Academy figure recouped for 2012-2013			(18,909)
Total DSG after Academy Recoupment			168,101
Brought forward from 2011-2012			1,914
Agreed budgeted distribution in 2012-2013	22,578	147,437	170,015
In Year Adjustments	(35)	159	124
Final Budget Distribution for 2012-2013	22,543	147,596	170,139
Actual Central Expenditure	(21,528)	-	(21,528)
Actual ISB deployed to Schools	-	(147,596)	(147,596)
Carried forward to 2013-2014	1,015	-	1,015

40. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012-2013:

	2011-2012 £'000	2012-2013 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue		
Revenue Support Grant	30,473	4,376
Council Tax Freeze Grant	3,750	3,766
New Homes Bonus Grant	1,103	1,602
Local Services Support Grant	-	1,105
Total Revenue	35,326	10,849
Capital		
Bernicia	-	274
Big Lottery	618	31
DCLG - Disabled Facilities Grant	1,238	1,462
DCLG - Fire Brigade Modernisation Fund	785	783
DCLG - Fire Control Room	1,400	-
DCLG - Local Enterprise Growth Initiative	983	-
DCSF - Schools Capital Maintenance Grant	6,812	5,997
Department for Energy and Climate Change	18	-
Department for Environment, Food and Rural Affairs (Flood Rescue Grant)	36	-
Department for Transport	16,946	16,579
Department of Health	678	700
DfE - Secure Unit Grants	1,195	500
Energy Saving Trust	-	60
English Heritage	3	20
Environment Agency	1,324	1,114
European Regional Development Fund	166	169
Football Foundation	140	31
Gateshead NHS Primary Care Trust	139	-
Heritage Lottery Fund	177	182
Home Improvement Agency	417	-
Home Office	-	5
Homes and Communities Agency	550	705
National Trust	-	25
Northumberland Health Care Trust	211	1,441
One North East	(1,030)	-
Other	651	268
SITA	-	52
Standards Fund	25,248	4,940
Sustrans	1,211	20
Warmzone	-	40
Zurich Insurance Ltd	-	300

	2011-2012 £'000	2012-2013 £'000
Total Capital	59,916	35,698
Total Credited to Taxation and Non Specific Grant Income	95,242	46,547
Grants Credited to Services:		
Revenue :		
Climate Change	80	-
Council Tax Benefit Subsidy Grant	105,428	111,194
Countryside Agency	106	134
Criminal Justice Grant	90	83
Cycle Scheme	106	106
Dedicated Schools Grant (DSG)	182,090	168,224
Discretionary Rent Allowance Subsidy	57	168
Early Intervention Grant	12,421	12,955
English Heritage Fund	-	222
European Community Grants	79	120
European Regional Development Fund	1,198	92
Fire Control Grant	400	-
Fire Revenue Grant	146	142
Football Foundation Grant	75	-
Future Jobs Fund	198	-
Grants in Support of ISB	3,058	5,568
Homes & Communities	270	-
LAA Reward Grant	(45)	-
Learning Disability & Health Reform	8,900	9,139
Local Enterprise Growth Initiative	(10)	-
Local Services Support Grant	1,372	-
Lottery Funding	24	98
National Citizen Service Pilot	15	95
Neighbourhood Front Runners Grant	80	-
North East Improvement & Efficiency Partnership	5	94
Other Grants	2,150	1,416
Positive Futures	85	91
Preventing Homelessness Grant	99	-
Private Finance Initiative	4,760	4,760
Rural Growth Network Grant	-	3,143
Rural Development Programme for England	-	267
Schools Sports Partnership	270	-
Single Programme Grant	334	-
Skills Funding Agency	2,461	2,905
Social Care IT Infrastructure	112	109
Social Care Reform Grant	(10)	-
Sport England	332	419
Standards Fund	375	405

	2011-2012 £'000	2012-2013 £'000
Support for Training	91	-
Sustainable Transport Fund	151	317
Teacher Development Agency	266	176
Troubled Families Grant	22	676
Unaccompanied Asylum Seeking Children Grant	83	-
Winter Maintenance Grant	3,112	-
Young People Substance Misuse Partnership	168	119
Young Peoples Learning Agency	24,148	16,877
Total Revenue Grants	355,152	340,114
Donations		
Contributions To Shared Schemes	215	184
Contributions towards Music	1,418	1,223
Contributions towards Swimming	363	354
Contributions to Work Programmes	-	1,570
CWDC NVQ Income	324	46
Youth Justice Board	858	800
Donations	170	134
European Elections	366	404
Milk Subsidy	254	192
Northumberland Care Trust	12,654	11,462
Other Contributions	5,411	4,940
Parental Contributions	292	335
Police Authority Contribution	83	130
Probation Contribution	64	64
PTA / School Fund Contributions	417	491
S117 Health Contribution	1,721	2,038
Social Care Demonstration Site	426	210
Student Placement Contributions	27	47
Total Donations	25,063	24,624
Total Credited to Services	380,215	364,738

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 2012 £'000	31 March 2013 £'000
Capital Grant Receipts in Advance:		
Department for Transport	278	278
Department for Education	6,505	3,112
Environment Agency	713	377
Home Office (Safer Stronger Communities)	5	-
Homes and Communities Agency	1,129	943
Northumberland Healthcare Trust	2,120	1,096
Other	199	130
Total Capital Grant Receipts in Advance	10,949	5,936
Revenue Grant Receipts in Advance:		
Contributions	-	9
Countryside Agency	55	203
Cycle Grant	21	-
English Heritage Grants	28	19
Environment Agency Coast Protection Grant	20	75
European Elections	18	-
European Marine Site Project	29	27
Groundwork NE Grant	33	-
KickStart Grant	26	-
New Burdens Grant	76	36
NHS Dementia Grant	-	10
Other Contributions	2	5
Other Grants	18	-
Parental Contributions	21	12
Social Care Efficiency Grant	-	20
Work Programme Grant	223	-
Total Revenue Grant Receipts in Advance	570	416
Total Receipts in Advance	11,519	6,352

This table now includes receipts in advance as at 31 March 2012 in order to comply with the CIPFA Code of Practice on Local Authority Accounting.

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 2012-2013 that are considered to be related parties:

- Arch Group
- Homes for Northumberland
- Rural Enterprise Action (Reaction)

Arch Group paid £0.17 million in relation to Non Domestic Rates, Council Tax and other services to Northumberland County Council during the year, and there were no balances outstanding with these companies at the year-end.

Transactions and balances with Homes for Northumberland were as follows:

	£'000
Expenditure made by the Council to Homes for Northumberland in 2012-2013	11,243
Income to the Council from Homes for Northumberland in 2012-2013	2,341
Amounts due to the Council from Homes for Northumberland at 31 March 2013	3,315
Amounts owed by the Council to Homes for Northumberland at 31 March 2013	4,237

Reaction became dormant on 1 July 2012. There were no transactions during 2012-2013 with this company.

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 on page 151.

Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2012-2013 the Pension Fund had an average balance of £1.94 million loaned to Council for which it received interest of £0.03 million. The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2012-2013 these costs amounted to £0.63 million (2011-2012 £0.58 million). £7.40 million was due to the Council at 31 March 2013 (£3.56 million was due to the Council at 31 March 2012).

Other Bodies

Transactions with other related parties are detailed below:

	Receipts £'000	Payments £'000
Environment Agency - Precept	23	238
Northumberland Sea Fisheries Committee - Precept	10	645
Northumberland National Park Authority	-	150
Northumberland Pension Fund:		
Payment of employer's pension contributions in respect of employees	-	25,842

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2012-2013 goods and services were commissioned from organisations in which Members had an interest. All interests were declared by the appropriate Members. Members had interests in 139 organisations with transactions totalling £58.73 million in respect of goods or services provided to the Council.

During 2012-2013 goods and services and grant funding, amounting to £25.73 million was provided by the Council to 106 organisations in which Members had an interest.

Included in the above sums are amounts due from the Council of £1.01 million and due to the Council of £1.57 million as at 31 March 2013.

Officers

During 2012-2013 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 eleven organisations with transactions totalling £24.75 million in respect of goods or services provided to the Council.

During 2012-2013 goods and services amounting £20.29 million were provided by the Council to eleven organisations in which officers had an interest.

Included in the above sums are amounts due from the Council of £0.32 million and due to the Council of £2.27 million as at 31 March 2013.

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.

	2011-2012 £'000	2012-2013 £'000
Opening Capital Financing Requirement	496,351	510,360
Capital Investment:		
Property, Plant and Equipment	79,699	47,640
Capital Long Term Debtors	3,412	26,078
Capital Long-Term Investments	-	1,770
PFI / Finance Lease Additions	-	1,726
Revenue Expenditure Funded From Capital under Statute (REFCUS)	24,746	12,106
Reversal of Capitalisation (REFCUS)	(6,346)	(9,359)
HRA Downward Revaluation (non-dwelling assets)	-	(548)
Sources of Finance:		
Capital receipts	(7,847)	(18,397)
Government grants and other contributions	(57,848)	(37,622)
Sums set aside from revenue/Major Repairs Reserve:		
Major Repairs Reserve	(6,291)	(6,922)
Direct revenue contributions	(2,677)	(1,303)
Capital Long Tern Debtors Amortisation	-	(34)
Minimum Revenue Provision	(12,839)	(18,478)
Closing Capital Financing Requirement	510,360	507,017
Explanation of movements in year:		
Increase in underlying need to borrowing (supported by government financial assistance)	-	-
Increase in underlying need to borrowing (unsupported by government financial assistance)	26,847	13,991
Minimum Revenue Provision	(12,838)	(18,512)
Assets acquired under PFI / PPP contracts	-	1,726
HRA Downward Revaluation (non-dwelling assets)	-	(548)
Increase/(Decrease) in Capital Financing Requirement	14,009	(3,343)

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 2012 £'000	31 March 2013 £'000
Vehicles, Plant, Furniture and Equipment	907	674

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 2012 £'000	31 March 2013 £'000
Finance lease liabilities (net present value of minimum lease payments):		
Current	218	245
Non Current	689	429
Finance costs payable in future years	205	165
Minimum lease payments	1,112	839

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Not later than one year	274	298	233	245
Later than one year and not later than five years	620	541	581	429
Later than five years	218	-	93	-
	1,112	839	907	674

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 2012 £'000	31 March 2013 £'000
Not later than one year	2,554	1,251
Later than one year and not later than five years	5,178	5,180
Later than five years	4,526	3,208
	12,258	9,639

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2012 £'000	31 March 2013 £'000
Minimum lease payments	3,250	2,853

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 £'000
Merley Croft, Morpeth	25	01.02.1999	31.01.2024	62
Ashmore House, Ashington	25	01.04.1998	31.03.2023	26
Dene Park	99	01.01.1993	31.12.2092	-
Dene Park	60	01.10.1978	30.09.2038	-
Church Point, Newbiggin by the Sea	99	09.01.2013	08.01.2112	-
Dr Pit Park - Bedlington Terriers Football Ground	99	26.02.2013	01.07.2111	-

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 2012 £'000	31 March 2013 £'000
Finance lease debtor (net present value of minimum lease payments):		
Current	35	38
Non Current	606	568
Unearned finance income	379	326
Unguaranteed residual value of property	467	467
Gross investment in the lease	1,487	1,399

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 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Not later than one year	88	88	88	88
Later than one year and not later than five years	352	352	352	352
Later than five years	1,047	959	580	492
	1,487	1,399	1,020	932

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 2012 £'000	31 March 2013 £'000
Not later than one year	960	499
Later than one year and not later than five years	527	596
Later than five years	952	474
	2,439	1,569

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:

	31 March 2012 £'000	31 March 2013 £'000
Long term finance lease liability:		
Waste PFI	(58,517)	(57,984)
Fire PFI	(12,786)	(12,598)
Other finance leases (Note 43)	(689)	(429)
Total Finance Lease Liability	(71,992)	(71,011)
Long term deferred credits:		
Waste PFI	(14,677)	(14,010)
Total Deferred Credits	(14,677)	(14,010)
Total Long Term Creditors	(86,669)	(85,021)

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

Waste PFI

2012-2013 was the sixth 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 Council 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 Council 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 Council 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 2012-2013:

	2011-2012	2012- 2013 Plant Shell	2012-2013 Project Assets	2012-2013
	£'000	£'000	£'000	£'000
Cost brought forward 1 April	87,664	13,566	74,098	87,664
Disposals in year	-	-	-	-
Additions in year	-	1,725	-	1,725
Cost carried forward 31 March	87,664	15,291	74,098	89,389
Restated accumulated depreciation brought forward 1 April	(6,203)	(1,315)	(8,260)	(9,575)
Disposals	-	-	-	-
Depreciation charge for year	(3,372)	(533)	(2,774)	(3,307)
Depreciation at 31 March	(9,575)	(1,848)	(11,034)	(12,882)
Net book value carried forward 31 March	78,089	13,443	63,064	76,507

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2012-2013:

	2011-2012	2012- 2013 Plant Shell	2012-2013 Project Assets	2012-2013
	£'000	£'000	£'000	£'000
Lease liability brought forward 1 April	59,235	11,830	47,078	58,908
Additions	-	-	-	-
Payments made in year	(327)	(81)	(310)	(391)
Liability carried forward 31 March	58,908	11,749	46,768	58,517

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 2012	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	As at 31 March 2013 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	20,247	1,077	533	7,122	12,153	20,885
Within two to five years	86,306	4,528	2,812	29,197	52,130	88,667
Within six to ten years	119,874	6,188	5,778	38,122	73,443	123,531
Within eleven to fifteen years	137,415	6,832	12,177	38,873	84,033	141,915
Within sixteen to twenty years	158,392	7,543	23,413	36,644	95,966	163,566
Within twenty-one to twenty-five years	106,239	3,232	13,804	12,655	42,408	72,099
Within twenty-six to thirty years	-	-	-	-	-	-
	628,473	29,400	58,517	162,613	360,133	610,663

Fire & Rescue PFI

2012-2013 was the third year of a 25 year PFI contract for the construction, maintenance and operation of two Fire Stations, in Pegswood and West Hartford. The Council 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 Council for nil consideration.

The Council 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 2012-2013:

	2011-2012 £'000	2012-2013 £'000
Cost brought forward 1 April	1,917	1,982
Recognition of deferred asset within fixed assets	-	-
Additions in year	65	20
Revaluation Loss	-	-
Cost carried forward 31 March	1,982	2,002
Restated Accumulated depreciation brought forward 1 April	(56)	(133)
Depreciation charge for year	(77)	(80)
Depreciation at 31 March	(133)	(213)
Net book value carried forward 31 March	1,849	1,789

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2012-2013:

	2011-2012 £'000	2012-2013 £'000
Lease liability brought forward 1 April	13,098	12,950
Payments made in year	(148)	(164)
Liability carried forward 31 March	12,950	12,786

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 2012 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	As at 31 March 2013 Total £'000
Within one year	2,275	173	188	1,367	583	2,311
Within two to five years	9,337	734	933	5,287	2,531	9,485
Within six to ten years	12,245	1,026	1,746	6,013	3,668	12,453
Within eleven to fifteen years	12,960	1,161	2,787	4,923	4,325	13,196
Within sixteen to twenty years	13,769	1,313	4,524	3,092	5,106	14,035
Within twenty-one to twenty-five years	9,068	721	2,608	378	2,543	6,250
Within twenty-six to thirty years	-	-	-	-	-	-
	59,654	5,128	12,786	21,060	18,756	57,730

45. Impairment Losses

There were no impairment losses other than downward revaluations in relation to Property, Plant and Equipment and Intangible Assets balances for 2012-2013 or 2011-2012.

46. 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 2012-2013 the County Council paid £11.05 million (£12.24 million in 2011-2012) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay.

