



Statement of Accounts  
2013 – 2014

# Contents

	Page
Explanatory Foreword	
Core Financial Statements	
Movement in Reserves Statement	9
Comprehensive Income and Expenditure Statement	11
Balance Sheet	13
Cash Flow Statement	14
Notes to the Financial Statements	15
Supplementary Financial Statements	
Housing Revenue Account (HRA) Income and Expenditure Statement	143
Movement on the Housing Revenue Account Statement	144
Notes to the HRA Income and Expenditure Statement	145
Collection Fund Account	151
Notes to the Collection Fund Account	153
Group Accounts Explanatory Foreword	157
Core Financial Statements	
Group Movement in Reserves Statement	160
Group Comprehensive Income and Expenditure Statement	163
Group Balance Sheet	166
Group Cash Flow Statement	168
Notes to the Group Financial Statements	169
Pension Fund Accounts	
Northumberland County Council Pension Fund	198
Statement of Accounting Policies	
Fund Account	199
Net Assets Statement	201
Notes to the Financial Statements	202
Pension Fund Performance	221
Statement of the Actuary	223
The Firefighters' Pension Fund	
Fund Account	225
Net Assets Statement	225
Notes to the Financial Statements	226
Statement of Responsibilities for the Statement of Accounts	228
Annual Governance Statement	229
Independent Auditor's Report to the Members of Northumberland County Council	254
<b>Appendices</b>	
1. Glossary of Terms	258
2. Whole of Pension Fund Disclosures under IAS 26	267

## 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 2014 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 2013-2014; 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, business rates 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 Lead

## Explanatory Foreword

Executive Director Corporate Resources, 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 include 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 2013-2014

### Revenue

2013-2014 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 £290.02 million for 2013-2014 after taking account of the ring-fenced Dedicated Schools Grant of £168.10 million, the New Homes Bonus Grant of £3.19 million, and Education Services Grant of £4.51 million.

## Explanatory Foreword

Efficiencies and other savings totalling £23.61 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	91,816
Council Tax	138,978
Retained Business Rates	58,896
Use of General Fund balance	326
	290,016

Outturn net expenditure totalled £157.59 million against total budgeted resources of £157.82 million giving a net underspend of £0.23 million. In addition, the Place Group planned to use £1.54 million of previous years underspends. The net impact was a transfer from the General fund of £1.31 million. Net expenditure includes increases in provisions of £20.43 million relating to Repairs and Maintenance, Leisure Management, Land Restoration and Estates Transformation.

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

	£'000
Balance as at 1 April 2013	29,780
Balance as at 31 March 2014	28,472
Change in year	(1,308)

The £28.47 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 (£8.95 million) and Adults Services Reserve (£9.71 million) and other earmarked reserves totalling £39.20 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 decreased by £3.19 million, from £81.60 million to £78.41 million. The key changes in earmarked reserve balances have been:

	31 March 2013 £'000	<b>31 March 2014 £'000</b>	Increase / <b>(Decrease)</b> £'000
Waste PFI Sinking Fund	10,989	<b>9,143</b>	<b>(1,846)</b>
Rural Growth Network	3,143	<b>795</b>	<b>(2,348)</b>
Public Health Grant	-	<b>1,481</b>	1,481

Despite the decrease in Earmarked Reserves, the overall net worth of the Council has increased by £73.69 million in the year. This is due to several factors including an increase in Long Term Debtors of £122.09 million, offset by a reduction in the value of Other Land and Buildings of £52.66 million.

### Capital

The original capital plan for 2013-2014 approved in February 2013 showed total planned gross expenditure of around £110.53 million, financed from a combination of Borrowing, External Grants, use of Reserves, Revenue Contributions and Capital Receipts. A further £37.35 million was added to the programme in respect of re-phased spending from 2012-

## Explanatory Foreword

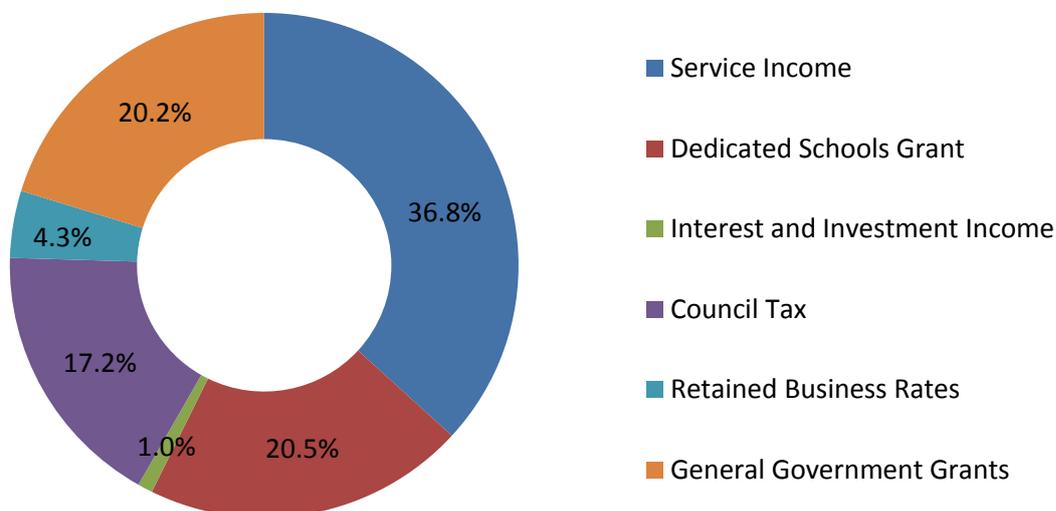
2013, along with other in year additions of £136.34 million (primarily made up of capital advances to other organisations of £128.28 million) with expenditure incurred totalling £210.32 million.

Most notable amongst the projects were: Ashington Town Centre, Ashington Community and Leisure Facility, Schools Planned Maintenance Programme, Fleet Replacement Programme, Highways Local Transport Plan, Morpeth Flood Alleviation, Disabled Facilities Grants, Major Repairs Reserve, Affordable Housing Programme (HRA), and Haltwhistle Extra Care Facility and loan to Northumbria Healthcare NHS Foundation Trust.

### 3. Income and Expenditure

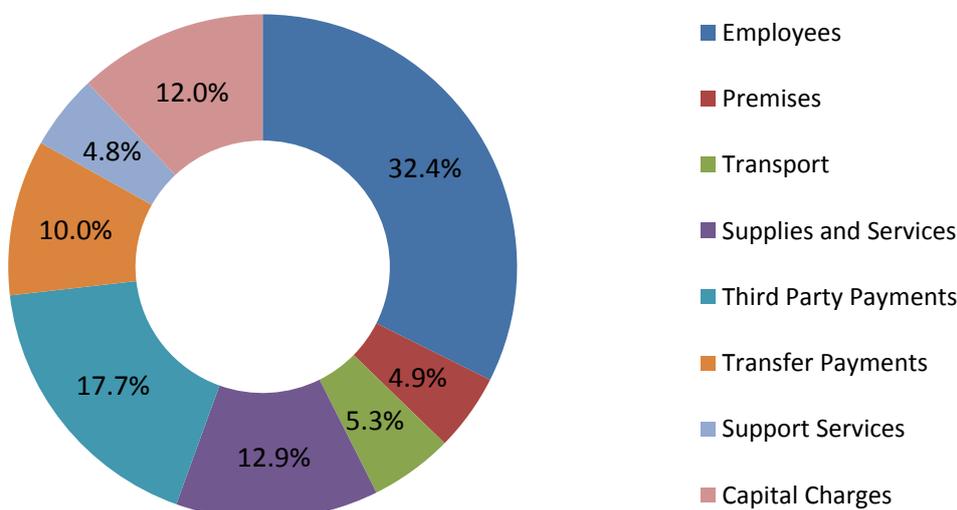
#### Where the money comes from

The Council relies in the main on service income, Dedicated Schools Grant, local taxation and retained business rates to fund service provision. These sources of funding accounted for 78.8% 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

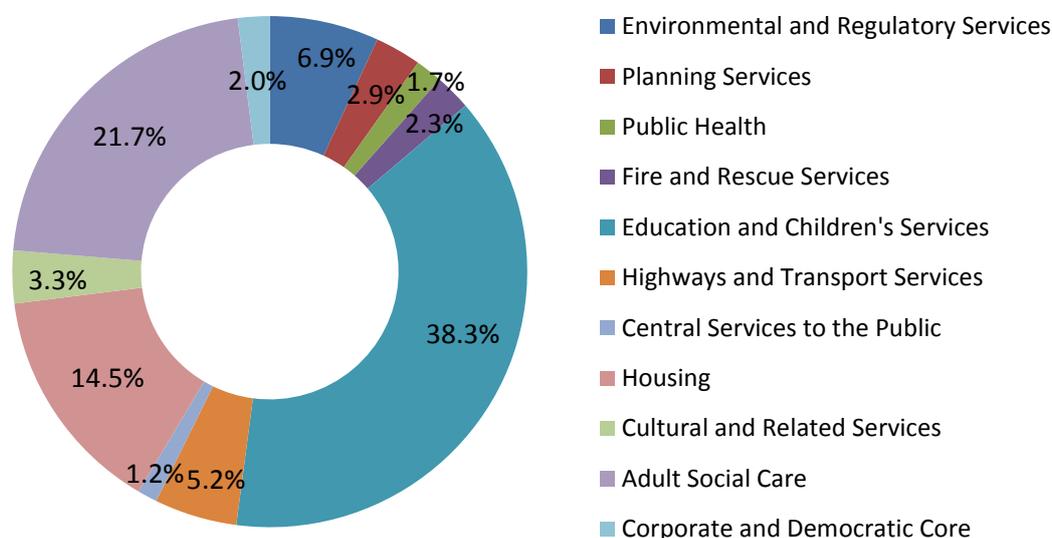
A large proportion of the Council's expenditure (32.4%) is staff-related, 12.9% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 27.7%. The balance is mainly related to central costs and capital charges for the use of assets (depreciation and minimum revenue provision).



## Explanatory Foreword

### What services were provided?

Gross expenditure on the services provided by the Council is shown below. The majority of 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 15 - 143) 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 £210.32 million of capital expenditure comprising £193.88 million of asset additions (including £128.28 million in respect of capital long term debtors) and £16.44 million Revenue Expenditure to be Financed from Capital under Statute (REFCUS). The expenditure can be broadly summarised as follows:

Project	£'000
Housing (HRA and General Fund)	18,787
Schools and Children's Services	8,653
Adult Services	3,869
Highways and Transport	35,694
Council and Commercial Property Improvements	4,659
Fire Services Modernisation	2,856
Finance - Capital Loans/Investment	129,678
Regeneration	3,949
Culture, Leisure and Tourism	1,896
Information Services	280

### 5. Finance for Capital Expenditure

The main sources of finance for capital expenditure were borrowing of £152.35 million (72.4%), capital grants of £39.10 million (18.6%), contributions from revenue of £10.11 million (4.8%), Major Repairs Allowance of £6.86 million (3.3%), and use of capital receipts of £1.90 million (0.9%).

## Explanatory Foreword

### 6. Treasury Management Activities

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

	31 March 2014	
	Principal £'000	Rate/Return %
Public Works Loans Board	205,686	3.25
Market Lobo's	260,600	4.10
Short Term Market Loan	75,551	0.89
<b>Total Debt</b>	<b>541,837</b>	<b>3.33</b>
Investments excluding Impaired Deposits and In-House Funds	151,620	1.42
<b>Total Investments</b>	<b>151,620</b>	<b>1.42</b>

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 medium 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

Average investment balances of £300 million remained fairly static over the year until March when a loan to Northumbria Healthcare NHS Foundation Trust was made. All available investment rates have fallen over the year, however the Council has achieved a higher than average rate of 1.42% during the period.

One new longer term loan of £10 million was taken in 2013-2014 and £30 million of shorter term borrowing was taken out in line with authorised limits to replace the repayment of £52 million of loans. Overall the total borrowing figure decreased by £12 million.

The Council had £23 million deposited with the Icelandic banks and their UK subsidiaries when they went into administration in October 2008. A further £1 million of interest was due on the original investment. To date £21.8 million has been recovered and the Council is confident that it will recover at least 92% of the total balance including interest.

### 7. Significant charges in the accounts

There have been two new substantial provisions charged as an expense to the Comprehensive Income and Expenditure Statement in the year.

The amounts include a charge of £9.00 million that relates to a provision for potential liabilities the Council may need to incur in respect of land restoration sites and a charge of £6.00 million in relation to a provision made for future one off costs that will arise as the Council implements its estates rationalisation programme.

### 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

## Explanatory Foreword

the employees rather than the year in which the pensions and the employer's contributions are actually paid.

At 31 March 2014 the County Council's net liability for future pension costs was £585.94 million. Sixty one percent of this net liability is attributable to the Local Government Pension Scheme (LGPS), which is a funded scheme, and the rest to unfunded schemes such as the Firefighters' Pension Scheme. For the LGPS, the Council pays an employer's contribution into the Northumberland County Council Pension Fund at a rate set by the Fund's actuary. The rate paid in 2013-2014 was set on the basis of the actuarial valuation of the Fund as at 31 March 2010. This set 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

Although there are no significant changes to the Code that impact on the Council's accounting policies, a number of changes are being made that will require changes to figures or disclosures. The key areas are:

- Post-employment benefits – changes to International Accounting Standard 19 have now been incorporated within the Code. It will require revised disclosure and restatement of prior period revenue figures for the last financial year. Changes are reversed out as part of the accounting process and will not impact on the General Fund.
- Service analysis – there have been a number of small changes to the service reporting code, with the main change being the inclusion of a new line for Public Health services.
- Business rates – changes to the way in which business rates are accounted for within the Collection Fund to reflect agency arrangements (meaning the Council only shows amounts that relate to its share of balances, excluding proportions that relate to preceptors) are being implemented. This required change is covered under the current policy for Council Tax elements of the Collection Fund and changes are expected to be brought prospectively, without changes to opening balances.

The first point (Post-employment benefits) has had the following effect on the main financial statements; these changes have been reflected throughout the statements where applicable.

## Explanatory Foreword

	Original Net Expenditure 2012-2013 £'000	IAS 19 £'000	Restated 2012-2013 £'000
<b>Comprehensive Income and Expenditure Account (CIES)</b>			
Adult Social Care	85,562	149	85,711
Central Services to the Public	5,018	16	5,034
Corporate and Democratic Core	13,017	559	13,576
Cultural and Related Services	19,798	34	19,832
Education and Children's Services	56,177	458	56,635
Environmental and Regulatory Services	34,747	76	34,823
Exceptional Cost of Equal Pay	(14,441)	-	(14,441)
Fire and Rescue Services	14,607	67	14,674
Highways and Transport Services	30,734	69	30,803
Local Authority Housing (HRA)	(18,350)	4	(18,346)
Non Distributed Costs	4,749	-	4,749
Other Housing Services	3,873	16	3,889
Planning Services	7,415	22	7,437
Cost of Services	242,906	1,470	244,376
Other Operating Expenditure	18,554	-	18,554
Finance and Investment Income and Expenditure	42,590	13,250	55,840
Taxation and Non-Specific Grant Income	(322,648)	-	(322,648)
(Surplus) or Deficit on Provision of Services	(18,598)	14,720	(3,878)
Other Comprehensive Income and Expenditure	51,445	(14,720)	36,725
Total Comprehensive Income and Expenditure	32,847	-	32,847
<b>Movement in Reserves Statement</b>			
(Surplus) or Deficit on Provision of Services - Usable Reserves	(18,598)	14,720	(3,878)
Other Comprehensive Income and Expenditure - Unusable Reserves	51,445	(14,720)	36,725
Total Comprehensive Income and Expenditure	32,847	-	32,847
<b>Cash Flow Statement</b>			
Net surplus/(deficit) on the provision of services	18,598	(14,720)	3,878
Adjustments to net surplus or deficit on the provision of services for non-cash movements	42,309	14,720	57,029
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(57,761)	-	(57,761)
Net cash flows from Operating Activities	3,146	-	3,146

## **Movement in Reserves Statement**

for the year ended 31 March 2014

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 2014

	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 2012	(22,082)	(79,732)	(11,955)	(1,510)	(18,212)	(1,483)	(134,974)	(66,760)	(201,734)
<b>Movement in Reserves during 2012-2013 (As Restated):</b>									
(Surplus)/Deficit on the provision of services	10,048	-	(13,926)	-	-	-	(3,878)	-	(3,878)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	36,725	36,725
Total Comprehensive Income & Expenditure	10,048	-	(13,926)	-	-	-	(3,878)	36,725	32,847
Adjustments between accounting basis & funding basis under regulations (Note 11)	(19,617)	-	11,753	933	1,925	265	(4,741)	4,741	-
Net (Increase)/Decrease before T transfers to Earmarked Reserves	(9,569)	-	(2,173)	933	1,925	265	(8,619)	41,466	32,847
T 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)
<b>Movement in Reserves during 2013-2014:</b>									
(Surplus)/Deficit on the provision of services	76,729	-	(11,537)	-	-	-	65,192	-	65,192
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	(138,880)	(138,880)
Total Comprehensive Income & Expenditure	76,729	-	(11,537)	-	-	-	65,192	(138,880)	(73,688)
Adjustments between accounting basis & funding basis under regulations (Note 11)	(72,227)	-	15,117	(801)	2,260	(94)	(55,745)	55,745	-
Net (Increase)/Decrease before T transfers to Earmarked Reserves	4,502	-	3,580	(801)	2,260	(94)	9,447	(83,135)	(73,688)
T transfers to/(from) Earmarked Reserves (Note 12)	(3,194)	3,194	-	-	-	-	-	-	-
(Increase)/Decrease in 2013-2014	1,308	3,194	3,580	(801)	2,260	(94)	9,447	(83,135)	(73,688)
Balance at 31 March 2014 carried forward	(28,472)	(78,409)	(10,548)	(1,378)	(14,027)	(1,312)	(134,146)	(108,429)	(242,575)

## **Comprehensive Income and Expenditure Statement**

for the year ended 31 March 2014

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 2014

	Note	2012-2013 As Restated			2013-2014		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
		£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care		132,068	(46,357)	85,711	162,141	(73,068)	89,073
Central Services to the Public		8,051	(3,017)	5,034	9,232	(4,021)	5,211
Corporate and Democratic Core		14,038	(462)	13,576	14,928	(1,088)	13,840
Cultural and Related Services		22,969	(3,137)	19,832	24,932	(2,466)	22,466
Education and Children's Services		290,021	(233,386)	56,635	286,806	(221,036)	65,770
Environmental and Regulatory Services		47,720	(12,897)	34,823	51,340	(9,373)	41,967
Exceptional Costs of Equal Pay	9	(14,441)	-	(14,441)	239	-	239
Fire and Rescue Services		17,405	(2,731)	14,674	17,105	(2,610)	14,495
Highways and Transport Services		41,028	(10,225)	30,803	38,849	(5,866)	32,983
Local Authority Housing (HRA)		9,772	(28,118)	(18,346)	15,208	(29,263)	(14,055)
Non Distributed Costs		4,795	(46)	4,749	6,355	(1)	6,354
Other Housing Services		116,718	(112,829)	3,889	93,236	(89,898)	3,338
Planning Services		10,904	(3,467)	7,437	21,704	(4,851)	16,853
Public Health		-	-	-	12,684	(13,309)	(625)
Cost of Services		701,048	(456,672)	244,376	754,759	(456,850)	297,909
Other Operating Expenditure	13	40,642	(22,088)	18,554	52,864	(3,138)	49,726
Financing and Investment Income and Expenditure	14	75,848	(20,008)	55,840	68,745	(14,149)	54,596
Taxation and Non-Specific Grant Income	15	-	(322,648)	(322,648)	-	(337,039)	(337,039)
(Surplus) or Deficit on Provision of Services		817,538	(821,416)	(3,878)	876,368	(811,176)	65,192
(Surplus) or Deficit on Revaluation of Non Current Assets	16			1,069			(1,800)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				(13,104)			-
Remeasurement of the Net Defined Benefit Liability (Asset)	47			48,760			(137,080)
Other Comprehensive Income and Expenditure				36,725			(138,880)
Total Comprehensive Income and Expenditure				32,847			(73,688)

## Balance Sheet

as at 31 March 2014

The Balance Sheet shows the value as at 31 March 2014 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 2013 £'000	31 March 2014 £'000
Property, Plant and Equipment	16	1,171,977	1,148,041
Heritage Assets	17	8,210	8,210
Investment Property	18	2,354	3,861
Intangible Assets	19	791	2,941
Assets Held for Sale - non current	24	420	375
Long Term Investments	20	113,356	110,378
Long Term Debtors	20, 22	37,704	159,797
<b>Long Term Assets</b>		<b>1,334,812</b>	<b>1,433,603</b>
Intangible Assets	19	19	19
Short Term Investments	20	171,417	27,480
Assets Held for Sale - current	24	4,030	5,195
Inventories	21	623	1,076
Short Term Debtors	20, 22	63,558	77,448
Cash and Cash Equivalents	20, 23	46,486	35,896
<b>Current Assets</b>		<b>286,133</b>	<b>147,114</b>
Bank Overdraft	20, 23	(26,318)	(14,843)
Short Term Borrowing	20	(56,638)	(73,202)
Short Term Creditors	25	(52,494)	(53,068)
Provisions	26	(25,795)	(49,273)
Revenue Grants Receipts in Advance	40	(416)	(2,253)
<b>Current Liabilities</b>		<b>(161,661)</b>	<b>(192,639)</b>
Long Term Creditors - PFI	44	(85,021)	(83,327)
Long Term Borrowing	20, 50	(499,760)	(471,047)
Other Long Term Liabilities	47	(699,680)	(585,940)
Capital Grants Receipts in Advance	20, 40	(5,936)	(5,189)
<b>Long Term Liabilities</b>		<b>(1,290,397)</b>	<b>(1,145,503)</b>
<b>Net Assets</b>		<b>168,887</b>	<b>242,575</b>
Usable Reserves	11, 12	143,593	134,146
Unusable Reserves	28	25,294	108,429
<b>Total Reserves</b>		<b>168,887</b>	<b>242,575</b>

## Cash Flow Statement

as at 31 March 2014

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2014 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	2012-2013 £'000	2012-2013 As Restated £'000	2013-2014 £'000
Net surplus/(deficit) on the provision of services		18,598	3,878	<b>(65,192)</b>
Adjustments to net surplus or deficit on the provision of services for non-cash movements	32	42,309	57,029	<b>106,402</b>
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	33	<b>(57,761)</b>	<b>(57,761)</b>	<b>(39,858)</b>
<b>Net cash flows from Operating Activities</b>		3,146	3,146	<b>1,352</b>
Investing Activities	30	<b>(49,946)</b>	<b>(49,946)</b>	<b>10,145</b>
Financing Activities	31	7,924	7,924	<b>(10,612)</b>
<b>Net (increase)/decrease in cash and cash equivalents</b>		<b>(38,876)</b>	<b>(38,876)</b>	<b>885</b>
Cash and cash equivalents at the beginning of the reporting period		59,044	59,044	<b>20,168</b>
Cash and cash equivalents at the end of the reporting period	23	20,168	20,168	<b>21,053</b>

## Notes to the Financial Statements

### 1. Accounting Policies

#### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-2014 financial year and its position at the year-end of 31 March 2014. 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 2013-2014 and the Service Reporting Code of Practice 2013-2014, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is, principally, historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Code requires that a Local Authority's Statement of Accounts are prepared on a Going Concern basis. This means that the accounts are prepared based on the assumption that the Authority will continue in operational existence for the foreseeable future.

#### 1.2 Accruals of Income and Expenditure

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

- Revenue from 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

## Notes to the Financial Statements

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 financial statements, depending on how significant the items are to aid 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.

## Notes to the Financial Statements

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 at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for 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.

## Notes to the Financial Statements

- **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' Pension 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 components:

Component	Description
<i>Service cost comprising:</i>	
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 as a result of a scheme amendment or curtailment 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.

## Notes to the Financial Statements

Component	Description
Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority	The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
<b>Remeasurement comprising:</b>	
Return on plan assets	Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – charged to the Pensions Reserve as Other Comprehensive income and Expenditure.
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

## Notes to the Financial Statements

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

## Notes to the Financial Statements

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

## Notes to the Financial Statements

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

## Notes to the Financial Statements

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.

## Notes to the Financial Statements

- 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.

## Notes to the Financial Statements

### 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:

## Notes to the Financial Statements

- 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

## Notes to the Financial Statements

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 2013-2014 (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.

## Notes to the Financial Statements

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

## Notes to the Financial Statements

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:

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance 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:

- first of all writing down the carrying amount of the asset against any balance of revaluation gains for the asset, held in the Revaluation Reserve, then;
- writing down any remaining carrying amount balance 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.

## Notes to the Financial Statements

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

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

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

## Notes to the Financial Statements

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	10, 20, 25, 30, 35, 40 or 50 years (as determined by the valuation officers)
<b>Infrastructure:</b>	
Surface Dressing	10 years
Other	40 years
<b>Vehicles, Plant and Equipment:</b>	
Salt Barns	25 years
Solar Panels	25 years
Fire engines	10 to 15 years
Vehicles and equipment under finance lease	3 to 10 years
Other vehicles	5 to 10 years
Mobile Accommodation	10 years
Furniture and Fittings, IT	2 to 11 years
CCTV equipment	3 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 to 10 years
Air / Noise monitoring equipment	8 to 10 years
Grounds maintenance equipment	3 to 15 years
Play / sport / gym equipment	5 to 20 years
Street Furniture	10 years
<b>Waste PFI Assets:</b>	
Buildings and Infrastructure	8 to 50 years
Waste Plant Shell	25 years
Equipment	3 to 8 years
<b>Fire PFI Assets:</b>	
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

## Notes to the Financial Statements

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

## Notes to the Financial Statements

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.

## Notes to the Financial Statements

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 introductory phase of the scheme ended on 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

Although there are no significant changes to the Code that impact on the Council's accounting policies, a number of changes are being made that will require changes to figures or disclosures. The key areas are:

- Post-employment benefits – changes to International Accounting Standard 19 have now been incorporated within the Code. It will require revised disclosure and restatement of prior period revenue figures for the last financial year. Changes are reversed out as part of the accounting process and will not impact on the General Fund.
- Business rates – changes to the way in which business rates are accounted for within the Collection Fund to reflect agency arrangements (meaning the Council only shows amounts that relate to its share of balances, excluding proportions that relate to preceptors) are being implemented. This required change is covered under the current policy for Council Tax elements of the Collection Fund and changes are expected to be brought prospectively, without changes to opening balances.

Service analysis – there have been a number of small changes to the service reporting code, with the main change being the inclusion of a new line for Public Health services. This is not a change in accounting policy therefore the amounts below have not been restated.

The impact of these changes on the main financial statements can be seen in the following table. In addition the relevant notes have been updated to reflect the changes.

## Notes to the Financial Statements

	Original Net Expenditure 2012-2013 £'000	IAS 19 £'000	Restated 2012-2013 £'000
<b>Comprehensive Income and Expenditure Account (CIES)</b>			
Adult Social Care	85,562	149	85,711
Central Services to the Public	5,018	16	5,034
Corporate and Democratic Core	13,017	559	13,576
Cultural and Related Services	19,798	34	19,832
Education and Children's Services	56,177	458	56,635
Environmental and Regulatory Services	34,747	76	34,823
Exceptional Cost of Equal Pay	(14,441)	-	(14,441)
Fire and Rescue Services	14,607	67	14,674
Highways and Transport Services	30,734	69	30,803
Local Authority Housing (HRA)	(18,350)	4	(18,346)
Non Distributed Costs	4,749	-	4,749
Other Housing Services	3,873	16	3,889
Planning Services	7,415	22	7,437
Public Health	-	-	-
Cost of Services	242,906	1,470	244,376
Other Operating Expenditure	18,554	-	18,554
Finance and Investment Income and Expenditure	42,590	13,250	55,840
Taxation and Non-Specific Grant Income	(322,648)	-	(322,648)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(18,598)</b>	<b>14,720</b>	<b>(3,878)</b>
Other Comprehensive Income and Expenditure	51,445	(14,720)	36,725
<b>Total Comprehensive Income and Expenditure</b>	<b>32,847</b>	<b>-</b>	<b>32,847</b>
<b>Movement in Reserves Statement</b>			
<b>(Surplus) or Deficit on Provision of Services - Usable Reserves</b>	<b>(18,598)</b>	<b>14,720</b>	<b>(3,878)</b>
Other Comprehensive Income and Expenditure - Unusable Reserves	51,445	(14,720)	36,725
<b>Total Comprehensive Income and Expenditure</b>	<b>32,847</b>	<b>-</b>	<b>32,847</b>
<b>Cash Flow Statement</b>			
Net surplus/(deficit) on the provision of services	18,598	(14,720)	3,878
Adjustments to net surplus or deficit on the provision of services for non-cash movements	42,309	14,720	57,029
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(57,761)	-	(57,761)
<b>Net cash flows from Operating Activities</b>	<b>3,146</b>	<b>-</b>	<b>3,146</b>

## Notes to the Financial Statements

### 3. Changes in Accounting Estimates

The Equal Pay provision is now based on the outstanding claims received and an estimate of the liability for 2010-2011 based on an average amount per claim over an average duration. It is still not certain that all valid claims have been received by the Council or what the true liability for the 2010-2011 claims will be.