Contributions for March 2013 payroll totalling £0.91 million remained payable at the year end for the Teachers' Pension Scheme. This amount was paid over in April 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 47.

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 47.

47. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, the Council can make 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 and these 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 46.

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:

2012-2013	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement					
Cost of Services:					
Current Service Cost	(22.02)	(2.63)	-	-	(24.65)
Past Service Cost	(1.10)	-	-	-	(1.10)
Financing and Investment Income and Expenditure:					
Interest Cost	(51.43)	(6.55)	(1.64)	(1.76)	(61.38)
Expected return on scheme assets	45.99	-	-	-	45.99
Total post employment benefit charged to the deficit on the provision of services	(28.56)	(9.18)	(1.64)	(1.76)	(41.14)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:					
Actuarial gains and losses	(46.96)	(11.65)	(2.29)	(2.58)	(63.48)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(75.52)	(20.83)	(3.93)	(4.34)	(104.62)
Movement in Reserves - General Fund Balance:					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	75.52	20.83	3.93	4.34	104.62
Actual amount charged against the General Fund Balance for pensions in the year:					
Employer's contributions payable to the scheme	(26.65)	-	-	-	(26.65)
Net retirement benefits payable to pensioners	-	(4.80)	(2.43)	(2.78)	(10.01)

2011-2012	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
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)

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

2012-13	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	Injury and non scheme Ill Health	Total
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	(2.15)	(0.36)	(0.12)	(2.63)
Past service cost	-	-	-	-
Financing and Investment Income and Expenditure:				
Interest cost	(6.19)	(0.15)	(0.21)	(6.55)
Total post employment benefit charged to the deficit on the provision of services	(8.34)	(0.51)	(0.33)	(9.18)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:				
Actuarial gains and losses	(10.98)	(0.27)	(0.40)	(11.65)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(19.32)	(0.78)	(0.73)	(20.83)
Movement in Reserves - General Fund Balance:				
Reversal of net charges made to the deficit for the provision of services for post employment benefit	19.32	0.78	0.73	20.83
Actual amount charged against the General Fund Balance for pensions in the year:				
Net retirement benefits payable to pensioners	(4.73)	0.09	(0.16)	(4.80)

2011-12	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	Injury and non scheme Ill Health £m	Total £m
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:				
Past service 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 benefit	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)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012-2013 is a loss of £63.48 million (£117.16 million loss in 2011-2012).

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 2012	(1,095.28)	(132.99)	(2.89)	(4.51)	(36.94)	(39.59)	(1,312.20)
Current service cost	(22.02)	(2.15)	(0.36)	(0.12)	-	-	(24.65)
Interest cost	(51.43)	(6.19)	(0.15)	(0.21)	(1.64)	(1.76)	(61.38)
Contributions by scheme participants	(6.60)	(0.58)	(0.11)	-	-	-	(7.29)
Actuarial (gains)/losses on liabilities	(96.03)	(10.98)	(0.27)	(0.40)	(2.29)	(2.58)	(112.55)
Net benefits paid out	31.71	5.31	0.02	0.16	2.43	2.78	42.41
Business Combinations	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-
Past service cost	(1.10)	-	-	-	-	-	(1.10)
Closing balance as at 31 March 2013	(1,240.75)	(147.58)	(3.76)	(5.08)	(38.44)	(41.15)	(1,476.76)
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)

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

	Local Government 2011-2012 £m	Local Government 2012-2013 £m
Opening balance as at 1 April	645.70	680.48
Expected return on assets	46.81	45.99
Actuarial gains/(losses) on assets	(14.69)	49.07
Contributions by the employer	26.98	26.65
Contributions by participants	6.59	6.60
Business Combinations	0.54	-
Settlements	(1.28)	-
Net benefits paid out	(30.17)	(31.71)
Closing balance as at 31 March	680.48	777.08

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 £95.06 million (£32.12 million in 2011-2012).

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 2013	£m	£m	£m	£m	£m	£m	£m
Fair value of assets	777.08	-	-	-	-	-	777.08
Present value of liabilities	(1,240.75)	(147.58)	(3.76)	(5.08)	(38.44)	(41.15)	(1,476.76)
Surplus/(deficit)	(463.67)	(147.58)	(3.76)	(5.08)	(38.44)	(41.15)	(699.68)
As at 31 March 2012							
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)

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 £699.68 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 £168.89 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 £25.15 million, in addition to which strain on the 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 £2.84 million respectively directly to beneficiaries. For the FPS in the year to 31 March 2013 the Council expects to pay £4.84 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 £0.16 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 2013				
Long term expected rate of return on assets in the scheme:				
Equities	7.8%	-	-	-
Property	7.3%	-	-	-
Government bonds	2.8%	-	-	-
Corporate bonds	3.8%	-	-	-
Cash	0.9%	-	-	-
Other	7.8%	-	-	-
Total	6.6%	-	-	-
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	22.5	22.6	22.5	22.5
Women	24.7	25.0	24.7	24.7
Longevity at age 65 for future pensioners:				
Men	24.3	24.3	-	-
Women	26.6	26.9	-	-
Rate of inflation - RPI	3.6%	3.6%	3.5%	3.5%
Rate of inflation - CPI	2.7%	2.7%	2.6%	2.6%
Rate of general long term increase in salaries*	4.6%	4.6%	-	-
Rate of increase to pensions in payment**	2.7%	2.7%	2.6%	2.6%
Rate of increase to deferred pensions	2.7%	-	-	-
Discount rate	4.3%	4.3%	4.1%	4.1%
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%	-	-

	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%	-	-

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 2013.

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 of the following categories, by proportion of the total assets held:

	As at 31 March 2012 %	As at 31 March 2013 %
Equities	69.6	68.7
Property	5.0	4.4
Government bonds	14.0	15.4
Corporate bonds	10.6	10.1
Cash/other	0.8	1.4
Total	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012-2013 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	LGPS		Firefighters'			New	Firefighters'		LGPS		Teachers'			Total
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
2012-2013														
Differences between expected and actual return on assets	48.07	6.3	-	-	-	-	-	-	-	-	-	-	48.07	6.3
Experience gains/(losses) on liabilities*	1.69	0.1	0.20	0.1	-	-	0.01	0.2	0.07	0.2	0.08	0.2	2.05	0.1
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

48. 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 was expected to return the land to pasture in 2012, however, the Council must first of all complete a surrender guidance form, which it will do in 2013-2014. 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 2013, the total amount of the Council's claims to date subject to reclamation was £4.96 million (£4.80 million as at 31 March 2012). The MMI's position 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 Scheme of arrangement was triggered in November 2012.

The Council has a provision of £1.35 million to finance future MMI liabilities.

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £0.25 million plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.

Following the Abdullah case brought against Birmingham City Council, the Council is aware that there may, in the future, be similar claims against NCC. However, given the nature of the case and the fact that it is not yet finished, the liability is not quantifiable at this time and the Council has not yet received any such claims.

In December 2011 the High Court delivered its judgement in the case of Norman v Cheshire Fire & Rescue Service, the court held that Day Staffing Allowance (DSA) was pensionable. Following a number of queries received by the Council and in particular a Stage 1 appeal under the Internal Dispute Resolution Procedure the Council has sought its own legal advice over the definition of fire-fighters pensionable pay and whether the DSA was pensionable. The legal advice confirmed that DSA was pensionable and should have been included in the pensionable pay for the purpose of calculating benefits. The arrears of benefits relating to the Stage 1 appeal are £0.03 million. However, the implications of allowing this appeal could be significant as there are likely to be further appeals. The estimated arrears for all those who have retired since DSA was introduced in 1992 are £0.84 million. The Council is currently liaising with the Department of Communities and Local Government on whether the Fire-fighters Pension Fund Top Up grant will cover these costs.

49. 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 but the current position is that it has been successfully 'stayed' by the High Court behind a lead case. It is not possible to quantify the level of any recovery of tax at this point.

50. Nature and Extent of Risks Arising from Financial Instruments

Risk Management

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure from the Council's customers. The Council's Treasury Management Policy sets out the limits for investments. The policy changed once during 2012-2013 and has been amended from 1 April 2013. To ensure security of principal, time limits for Local Authorities were increased. The limits for the investments of surplus monies are shown below:

Type of Organisation	Minimum Credit Rating Criteria Fitch	Minimum Credit Rating Criteria Moody	Maximum Investment Amount	Maximum Period of Investment ①	Maximum Period of Investment ②
UK Local Authorities	N/A	N/A	Unlimited	10 years	15 years
DMO	N/A	N/A	Unlimited	unlimited	Unlimited
Nationalised Banks	N/A	N/A	£35m (Group Limit £70m)	12 months	12 months
Money Market Funds	AAA	Aaa	£25m (Group Limit £150m)	Instant access	Instant access
UK Clearing Banks/	AA	Aa1	£25m (Group Limit £50m)	3 months	12 months
Building Societies	AA-	Aa3	£15m (Group limit £30m)	3 months	12 months
	A	A2	£12m (Group limit £25m)	3 months	6 months
	A-	A2	£5m (Group limit £25m)	3 months	3 months

① – Applicable to investments made between 1 April 2012 and 27 September 2012.
② – Applicable to investments made between 28 September and 31 March 2013 due to a change in policy during the year.

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 made an impairment provision of £6.37 million in 2008-2009 and £5.85 million in 2009-2010. During 2010-2011, 2011-2012 and 2012-2013 Impairment reversals have been processed through the accounts due to an increasing likelihood of recovery (£0.73 million in 2010-2011, £6.39 million in 2011-2012 and £0.21 million in 2012-2013). 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 £23.00 million deposited across four of these institutions, with varying maturity dates and interest rates as follows:

	Date Invested	Maturity Date	As at 1 April 2012 £'000	Accrued Interest 2012-2013 £'000	Repaid 2012-2013 £'000	Impairment 2012-2013 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Landsbanki	08.02.08	06.02.09	2,934	127	(952)	84	5.43	2,193	0
Landsbanki	11.03.08	11.03.09	581	26	(191)	19	5.80	435	0
Heritable	26.03.08	29.12.08	199	9	(96)	(5)	6.00	107	12
Kaupthing Singer & Friedlander	02.04.08	02.01.09	606	21	(403)	41	6.05	265	15
Kaupthing Singer & Friedlander	04.04.08	05.01.09	808	28	(536)	54	6.05	354	15
Landsbanki	10.09.08	10.12.08	556	25	(183)	18	5.83	416	0
Total			5,684	236	(2,361)	211		3,770	

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 and is covered by guidance issued by CIPFA (LAAP Bulletin 82 Update 7) on 17 May 2013, further amended on 28 May 2013. 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.

The Council continues to adopt a prudent approach and as the available information from administrators/receivers is not definitive as to the amounts and timings of future payments, and is based on estimates, further adjustments will be made in 2013-2014 if required once more detail has been made available on the final recovery amounts.

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	77.20
July 2013	2.00
April 2013	8.80

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 85.25p in the £. This reflects an improvement from the position reported as at 31 March 2012 of 83.5p in the £.

Date	Repayment Percentage (%)
Received to Date	76.00
June 2013	3.00
June 2014	3.25
June 2015	3.00

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

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. Further distributions were issued in May and October 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 4.17% as at 31 March 2013. 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 Council has recognised a gain in 2012-2013 due to currency fluctuations.

The current position on estimated future payouts is as shown in the table below and this council has used these estimates to calculate the impairment based on recovering 100p in the £.

Date	Repayment Percentage (%)
Received to Date	49.65
December 2013	7.50
December 2014	7.50
December 2015	7.50
December 2016	7.50
December 2017	7.50
December 2018	7.50
December 2019	5.35

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. Further to, 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 4.2% as at 31 March 2013. 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 Council has recognised a gain in 2012-2013 due to currency fluctuations.

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

Customer Debt

The Council has £10.88 million (2011-2012: £7.81 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Less than three months	2,618	6,820
Three to six months	821	1370
Six months to one year	2,671	510
More than one year	1,701	2,180
Total	7,811	10,880

At 31 March 2013 the Council held a provision of £1.45 million (2011-2012: £1.33 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 Queens Hall Arts and The Association of North East Councils, but the risk of either guarantee being called upon is assessed as low.

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 2012 £'000	As at 31 March 2013 £'000
Analysis by Loan Type		
Public Works Loans Board	212,444	203,852
Other Market Loans	5,173	35,308
LOBO (Market Loans)	233,600	260,600
	451,217	499,760
Analysis of Loans by Maturity		
Less than 1 year	-	-
Between 1 and 2 years	13,707	38,844
Between 2 and 5 years	36,775	56,602
Between 5 and 10 years	92,538	70,359
Between 10 and 20 years	29,474	27,798
Between 20 and 30 years	60	9,485
Between 30 and 40 years	40,937	45,072
Between 40 and 50 years	66,126	80,000
Between 50 and 60 years	40,600	40,600
In excess of 60 years	131,000	131,000
	451,217	499,760

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 Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Comprehensive Income and Expenditure Statement 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 2013 with all other variables held constant, the effect would have been:

	As at 31 March 2013 £'000
Increase in Interest Payable on Variable Rate Borrowings	1,711
Increase in Interest Receivable on Variable Rate Investments	(2,571)
Increase in Government Grant receivable for financing costs	(4,855)
Impact on (Surplus) or Deficit on the Provision of Services	(5,715)
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	5,533

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 borrowings is largely due to the fact that the Council has £133.60 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 Arch (Corporate Holdings) Ltd. Further information on these shareholdings is contained in Note 57 Subsidiary or Associated Companies on page 135.

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 Arch (Corporate Holdings) Ltd are included at historic cost.

Foreign exchange risk in relation to Icelandic Deposits

The Council has foreign exchange exposure resulting from an element of the settlement received from Glitnir/Landsbanki. This is being held in Icelandic kroner in an escrow account due to the current imposition of currency controls. The value of the deposits at 31 March 2013, based on exchange rates was £1.75 million.

51. General Government Grants

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

	2011-2012 £’000	2012-2013 £’000
Revenue Support Grant *	(30,473)	(4,376)
Council Tax Freeze Grant	(3,750)	(3,766)
New Homes Bonus Grant	(1,103)	(1,602)
Local Services Support Grant	-	(1,105)
	(35,326)	(10,849)

* The 2012-2013 Revenue Support Grant includes refunds of Local Authority Central Spend Equivalent Grant (LACSEG) of £1.28 million for 2011-2012 and £2.06 million for 2012-2013.

52. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2013:

	Total Cost £'000	Future Payments £'000
Ashington Community and Leisure Facility	20,000	18,936
Ashington Town Centre	9,000	5,451
Berwick Breakwater Refurbishment	2,402	202
Blyth Town Centre/Bus Station	658	286
Dene Park House	425	421
Haltwhistle Extra Care Facility	3,803	2,565
Hirst Putting the Learner First Project	51,320	271

53. 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 2012-2013 of £18.48 million was calculated using both the ‘regulatory’ (£15.75 million) and ‘asset life’ (£2.73 million) methods from the guidance. The 2011-2012 provision was also based on ‘regulatory’ (£10.84 million) and ‘asset life’ (£2.00 million).

54. 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 £0.10 million with an Existing Use valuation basis, in excess of £1.00 million with a Depreciated Replacement Cost (DRC) basis and new assets in excess of £2.50 million 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 2012 unless stated otherwise. The work has been undertaken by DTZ, a UGL company, Central Square South, Orchard Street, Newcastle upon Tyne, NE1 3AZ.

Of the Property, Plant and Equipment not held at cost on the Balance Sheet, 34% was valued in year. In addition, 100% of the Investment Assets and Assets Held for Sale remaining at 31 March 2013 were revalued by DTZ.

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 £0.01 million 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 Valuation - Professional Standards 2012, (the "Red Book").

a) With the exception of the material change valuations, properties were inspected internally and externally by MRICS surveyors.

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) In undertaking the valuations a number of assumptions were made and relied on certain sources of information.