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

For 2013-2014, the accounting standards that have been published but which have not yet been adopted by the Code relate to:

- IFRS 10 Consolidated Financial Statements (May 2011). This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. There is no impact for the Council.
- IFRS 11 Joint Arrangements (May 2011). This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. The Council has no material joint venture arrangements.
- IFRS 12 Disclosures of Interests in Other Entities (May 2011). This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. There is no impact for the Council.
- IAS 27 Separate Financial Statements (as amended in May 2011) and IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011). There is no impact for the Council.
- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (as amended in December 2011). The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.
- IAS 1 Presentation of Financial Statements (as amended May 2011). The changes clarify the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

### 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

## Notes to the Financial Statements

PFI schemes and similar contracts have been applied to these arrangements and the associated assets (valued at £73.08 million for waste and £1.71 million for fire and rescue) are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

- The Council currently has outstanding liabilities of £7.00 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 Policy Board 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.

## Notes to the Financial Statements

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

Income and Expenditure 2013-2014	Adult Services	Children's Services	Finance	Fire & Rescue	HRA	Local Services	Public Health and Public Protection	Regener- ation	T transform- ation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(74,718)	(40,047)	(16,865)	(1,240)	(23,150)	(60,528)	(2,997)	113	(27,500)	(246,932)
Interest and Investment Income	(11)	-	(7,363)	-	(306)	(11)	-	-	-	(7,691)
Government Grants and Contributions	(379)	(198,672)	(89,565)	(1,798)	-	(1,970)	(13,144)	(575)	(182)	(306,285)
<b>Total Income</b>	<b>(75,108)</b>	<b>(238,719)</b>	<b>(113,793)</b>	<b>(3,038)</b>	<b>(23,456)</b>	<b>(62,509)</b>	<b>(16,141)</b>	<b>(462)</b>	<b>(27,682)</b>	<b>(560,908)</b>
Employee Expenses	31,222	174,257	20,738	13,095	60	38,161	6,114	87	18,855	302,589
Other Service Expenses	134,494	101,547	86,484	4,585	13,233	85,109	11,687	5,741	21,955	464,835
Support Service Recharges	2,998	12,379	6,967	1,126	977	11,984	2,206	192	5,955	44,784
Interest Payments	1	-	21,459	-	4,294	-	-	-	-	25,754
Precepts and Levies	-	-	6,090	-	-	-	-	-	-	6,090
<b>Total Expenditure</b>	<b>168,715</b>	<b>288,183</b>	<b>141,738</b>	<b>18,806</b>	<b>18,564</b>	<b>135,254</b>	<b>20,007</b>	<b>6,020</b>	<b>46,765</b>	<b>844,052</b>
<b>Net Expenditure</b>	<b>93,607</b>	<b>49,464</b>	<b>27,945</b>	<b>15,768</b>	<b>(4,892)</b>	<b>72,745</b>	<b>3,866</b>	<b>5,558</b>	<b>19,083</b>	<b>283,144</b>

## Notes to the Financial Statements

Income and Expenditure 2012-2013 As Restated	Adult Services	Children's Services	Finance	Fire and Rescue	HRA	Local Services	Public Health and Transformation Protection	Total	
	£'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)
<b>Total Income</b>	<b>(47,845)</b>	<b>(248,281)</b>	<b>(136,860)</b>	<b>(3,195)</b>	<b>(28,537)</b>	<b>(50,067)</b>	<b>(6,369)</b>	<b>(58,138)</b>	<b>(579,292)</b>
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
<b>Total Expenditure</b>	<b>138,432</b>	<b>287,679</b>	<b>166,315</b>	<b>18,832</b>	<b>18,529</b>	<b>113,102</b>	<b>12,287</b>	<b>69,418</b>	<b>824,594</b>
<b>Net Expenditure</b>	<b>90,587</b>	<b>39,398</b>	<b>29,455</b>	<b>15,637</b>	<b>(10,008)</b>	<b>63,035</b>	<b>5,918</b>	<b>11,280</b>	<b>245,302</b>

## Notes to the Financial Statements

### 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.

	2012-2013 As Restated £'000	2013-2014 £'000
Net expenditure in the Service Area Analysis	245,302	283,144
Net expenditure of services and support services not included in the Analysis	(9,403)	(8,418)
Amounts in the Comprehensive Income and Expenditure Statement not reported to management for decision making	33,532	46,281
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(25,055)	(23,098)
Cost of Services in Comprehensive Income and Expenditure Statement	244,376	297,909

## Notes to the Financial Statements

### 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.

2013-2014	Service Area Analysis	Services and Support Services not in Analysis	Amounts not reported to management 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	(246,932)	50,672	(383)	106	45,797	(150,740)	(6,284)	(157,024)
Interest and investment income	(7,691)	-	-	7,691	-	-	(7,691)	(7,691)
Income from council tax	-	-	-	-	-	-	(139,123)	(139,123)
Government grants and contributions	(306,285)	175	-	-	-	(306,110)	(198,090)	(504,200)
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	(3,138)	(3,138)
<b>Total Income</b>	<b>(560,908)</b>	<b>50,847</b>	<b>(383)</b>	<b>7,797</b>	<b>45,797</b>	<b>(456,850)</b>	<b>(354,326)</b>	<b>(811,176)</b>
Employee expenses	302,589	(24,766)	(5,447)	-	-	272,376	53,935	326,311
Other service expenses	464,835	(23,243)	-	949	(45,797)	396,744	(22,200)	374,544
Support Service recharges	44,784	(7,216)	-	-	-	37,568	7,216	44,784
Depreciation, revaluation, amortisation and impairment	-	(4,040)	52,111	-	-	48,071	4,421	52,492
Interest Payments	25,754	-	-	(25,754)	-	-	25,754	25,754
Precepts & Levies	6,090	-	-	(6,090)	-	-	6,090	6,090
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	943	943
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	45,450	45,450
<b>Total Expenditure</b>	<b>844,052</b>	<b>(59,265)</b>	<b>46,664</b>	<b>(30,895)</b>	<b>(45,797)</b>	<b>754,759</b>	<b>121,609</b>	<b>876,368</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>283,144</b>	<b>(8,418)</b>	<b>46,281</b>	<b>(23,098)</b>	<b>-</b>	<b>297,909</b>	<b>(232,717)</b>	<b>65,192</b>

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.

## Notes to the Financial Statements

2012-2013 As Restated	Service Area Analysis	Services and Support Services not in Analysis	Amounts not reported to management 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)	(166,309)	(504,525)
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	(22,088)	(22,088)
<b>Total Income</b>	<b>(579,292)</b>	<b>62,086</b>	<b>(5,450)</b>	<b>8,268</b>	<b>57,715</b>	<b>(456,673)</b>	<b>(364,745)</b>	<b>(821,418)</b>
Employee expenses	296,242	(26,458)	(3,989)	-	-	265,795	55,242	321,037
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)	42,971	-	-	33,829	7,488	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
<b>Total Expenditure</b>	<b>824,594</b>	<b>(71,489)</b>	<b>38,982</b>	<b>(33,323)</b>	<b>(57,715)</b>	<b>701,049</b>	<b>116,491</b>	<b>817,540</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>245,302</b>	<b>(9,403)</b>	<b>33,532</b>	<b>(25,055)</b>	<b>-</b>	<b>244,376</b>	<b>(248,254)</b>	<b>(3,878)</b>

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.

## Notes to the Financial Statements

### 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 2014 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 2014 was £1,148.04 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. Where an asset is considered specialised or there is no active market, it is valued by the depreciated replacement cost (DRC) method. This considers the costs to construct a modern equivalent asset (MEA) to deliver the same service. The Council's valuers estimate these values with reference to build costs published by the Royal Institute of Chartered Surveyors.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls.
Equal Pay Provision	The Council has amended slightly the amount provided for since 2008-2009 to £17.99 million. Of this, £7.0 million remains on the balance sheet as at 31 March 2014 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 £1.79 million to the provision needed.
Pensions Liability	At 31 March 2014, the Council had a net pensions liability of £585.94 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	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £22.35 million. However, the assumptions interact in complex

## Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	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.	ways. During 2013-2014, the Council's actuary advised that the net pensions liability for funded LGPS benefits had decreased by £53.28 million due to changes in demographic assumptions and experience, and decreased by £115.38 million due to changes in actuarial assumptions.
Arrears	At 31 March 2014, the Council had a balance of sundry debtors of £10.93 million. A review of significant balances suggested that an impairment of doubtful debts of 11.0% (£1.20 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 £2.40 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 slight amendment to the Provision has been made during 2013-2014 in relation to equal pay, the change to the Comprehensive Income and Expenditure Statement is £0.24 million (£0.13 million in respect of the provision and £0.37 million in relation to additional administration costs). The amounts paid in year totalled £0.12 million but payments cancellations totalling £0.29 million were made resulting in an overall change of £0.17 million. 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 been met from a return to the General Fund. It is now anticipated that the total provision required as at 31 March 2014 will be predominately based on the outstanding claims to date and an estimate of the liability for 2010-2011. As the exact liability for 2010-2011 is still to be calculated and 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, the provision has been set at £7.00 million.

### 10. Events After the Reporting Period

The Statement of Accounts will be authorised for issue by the Lead Executive Director Corporate Resources of Finance on 30 September 2014. 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 2014, 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 2014:

## Notes to the Financial Statements

### 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 Annual Treasury Management Policy sets out the limits for investments. From 2014-2015 the Council's policy continues to be the security of principal. There is no change to the Specified Investment Criteria and it is anticipated that the majority of investments will be specified, however the portfolio has been diversified to help manage risk and increase lending capacity.

The policy changed at 1 April 2014 as follows:

- An additional level of criteria for the use of bonds was added so that £5.00 million may be placed for a maximum period of 12 months.
- Time limits for investments with building societies were increased to 6 or 12 months.
- Enhanced cash funds time limits were increased from 1 day to 30 days.
- Good/medium grade banks were added.

The Counterparty Criteria List does not advocate riskier investments; it is to be used to ensure diversification of investments over a larger number of organisations and instruments should it become necessary.

From 1 April 2014 the following limits for the investment of surplus funds apply:

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	6 months
UK Government Gilts, Bonds Treasury Bills	N/A	N/A	Unlimited	15 years
Semi-nationalised Banks	N/A	N/A	£35m (Group Limit £70m)	12 months
Money Market Funds	AAA	Aaa	£25m (Group Limit £150m)	Instant access
Very High Grade UK Banks/ Building Societies	AA-	Aa3	£25m (Group Limit £50m)	12 months
High/medium grade UK Banks/Building Societies	A-	A3	£15m (Group Limit £30m)	12 months
Good,/medium grade UK Banks/Building Societies	BBB	Baa1	£10m	6 months
High Grade Foreign Banks	A-	A3	£10m (Country Limit £30m)	6 months
Enhanced Cash Funds	AAA	Aaa	£15m (Group Limit £60m)	30 days' notice
Deposits or Corporate Bonds	A-	A3	£10m	5 years
Building societies with assets in excess of £10 billion	N/A	N/A	£12m	12 months
Building societies with assets in excess of £1 billion	N/A	N/A	£5m	6 months

## Notes to the Financial Statements

### 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.

## Notes to the Financial Statements

2013-2014	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
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Charges for depreciation and impairment of non current assets	(32,250)	(6,954)	-	-	-	39,204
Revaluation (losses)/gains on Property Plant and Equipment	(8,601)	6,175	-	-	-	2,426
Movements in the market value of Investment Properties	910	51	-	-	-	(961)
Amortisation of intangible assets	(263)	-	-	-	-	263
Capital grants and contributions applied	33,127	1,465	-	-	-	(34,592)
Revenue expenditure funded from capital under statute	(16,442)	-	-	-	-	16,442
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	(45,365)	(131)	-	-	-	45,496
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
Statutory provision for the financing of capital investment	15,695	-	-	-	-	(15,695)
Capital expenditure charged against the General Fund and HRA balances	2,502	7,604	-	-	-	(10,106)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,245	-	-	(2,245)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	4,505	-	(4,505)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	3,188	-	(3,188)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	1,903	-	-	(1,903)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	(76)	-	76	-	-	-

## Notes to the Financial Statements

2013-2014

	Usable Reserves					
	General	Housing	Capital	Capital	Major	Movement
	Fund	Revenue	Receipts	Grants	Repairs	in
Balance	Account	Reserve	Unapplied	Reserve	Unusable	Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(943)	-	943	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(467)	-	-	467
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	-	-	(68)	-	-	68
Transfer to the Capital Receipts Reserve upon receipt of cash	(38)	-	-	-	-	38
<b>Adjustment primarily involving the Major Repairs Reserve</b>						
Reversal of Major Repairs Allowance credited to the HRA	-	6,954	-	-	(6,954)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	6,860	(6,860)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(703)	-	-	-	-	703
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(58,803)	(107)	-	-	-	58,910
Employer's pensions contributions and direct payments to pensioners payable in the year	35,510	60	-	-	-	(35,570)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(2,303)	-	-	-	-	2,303

## Notes to the Financial Statements

2013-2014	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
<a href="#">Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:</a>						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-
<a href="#">Adjustment primarily involving the Accumulated Absences Account:</a>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	383	-	-	-	-	(383)
<b>Total Adjustments</b>	<b>(72,227)</b>	<b>15,117</b>	<b>(801)</b>	<b>2,260</b>	<b>(94)</b>	<b>55,745</b>

## Notes to the Financial Statements

2012-2013 As Restated

	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
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
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)
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
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>						
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)
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
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)
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	20,072	-	(18,207)	-	-	(1,865)
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	18,397	-	-	(18,397)
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	-	-	-

## Notes to the Financial Statements

2012-2013 As Restated

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Transfer from Deferred Capital Receipts Reserve			(396)			396
<b>Adjustments primarily involving the Deferred Capital Receipts Reserve:</b>						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	2,001	-	-	-	-	(2,001)
Transfer to the Capital Receipts Reserve upon receipt of cash	(35)	-	-	-	-	35
<b>Adjustment primarily involving the Major Repairs Reserve</b>						
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)
<b>Adjustments primarily involving the Financial Instruments Adjustment Account:</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(671)	-	-	-	-	671
<b>Adjustments primarily involving the Pensions Reserve:</b>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(55,753)	(107)	-	-	-	55,860
Employer's pensions contributions and direct payments to pensioners payable in the year	36,592	68	-	-	-	(36,660)
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,889)	-	-	-	-	1,889

## Notes to the Financial Statements

2012-2013 As Restated

	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Adjustment primarily involving the Accumulated Absences Account:</i>						
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)
<b>Total Adjustments</b>	<b>(19,617)</b>	<b>11,753</b>	<b>933</b>	<b>1,925</b>	<b>265</b>	<b>4,741</b>

## Notes to the Financial Statements

### 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 2013-2014.

	2012-2013			2013-2014			Balance as at 31 March 2014 £'000
	Balance as at 1 April 2012 £'000	Transfers Out £'000	Transfers In £'000	Balance as at 31 March 2013 £'000	Transfers Out £'000	Transfers In £'000	
<b>General Fund Reserves:</b>							
Insurance Reserve	9,760	(720)	-	9,040	(86)	-	8,954
Balances held by schools under a scheme of delegation	9,742	(57)	-	9,685	(3,484)	2,843	9,044
NCC Economic Regeneration Reserve	192	(28)	-	164	-	-	164
NCC Waste PFI Sinking Fund Reserve	7,165	(3,648)	7,472	10,989	(1,846)	-	9,143
NCC Fire and Rescue PFI Sinking Fund	1,067	(317)	164	914	-	-	914
NCC Single Status Reserve	211	(211)	-	-	-	-	-
Planning Delivery Grant	407	(125)	-	282	-	270	552
Contingency Reserve	14,557	-	5,984	20,541	-	-	20,541
Deprived Seaside Reserve	200	(14)	-	186	(87)	-	99
Revenue Grants	8,490	(8,490)	7,634	7,634	(7,634)	9,157	9,157
Adults Services	10,506	(769)	-	9,737	(27)	-	9,710
Single Status	7,157	(7,157)	-	-	-	-	-
Section 106 Reserve	1,308	(164)	203	1,347	(355)	1,110	2,102
Local Authority Mortgage Scheme	36	-	85	121	-	85	206
Pension Cost Reserve	2,970	-	-	2,970	-	-	2,970
Invest to Save	5,000	(1,069)	-	3,931	(362)	-	3,569
Transformation Projects	420	-	-	420	(420)	-	-
Rural Growth Network	-	-	3,143	3,143	(2,348)	-	795
Market Traders' Levy	-	-	4	4	(4)	5	5
	79,188	(22,769)	24,689	81,108	(16,653)	13,470	77,925

## Notes to the Financial Statements

	2012-2013			2013-2014			Balance as at 31 March 2014 £'000
	Balance as at 1 April 2012 £'000	Transfers Out £'000	Transfers In £'000	Balance as at 31 March 2013 £'000	Transfers Out £'000	Transfers In £'000	
<b>Transferred from the Borough and District Councils:</b>							
ADC Section 106 Monies	87	(8)	-	79	-	8	87
ADC Parks & Open Spaces	215	-	-	215	(19)	-	196
ADC Housing Capital	242	(41)	-	201	-	-	201
	544	(49)	-	495	(19)	8	484
<b>Total General Fund Reserves</b>	<b>79,732</b>	<b>(22,818)</b>	<b>24,689</b>	<b>81,603</b>	<b>(16,672)</b>	<b>13,478</b>	<b>78,409</b>
<b>HRA Account:</b>							
Major Repairs Allowance	1,483	(265)	-	1,218	-	94	1,312
<b>Total Reserves</b>	<b>81,215</b>	<b>(23,083)</b>	<b>24,689</b>	<b>82,821</b>	<b>(16,672)</b>	<b>13,572</b>	<b>79,721</b>

## Notes to the Financial Statements

### 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 2014 is £8.95 million (31 March 2012-2013 £9.04 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 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. An initial payment has been made in February 2014 for a levy notice fee of £0.75 million; this provision is now £0.60 million subject to an update from the MMI Scheme Administrator EY LLP due in November 2014.

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

The School Balances Reserve of £9.04 million includes school balances of £7.57 million (£8.16 million in 2012-2013), 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 £1.47 million (£1.53 million in 2012-2013). The school balances are made up as follows:

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Unspent Balances	9,170	8,631
Overspent Balances	(877)	(1,000)
Loan Outstanding	(136)	(57)
	8,157	7,574

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 2014 there were three loans outstanding of £0.06 million (2012-2013: £0.13 million) for Morpeth Chantry Middle School £0.04 million, Corbridge Middle School £0.01 million and Hipsburn First School £0.01 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

## Notes to the Financial Statements

existing companies, key projects in communities and development opportunities or major projects.

The reserve earned interest of five hundred pounds during the year.

It is anticipated that the remaining balance of £0.16 million will be fully utilised during 2014-2015.

### **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 2013-2014 £1.85 million was utilised to fund 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. The reserve was not utilised during 2013-2014.

### **NCC Single Status Reserve**

This reserve was originally established 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. No expenditure was incurred during 2012-2013 or 2013-2014. The funds have now been returned to revenue and the reserve closed.

### **Planning Delivery Grant**

This was created using the Planning Delivery Grant received by the former District and Borough Councils and Northumberland County Council prior to Local Government Reorganisation. This is used to contribute towards expenditure in the preparation of the Northumberland Local Plan, primarily the core strategy. During 2013-2014 £0.27 million was added to the reserve from the Development Services budget to cover the additional estimated future cost of the Core Strategy.

### **Contingency Reserve**

In accordance with the capitalisation bid submitted to Department for Communities and Local Government 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.

## Notes to the Financial Statements

### Revenue Grants Reserve

Revenue government grants on occasion are paid to local authorities but have a number of conditions attached. The introduction of International Financial Reporting Standards (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 incurred.

### Adults Services Reserve

This reserve is funded from the Adult 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 covered both schools and non-schools liabilities. No expenditure was incurred during 2012-2013 or 2013-2014. The implementation of Single Status is now complete and the funds have now been returned to revenue and the reserve closed.

### Section 106 Reserve

This 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 2013-2014 £1.11 million was received from developers with £0.36 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 Sector's Local Authority Mortgage Scheme. The scheme is designed to provide mortgages to first time buyers to help them on to 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 2013-2014 £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.

## Notes to the Financial Statements

### Transformation Projects

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. Due to the management reorganisation of the Council this reserve was fully released into revenue 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 being 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

The reserve was established by Alnwick District Council from income received in relation to Section 106 agreements.

### 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. £0.02 million was utilised during 2013-2014.

### Alnwick District Council – Housing Capital

This reserve was established by Alnwick District Council to fund future Affordable Housing capital expenditure. The reserve was not utilised during 2013-2014.

### 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 147.

## Notes to the Financial Statements

### 13. Other Operating Expenditure

	2012-2013	2013-2014
	£'000	£'000
Parish and other precepts	6,169	6,090
Payments to the Government Housing Capital Receipts Pool	954	943
(Upward)/Downward Valuation of Assets Held for Sale	(1,655)	381
Losses on the disposal of non-current assets	13,086	42,312
<b>Total net operating expenditure</b>	<b>18,554</b>	<b>49,726</b>

### 14. Financing and Investment Income and Expenditure

	2012-2013	2013-2014
	As Restated	
	£'000	£'000
Interest payable and similar charges	25,980	25,754
Pensions interest cost and expected return on pensions assets	28,640	29,170
Interest receivable and similar income	(8,357)	(7,691)
(Surplus)/Deficit on trading undertakings	9,403	8,417
Income and expenditure in relation to investment properties and changes in their fair value	174	(1,054)
<b>Total Financing and Investment Income and Expenditure</b>	<b>55,840</b>	<b>54,596</b>

### 15. Taxation and Non-Specific Grant Income

	2012-2013	2013-2014
	£'000	£'000
Council tax income	(156,530)	(139,123)
Non domestic rates	(119,571)	(34,628)
Non-ring fenced government grants	(10,849)	(126,451)
Capital grants and contributions	(35,698)	(36,837)
<b>Total Taxation and Non Specific Grant Income</b>	<b>(322,648)</b>	<b>(337,039)</b>

## Notes to the Financial Statements

### 16. Property, Plant and Equipment

<b>Movements in 2013-2014:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>									
At 1 April 2013	243,266	546,429	124,848	354,789	10,488	13,783	23,291	1,316,894	91,391
Additions	9,548	5,436	7,503	14,397	37	-	27,478	64,399	-
Reclassifications	1,322	2,845	3,344	2,145	(908)	(526)	(10,140)	(1,918)	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(380)	-	-	-	477	-	97	-
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(713)	(8,670)	-	-	-	(975)	-	(10,358)	-
De-recognition - Disposals	(1,607)	(38,243)	(3,103)	-	(1)	(108)	(3,230)	(46,292)	-
De-recognition - Other	-	(4,130)	-	-	-	-	-	(4,130)	-
Assets reclassified (to)/from Held for Sale	-	(580)	-	-	-	(1,217)	-	(1,797)	-
At 31 March 2014	251,816	502,707	132,592	371,331	9,616	11,434	37,399	1,316,895	91,391
<b>Accumulated Depreciation and Impairment:</b>									
At 1 April 2013	-	30,241	29,526	83,243	1,428	479	-	144,917	13,095
Depreciation/Impairment charge	6,888	14,125	7,776	10,113	125	177	-	39,204	3,509
Reclassifications	-	382	-	-	(385)	3	-	-	-
Depreciation written out to the Revaluation Reserve	-	(1,630)	-	-	-	(73)	-	(1,703)	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(6,888)	(1,145)	-	-	-	(111)	-	(8,144)	-

## Notes to the Financial Statements

<b>Movements in 2013-2014:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
Impairment Losses/(Reversals) recognised in the Surplus/(Deficit) on the Provision of Services	-	-	-	-	-	-	-	-	-
De-recognition - Disposals	-	(2,378)	(2,627)	-	-	-	-	(5,005)	-
De-recognition – Other	-	(415)	-	-	-	-	-	(415)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
At 31 March 2014	-	39,180	34,675	93,356	1,168	475	-	168,854	16,604
Net Book Value:									
At 31 March 2014	251,816	463,527	97,917	277,975	8,448	10,959	37,399	1,148,041	74,787
At 31 March 2013	243,266	516,188	95,322	271,546	9,060	13,304	23,291	1,171,977	78,296

## Notes to the Financial Statements

<b>Movements in 2012-2013:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation:</b>									
At 1 April 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
<b>Accumulated Depreciation and Impairment:</b>									
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)	-

## Notes to the Financial Statements

<b>Movements in 2012-2013:</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	(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
<b>Net Book Value:</b>									
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

## Notes to the Financial Statements

### 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
<b>Cost or Valuation:</b>				
As at 1st April 2013	6,082	1,276	927	8,285
Additions	-	-	-	-
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Revaluations recognised in Revaluation Reserve	-	-	-	-
Revaluations recognised in the Surplus/(Deficit) on the Provision of Services	-	-	-	-
<b>As at 31 March 2014</b>	<b>6,082</b>	<b>1,276</b>	<b>927</b>	<b>8,285</b>
<b>Accumulated Depreciation and Impairment :</b>				
As at 1st April 2013	-	52	23	75
Depreciation Charge	-	-	-	-
Disposals	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	-	-	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	-	-	-
<b>As at 31 March 2014</b>	<b>-</b>	<b>52</b>	<b>23</b>	<b>75</b>
Net Book Value 31 March 2014	6,082	1,224	904	8,210
Net Book Value 31 March 2013	6,082	1,224	904	8,210

## Notes to the Financial Statements

	Museum, Art and Artefact Collection £'000	Public Sculptures and Memorials £'000	Historic Buildings £'000	Total £'000
<b>Cost or Valuation:</b>				
As at 1st April 2012	6,082	1,294	915	8,291
Additions	-	-	12	12
Reclassifications	-	-	-	-
Disposals	-	(18)	-	(18)
Revaluations recognised in Revaluation Reserve	-	-	-	-
Revaluations recognised in the Surplus/(Deficit) on the Provision of Services	-	-	-	-
<b>As at 31 March 2013</b>	<b>6,082</b>	<b>1,276</b>	<b>927</b>	<b>8,285</b>
<b>Accumulated Depreciation and Impairment :</b>				
As at 1st April 2012	-	52	23	75
Depreciation Charge	-	-	-	-
Disposals	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	-	-	-
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	-	-	-	-
<b>As at 31 March 2013</b>	<b>-</b>	<b>52</b>	<b>23</b>	<b>75</b>
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

## Notes to the Financial Statements

### Heritage Assets: Five Year Summary of Transactions

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

	2010-2011	2011-2012	2012-2013	2013-2014
	£'000	£'000	£'000	£'000
<b>Cost of Acquisitions of Heritage Assets</b>				
Museum, Art and Artefact Collection	-	-	-	-
Public Sculptures and Memorials	-	86	-	-
Historic Buildings	-	-	12	-
<b>Total Cost of Purchases</b>	-	86	12	-
<b>Value of Heritage Assets Acquired by Donation</b>				
Museum, Art and Artefact Collection	-	-	-	-
Public Sculptures and Memorials	-	-	-	-
Historic Buildings	-	-	-	-
<b>Total Donations</b>	-	-	-	-
<b>Disposals of Heritage Assets</b>				
Museum, Art and Artefact Collection	-	(127)	-	-
Public Sculptures and Memorials	-	-	(18)	-
Historic Buildings	-	-	-	-
<b>Carrying Value</b>	-	(127)	(18)	-
<b>Proceeds</b>	-	-	-	-
<b>Impairment Recognised in Period</b>				
Museum, Art and Artefact Collection	-	-	-	-
Public Sculptures and Memorials	-	-	-	-
Historic Buildings	-	-	-	-
<b>Total Impairments</b>	-	-	-	-
<b>Revaluations in the Period</b>				
Museum, Art and Artefact Collection	-	4,600	-	-
Public Sculptures and Memorials	-	375	-	-
Historic Buildings	-	-	-	-
<b>Total Revaluations</b>	-	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.

## Notes to the Financial Statements

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 archive 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.

The disposal in 2011-2012 is in relation to Berwick Civic Regalia transferred from the County Council to the Parish Council; and the disposal in 2012-2013 is in relation to artwork which is an integral part of the building at Berwick Workspace, Marygate, Berwick upon Tweed. The building was sold in 2012-2013.

## Notes to the Financial Statements

### 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:

	2012-2013	2013-2014
	£'000	£'000
Rental income from investment property	(55)	(105)
Direct operating expenses arising from investment property	6	13
Net Gain	(49)	(92)

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

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

	2012-2013	2013-2014
	£'000	£'000
Balance at the start of the year	13,462	2,354
Additions	-	13
Reclassifications	-	688
Assets reclassified (to)/from Held For Sale	-	-
Disposals	(10,885)	(155)
Net (losses)/gains from fair value adjustments	(223)	961
Balance at the end of the year	2,354	3,861

### 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
5 years	None	Fire Service call taking and mobilizing system

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.26 million charged to revenue in 2013-2014 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.

## Notes to the Financial Statements

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

	Current		Long Term	
	2012-2013	2013-2014	2012-2013	2013-2014
	Total	Total	Total	Total
	Intangible	Intangible	Intangible	Intangible
	Assets	Assets	Assets	Assets
	(Other)*	(Other)*	(Other)*	(Other)*
	£'000	£'000	£'000	£'000
<b>Balance at start of year:</b>				
Gross carrying amounts	-	19	2,493	2,882
Accumulated amortisation	-	-	(1,913)	(2,091)
Net carrying amount at the start of year	-	19	580	791
<b>Additions:</b>				
- Purchases	19	-	369	1,183
Assets reclassified from PPE	-	-	20	1,230
Other Disposals	-	-	-	-
Amortisation for the period	-	-	(178)	(263)
Net carrying amount at the end of year	19	19	791	2,941
<b>Comprising:</b>				
Gross carrying amounts	19	19	2,882	5,295
Accumulated amortisation	-	-	(2,091)	(2,354)
	19	19	791	2,941

Note \* The Council has no internally generated assets.

## Notes to the Financial Statements

### 20. Financial Instruments

#### Categories of Financial Instruments

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

	Long Term		Current	
	31 March	31 March	31 March	31 March
	2013	2014	2013	2014
	£'000	£'000	£'000	£'000
<b>Investments:</b>				
Loans and receivables (principal)	96,617	<b>93,639</b>	170,030	<b>26,552</b>
Add: Accrued Interest	-	-	1,387	<b>928</b>
Loans and receivables at amortised cost	96,617	<b>93,639</b>	171,417	<b>27,480</b>
Available for sale financial assets	13,399	<b>13,399</b>	-	-
Unquoted equity investment at cost	3,340	<b>3,340</b>	-	-
Total Investments	113,356	<b>110,378</b>	171,417	<b>27,480</b>
<b>Debtors:</b>				
Loans and receivables	37,704	<b>159,797</b>	63,558	<b>77,448</b>
Total Debtors	37,704	<b>159,797</b>	63,558	<b>77,448</b>
<b>Borrowings:</b>				
Financial liabilities at amortised cost	(501,593)	<b>(472,865)</b>	(52,242)	<b>(68,972)</b>
Add: Accrued Interest	-	-	(4,411)	<b>(4,245)</b>
Add : Amortised premiums/(discounts)	1,833	<b>1,818</b>	15	<b>15</b>
Total Borrowings	(499,760)	<b>(471,047)</b>	(56,638)	<b>(73,202)</b>
<b>Creditors:</b>				
Financial liabilities at amortised cost	(5,936)	<b>(5,189)</b>	(51,277)	<b>(53,587)</b>
Total Creditors	(5,936)	<b>(5,189)</b>	(51,277)	<b>(53,587)</b>

## 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	Term (Years)	Contracted Rate	Fair Value Rate	Opening Balance (Fair Value) 1 April 2013	New Advances in Year	Fair Value adjustment on initial recognition	Loans Repaid	Increase in discounted amount	Closing Balance (Fair Value) 31 March 2014	Closing Balance (Nominal) 31 March 2014
				£'000	£'000	£'000	£'000	£'000	£'000	£'000
Homes for Northumberland - Allendale Properties	40	4.50%	6.00%	1,139	-	-	(15)	6	1,124	1,370
Homes for Northumberland - Redundancies	3	0.00%	2.79%	1,312	-	-	(462)	37	850	924
Northumberland Healthcare Trust - Local Govt Pension Scheme	15	1.50%	5.00%	2,556	-	-	(719)	104	1,837	2,376
Persimmon Homes - Deferred Capital Receipt (Wellesley Site)	4	0.00%	5.25%	2,001	(72)	4	(489)	101	1,444	1,710
Loans to Adoptive Parents	10	0.00%	3.70%	11	-	-	(4)	-	7	9
NCC Staff - Cycle to Work Scheme	1	0.00%	3.70%	47	56	(2)	(62)	2	39	41
Berwick Core - Solar Panels	9	4.00%	9.34%	60	-	-	(7)	3	53	66

### 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.

### Loan to Northumbria Healthcare NHS Foundation Trust

A loan of £114.2 million was made to Northumbria Healthcare NHS Foundation Trust on 28 March 2014, in order to assist the Trust in refinancing an existing PFI arrangement. The Council does not consider that soft loan adjustments are appropriate for the loan, on the basis that the interest rate attached to the advance, of 3.98% (equivalent to 4.25% after taking into consideration arrangement fees etc.), is comparable to prevailing rates available to similar organisations via the National Loan Fund (NLF).

## Notes to the Financial Statements

### Loans to Arch (Corporate Holdings) Ltd

Further loans, totalling £13.96 million, were also advanced during the year to Arch (Corporate Holdings) Ltd, the Council's arms-length regeneration company, in respect of the purchase of housing and investment properties. Again, 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: An interest rate of 5.75% was applied to the loans advanced during 2013-2014, during which time similar or lower rates were available to housing sector organisations on the open market.

### 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:

	2012-2013					2013-2014				
	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	(26,080)	-	-	-	(26,080)	(26,031)	-	-	-	(26,031)
Impairment losses	-	211	-	-	211	-	(53)	-	-	(53)
Fee Expense	(70)	-	-	-	(70)	(19)	-	-	-	(19)
Total expense in surplus or deficit on the provision of services	(26,150)	211	-	-	(25,939)	(26,050)	(53)	-	-	(26,103)
Interest income	-	7,853	-	-	7,853	-	8,554	-	-	8,554
Interest income accrued on impaired financial assets	-	236	-	-	236	-	178	-	-	178
Total income in surplus or deficit on the provision of services	-	8,089	-	-	8,089	-	8,732	-	-	8,732
Net gain/(loss) for the year	(26,150)	8,300	-	-	(17,850)	(26,050)	8,679	-	-	(17,371)

## Notes to the Financial Statements

### Fair Values of Assets and Liabilities

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

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, 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 2013		31 March 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB - Maturity	131,337	153,007	131,352	144,514
PWLB - Annuity	1,101	1,856	994	1,556
PWLB - EIP	82,054	88,467	73,502	75,674
LOBOs	262,617	263,899	262,616	247,017
Temporary Loans	35,442	35,529	30,001	30,002
Cash Overdrawn	26,318	26,318	14,843	14,843
Market Loans	43,847	43,847	45,784	45,686
Financial Liabilities	582,716	612,923	559,092	559,292
Long-Term Creditors	90,957	90,957	5,189	5,189
Total Liabilities	673,673	703,880	564,281	564,481

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 2014) arising from a commitment to pay interest to lenders above current market rates.

## Notes to the Financial Statements

	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Cash	46,486	46,486	<b>35,896</b>	<b>35,896</b>
Short-Term Investments	171,417	171,417	<b>27,480</b>	<b>27,480</b>
Long Term Investments	113,356	118,505	<b>110,378</b>	<b>113,646</b>
Loans and Receivables	331,259	336,408	<b>173,754</b>	<b>177,022</b>
Long Term Debtors	37,704	37,704	<b>159,797</b>	<b>159,797</b>
Total Assets	368,963	374,112	<b>333,551</b>	<b>336,819</b>

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 2014. This increases the fair value of financial liabilities and raises the value of loans and receivables.

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 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000
	Balance at start of year	825	<b>432</b>	303	<b>191</b>	1,128
Purchases	3,447	<b>1,560</b>	3,682	<b>3,464</b>	7,129	<b>5,024</b>
Recognised as an expense in the year	<b>(3,848)</b>	<b>(1,187)</b>	<b>(3,776)</b>	<b>(3,370)</b>	<b>(7,624)</b>	<b>(4,557)</b>
Written off balances	8	-	<b>(18)</b>	<b>(14)</b>	<b>(10)</b>	<b>(14)</b>
Balance at end of year	432	<b>805</b>	191	<b>271</b>	623	<b>1,076</b>

## Notes to the Financial Statements

### 22. Debtors

	31 March 2013 £'000	31 March 2014 £'000
<b>Short Term:</b>		
Central government bodies	16,680	13,450
Other local authorities	9,270	12,785
NHS bodies	4,230	9,520
Public corporations and trading funds	615	2,570
Other entities and individuals	32,763	39,123
<b>Total Short Term</b>	<b>63,558</b>	<b>77,448</b>
<b>Long Term:</b>		
NCC - Airport Loan Notes	11,916	11,916
NCC - Car Loans to Employees	2	6
NCC - Soft Loans (Adoptive Parents)	8	4
NCC - Homes for Northumberland	1,370	1,355
NCC - Homes for Northumberland Soft Loan Notional Interest	(246)	(240)
NCC - Homes for Northumberland Redundancy Costs Loan	850	425
NCC - Persimmon Homes Deferred Payment (Wellesley Site)	1,466	1,056
Lloyds TSB Lend a Hand Scheme	2,000	2,000
Northumberland College	2,396	2,221
Northumbria Healthcare Trust LGPS Loan	2,080	1,682
North Country Leisure - Office Accommodation	91	81
North Country Leisure - Ten Pin Bowling	534	496
Haltwhistle Leisure Centre Loan for Solar Panels	25	18
Prudhoe Town Council Cemetery Loan	5	-
Kielder Parish Council Loan for Mower	4	3
Harleyburn Parish Council Loan for Legal Advice	4	3
Berwick CoRE PV Panels Loan	53	45
ARCH Loan - Housing	1,370	5,473
ARCH Loan - B & Q	2,783	12,640
ARCH Loan - Assets Tranche 1	9,930	9,930
Finance Lease Receivable	606	568
ADC – Anchor Trust (Erection of dwellings at West Crescent)	57	57
ADC – Anchor Trust (Erection of dwellings at Bailiffgate)	10	8
ADC – Anchor Trust (Erection of dwellings at Percy Street)	19	17
CMBC – Your Homes Newcastle	327	301
CMBC - Anchor Housing Association	19	17
TDC – Loans to Parishes	15	13
WDC – Housing Act Advances Mortgages	10	8
Broadband Loan - Briskona	-	50
Broadband Loan - Avonline	-	12
Northumbria Healthcare NHS Foundation Trust Loan	-	109,632
<b>Total Long Term</b>	<b>37,704</b>	<b>159,797</b>
<b>Total Debtors</b>	<b>101,262</b>	<b>237,245</b>

## Notes to the Financial Statements

### 23. Cash and Cash Equivalents

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

	31 March 2013 £'000	31 March 2014 £'000
Cash and Bank Balances	46,486	35,896
Bank overdraft	(26,318)	(14,843)
Total Cash and Cash Equivalents	20,168	21,053

### 24. Assets Held for Sale

	Current		Non-Current	
	2012-2013 £'000	2013-2014 £'000	2012-2013 £'000	2013-2014 £'000
Balance at 1 April	9,154	4,030	640	420
<i>Assets newly classified as held for sale:</i>				
Property, Plant and Equipment	257	1,797	-	-
Revaluation Losses	(271)	(381)	(220)	-
Revaluation gains	2,146	-	-	-
<i>Assets declassified as held for sale:</i>				
Property, Plant and Equipment	(527)	-	-	-
Assets sold	(7,116)	(251)	-	(45)
Other movements	387	-	-	-
Balance outstanding at year-end	4,030	5,195	420	375

### 25. Creditors

	31 March 2013 £'000	31 March 2014 £'000
Central government bodies	(7,910)	(9,019)
Other local authorities	(991)	(935)
NHS bodies	(1,630)	(1,853)
Public corporations and trading funds	(216)	(148)
Other entities and individuals	(41,747)	(41,113)
Total	(52,494)	(53,068)

## Notes to the Financial Statements

### 26. Provisions

	Redundancy Costs	Unequal PayBack Pay	Accumulated Absences	MMI Liability	Repairs & Maintenance	Leisure Management	Land Restoration	NNDR Appeals	Estates Rationalisation	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Short Term</b>											
Balance at 1 April 2012	(2,935)	(24,141)	(12,692)	(1,239)	-	-	-	-	-	(1,845)	(42,852)
Amounts used in 2012-2013	2,202	2,181	12,692	-	-	-	-	-	-	1,082	18,157
Additional provisions made in 2012-2013	(260)	-	(7,242)	(114)	(8,375)	-	-	-	-	(421)	(16,412)
Unused amounts reversed in 2012-2013	314	14,998	-	-	-	-	-	-	-	-	15,312
Balance at 1 April 2013	(679)	(6,962)	(7,242)	(1,353)	(8,375)	-	-	-	-	(1,184)	(25,795)
Amounts used in 2013-2014	497	118	7,242	753	48	-	-	-	-	829	9,487
Additional provisions made in 2013-2014	(2,573)	(156)	(6,860)	-	(3,651)	(1,781)	(9,000)	(2,633)	(6,000)	(493)	(33,147)
Unused amounts reversed in 2013-2014	182	-	-	-	-	-	-	-	-	-	182
Short Term Balance at 31 March 2014	(2,573)	(7,000)	(6,860)	(600)	(11,978)	(1,781)	(9,000)	(2,633)	(6,000)	(848)	(49,273)
<b>Long Term</b>											
Long Term Balance at 31 March 2014	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2014	(2,573)	(7,000)	(6,860)	(600)	(11,978)	(1,781)	(9,000)	(2,633)	(6,000)	(848)	(49,273)

## Notes to the Financial Statements

### Redundancy Costs

Redundancy costs have been provided for planned areas of restructuring. The redundancy plans were communicated to departments involved during 2013-2014 (and for comparative amounts during 2012-2013) 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.

### 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 2014 will be extinguished in 2014-2015 as the relevant leave is taken by employees.

### Municipal Mutual Insurance (MMI) Liability

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 2014, the total amount of the Council's claims to date subject to reclamation was £5.02 million (£4.96 million as at 31 March 2013). 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.

£0.60 million has been included in provisions to meet potential future liabilities arising from the Council's participation in a Scheme of Arrangement with MMI. This 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.

In January 2013 Municipal Mutual issued Northumberland County Council with its initial levy payment due under the Scheme of Arrangement namely £0.75 million which was met from the provision.

The current provision balance of £0.60 million is subject to an update from the MMI Scheme Administrator EY LLP due in November 2014. Thereafter Northumberland County Council will review its level of provision.

## Notes to the Financial Statements

### Repairs and Maintenance

A sum of £11.98 million has been set aside to provide for future repairs and maintenance liabilities.

### Leisure Management

The provision has been created to meet the potential future costs associated with the review of the Leisure Management contracts.

### Land Restoration

This provision was created to cover potential future land restoration liabilities.

### National Non-Domestic Rates (NNDR) Appeals

In addition to the local management of business rates authorities are expected to finance their proportion of appeals, made against the rateable valuation set by the Valuation Office, which are outstanding at 31 March 2014. This is the first year of this provision.

### Estates Rationalisation

This provision was created to cover anticipated costs in relation to rationalising the Council's estate.

### Other Provisions

This provision represents amounts set aside to meet future liabilities and includes Planning and Public Protection £0.31 million, Carbon Reduction Commitment £0.33 million, Fire-fighter's Pension Fund Arrears £0.14 million and Memorial Maintenance £0.06 million.

## 27. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement on page 9 and in Note 12 on page 53.

## 28. Unusable Reserves

	31 March 2013 £'000	31 March 2014 £'000
Revaluation Reserve	157,291	149,016
Pensions Reserve	(699,680)	(585,940)
Capital Adjustment Account	556,585	537,451
Deferred Capital Receipts Reserve	2,617	2,044
Financial Instruments Adjustment Account	1,711	1,008
Collection Fund Adjustment Account	908	(1,395)
Available-for-Sale Financial Instruments Reserve	13,104	13,104
Accumulated Absences Adjustment Account	(7,242)	(6,859)
Total Unusable Reserves	25,294	108,429

### 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.

## Notes to the Financial Statements

	2012-2013	2013-2014
	£'000	£'000
Balance at 1 April	168,470	157,291
Upward revaluation of assets	1,205	5,510
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	(2,274)	(3,710)
Difference between fair value depreciation and historical cost depreciation	(3,413)	(3,278)
Accumulated gains on assets sold or scrapped	(6,697)	(6,307)
Amount written off to the Capital Adjustment Account	-	(490)
Balance at 31 March	157,291	149,016

### 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.

	2012-2013	2013-2014
	As Restated	
	£'000	£'000
Balance at 1 April	(631,720)	(699,680)
Return on plan assets	63,790	(31,580)
Actuarial gains or (losses) arising on changes in financial assumptions	(114,600)	115,380
Actuarial gains or (losses) arising on changes in demographic assumptions	-	12,140
Other	2,050	41,140
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	(55,860)	(58,910)
Employer's pensions contributions and direct payments to pensioners payable in the year	36,660	35,570
Balance at 31 March	(699,680)	(585,940)

### 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.

## Notes to the Financial Statements

	2012-2013 £'000	2013-2014 £'000
Balance at 1 April	536,656	556,585
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	(38,397)	(39,204)
Deficit on Available-for-Sale financial assets	1,655	(381)
Revaluation losses on Property, Plant and Equipment	(157)	(2,045)
Amortisation of intangible assets	(178)	(263)
Revenue expenditure funded from capital under statute *	(2,747)	(16,442)
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	(34,867)	(45,496)
Adjusting amounts written out of the Revaluation Reserve	10,110	10,075
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	20,262	1,903
Use of the Major Repairs Reserve to finance new capital expenditure	6,922	6,860
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	32,735	34,592
Application of grants to capital financing from the Capital Grants Unapplied Account	4,888	4,505
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	18,478	15,695
Capital expenditure charged against the General Fund and HRA balance	1,303	10,106
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(78)	961
Balance at 31 March	556,585	537,451

\*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.

	2012-2013 £'000	2013-2014 £'000
Balance at 1 April	1,047	2,617
Finance Lease receivables principal	(35)	(38)
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	2,001	(68)
Transfer to the Capital Receipts Reserve upon receipt of cash	(396)	(467)
Balance at 31 March	2,617	2,044

## Notes to the Financial Statements

### 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.

	2012-2013	2013-2014
	£'000	£'000
Balance at 1 April	2,382	1,711
Proportion of premiums/discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	(727)	(771)
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	56	68
Balance at 31 March	1,711	1,008

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates 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.

	2012-2013	2013-2014
	£'000	£'000
Balance at 1 April	2,797	908
Amount by which council tax and non-domestic rates 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)	(2,303)
Balance at 31 March	908	(1,395)

## Notes to the Financial Statements

### 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.

The overall value of the Council's shareholding in the airport is £13.10 million at 31 March 2014 (£13.10 million at 31 March 2013) and is reflected in the Available-for-Sale Financial Instruments Reserve:

	2012-2013	2013-2014
	£'000	£'000
Balance at 1 April	-	13,104
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	13,104

### 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.

	2012-2013	2012-2013	2013-2014	2013-2014
	£'000	£'000	£'000	£'000
Balance at 1 April		(12,692)		(7,242)
Settlement or cancellation of accrual made at the end of the preceding year	12,692		7,242	
Amounts accrued at the end of the current year	(7,242)		(6,860)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable		5,450		383
Balance at 31 March		(7,242)		(6,859)

## Notes to the Financial Statements

### 29. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2012-2013	2013-2014
	£'000	£'000
Interest received	(6,741)	(8,679)
Interest paid	26,147	25,867

### 30. Cash Flow Statement – Investing Activities

	2012-2013	2013-2014
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(49,884)	(67,961)
Purchase of short term and long term investments	(155,635)	(88,000)
Other payments for investing activities	(26,132)	(128,283)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	21,852	3,074
Proceeds from short term and long term investments	122,361	233,805
Other receipts from investing activities	37,492	57,510
Net cash flows from investing activities	(49,946)	10,145

### 31. Cash Flow Statement – Financing Activities

	2012-2013	2013-2014
	£'000	£'000
Cash receipts of short term and long term borrowing	109,794	40,333
Other receipts from financing activities	(4,109)	2,296
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,535)	(925)
Repayments of short- and long term borrowing	(95,226)	(52,316)
Other payments for financing activities	-	-
Net cash flows from financing activities	7,924	(10,612)

## Notes to the Financial Statements

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

	2012-2013	2012-2013	2013-2014
		As Restated	
	£'000	£'000	£'000
Depreciation	38,397	38,397	39,204
Impairment and downward valuations	(1,498)	(1,498)	2,426
Amortisation	178	178	263
Reduction in fair value of Soft Loans (non-subsiary) made in year	-	-	2
Soft Loans (non-subsiary) - Interest adjustment credited to the Comprehensive Income and Expenditure Statement during the year	(56)	(56)	(68)
Increase/(Decrease) in Interest Creditors	45	45	(166)
Increase/(Decrease) in Creditors	(7,159)	(7,159)	1,038
(Increase)/Decrease in Interest and Dividend Debtors	(1,544)	(1,544)	1,056
(Increase)/Decrease in Debtors	(8,773)	(8,773)	(30,090)
(Increase)/Decrease in Inventories	505	505	(453)
Increase/(Decrease) in Receipts in Advance	(154)	(154)	1,837
Increase/(Decrease) in Pension Liability	4,480	19,200	23,340
Contributions to/(from) Provisions	(17,057)	(17,057)	23,478
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	34,867	34,867	45,496
Movement in Investment Property Values	78	78	(961)
<b>Net Deficit on the Provision of Services for Non-Cash Movements</b>	<b>42,309</b>	<b>57,029</b>	<b>106,402</b>

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

	2012-2013	2013-2014
	£'000	£'000
Capital grants credited to the surplus or deficit on the provision of services	(35,698)	(36,837)
Material impairment losses on investments debited to the surplus or deficit on the provision of services in year.	(211)	53
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(21,852)	(3,074)
<b>Items included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities</b>	<b>(57,761)</b>	<b>(39,858)</b>

### 34. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2013-2014.

### 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.

## Notes to the Financial Statements

	2012-2013			2013-2014		
	Income	Cost	(Surplus) / Deficit	Income	Cost	(Surplus) / Deficit
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Catering</b> Daily school meals service to 70 of the County's schools (6,070 meals per day). Civic catering for specific functions and operation of the staff restaurant.	(5,025)	5,287	262	(3,177)	3,329	152
<b>Cleaning and Caretaking</b> Building cleaning and caretaking at schools and other establishments, facilities management at County Hall and Hepscott Park.	(17,255)	26,837	9,582	(10,319)	14,172	3,853
<b>Property</b> A comprehensive architectural design, property maintenance, consultancy advice service and management of the estates portfolio.	(5,947)	6,250	303	(5,283)	5,409	126
<b>Central and Other Services</b> The Council operates several central services with a financial break-even objective or achievement of agreed budgets.	(33,860)	33,116	(744)	(32,069)	36,355	4,286
<b>Total Trading Operations</b>	<b>(62,087)</b>	<b>71,490</b>	<b>9,403</b>	<b>(50,848)</b>	<b>59,265</b>	<b>8,417</b>

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. refuse collection), whilst others are support services to the Council's services to the public (e.g. schools catering). During 2013-2014 a sum of £9.65 million has been set aside to provide for future repairs and maintenance and estates rationalisation. 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 59):

	2012-2013	2013-2014
	£'000	£'000
Net (surplus)/deficit on trading operations	9,403	8,417
Support services recharged to Expenditure of Continuing Operations	-	-
<b>Net (surplus)/deficit credited to Other Operating Expenditure</b>	<b>9,403</b>	<b>8,417</b>

## Notes to the Financial Statements

### 36. Members' Allowances

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

	2012-2013	2013-2014
	£'000	£'000
Salaries	169	151
Allowances	1,222	1,228
Expenses	66	64
<b>Total</b>	<b>1,457</b>	<b>1,443</b>

### 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	2012-2013	2013-2014
	All Employees	All Employees
£50,000 to £54,999	108	101
£55,000 to £59,999	77	68
£60,000 to £64,999	24	32
£65,000 to £69,999	29	23
£70,000 to £74,999	8	11
£75,000 to £79,999	8	5
£80,000 to £84,999	8	7
£85,000 to £89,999	10	8
£90,000 to £94,999	4	6
£95,000 to £99,999	-	-
£100,000 to £104,999	1	3
£105,000 to £109,999	-	-
£110,000 to £114,999	-	1
£115,000 to £119,999	1	-
£120,000 to £124,999	1	1
£125,000 to £129,999	1	-
£130,000 to £134,999	2	2
£135,000 to £139,999	-	2
£140,000 to £144,999	1	-
£170,000 to £174,999	1	-
£230,000 to £234,999	-	2
£295,000 to £299,999	-	1
<b>Total</b>	<b>284</b>	<b>273</b>

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

## Notes to the Financial Statements

The Accounts and Audit (Amendment No. 2) (England) Regulations 2009 require authorities to disclose the remuneration of Senior Officers. These officers are also included in the table on page 87. There have been no bonuses paid to any of the senior officers in 2012- 2013 or 2013-2014.

2013-2014	Salary	Expense Allowances	Compensation for loss of office	Benefits in kind	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
Post Holder Information	£	£	£	£	£	£	£
<b>Senior Officers emoluments – salary is £150,000 or more per year</b>							
Chief Executive - Steve Stewart ①	119,683	-	179,288	-	<b>298,971</b>	17,713	<b>316,684</b>
Lead Executive Director Corporate Resources - Steven Mason ②	116,162	205	-	27,088	<b>143,455</b>	17,905	<b>161,360</b>
<b>Senior Officers emoluments – salary is between £50,000 and £150,000 per year</b>							
Deputy Chief Executive – Kate Roe ③	104,645	-	127,089	-	<b>231,734</b>	15,041	<b>246,775</b>
Corporate Director of Children’s Services – Paul Moffat ④	87,564	-	143,429	-	<b>230,993</b>	12,612	<b>243,605</b>
Executive Director: Local Services - Barry Rowland ⑤	133,074	-	-	-	<b>133,074</b>	-	<b>133,074</b>
Executive Director: Wellbeing and Community Health Services - Daljit Lally ⑥	130,942	-	-	8,945	<b>139,887</b>	18,785	<b>158,672</b>
Director of Public Health - Sue Milner ⑦	46,875	-	90,416	-	<b>137,291</b>	6,563	<b>143,854</b>
Chief Fire Officer - Alex Bennett	103,020	-	-	-	<b>103,020</b>	21,943	<b>124,963</b>

### Notes:

- ① Left 31 December 2013
- ② Effective 1 January 2014, previously Corporate Director of Finance. Included within this band due to the annual equivalent salary being greater than £150k.
- ③ Left 31 December 2013
- ④ Left 30 November 2013
- ⑤ Effective 1 January 2014, previously Corporate Director of Local Services
- ⑥ Effective 1 January 2014, previously Corporate Director of Adult Services. Jointly funded post with the Northumbria Healthcare NHS Foundation Trust, each organisation pays 50% of costs
- ⑦ Left 31 August 2013

## Notes to the Financial Statements

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

### 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

## Notes to the Financial Statements

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	
	2012-2013	2013-2014	2012-2013	2013-2014	2012-2013	2013-2014	2012-2013	2013-2014
							£	£
£0 - £20,000	68	<b>62</b>	93	<b>46</b>	161	<b>108</b>	1,085,656	<b>685,906</b>
£20,001 - £40,000	5	<b>5</b>	19	<b>13</b>	24	<b>18</b>	634,695	<b>498,479</b>
£40,001 - £60,000	1	<b>1</b>	3	<b>3</b>	4	<b>4</b>	190,706	<b>208,517</b>
£60,001 - £80,000	-	-	-	<b>4</b>	0	<b>4</b>	0	<b>267,581</b>
£80,001 - £100,000	-	-	2	<b>3</b>	2	<b>3</b>	171,777	<b>294,293</b>
£100,001 - £150,000	-	-	-	<b>4</b>	-	<b>4</b>	-	<b>502,347</b>
£150,001 - £200,000	-	-	-	<b>1</b>	-	<b>1</b>	-	<b>196,203</b>
£200,001 - £250,000	-	-	-	-	-	-	-	-
	74	<b>68</b>	117	<b>74</b>	191	<b>142</b>	2,082,834	<b>2,653,326</b>
Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings	-	-	38	<b>181</b>	38	<b>181</b>	678,572	<b>2,573,042</b>
Total cost included in Comprehensive Income and Expenditure Statement	74	<b>68</b>	155	<b>255</b>	229	<b>323</b>	2,761,406	<b>5,226,368</b>

The Council's Comprehensive Income and Expenditure Statement includes a provision for £2.57 million which has been agreed and is payable to 181 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.

## Notes to the Financial Statements

### 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:

	2012-2013	2013-2014
	£'000	£'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	274	253
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	22	15
Fees payable in respect of any other services provided by the appointed auditor during the year	24	12
<b>Total</b>	<b>320</b>	<b>280</b>

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 2013-2014.

Fees payable in respect of other services provided by the appointed auditor are in relation to fees paid to Deloitte relating to grant services outside of the Audit Commission work.