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 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 MRICS qualified Surveyors. The basis of valuation is set out above.

	Council Dwellings £'000	Other Land and Buildings * £'000	Community Assets * £'000	Heritage Assets * £'000	Vehicles, Plant, Furniture and Equipment £'000	Surplus Assets £'000	Total £'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	12,134	9,060	1,648	83,231	24	106,097
Valued at Current Value in:							
2008-2009	-	14,702	-	-	-	-	14,702
2009-2010	-	34,319	-	5,797	12,091	7,727	59,934
2010-2011	-	36,224	-	-	-	2,581	38,805
2011-2012	-	397,708	-	765	-	2,254	400,727
2012-2013	243,266	21,101	-	-	-	718	265,085
Total	243,266	516,188	9,060	8,210	95,322	13,304	885,350

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

55. 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 two thousand 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 makes these available. 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 a secure environmentally controlled strong room to ensure their long term preservation.

The collections are available to view in public search rooms 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 established 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 for 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, which is made 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, and Hexham Old Gaol.

56. 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	-	549,232	9,060	8,210	271,546	95,315	933,363
HRA	243,266	3,551	-	-	-	7	246,824
	243,266	552,783	9,060	8,210	271,546	95,322	1,180,187

57. 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 4th May 2001, the seven local authority shareholders of NIAL (the “LA7”) entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which was 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, 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 originally held a shareholding of 1,508 shares representing a 15.08% interest in the company. The shares were not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last full independent valuation was carried out in May 2010. Northumberland’s shareholding was valued at zero within the accounts. No open market share value was available for the holding.

On 16th November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors. As a result the valuation of the LA7 holding was based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 Group. The Council now holds a 15.42% interest in the Newcastle Airport Local Authority Holding Company Limited, valued at £13.40 million.

Through its shares in Newcastle Airport Local Authority Holding Company Limited the Council has an effective shareholding of 7.86% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012-2013, issuing £67.67 million shareholder loan notes. The loan notes will be repayable in 2032. No dividends were payable for the year ended 31 December 2012 (nil for the year ended 31 December 2011).

Other than the loan notes 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 £2.36 million and a profit after tax of £1.50 million for the year ended 31 December 2012. In the previous year, the Group made a loss before tax of £2.88 million and a profit after tax of £1.40 million.

Arch (Corporate Holdings) Ltd

Arch (Corporate Holdings) Ltd was formed on the 1 April 2011 and is the economic development, regeneration and private rented housing arm of Northumberland County Council. Arch (Corporate Holdings) Ltd 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 (formed 1 April 2011)
- Arch (Financial Services) Ltd (formed 1 April 2011)

Following 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 2012-2013.

Group accounts have been prepared for 2012-2013. These statements incorporate 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 (Corporate Holdings) Limited	2011-2012 £'000	2012-2013 £'000
Profit/(Loss) on ordinary activities before taxation	(351)	1,007
Profit/(Loss) on ordinary activities after taxation	(356)	709

Homes for Northumberland

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

Financial results are as follows:

Homes for Northumberland	2011-2012 £'000	2012-2013 £'000
Profit /(Loss) on ordinary activities before taxation	(449)	(1,574)
Profit/(Loss) on ordinary activities after taxation	(432)	(1,602)

The loss reflects the restructuring costs of £1.50 million which will be recovered by future revenue savings.

Rural Enterprise Action CIC

Financial year 2011-2012 was the first year that Northumberland County Council consolidated the accounts of the Rural Enterprise Action CIC into its group accounts. The principal activity of the company was that of encouraging enterprise activities within rural areas. The company was established by the former Tynedale District Council.

Rural Enterprise Action CIC	2011-2012 £'000	2012-2013 £'000
Profit /(Loss) on ordinary activities before taxation	96	n/a
Profit/(Loss) on ordinary activities after taxation	n/a	n/a

The company became dormant as at 1 July 2012 and has subsequently been dissolved in June 2013.

58. Trust Funds

Choppington Schools Educational Fund

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 2013 was £6,935 (£6,075 as at 31 March 2012). Income received during 2012-2013 through dividends was £253 (£238 in 2011-2012). There was no expenditure incurred during 2012-2013 (no expenditure incurred during 2011-2012). 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 £1,937.

Thropton First School

The Council held £0.01 million of funds at 31 March 2013 (£0.00 million at 31 March 2012) for Thropton First School (which is a foundation school).

Trust Schools

The Council also held funds for the following Trust schools:

	31 March 2012 £'000	31 March 2013 £'000
Ashington Partnership:		
Ashington Community High School	751	642
Bothal Middle School	194	122
Ashington Hirst Park Middle School	154	135
Ashington Wansbeck First School	14	57
Ashington Central First School	73	225
Total Ashington Partnership	1,186	1,181
West Partnership:		
Haydon Bridge High School	332	285
Allendale Community	41	(58)
Bellingham Middle School	97	122
Bellingham First School	10	21
Total West Partnership	480	370

Academies

The Council acts as the Payroll provider for five Academies - the Northumberland Church of England Academy (NCEA - since 1 September 2009), Cramlington Learning Village Academy (since 1 September 2011); Berwick Academy (since 1 November 2011); The Three Rivers Academy (since 1 December 2011); and, Meadowdale Academy (since 1 April 2012). As part of this service the Council pays Teachers' Pension contributions to the

Teachers' Pensions Agency on behalf of these Academies. For 2012-2013, £2.49 million (2011-2012 £1.52 million) employers' contributions (14.1% of pensionable pay) and £1.36 million (2011-2012 £0.69 million) employees' contributions (previously 6.4% of pensionable pay but now at rates ranging from 6.4% to 8.8%), were paid over to the Teachers' Pensions Agency. Contributions for the March 2013 payroll totalling £0.21 million employers' contributions and £0.11 million employees' contributions remained payable at the year end. These amounts were paid over in April 2013 and have been excluded from the Balance Sheet.

	Employee's Contribution £'000	Employer's Contribution £'000	Total £'000
Academy:			
NCEA	432	799	1,231
Cramlington Learning Village	316	578	894
Berwick	153	277	430
The Three Rivers	399	717	1,116
Meadowdale	65	118	183
Total	1,365	2,489	3,854

Bank Accounts for Adult Clients in Care

The Council administers individual bank accounts for those people in the care of the County Council. At 31 March 2013 the balance on these accounts was £4.20 million (£3.86 million at 31 March 2012) and has been excluded from the Council's Balance Sheet.

Non-County Bodies

The Council controls income received from non-County bodies for particular clients and client groups. At the end of 2012-2013 this income totalled £0.06 million (£0.06 million at 31 March 2012) and has been excluded from the Council's Balance Sheet.

Adult Personal Allowances

The Council holds personal allowance money paid to clients in residential care. At the end of 2012-2013 this totalled £0.05 million (£0.04 million at 31 March 2012) and has been excluded from the Council's Balance Sheet.

Adult Amenity Funds

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 2012-2013 these funds totalled £0.10 million (£0.04 million at the end of 2011-2012) and have been excluded from the Council's Balance Sheet.

Disability Living Allowances

The Council holds Disability Living Allowance money of £0.01 million at the end of 2012-2013 (£6,790 at the end of 2011-2012) 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.

Notes to the Financial Statements

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

	31 March 2012 £'000	31 March 2013 £'000
R. Bell Bequest	2	2
The Northumberland Children's Fund	(1)	32
Northumberland Sports Fund	79	69
North Stobswood Open Cast Coal Site	275	275
Dransfield Properties Ltd	800	461
New Ridley Road Stocksfield	13	13
Choppington Educational Foundation	1	2
Wandylaw Wind Farm	-	214
Wingates Wind Farm	-	300
	1,169	1,368

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. Outdoor Furniture, games equipment and a TV have been provided. The balance should be utilised in 2013-2014.

The Northumberland Children's Fund

This money is made available for the benefit of young people in Northumberland by way of a grant. £0.10 million was withdrawn from the investment portfolio and grants totalling £0.07 million have been paid to organisations in 2012-2013.

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. £0.01 million was used for Olympic themed initiatives in 2012-2013 and it is anticipated that the balance will be spent in 2013-2014.

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.

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.

S278 Dransfield Property

Section S278 Agreement. Work is still outstanding on this project relating to Morrisons, Morpeth, therefore this Bond will be held until all works are complete.

S59/278 Wandylaw Wind Farm

Section S59/278 Agreement. Work is still outstanding on this project, therefore this Bond will be held until all works are complete.

S278 Wingates Wind Farm

Section S278 Agreement. Work is still outstanding on this project, therefore this Bond will be held until all works are complete.

59. 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 2011-2012 cannot be carried forward to 2012-2013 (borrowing from, and banking into 2012-2013 is not permitted as England must achieve the landfill diversion target set for this target year).

In March 2010 the Council forward traded 35,000 tonnes of its allowances for 2012-2013 to secure income of £0.32 million. This meant that the Council retained allowances for 2012-2013 totalling 13,506 tonnes. This forecast requirement for 2012-2013 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. The Council successfully sold 4,000 tonnes of its 2011-2012 allowance to generate £920 of LATS income in 2012-2013. Authorities are permitted to trade allowances up to 6 months following the end of a scheme year. The transfer of 2011-2012 allowances was undertaken in July 2012.

In 2012-13 it is estimated that there will be a surplus of 4,500 LATs. Trading activity on the DEFRA Bulletin Board in 2012-2013 shows that there has been limited trading activity with only two transactions of 2012-2013 allowances totalling 10,000 tonnes at £0.50 per tonne. There is an oversupply of 2012-2013 allowances with recent offers to trade allowances being posted totalling 75,000 tonnes compared to authorities expressing an interest in purchasing allowances totalling 35,000 tonnes.

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

It should also be noted that the Landfill Allowance Trading Scheme will come to an end after 2012-2013 so any surplus 2012-2013 allowances will have no value.

60. Construction Contracts

At 31 March 2013 the Council had no construction contracts in progress.

Housing Revenue Account (HRA) Income and Expenditure Statement
for the year ended 31 March 2013

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	2011-2012 £'000	2012-2013 £'000
Expenditure:			
Repairs and maintenance		4,726	4,721
Supervision and management		7,870	7,795
Rents, rates, taxes and other charges		728	796
Negative HRA Subsidy Payable	10	2,326	-
Depreciation and impairment of Fixed Assets		14,962	(4,258)
Sums directed by the Secretary of State that are expenditure in accordance with the Code		10,254	-
Debt management costs		34	15
Movement in the allowance for Bad Debt (not specified by the Code)	13	(42)	117
Total Expenditure		40,858	9,186
Income:			
Dwelling rents (gross)		(24,376)	(26,454)
Non dwelling rents (gross)	4	(325)	(336)
Charges for services and facilities		(1,178)	(1,290)
HRA Subsidy receivable	10	-	(38)
Total Income		(25,879)	(28,118)
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		14,979	(18,932)
HRA services' share of Corporate and Democratic Core Costs		560	582
Net cost for HRA Services		15,539	(18,350)
HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:			
Loss on disposal of Non-Current Assets		-	1,088
Capital Grants and Contributions Receivable	1	(100)	(787)
Interest payable and similar charges		3,128	4,347
Interest and investment income		(691)	(275)
Pensions interest cost and expected return on pensions assets		10	14
Deficit/(Surplus) for the year on HRA Services		17,886	(13,963)

Movement on the Housing Revenue Account Statement
for the year ended 31 March 2013

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

	Note	2011-2012	2012-2013
		£'000	£'000
Balance on the HRA at the end of the previous year		(10,971)	(11,955)
Deficit/(Surplus) for the year on the HRA Income and Expenditure Statement		17,886	(13,963)
Adjustments between accounting basis and funding basis under Statute	1	(18,870)	11,790
Net increase before transfers to or from reserves		(984)	(2,173)
Balance on the HRA at the end of the current year		(11,955)	(14,128)

Notes to the HRA Income and Expenditure Statement

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

	Note	2011-2012 £'000	2012-2013 £'000
Analysis of adjustments between accounting basis and funding basis			
Transfers to/(from) the Capital Adjustment Account		(9,827)	10,230
Movements in market value of investment properties		271	-
Revenue expenditure funded from capital under statute		(9,751)	-
Capital grants and contributions unapplied credited to the HRA Income and Expenditure Statement		100	787
HRA share of contributions to the Pensions Reserve		4	(2)
Transfer to/(from) Major Repairs Reserve	7	(192)	-
Capital expenditure funded by the HRA	8	525	775
		(18,870)	11,790

2. Capital Charges (Item 8 Debit and Credit)

The cost of the capital asset charge to the HRA is prescribed via the Item 8 debit and credit calculations. Depreciation and impairment of fixed assets together with debt management expenses are included in Net Cost of Services to reflect the true cost of the use of assets. Interest payable and similar charges are charged after Net Cost of Services.

With effect from 2012-2013 depreciation and impairment charges, other than valuation reductions on non-dwelling assets, are 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 £60.44 per week in 2012-2013 (£55.62 in 2011-2012), an increase of £4.82 or 8.7% compared with 2011-2012 on a 52 week basis.

4. Other Rent Income

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

	2011-2012 £'000	2012-2013 £'000
Garages	(271)	(284)
Shops	(26)	(32)
Miscellaneous	(28)	(20)
Total	(325)	(336)

5. Housing Stock

	2011-2012 No.	2012-2013 No.
Houses and Bungalows	7,212	7,139
Flats	1,330	1,325
Houses in Multiple Occupation	10	10
Total	8,552	8,474

Council Stock reduced by seventy eight dwellings in 2012-2013. There were thirty four sales under the 'Right to Buy Scheme', forty five demolitions as part of the Hodgsons Road Development and one dwelling purchased under the 'Right of First Refusal'.

6. Housing Revenue Account Fixed Assets

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Surplus Asset	Investment Properties	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross book value 1 April 2012	235,261	6,049	98	347	726	-	242,481
Reclassifications	3,957	(1,726)	-	-	-	-	2,231
Additions	7,152	8	-	-	-	1,339	8,499
Disposals	(2,259)	-	-	-	-	-	(2,259)
Revaluations	11,318	(488)	-	-	(144)	-	10,686
Other Movements in Cost or Valuation	(12,163)	-	-	-	-	-	(12,163)
Gross book value 31 March 2013	243,266	3,843	98	347	582	1,339	249,475
Depreciation at 1 April 2012	5,447	442	91	-	-	-	5,980
Charged in year	6,556	96	5	-	-	-	6,657
Disposals	-	-	-	-	-	-	-
Revaluations	-	(85)	-	-	-	-	(85)
Reclassifications	160	(160)	-	-	-	-	-
Other Movements in Cost or Valuation	(12,163)	-	-	-	-	-	(12,163)
Depreciation at 31 March 2013	-	293	96	-	-	-	389
Net book value at1 April 2012	229,814	5,607	7	347	726	-	236,501
Net book value at 31 March 2013	243,266	3,550	2	347	582	1,339	249,086

The value of Council dwellings at 31 March 2013 of £243.27 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £657.48 million. This shows that the economic cost to government of providing council housing at less than open market value is £414.21 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 the 'other land and buildings' heading is £0.94 million. Surplus Assets consists of land valued at £0.35 million, and investment properties include £0.01 million worth of land.

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Notes to the HRA Income and Expenditure Statement

7. Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve with the main credit to the reserve being an amount equivalent to the total depreciation charges for all HRA assets. Until 2011-2012, under Item 8 of Part 6 of the Local Government and Housing Act 1989, Councils were able to transfer the difference between the depreciation credit to the reserve and the Major Reserves Allowance (MRA) back to the HRA. From 2012-2013 however Councils are no longer allowed to reverse non-dwelling depreciation and are only allowed to reverse dwelling depreciation on a transitional basis until 2017-2018.