### 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 2013-2014 are as follows:

	Schools Budget Funded by DSG		
	Central	Individual	Total
	Expenditure	Schools Budget	
	£'000	£'000	£'000
Final DSG for 2013-2014			203,667
Academy figure recouped for 2013-2014			(38,318)
Total DSG after Academy Recoupment	-	-	165,349
Brought forward from 2012-2013	1,015	-	1,015
Agreed budgeted distribution in 2013-2014	31,650	134,713	166,363
In Year Adjustments	-	-	-
Final Budget Distribution for 2013-2014	31,650	134,713	166,363
Actual Central Expenditure	(29,860)	-	(29,860)
Actual ISB deployed to Schools	-	(134,713)	(134,713)
Carried forward to 2014-2015	1,790	-	1,790

## Notes to the Financial Statements

### 40. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013-2014:

	2012-2013	2013-2014
	£'000	£'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
<b>Revenue</b>		
Revenue Support Grant	4,376	90,970
Central Services Education Grant	-	4,805
Council Tax Freeze Grant	3,766	1,538
Efficiency Support for Services in Sparse Areas	-	256
Central New Homes Bonus Grant	1,602	3,194
Localising Services Support Grant	-	532
Local Services Support Grant	1,105	425
Top Up Grant	-	22,964
Small Business Rates Relief Grant	-	1,767
<b>Total Revenue</b>	<b>10,849</b>	<b>126,451</b>
<b>Capital</b>		
Bernicia	274	-
Department for Communities and Local Government - Disabled Facilities Grant	1,462	1,071
Department for Communities and Local Government - Fire Brigade Modernisation Fund	783	670
Department for Education - Basic Needs	-	419
Department for Education - Devolved Formula Capital	4,940	1,319
Department for Education - Other	-	11
Department for Education - Schools Capital Maintenance Grant	5,997	4,385
Department for Education - Secure Unit Grants	500	-
Department for Environment, Food and Rural Affairs - Broadband	-	14
Department for Environment, Food and Rural Affairs - Rural Growth Network	-	1,482
Department for Transport - Local Sustainable Transport	-	271
Department for Transport - Local Transport Plan	16,579	18,567
Department for Transport - OLEV Vehicle Charge Point	-	308
Department for Transport - Other	-	302
Department for Transport - Pinch Point	-	802
Department for Transport - Severe Weather Recovery	-	1,004
Department of Health	700	708
Energy Companies Obligation (ECO) - British Gas	-	165
Energy Saving Trust	60	-
English Heritage	20	46
Environment Agency	1,114	235
European Regional Development Fund	169	-
Football Foundation	31	-
Heritage Lottery Fund	182	-
Home Office	5	-

## Notes to the Financial Statements

	2012-2013	2013-2014
	£'000	£'000
Homes and Communities Agency	705	1,469
Homes for Northumberland	-	25
National Lottery	31	621
National Trust	25	-
Northumbria Healthcare NHS Foundation Trust	1,441	2,540
Other	268	314
SITA	52	-
Sport England	-	88
Sustrans	20	1
Warmzone	40	-
Zurich Insurance Ltd	300	-
<b>Total Capital</b>	<b>35,698</b>	<b>36,837</b>
<b>Total Credited to Taxation and Non Specific Grant Income</b>	<b>46,547</b>	<b>163,288</b>
<b>Grants Credited to Services:</b>		
<b>Revenue :</b>		
Adoption Improvement Grant	-	685
Bus Service Grant	-	126
Council Tax/Housing Benefit Subsidy Grant	111,194	88,313
Council Tax Support New Burdens Grant	-	175
Countryside Agency	134	166
Criminal Justice Grant	83	-
Cycle Scheme	106	82
Dedicated Schools Grant (DSG)	168,224	165,349
Discretionary Rent Allowance Subsidy	168	-
Early Intervention Grant	12,955	-
Education Services Grant	-	13
Environment Agency Coast Protection	-	84
English Heritage Fund	222	-
European Community Grants	120	309
European Regional Development Fund	92	752
Fire Revenue Grant	142	180
Forestry Commission	-	122
Grants in Support of Individual School Budgets	5,568	8,410
Local Area Agreement Reward Grant	-	25
Learning Disability and Health Reform	9,139	-
Local Reform and Community Voices	-	269
Lottery Funding	98	389
National Citizen Service Pilot	95	189
New Homes Bonus Grant	-	100
North East Improvement and Efficiency Partnership	94	-
Other Grants	1,416	1,302
Positive Futures	91	-

## Notes to the Financial Statements

	2012-2013	2013-2014
	£'000	£'000
Private Finance Initiative	4,760	4,760
Public Health Grant	-	13,043
Regional Growth Fund	-	172
Rural Development Programme for England	267	-
Rural Growth Network Grant	3,143	(1,455)
SITA Trust	-	104
Skills Funding Agency	2,905	2,463
Social Care IT Infrastructure	109	110
Social Fund Grant	-	1,054
Sport England	419	569
Standards Fund	405	341
Supporting Community Transport Grant	-	48
Sustainable Transport Fund	317	478
Teacher Development Agency	176	147
Troubled Families Grant	676	814
Young People's Learning Agency	16,877	13,229
Young People's Substance Misuse Partnership	119	-
Youth Justice Board		706
<b>Total Revenue Grants</b>	<b>340,114</b>	<b>303,623</b>
<b>Donations</b>		
Children's Workforce Development Council NVQ Income	46	-
Contributions To Shared Schemes	184	147
Contributions towards Music	1,223	1,174
Contributions towards Swimming	354	349
Contributions to Work Programmes	1,570	1,508
Donations	134	169
European Elections	404	59
Food Standards Agency	-	42
Milk Subsidy	192	170
North East Offender Health Commissioning Unit	-	68
Northumberland Care Trust	11,462	9,941
Other Contributions	4,940	2,716
Parental Contributions	335	423
Police Authority Contribution	130	316
Probation Contribution	64	64
Parent Teacher Association / School Fund Contributions	491	421
S117 Health Contribution	2,038	2,683
Social Care Demonstration Site	210	234
Student Placement Contributions	47	38
Youth Justice Board	800	
<b>Total Donations</b>	<b>24,622</b>	<b>20,522</b>
<b>Total Credited to Services</b>	<b>364,736</b>	<b>324,145</b>

## Notes to the Financial Statements

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 2013 £'000	31 March 2014 £'000
<b>Capital Grant Receipts in Advance:</b>		
Department for Education	3,112	2,591
Department for Transport	278	200
Environment Agency	377	318
Homes and Communities Agency	943	1,364
Northumbria Healthcare NHS Foundation Trust	1,096	648
Other	130	68
<b>Total Capital Grant Receipts in Advance</b>	<b>5,936</b>	<b>5,189</b>
<b>Revenue Grant Receipts in Advance:</b>		
Contributions	9	-
Countryside Agency	203	68
English Heritage Grants	19	4
Environment Agency Coast Protection Grant	75	164
European Marine Site Project	27	27
Local Sustainable Transport Fund	-	19
Natural England Grant	-	10
New Burdens Grant	36	6
NHS Dementia Grant	10	-
Other Contributions	5	-
Parental Contributions	12	-
Severe Weather Recovery Scheme	-	1,732
SITA Trust	-	23
Social Care Efficiency Grant	20	20
Supporting Community Transport	-	180
<b>Total Revenue Grant Receipts in Advance</b>	<b>416</b>	<b>2,253</b>
<b>Total Receipts in Advance</b>	<b>6,352</b>	<b>7,442</b>

### 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,

## Notes to the Financial Statements

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 two subsidiary companies in 2013-2014 that are considered to be related parties:

- Arch Group
- Homes for Northumberland

Arch Group owed £0.53 million to Northumberland County Council (the ultimate holding company) primarily in respect of interest due on a commercial loan facility, whilst Northumberland County Council owed the Group £0.13 million in respect of the net receipts during 2012-2013 relating to the transfer of its commercial property portfolio.

Transactions and balances with Homes for Northumberland were as follows:

	£'000
Expenditure made by the Council to Homes for Northumberland in 2013-2014	11,288
Income to the Council from Homes for Northumberland in 2013-2014	1,990
Amounts due to the Council from Homes for Northumberland at 31 March 2014	3,101
Amounts owed by the Council to Homes for Northumberland at 31 March 2014	2,586

### Precepts

Precept transactions in relation to Northumberland County Council, Northumbria Police Authority and various Town and Parish Councils are shown within the Collection Fund Account on page 151.

### Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2013-2014 the Pension Fund had an average balance of £4.32 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 2013-2014 these costs amounted to £0.58 million (2012-2013 £0.63 million). £9.58 million was due to the Council at 31 March 2014 (£7.40 million was due to the Council at 31 March 2013).

### Other Bodies

Transactions with other related parties are detailed below:

	Receipts £'000	Payments £'000
Environment Agency - Precept	57	6,687
Northumberland Sea Fisheries Committee - Precept	13	645
Northumberland National Park Authority	-	297
<b>Northumberland Pension Fund:</b>		
Payment of employer's pension contributions in respect of employees	-	26,992

### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2013-2014 goods and services were commissioned from organisations in which Members had an interest. All interests were declared by the appropriate Members.

## Notes to the Financial Statements

Members had interests in ninety organisations with transactions totalling £47.50 million in respect of goods or services provided to the Council.

During 2013-2014 goods and services amounting to £9.23 million were provided by the Council to seventy six organisations in which Members had an interest.

Included in the above sums are amounts due from the Council of £1.06 million and due to the Council of £3.22 million as at 31 March 2014.

### Officers

During 2013-2014 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 seven organisations with transactions totalling £26.12 million in respect of goods or services provided to the Council.

During 2013-2014 goods and services amounting £7.06 million were provided by the Council to six organisations in which officers had an interest.

Included in the above sums are amounts due from the Council of £0.87 million and due to the Council of £2.92 million as at 31 March 2014.

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

## Notes to the Financial Statements

### 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.

	2012-2013 £'000	2013-2014 £'000
Opening Capital Financing Requirement	510,360	<b>507,017</b>
<b>Capital Investment:</b>		
Property, Plant and Equipment	47,640	<b>65,595</b>
Capital Long Term Debtors	26,078	<b>128,283</b>
Capital Long Term Investments	1,770	-
PFI / Finance Lease Additions	1,726	-
Revenue Expenditure Funded From Capital under Statute (REFCUS)	12,106	<b>16,442</b>
Reversal of Capitalisation (REFCUS)	(9,359)	-
HRA Downward Revaluation (non-dwelling assets)	(548)	<b>(170)</b>
<b>Sources of Finance:</b>		
Capital receipts	(18,397)	<b>(1,903)</b>
Government grants and other contributions	(37,622)	<b>(39,097)</b>
Sums set aside from revenue/Major Repairs Reserve:		
Major Repairs Reserve	(6,922)	<b>(6,860)</b>
Direct revenue contributions	(1,303)	<b>(10,106)</b>
Capital Long Term Debtors Amortisation	(34)	<b>(35)</b>
Minimum Revenue Provision	(18,478)	<b>(15,660)</b>
Closing Capital Financing Requirement	507,017	<b>643,506</b>
<b>Explanation of movements in year:</b>		
Increase in underlying need to borrowing (unsupported by government financial assistance)	13,991	<b>152,354</b>
Minimum Revenue Provision	(18,512)	<b>(15,695)</b>
Assets acquired under PFI / PPP contracts	1,726	-
HRA Downward Revaluation (non-dwelling assets)	(548)	<b>(170)</b>
Increase/(Decrease) in Capital Financing Requirement	(3,343)	<b>136,489</b>

### 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:

## Notes to the Financial Statements

	31 March 2013 £'000	31 March 2014 £'000
Vehicles, Plant, Furniture and Equipment	674	470

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 2013 £'000	31 March 2014 £'000
<b>Finance lease liabilities (net present value of minimum lease payments):</b>		
Current	245	189
Non Current	429	281
Finance costs payable in future years	165	111
Minimum lease payments	839	581

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000
	Not later than one year	298	226	245
Later than one year and not later than five years	541	355	429	281
Later than five years	-	-	-	-
	839	581	674	470

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 2013 £'000	31 March 2014 £'000
Not later than one year	1,251	1,338
Later than one year and not later than five years	5,180	4,869
Later than five years	3,208	3,049
	9,639	9,256

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

## Notes to the Financial Statements

	31 March 2013	31 March 2014
	£'000	£'000
Minimum lease payments	2,853	<b>2,496</b>

### 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
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	-
Pegswood Former Depot	99	18.12.2013	17.12.2112	-

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 2013	31 March 2014
	£'000	£'000
<b>Finance lease debtor (net present value of minimum lease payments):</b>		
Current	38	<b>41</b>
Non Current	568	<b>527</b>
Unearned finance income	326	<b>276</b>
Unguaranteed residual value of property	467	-
Gross investment in the lease	1,399	<b>844</b>

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

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£'000	£'000	£'000	£'000
Not later than one year	88	<b>88</b>	88	<b>88</b>
Later than one year and not later than five years	352	<b>352</b>	352	<b>352</b>
Later than five years	959	<b>404</b>	492	<b>404</b>
	1,399	<b>844</b>	932	<b>844</b>

## Notes to the Financial Statements

### 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 2013 £'000	31 March 2014 £'000
Not later than one year	499	487
Later than one year and not later than five years	596	727
Later than five years	474	363
	1,569	1,577

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 2013 £'000	31 March 2014 £'000
<b>Long term finance lease liability:</b>		
Waste PFI	(57,984)	(57,310)
Fire PFI	(12,598)	(12,394)
Other finance leases (Note 43)	(429)	(281)
<b>Total Finance Lease Liability</b>	<b>(71,011)</b>	<b>(69,985)</b>
<b>Long term deferred credits:</b>		
Waste PFI	(14,010)	(13,342)
<b>Total Deferred Credits</b>	<b>(14,010)</b>	<b>(13,342)</b>
<b>Total Long Term Creditors</b>	<b>(85,021)</b>	<b>(83,327)</b>

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

#### Waste PFI

2013-2014 was the seventh 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

## Notes to the Financial Statements

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 2013-2014:

	2012-2013	2013- 2014	2013-2014	2013-2014
		Plant Shell	Project	Assets
	£'000	£'000	£'000	£'000
Cost brought forward 1 April	89,389	15,291	74,098	<b>89,389</b>
Disposals in year	-	-	-	-
Additions in year	-	-	-	-
Cost carried forward 31 March	89,389	15,291	74,098	<b>89,389</b>
Accumulated depreciation brought forward 1 April	(9,575)	(1,848)	(11,034)	<b>(12,882)</b>
Disposals	-	-	-	-
Depreciation charge for year	(3,307)	(658)	(2,770)	<b>(3,428)</b>
Depreciation at 31 March	(12,882)	(2,506)	(13,804)	<b>(16,310)</b>
Net book value carried forward 31 March	76,507	12,785	60,294	<b>73,079</b>

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2013-2014:

	2012-2013	2013- 2014	2013-2014	2013-2014
		Plant Shell	Project	Assets
	£'000	£'000	£'000	£'000
Lease liability brought forward 1 April	58,908	11,749	46,768	<b>58,517</b>
Additions	-	-	-	-
Payments made in year	(391)	(104)	(429)	<b>(533)</b>
Liability carried forward 31 March	58,517	11,645	46,339	<b>57,984</b>

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

## Notes to the Financial Statements

	Total as at 31 March 2013 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	Total as at 31 March 2014 £'000
Within one year	20,885	1,100	674	7,208	12,501	<b>21,483</b>
Within two to five years	88,667	4,626	3,015	29,541	53,623	<b>90,805</b>
Within six to ten years	123,531	6,323	6,704	38,493	75,569	<b>127,089</b>
Within eleven to fifteen years	141,915	6,982	14,011	38,819	86,484	<b>146,296</b>
Within sixteen to twenty years	163,566	7,708	26,218	35,540	99,012	<b>168,478</b>
Within twenty-one to twenty- five years	72,099	1,635	7,362	6,214	21,405	<b>36,616</b>
Within twenty-six to thirty years	-	-	-	-	-	-
	<b>610,663</b>	<b>28,374</b>	<b>57,984</b>	<b>155,815</b>	<b>348,594</b>	<b>590,767</b>

### Fire & Rescue PFI

2013-2014 was the fourth 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 and 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. Changes to Works, the Services or the Stations agreed, in accordance with the Change Protocol detailed in the Agreement, will result in an adjustment to the annual payments to the service provider. During 2013-2014 changes, since financial close, and the subsequent adjustment to the Unitary Charge payable were agreed.

The figures below provide information on the movement of the Fire and Rescue PFI assets held on the Council's Balance Sheet during 2013-2014:

## Notes to the Financial Statements

	2012-2013	2013-2014
	£'000	£'000
Cost brought forward 1 April	1,982	2,002
Recognition of deferred asset within fixed assets	-	-
Additions in year	20	-
Revaluation Loss	-	-
Cost carried forward 31 March	2,002	2,002
Accumulated depreciation brought forward 1 April	(133)	(213)
Depreciation charge for year	(80)	(81)
Depreciation at 31 March	(213)	(294)
Net book value carried forward 31 March	1,789	1,708

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2013-2014:

	2012-2013	2013-2014
	£'000	£'000
Lease liability brought forward 1 April	12,950	12,786
Payments made in year	(164)	(188)
Liability carried forward 31 March	12,786	12,598

The following table provides the best estimates of payments in future periods, on the assumption that the contractor provides a reliable service. The amounts include the adjustment to the payments, agreed during 2013-2014, relating to changes to Works, the Services or the Stations. The adjustments affect the Lifecycle Maintenance and the Service Charges elements of the Unitary Charge. Variable elements of the charge have been inflated in line with predicted RPI increases.

	Total as at 31 March 2013	Lifecycle Replacement	Repayment of Liability	Interest Charges	Service Charges	Total as at 31 March 2014
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	2,311	196	204	1,352	684	2,436
Within two to five years	9,485	832	1,018	5,206	2,969	10,025
Within six to ten years	12,453	1,163	1,914	5,844	4,302	13,223
Within eleven to fifteen years	13,196	1,316	3,066	4,634	5,073	14,089
Within sixteen to twenty years	14,035	1,489	4,992	2,603	5,988	15,072
Within twenty-one to twenty-five years	6,250	499	1,404	75	1,728	3,706
Within twenty-six to thirty years	-	-	-	-	-	-
	57,730	5,495	12,598	19,714	20,744	58,551

### 45. Impairment Losses

There were no impairment losses other than downward revaluations in relation to Property, Plant and Equipment and Intangible Assets balances for 2013-2014 or 2012-2013.

## Notes to the Financial Statements

### 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 2013-2014 the County Council paid £10.48 million (£11.05 million in 2012-2013) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay.

This total includes contributions for March 2014 payroll totalling £0.85 million which remained payable at the year end for the Teachers' Pension Scheme. This amount was paid over in April 2014.

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 IAS 19 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 (for those benefits) and to disclose them 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

## Notes to the Financial Statements

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.

The Northumberland County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Fund is the responsibility of the Northumberland County Council Pension Fund Panel. Policy is determined in accordance with the LGPS regulations. The investment managers of the Fund are appointed and monitored by the Pension Fund Panel.

The principle risks to the authority of the post-employment schemes are the longevity assumptions, statutory changes to the schemes, structural changes to the schemes (ie large-scale withdrawals from the schemes), changes to inflation, bond yields and the performance of the investments held by the Northumberland County Council Pension Fund. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

## Notes to the Financial Statements

### 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 (and Housing Revenue Account) 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:

## Notes to the Financial Statements

2013-2014	LGPS	Firefighters'	LGPS	Teachers'	Total
		Schemes	unfunded	unfunded	
	£m	£m	Scheme	Scheme	£m
			£m	£m	
Actuarial gains and losses arising on changes in demographic assumptions					
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services:</b>					
Current service cost	(26.07)	(2.86)	-	-	(28.93)
Past service cost	(0.81)	-	-	-	(0.81)
<b>Financing and Investment Income and Expenditure:</b>					
Net interest expense	(19.39)	(6.62)	(1.53)	(1.63)	(29.17)
Total post employment benefit charged to the deficit on the provision of services	(46.27)	(9.48)	(1.53)	(1.63)	(58.91)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Remeasurement of the net defined liability comprising:</b>					
Return on plan assets (excluding the amount included in the net interest expense)	(31.58)	-	-	-	(31.58)
Actuarial gains and losses arising on changes in financial assumptions	102.91	8.81	1.73	1.93	115.38
Actuarial gains and losses arising on changes in demographic assumptions	14.73	(1.38)	(0.55)	(0.66)	12.14
Other	41.26	(0.04)	(0.04)	(0.04)	41.14
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	127.32	7.39	1.14	1.23	137.08
<b>Movement in Reserves - General Fund Balance:</b>					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	46.27	9.48	1.53	1.63	58.91
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
Employer's contributions payable to the scheme	(25.69)	-	-	-	(25.69)
Net retirement benefits payable to pensioners	-	(4.67)	(2.42)	(2.79)	(9.88)

## Notes to the Financial Statements

2012-2013 As Restated	LGPS	Firefighters'	LGPS	Teachers'	Total
		Schemes	unfunded	unfunded	
	£m	£m	Scheme	Scheme	£m
			£m	£m	
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services:</b>					
Current Service Cost	(23.43)	(2.69)	-	-	(26.12)
Past Service Cost	(1.10)	-	-	-	(1.10)
<b>Financing and Investment Income and Expenditure:</b>					
Net Interest Expense	(18.75)	(6.49)	(1.64)	(1.76)	(28.64)
Total post employment benefit charged to the deficit on the provision of services	(43.28)	(9.18)	(1.64)	(1.76)	(55.86)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>					
<b>Remeasurement of the net defined liability comprising:</b>					
Return on plan assets (excluding the amount included in the net interest expense)	63.79	-	-	-	63.79
Actuarial gains and losses arising on changes in financial assumptions	(97.72)	(11.86)	(2.36)	(2.66)	(114.60)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-
Other	1.69	0.21	0.07	0.08	2.05
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(32.24)	(11.65)	(2.29)	(2.58)	(48.76)
<b>Movement in Reserves - General Fund Balance:</b>					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	43.28	9.18	1.64	1.76	55.86
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>					
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)

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

## Notes to the Financial Statements

2013-2014	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	Injury and non scheme III Health £m	Total £m
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Cost of Services:</b>				
Current service cost	(2.21)	(0.52)	(0.13)	(2.86)
Past service cost	-	-	-	-
<b>Financing and Investment Income and Expenditure:</b>				
Net interest expense	(6.25)	(0.16)	(0.21)	(6.62)
Total post employment benefit charged to the deficit on the provision of services	(8.46)	(0.68)	(0.34)	(9.48)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>				
<b>Remeasurement of the net defined liability comprising:</b>				
Return on plan assets (excluding the amount included in the net interest expense)	-	-	-	-
Actuarial gains and losses arising on changes in financial assumptions	7.97	0.55	0.29	8.81
Actuarial gains and losses arising on changes in demographic assumptions	(1.27)	(0.06)	(0.05)	(1.38)
Other	(0.04)	-	-	(0.04)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	6.66	0.49	0.24	7.39
<b>Movement in Reserves - General Fund Balance:</b>				
Reversal of net charges made to the deficit for the provision of services for post employment benefit	8.46	0.68	0.34	9.48
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Net retirement benefits payable to pensioners	(4.64)	0.13	(0.16)	(4.67)

## Notes to the Financial Statements

2012-2013 As Restated	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	Injury and non scheme III Health £m	Total £m
<b>Comprehensive Income and Expenditure Statement</b>				
<b>Cost of Services:</b>				
Current service cost	(2.20)	(0.37)	(0.12)	(2.69)
Past service cost	-	-	-	-
<b>Financing and Investment Income and Expenditure:</b>				
Net interest expense	(6.14)	(0.14)	(0.21)	(6.49)
Total post employment benefit charged to the deficit on the provision of services	(8.34)	(0.51)	(0.33)	(9.18)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>				
<b>Remeasurement of the net defined liability comprising:</b>				
Return on plan assets (excluding the amount included in the net interest expense)	-	-	-	-
Actuarial gains and losses arising on changes in financial assumptions	(11.18)	(0.27)	(0.41)	(11.86)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
Other	0.20	-	0.01	0.21
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(10.98)	(0.27)	(0.40)	(11.65)
<b>Movement in Reserves - General Fund Balance:</b>				
Reversal of net charges made to the deficit for the provision of services for post employment benefit	8.34	0.51	0.33	9.18
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Net retirement benefits payable to pensioners	(4.73)	0.09	(0.16)	(4.80)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013-2014 is a gain of £137.08 million (£48.76 million loss in 2012-2013 as restated).

## Notes to the Financial Statements

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount arising in the Balance Sheet as a result of the Council's obligation in respect of its defined benefit plan is as follows:

2013-2014	LGPS Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m
Present value of the defined benefit obligation	(1,132.99)	(153.84)	(38.76)	(1,362.00)
Fair value of plan assets	776.06	-	-	776.06
Net liability arising from defined benefit obligation	(356.93)	(153.84)	(38.76)	(585.94)

2012-2013	LGPS Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m
Present value of the defined benefit obligation	(1,240.75)	(156.42)	(41.15)	(1,476.76)
Fair value of plan assets	777.08	-	-	777.08
Net liability arising from defined benefit obligation	(463.67)	(156.42)	(41.15)	(699.68)

## Notes to the Financial Statements

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

	LGPS	Firefighters	New Firefighters	Firefighters	LGPS	Teachers	Total
		Pension	Firefighters	Injury & non	unfunded	unfunded	
		Scheme	Pension	scheme III	Scheme	Scheme	
			Scheme	Health			
	£m	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April 2013	(1,240.75)	(147.58)	(3.76)	(5.08)	(38.44)	(41.15)	(1,476.76)
Current service cost	(26.07)	(2.21)	(0.52)	(0.13)	-	-	(28.93)
Interest cost	(52.76)	(6.25)	(0.16)	(0.21)	(1.53)	(1.63)	(62.54)
Contributions from scheme participants	(6.32)	(0.62)	(0.16)	-	-	-	(7.10)
Remeasurement (gains)/losses:							-
Actuarial (gains)/losses arising from changes in financial assumptions	102.91	7.97	0.55	0.29	1.73	1.93	115.38
Actuarial (gains)/losses arising from changes in demographic assumptions	14.73	(1.27)	(0.06)	(0.05)	(0.55)	(0.66)	12.14
Other	41.26	(0.04)	-	-	(0.04)	(0.04)	41.14
Past service cost	(0.81)	-	-	-	-	-	(0.81)
Liabilities assumed on entity combinations	-	-	-	-	-	-	-
Benefits paid	34.82	5.26	0.03	0.16	2.42	2.79	45.48
Liabilities extinguished on settlements	-	-	-	-	-	-	-
Closing balance as at 31 March 2014	(1,132.99)	(144.74)	(4.08)	(5.02)	(36.41)	(38.76)	(1,362.00)
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	(23.43)	(2.20)	(0.37)	(0.12)	-	-	(26.12)
Interest cost	(50.75)	(6.14)	(0.14)	(0.21)	(1.64)	(1.76)	(60.64)
Contributions from scheme participants	(6.60)	(0.58)	(0.11)	-	-	-	(7.29)
Remeasurement (gains)/losses:							-
Actuarial (gains)/losses arising from changes in financial assumptions	(97.72)	(11.18)	(0.27)	(0.41)	(2.36)	(2.66)	(114.60)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-	-	-	-
Other	1.69	0.20	-	0.01	0.07	0.08	2.05
Past service cost	(1.10)	-	-	-	-	-	(1.10)

## Notes to the Financial Statements

	LGPS	Firefighters	New Firefighters	Firefighters	LGPS	Teachers	Total
		Pension	Firefighters	Injury & non	unfunded	unfunded	
		Scheme	Pension	scheme III	Scheme	Scheme	
	£m	£m	£m	Health	£m	£m	£m
				Scheme			
Liabilities assumed on entity combinations	-	-	-	-	-	-	-
Benefits paid	32.44	5.31	0.02	0.16	2.43	2.78	43.14
Liabilities extinguished on settlements	-	-	-	-	-	-	-
Closing balance as at 31 March 2013	(1,240.75)	(147.58)	(3.76)	(5.08)	(38.44)	(41.15)	(1,476.76)

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

	Local Government Pension Scheme	
	2012-2013	2013-2014
	£m	£m
Opening fair value of scheme assets	680.48	<b>777.08</b>
Interest income	32.00	<b>33.37</b>
<b>Remeasurement gain/(loss):</b>		
The return on plan assets, excluding the amount included in the net interest expense	63.79	<b>(31.58)</b>
Other	-	-
Effect of changes in foreign exchange rates	-	-
Contributions by the employer	26.65	<b>25.69</b>
Contributions by participants	6.60	<b>6.32</b>
Business Combinations	-	-
Settlements	-	-
Benefits paid	(32.44)	<b>(34.82)</b>
Closing balance of scheme assets	777.08	<b>776.06</b>

## Notes to the Financial Statements

### Local Government Pension Scheme assets comprised:

LGPS assets comprised:	Fair value of scheme assets			
	2012-2013		2013-2014	
	£m	%	£m	%
UK and overseas equities	483.00	62.16	<b>483.81</b>	<b>62.34</b>
Fixed interest and index linked	201.97	25.99	<b>209.37</b>	<b>26.98</b>
Property unit trusts	32.76	4.22	<b>34.12</b>	<b>4.40</b>
Ventures and partnerships	57.53	7.40	<b>53.31</b>	<b>6.87</b>
Other net current (liabilities)/assets	1.82	0.23	<b>(4.55)</b>	<b>(0.59)</b>
	<b>777.08</b>	<b>100.00</b>	<b>776.06</b>	<b>100.00</b>

All scheme asserts have quoted prices in active markets except ventures and partnerships and other net current assets/liabilities.