The Council has decided to no longer reverse the difference with effect from 2012-2013.The Council is able to fund HRA related capital expenditure directly from the reserve, along with any voluntary set aside to repay debt. The movement in the Major Repairs Reserve is shown below:

	2011-2012 £'000	2012-2013 £'000
Income:		
Depreciation on Fixed Assets	(5,638)	(6,657)
	(5,638)	(6,657)
Appropriations transfer from the HRA	-	-
	(5,638)	(6,657)
Expenditure:		
Capital expenditure funded from the Reserve		
Transfer to HRA	192	-
Houses	6,291	6,922
	6,483	6,922
Deficit for the year	845	265
Balance brought forward 1 April	(2,328)	(1,483)
Balance carried forward 31 March	(1,483)	(1,218)

8. HRA Capital Expenditure and Financing

	2011-2012 £'000	2012-2013 £'000
Capital Expenditure:		
Houses	19,280	8,491
Other	-	-
	19,280	8,491
Financing:		
Borrowing	12,364	-
Government Grants	100	794
Direct Revenue Financing	525	775
Major Repairs Reserve	6,291	6,922
Total	19,280	8,491

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	1,646	707	939

10. Housing Revenue Account Subsidy

Housing Subsidy is no longer received following the introduction of HRA Self-Financing on 1st April 2012.

The breakdown of the HRA Subsidy received in 2012-2013 is shown below and relates to prior year adjustments only:

	2011-2012 £'000	2012-2013 £'000
Management and maintenance	(13,531)	-
Charges for capital	(3,110)	-
Notional rent income	24,391	-
Major repairs allowance	(5,447)	-
Prior year adjustments	23	(38)
Total	2,326	(38)

The prior year adjustment relates to the variance between the audited Housing Subsidy figures for 2011-2012 and those that were included within the Statement of Accounts, due to audit adjustments made to subsidy claims after the closure of the accounts.

11. Accounting for Pensions

The net impact on the HRA as a result of IAS19 was a credit of £0.002 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 2012 £'000	%	As at 31 March 2013 £'000	%
Rents:				
Current tenants	497	2.04	423	1.6
Former tenants	302	1.24	212	0.8
Balance at 31 March	799	3.28	635	2.4

Notes to the HRA Income and Expenditure Statement

13. Provision for Impairment of Debt

The actual charge to the HRA in respect of bad debts provision and debts written off in 2012-2013 was £0.12 million. This charge relates to write-offs of rents and charges of £0.23 million, a reduction in the bad debt provision for council dwelling rents and charges of £0.10 million and a reduction in the contribution to meet the costs of doubtful debts relating to shops and miscellaneous garage sites of £0.01 million.

In 2011-2012 the actual charge to the HRA was £0.07 million. Of this, £0.01 million related to write off of rents and charges, £0.05 million to a reduction in bad debt provision and £0.01 million to the costs of doubtful debts relating to shops and miscellaneous garage sites.

The provision for bad debts at 31 March 2013 is:

	2011-2012 £'000	2012-2013 £'000
Balance at 1 April	476	427
Decrease in provision	(49)	(101)
Balance at 31 March	427	326

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 2012-2013 the Management Fee payable to Homes for Northumberland was £11.19 million (£11.03 million in 2011-2012).

Collection Fund Account
for the year ended 31 March 2013

On 1 April 2009 the County Council acquired services from the six former Northumberland Borough and District Councils under Local Government Reorganisation (LGR); 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	2011-2012 £'000	2012-2013 £'000
Income:			
Council Tax receivable		(141,217)	(142,460)
Transfers from General Fund:			
Council Tax Benefits		(23,486)	(23,851)
Income collectable from Business Ratepayers		(71,621)	(69,522)
Total Income		(236,324)	(235,833)
Expenditure:			
Precepts and demands:			
Northumberland County Council	3	149,954	150,639
Parish and Town Councils	3	4,216	5,179
Northumbria Police Authority	3	9,307	9,528
Business Rates:			
Payments to the National Pool		70,207	68,056
Costs of collection		473	472
Interest payments		56	30
Impairment of debts/appeals:			
Write off of uncollectable amounts		1,526	1,332
Contribution to the General Fund		2,300	2,600
Total Expenditure		238,039	237,836
Movement on fund balance		1,715	2,003
Opening fund balance		(4,682)	(2,967)
Closing fund balance	3	(2,967)	(964)

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 National 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 1 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.

	2011-2012	2012-2013
Council tax base (Band D equivalent @ 99% of collection rate)	109,184	109,683
Council tax (Band D property)	£1,456.40	1,456.18

Council Tax Band	Proportion	No. of Properties 2012-2013 No.	No of Band D equivalent Properties 2012-2013 No.	Council Tax Charge 2012-2013 £
A (Disabled)	5/9	-	107	808.99
A	6/9	69,914	39,547	970.79
B	7/9	22,762	15,726	1,132.58
C	8/9	18,593	14,855	1,294.38
D	9/9	14,885	13,724	1,456.18
E	11/9	9,804	11,027	1,779.78
F	13/9	6,285	8,485	2,103.37
G	15/9	3,853	6,000	2,426.97
H	18/9	484	764	2,912.36
Total		146,580	110,235	

Notes to the Collection Fund Account

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	

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 Ggovernment (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. From 1 April 2013, new national arrangements for the retention of business rates came into effect, meaning that Local Authorities will be allowed to retain a proportion of the Business Rates collected within their area. For Northumberland this will be approximately 50%.

	2011-2012	2012-2013
Rate in the pound	43.3p	45.8p
Total non-domestic rateable value per NNDR system	£200,809,764	£194,183,289

3. Precepts and Demands on the Collection Fund

The following authorities made precepts or demands on the Collection Fund in 2011-2012 and 2012-2013:

	2012-2013 Precept £'000	Share of surplus £'000	Total £'000
Northumberland County Council	150,639	908	151,547
Parish and Town Councils	5,179	-	5,179
Northumbria Police Authority	9,528	56	9,584
Total	165,346	964	166,310

Notes to the Collection Fund Account

	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

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 provision was increased in 2012-2013 by £0.37 million (2011-2012 £0.64 million increase). There were then write offs totalling £0.66 million (2011-2012 £0.22 million), resulting in a net decrease in the provision of £0.29 million leaving £6.44 million (2011-2012 £6.73 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 above 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 (dormant as at 1 July 2012 and subsequently dissolved in June 2013).

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 and its wholly owned subsidiary Northern Coalfields Property Company (now Arch (Housing) Limited).

Arch (Commercial Enterprise) Limited principal activities are to:

- Help create prosperous, attractive, sustainable communities in all parts of Northumberland.
- 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 of 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 (Developments Projects) Ltd was 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.

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 in need of regeneration.

Arch (Financial Services) Ltd was formed on the 1 April 2011; however, it has remained dormant throughout 2011-2012 and 2012-2013.

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 (Corporate Holdings) Ltd was also formed on the 1 April 2011 as the holding company of the four subsidiaries stated above. 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.

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

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

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 standard 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 twelve 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 management fee in 2012-2013 was £11.19 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

Rural Enterprise Action CIC

The principal activity of the company was 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. The company became dormant on 1 July 2012 and was subsequently dissolved in June 2013.

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 2012-2013 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.

Group Movement in Reserves Statement
for the year ended 31 March 2013

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 (Surplus)/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.

Group Movement in Reserves Statement
for the year ended 31 March 2013

	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 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:											
(Surplus)/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)	-	-	-	(713)
Adjustments between accounting basis & funding basis under regulations	(80,766)	-	(18,870)	(472)	(2,068)	845	(101,331)	101,331	973	(260)	713
Net (Increase)/Decrease before Transfers (to)/from 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 2011-2012	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)

Group Movement in Reserves Statement
for the year ended 31 March 2013

	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 31 March 2012	(22,082)	(79,732)	(11,955)	(1,510)	(18,212)	(1,483)	(134,974)	(66,760)	(2,718)	(24,574)	(229,026)
Movement in Reserves during 2012-2013:											
(Surplus)/Deficit on the provision of services	(4,635)	-	(13,963)	-	-	-	(18,598)	-	903	40	(17,655)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	51,445	-	(2,788)	48,657
Total Comprehensive Income and Expenditure	(4,635)	-	(13,963)	-	-	-	(18,598)	51,445	903	(2,748)	31,002
Adjustments Between Group Accounts and Council Accounts	-	-	-	-	-	-	-	-	-	-	-
Adjustments between accounting basis & funding basis under regulations	(4,934)	-	11,790	933	1,925	265	9,979	(9,979)	-	-	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(9,569)	-	(2,173)	933	1,925	265	(8,619)	41,466	903	(2,748)	31,002
Transfers (to)/from Earmarked Reserves	1,871	(1,871)	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2012-2013	(7,698)	(1,871)	(2,173)	933	1,925	265	(8,619)	41,466	903	(2,748)	31,002
Balance at 31 March 2013	(29,780)	(81,603)	(14,128)	(577)	(16,287)	(1,218)	(143,593)	(25,294)	(1,815)	(27,322)	(198,024)

Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2013

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.

Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2013

2012-2013 Group	Note	Council Only			Group		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Central Services to the Public		8,035	(3,017)	5,018	8,035	(3,017)	5,018
Culture and related Services		22,935	(3,137)	19,798	22,935	(796)	22,139
Environmental and Regulatory Services		47,644	(12,897)	34,747	49,497	(14,547)	34,950
Planning Services		10,882	(3,467)	7,415	10,882	(3,467)	7,415
Fire and Rescue Services		17,338	(2,731)	14,607	17,338	(2,731)	14,607
Education and children's Services		289,563	(233,386)	56,177	289,563	(233,386)	56,177
Highways and Transport Services		40,959	(10,225)	30,734	40,959	(10,225)	30,734
Local Authority Housing (HRA)		9,768	(28,118)	(18,350)	11,286	(30,310)	(19,024)
Local Authority Housing (HRA)-Settlement Payment to Government for HRA self financing		-	-	-	-	-	-
Other Housing Services		116,702	(112,829)	3,873	118,084	(115,530)	2,554
Adult Social Care		131,919	(46,357)	85,562	131,919	(46,357)	85,562
Exceptional costs of Equal Pay		(14,441)	-	(14,441)	(14,441)	-	(14,441)
Corporate and Democratic Core		13,479	(462)	13,017	13,479	(462)	13,017
Non Distributed costs		4,795	(46)	4,749	4,795	(46)	4,749
Cost Of Services		699,578	(456,672)	242,906	704,331	(460,874)	243,457
Other Operating Expenditure		40,642	(22,088)	18,554	40,642	(22,110)	18,532
Financing and Investment Income and Expenditure	18	62,598	(20,008)	42,590	62,664	(19,985)	42,679
Taxation and Non-Specific Grant Incomes	19	-	(322,648)	(322,648)	-	(322,323)	(322,323)
Deficit on Provision of Services		802,818	(821,416)	(18,598)	807,637	(825,292)	(17,655)
Tax Expenses of Associates				-			-
Group (Surplus)/Deficit				(18,598)			(17,655)
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				1,069			(1,699)
(Surplus) or Deficit on Revaluation of Available for Sale Finincial Instruments				(13,104)			(13,104)
Actuarial (Gains)/Losses on Pension Assets/Liabilities				63,480			63,460
Other Comprehensive Income and Expenditure				51,445			48,657
Total Comprehensive Income and Expenditure				32,847			31,002

Group Comprehensive Income and Expenditure Statement
for the year ended 31 March 2013

2011-2012 Group	Note	Council Only Gross Expenditure £'000	Council Only Gross Income £'000	Council Only Net Expenditure £'000	Group Gross Expenditure £'000	Group Gross Income £'000	Group Net Expenditure £'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	18	47,421	(17,564)	29,857	47,502	(17,585)	29,917
Taxation and Non-Specific Grant Incomes	19	-	(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 Balance Sheet
as at 31 March 2013

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

Group Balance Sheet
as at 31 March 2013

	Note	31 March 2012 Council Only £'000	31 March 2012 Group £'000	31 March 2013 Council Only £'000	31 March 2013 Group £'000
Property, Plant & Equipment	1	1,180,021	1,186,244	1,171,977	1,193,518
Investment Property	2	13,462	47,605	2,354	41,129
Intangible Assets		580	580	791	791
Heritage Assets		8,216	8,216	8,210	8,210
Assets Held for Sale		640	640	420	420
Long-Term Investments		112,667	112,667	113,356	110,016
Long-Term Debtors		10,431	10,431	37,704	21,327
Long-Term Assets		1,326,017	1,366,383	1,334,812	1,375,411
Short Term Investments		123,973	123,973	171,417	171,417
Inventories		1,128	1,353	623	849
Short-Term Debtors	7	59,689	59,424	63,558	62,432
Cash and Cash Equivalents	3	77,014	78,332	46,486	49,107
Taxation		-	28	-	1
Intangible Assets		-	-	19	18
Assets Held for Sale		9,154	9,154	4,030	4,031
Current Assets		270,958	272,264	286,133	287,855
Cash and Cash Equivalents	3	(17,970)	(17,970)	(26,318)	(26,318)
Short-Term Borrowing	16	(90,568)	(90,950)	(56,638)	(56,949)
Short-Term Creditors	8	(63,296)	(63,997)	(52,494)	(53,483)
Provisions		(42,852)	(42,852)	(25,795)	(25,795)
Revenue Grants Receipts in Advance		-	-	(416)	(416)
Corporation tax liability		-	(19)	-	(298)
Current Liabilities		(214,686)	(215,788)	(161,661)	(163,259)
Long-Term Creditors		(86,669)	(86,686)	(85,021)	(85,034)
Long-Term Borrowing	17	(451,217)	(456,108)	(499,760)	(502,943)
Other Long-Term Liabilities	15	(631,720)	(640,090)	(699,680)	(708,070)
Capital Grants Receipts in Advance		(10,949)	(10,949)	(5,936)	(5,936)
Long-Term Liabilities		(1,180,555)	(1,193,833)	(1,290,397)	(1,301,983)
Net Assets		201,734	229,026	168,887	198,024
Usable Reserves		134,974	137,692	143,593	145,409
Unusable Reserves	9	66,760	91,334	25,294	52,615
Total Reserves		201,734	229,026	168,887	198,024

Group Cash Flow Statement

for the year ended 31 March 2013

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 2012		31 March 2013	
		Council Only	Group	Council Only	Group
		£'000	£'000	£'000	£'000
Net surplus or (deficit) on the provision of services		(93,562)	(94,276)	18,598	17,633
Adjustments to net surplus or deficit on the provision of services for non-cash movements		171,192	171,744	42,309	44,910
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(74,737)	(74,737)	(57,761)	(58,262)
Net cash flows from Operating Activities		2,893	2,731	3,146	4,281
Investing Activities	5	(203,798)	(203,509)	(49,946)	(49,776)
Financing Activities	6	207,707	207,434	7,924	7,924
Net increase or decrease in cash and cash equivalents		6,802	6,656	(38,876)	(37,571)
Cash and cash equivalents at the beginning of the reporting period		52,242	53,705	59,044	60,361
Cash and cash equivalents at the end of the reporting period	3	59,044	60,361	20,168	22,790

Notes to the Group Financial Statements

Accounting Policies

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

Capital Expenditure

There is no de-minimis level for capital expenditure for 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

Movements in 2012-2013:	Council Only									Subsidiaries		Group
	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 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
Additions	7,152	9,971	7,283	11,597	11	(11)	12,577	48,580	1,725	15,426	95	64,101
Reclassifications	3,957	(4,929)	1,034	5,849	3	3,650	(9,584)	(20)	20	-	-	(20)
Impairment	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(2,106)	-	-	-	52	-	(2,054)	-	-	-	(2,054)
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	11,318	(13,217)	-	-	-	(215)	-	(2,114)	-	-	-	(2,114)
De-recognition - Disposals	(2,259)	(4,794)	(2,803)	-	(405)	(1,525)	(1,983)	(13,769)	-	(1)	-	(13,770)
De-recognition - Other	-	(6,024)	-	-	-	(408)	-	(6,432)	-	-	-	(6,432)
Assets reclassified (to)/from Held for Sale	-	228	-	-	-	42	-	270	-	-	-	270
Other movements in Cost or Valuation	(12,163)	-	-	-	-	-	-	(12,163)	-	-	-	(12,163)
At 31 March 2013	243,266	546,429	124,848	354,789	10,488	13,783	23,291	1,316,894	91,391	21,353	919	1,339,166