UK and overseas equities by geographical area:	Fair value of scheme assets			
	2012-2013		2013-2014	
	£m	%	£m	%
United Kingdom	270.18	55.94	<b>274.68</b>	<b>56.78</b>
Europe	52.60	10.89	<b>54.32</b>	<b>11.23</b>
North America	55.07	11.40	<b>53.61</b>	<b>11.08</b>
Japan	28.65	5.93	<b>24.98</b>	<b>5.16</b>
Pacific	26.44	5.47	<b>26.25</b>	<b>5.42</b>
Other	50.06	10.37	<b>49.97</b>	<b>10.33</b>
	<b>483.00</b>	<b>100.00</b>	<b>483.81</b>	<b>100.00</b>

## Notes to the Financial Statements

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Aon Hewitt Limited, an independent firm of actuaries, has assessed all of the liabilities for the pension schemes shown in the accounts, the figures being based on the latest full valuations of the schemes. For the Local Government Pension Scheme the latest full actuarial valuation of the Fund took place as at 31 March 2013. For the Firefighters' Pension Scheme and New Firefighters' Pension Scheme 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 Local Government Pension Scheme Unfunded Scheme and the Teachers' Unfunded Scheme, the latest full actuarial valuation took place as at 31 March 2012.

The significant assumptions used by the actuary have been:

## Notes to the Financial Statements

	LGPS Firefighters' Schemes	LGPS unfunded scheme	Teachers' unfunded scheme
As at 31 March 2014			
<b>Mortality assumptions:</b>			
Longevity at age 65 for current pensioners:			
Men	22.9	22.9	22.9
Women	25.4	25.4	25.4
Longevity at age 65 for future pensioners:			
Men	25.1	25.1	-
Women	27.7	27.7	-
Rate of inflation - RPI	3.3%	3.3%	3.2%
Rate of inflation - CPI	2.3%	2.3%	2.2%
Rate of general long term increase in salaries*	3.8%	3.8%	-
Rate of increase to pensions in payment**	2.3%	2.3%	2.2%
Rate of increase to deferred pensions	2.3%	2.3%	-
Discount rate	4.3%	4.2%	4.2%
As at 31 March 2013			
<b>Mortality assumptions:</b>			
Longevity at age 65 for current pensioners:			
Men	22.5	22.6	22.5
Women	24.7	25.0	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%
Rate of inflation - CPI	2.7%	2.7%	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%
Rate of increase to deferred pensions	2.7%	2.7%	-
Discount rate	4.3%	4.3%	4.1%

## Notes to the Financial Statements

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 estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analyses changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreased for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

## Notes to the Financial Statements

	Impact on the Defined Benefit Obligation in the Scheme			
	Local Government Pension Scheme			
	Increase in assumption		Decrease in assumption	
	£m	%	£m	%
<b>Local Government Pension Scheme (LGPS Funded)</b>				
Longevity (increase or decrease in 1 year)	27.29	2.4	(27.38)	(2.4)
Rate of increase in salaries (increase or decrease by 0.1%)	3.71	0.3	(3.67)	(0.3)
Rate of increase in pensions (increase or decrease by 0.1%)	15.60	1.4	(14.66)	(1.3)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(18.65)	(1.6)	19.52	1.7
<b>Firefighters' Pension Scheme and New Firefighters' Pension Scheme</b>				
Longevity (increase or decrease in 1 year)	3.62	2.4	(3.63)	(2.4)
Rate of increase in salaries (increase or decrease by 0.1%)	0.31	0.2	(0.32)	(0.2)
Rate of increase in pensions (increase or decrease by 0.1%)	2.07	1.4	(2.06)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.42)	(1.6)	2.45	1.6

Sensitivity analysis on the LGPS Unfunded Scheme, The Teachers' Unfunded Scheme and the Firefighters' Injury Pensions and non-scheme Ill-Health Pensions scheme has not been included on materiality grounds.

## Notes to the Financial Statements

### Asset Liability Matching (ALM) Strategy

Northumberland County Council's Pension Fund Panel (i.e. the pension committee) is responsible for setting and reviewing the asset allocation for Northumberland County Council Pension Fund investments, held for payment of LGPS liabilities. The investment objective of the Fund is to achieve a long term return on the Fund's assets which:

- ensures that the Fund can meet its long term liabilities while minimising the long term cost to participating employers (including Northumberland County Council);
- recognises the advantages of maintaining the stability of contribution rates;
- does not subject the Fund to undue risk.

The primary risk upon which the Panel focuses is that arising through a mismatch between the Fund's assets and its liabilities. The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields. The Panel takes advice on the matter at each quarterly meeting, and every three years or more often if necessary considers the implications of adopting different levels of risk. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure the asset allocation policy results in an adequately diversified portfolio across a number of managers and asset classes.

## Notes to the Financial Statements

### Impact on the Council's Cash Flows

The Council anticipates paying the following amounts in 2014-2015 in relation to the six post-employment schemes covered by this note:

	LGPS £m	LGPS Unfunded £m	Teachers' Unfunded £m	FPS £m	NFPS £m	Firefighters' Injury £m	Total £m
Regular employer contributions payable to Northumberland County Council Pension Fund	26.54	-	-	-	-	-	26.54
Payments to beneficiaries	-	2.45	2.82	-	-	0.17	5.44
Payments to beneficiaries net of member contributions receivable, where contributions include the Government Grant (Member contributions including Government Grant net of payments to beneficiaries)	-	-	-	4.70	-	-	4.70
	-	-	-	-	(0.14)	-	(0.14)
<b>Total</b>	<b>26.54</b>	<b>2.45</b>	<b>2.82</b>	<b>4.70</b>	<b>(0.14)</b>	<b>0.17</b>	<b>36.54</b>

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2014-2015 includes a fixed monetary lump sum of £10.90 million which is intended to amortise the deficit attributable to the Council over a period of 22 years.

Additional employer contributions will also be payable by the Council to Northumberland County Council Pension Fund for strain on the fund, for example, where an employee is made redundant and his/her LGPS pension becomes payable before his/her normal retirement date.

### Duration of the defined benefit obligations

The duration of the Council's liabilities is the average period, expressed in number of years, between the calculation date and the date on which the scheme benefit falls due. Duration for the six post-employment schemes covered by this note is as follows:

	31 March 2013 No. of years	31 March 2014 No. of years
Local Government Pension Scheme	17.60	16.70
LGPS Unfunded and Teachers' Unfunded (estimate)	12.00	12.00
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	15.40	15.40

## Notes to the Financial Statements

### Split of the defined benefit obligations

The split of the defined benefit obligations at the last valuation date between the categories of members was as follows:

	Active Members %	Deferred Members %	Pensioners %
Local Government Pension Scheme	32.00	15.00	53.00
Local Government Pension Scheme Unfunded	-	-	100.00
Teachers' Unfunded	-	-	100.00
Firefighters' Pension Scheme	42.00	1.00	57.00
New Firefighters' Pension Scheme	74.00	4.00	22.00
Firefighters' Injury and non-scheme III- Health Pensions	44.00	-	56.00

## Notes to the Financial Statements

### 48. Contingent Liabilities

#### Denwick Quarry

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 2014-2015. 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.

#### Property Searches

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 £0.33 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.

#### Equal Pay

Following the Abdullah case brought against Birmingham City Council, the Council is aware that there may, in the future, be similar claims against Northumberland County Council. 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.

#### Guarantee Home Housing Association

In May 1987 former Blyth Valley Council entered into an agreement with Home Housing Association, a subsidiary of Home Group Limited, whereby the Association provided approximately 100 properties in the Borough, using private finance. These properties are to be let on assured tenancies for which the Council has 50% nomination rights.

The Association has issued loan stock to the value of £84 million to finance developments nationally and the Council has agreed to secure that proportion of the loan, which is equivalent to the total programmed expenditure in its area i.e. 3.24%. The guarantee will only be called upon in the event of certain legislative changes, which would make the Association unable to meet its obligations under the loan from its own resources.

The Council's guarantee may be expressed in terms of interest due on £2.72 million.

## Notes to the Financial Statements

### National Non-Domestic Rates Appeals

From 1 April 2013 new arrangements for the retention of business rates came 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. A provision of £5.30 million has been created within the 2013-2014 accounts based on the best estimate of the actual liability to meet the cost of known appeals. This has been allocated 50% to Northumberland County Council and 50% to Central Government. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office which relate to 2013-2014 and prior years so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

### Potland Burn Restoration

UK Coal Surface Mines Ltd currently operates five opencast coal sites in Northumberland; two active coal sites in the Ashington / Linton area: Potland Burn and Butterwell; and three sites under restoration / aftercare in the Widdrington area: Stobswood, Maidens Hall and Steadsburn.

The company was in financial difficulty in 2012 due to a significant pension deficit and bank debt and the company restructured in late 2012. In February 2013 a fire at the Daw Mill Colliery in Warwickshire led to the closure of the pit and forced the company into further restructuring. In July 2013 the company was placed into administration. However, the viable mining operations were successfully restructured and held in individual companies owned by a new business operating as UK Coal Production Ltd. UK Coal Surface Mines Ltd is a subsidiary of that parent company.

In March 2013 it became apparent that UK Coal Production Ltd was in further financial difficulty and the company is now required to close its two remaining deep mines through an 18 month Government supported "soft-closure programme". A pre-condition of the soft closure programme for the deep mines is the sale of the surface mining part of the business within a 3 month period. Should the sale of the surface mining part of the business be unsuccessful it is likely that UK Coal Surface Mines Ltd would become insolvent and all operations on their existing sites would cease on their existing sites with immediate effect. The freehold of four of the sites is owned by Harworth Estates which owns brownfield land previously used for mining operations by UK Coal. Should the company become insolvent these four sites would revert to Harworth Estates as the freehold owner and that company would therefore become liable for any outstanding restoration and aftercare works (currently estimated at approximately £3.50 million).

Harworth Estates do not own the Potland Burn site at Ashington. Should the company become insolvent any restoration or aftercare liabilities in respect of this site would revert to the Council. Initial costs provided by the company estimate a total restoration liability for Potland Burn of approximately £8.00 million. This figure takes into account the estimated value of any remaining coal reserves and will change over time depending on the price of coal and size of excavation and volumes of above ground material to be reinstated. The figures are currently being independently verified on behalf of the Council by Mining

## Notes to the Financial Statements

Consultants, Wardell Armstrong. There is currently a restoration bond in place for the site to the value of £1.70 million. This will reduce in value as the site progresses through the remaining working phases.

### 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 limits for the investments of surplus monies are shown below:

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
UK Gov't Gilts, Bonds and Treasury Bills	N/A	N/A	Unlimited	15 years
Nationalised Banks	N/A	N/A	£35m (Group Limit £70m)	12 months
Money Market Funds (CNAV)	AAA	Aaa	£25m (Group Limit £150m)	Instant access
Enhanced Cash Funds (VNAV)	AAA	Aaa	£15m (Group Limit £60m)	1 day's notice
Very High Grade UK Clearing Banks/Building Societies	AA-	Aa3	£25m (Group Limit £30m)	12 months
Medium Grade UK Clearing Banks/Building Societies	A-	A3	£15m (Group Limit £30m)	12 months
High Grade Foreign Banks	A-	A3	£10m (Group Limit £30m)	6 months
Deposits or Corporate Bonds	A-	A3	£10m per institution	5 years

## Notes to the Financial Statements

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
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

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

### 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 2013 £'000	Accrued Interest 2013-2014 £'000	Repaid 2013-2014 £'000	Impairment 2013-2014 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Landsbanki	08.02.08	06.02.09	2,193	105	(2,322)	24	5.43	-	8
Landsbanki	11.03.08	11.03.09	435	22	(466)	9	5.80	-	8
Heritable	26.03.08	29.12.08	107	3	(173)	63	6.00	-	6
Kaupthing Singer & Friedlander	02.04.08	02.01.09	265	11	(170)	20	6.05	126	14
Kaupthing Singer & Friedlander	04.04.08	05.01.09	354	15	(227)	26	6.05	168	14
Landsbanki	10.09.08	10.12.08	416	22	(447)	9	5.83	-	8
<b>Total</b>			<b>3,770</b>	<b>178</b>	<b>(3,805)</b>	<b>151</b>		<b>294</b>	

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.

## Notes to the Financial Statements

The current situation with regards to recovery of the sums deposited varies between each institution. A considerable proportion of the original investments has however now been received. 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 2014-2015 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 Council has received 94% of the claim amount and no further dividends are expected.

### Kaupthing Singer and Friedlander Ltd

The current position on actual payments received and estimated future payouts is shown in the table below. The Council has decided to recognise an impairment based on it recovering 85.75p in the £. This reflects an improvement from the position reported as at 31 March 2013 of 85.25p in the £.

Date	Repayment Percentage (%)
Received to Date	81.50
June 2014	2.25
June 2015	2.00

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

### Landsbanki

In February 2014 the Council sold its Landsbanki claim for 92% of the claim amount to Deutsche Bank. No further dividends are therefore expected with regard to this claim.

### Glitnir Bank hf

The Council has received 100% of its claim in full settlement for Glitnir Bank hf. However, 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 2014. 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 2013-2014 due to currency fluctuations.

### Customer Debt

The Council has £5.41 million (2012-2013 £10.81 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

## Notes to the Financial Statements

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Less than three months	6,820	1,739
Three to six months	1370	437
Six months to one year	510	479
More than one year	2,180	2,750
Total	10,880	5,405

At 31 March 2014 the Council held a provision of £1.20 million (2012-2013: £1.45 million) for doubtful debts against the risk of non-payment.

### Financial Guarantees

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

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 ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

## Notes to the Financial Statements

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
<b>Analysis by Loan Type</b>		
Public Works Loans Board	203,852	195,252
Other Market Loans	35,308	15,195
LOBO (Market Loans)	260,600	260,600
	499,760	471,047
<b>Analysis of Loans by Maturity</b>		
Less than 1 year	-	-
Between 1 and 2 years	38,844	9,711
Between 2 and 5 years	56,602	75,604
Between 5 and 10 years	70,359	53,563
Between 10 and 20 years	27,798	26,428
Between 20 and 30 years	9,485	9,725
Between 30 and 40 years	45,072	47,426
Between 40 and 50 years	80,000	76,990
Between 50 and 60 years	40,600	40,600
In excess of 60 years	131,000	131,000
	499,760	471,047

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 Statement 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 Statement 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 Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements.

## Notes to the Financial Statements

From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

If interest rates had been 1% higher as at 31 March 2014 with all other variables held constant, the effect would have been:

	As at 31 March 2014 £'000
Increase in Interest Payable on Variable Rate Borrowings	1,402
Increase in Interest Receivable on Variable Rate Investments	(2,263)
Increase in Government Grant receivable for financing costs	(5,620)
Impact on (Surplus) or Deficit on the Provision of Services	(6,481)
<hr/>	
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	60,652

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 £80 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 136.

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 2014, based on exchange rates was £1.62 million.

## 51. General Government Grants

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

## Notes to the Financial Statements

	2012-2013 £'000	2013-2014 £'000
Revenue Support Grant ①②	(4,376)	(90,970)
Council Tax Freeze Grant	(3,766)	(1,538)
New Homes Bonus Grant	(1,602)	(3,194)
Central Services Education Grant	-	(4,805)
Business Rates Top Up Grant	-	(22,964)
Small Business Rates Relief Grant	-	(1,767)
Localising Support Transitional Grant	-	(532)
Efficiency Support for Services in Sparse Areas	-	(256)
Local Services Support Grant	(1,105)	(425)
<b>Total General Government Grants</b>	<b>(10,849)</b>	<b>(126,451)</b>

① The 2012-2013 Revenue Support Grant includes refunds of Local Authority Central Spend Equivalent Grant (LACSEG) for 2011-2012 of £1.28 million and 2012-2013 of £2.06 million.

② The 2013-2014 Revenue Support Grant includes £0.48 million redistributed Capitalisation Fund.

### 52. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2014:

	Total Cost £'000	Future Payments £'000
Ashington Community and Leisure Facility	20,000	17,490
Ashington Town Centre	9,825	3,344
Blyth Town Centre/Bus Station	658	99
Fire and Rescue Emergency Control Centre	1,943	90
Hirst Putting the Learner First Project	51,320	262
HRA Affordable Housing Scheme	24,624	15,560

### 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 2013-2014 of £15.70 million was calculated using both the 'regulatory' (£9.26 million) and 'asset life' (£6.43 million) methods from the guidance. The 2012-2013 provision was also based on 'regulatory' (£9.70 million) and 'asset life' (£8.81 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.

## Notes to the Financial Statements

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 2013 unless stated otherwise. The work has been undertaken by DTZ, a UGL Limited 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, 37% was valued in year. In addition, 100% of the Investment Assets and Assets Held for Sale remaining at 31 March 2014 were revalued by DTZ.

In addition to carrying out valuations, DTZ assessed the general property market conditions within Northumberland. They have expressed an opinion that the values of the Council's assets not valued in year will not have been significantly affected by the recent changes in market conditions.

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.

## Notes to the Financial Statements

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	Other Land and Buildings	Vehicles, Infrastructure Plant, Furniture and Equipment	Community Assets	Community Assets *	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost **	-	16,183	86,416	277,975	8,448	17	37,399	426,438
Valued at Current Value in:								
2009-2010	-	29,530	11,501	-	-	6,747	-	47,778
2010-2011	-	34,944	-	-	-	1,221	-	36,165
2011-2012	-	343,545	-	-	-	2,159	-	345,704
2012-2013	-	19,160	-	-	-	521	-	19,681
2013-2014	251,816	20,165	-	-	-	294	-	272,275
<b>Total</b>	<b>251,816</b>	<b>463,527</b>	<b>97,917</b>	<b>277,975</b>	<b>8,448</b>	<b>10,959</b>	<b>37,399</b>	<b>1,148,041</b>

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

\*\* Capital works additions not yet subject to revaluation.

### 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.

## Notes to the Financial Statements

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 Freeman 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](http://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](http://www.pmsa.org.uk)) and the North East War Memorial Project ([www.newmp.org.uk](http://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

## Notes to the Financial Statements

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 some time 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-20<sup>th</sup> 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 20<sup>th</sup> 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](mailto: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](http://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.

## Notes to the Financial Statements

### 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	Infrastructure	Vehicles, Plant and Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	-	502,478	8,448	277,975	97,917	886,818
HRA	251,816	9,407	-	-	-	261,223
	251,816	511,885	8,448	277,975	97,917	1,148,041

### 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 4 May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16 November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities.

NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 15.42% interest in NALAHCL, valued at £13.40 million. The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2013-2014 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 7.86% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A total dividend of £2.30 million was payable for the year ended 31 December 2013 (nil for the year ended 31 December 2012) Northumberland received £0.35 million.

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 with interest being received up to that date on a 6 monthly basis. Otherwise 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 £11.13 million and a loss after tax of £3.62 million for the year ended 31 December 2013. In the previous year, the Group made a loss before tax of £3.30 million (as restated) and a profit after tax of £0.78 million (as restated).

#### 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

## Notes to the Financial Statements

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)
- Arch (Corporate Holdings) Ltd
- Arch (DigEco) Ltd

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 was confirmed that Northumberland County Council, by virtue of these shareholdings and its control of members of the Board, was 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 for the majority of 2013-2014 with only minimal transactions flowing through the accounts. Those transactions that have been processed throughout 2013-2014 relate to historic repayments on loans that were previously granted by Northumberland County Council.

Group accounts have been prepared for 2013-2014. These statements incorporate the unaudited year end position for Arch (Commercial Enterprise) Limited, Arch (Housing) Limited and Arch (Development Projects) Limited, Arch (Financial Services) Limited and Arch (DigEco) Limited.

The latest financial results are summarised below:

Arch (Corporate Holdings) Limited	2012-2013	2013-2014
	£'000	£'000
Profit/(Loss) on ordinary activities before taxation	1,007	(744)
Profit/(Loss) on ordinary activities after taxation	709	(744)

### 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.

## Notes to the Financial Statements

Financial results are as follows:

Homes for Northumberland	2012-2013 £'000	2013-2014 £'000
Profit/(Loss) on ordinary activities before taxation	(1,574)	483
Profit/(Loss) on ordinary activities after taxation	(1,602)	483

The loss in 2012-2013 reflects the restructuring costs of £1.50 million which will be recovered by future revenue savings.

### 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 2014 was £7,462 (£6,935 as at 31 March 2013). Income received during 2013-2014 through dividends was £265 (£253 in 2011-2012). There was no expenditure incurred during 2013-2014 or during 2012-2013. 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 £2,201.

#### Thropton First School

The Council held £0.05 million of funds at 31 March 2014 (£0.01 million at 31 March 2013) for Thropton First School (which is a foundation school).

#### Trust Schools

The Council also held funds for the following Trust schools:

	31 March 2013 £'000	31 March 2014 £'000
<b>Ashington Partnership:</b>		
Ashington Community High School	642	592
Bothal Middle School	122	77
Ashington Hirst Park Middle School	135	11
Ashington Wansbeck First School	57	8
Ashington Central First School	225	252
<b>Total Ashington Partnership</b>	<b>1,181</b>	<b>940</b>
<b>West Partnership:</b>		
Haydon Bridge High School	285	168
Allendale Community	(58)	-
Bellingham Middle School	122	59
Bellingham First School	21	39
<b>Total West Partnership</b>	<b>370</b>	<b>266</b>

#### Academies

The Council acts as the Payroll provider for eight 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

## Notes to the Financial Statements

Three Rivers Academy (since 1 December 2011); Meadowdale Academy (since 1 April 2012); Blyth Quays Trust Academy (since 1 June 2013); Haltwhistle Community Academy (since 1 September 2013) and, The Blyth Academy (since 1 October 2013). As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2013-2014, £2.91 million (2012-2013 £2.49 million) employers' contributions (14.1% of pensionable pay) and £1.84 million (2012-2013 £1.36 million) employees' contributions (previously at rates ranging from 6.4% to 8.8% of pensionable pay but now at rates ranging from 6.4% to 11.2%), were paid over to the Teachers' Pensions Agency. These totals include contributions for the March 2014 payroll totalling £0.64 million employers' contributions and £0.17 million employees' contributions which remained payable at the year end. These amounts were paid over in April 2014 and have been excluded from the Balance Sheet.

	2013-2014		Total £'000
	Employees' Contribution £'000	Employer's Contribution £'000	
	<b>Academy:</b>		
NCEA	502	813	1,315
Cramlington Learning Village	370	582	952
Berwick	174	265	439
The Three Rivers	450	701	1,151
Meadowdale	76	121	197
Blyth Quays Trust	148	239	387
Haltwhistle Community Campus	41	66	107
The Blyth Academy	80	124	204
<b>Total</b>	<b>1,841</b>	<b>2,911</b>	<b>4,752</b>

### 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 2014 the balance on these accounts was £3.67 million (£4.2 million at 31 March 2013) 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 2013-2014 this income totalled £0.06 million (£0.06 at 31 March 2013) 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 2013-2014 this totalled £0.06 million (£0.05 at 31 March 2013) 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 2013-2014 these funds totalled £0.14 million (£0.1 million at the end of 2012-2013) and have been excluded from the Council's Balance Sheet.

## Notes to the Financial Statements

### Disability Living Allowances

The Council holds Disability Living Allowance money of £0.02 million at the end of 2013-2014 (£0.01 million at the end of 2012-2013) paid to children in its care. This money is held until it is spent on the children and is not included in the Balance Sheet.

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

	31 March 2013 £'000	31 March 2014 £'000
R. Bell Bequest	2	2
The Northumberland Children's Fund	32	49
Northumberland Sports Fund	69	59
North Stobswood Open Cast Coal Site	275	274
Dransfield Properties Ltd	461	80
New Ridley Road Stocksfield	13	13
Choppington Educational Foundation	2	2
Wandylaw Wind Farm	214	54
Wingates Wind Farm	300	30
S278 Network Rail Hexham Goods Yard	-	75
S278 Eland Homes Delaval House	-	65
S38 NHCT The Mount A197 Morpeth	-	200
Rural Growth Fund Income in Advance	-	1,246
S38 Southland SJ Williams	-	80
S38 Blaeberry Hill	-	40
Broadband Loan Briskona	-	9
	1,368	2,278

### 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, however no expenditure has been incurred in 2013-2014. The balance should be utilised in 2014-2015.

### 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 added to the fund from investments. Grants totalling £0.08 million have been paid to organisations in 2013-2014.

### 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 the Community Games Festival in 2013-2014. The balance will be transferred to Blyth Valley Arts and Leisure in 2014-2015.

## Notes to the Financial Statements

### North Stobswood Open Cast Coal Site

Northumberland County Council is holding this money received 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.

### S278 Dransfield Property

Section S278 Agreement. Most of the Bond has been repaid, however, work is still outstanding on this project relating to Morrisons, Morpeth, therefore this Bond will be held until all works are complete.

### 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.

### S59/278 Wandylaw Wind Farm

Section S59/278 Agreement. Most of the Bond has been repaid, however, 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. Most of the Bond has been repaid, however, work is still outstanding on this project, therefore this Bond will be held until all works are complete.

### S278 Network Rail Hexham Goods Yard

Network Rail Section S278 Agreement for Hexham Station Yard. The balance is to be repaid to the developer upon completion.

### S38 Eland Homes Delaval House

Eland Homes S38 Bond for highway improvements at Delaval House.

### S38 NHCT The Mount A197 Morpeth

North of Tyne Primary Care Trust S38 Bond for highway improvements at The Mount A1697 Morpeth.

### Regional Growth Fund Income in Advance

Department for Communities and Local Government pay funding up front based on the quarterly forecast of payments due to be made to businesses which is submitted by NCC. Claims are processed by the Corporate Programmes and External Funding Team. Payment of grant and spend is reconciled quarterly and reflected in the next claim to DCLG, at the end of the scheme October 2015 any unused funding will be repaid to DCLG.

### S38 Southlane SJ Williams

S38 Bond from Mr S Williams for Highway works at Southlane, Rothbury.

### S38 Blaeberry Hill

S38 Bond from Kowalczyk & Rugman for Highway works at Blaeberry, Rothbury.

### Broadband Loan Briskona

It is a loan condition that 3 months repayments be held for each loan in case of default.

## Notes to the Financial Statements

### 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. In 2011 the Government announced that as a result of its Waste Policy Review it was considered that continuing increases in landfill tax had superseded LATS as being the key policy driver diverting biodegradable waste from landfill and that they would be ending the Landfill Allowance Trading Scheme (LATS) at the end of the 2012-2013 scheme year.

The Council had a surplus of LATS at the end of 2012-2013 and under the LATS rules was able to trade these prior to the trading deadline at the end of September 2013. Trading activity on the DEFRA Bulletin Board for 2012-2013 allowances in July 2013 showed that five authorities were offering 73,800 tonnes of 2012-2013 allowances for sale all valued at £0.50 per tonne. In contrast only two Council's had posted an interest in purchasing allowances totalling 26,820 tonnes. It was therefore clear that there was an oversupply of 2012-2013 allowances and that any surplus allowances still held by local authorities at the end of the scheme would have no value. The County Council had taken a prudent approach and considered that the surplus LATS had nil value as it was very unlikely that it would be possible to realise any income from trading. However, the County Council still sought to obtain some income from its surplus LATS and was successful in selling 4,439 tonnes of 2012-2013 allowances at £0.30 per tonne to secure income of £1,332 before the scheme came to an end.

### 60. Construction Contracts

At 31 March 2014 the Council had no construction contracts in progress.

## Housing Revenue Account (HRA) Income and Expenditure Statement for the year ended 31 March 2014

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	2012-2013 As Restated £'000	2013-2014 £'000
<b>Expenditure:</b>			
Repairs and maintenance		4,721	<b>4,716</b>
Supervision and management		7,799	<b>7,823</b>
Rents, rates, taxes and other charges		796	<b>792</b>
Depreciation and impairment of Fixed Assets		(4,258)	<b>1,080</b>
Debt management costs		15	<b>11</b>
Movement in the allowance for Bad Debt (not specified by the Code)	13	117	<b>237</b>
<b>Total Expenditure</b>		<b>9,190</b>	<b>14,659</b>
<b>Income:</b>			
Dwelling rents (gross)		(26,454)	<b>(27,560)</b>
Non dwelling rents (gross)	4	(336)	<b>(345)</b>
Charges for services and facilities		(1,290)	<b>(1,358)</b>
HRA Subsidy receivable	10	(38)	<b>-</b>
<b>Total Income</b>		<b>(28,118)</b>	<b>(29,263)</b>
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		(18,928)	<b>(14,604)</b>
HRA services' share of Corporate and Democratic Core Costs		582	<b>549</b>
<b>Net cost for HRA Services</b>		<b>(18,346)</b>	<b>(14,055)</b>
<b>HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:</b>			
Loss on disposal of Non-Current Assets		1,088	<b>-</b>
Capital Grants and Contributions Receivable	1	(787)	<b>(1,465)</b>
Interest payable and similar charges		4,347	<b>4,294</b>
Interest and investment income		(275)	<b>(357)</b>
Pensions net interest expense		47	<b>46</b>
<b>Deficit/(Surplus) for the year on HRA Services</b>		<b>(13,926)</b>	<b>(11,537)</b>

## Movement on the Housing Revenue Account Statement for the year ended 31 March 2014

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

	Note	2012-2013 As Restated £'000	2013-2014 £'000
Balance on the HRA at the end of the previous year		(11,955)	(14,128)
Deficit/(Surplus) for the year on the HRA Income and Expenditure Statement		(13,926)	(11,537)
Adjustments between accounting basis and funding basis under Statute	1	11,753	15,117
Net increase before transfers to or from reserves		(2,173)	3,580
Balance on the HRA at the end of the current year		(14,128)	(10,548)

## Notes to the HRA Income and Expenditure Statement

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

	Note	2012-2013 As Restated £'000	2013-2014 £'000
<b>Analysis of adjustments between accounting basis and funding basis</b>			
Transfers to/(from) the Capital Adjustment Account		10,230	6,044
Movements in market value of investment properties		-	51
Revenue expenditure funded from capital under statute		-	-
Capital grants and contributions applied		787	1,465
HRA share of contributions to the Pensions Reserve		(39)	(47)
Transfer to/(from) Major Repairs Reserve	7	-	-
Capital expenditure funded by the HRA	8	775	7,604
		11,753	15,117

### 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 £63.66 per week in 2013-2014 (£60.44 in 2012-2013), an increase of £3.22 or 5.3% compared with 2012-2013 on a 52 week basis.