Movements in 2012-2013:	Council Only									Subsidiaries		Group
	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
Accumulated Depreciation and Impairment:												
At 1 April 2012	5,447	18,620	25,272	73,571	1,384	281	-	124,575	9,708	78	451	125,104
Depreciation charge	6,556	14,997	6,856	9,672	153	163	-	38,397	3,387	77	125	38,599
Reclassifications	160	(302)	-	-	-	142	-	-	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	(985)	-	-	-	-	-	(985)	-	-	-	(985)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	(1,511)	-	-	-	(43)	-	(1,554)	-	-	-	(1,554)
De-recognition - Disposals	-	(168)	(2,602)	-	(109)	(63)	-	(2,942)	-	-	-	(2,942)
De-recognition – Other	-	(410)	-	-	-	(1)	-	(411)	-	-	-	(411)
Other movements in depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(12,163)	-	-	-	-	-	-	(12,163)	-	-	-	(12,163)
At 31 March 2013	-	30,241	29,526	83,243	1,428	479	-	144,917	13,095	155	576	145,648
Net Book Value:												
At 31 March 2013	243,266	516,188	95,322	271,546	9,060	13,304	23,291	1,171,977	78,296	21,198	343	1,193,518
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

Notes to the Group Financial Statements

Movements in 2011-2012:					Council Only					Subsidiaries		Group
	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

Notes to the Group Financial Statements

Movements in 2011-2012:	Council Only									Subsidiaries		Group
	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
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	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

Notes to the Group Financial Statements

2. Investment Property

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

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Balance at start of the year	15,575	54,417	13,462	47,605
Additions	-	429	-	2,002
Reclassifications	877	877	-	-
Assets reclassified (to)/from held for sale	75	75	-	-
Disposals	(364)	(364)	(10,885)	(10,885)
Net (losses)/gains from fair value adjustments	(2,701)	(7,829)	(223)	2,407
Balance at end of the year	13,462	47,605	2,354	41,129

Dwelling stock within Arch (Housing) Limited (formerly 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:

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Cash held by the Council	77,014	77,014	46,486	46,486
Cash overdrawn within the Council	(17,970)	(14,051)	(26,318)	(23,275)
Cash Held by Homes for Northumberland	-	(3,919)	-	(3,043)
Cash Held by subsidiaries	-	1,317	-	2,621
Total Cash and Cash Equivalents	59,044	60,361	20,168	22,789

4. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Interest received	(4,701)	(4,722)	(6,741)	(6,741)
Interest paid	23,445	23,526	26,147	26,216

Notes to the Group Financial Statements

5. Group Cash Flow Statement – Investing Activities

	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Purchase of property, plant and equipment, investment property and intangible assets	(81,474)	(81,935)	(49,884)	(63,972)
Purchase of short-term and long-term investments	(388,250)	(388,250)	(155,635)	(155,635)
Other payments for investing activities	(2,322)	(2,322)	(26,132)	(11,874)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	8,167	8,167	21,852	21,852
Proceeds from short-term and long-term investments	214,393	215,143	122,361	122,361
Other receipts from investing activities	45,688	45,688	37,492	37,492
Net cash flows from investing activities	(203,798)	(203,509)	(49,946)	(49,776)

6. Group Cash Flow Statement – Financing Activities

	2011-2012		2012-2013	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Cash receipts of short-term and long-term borrowing	309,561	309,561	109,794	109,794
Billing Authorities Council Tax and NNDR Adjustment	-	-	(4,109)	(4,109)
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	(1,457)	(1,457)	(2,535)	(2,535)
Repayments of short- and long-term borrowing	(106,206)	(106,479)	(95,226)	(95,226)
Net cash flows from financing activities	207,707	207,434	7,924	7,924

7. Group Short Term Debtors

	2011-2012		2012-2013	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Central government bodies	12,416	12,416	16,680	16,680
Other local authorities	4,960	4,960	9,270	9,270
NHS bodies	2,149	2,149	4,230	4,230
Public corporations and trading funds	387	387	615	615
Other entities and individuals	39,777	39,512	32,763	31,637
Total Short Term Debtors	59,689	59,424	63,558	62,432

Notes to the Group Financial Statements

8. Group Short Term Creditors

	2011-2012 Council Only £'000	2011-2012 Group £'000	2012-2013 Council Only £'000	2012-2013 Group £'000
Central government bodies	(9,461)	(9,461)	(7,910)	(7,910)
Other local authorities	(2,325)	(2,325)	(991)	(991)
NHS bodies	(4,522)	(4,522)	(1,630)	(1,630)
Public corporations and trading funds	(3,572)	(3,572)	(216)	(216)
Other entities and individuals	(43,416)	(44,117)	(41,747)	(42,736)
Total Short Term Creditors	(63,296)	(63,997)	(52,494)	(53,483)

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.

		2011-2012 Council Only £'000	2011-2012 Group £'000	2012-2013 Council Only £'000	2012-2013 Group £'000
Revaluation Reserve		168,470	201,413	157,291	193,002
Pensions Reserve		(631,720)	(640,090)	(699,680)	(708,070)
Capital Adjustment Account	*	536,656	536,656	556,585	556,585
Deferred Capital Receipts Reserve	*	1,047	1,047	2,617	2,617
Financial Instruments Adjustment Account	*	2,382	2,382	1,711	1,711
Collection Fund Adjustment Account	*	2,797	2,797	908	908
Unequal Pay Back Pay Account	*	(180)	(180)	-	-
Accumulated Absences Adjustment Account	*	(12,692)	(12,692)	(7,242)	(7,242)
Available for Sale Financial Instruments Account	*	-	-	13,104	13,104
		66,760	91,333	25,294	52,615

* 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.

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Balance at 1 April	161,228	161,228	168,470	168,470
Amounts held in Subsidiaries	-	36,369	-	32,943
Restated balance 1 April	161,228	197,597	168,470	201,413
Upward revaluation of assets	36,493	37,943	1,205	1,205
(Downward)/upward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(20,186)	(25,062)	(2,274)	494
Difference between fair value depreciation and historical cost depreciation	(3,622)	(3,622)	(3,413)	(3,413)
Accumulated gains on assets sold or scrapped	(5,169)	(5,169)	(6,697)	(6,697)
Amount written off to the Capital Adjustment Account	(274)	(274)	-	-
Balance at 31 March	168,470	201,413	157,291	193,002

Notes to the Group Financial Statements

Pensions Reserve

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

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Balance brought forward 1 April	(514,660)	(520,720)	(631,720)	(640,090)
Actuarial gains or losses on pensions assets and liabilities	(117,160)	(119,730)	(63,480)	(63,460)
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	(41,420)	(42,210)	(41,140)	(42,380)
Employer's pensions contributions and direct payments to pensioners payable in the year	41,520	42,570	36,660	37,860
Restatement regarding Fire ill health and non scheme ill health pensioners (see note 2 to the financial statements)	-	-	-	-
Balance at 31 March	(631,720)	(640,090)	(699,680)	(708,070)

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.

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Authorised:				
500 ordinary shares of £1 each – Wansbeck Life	-	-	-	-
500 voting shares of £1 each – Wansbeck Life	-	-	-	-
200 ordinary shares of £1 each – Northern Coalfields Property Company	-	-	-	-
250 voting shares of £1 each	-	-	-	-
3,340,702 ordinary shares	-	1	-	3,341
Total authorised share capital	-	1	-	3,341

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Allotted, called up and fully paid:				
99 Ordinary shares of £1 each	-	-	-	-
175 (200 2009-2010) Voting shares of £1 each	-	-	-	-
100 Ordinary shares of £1 each	-	-	-	-
3,340,702 ordinary £1 shares	-	1	-	1
100 Ordinary shares of £1 each	-	-	-	-
Total allotted, called up and fully paid	-	1	-	1

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 (now Arch (Housing) 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.

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	Council Total	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	12,134	83,231	9,060	1,648	24	106,097	15,427	95	121,619
Valued at Current Value in:							-			-
2008-2009	-	14,702	-	-	-	-	14,702	-	-	14,702
2009-2010	-	34,319	12,091	-	5,797	7,727	59,934	-	-	59,934
2010-2011	-	36,224	-	-	-	2,581	38,805	1,643	247	40,695
2011-2012	-	397,708	-	-	765	2,254	400,727	4,128	-	404,855
2012-2013	243,266	21,101	-	-	-	718	265,085	-	-	265,085
Total	243,266	516,188	95,322	9,060	8,210	13,304	885,350	21,198	342	906,890

Notes to the Group Financial Statements

13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Provision brought Forward	-	17	-	13
Adjustment in respect of previous year	-	-	-	1
Profit and Loss account movement arising during the year	-	(4)	-	(1)
Provision to Carry forward	-	13	-	13

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

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Excess of taxation allowances over depreciation on fixed assets	-	13	-	13

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

The payment of dividend has historically been restricted between Northern Coalfields Property Company Ltd (now Arch (Housing) Limited) to Wansbeck Life (now Arch (Commercial Enterprises) Limited). 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 have been made since 2009-2010.

Arch (Housing) Limited also provides for a payment to Arch (Commercial Enterprises) Limited in relation to tax losses that are to be surrendered by Arch (Commercial Enterprises) Limited.

15. 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:

	LGPS £m	Homes for N'land £m	Group Total £m
2012-13			
Comprehensive Income and Expenditure Statement:			
Cost of Services:			
Current service cost	(24.65)	(0.86)	(25.51)
Past service cost	(1.10)	(0.37)	(1.47)
Gain/(loss) on settlement or curtailment	-	-	-
Financing and Investment Income and Expenditure:			
Interest cost	(61.38)	(1.37)	(62.75)
Expected return on scheme assets	45.99	1.36	47.35
Total post employment benefit charged to the deficit on the provision of services	(41.14)	(1.24)	(42.38)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
Actuarial gains and losses	(63.48)	0.02	(63.46)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(104.62)	(1.22)	(105.84)
Statement of Movement on the General Fund Balance:			
Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	104.62	1.22	105.84
Actual amount charged against the General Fund Balance for pensions in the year:			
Employer's contributions payable to the scheme	(26.65)	(1.20)	(27.85)
Net retirement benefits payable to pensioners	(10.01)	-	(10.01)

Notes to the Group Financial Statements

	LGPS £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 the provision of services	(35.67)	(0.79)	(36.46)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
Actuarial gains and losses	(117.16)	(2.57)	(119.73)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(152.83)	(3.36)	(156.19)
Statement of Movement on the General Fund Balance:			
Reversal of net charges made to the deficit for the provision of services for post employment benefits in accordance with the Code	152.83	3.36	156.19
Actual amount charged against the General Fund Balance for pensions in the year:			
Employer's contributions payable to the scheme	(26.98)	(0.87)	(27.85)
Net retirement benefits payable to pensioners	(8.79)	-	(8.79)

Notes to the Group Financial Statements

Assets and Liabilities in Relation to Post-Employment Benefits

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

	LGPS £m	Homes for N'land £m	Group Total £m
Opening balance as at 1 April 2012	(1,312.20)	(27.99)	(1,340.19)
Current service cost	(24.65)	(0.86)	(25.51)
Interest cost	(61.38)	(1.37)	(62.75)
Contributions by scheme participants	(7.29)	(0.27)	(7.56)
Actuarial (gains)/losses on liabilities	(112.55)	(1.44)	(113.99)
Net benefits paid out	42.41	0.19	42.60
Business Combinations	-	-	-
Settlements	-	-	-
Past service cost	(1.10)	(0.37)	(1.47)
Closing balance as at 31 March 2013	(1,476.76)	(32.11)	(1,508.87)
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)

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

	2011-2012		2012-2013	
	LGPS £m	Homes for N'land £m	LGPS £m	Homes for N'land £m
Opening balance as at 1 April	645.70	18.29	680.48	19.62
Expected return on assets	46.81	1.31	45.99	1.36
Actuarial gains/(losses) on assets	(14.69)	(0.42)	49.07	1.46
Contributions by the employer	26.98	0.87	26.65	1.20
Contributions by participants	6.59	0.29	6.60	0.27
Business combinations	0.54	-	-	-
Settlements	(1.28)	(0.54)	-	-
Net benefits paid out	(30.17)	(0.18)	(31.71)	(0.19)
Closing balance as at 31 March	680.48	19.62	777.08	23.72

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 £97.88 million (£33.01 million in 2011-2012).

Scheme History

	LGPS	Homes for N'land	Group Total
	£m	£m	£m
As at 31 March 2013			
Fair value of assets	777.08	23.72	800.80
Present value of liabilities	(1,476.76)	(32.11)	(1,508.87)
Surplus/(deficit)	(699.68)	(8.39)	(708.07)
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)

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 £708.07 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 £198.02 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 N'land
As at 31 March 2013		
Long term expected rate of return on assets in the scheme:		
Equities	7.8%	7.8%
Property	7.3%	7.3%
Government bonds	2.8%	2.8%
Corporate bonds	3.8%	3.8%
Cash	0.9%	0.9%
Other	7.8%	7.8%
Total	6.6%	6.6%
Mortality assumptions:		
Longevity at age 65 for current pensioners:		
Men	22.5	22.5
Women	24.7	24.7
Longevity at age 65 for future pensioners:		
Men	24.3	24.3
Women	26.6	26.6
Rate of inflation - RPI	3.6%	3.7%
Rate of inflation - CPI	2.7%	2.8%
Rate of general long term increase in salaries*	4.6%	4.7%
Rate of increase to pensions in payment**	2.7%	2.8%
Rate of increase to deferred pensions	2.7%	2.8%
Discount rate	4.3%	4.6%
Commutation:		
% take up of the maximum amount permitted to convert annual pension into retirement		
Pre 1 April 2010 pension rights	50.0%	50.0%
Post 1 April 2010 pension rights	75.0%	75.0%
NFPS members that commute 25% of their pension	-	-
FPS members that commute 25% of their pension	-	-

	LGPS	Homes for N'land
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%	7.8%
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		
Pre 1 April 2010 pension rights	50.0%	50.0%
Post 1 April 2010 pension rights	75.0%	75.0%
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 2013.