### 4. Other Rent Income

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

	2012-2013 £'000	2013-2014 £'000
Garages	(284)	(284)
Shops	(32)	(42)
Miscellaneous	(20)	(19)
Total	(336)	(345)

## Notes to the HRA Income and Expenditure Statement

### 5. Housing Stock

	2012-2013	2013-2014
	No.	No.
Houses and Bungalows	7,139	7,116
Flats	1,325	1,325
Houses in Multiple Occupation	10	10
<b>Total</b>	<b>8,474</b>	<b>8,451</b>

Council Stock reduced by twenty three dwellings in 2013-2014. There were forty five sales under the 'Right to Buy Scheme'. The Hodgsons Road Development in Blyth saw four demolitions, one 'key for key' exchange and the completion of twenty eight new builds. There was also the appropriation of one dwelling in the Alnwick area to the General Fund.

## Notes to the HRA Income and Expenditure Statement

### 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 2013	243,266	3,843	98	347	582	1,339	249,475
Reclassifications	1,322	(1,258)	-	-	-	(1,339)	(1,275)
Additions	9,548	-	-	-	-	6,920	16,468
Disposals	(1,607)	(10)	-	-	-	-	(1,617)
Revaluations	6,175	(207)	-	-	51	-	6,019
Other Movements in Cost or Valuation	(6,888)	-	-	-	-	-	(6,888)
Gross book value 31 March 2014	<b>251,816</b>	<b>2,368</b>	<b>98</b>	<b>347</b>	<b>633</b>	<b>6,920</b>	<b>262,182</b>
Depreciation at 1 April 2013	-	293	96	-	-	-	389
Charged in year	6,888	64	2	-	-	-	6,954
Disposals	-	-	-	-	-	-	-
Revaluations	-	(37)	-	-	-	-	(37)
Reclassifications	-	(91)	-	-	-	-	(91)
Other Movements in Cost or Valuation	(6,888)	-	-	-	-	-	(6,888)
Depreciation at 31 March 2014	-	<b>229</b>	<b>98</b>	-	-	-	<b>327</b>
Net book value at 1 April 2013	243,266	3,550	2	347	582	1,339	249,086
Net book value at 31 March 2014	<b>251,816</b>	<b>2,139</b>	-	<b>347</b>	<b>633</b>	<b>6,920</b>	<b>261,855</b>

The value of Council dwellings at 31 March 2014 of £251.82 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £680.58 million. This shows that the economic cost to government of providing council housing at less than open market value is £428.76 million.

The value of land has not been valued separately from the buildings and has only been split on subsequent revaluations. Therefore, the value of the land within 'other land and buildings' is £0.97 million. Surplus Assets consists of land valued at £0.35 million, and investment properties include £0.01 million worth of land.

## Notes to the HRA Income and Expenditure Statement

### 7. Major Repairs Reserve

The Council is required to maintain a Major Repairs Reserve with the main credit to the reserve being an amount equivalent to the total depreciation charges for all HRA assets. 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:

	2012-2013	2013-2014
	£'000	£'000
<b>Income:</b>		
Depreciation on Fixed Assets	(6,657)	(6,954)
	(6,657)	(6,954)
Appropriations transfer from the HRA	-	-
	(6,657)	(6,954)
<b>Expenditure:</b>		
Capital expenditure funded from the Reserve		
Transfer to HRA	-	-
Houses	6,922	6,860
	6,922	6,860
Deficit for the year	265	(94)
Balance brought forward 1 April	(1,483)	(1,218)
Balance carried forward 31 March	(1,218)	(1,312)

### 8. HRA Capital Expenditure and Financing

	2012-2013	2013-2014
	£'000	£'000
<b>Capital Expenditure:</b>		
Houses	8,491	16,468
	8,491	16,468
<b>Financing:</b>		
Government Grants	794	2,004
Direct Revenue Financing	775	7,604
Major Repairs Reserve	6,922	6,860
<b>Total</b>	<b>8,491</b>	<b>16,468</b>

## Notes to the HRA Income and Expenditure Statement

### 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	1,809	866	943

### 10. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a credit of £0.002 million representing the excess of current service cost over pension contributions, as a result of implementing IAS 19.

The net charge resulting from implementing IAS 19 is reversed within the HRA meaning there is no effect on the amount to be met from rents.

### 11. Tenant Arrears

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

	As at 31 March 2013		As at 31 March 2014	
	£'000	%	£'000	%
<b>Rents:</b>				
Current tenants	423	1.6	<b>691</b>	<b>2.51</b>
Former tenants	212	0.8	<b>403</b>	<b>1.46</b>
Balance at 31 March	635	2.4	<b>1,094</b>	<b>3.97</b>

### 12. Provision for Impairment of Debt

The actual charge to the HRA in respect of bad debts provision and debts written off in 2013-2014 was £0.24 million. This charge relates to an increase in the bad debt provision for council dwelling rents and charges of £0.23 million and an increase in the contribution to meet the costs of doubtful debts relating to shops and miscellaneous garage sites of £0.01 million.

In 2012-2013 the actual charge to the HRA was £0.12 million. Of this, £0.23 million related to write off of rents and charges, £0.10 million to a reduction in bad debt provision and £0.01 million to a reduction in the contribution to meet doubtful debts relating to shops and miscellaneous garage sites.

The provision for bad debts at 31 March 2014 is:

	2012-2013 £'000	2013-2014 £'000
Balance at 1 April	427	<b>326</b>
Increase/(Decrease) in provision	(101)	<b>234</b>
Balance at 31 March	326	<b>560</b>

## Notes to the HRA Income and Expenditure Statement

### 13. Homes for Northumberland

Homes for Northumberland is an Arms Length Management Organisation (ALMO) that is paid a management fee by the Council to carry out many of the activities previously performed by HRA employees in the former Alwick, and Blyth authorities. In 2013-2014 the Management Fee payable to Homes for Northumberland was £11.19 million (£11.19 million in 2012-2013).

## **Collection Fund Account** for the year ended 31 March 2014

The Collection Fund reflects the statutory obligation of billing authorities to maintain a separate Collection Fund, distinct from the General Fund of the County Council. The Collection fund accounts independently for income relating to Council Tax and National Non Domestic Rates (NNDR) on behalf of those bodies (including the County Council) for whom the income has been raised.

Collection Fund surpluses or deficits declared by the billing authority relating to Council Tax are apportioned to the relevant precepting bodies in the subsequent financial year. For Northumberland the Council Tax precepting body is the Police and Crime Commissioner for Northumbria.

In 2013-2014 the local government finance regime was revised with the introduction of the retained business rates scheme. The aim of the scheme is to give Councils a greater incentive to grow businesses within their area. It does, however, also increase the financial risk due to the non-collection and the volatility of the NNDR tax base.

The scheme allows the Council to retain a proportion of the total NNDR received. Northumberland's share is 50% with 50% paid to the Council's precepting body - Central Government.

NNDR surpluses or deficits declared by the billing authority are apportioned to the relevant precepting bodies in the subsequent financial year.

## Collection Fund Account

for the year ended 31 March 2014

	Note	2012-2013 Total £'000	Council Tax £'000	2013-2014 NNDR £'000	Total £'000
<b>Income:</b>					
Council Tax Payers	1	(142,460)	(148,007)	-	(148,007)
<b>Transfers from General Fund:</b>					
Council Tax Benefits		(23,851)	-	-	-
Income collectable from Business Ratepayers	2	(69,522)	-	(75,987)	(75,987)
<b>Total Income</b>		<b>(235,833)</b>	<b>(148,007)</b>	<b>(75,987)</b>	<b>(223,994)</b>
<b>Expenditure:</b>					
<b>Apportionment of previous year's surplus:</b>					
Northumberland County Council	3	2,600	1,500	-	1,500
Police and Crime Commissioner for Northumbria	3	350	150	-	150
<b>Precepts, demands and shares:</b>					
Northumberland County Council		150,639	132,299	36,402	168,701
Parish and Town Councils		5,179	5,076	-	5,076
Police and Crime Commissioner for Northumbria		9,178	8,343	-	8,343
Central Government - Payments to National Pool	2	68,056	-	-	-
Central Government - Share	2	-	-	36,402	36,402
<b>Charges to Collection Fund:</b>					
Costs of collection		472	-	474	474
Interest payments		30	-	-	-
Provision for bad debts	4	1,332	374	1,382	1,756
Provision for appeals	4	-	-	5,266	5,266
Disregarded amounts - renewable energy		-	-	391	391
<b>Impairment of debts/appeals:</b>					
Contribution to the General Fund					-
<b>Total Expenditure</b>		<b>237,836</b>	<b>147,742</b>	<b>80,317</b>	<b>228,059</b>
<b>(Surplus)/Deficit for year</b>		<b>2,003</b>	<b>(265)</b>	<b>4,330</b>	<b>4,065</b>
Opening fund balance		(2,967)	(964)	-	(964)
Closing fund balance		(964)	(1,229)	4,330	3,101
<b>Allocated to:</b>					
Northumberland County Council		(908)	(1,157)	2,165	1,008
Police and Crime Commissioner for Northumbria		(56)	(72)	-	(72)
Central Government		-	-	2,165	2,165
		(964)	(1,229)	4,330	3,101

## Notes to the Collection Fund Account

### 1. Council Tax

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 preceptor's 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.

In 2013-2014 the local government finance regime was revised and Council Tax Benefit is no longer received by the Council. This has been replaced by a Council Tax Reduction Scheme which is administered by each authority.

	2012-2013	2013-2014
Council tax base (Band D equivalent @ 98.2% of collection rate)	109,683	<b>96,329</b>
Council tax (Band D property)	£1,456.18	<b>£1,459.10</b>

Council Tax Band	Proportion	2013-2014		Council Tax Charge £
		No. of Properties	No of Band D equivalent Properties	
A (Disabled)	5/9	-	101	810.61
A	6/9	69,927	28,632	972.73
B	7/9	23,015	14,597	1,134.86
C	8/9	18,720	14,396	1,296.98
D	9/9	15,033	13,743	1,459.10
E	11/9	9,904	11,143	1,783.34
F	13/9	6,310	8,555	2,107.59
G	15/9	3,883	6,094	2,431.83
H	18/9	500	835	2,918.20
<b>Total</b>		<b>147,292</b>	<b>98,096</b>	

## Notes to the Collection Fund Account

Council Tax Band	Proportion	2012-2013		Council Tax Charge 2012-2013 £
		No. of Properties	No of Band Equivalent Properties	
		2012-2013 No.	2012-2013 No.	
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
<b>Total</b>		<b>146,580</b>	<b>110,235</b>	

### 2. National Non-Domestic Rates (NNDR)

Local Businesses are required to pay, subject to transitional arrangements, an amount calculated by applying a uniform business rate set nationally by central government (expressed as a rate in the pound) to the rateable value of their property. Rateable values are provided by the Valuation Office Agency (VOA). In previous years, the amount collected by the Council was paid to a central pool (the NNDR pool) administered by Central Government. The Government in turn paid Local Authorities their share of the pool based on a fixed amount per head of population.

In 2013-2014 the administration of NNDR changed following the introduction of the business rates retention scheme. Instead of paying NNDR to a central pool, local authorities retain a proportion of the total collectable rates due (local share). In the case of Northumberland the local share is 50%. The remainder is distributed to preceptors, and in the case of Northumberland, the preceptor is Central Government (50%).

The NNDR shares payable for 2013-2014 were estimated before the start of the financial year as £36.40 million to Central Government and £36.40 million retained by Northumberland County Council. These sums have been paid to the General Fund and Central Government in 2013-2014 and charged to the Collection Fund in year.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups paid by Central Government to those authorities who do not achieve their targeted baseline funding. In this respect Northumberland County Council received a top up grant to the General Fund in 2013-2014 of £22.96 million.

The total income from business ratepayers in 2013-2014 was £75.99 million (£69.52 million in 2012-2013). This sum includes £0.44 million of transitional protection payments to ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum is reimbursed to the Council by Central Government.

## Notes to the Collection Fund Account

In addition to the top up, a 'safety net' figure is calculated at 92.5% of the baseline amount which ensures that authorities are protected to this level of Business Rates income. For Northumberland the value of the safety net figure in 2013-2014 was £55.69 million. The comparison of NNDR income to the safety net uses the total income collected from business ratepayers and adjusts for losses on collection, losses on appeal, transitional protection payments, the cost of collection and the revision to the small Business Rate Relief. The Council does not qualify for a safety net payment in 2013-2014.

For 2013-2014 the total non-domestic rateable value at year end is £201.39 million (£194.18 million). The national multipliers for 2013-2014 were 46.2p for qualifying Small Businesses, and the standard multiplier being 47.1p for all other businesses (45.0p and 45.8p respectively for 2012-2013).

### 3. Apportionment of Previous Year's Surplus

The Council has a statutory requirement to prepare an estimate each January of the surplus or deficit expected to arise at the end of the financial year. The estimated surplus and amounts due to preceptors were:

	Council Tax £'000	NNDR £'000	Total £'000
Estimated surplus 2012-2013	1,650	-	1,650
Allocated to:			
Northumberland County Council	1,500	-	1,500
Police and Crime Commissioner for Northumbria	150	-	150
Total	1,650	-	1,650

	Council Tax £'000	NNDR £'000	Total £'000
Estimated surplus 2011-2012	2,950	-	2,950
Allocated to:			
Northumberland County Council	2,600	-	2,600
Police and Crime Commissioner for Northumbria	350	-	350
Total	2,950	-	2,950

### 4. Council Tax/NNDR Bad Debt Provision and NNDR appeals provision

#### Bad Debt Provision

The Collection Fund account provides for bad debts on arrears based on a detailed analysis of collection rates. From 2009-2010 to 2012-2013 collection rates increased year on year. In 2013-2014, however, due to the effects of new legislation collection rates fell for the first time. A 1% reduction for both Council Tax and NNDR was anticipated but collection actually fell by only 0.2% for Council Tax and 0.3% for NNDR.

## Notes to the Collection Fund Account

	2012-2013			2013-2014		
	Council	NNDR	Total	Council	NNDR	Total
	Tax £'000	£'000	£'000	Tax £'000	£'000	£'000
Balance as at 1 April	6,730	1,804	8,534	6,435	1,183	7,618
Write offs	(662)	(1,586)	(2,248)	(757)	(1,039)	(1,796)
Increase in provision	367	965	1,332	374	1,382	1,756
Balance at 31 March	6,435	1,183	7,618	6,052	1,526	7,578
Northumberland County Council	6,053	-	6,053	5,699	763	6,462
Police and Crime	382	-	382	353	-	353
Commissioner for Northumbria	-	1,183	1,183	-	763	763
Central Government	-	1,183	1,183	-	763	763
	6,435	1,183	7,618	6,052	1,526	7,578

### Appeals Provision

In addition to the local management of business rates, authorities are expected to finance their proportion of appeals, made against the rateable valuation set by the Valuation Office, which are outstanding as at 31 March 2014. As such, authorities are required to make a provision for these amounts. This is the first year of this provision.

	2012-2013	2013-2014
	£'000	£'000
Balance at 1 April	-	-
Increase in provision	-	5,266
Balance at 31 March	-	5,266
Allocated to:		
Northumberland County Council	-	2,633
Central Government	-	2,633
Total	-	5,266

## Group Accounts Explanatory Foreword

These group accounts consolidate the results and balances of the Council with those of its wholly owned subsidiaries for the year ended 31 March 2014:

- Arch Group
- Homes for Northumberland
- Rural Enterprise Action (dormant as at 1 July 2012 and subsequently dissolved in June 2013).

The purpose of the foreword is to provide an easy to understand guide to the most significant matters reported in the accounts and information relating to the councils subsidiaries.

### 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).

The Arch Group brings together services in housing, commercial property, physical regeneration and business growth. The Arch Group consists of six companies and their principal activities are as follows;

**Arch (Corporate Holdings) Ltd:** The company acts as a holding entity for the companies that comprise the Arch Group. Arch (Corporate Holdings) Ltd conducts no business in its own right.

The activities of the company group are:-

- Strategic Management overview.
- Financial Control and Monitoring.
- Human Resource services.
- Corporate Policy monitoring and creation.
- Secretarial Services.
- Tax Advice.
- Company Secretary role.
- Strategic Corporate Objectives.

**Arch (Commercial Enterprise) Ltd:** The principal activities of the company are;

- to further the needs of the community within the boundaries of the area currently known as Wansbeck (the "Community") and the wider area of Northumberland.
- to protect restore and enhance the environment of the Community through the purchase lease and management of land in the Community.
- to provide land, commercial accommodation or services to the Community and Businesses.
- to promote economic regeneration in the community through the provision of light industrial, retail and office accommodation to small businesses.
- to provide business advice and support to businesses through Inward Investment initiatives and the administration of the Regional Growth Fund.

## Group Accounts Explanatory Foreword

Arch (Commercial Enterprise) Ltd will optimise the performance of the property portfolio by driving down the number and duration of voids, reducing debt and ensuring prompt payment.

**Arch (Housing) Ltd:** The principal activity of the company during the year was the provision of rented residential accommodation in South East Northumberland.

**Arch (Development Projects) Ltd:** The principal activities of the company are to provide project management services in connection with capital developments undertaken by the Arch Group and Northumberland County Council.

**Arch (Financial Services) Ltd:** has remained dormant for the majority of financial year 2013-2014 with only minimal transactions flowing through the accounts.

Those transactions that have been processed throughout 2013-2014 relate to historic repayments on loans that were previously granted by Northumberland County Council.

**Arch (DigEco) Ltd:** The principal activities of the company are:-

- The project management of the superfast broadband roll-out programme, this is purely a management function for Arch DigEco Ltd and therefore the capital cost incurred on this element of the programme is within Northumberland County Council's Accounts.
- To carry out the revenue related projects of digital business support and the development of community digital champions. This revenue element is financially accounted for within Arch DigEco Ltd and is therefore represented within the accounts.

### 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. The relationship between the Council and Homes for Northumberland is stipulated by a management agreement. The Company's Strategic Board has four Council representatives, four tenant members, three independent members (including the chair), and three non-voting co-opted members.

Its activities are funded via the Council's Housing Revenue Account; the organisation receives an Annual Management Fee from the Council. The management fee for 2013-2014 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).

## **Group Accounts Explanatory Foreword**

- 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.

### **For the Group, the Statement of Accounts Comprises;**

#### **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 non usable 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, business rates and dwellings rent setting purposes. The statement also shows transfers to, or, from, Earmarked Reserves undertaken by the Group. The movement in reserves statement sets out in a single line the adjustments to reflect the difference between the accounting and regulatory basis of determining the Groups funding requirements.

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

This reports the income and expenditure for the year for all Group functions. It also discloses non cash surpluses and deficits relating to the revaluation of Group assets and gains and losses on pension scheme assets and liabilities. The 2013-2014 Statement has been prepared in line with new accounting requirements for IAS 19 (Retirement Benefits) and the 2012-2013 figures have been restated.

#### **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 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 and cash equivalents are deposits repayable on demand.

## **Group Movement in Reserves Statement**

for the year ended 31 March 2014

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 2014

	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 brought forward 1 April 2012 (as restated)	(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	10,048	-	(13,926)	-	-	-	(3,878)	-	1,373	-	(2,505)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	36,725	-	(3,218)	33,507
Total Comprehensive Income and Expenditure	10,048	-	(13,926)	-	-	-	(3,878)	36,725	1,373	(3,218)	31,002
Adjustments Between Group Accounts and Council Accounts	-	-	-	-	-	-	-	-	-	-	-
Adjustments between accounting basis & funding basis under regulations	(19,617)	-	11,753	933	1,925	265	(4,741)	4,741	(470)	470	-
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 carried forward	(29,780)	(81,603)	(14,128)	(577)	(16,287)	(1,218)	(143,593)	(25,294)	(1,815)	(27,322)	(198,024)

## Group Movement in Reserves Statement

for the year ended 31 March 2014

	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 brought forward 1 April 2013	(29,780)	(81,603)	(14,128)	(577)	(16,287)	(1,218)	(143,593)	(25,294)	(1,815)	(27,322)	(198,024)
Movement in Reserves during 2013-2014:											
(Surplus)/Deficit on the provision of services	76,729	-	(11,537)	-	-	-	65,192	-	(745)	-	64,447
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(138,880)	-	(6,235)	(145,115)
Total Comprehensive Income and Expenditure	76,729	-	(11,537)	-	-	-	65,192	(138,880)	(745)	(6,235)	(80,668)
Adjustments Between Group Accounts and Council Accounts	-	-	-	-	-	-	-	-	-	-	-
Adjustments between accounting basis & funding basis under regulations	(72,227)	-	15,117	(801)	2,260	(94)	(55,745)	55,745	925	(925)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	4,502	-	3,580	(801)	2,260	(94)	9,447	(83,135)	180	(7,160)	(80,668)
Transfers (to)/from Earmarked Reserves	(3,194)	3,194	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2013-2014	1,308	3,194	3,580	(801)	2,260	(94)	9,447	(83,135)	180	(7,160)	(80,668)
Balance at 31 March 2014 carried forward	(28,472)	(78,409)	(10,548)	(1,378)	(14,027)	(1,312)	(134,146)	(108,429)	(1,635)	(34,482)	(278,692)

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

for the year ended 31 March 2014

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 2014

2013-2014 Group	Note	Council Only			Group		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
		£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care		162,141	(73,068)	89,073	162,141	(73,068)	89,073
Central Services to the Public		9,232	(4,021)	5,211	9,232	(4,021)	5,211
Corporate and Democratic Core		14,928	(1,088)	13,840	14,928	(1,088)	13,840
Culture and Related Services		24,932	(2,466)	22,466	24,932	(477)	24,455
Education and Children's Services		286,806	(221,036)	65,770	286,806	(221,036)	65,770
Environmental and Regulatory Services		51,340	(9,373)	41,967	56,525	(15,023)	41,502
Exceptional costs of Equal Pay		239	-	239	239	-	239
Fire and Rescue Services		17,105	(2,610)	14,495	17,105	(2,610)	14,495
Highways and Transport Services		38,849	(5,866)	32,983	38,849	(5,866)	32,983
Local Authority Housing (HRA)		15,208	(29,263)	(14,055)	16,694	(33,142)	(16,448)
Non Distributed costs		6,355	(1)	6,354	6,375	(1)	6,374
Other Housing Services		93,236	(89,898)	3,338	94,968	(92,836)	2,132
Planning Services		21,704	(4,851)	16,853	21,704	(4,851)	16,853
Public Health		12,684	(13,309)	(625)	12,684	(13,309)	(625)
Cost Of Services		754,759	(456,850)	297,909	763,182	(467,328)	295,854
Other Operating Expenditure		52,864	(3,138)	49,726	52,864	(3,138)	49,726
Financing and Investment Income and Expenditure	18	68,745	(14,149)	54,596	69,466	(13,560)	55,906
Taxation and Non-Specific Grant Incomes	19		(337,039)	(337,039)	-	(337,039)	(337,039)
Deficit on Provision of Services		876,368	(811,176)	65,192	885,512	(821,065)	64,447
Tax Expenses of Associates				-			-
Group (Surplus)/Deficit				65,192			64,447
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				(1,800)			(4,295)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				-			-
Actuarial (Gains)/Losses on Pension Assets/Liabilities				(137,080)			(140,820)
Other Comprehensive Income and Expenditure				(138,880)			(145,115)
Total Comprehensive Income and Expenditure				(73,688)			(80,668)

## Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2014

2012-2013 Group (As Restated)	Note	Council Only			Group		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure	Income	Expenditure	Expenditure	Income	Expenditure
		£'000	£'000	£'000	£'000	£'000	£'000
Adult Social Care		132,068	(46,357)	85,711	132,068	(46,357)	85,711
Central Services to the Public		8,051	(3,017)	5,034	8,051	(3,017)	5,034
Corporate and Democratic Core		14,038	(462)	13,576	14,038	(462)	13,576
Culture and Related Services		22,969	(3,137)	19,832	22,969	(796)	22,173
Education and Children's Services		290,021	(233,386)	56,635	290,021	(233,386)	56,635
Environmental and Regulatory Services		47,720	(12,897)	34,823	49,573	(14,547)	35,026
Exceptional costs of Equal Pay		(14,441)	-	(14,441)	(14,441)	-	(14,441)
Fire and Rescue Services		17,405	(2,731)	14,674	17,405	(2,731)	14,674
Highways and Transport Services		41,028	(10,225)	30,803	41,028	(10,225)	30,803
Local Authority Housing (HRA)		9,772	(28,118)	(18,346)	12,170	(31,510)	(19,340)
Non Distributed costs		4,795	(46)	4,749	5,165	(46)	5,119
Other Housing Services		116,718	(112,829)	3,889	118,100	(115,530)	2,570
Planning Services		10,904	(3,467)	7,437	10,904	(3,467)	7,437
Cost Of Services		701,048	(456,672)	244,376	707,051	(462,074)	244,977
Other Operating Expenditure		40,642	(22,088)	18,554	40,650	(22,118)	18,532
Financing and Investment Income and Expenditure	18	75,848	(20,008)	55,840	76,317	(20,008)	56,309
Taxation and Non-Specific Grant Incomes	19	-	(322,648)	(322,648)	-	(322,323)	(322,323)
Deficit on Provision of Services		817,538	(821,416)	(3,878)	824,018	(826,523)	(2,505)
Tax Expenses of Associates				-			-
Group (Surplus)/Deficit				(3,878)			(2,505)
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				1,069			(1,699)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				(13,104)			(13,104)
Actuarial (Gains)/Losses on Pension Assets/Liabilities				48,760			48,310
Other Comprehensive Income and Expenditure				36,725			33,507
Total Comprehensive Income and Expenditure				32,847			31,002

## Group Balance Sheet

as at 31 March 2014

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 2014

	Note	31 March 2013		31 March 2014	
		Council	Group	Council	Group
		Only £'000	£'000	Only £'000	£'000
Property, Plant & Equipment	1	1,171,977	1,193,518	<b>1,148,041</b>	<b>1,186,412</b>
Heritage Assets		8,210	8,210	<b>8,210</b>	<b>8,210</b>
Investment Property	2	2,354	41,129	<b>3,861</b>	<b>46,220</b>
Intangible Assets		791	791	<b>2,941</b>	<b>2,941</b>
Assets Held for Sale - non current		420	420	<b>375</b>	<b>375</b>
Long-Term Investments		113,356	110,016	<b>110,378</b>	<b>107,038</b>
Long-Term Debtors		37,704	21,327	<b>159,797</b>	<b>129,938</b>
<b>Long-Term Assets</b>		<b>1,334,812</b>	<b>1,375,411</b>	<b>1,433,603</b>	<b>1,481,134</b>
Intangible Assets		19	18	<b>19</b>	<b>19</b>
Short Term Investments		171,417	171,417	<b>27,480</b>	<b>27,480</b>
Assets Held for Sale - current		4,030	4,031	<b>5,195</b>	<b>5,195</b>
Inventories		623	849	<b>1,076</b>	<b>1,330</b>
Short-Term Debtors	7	63,558	62,432	<b>77,448</b>	<b>74,109</b>
Cash and Cash Equivalents	3	46,486	49,107	<b>35,896</b>	<b>40,439</b>
Taxation		-	1	<b>-</b>	<b>98</b>
<b>Current Assets</b>		<b>286,133</b>	<b>287,855</b>	<b>147,114</b>	<b>148,670</b>
Bank Overdraft	3	(26,318)	(26,318)	<b>(14,843)</b>	<b>(14,843)</b>
Short Term Borrowing	16	(56,638)	(56,949)	<b>(73,202)</b>	<b>(73,520)</b>
Short Term Creditors	8	(52,494)	(53,483)	<b>(53,068)</b>	<b>(53,329)</b>
Provisions		(25,795)	(25,795)	<b>(49,273)</b>	<b>(49,273)</b>
Revenue Grants Receipts in Advance		(416)	(416)	<b>(2,253)</b>	<b>(2,253)</b>
Corporation tax liability		-	(298)	<b>-</b>	<b>(53)</b>
<b>Current Liabilities</b>		<b>(161,661)</b>	<b>(163,259)</b>	<b>(192,639)</b>	<b>(193,271)</b>
Long Term Creditors - PFI		(85,021)	(85,034)	<b>(83,327)</b>	<b>(84,621)</b>
Long Term Borrowing	17	(499,760)	(502,943)	<b>(471,047)</b>	<b>(473,911)</b>
Other Long Term Liabilities	15	(699,680)	(708,070)	<b>(585,940)</b>	<b>(591,140)</b>
Capital Grants Receipts in Advance		(5,936)	(5,936)	<b>(5,189)</b>	<b>(8,169)</b>
<b>Long-Term Liabilities</b>		<b>(1,290,397)</b>	<b>(1,301,983)</b>	<b>(1,145,503)</b>	<b>(1,157,841)</b>
<b>Net Assets</b>		<b>168,887</b>	<b>198,024</b>	<b>242,575</b>	<b>278,692</b>
Usable Reserves		143,593	145,409	<b>134,146</b>	<b>135,781</b>
Unusable Reserves	9	25,294	52,615	<b>108,429</b>	<b>142,911</b>
<b>Total Reserves</b>		<b>168,887</b>	<b>198,024</b>	<b>242,575</b>	<b>278,692</b>