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

	2011-2012 LGPS	2011-2012 Homes for N'land	2012-2013 LGPS	2012-2013 Homes for N'land
	%	%	%	%
Equities	69.6	69.6	68.7	68.7
Property	5.0	5.0	4.4	4.4
Government bonds	14.0	14.0	15.4	15.4
Corporate bonds	10.6	10.6	10.1	10.1
Cash/other	0.8	0.8	1.4	1.4
Total	100.0	100.0	100.0	100.0

History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012-2013 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	LGPS £m	LGPS %	Homes for Northumberland £m	Homes for Northumberland %	Group Total £m
2012-2013					
Differences between expected and actual return on assets	48.07	6.30	1.46	6.20	49.53
Experience gains/(losses) on liabilities	2.05	0.10	0.02	0.01	2.07
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)

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

16. Group Short Term Borrowing

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

	2011-2012 Council Only	2011-2012 Group	2012-2013 Council Only	2012-2013 Group
	£'000	£'000	£'000	£'000
Borrowings:				
Financial liabilities at amortised cost	(86,216)	(86,521)	(52,242)	(52,553)
Add: Accrued Interest	(4,366)	(4,443)	(4,411)	(4,411)
Add: Amortised premiums/(discounts)	14	14	15	15
Total Borrowings	(90,568)	(90,950)	(56,638)	(56,949)

Notes to the Group Financial Statements

17. Group Long Term Borrowing

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

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Analysis by Loan Type:				
Public Works Loans Board	212,444	212,444	203,852	203,852
Other Market Loans	5,173	10,064	35,308	38,491
LOBO (Market Loans)	233,600	233,600	260,600	260,600
	451,217	456,108	499,760	502,943
Analysis of Loans by Maturity:				
Less than 1 year	-	-	-	-
Between 1 and 2 years	13,707	13,707	38,844	38,844
Between 2 and 5 years	36,775	36,775	56,602	56,602
Between 5 and 10 years	92,538	92,538	70,359	70,359
Between 10 and 20 years	29,474	32,980	27,798	30,981
Between 20 and 30 years	60	60	9,485	9,485
Between 30 and 40 years	40,937	40,937	45,072	45,072
Between 40 and 50 years	66,126	67,511	80,000	80,000
Between 50 and 60 years	40,600	40,600	40,600	40,600
In excess of 60 years	131,000	131,000	131,000	131,000
	451,217	456,108	499,760	502,943

18. Finance and Investment Income and Expenditure

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Interest payable and similar charges	15,808	15,889	25,980	26,069
Pensions interest cost and expected return on pensions assets	16,870	16,870	15,390	15,390
Interest receivable and similar income	(4,010)	(4,031)	(8,357)	(8,358)
(Surplus)/Deficit on trading undertakings	(787)	(787)	9,403	9,403
Income and expenditure in relation to investment properties and changes in their fair value	1,976	1,976	174	174
Total Financing and Investment Income and Expenditure	29,857	29,917	42,590	42,679

19. Taxation and Non-Specific Grant Incomes

	2011-2012		2012-2013	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Council tax income	(154,855)	(154,855)	(156,530)	(156,530)
Non domestic rates	(98,586)	(98,586)	(119,571)	(119,571)
Non-ring fenced government grants	(35,326)	(35,326)	(10,849)	(10,849)
Capital grants and contributions	(59,916)	(59,916)	(35,698)	(35,698)
Tax on profit on ordinary activities	-	-	-	325
Total Financing and Investment Income and Expenditure	(348,683)	(348,683)	(322,648)	(322,323)

Pension Fund Accounts
for the year ended 31 March 2013

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 24 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's investments is delegated to the external investment managers.

Matters relating to benefit administration are largely governed by the Local Government Pension Scheme regulations.

The County Council uses the services of The WM Company to independently measure the performance of the investment assets. Performance is measured against the Fund's tailored benchmark.

The total market value of the Fund's net assets has increased from £802.38 million to £914.42 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 £111.18 million experienced during 2012-2013, reflecting the positive return on investments experienced by funds generally over that period.

The overall annual return on the Fund was 14.0% for the year (5.3% in 2011-2012), which compares with the Fund specific benchmark annual return of 14.2%.

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 2013 was 9.7%, which compares with the benchmark annualised return of 9.9%. Fund returns for the ten-year period were higher than the growth in average earnings and RPI/CPI increases.

There was one major change in the management of the Fund during 2012-2013, namely, in May 2012 the Fund began making capital payments to fund the commitment to Global Infrastructure Partners' GIP Fund II LP, an infrastructure fund.

Pension Fund Accounts
for the year ended 31 March 2013

Membership of the Fund at 31 March 2013 is summarised below:

	31 March 2012	31 March 2013
Active members	7,847	7,739
Pensioner members	7,304	7,441
Deferred members	7,310	7,460
	22,461	22,640

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 2013.

Pension Fund Accounts
for the year ended 31 March 2013

	Note	2011-2012 £'000	2012-2013 £'000
Contributions and benefits			
Contributions	5	42,455	42,955
Transfers in from other pension funds	6	3,455	3,631
		45,910	46,586
Benefits	7	(42,828)	(42,862)
Payments to and on account of leavers	8	(2,717)	(1,982)
Administrative expenses	9	(1,003)	(983)
		(46,548)	(45,827)
Net additions/(withdrawals) from dealings with members		(638)	759
Returns on investments			
Investment income	10	2,845	2,153
Taxes on income		(29)	-
Profit and losses on disposal of investments and changes in the market value of investments	11	39,110	111,182
Investment management expenses	12	(1,460)	(2,047)
Net returns on investments		40,466	111,288
Net increase in net assets available for benefits during the year		39,828	112,047
Net assets of the Fund at 1 April		762,547	802,375
At 31 March		802,375	914,422

Pension Fund – Net Assets Statement
as at 31 March 2013

	Note	31 March 2012 £'000	31 March 2013 £'000
UK Investments			
Pooled Investment Vehicles			
Property		39,869	38,546
Equity		291,598	317,934
Index Linked		112,948	145,968
Ventures and Partnerships		34	25
Overseas Investments			
Quoted			
Other Fixed Interest		85,842	91,694
Pooled Investment Vehicles			
Equity		210,621	250,433
Ventures and Partnerships		58,907	67,675
	11	799,819	912,275
Other Investment Balances	11	1,506	725
	11	801,325	913,000
Cash Deposits		4,584	8,007
Current Assets	13	583	1,351
Current Liabilities	14	(4,117)	(7,936)
Net Assets of the Fund at 31 March	15	802,375	914,422

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) shown on page 214 and at Appendix 2 to the Statement of Accounts and these accounts should be read in conjunction with that.

Pension Fund – Notes to the Financial Statements

1. 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.

Note 47 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 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 2013;

(2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2013;

(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.

- *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 2013 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 2013 are credited to the Fund.

- *Investment transactions*

Investment transactions arising up to 31 March 2013 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 2013 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 2013 which provide evidence of conditions that existed as at 31 March 2013 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2013 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 2 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 and infrastructure investments

Private equity and infrastructure 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 2, 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 2 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 2013 and Appendix 2 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 and infrastructure investments disclosed in the accounts amount to £67.70 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 8.9%. This equates to a tolerance of +/- £6.03 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 £112.00 million. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately £12.00 million. A one year increase in assumed life expectancy would increase the pension liability by approximately £37.00 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.

Pension Fund – Notes to the Financial Statements

5. Contributions

	2011-2012 £'000	2012-2013 £'000
Employers' normal contributions		
Administering authority	15,425	15,343
Scheduled bodies	2,473	3,050
Admitted bodies	2,455	2,446
Employers' other contributions		
Deficit Funding	11,956	12,139
Strain on the Fund following early retirement	1,944	1,689
Augmentation of service	15	-
Members		
Normal	8,187	8,288
	42,455	42,955

6. Transfers in from other pension funds

	2011-2012 £'000	2012-2013 £'000
Group transfers in from other schemes	239	-
Individual transfers in from other schemes	3,216	3,631
	3,455	3,631

7. Benefits

	2011-2012 £'000	2012-2013 £'000
Pensions		
Administering authority	31,379	33,075
Scheduled bodies	1,446	1,733
Admitted bodies	1,250	1,412
Commutation of pensions and lump sum retirement benefits	8,036	5,962
Lump sum death benefits	717	680
	42,828	42,862

8. Payments to and on account of leavers

	2011-2012 £'000	2012-2013 £'000
Refunds to members leaving service	1	-
Individual transfers to other schemes	2,718	1,980
Net payments/(repayments) for members joining state scheme	(2)	2
	2,717	1,982

9. Administrative expenses

	2011-2012 £'000	2012-2013 £'000
Administration and processing	654	719
Actuarial and advisory fees	254	190
Audit fee	34	22
Other	61	52
	1,003	983

10. Investment income

	2011-2012 £'000	2012-2013 £'000
Dividends from equities	821	2
Income from pooled investment vehicles	2,016	1,933
Income from ventures and partnerships	-	161
Net interest on cash deposits	(11)	30
Other	19	27
	2,845	2,153

11. Investments

	Value at 1 April 2012 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 31 March 2013 £'000
Actively managed investments	271,014	10,353	(11,579)	29,907	299,695
Passively managed investments	528,805	49,942	(47,427)	81,260	612,580
	799,819	60,295	(59,006)	111,167	912,275
Other investment balances	1,506	-	-	15	725
Total	801,325	-	-	111,182	913,000

	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

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 £nil (£0.07million in 2011-2012) 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.

Other Investment Balances

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Outstanding dividends, tax and other investment income	627	520
Cash deposits	879	205
	1,506	725

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 2012 £'000	As at 31 March 2013 £'000
Contributions due from employers in respect of		
Employers	326	814
Members	59	272
Strain on the Fund contributions due from employers	91	214
Retirement grants prepaid	107	49
Other	-	2
	583	1,351

These can be further analysed as follows:

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Central government bodies	28	147
Other local authorities	47	650
NHS bodies	58	66
Bodies external to general government	450	488
	583	1,351

14. Current Liabilities

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Due to Northumberland County Council	(3,558)	(7,399)
Retirement/death grants due	(235)	(166)
Investment management and custodial fees due	(163)	(189)
Other	(161)	(182)
	(4,117)	(7,936)

These can be further analysed as follows:

	As at 31 March 2012 £'000	As at 31 March 2013 £'000
Other local authorities	(3,558)	(7,399)
NHS Bodies	(4)	-
Bodies external to general government	(555)	(537)
	(4,117)	(7,936)

15. Analysis of Investments

The total market value of the Fund as at 31 March 2013 was £914.42 million (£802.38 million as at 31 March 2012), which can be analysed as follows:

	As at 31 March 2012 £m	%	As at 31 March 2013 £m
UK and overseas equities	502.22	62.2	568.37
Fixed interest and index linked	198.79	26.0	237.66
Property unit trusts	39.87	4.2	38.55
Ventures and partnerships	58.94	7.4	67.70
Other investment balances	1.51	0.1	0.72
Cash deposits and net current assets	1.05	0.1	1.42
	802.38	100.0	914.42

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

	As at 31 March 2012 £m	%	As at 31 March 2013 £m
United Kingdom	291.60	55.9	317.93
Europe	55.89	10.9	61.89
North America	56.33	11.4	64.81
Japan	26.71	5.9	33.72
Pacific	17.01	5.5	31.11
Other	54.68	10.4	58.91
	502.22	100.0	568.37

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

	As at 31 March 2012 £m	%	As at 31 March 2013 £m
Basic materials	5.51	1.0	3.17
Consumer goods	8.85	4.4	13.83
Consumer services	13.79	4.2	13.40
Financials	9.45	5.3	16.70
Health care	10.50	4.5	14.40
Industrials	17.46	5.8	18.58
Oil and gas	7.93	2.7	8.60
Technology	10.27	3.2	10.25
Utilities	2.71	0.6	1.96
Other (including managed funds)	205.13	68.3	217.04
	291.60	100.0	317.93

Fund Value and Proportions

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

	As at 31 March 2012 £m	%	As at 31 March 2013 £m
Legal & General Investment Management	529.09	67.1	612.59
M&G Investment Management	86.36	11.1	101.76
Wellington Management International	85.85	10.0	91.70
Morgan Stanley (private equity)	44.93	5.1	46.31
NB Alternatives (private equity)	14.40	1.6	14.18
Schroder Investment Management	20.01	2.1	19.16
BlackRock	20.59	2.2	20.10
GIP (infrastructure)	0.10	0.8	7.20
	801.33	100.0	913.00

Net current liabilities (net of cash deposits) of £1.42 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 2013, 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:

- £108.14 million (11.8%) in the UK Equity Index Fund and £73.00 million (8.0%) 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.

- £101.75 million (11.1%) in the Global Leaders Fund managed by M&G Investment Management.
- £67.97 million (7.4%) in the Sterling Core Bond Plus Portfolio managed by Wellington Management International.

17. 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 2012-2013 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 2012-2013 to AVC investments were £0.31 million (£0.27 million in 2011-2012) to Prudential, £110 (£129 in 2011-2012) to Equitable Life, and £3,919 (£4,990 in 2011-2012) to Phoenix Life Limited.

As at 31 March 2013, the aggregate value of the AVC investments with Prudential was £1.85 million (£1.71 million as at 31 March 2012), with Equitable Life was £0.05 million (£0.05 million as at 31 March 2012), and with Phoenix Life Limited was £0.04 million (£0.06 million as at 31 March 2012).

18. Related party transactions

Northumberland County Council administers the Pension Fund. During 2012-2013 the Pension Fund had an average balance of £1.94 million loaned to the Council for which it received interest of £0.03 million (and an average balance of £1.93 million borrowed from the Council during 2011-2012 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 2012-2013 these costs amounted to £0.63 million (£0.58 million in 2011-2012). £7.40 million was due to the Council at 31 March 2013 (£3.56 million at 31 March 2012).

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. Four voting Panel members were members of the Scheme as at 31 March 2013 (five as at 31 March 2012).

19. 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, with the option to commute pension for lump sum, and a guaranteed pension based on final salary upon retirement.

Local authority employees other than those aged over 75, those on contracts of less than three months who have not elected to join, teachers and fire-fighters, 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 2013 is shown in note 24.

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 Northumberland County Council Pension Fund under the LGPS 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 2013 there were five external fund managers, namely Legal & General Investment Management, M&G Investment Management, Wellington Management International, BlackRock, and Schroder Investment Management.

As at 31 March 2013 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Capital North East, and an infrastructure investment with Global Infrastructure Partners.

The Northern Trust Company provides custodial services for the Fund.

20. 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.

21. Outstanding commitments

As at 31 March 2013 the Fund had outstanding commitments to four private equity investments.

	Initial commitment	Capital Payments Made	Outstanding commitment as at 31 March 2013	
	$m	$m	$m	£m
Morgan Stanley Private Markets III	50.00	45.64	4.36	2.87
Morgan Stanley GDO Fund	10.00	8.80	1.20	0.79
NB Crossroads Fund XVIII	27.00	22.41	4.59	3.02
Morgan Stanley Private Markets IV	30.00	21.38	8.62	5.70
Global Infrastructure Partners II-C	43.00	8.75	34.25	22.55
Total outstanding commitments				34.93

Outstanding capital commitments totalled £34.93 million as at 31 March 2013 (£13.38 million as at 31 March 2012). Capital is payable by the Fund to these private equity and infrastructure 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 2013 was three years for Morgan Stanley Private Markets Fund III and Morgan Stanley GDO Fund, four years for NB Crossroads Fund XVIII and Morgan Stanley Private Markets Fund IV, and ten years for Global Infrastructure Partners Fund II-C.

22. 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 2013		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial assets at fair value through profit and loss	844,575	67,700	912,275
Loans and receivables	10,083	-	10,083
Financial liabilities at amortised cost	(7,936)	-	(7,936)
Net financial assets	846,722	67,700	914,422

	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

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 and infrastructure investments classified as level 3 which are based on the valuations provided by the general partners to the funds invested in. Private equity and infrastructure investments are categorised as “ventures and partnerships” in the Net Assets Statement.

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

	2011-2012	2012-2013
	£'000	£'000
Financial assets at fair value through profit and loss	39,148	111,167
Loans and receivables	(38)	15
Total net gains on financial instuments	39,110	111,182

23. 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 on page 214 and Appendix 2 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 2013. 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, which totalled £612.59 million as at 31 March 2013, can be realised at short notice and at minimal cost. In four out of the last ten years the Fund has experienced net withdrawals from dealings with members, with the maximum withdrawal in a single year being £2.19 million.

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/infrastructure 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 21 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 2013	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
UK equities	317,934	13.4	360,410	275,458
Overseas equities	250,433	12.7	282,188	218,678
Index linked	145,968	8.4	158,186	133,750
Other fixed interest	91,694	6.0	97,205	86,183
Property	38,546	1.2	39,009	38,083
Ventures and partnerships	67,700	8.9	73,725	61,675
Other investment balances	725	0.0	725	725
Total investment assets	913,000	8.5	990,331	835,669

The percentage change for total investment assets as at 31 March 2013 includes the impact of correlation across asset classes, so the value on increase and decrease amounts do not sum to the total investment assets shown above.