## Group Cash Flow Statement

as at 31 March 2014

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	2012-2013		2013-2014	
		(As Restated)		Council Only	Group
		Council Only	Group		
		£'000	£'000	£'000	£'000
Net surplus / (deficit) on the provision of services		3,878	2,506	(65,192)	(64,447)
Adjustments to net surplus or deficit on the provision of services for non-cash movements		57,029	60,036	106,402	114,202
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(57,761)	(58,262)	(39,858)	(39,858)
<b>Net cash flows from Operating Activities</b>		3,146	4,280	1,352	9,897
Investing Activities	5	(49,946)	(49,776)	10,145	3,522
Financing Activities	6	7,924	7,924	(10,612)	(10,612)
<b>Net (increase) / decrease in cash and cash equivalents</b>		(38,876)	(37,572)	885	2,807
Cash and cash equivalents at the beginning of the reporting period		59,044	60,361	20,168	22,789
Cash and cash equivalents at the end of the reporting period	3	20,168	22,789	21,053	25,596

## 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 Group 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
<b>Arch (Commercial Enterprise) Limited</b>	
Leasehold Property	Straight line over lease period (30/50 years)
Plant and Machinery	10% per annum reducing balance
Plant and Machinery	33% per annum straight line
<b>Arch (Housing) Limited</b>	
Leasehold Property	2% Straight line
Plant and Machinery	15%-33% reducing balance

### Deferred Taxation

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

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

### Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the 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 2013-2014:	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
<b>Cost or Valuation:</b>												
At 1 April 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
Additions	9,548	5,436	7,503	14,397	37	-	27,478	64,399	-	14,281	174	78,854
Reclassifications	1,322	2,845	3,344	2,145	(908)	(526)	(10,140)	(1,918)	-	-	-	(1,918)
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	-	(380)	-	-	-	477	-	97	-	2,494	-	2,591
Revaluation increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(713)	(8,670)	-	-	-	(975)	-	(10,358)	-	107	-	(10,251)
De-recognition - Disposals	(1,607)	(38,243)	(3,103)	-	(1)	(108)	(3,230)	(46,292)	-	(13)	(344)	(46,649)
De-recognition - Other	-	(4,130)	-	-	-	-	-	(4,130)	-	-	-	(4,130)
Assets reclassified (to)/from Held for Sale	-	(580)	-	-	-	(1,217)	-	(1,797)	-	-	-	(1,797)
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-	-	-	169	169
At 31 March 2014	251,816	502,707	132,592	371,331	9,616	11,434	37,399	1,316,895	91,391	38,222	918	1,356,035

## Notes to the Group Financial Statements

Movements in 2013-2014:	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
<b>Accumulated Depreciation and Impairment:</b>												
At 1 April 2013	-	30,241	29,526	83,243	1,428	479	-	144,917	13,095	155	576	145,648
Depreciation / impairment charge	6,888	14,125	7,776	10,113	125	177	-	39,204	3,509	79	125	39,408
Reclassifications	-	382	-	-	(385)	3	-	-	-	-	-	-
Depreciation written out to the Revaluation Reserve	-	(1,630)	-	-	-	(73)	-	(1,703)	-	-	-	(1,703)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(6,888)	(1,145)	-	-	-	(111)	-	(8,144)	-	-	(9)	(8,153)
De-recognition - Disposals	-	(2,378)	(2,627)	-	-	-	-	(5,005)	-	-	(326)	(5,331)
De-recognition – Other	-	(415)	-	-	-	-	-	(415)	-	-	-	(415)
Other movements in depreciation	-	-	-	-	-	-	-	-	-	-	169	169
At 31 March 2014	-	39,180	34,675	93,356	1,168	475	-	168,854	16,604	234	535	169,623
<b>Net Book Value:</b>												
At 31 March 2014	251,816	463,527	97,917	277,975	8,448	10,959	37,399	1,148,041	74,787	37,988	383	1,186,412
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

## Notes to the Group Financial Statements

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
<b>Cost or Valuation:</b>												
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)
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

## Notes to the Group Financial Statements

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
<b>Accumulated Depreciation and Impairment:</b>												
At 1 April 2012	5,447	18,620	25,272	73,571	1,384	281	-	124,575	9,708	78	451	125,104
Depreciation / impairment 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	-	-	-	-	-	-	-	-	-	-	-	-
Other movements in Cost or Valuation	(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
<b>Net Book Value:</b>												
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

### 2. Investment Property

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

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Balance at start of the year	13,462	47,605	2,354	41,129
Additions	-	2,002	13	4,413
Reclassifications	-	-	688	688
Assets reclassified (to)/from held for sale	-	-	-	-
Disposals	(10,885)	(10,885)	(155)	(155)
Net (losses)/gains from fair value adjustments	(223)	2,407	961	145
Balance at end of the year	2,354	41,129	3,861	46,220

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:

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Cash held by the Council	46,486	46,486	35,896	35,896
Cash overdrawn within the Council	(26,318)	(23,275)	(14,843)	(14,143)
Cash Held by Homes for Northumberland	-	(3,043)	-	(700)
Cash Held by Arch	-	2,621	-	4,543
Total Cash and Cash Equivalents	20,168	22,789	21,053	25,596

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

The cash flows for operating activities include the following items:

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Interest received	(6,741)	(6,741)	(8,679)	(8,679)
Interest paid	26,147	26,216	25,867	26,587

## Notes to the Group Financial Statements

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

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(49,884)	(63,972)	(67,961)	(86,758)
Purchase of short term and long term investments	(155,635)	(155,635)	(88,000)	(88,000)
Other payments for investing activities	(26,132)	(11,874)	(128,283)	(116,117)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	21,852	21,852	3,074	3,082
Proceeds from short term and long term investments	122,361	122,361	233,805	233,805
Other receipts from investing activities	37,492	37,492	57,510	57,510
<b>Net cash flows from investing activities</b>	<b>(49,946)</b>	<b>(49,776)</b>	<b>10,145</b>	<b>3,522</b>

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

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Cash receipts of short term and long term borrowing	109,794	109,794	40,333	40,333
Other receipts from financing activities	(4,109)	(4,109)	2,296	2,296
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(2,535)	(2,535)	(925)	(925)
Repayments of short and long term borrowing	(95,226)	(95,226)	(52,316)	(52,316)
<b>Net cash flows from financing activities</b>	<b>7,924</b>	<b>7,924</b>	<b>(10,612)</b>	<b>(10,612)</b>

### 7. Group Short Term Debtors

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Central government bodies	16,680	16,680	13,450	13,450
Other local authorities	9,270	9,270	12,785	12,785
NHS bodies	4,230	4,230	9,520	9,520
Public corporations and trading funds	615	615	2,570	2,570
Other entities and individuals	32,763	31,637	39,123	35,784
<b>Total Short Term Debtors</b>	<b>63,558</b>	<b>62,432</b>	<b>77,448</b>	<b>74,109</b>

## Notes to the Group Financial Statements

### 8. Group Short Term Creditors

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Central government bodies	(7,910)	(7,910)	(9,019)	(9,019)
Other local authorities	(991)	(991)	(935)	(935)
NHS bodies	(1,630)	(1,630)	(1,853)	(1,853)
Public corporations and trading funds	(216)	(216)	(148)	(148)
Other entities and individuals	(41,747)	(42,736)	(41,113)	(41,374)
<b>Total Short Term Creditors</b>	<b>(52,494)</b>	<b>(53,483)</b>	<b>(53,068)</b>	<b>(53,329)</b>

### 9. Group Unusable Reserves

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

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Revaluation Reserve	157,291	193,002	149,016	181,801
Pensions Reserve	(699,680)	(708,070)	(585,940)	(591,140)
Capital Adjustment Account	556,585	556,585	537,451	544,348
Deferred Capital Receipts Reserve	* 2,617	2,617	2,044	2,044
Financial Instruments Adjustment Account	* 1,711	1,711	1,008	1,008
Collection Fund Adjustment Account	* 908	908	(1,395)	(1,395)
Available for Sale Financial Instruments Account	* 13,104	13,104	13,104	13,104
Accumulated Absences Adjustment Account	* (7,242)	(7,242)	(6,859)	(6,859)
	25,294	52,615	108,429	142,911

\* 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.

## Notes to the Group Financial Statements

### 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.

	2012-2013		2013-2014	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	168,470	168,470	157,291	157,291
Amounts held in Subsidiaries	-	32,943	-	35,711
Restated balance 1 April	168,470	201,413	157,291	193,002
Upward revaluation of assets	1,205	1,205	5,510	5,510
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	(2,274)	494	(3,710)	(1,214)
Difference between fair value depreciation and historical cost depreciation	(3,413)	(3,413)	(3,278)	(3,278)
Accumulated gains on assets sold or scrapped	(6,697)	(6,697)	(6,307)	(6,307)
Amount written off to the Capital Adjustment Account	-	-	(490)	(4,462)
Amount transferred to other capital reserves	-	-	-	(1,450)
Balance at 31 March	157,291	193,002	149,016	181,801

## Notes to the Group Financial Statements

### Pensions Reserve

The accounts have been prepared incorporating the revised requirements of IAS 19 Retirement 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. The Pensions Reserve represents the net liability for future pension costs.

	2012-2013		2013-2014	
	As Restated		Council Only	Group
	Council Only	Group		
	£'000	£'000	£'000	£'000
Balance at 1 April	(631,720)	(640,090)	(699,680)	(708,070)
Return on plan assets	63,790	65,680	(31,580)	(32,360)
Actuarial gains or (losses) arising on changes in financial assumptions	(114,600)	(116,060)	115,380	116,840
Actuarial gains or (losses) arising on changes in demographic assumptions	-	-	12,140	13,220
Other	2,050	2,070	41,140	43,120
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	(55,860)	(57,530)	(58,910)	(60,300)
Employer's pensions contributions and direct payments to pensioners payable in the year	36,660	37,860	35,570	36,410
Balance at 31 March	(699,680)	(708,070)	(585,940)	(591,140)

### 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.

	2012-2013		2013-2014	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
<b>Authorised:</b>				
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	-	3,341	-	3,341
Total authorised share capital	-	3,341	-	3,341

## Notes to the Group Financial Statements

	2012-2013		2013-2014	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
<b>Alotted, called up and fully paid:</b>				
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	-	-	-	-
<b>Total allotted, called up and fully paid</b>	-	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.

### Group Capital Adjustment Account

The balance on the Group Capital Adjustment 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.

## Notes to the Group Financial Statements

	2012-2013		2013-2014	
	Council Only £	Group £	Council Only £	Group £
Balance at 1 April	536,656	536,656	556,585	556,585
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	(38,397)	(38,397)	(39,204)	(39,204)
Deficit on Available-for-Sale financial assets	1,655	1,655	(381)	(381)
Revaluation losses on Property, Plant and Equipment	(157)	(157)	(2,045)	(2,046)
Amortisation of intangible assets	(178)	(178)	(263)	(263)
Revenue expenditure funded from capital under statute	(2,747)	(2,747)	(16,442)	(13,517)
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	(34,867)	(34,867)	(45,496)	(45,495)
Adjusting amounts written out of the Revaluation Reserve	10,110	10,110	10,075	14,047
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	20,262	20,262	1,903	1,903
Use of the Major Repairs Reserve to finance new capital expenditure	6,922	6,922	6,860	6,860
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	32,735	32,735	34,592	34,592
Application of grants to capital financing from the Capital Grants Unapplied Account	4,888	4,888	4,505	4,505
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	18,478	18,478	15,695	15,695
Capital expenditure charged against the General Fund and HRA balance	1,303	1,303	10,106	10,106
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(78)	(78)	961	961
Balance at 31 March	556,585	556,585	537,451	544,348

### 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 all employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

## **Notes to the Group Financial Statements**

### **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 Chartered Surveyors (DTZ).

## Notes to the Group Financial Statements

	Council							Subsidiaries			Group
	Council Dwellings	Other Land and Buildings	Vehicles, plant, furniture and equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Council Total	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	16,183	86,416	277,975	8,448	17	37,399	426,438	15,959	241	442,638
Valued at Current Value in:											
2009-2010	-	29,530	11,501	-	-	6,747	-	47,778	-	-	47,778
2010-2011	-	34,944	-	-	-	1,221	-	36,165	1,531	141	37,837
2011-2012	-	343,545	-	-	-	2,159	-	345,704	3,847	-	349,551
2012-2013	-	19,160	-	-	-	521	-	19,681	-	-	19,681
2013-2014	251,816	20,165	-	-	-	294	-	272,275	16,652	-	288,927
<b>Total</b>	<b>251,816</b>	<b>463,527</b>	<b>97,917</b>	<b>277,975</b>	<b>8,448</b>	<b>10,959</b>	<b>37,399</b>	<b>1,148,041</b>	<b>37,989</b>	<b>382</b>	<b>1,186,412</b>

## Notes to the Group Financial Statements

### 13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

	2012-2013		2013-2014	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Provision brought Forward	-	13	-	13
Adjustment in respect of previous year	-	1	-	-
Profit and Loss account movement arising during the year	-	(1)	-	-
Provision to Carry forward	-	13	-	13

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

	2012-2013		2013-2014	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Excess of taxation allowances over depreciation on fixed assets	-	13	-	13

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

Prior to the creation of the Arch 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; during 2013-2014 Arch Housing Ltd paid dividend of £1.00 million to Arch Corporate Holdings Ltd.

### 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, six of these are treated as defined benefits 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, Homes for Northumberland 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

## Notes to the Group Financial Statements

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.

The Northumberland County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the Fund is the responsibility of the Northumberland County Council Pension Fund Panel. Policy is determined in accordance with the LGPS regulations. The investment managers of the Fund are appointed and monitored by the Pension Fund Panel.

The principle risks to the authority of the post-employment schemes are the longevity assumptions, statutory changes to the schemes, structural changes to the schemes (ie large-scale withdrawals from the schemes), changes to inflation, bond yields and the performance of the investments held by the Northumberland County Council Pension Fund. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund, Housing Revenue Account and Homes for Northumberland Profit and Loss Account the amounts required by statute as described in Northumberland County Council's accounting policies note.

## Notes to the Group Financial Statements

### Transactions Relating to Post-employment Benefits

The Group recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund, Housing Revenue Account and Group Profit and Loss Account via the Movement in Reserves Statement. The Group's transactions have been made in the Comprehensive Income and Expenditure Statement, Profit and Loss Account and the General Fund Balance via the Movement in Reserves Statement during the year:

Actuarial gains and losses arising on changes in demographic assumptions 2013-2014	Council Only £m	Homes for N'land £m	Group Total £m
<b>Comprehensive Income and Expenditure Statement:</b>			
<b>Cost of Services:</b>			
Current service cost	(28.93)	(1.00)	(29.93)
Past service cost	(0.81)	(0.02)	(0.83)
<b>Financing and Investment Income and Expenditure:</b>			
Net interest expense	(29.17)	(0.37)	(29.54)
Total post employment benefit charged to the deficit on the provision of services	(58.91)	(1.39)	(60.30)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:</b>			
<b>Remeasurement of the net defined liability comprising:</b>			
Return on plan assets (excluding the amount included in the net interest expense)	(31.58)	(0.78)	(32.36)
Actuarial gains and losses arising on changes in financial assumptions	115.38	1.46	116.84
Actuarial gains and losses arising on changes in demographic assumptions	12.14	1.08	13.22
Other	41.14	1.98	43.12
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	137.08	3.74	140.82
<b>Movement in Reserves - General Fund Balance:</b>			
Reversal of net charges made to the deficit for the provision of services for post employment benefit	58.91	1.39	60.30
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
Employer's contributions payable to the scheme	(25.69)	(0.84)	(26.53)
Net retirement benefits payable to pensioners	(9.88)	-	(9.88)

## Notes to the Group Financial Statements

2012-2013 As Restated	Council Only £m	Homes for N'land £m	Group Total £m
<b>Comprehensive Income and Expenditure Statement:</b>			
<b>Cost of Services:</b>			
Current service cost	(26.12)	(0.92)	(27.04)
Past service cost	(1.10)	(0.37)	(1.47)
<b>Financing and Investment Income and Expenditure:</b>			
Net interest expense	(28.64)	(0.38)	(29.02)
Total post employment benefit charged to the deficit on the provision of services	(55.86)	(1.67)	(57.53)
<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:</b>			
<b>Remeasurement of the net defined liability comprising:</b>			
Return on plan assets (excluding the amount included in the net interest expense)	63.79	1.89	65.68
Actuarial gains and losses arising on changes in financial assumptions	(114.60)	(1.46)	(116.06)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-
Other	2.05	0.02	2.07
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(48.76)	0.45	(48.31)
<b>Movement in Reserves - General Fund Balance:</b>			
Reversal of net charges made to the deficit for the provision of services for post employment benefit	55.86	1.67	57.53
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>			
Employer's contributions payable to the scheme	(26.65)	(1.20)	(27.85)
Net retirement benefits payable to pensioners	(10.01)	-	(10.01)

The amount of actuarial gains and losses for the Group recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013-2014 is a gain of £140.82 million (£48.31 million loss in 2012-2013 as restated).

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount arising in the Balance Sheet as a result of the Group's obligation in respect of its defined benefit plan is as follows:

2013-2014	Council Only £m	Homes for N'land £m	Group Total £m
Present value of the defined benefit obligation	(1,362.00)	(30.02)	(1,392.02)
Fair value of plan assets	776.06	24.82	800.88
Sub-total	(585.94)	(5.20)	(591.14)
Other movements in the liability	-	-	-
Net liability arising from defined benefit obligation	(585.94)	(5.20)	(591.14)

## Notes to the Group Financial Statements

2012-2013	Council Only £m	Homes for N'land £m	Group Total £m
Present value of the defined benefit obligation	(1,476.76)	(32.11)	(1,508.87)
Fair value of plan assets	777.08	23.72	800.80
Sub-total	(699.68)	(8.39)	(708.07)
Other movements in the liability	-	-	-
Net liability arising from defined benefit obligation	(699.68)	(8.39)	(708.07)

### Reconciliation of Present Value of the Schemes' Liabilities (Defined Benefit Obligation):

	Council Only £m	Homes for N'land £m	Group Total £m
Opening balance as at 1 April 2013	(1,476.76)	(32.11)	(1,508.87)
Current service cost	(28.93)	(1.00)	(29.93)
Interest cost	(62.54)	(1.48)	(64.02)
Contributions from scheme participants	(7.10)	(0.26)	(7.36)
<b>Remeasurement (gains)/losses:</b>			
Actuarial (gains) / losses arising from changes in financial assumptions	115.38	1.46	116.84
Actuarial (gains) / losses arising from changes in demographic assumptions	12.14	1.08	13.22
Other	41.14	1.98	43.12
Past service cost	(0.81)	(0.02)	(0.83)
Liabilities assumed on entity combinations	-	-	-
Benefits paid	45.48	0.33	45.81
Liabilities extinguished on settlements	-	-	-
Closing balance as at 31 March 2014	(1,362.00)	(30.02)	(1,392.02)
Opening balance as at 1 April 2012	(1,312.20)	(27.99)	(1,340.19)
Current service cost	(26.12)	(0.92)	(27.04)
Interest cost	(60.64)	(1.35)	(61.99)
Contributions from scheme participants	(7.29)	(0.27)	(7.56)
<b>Remeasurement (gains)/losses:</b>			
Actuarial (gains) / losses arising from changes in financial assumptions	(114.60)	(1.46)	(116.06)
Actuarial (gains) / losses arising from changes in demographic assumptions	-	-	-
Other	2.05	0.02	2.07
Past service cost	(1.10)	(0.37)	(1.47)
Liabilities assumed on entity combinations	-	-	-
Benefits paid	43.14	0.23	43.37
Liabilities extinguished on settlements	-	-	-
Closing balance as at 31 March 2013	(1,476.76)	(32.11)	(1,508.87)

## Notes to the Group Financial Statements

### Reconciliation of the movement in the fair value of the scheme (plan) assets:

	2012-2013			2013-2014		
	Council Only £m	Homes for N'land £m	Group Total £m	Council Only £m	Homes for N'land £m	Group Total £m
Opening fair value of scheme assets	680.48	19.62	700.10	<b>777.08</b>	<b>23.72</b>	<b>800.80</b>
Interest income	32.00	0.97	32.97	<b>33.37</b>	<b>1.11</b>	<b>34.48</b>
<b>Remeasurement gain/(loss):</b>						
The return on plan assets, excluding the amount included in the net interest expense	63.79	1.89	65.68	<b>(31.58)</b>	<b>(0.78)</b>	<b>(32.36)</b>
Other	-	-	-	-	-	-
Effect of changes in foreign exchange rates	-	-	-	-	-	-
Contributions by the employer	26.65	1.20	27.85	<b>25.69</b>	<b>0.84</b>	<b>26.53</b>
Contributions by participants	6.60	0.27	6.87	<b>6.32</b>	<b>0.26</b>	<b>6.58</b>
Business combinations	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
Benefits paid	<b>(32.44)</b>	<b>(0.23)</b>	<b>(32.67)</b>	<b>(34.82)</b>	<b>(0.33)</b>	<b>(35.15)</b>
Closing balance as at 31 March	777.08	23.72	800.80	<b>776.06</b>	<b>24.82</b>	<b>800.88</b>

## Notes to the Group Financial Statements

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets							
	2012-2013				2013-2014			
	Council Only £m	Homes for N'land £m	Group Total £m	Total Assets %	Council Only £m	Homes for N'land £m	Group Total £m	Total Assets %
UK and Overseas Equities	483.00	14.74	497.74	62.16	483.81	15.47	499.28	62.33
Fixed Interest and Index Linked	201.97	6.16	208.13	25.99	209.37	6.70	216.07	26.98
Property Unit Trust	32.76	1.00	33.76	4.22	34.12	1.09	35.21	4.40
Ventures and Partnerships	57.53	1.76	59.29	7.40	53.31	1.71	55.02	6.87
Net Current (Liabilities)/Assets	1.82	0.06	1.88	0.23	(4.55)	(0.15)	(4.70)	(0.58)
<b>Total assets</b>	<b>777.08</b>	<b>23.72</b>	<b>800.80</b>	<b>100.00</b>	<b>776.06</b>	<b>24.82</b>	<b>800.88</b>	<b>100.00</b>
Equity instruments (by geographical area):								
United Kingdom	270.18	8.25	278.43	55.94	274.68	8.78	283.46	56.78
Europe	52.60	1.61	54.21	10.89	54.32	1.74	56.06	11.23
North America's	55.07	1.68	56.75	11.40	53.61	1.71	55.32	11.08
Japan	28.65	0.87	29.52	5.93	24.98	0.80	25.78	5.16
Pacific	26.44	0.81	27.25	5.47	26.25	0.84	27.09	5.42
Other	50.06	1.52	51.58	10.37	49.97	1.60	51.57	10.33
<b>Total equity</b>	<b>483.00</b>	<b>14.74</b>	<b>497.74</b>	<b>100.00</b>	<b>483.81</b>	<b>15.47</b>	<b>499.28</b>	<b>100.00</b>

All scheme assets have quoted prices in active markets except ventures and partnerships and other net current assets/liabilities.

### 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 2013.

## Notes to the Group Financial Statements

The principal assumptions used by the actuary have been:

	Council Only			Homes for	
	LGPS	Firefighters'	LGPS	Teachers'	N'land
		Schemes	unfunded scheme	unfunded scheme	
As at 31 March 2014					
Mortality assumptions:					
Longevity at age 65 for current pensioners:					
Men	22.9	22.9	22.9	22.9	22.9
Women	25.4	25.4	25.4	25.4	25.4
Longevity at age 65 for future pensioners:					
Men	25.1	25.1	-	-	25.1
Women	27.7	27.7	-	-	27.7
Rate of inflation - RPI	3.3%	3.3%	3.2%	3.2%	3.4%
Rate of inflation - CPI	2.3%	2.3%	2.2%	2.2%	2.4%
Rate of general long term increase in salaries*	3.8%	3.8%	-	-	3.9%
Rate of increase to pensions in payment**	2.3%	2.3%	2.2%	2.2%	2.4%
Rate of increase to deferred pensions	2.3%	2.3%	-	-	2.4%
Discount rate	4.3%	4.2%	4.1%	4.2%	4.3%
As at 31 March 2013					
Mortality assumptions:					
Longevity at age 65 for current pensioners:					
Men	22.5	22.6	22.5	22.5	22.5
Women	24.7	25.0	24.7	24.7	24.7
Longevity at age 65 for future pensioners:					
Men	24.3	24.3	-	-	24.3
Women	26.6	26.9	-	-	26.6
Rate of inflation - RPI	3.6%	3.6%	3.5%	3.5%	3.7%
Rate of inflation - CPI	2.7%	2.7%	2.6%	2.6%	2.8%
Rate of general long term increase in salaries*	4.6%	4.6%	-	-	4.7%
Rate of increase to pensions in payment**	2.7%	2.7%	2.6%	2.6%	2.8%
Rate of increase to deferred pensions	2.7%	2.7%	-	-	2.8%
Discount rate	4.3%	4.3%	4.1%	4.1%	4.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreased for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

## Notes to the Group Financial Statements

	Impact on the Defined Benefit Obligation in the Scheme			
	Local Government Pension Scheme			
	Increase in assumption		Decrease in assumption	
	£m	%	£m	%
<b>Local Government Pension Scheme (LGPS Funded)</b>				
Longevity (increase or decrease in 1 year)	27.29	2.4	(27.38)	(2.4)
Rate of increase in salaries (increase or decrease by 0.1%)	3.71	0.3	(3.67)	(0.3)
Rate of increase in pensions (increase or decrease by 0.1%)	15.60	1.4	(14.66)	(1.3)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(18.65)	(1.6)	19.52	1.7
<b>Firefighters' Pension Scheme and New Firefighters' Pension Scheme</b>				
Longevity (increase or decrease in 1 year)	3.62	2.4	(3.63)	(2.4)
Rate of increase in salaries (increase or decrease by 0.1%)	0.31	0.2	(0.32)	(0.2)
Rate of increase in pensions (increase or decrease by 0.1%)	2.07	1.4	(2.06)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.42)	(1.6)	2.45	1.6
<b>Homes for Northumberland</b>				
Longevity (increase or decrease in 1 year)	0.61	2.0	(0.61)	(2.0)
Rate of increase in salaries (increase or decrease by 0.1%)	0.15	0.5	(0.15)	(0.5)
Rate of increase in pensions (increase or decrease by 0.1%)	0.45	1.5	(0.45)	(1.5)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.59)	(2.0)	0.59	2.0

Sensitivity analysis on the LGPS Unfunded Scheme, The Teachers' Unfunded Scheme and the Firefighters' Injury Pensions and non-scheme Ill-Health Pensions scheme has not been included on materiality grounds.

### Asset Liability Matching (ALM) Strategy

Northumberland County Council's Pension Fund Panel (i.e. the pension committee) is responsible for setting and reviewing the asset allocation for the Groups Pension Fund investments, held for payment of the Groups liabilities. The investment objective of the Fund is to achieve a long term return on the Fund's assets which:

- ensures that the Fund can meet its long term liabilities while minimising the long term cost to participating employers;
- recognises the advantages of maintaining the stability of contribution rates;
- does not subject the Fund to undue risk.

The primary risk upon which the Panel focuses is that arising through a mismatch between the Fund's assets and its liabilities. The Panel recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities, which generally move in line with gilt yields. The Panel takes advice on the matter at each quarterly meeting, and every three years or more often if necessary considers the implications of adopting different levels

## Notes to the Group Financial Statements

of risk. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure the asset allocation policy results in an adequately diversified portfolio across a number of managers and asset classes.

### Impact on the Group's Cash Flows

The Group anticipates paying the following amounts in 2014-2015 in relation to the seven post-employment schemes covered by this note:

	Council Only £m	Homes for N'land £m	Group Total £m
Regular employer contributions payable to Northumberland County Council Pension Fund for funded LGPS members	26.54	1.02	27.56
Payments to beneficiaries	5.44	-	5.44
Payments to beneficiaries net of members contributions receivable, where contributions include Government Grant (Member contributions including Government Grant net of payment to beneficiaries)	4.70	-	4.70
	(0.14)	-	(0.14)
<b>Total</b>	<b>36.54</b>	<b>1.02</b>	<b>37.56</b>

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2014-2015 includes a fixed monetary lump sum of £10.90 million which is intended to amortise the deficit attributable to the Council over a period of 22 years. No equivalent amount is payable by Homes for Northumberland.

Additional employer contributions will also be payable by the Council and Homes for Northumberland to Northumberland County Council Pension Fund for strain on the fund, for example, where an employee is made redundant and his/her LGPS pension becomes payable before his/her normal retirement date.