	As at 31 March 2012	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'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	0.0	1,506	1,506
Total investment assets	801,325		906,127	696,523

The percentage change for total investment assets as at 31 March 2012 does not include the impact of correlation across asset classes.

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, for 31 March 2012 only, 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 2013	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
	£'000	£'000	£'000
Index linked	145,968	176,855	115,081
Other fixed interest	91,694	97,065	86,322
Total fixed interest investments	237,662	273,920	201,403

	As at 31 March 2012	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
	£'000	£'000	£'000
Index linked	112,948	135,312	90,584
Other fixed interest	85,842	91,397	80,287
Total fixed interest investments	198,790	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 2013 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Equities :				
Europe	61,894	7.2	66,332	57,456
North America	64,808	8.3	70,187	59,429
Japan	33,716	11.8	37,684	29,748
Pacific	31,109	6.3	33,072	29,146
Other	58,906	6.4	62,694	55,118
Other fixed interest	91,694	5.3	96,575	86,816
Ventures and partnerships	67,675	8.7	73,590	61,760
Total overseas investments	409,802	5.6	432,754	386,850

The percentage change for total overseas investments as at 31 March 2013 includes the impact of correlation across currencies, so the value on increase and decrease amounts do not sum to the total overseas investments shown above.

	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

The percentage change for total overseas investments as at 31 March 2012 does not include the impact of correlation across currencies.

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, for 31 March 2012 only, ignores the effect of diversification on the value on increase/decrease at total overseas investments level.

24. Fund membership as at 31 March 2013

	Active members	Pensioner members	Deferred members
Northumberland County Council			
Employees	6,162	6,791	6,578
Councillors	25	4	10
Local Government Pension Scheme Employers (known as "Scheduled Bodies")			
Amble Joint Burial Committee	-	1	-
Ashington Education Achievement Zone	-	-	3
Bede Academy	82	7	18
Berwick Academy	47	1	-
Blyth Valley & Wansbeck Joint Crematorium Committee	-	8	1
Choppington Parish Council	2	-	-
Corbridge Parish Council	2	-	-
Cramlington Learning Village Academy	78	1	2
Hexham Town Council	5	4	-
Homes for Northumberland Ltd	152	61	105
Meadowdale Academy	27	1	3
Morpeth Town Council	5	1	-
Northumberland College	163	119	207
Northumberland Church of England Academy	261	31	61
Northumberland National Park	59	24	81
Northumberland Inshore Fisheries and Conservation Authority	10	4	2
Northumberland Valuation Tribunal	1	7	1
Northumbria Magistrates Courts Committee	-	82	64
Ponteland Parish Council	-	1	-
Seaton Valley Council	2	-	-
Three Rivers Learning Trust Academy	129	3	12
West Bedlington Town Council	1	-	-
Admitted Bodies			
Action for Children	27	-	3
Age UK Northumberland	10	11	11
Barnado Services Ltd	15	-	7
Bell View Day Centre	-	-	1
Berwick Borough Housing Ltd	11	6	5
Berwick Bridges Trust	-	2	4
Blyth Valley Arts and Leisure Trust	93	14	51
Blyth Resource and Initiative Centre	-	-	1
Bullough Cleaning Services Ltd	7	2	5
Community Action Northumberland	-	22	25
Creative Management Services Ltd	6	-	4
CSB Contract Services	-	-	4
Feversham School	-	25	16

	Active members	Pensioner members	Deferred members
Groundwork Northumberland	-	-	4
Helping Hands Community Care	1	-	-
Haltwhistle Regeneration	-	1	-
Isos Housing Ltd	24	53	24
North Country Leisure	67	10	53
Northumberland Aged Mineworkers Homes Association	8	5	-
Northumberland Care Trust	2	-	1
Northumberland County Blind Association	5	3	7
Northumberland Guidance Company	-	15	11
Northumbria Healthcare NHS Foundation Trust	69	59	46
Northumbrian Leisure Resorts Ltd	-	-	2
Northumbrian Water (Ex Coquet Water Board)	-	1	-
Queens Hall Arts	4	1	1
Superclean Services	10	-	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	131	31	14
Woodhorn Charitable Trust	31	3	5
Other bodies pre 1974	-	20	-
	7,739	7,441	7,460

Pension Fund Performance

Annual returns

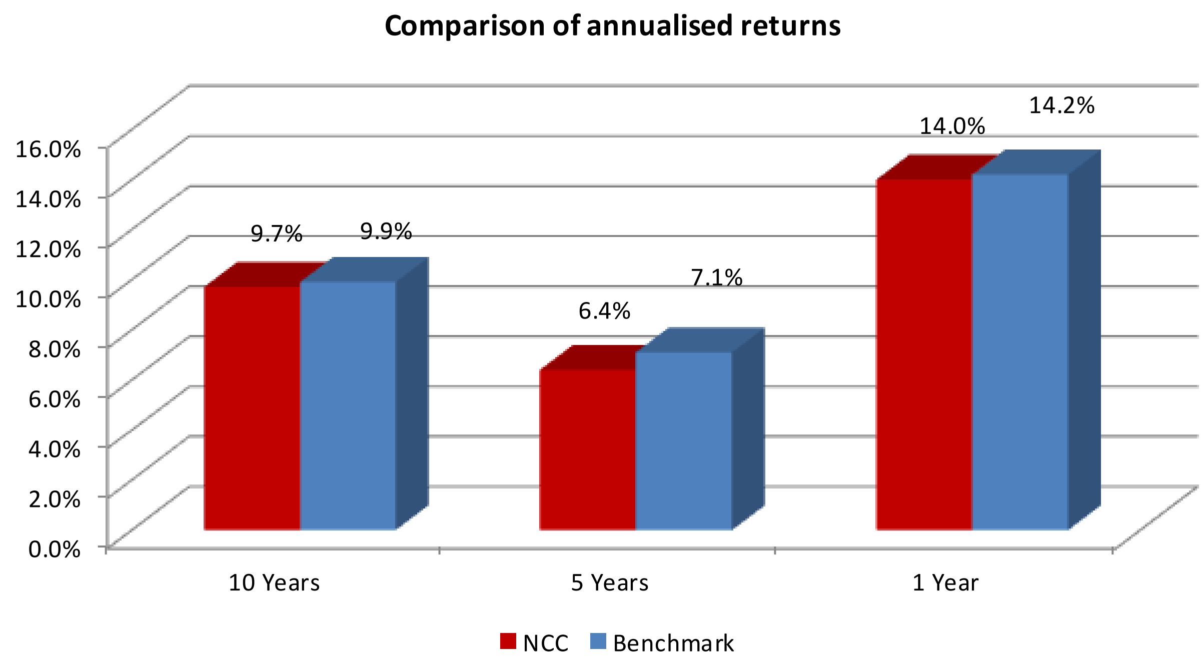
Over the year, the Fund underperformed its benchmark by 0.2%* (expressed on a geometric basis).

Year ending 31 March	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)
Fund performance	-24.0	40.8	6.4	5.3	14.0
Benchmark	-20.0	36.7	7.6	4.8	14.2

* 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 graph 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 2013 Fund %	Benchmark %
Legal & General (Index tracker)	15.4	15.6
M&G Investments (Global equities)	17.6	17.0
Wellington (Bonds)	6.8	5.5
BlackRock (Property)	2.7	1.0
Schroder (Property)	2.5	1.0
Combined Fund	14.0	14.2

Pension Fund Performance

Performance commentary

The Northumberland County Council Pension fund produced a positive return of 14.0% in 2012-2013 which was well above the (negative) growth in average earnings of -0.1% for the same period.

The Fund return of 14.0% was below its benchmark. Asset allocation added 0.1% to performance, while stock selection detracted 0.3% over the period.

Manager performance was mixed. Wellington, Schroder, BlackRock and M&G beat their respective benchmarks, but this was more than offset by Legal & General underperforming its benchmark.

The WM Local Authority Pension Fund Universe for 2012-2013 produced an average return of 13.8% in the period. The range of returns was 16.7% for the 5th ranked to 10.6% for the 95th ranked fund. The Northumberland County Council Pension Fund ranked 50th in 2012-2013 (13th in 2011-2012).

Over five years the Fund returned 6.4% p.a. which is below the benchmark return of 7.1% p.a. giving a relative underperformance of 0.6% p.a. and ranking 51st in the Local Authority Universe.

Over ten years the Fund achieved a return of 9.7% (annualised). This compares well with the RPI return of 3.3% p.a. and the average earnings index return of 3.4% p.a., and ranks 34th in the Local Authority Universe but is below the fund's benchmark return of 9.9% p.a. for the same period.

Statement of the Actuary for the year ended 31 March 2013

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 £719 million) 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, preparation for which is already under way. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 are required by the Regulations to be signed off by 31 March 2014.

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

14 May 2013

Firefighters' Pension Fund

Fund Account		2011-2012	2012-2013
		£'000	£'000
Contributions			
	From employer - normal	1,227	1,198
	From employer – ill health	139	269
	From members	665	691
		2,031	2,158
Transfers in			
	Individual transfers from other schemes	42	4
		2,073	2,162
Benefits			
	Pensions	(3,778)	(4,014)
	Commutations and lump sum retirement benefits	(480)	(1,148)
		(4,258)	(5,162)
Payments to and on account of leavers			
	Individual transfers to other schemes	-	(180)
Net amount payable before top-up grant		2,185	3,180
	Top-up grant payable by central Government	(2,185)	(3,180)
Net Amount Payable for the year		-	-

Net Assets Statement		As at 31 March 2012	As at 31 March 2013
		£'000	£'000
Current assets			
	Transfer Values Received - Debtor	11	-
	Top-up grant receivable from central Government	202	649
Current liabilities			
	Amount payable to the General Fund	(213)	(649)
		-	-

Notes to the Firefighters' Pension Fund Financial Statements

1. Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The financial statements summarise the transactions of the Firefighters' Pension Schemes and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the Balance Sheet date.

Note 47 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 2013. All known material events that have occurred up to and including 30 June which relate to 2012-2013 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 2013 and their income and expenditure for the year ended 31 March 2013.

Steven Mason

Corporate Director of Finance

30 September 2013

Annual Governance Statement

1. Standards of Governance

The Council expects all of its members, officers and contractors to adhere to the highest standards of public service with particular reference to the adopted Codes of Conduct, the Constitution and policies of the Council as well as the applicable statutory requirements.

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government".

The Annual Governance Statement is approved by the Audit Committee and is signed by the Leader, the Chief Executive and the Corporate Director of Finance.

The approach used to compile the Annual Governance Statement is as follows:

- The Head of Business Support prepares the Annual Governance Statement.
- Internal Audit will; review the Annual Governance Statement to provide assurance on its accuracy and completeness.
- Heads of Service complete returns and provide assurance on their returns on their areas with supporting evidence and identified areas of weakness.

The 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 an Annual Governance Statement. 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 – 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 July 2012).

Following the elections in May 2013 new arrangements have been put in place by the Administration. The Executive has been replaced by the Policy Board which is made up of elected members and includes the Leader, the Deputy Leader and eight Policy Board members.

2. Scope of Responsibility

Northumberland County 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 continues to review its arrangements against best practice and implement changes to improve overall governance arrangements. In order to assist in this process the Council participates in a number of benchmarking clubs and the information is made available to the service areas for utilisation.

3. 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 has been in place since 1 April 2011, and has been further developed throughout the year ended 31 March 2013 and up to the date of approval of the statement of accounts. Development of the framework will continue throughout the coming year.

4. The Governance Framework

Northumberland County Council's Governance Framework encompasses all systems, processes and procedures covering a wide range of services to the public. 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.

- A review of the governance arrangements for the Council's subsidiaries, Arch and Homes for Northumberland was commissioned during 2012-2013 and took place in January/February. The outcomes of this review will be reported to and be monitored by the Audit Committee.
- Reaction became dormant on 1 July 2012 and will be dissolved in the near future. 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 Plan "Stronger Together" outlines the Council's vision and overarching policy drivers for the next three to five years. This is currently being reviewed to ensure it continues to provide 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 Policy Board (known as the Executive during 2012-2013), the latter being published on the Internet, and considered at quarterly meetings of the Strategic Management Team (SMT). The Policy Board is the Executive for the purposes of the Local Government 2000 Act and other relevant legislation. This process is supported by formal budget monitoring through the Policy Board 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. Three private sector individuals were also elected to the Board. Large regeneration projects managed by the Group are monitored through a joint Investment Board with both Arch and Council representation. The newly elected Cabinet Member for Planning, Housing and Regeneration joined the Board in 2013-2014.
- Homes for Northumberland (HfN) operates under a management agreement with the Council. The Company's Strategic Board has five Council representatives, four tenant members, an independent chair, and three non-voting co-opted members.
- The Board of Reaction consisted solely of senior managers from the Council.

The Council is subject to a number of external inspections. Included in those inspections is Adult Services and they continued to have positive inspection results in 2012-2013. Ofsted inspections of Northumberland schools continue to go well and the number of pupils attending a good or outstanding primary school places Northumberland 18th out of 150 local authorities, and Northumberland's secondary schools are 117th out of 150 local authorities and are improving. Ofsted inspections of Looked After Children and Safeguarding and Children's Centres consistently assess performance management and quality assurance as strong, as did the peer challenge of early years provision undertaken by Lincolnshire County Council. Northumberland's Youth Offending Service has been rated as "strongly performing". There have been no benefits or housing inspections during the year.

The principal objective in dealing with the current budget preparation has been to achieve a balanced budget for 2013-2014, ensuring that the required level of savings is delivered. This has required the 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 Council's website. Clear delegation arrangements are set out in the Finance and Contract Rules, which form part of the Council's Constitution. Both the Constitution and the Finance and Contract Rules were updated in 2011-2012. The Constitution was updated and agreed 3 April 2013 and will need to be reviewed again this year following the change to the Council's administration and to reflect the changes agreed at the full Council on 22 May 2013. Within each group Corporate Directors also have their own internal scheme of delegation.

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 and Contract rules. These rules were last 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 determining compliance with the Code of Conduct for Elected 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 available 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 also Employee Codes of Conduct in place at Arch and Homes for Northumberland.

Taking proper decisions and managing risk

All strategic decisions being presented to the Policy Board 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. The process is set out 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 Policy Board, working within the agreed budget and policy framework. The Policy Board is held to account by four Overview and Scrutiny Committees. Minutes and papers for the Policy Board and Scrutiny meetings are published on the website, to ensure transparency of process. Notice of forthcoming decisions to be taken by the Policy Board 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 Arch Group has recently introduced a risk management policy and monitors high level risks through its Audit Committee and Board. This process is in its infancy and will continue to develop throughout 2013-2014.

The risk management framework for Homes for Northumberland is 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. All members, including recently elected members will 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 authority, to ensure that services are developed and delivered in an appropriate manner. Central to this has been the establishment of senior officer working group with representation from across all services with a remit to cover:

- Public engagement; and,
- Employee engagement.

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

5. 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 2011-2012, the Chief Internal Auditor 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 Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

For 2012-2013 (and 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 Council as a whole is responsible for agreeing the Constitution, which underpins the governance arrangements. The Constitution was updated and agreed 3 April 2013 and will be reviewed this year following the change to the Council's administration and to reflect the changes agreed at Annual Council on 22 May 2013. This work will be 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 Policy Board

The Policy Board 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. Policy Board 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. The Chair of the Audit Committee is the designated risk champion. The Committee meets at least six times per annum, with additional ad hoc meetings as required. The work programme for the committee was reviewed during 2012-2013 to ensure compliance with all professional guidance.

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 Policy Board's decision making process.

Standards Committee

The Standards Committee has responsibility for ensuring adherence to the Code of Conduct for members. At the beginning of 2012-2013 the Committee comprised six councillors and six independent members, one of whom chaired the meeting. From 4 July 2012, the membership of the Standards Committee was revised to meet the requirements of the Localism Act 2011 and now comprises eight County Councillors, three town and parish councillors and one statutory independent person. Following the change in administration in May 2013 and the decision of the full Council on 22 May 2013.the Council has now appointed an independent chair.

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; and, as a result it was agreed at the October 2012 Board that the Internal Audit function within Northumberland County Council should be utilised as a resource in the future. As a result of this an audit plan for financial year 2013-2014 is currently being developed by the Internal Audit Team and will be formally approved at the next Arch Group Audit Committee.

During the year, the Council established a shared arrangement with North Tyneside Council for Internal Audit and Risk Management Services. Now that the reorganisation has been implemented and the shared service co-location has taken effect the Chief Internal Auditor considers that it is now appropriate to refresh the governance arrangements in place for the shared service to ensure that there is one clear, streamlined approach to service planning, staff development and staff roles, and customer service. This will be addressed by the Chief Financial Officers of both Northumberland County Council and North Tyneside Council via the Shared Service Management Board which has been established to oversee the arrangements across the two councils.

Group Arrangements

Each service area is responsible for maintaining effective governance arrangements for its operations. Heads of Service sign a Statement of Assurance annually, confirming the governance arrangements that are in place and identifying any areas requiring additional controls.

Head of Paid Service

The Head of Paid Service is responsible for the corporate and overall strategic management of the Council's staff in accordance with Section 4 of the Local Government and Housing Act 1989.

Chief Finance Officer

The Chief Finance Officer (CFO) has statutory responsibility in relation to the financial administration and stewardship of the Council arising from Section 151 of the Local Government Act 1972.

Monitoring Officer

The Monitoring Officer has responsibility for promoting and maintaining high standards of conduct and reporting any actual or potential breaches of the law or administration to the full Council and/or to the Policy Board as set out in Section 5 (1) of the Local Government and Housing Act 1989.

6. Significant Governance Issues

Issues Identified in 2010-2011

Issues Identified	*Current Position*
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 commenced in November 2012 and is on-going with a case management review listed for 25 July 2013 which will set a timetable of directions with an anticipated final hearing in early 2014.
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 continued into 2012-2013. In 2012-2013, revised performance targets, indicators and milestones were put in place in a number of areas across Customer and Cultural Services. Systems were also revised to ensure that rigorous data collection methods were used and robust data analysis took place. Performance clinics at a service team level then took place throughout the year to review progress against this framework, with regular communications to team members so they were able to see how their work has contributed towards the achievement of key objectives and where improvements needed to be initiated/accelerated. In addition to a regular newsletter and service planning sessions focusing on performance issues, year end infographics were also produced and distributed to teams.

Issues Identified	*Current Position*
	Many Service Level Agreements were also revised during 2012-2013 as part of a planned programme of activity to ensure that performance expectations were clearly stated to those delivering services on the Council's behalf e.g. arts venues. Regular monitoring arrangements were also put in place. Risk was also regularly focused on at a management team level and at project boards. As a result, a risk register is in place for the service, at team level and in relation to major projects such as the leisure review and Ashington Community and Leisure Facility. Finally, the Service has been working with IT to identify and implement the right technology to aid performance monitoring in the future. For example, the new site of the integrated contact centre at Cramlington will host a range of technology, including call recording, which will be used for training and development purposes. This issue can now be closed.

Issues identified in 2011-2012

Issues Identified	*Current Position*
Data Security The Council 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.	Work continues to improve the council management of information. NCC has now established an Information Governance Board chaired by the Deputy Chief Executive who is also our Senior Information Risk Owner (SIRO). The Board is held monthly and operates across the organisation with representation from all areas of the business. The meeting reviews progress to an organisational wide programme of improvement around information security and information management. The Board reviews Freedom of Information requests, Data Protection, Subject Access Requests and breach actions. Also the Board identify training needs as well as reviewing performance metrics, policies and procedures. The Board is supported by an operations working group who's task it is to drive the practical day to day activities of the board at an operational level. NCC continues to work towards the improvement via actions from the ICO consensual audit. The organisation will be re-assessed for improvement scheduled for August 2013.

Issues Identified	***Current Position***
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.	As part of the overall information management programme we have adopted a programme approach to both document and data storage within the Council and its partner storage organisation, Woodhorn. The project is reviewing document storage and is working towards disposal of out of date records in a secure way, freeing space across the organisation for a review of data held across the many council buildings.
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.	See issue and current position in 2012-2013. This issue can now be closed.

Issues identified in 2012-2013

Issues Identified	*Current Position*
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 £100 million from 2009-2010 to 2012-2013 and anticipates saving an additional £86 million 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 was agreed for 2012-2013 as part of a three-year medium term financial plan, and a balanced budget has once again been agreed for 2013-2014. The Council has reviewed the financial resilience of individual Groups to identify those most at risk of overspending in future periods. In 2012-2013 the Council 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 are being developed and implemented by Groups at risk of overspending. A service review programme concluded in 2012-2013 which challenged the way in which services are delivered. Budget preparation for 2012-2013 (and 2013-2014) commenced earlier than 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.

Issues Identified	*Current Position*
Business Continuity Planning At the start of 2012-2013, business continuity arrangements across the Council were at different stages of development. During the year, an exercise was carried out to ensure that all Groups completed a Business Impact Analysis (BIA) to a common format. This exercise led to the identification of corporate critical functions, aligning to the priorities identified in the Corporate Strategy. This led to a revision of the existing Corporate Business Continuity Plan (BCP). Further BIAs were required to be carried out to identify all other service critical functions leading to the development of Group BCPs.	A BIA has been carried out for the NFRS Group and a Group Business Continuity Plan has been developed and exercised. This BIA was used as a template for the other corporate groups to develop their own BCPs and work commenced in 2012-13 with both Finance Group and Local Services Group. Steps will be taken to complete BIAs and develop BCPs for all remaining Groups during 2013-2014 and has been included as an objective within the Civil Contingencies Team Service Plan 2013-14. A testing and exercise programme is to be agreed in 2014-2015.
Overspends in Groups In aggregate, for 2012-2013, the Council performed strongly overall resulting in the achievement of a surplus against its revenue budget. However, this masks overspends in Children's Services (£1.53 million) and Property Services (£0.93 million) 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.	The 2012-2013 overspend in Children's Services has been funded corporately. A working group of senior managers has been established to monitor the Group's position and stabilise expenditure and income and produce a robust Business Plan which achieves a balanced budget going forward. The 2012-2013 overspend in Property Services has been funded corporately. As the Head of Service and Corporate Director left the Council during 2012-2013 the service has been transferred and is currently under the control of the Deputy Chief Executive who is reviewing the service and will produce an options paper.

Issues Identified	*Current Position*
Child Care Proceedings There has been a significant increase in the number of child care proceedings in 2012-2013 – 21% when compared to the 2011-2012 numbers. The financial implications will not only be an increase in legal fees but there will be additional pressure on the Children's Services budgets.	The situation continues to be monitored with a joint report from Head of Children's Social Care and the Chief Legal Officer to SMT setting out the current pressures on resources and seeking additional funding.
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 continued to target its assurance activity at areas of risk in its 2012-2013 coverage in line with the agreed audit plan. Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop its awareness of the application of the Council's governance structure. Issues identified from Internal Audit coverage and included in last year's AGS have been monitored and followed up throughout 2012-2013. We have found an improvement in the process for dealing with invoices on hold and the overdue debt position continues to be closely monitored by Finance. Aspects of Internal Audit's coverage have identified areas in which controls could be strengthened further, most notably in respect of Section 106 agreements. Recommendations for improvement have been made as appropriate and agreed with management. Overall, Internal Audit's testing and coverage during 2012-2013 has concluded that the organisation's internal systems of governance, risk management and control are satisfactory. This is a positive assessment of the Council's control environment and reflects favourably on the organisation's governance arrangements.

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. (See impact of the economic downturn).	Financial pressures continue to present issues for the Council. Corporate Directors and Heads of Service continue to ensure that a sufficient level of skill and expertise is retained in order to deliver the appropriate level of service.
Section 106 Agreements Internal Audit issued a no assurance report in September 2012 in relation to Section 106 agreements. The objective of the audit was to provide assurance around the Council's arrangements for enforcing Section 106 Agreements and ensuring monies are spent within the agreed timescales. Significant work has been carried out by Development Services following LGR including exercises to ensure all new S106 Agreements are captured by the monitoring and enforcement process and an attempt to capture all agreements prior to LGR. However, the audit review has shown that this latter exercise is not comprehensive and there is an element of the unknown regarding the potential financial impact of unidentified S106 Agreements entered into pre-LGR. The monitoring and enforcement arrangements in place are much improved from those in operation prior to LGR, however, there are further improvements that need to be made before these can be considered adequate.	The Head of Development Services acknowledges the issues raised in the audit report and initiatives are progressing to address a number of these issues. The need for a single database to record all relevant information has been identified. The Head of Service has established a group of appropriate officers, including Internal Audit, to lead on this development and to introduce new working practices and procedures to enable the function to be controlled as efficiently and effectively as possible. The implementation of a new database and the review and documentation of processes which is currently taking place will address some of the issues, increase control and reduce future risk to the organisation's objectives.

Issues Identified	*Current Position*
School Budgets There are an increasing number of schools requesting licensed deficits and overspending their budget allocations.	Staff in Finance and Children's Services will continue to work with those schools in financial difficulty to produce robust Business Plans to ensure that a balanced position can be achieved in the future. A report will be produced in June advising members and SMT of the position of each school.
Care Homes Judicial Review Care Home providers challenged the council fees structure by way of Judicial Review.	Following a successful hearing for the Council in January 2013 the Providers have now successfully obtained permission to appeal to the Court of Appeal and the Council's case has been linked to that of Redcar and Cleveland Borough Council. The Council is expecting a two day hearing to take place towards the end of 2013. The Council has received the Providers' case for appeal and is preparing a response.
Dispute with SITA This is complex matter due to the formulation of the PFI contract. NCC accepts that it has not been able to meet all of its obligations under the Contract in terms of the proportion of recyclable materials it has delivered for processing, due to the economic downturn and lower than forecast levels of recycling activity, but does not agree with the methodology used by the PFI Contractor to determine their financial loss. The Council also believes that the Contractor has wrongly withheld a share of refinancing benefits from the Council. NCC has sought Leading Counsel's opinion and has used this to inform the position in seeking to negotiate an agreed settlement of the dispute with SITA.	Agreement has been reached with SITA that the Council is due a share of the refinancing benefits from the PFI Contract. However, the Council has not reached agreement over the other issue in dispute relating to a shortfall in the proportion of recyclable materials being delivered and, subject to the necessary internal approvals, will shortly be invoking the formal dispute resolution procedure within the contract so that the matter can be resolved by an independent adjudicator.

Issues Identified	Current Position
Property Services Information System Property Services overspent significantly in 2012-2013. As a result of the budget monitoring and year end processes it has been recognised that the information system K2, which was implemented in 2010-2011 is not being utilised correctly and reliance cannot be placed on the financial information within this system.	This issue has been brought to the attention of the Chief Internal Auditor who will incorporate a review into the Annual Audit Plan and report the findings to the service, Deputy Chief Executive, Corporate Director of Finance and Audit Committee.
Homes for Northumberland Overspend Homes for Northumberland has reported an overspend in 2012-2013 reflecting poor financial management during the year.	The Chief Finance Officer at Homes for Northumberland aims to ensure that accurate financial reporting will take place on a timely basis by increasing the resources in the Finance Section. Training will also be provided to the budget holders to enable them to fulfil their roles more effectively in order to address the issues which resulted in the overspend.
Winter Services The cost of winter services significantly exceeded the amount allowed for in the Local Services budget which can in part be attributed to the severe weather encountered. Through the budget monitoring process several breaches in control were identified which need to be investigated further.	This issue has been brought to the attention of the Chief Internal Auditor who will incorporate a review into the Annual Audit Plan and report the findings to the service, Corporate Director of Finance and Audit Committee.

Issues Identified	*Current Position*
Planning Judicial Reviews The Council is experiencing an increasing number of challenges, in the main, but not exclusively relating to wind turbine applications which subsequently become the subject of a judicial review. The County Council is currently defending its decision on two applications. The legal opinion is that the two cases will be heard later in the year and that there is a reasonable chance of success but if the Council loses the costs will be significant and there will be additional pressure on the Planning budget.	The situation is on-going and will be monitored and reported once the courts have made judgements on the current judicial reviews. In order to minimise the risk of further judicial reviews on wind turbine applications they are now being dealt with by officers in the Strategic & Urban Team and determined at the Planning, Environment & Public Rights of Way Committee. In addition, as most of the challenges relate to the screening opinions issued by Northumberland County Council further training is being rolled out to officers at the end of June. However, it is recognised that a number of legal firms are operating a 'no win no fee' service and whilst the above measures will strengthen the Council's ability to defend the judicial reviews it is unlikely to prevent the decisions from being challenged.
Planning Appeals and Public Inquiries The Council is experiencing an increasing number of challenges relating to wind turbines, wind farms and large housing developments some of which are concluded early but some which result in a Public Inquiry. There is one major scheme which is to be the subject of a Public Inquiry in the next financial year where the Council will defend an application against a wind farm. The cost of this will be between £0.05 million and £0.10 million. This will place additional pressure on the Planning budget.	The number of appeals continues to be carefully monitored as this has implications for both planning performance and budgets in the event of an award of costs. Further training will be provided to Members of the area planning committees. In addition, CLG will be making pre-application discussions for 'significant' wind farm applications compulsory and will also be issuing new planning practice guidance on wind farms which CLG state will assist local councils and planning inspectors in their consideration of individual planning applications.

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 Council and its subsidiaries. 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.

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:

Grant Davey

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 financial statements 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 2013 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 60 (Authority), 1 to 14 (Housing Revenue Account), 1 to 4 (Collection fund) and 1 to 19 (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 2012/13.

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.

Independent Auditors' Report to the Members of Northumberland County Council

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 2013 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 2013 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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, 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 2012/13.

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 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2012/13.

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 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, 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 2012/13.

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.

Independent Auditors' Report to the Members of Northumberland County Council

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 November 2012, 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 2013.

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 November 2012, 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 2013.

Independent Auditors' Report to the Members of Northumberland County Council

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.

Paul Thomson ACA (Engagement Lead)

for and on behalf of Deloitte LLP

Appointed Auditor

Newcastle-upon-Tyne, UK

30 September 2013

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 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 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

Changes in benefits during the accounting period

As set out earlier we believe the switch to using CPI for pension increases falls under paragraph 6.5.5.1 of the Code of Practice and our suggested wording is set out below.

In his budget on 22 June 2010, the Chancellor announced the following:

"The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright) and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

The switch to CPI as the basis for future revaluation and pension increases has a significant impact on the actuarial present value of the promised retirement benefits.

This is because all pensions, once they come into payment, and the deferred pensions of former employees, will now be increased in line with an index that is expected, over the long term, to be lower than the RPI index it replaces. This, in turn, will reduce the value of the benefits and hence the value placed on those benefits.

The Fund's actuary has estimated that, had the switch to CPI been implemented on 31 March 2010, the actuarial present value of the promised retirement benefits would have reduced by £131.2M i.e. the actuarial present value of promised retirement benefits would have been £1,078.1M.

Volatility of Results

Our calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used.

The present value of the defined benefit obligations are linked to yields on high quality corporate bonds whereas the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will therefore lead to volatility in the funded status of the Fund disclosed under IAS26 as amended by the Code of Practice.

Appendix A Data Summaries (2010 & 2007)

Active members at 31 March 2010 **(31 March 2007)**

		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.