### Duration of the defined benefit obligations

The duration of the Group's liabilities is the average period, expressed in number of years, between the calculation date and the date on which the scheme benefit falls due. Duration for the six post-employment schemes covered by this note is as follows:

	31 March 2013 No of years	31 March 2014 No of years
Council only:		
Local Government Pension Scheme	17.60	16.70
LGPS Unfunded and Teachers' Unfunded (estimate)	12.00	12.00
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	15.40	15.40
Homes for Northumberland	20.90	20.40

## Notes to the Group Financial Statements

### Split of the defined benefit obligations

The split of the defined benefit obligations at the last valuation date between the categories of members was as follows:

	Active Members %	Deferred Members %	Pensioners %
Council only:			
Local Government Pension Scheme	32.00	15.00	53.00
Local Government Pension Scheme Unfunded	-	-	100.00
Teachers' Unfunded	-	-	100.00
Firefighters' Pension Scheme	42.00	1.00	57.00
New Firefighters' Pension Scheme	74.00	4.00	22.00
Firefighters' Injury and non-scheme Ill Health Pensions	44.00	-	56.00
Homes for Northumberland	62.00	15.00	23.00

### 16. Group Short Term Borrowing

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

	2012-2013		2013-2014	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
<b>Borrowings:</b>				
Financial liabilities at amortised cost	(52,242)	(52,553)	(68,972)	(69,290)
Add: Accrued Interest	(4,411)	(4,411)	(4,245)	(4,245)
Add: Amortised premiums/(discounts)	15	15	15	15
<b>Total Borrowings</b>	<b>(56,638)</b>	<b>(56,949)</b>	<b>(73,202)</b>	<b>(73,520)</b>

## Notes to the Group Financial Statements

### 17. Group Long Term Borrowing

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

	As at 31 March 2013		As at 31 March 2014	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
<b>Analysis by Loan Type:</b>				
Public Works Loans Board	203,852	203,852	195,252	195,252
Other Market Loans	35,308	38,491	15,195	18,059
LOBO (Market Loans)	260,600	260,600	260,600	260,600
	499,760	502,943	471,047	473,911
<b>Analysis of Loans by Maturity:</b>				
Less than 1 year	-	-	-	-
Between 1 and 2 years	38,844	38,844	9,711	9,711
Between 2 and 5 years	56,602	56,602	75,604	75,604
Between 5 and 10 years	70,359	70,359	53,563	53,563
Between 10 and 20 years	27,798	30,981	26,428	29,292
Between 20 and 30 years	9,485	9,485	9,725	9,725
Between 30 and 40 years	45,072	45,072	47,426	47,426
Between 40 and 50 years	80,000	80,000	76,990	76,990
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
	499,760	502,943	471,047	473,911

### 18. Finance and Investment Income and Expenditure

	2012-2013		2013-2014	
	As Restated		Council	Group
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Interest payable and similar charges	25,980	26,070	25,754	26,104
Pensions net interest expense	28,640	29,020	29,170	29,540
Interest receivable and similar income	(8,357)	(8,357)	(7,691)	(7,101)
(Surplus)/Deficit on trading undertakings	9,403	9,402	8,417	8,417
Income and expenditure in relation to investment properties and changes in their fair value	174	174	(1,054)	(1,054)
Total Financing and Investment Income and Expenditure	55,840	56,309	54,596	55,906

## Notes to the Group Financial Statements

### 19. Taxation and Non-Specific Grant Income

	2012-2013		2013-2014	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Council tax income	(156,530)	(156,530)	(139,123)	(139,123)
Non domestic rates	(119,571)	(119,571)	(34,628)	(34,628)
Non-ring fenced government grants	(10,849)	(10,849)	(126,451)	(126,451)
Capital grants and contributions	(35,698)	(35,698)	(36,837)	(36,837)
Tax on profit on ordinary activities	-	325	-	-
<b>Total Taxation and Non-Specific Grant Income</b>	<b>(322,648)</b>	<b>(322,323)</b>	<b>(337,039)</b>	<b>(337,039)</b>

### 20. Impact of IAS19 Changes

Changes to International Accounting Standard 19 (Post-employment benefits) have now been incorporated within the code. This requires revised disclosures and restatement of prior period figures for the last financial year. The impact of the prior period restatement is summarised in the table below.

## Notes to the Group Financial Statements

	Council Only			Group		
	Original Net	IAS 19	Restated	Original Net	IAS 19	Restated
	Expenditure 2012-2013 £'000	£'000	2012-2013 £'000	Expenditure 2012-2013 £'000	£'000	2012-2013 £'000
<b>Comprehensive Income and Expenditure Account (CIES)</b>						
Adult Social Care	85,562	149	85,711	85,562	149	85,711
Central Services to the Public	5,018	16	5,034	5,018	16	5,034
Corporate and Democratic Core	13,017	559	13,576	13,017	559	13,576
Cultural and Related Services	19,798	34	19,832	22,139	34	22,173
Education and Children's Services	56,177	458	56,635	56,177	458	56,635
Environmental and Regulatory Services	34,747	76	34,823	34,950	76	35,026
Exceptional Cost of Equal Pay	(14,441)	-	(14,441)	(14,441)	-	(14,441)
Fire and Rescue Services	14,607	67	14,674	14,607	67	14,674
Highways and Transport Services	30,734	69	30,803	30,734	69	30,803
Local Authority Housing (HRA)	(18,350)	4	(18,346)	(19,024)	(316)	(19,340)
Non Distributed Costs	4,749	-	4,749	4,749	370	5,119
Other Housing Services	3,873	16	3,889	2,554	16	2,570
Planning Services	7,415	22	7,437	7,415	22	7,437
Public Health	-	-	-	-	-	-
Cost of Services	242,906	1,470	244,376	243,457	1,520	244,977
Other Operating Expenditure	18,554	-	18,554	18,532	-	18,532
Finance and Investment Income and Expenditure	42,590	13,250	55,840	42,679	13,630	56,309
Taxation and Non-Specific Grant Income	(322,648)	-	(322,648)	(322,323)	-	(322,323)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(18,598)</b>	<b>14,720</b>	<b>(3,878)</b>	<b>(17,655)</b>	<b>15,150</b>	<b>(2,505)</b>
Other Comprehensive Income and Expenditure	51,445	(14,720)	36,725	48,657	(15,150)	33,507
<b>Total Comprehensive Income and Expenditure</b>	<b>32,847</b>	<b>-</b>	<b>32,847</b>	<b>31,002</b>	<b>-</b>	<b>31,002</b>

## Notes to the Group Financial Statements

	Council Only			Group		
	Original Net Expenditure 2012-2013	IAS 19	Restated 2012-2013	Original Net Expenditure 2012-2013	IAS 19	Restated 2012-2013
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Movement in Reserves Statement</b>						
(Surplus) or Deficit on Provision of Services - Usable Reserves	(18,598)	14,720	(3,878)	(17,655)	15,150	(2,505)
Other Comprehensive Income and Expenditure - Unusable Reserves	51,445	(14,720)	36,725	48,657	(15,150)	33,507
Total Comprehensive Income and Expenditure	32,847	-	32,847	31,002	-	31,002
<b>Cash Flow Statement</b>						
Net surplus/(deficit) on the provision of services	18,598	(14,720)	3,878	17,655	(15,150)	2,505
Adjustments to net surplus or deficit on the provision of services for non-cash movements	42,309	14,720	57,029	44,887	15,150	60,037
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(57,761)	-	(57,761)	(58,262)	-	(58,262)
Net cash flows from Operating Activities	3,146	-	3,146	4,280	-	4,280

## **Pension Fund Accounts**

### for the year ended 31 March 2014

#### **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 Lead Executive Director Corporate Resources 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 £914 million to £944 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 £35 million experienced during 2013-2014, reflecting the positive return on investments experienced by funds generally over that period.

The overall annual return on the Fund was 3.8% for the year (14.0% in 2012-2013), which compares with the Fund specific benchmark annual return of 3.4%.

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 2014 was 7.7%, which compares with the benchmark annualised return of 7.9%. Fund returns for the ten-year period were higher than the growth in average earnings and RPI/CPI increases.

## Pension Fund Accounts

for the year ended 31 March 2014

Membership of the Fund at 31 March 2014 is summarised below:

	31 March 2013	<b>31 March 2014</b>
Active members	7,739	<b>8,322</b>
Pensioner members	7,441	<b>7,649</b>
Deferred members	7,460	<b>7,875</b>
	22,640	<b>23,846</b>

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 2014.

## Pension Fund Accounts

for the year ended 31 March 2014

	Note	2012-2013 £'000	2013-2014 £'000
<b>Contributions and benefits</b>			
Contributions	5	42,955	<b>42,153</b>
Transfers in from other pension funds	6	3,631	<b>1,452</b>
		46,586	<b>43,605</b>
Benefits	7	(42,862)	<b>(45,976)</b>
Payments to and on account of leavers	8	(1,982)	<b>(1,870)</b>
Administrative expenses	9	(983)	<b>(918)</b>
		(45,827)	<b>(48,764)</b>
Net additions/( <i>withdrawals</i> ) from dealings with members		759	<b>(5,159)</b>
<b>Returns on investments</b>			
Investment income	10	2,153	<b>2,257</b>
Profit and losses on disposal of investments and changes in the market value of investments	11	111,182	<b>34,713</b>
Investment management expenses	12	(2,047)	<b>(2,012)</b>
Net returns on investments		111,288	<b>34,958</b>
Net increase in net assets available for benefits during the year		112,047	<b>29,799</b>
Net assets of the Fund at 1 April		802,375	<b>914,422</b>
At 31 March		914,422	<b>944,221</b>

## Pension Fund – Net Assets Statement as at 31 March 2014

	Note	31 March 2013 £'000	31 March 2014 £'000
<b>UK Investments</b>			
<b>Pooled Investment Vehicles</b>			
Property		38,546	<b>41,510</b>
Equity		317,934	<b>334,205</b>
Index Linked		145,968	<b>164,427</b>
Ventures and Partnerships		25	<b>18</b>
<b>Overseas Investments</b>			
<b>Quoted</b>			
Other Fixed Interest		91,694	<b>90,315</b>
<b>Pooled Investment Vehicles</b>			
Equity		250,433	<b>254,442</b>
Ventures and Partnerships		67,675	<b>64,846</b>
	11	912,275	<b>949,763</b>
Other Investment Balances	11	725	<b>2,082</b>
	11	913,000	<b>951,845</b>
Cash Deposits		8,007	<b>2,215</b>
Current Assets	13	1,351	<b>720</b>
Current Liabilities	14	(7,936)	<b>(10,559)</b>
<b>Net Assets of the Fund at 31 March</b>	<b>15</b>	<b>914,422</b>	<b>944,221</b>

The accounts summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS26 (also prepared by the actuary) shown on page 223 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 2014;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2014;
- (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 2014 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 2014 are credited to the Fund.

- *Investment transactions*

Investment transactions arising up to 31 March 2014 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

## Pension Fund – Notes to the Financial Statements

employees. The employers' contributions are made at rates determined by the Fund's actuary.

Contributions due at 31 March 2014 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 2014 which provide evidence of conditions that existed as at 31 March 2014 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2014 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 IAS 26" and shown as Appendix 2 to the Annual Report. This treatment follows "Option C", as set out in IAS 26 *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 IAS 26. Option C requires actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2013. The liability disclosed in Appendix 2 is subject to significant variances depending on the assumptions adopted.

## Pension Fund – Notes to the Financial Statements

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

The items in the Net Assets Statement as at 31 March 2014 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:

	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Unquoted private equity and infrastructure investments	There are no publicly listed prices for the Fund's investments in private equity and infrastructure 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 £64.86 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 8.2%. This equates to a tolerance of +/- £5.29 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 £110.00 million. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately £14.00 million. A one year increase in assumed life expectancy would increase the pension liability by approximately £31.00 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

	2012-2013	2013-2014
	£'000	£'000
<b>Employers' normal contributions</b>		
Administering authority	15,343	14,693
Scheduled bodies	3,050	3,540
Admitted bodies	2,446	2,347
<b>Employers' other contributions</b>		
Deficit funding	12,139	12,321
Strain on the Fund following early retirement	1,689	1,140
<b>Members</b>		
Normal	8,288	8,112
	42,955	42,153

### 6. Transfers in from other pension funds

	2012-2013	2013-2014
	£'000	£'000
Individual transfers in from other schemes	3,631	1,452
	3,631	1,452

### 7. Benefits

	2012-2013	2013-2014
	£'000	£'000
<b>Pensions</b>		
Administering authority	33,075	34,292
Scheduled bodies	1,733	1,926
Admitted bodies	1,412	1,453
Commutation of pensions and lump sum retirement benefits	5,962	7,193
Lump sum death benefits	680	1,112
	42,862	45,976

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

	2012-2013	2013-2014
	£'000	£'000
Refunds to members leaving service	-	2
Individual transfers to other schemes	1,980	1,868
Net payments/(repayments) for members joining state scheme	2	-
	1,982	1,870

## Pension Fund – Notes to the Financial Statements

### 9. Administrative expenses

	2012-2013	2013-2014
	£'000	£'000
Administration and processing	719	669
Actuarial and advisory fees	190	162
Audit fee	22	17
Other	52	70
	983	918

### 10. Investment income

	2012-2013	2013-2014
	£'000	£'000
Dividends from equities	2	-
Income from pooled investment vehicles	1,933	2,077
Income from ventures and partnerships	161	209
Net interest on cash deposits	30	(29)
Other	27	-
	2,153	2,257

### 11. Investments

	Value at 1 April 2013	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Actively managed investments	299,695	73,293	(80,497)	13,243	305,734
Passively managed investments	612,580	36,136	(26,230)	21,543	644,029
	912,275	109,429	(106,727)	34,786	949,763
Other investment balances	725	-	-	(73)	2,082
Total	913,000	-	-	34,713	951,845

	Value at 1 April 2012	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2013
	£'000	£'000	£'000	£'000	£'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

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

## Pension Fund – Notes to the Financial Statements

duty, and indirect costs incurred through the bid-offer spread on investments within pooled investment vehicles. Direct transaction costs incurred in the year amounted to £nil (£nil in 2012-2013). Indirect transaction costs are not separately provided to the Fund.

### Other Investment Balances

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Outstanding dividends, tax and other investment income	520	78
Cash deposits	205	2,004
	725	2,082

### 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 2013 £'000	As at 31 March 2014 £'000
<b>Contributions due from employers in respect of</b>		
Employers	814	310
Members	272	63
Strain on the Fund contributions due from employers	214	15
Retirement grants prepaid	49	329
Other	2	3
	1,351	720

These can be further analysed as follows:

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Central government bodies	147	44
Other local authorities	650	9
NHS bodies	66	87
Bodies external to general government	488	580
	1,351	720

## Pension Fund – Notes to the Financial Statements

### 14. Current Liabilities

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Due to Northumberland County Council	(7,399)	(9,583)
Retirement/death grants due	(166)	(307)
Investment management and custodial fees due	(189)	(557)
Other	(182)	(112)
	<b>(7,936)</b>	<b>(10,559)</b>

These can be further analysed as follows:

	As at 31 March 2013 £'000	As at 31 March 2014 £'000
Other local authorities	(7,399)	(9,583)
NHS Bodies	-	-
Bodies external to general government	(537)	(976)
	<b>(7,936)</b>	<b>(10,559)</b>

### 15. Analysis of Investments

The total market value of the Fund as at 31 March 2014 was £944.22 million (£914.42 million as at 31 March 2013), which can be analysed as follows:

	As at 31 March 2013 £m	%	As at 31 March 2014 £m
UK and overseas equities	568.37	62.3	588.65
Fixed interest and index linked	237.66	27.0	254.74
Property unit trusts	38.55	4.4	41.51
Ventures and partnerships	67.70	6.9	64.86
Other investment balances	0.72	0.2	2.08
Cash deposits and net current assets	1.42	(0.8)	(7.62)
	<b>914.42</b>	<b>100.0</b>	<b>944.22</b>

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

## Pension Fund – Notes to the Financial Statements

	As at 31 March 2013 £m	%	As at 31 March 2014 £m
United Kingdom	317.93	56.8	334.21
Europe	61.89	11.2	66.09
North America	64.81	11.1	65.23
Japan	33.72	5.2	30.39
Pacific	31.11	5.4	31.93
Other	58.91	10.3	60.80
	568.37	100.0	588.65

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

	As at 31 March 2013 £m	%	As at 31 March 2014 £m
Basic materials	3.17	1.4	4.83
Consumer goods	13.83	5.5	18.41
Consumer services	13.40	2.1	6.86
Financials	16.70	6.1	20.42
Health care	14.40	3.7	12.31
Industrials	18.58	5.0	16.71
Oil and gas	8.60	2.2	7.37
Technology	10.25	5.8	19.30
Utilities	1.96	-	-
Other (including managed funds)	217.04	68.2	228.00
	317.93	100.0	334.21

### Fund Value and Proportions

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

	As at 31 March 2013 £m	%	As at 31 March 2014 £m
Legal & General Investment Management	612.59	67.7	644.03
M&G Investment Management	101.76	11.5	109.05
Wellington Management International	91.70	9.5	90.32
Morgan Stanley (private equity)	46.31	4.6	44.20
NB Alternatives (private equity)	14.18	1.3	12.76
Schroder Investment Management	19.16	2.2	20.64
BlackRock	20.10	2.2	21.20
GIP (infrastructure)	7.20	1.0	9.63
	913.00	100.0	951.83

Net current liabilities (net of cash deposits) of £7.62 million are not externally managed and therefore not, shown in the analysis above.

## Pension Fund – Notes to the Financial Statements

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

### 16. Significant Holdings

As at 31 March 2014, 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:

- £112.60 million (11.9%) in the UK Equity Index Fund managed by Legal & General Investment Management, and a further £112.56 million (11.9%) also in the UK Equity Index Fund managed by Legal & General Investment Management, each in a separate insurance contract.
- £82.23 million (8.7%) in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, and a further £82.19 million (8.7%) also in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, each in a separate insurance contract.
- £109.05 million (11.5%) in the Global Leaders Fund managed by M&G Investment Management.
- £57.51 million (6.1%) in the Multi Sector Credit 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 2013-2014 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 2013-2014 to AVC investments were £0.44 million (£0.31 million in 2012-2013) to Prudential, £120 (£110 in 2012-2013) to Equitable Life, and £3,514 (£3,919 in 2012-2013) to Phoenix Life Limited.

As at 31 March 2014, the aggregate value of the AVC investments with Prudential was £2.15 million (£1.85 million as at 31 March 2013), with Equitable Life was £0.05 million (£0.05 million as at 31 March 2013), and with Phoenix Life Limited was £0.03 million (£0.04 million as at 31 March 2013).

### 18. Related party transactions

Northumberland County Council administers the Pension Fund. During 2013-2014 the Pension Fund had an average balance of £4.32 million borrowed from the Council for which it paid interest of £30,588 (and an average balance of £1.94 million loaned to the Council during 2012-2013 for which it received interest of £30,513). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an

## Pension Fund – Notes to the Financial Statements

annual basis. In 2013-2014 these costs amounted to £0.58 million (£0.63 million in 2012-2013). £9.58 million was due to the Council at 31 March 2014 (£7.4 million at 31 March 2013).

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 2014 (five as at 31 March 2013).

### 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. Automatic enrolment legislation also applies to all eligible workers. The list of all participating employers in the Northumberland County Council Pension Fund as at 31 March 2014 is shown in note 24.

The LGPS changed with effect from 1 April 2014 to a career average scheme for service accrued on and after 1 April 2014; service accrued prior to 31 March 2014 remains linked to final salary.

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 2013. 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.

## Pension Fund – Notes to the Financial Statements

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 2014 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 2014 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 Lead Executive Director Corporate Resources, County Hall, Morpeth, Northumberland, NE61 2EF.

### 21. Outstanding commitments

As at 31 March 2014 the Fund had outstanding commitments to six private equity investments.

	Initial commitment	Capital Payments Made	Outstanding commitment as at 31 March 2014	
	m	m	m	£m
Morgan Stanley Private Markets III	\$50.00	\$46.57	\$3.43	2.06
Morgan Stanley GDO Fund	\$10.00	\$9.25	\$0.75	0.45
NB Crossroads Fund XVIII	\$27.00	\$22.41	\$4.59	2.75
Morgan Stanley Private Markets IV	\$30.00	\$26.23	\$3.77	2.26
Global Infrastructure Partners II-C	\$43.00	\$11.83	\$31.17	18.70
Antin Infrastructure Partners II	€24.00	€0.00	€24.00	19.84
Total outstanding commitments				46.06

Outstanding capital commitments totalled £46.06 million as at 31 March 2014 (£34.93 million as at 31 March 2013). 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 2014 was two years for Morgan Stanley Private Markets Fund III and Morgan Stanley GDO Fund, three years for NB Crossroads Fund XVIII and Morgan Stanley Private Markets Fund IV, nine years for Global Infrastructure Partners Fund II-C and twelve years for Antin Infrastructure Partners II.

## Pension Fund – Notes to the Financial Statements

### 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 2014		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial assets at fair value through profit and loss	884,899	64,864	949,763
Loans and receivables	5,017	-	5,017
Financial liabilities at amortised cost	(10,559)	-	(10,559)
Net financial assets	879,357	64,864	944,221

	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

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:

	2012-2013	2013-2014
	£'000	£'000
Financial assets at fair value through profit and loss	111,167	34,786
Loans and receivables	15	(73)
Total net gains on financial instruments	111,182	34,713

### 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 IAS 26 shown on page 223 and Appendix 2 to this report.

## Pension Fund – Notes to the Financial Statements

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 Lead Executive Director Corporate Resources.

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 Note 50 to the Council's Financial Statements.

## Pension Fund – Notes to the Financial Statements

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 2014. 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 £644.03 million as at 31 March 2014, can be realised at short notice and at minimal cost. In five 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 £5.16 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 Lead Executive Director Corporate Resources.

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.

## Pension Fund – Notes to the Financial Statements

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 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	334,205	12.3	375,279	293,131
Overseas equities	254,442	11.8	284,441	224,443
Index linked	164,427	8.9	178,979	149,875
Other fixed interest	90,315	4.2	94,108	86,522
Property	41,510	1.7	42,220	40,800
Ventures and partnerships	64,864	8.2	70,157	59,571
Other investment balances	2,082	0.0	2,082	2,082
<b>Total investment assets</b>	<b>951,845</b>	<b>7.1</b>	<b>1,019,331</b>	<b>884,359</b>

	As at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'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
<b>Total investment assets</b>	<b>913,000</b>	<b>8.5</b>	<b>990,331</b>	<b>835,669</b>

The percentage change for total investment assets as at 31 March 2014 and as at 31 March 2013 includes the impact of correlation across asset classes, so the value on increase/decrease amounts do not sum to the total investment assets shown above.

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. The price risk shown above includes interest rate risk and currency risk as they cannot be separated out of market price movements.

## Pension Fund – Notes to the Financial Statements

### 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 2014	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
	£'000	£'000	£'000
Index linked	164,427	199,416	129,436
Other fixed interest	90,315	92,895	87,736
<b>Total fixed interest investments</b>	<b>254,742</b>	<b>292,311</b>	<b>217,172</b>

	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
<b>Total fixed interest investments</b>	<b>237,662</b>	<b>273,920</b>	<b>201,403</b>

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.

## Pension Fund – Notes to the Financial Statements

### 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 2014 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
<b>Equities :</b>				
Europe	66,093	4.1	68,790	63,396
North America	65,228	7.6	70,192	60,264
Japan	30,394	11.5	33,901	26,887
Pacific	31,932	6.1	33,883	29,981
Other	60,795	6.4	64,668	56,922
Other fixed interest	90,315	5.2	95,020	85,610
Ventures and partnerships	64,846	8.1	70,079	59,613
<b>Total overseas investments</b>	<b>409,603</b>	<b>5.3</b>	<b>431,289</b>	<b>387,917</b>

	As at 31 March 2013 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
<b>Equities :</b>				
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
<b>Total overseas investments</b>	<b>409,802</b>	<b>5.6</b>	<b>432,754</b>	<b>386,850</b>

The percentage change for total overseas investments as at 31 March 2014 and as at 31 March 2013 includes the impact of correlation across currencies, so the value on increase/decrease amounts do not sum to the total overseas investments shown above.

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.

## Pension Fund – Notes to the Financial Statements

### 24. Fund membership as at 31 March 2014

	Active members	Pensioner members	Deferred members
<b>Northumberland County Council</b>			
Employees	6,425	6,951	6,891
Councillors	20	12	12
<b>Local Government Pension Scheme Employers (known as “Scheduled Bodies”)</b>			
Ashington Town Council	3	-	-
Bede Academy	82	7	27
Berwick Academy	42	4	4
Blyth Academy (formerly Blyth Community College)	64	3	1
Blyth Quays Academy	124	3	12
Choppington Parish Council	2	-	-
Corbridge Parish Council	1	-	-
Cramlington Learning Village Academy	77	5	8
Haltwhistle Community Campus Academy	41	-	1
Hexham Town Council	5	4	-
Homes for Northumberland Ltd	200	69	119
Meadowdale Academy	28	2	11
Morpeth Town Council	5	2	-
Northumberland College	192	130	220
Northumberland Church of England Academy	280	36	91
Northumberland Inshore Fisheries and Conservation Authority	14	4	3
Northumberland National Park Authority	51	26	92
Northumberland Valuation Tribunal Service	1	8	-
Northumbria Magistrates Courts Committee	-	82	62
Ponteland Town Council	1	1	-
Seaton Valley Council	1	-	-
Three Rivers Learning Trust Academy	135	5	29
West Bedlington Town Council	1	-	-
<b>Admitted Bodies</b>			
Action for Children	24	1	5
Age UK Northumberland	6	12	14
Barnado's Services Ltd	14	-	8
Berwick Borough Housing Ltd	10	8	4
Blyth Valley Arts and Leisure Trust	131	16	64
Bullough Cleaning Services Ltd	12	-	-
Community Action Northumberland	-	23	24
Creative Management Services Ltd	5	-	5
Feversham School	-	26	14
Helping Hands Community Care	1	-	-
Isos Housing Ltd	23	55	21
North Country Leisure	64	11	54

## Pension Fund – Notes to the Financial Statements

	Active members	Pensioner members	Deferred members
Northumberland Aged Mineworkers Homes Association	8	7	-
Northumberland County Blind Association	5	4	6
Northumbrian Healthcare NHS Foundation Trust	60	67	49
Queens Hall Arts Centre	4	1	1
Superclean Services Wothorpe Ltd	4	-	-
Tees Active Ltd	1	-	-
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	2
Three Rivers Housing Association Ltd	2	1	-
Wansbeck Homes	122	39	14
Woodhorn Charitable Trust	29	5	4
Other Bodies pre 1974	-	15	-
	8,322	7,649	7,875

## Pension Fund Performance

### Annual returns

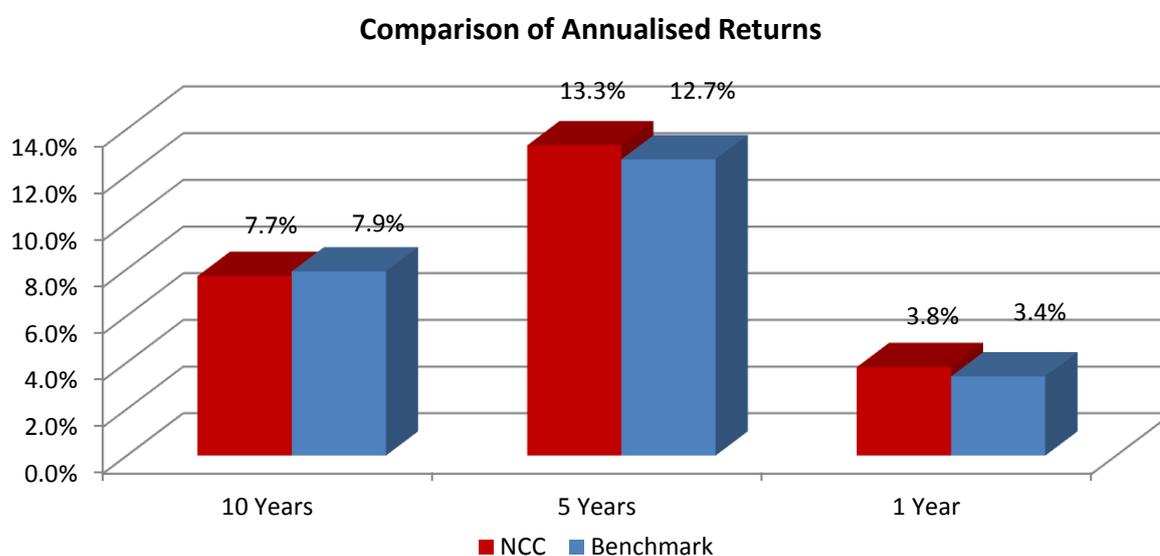
Over the year, the Northumberland County Council Pension Fund outperformed its benchmark by 0.4%\* (expressed on a geometric basis).

Year ending 31 March	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)
Fund performance	40.8	6.4	5.3	14.0	<b>3.8</b>
Benchmark	36.7	7.6	4.8	14.2	<b>3.4</b>

\* 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 2014	
	Fund %	Benchmark %
Legal & General (Index tracker)	3.5	4.1
M&G Investments (Global equities)	7.2	6.7
Wellington (Bonds)	-1.5	0.8
BlackRock (Property)	12.4	11.9
Schroder (Property)	14.8	11.9
Combined Fund	3.8	3.4

## Pension Fund Performance

### Performance commentary

The Northumberland County Council Pension Fund produced a return of 3.8% in 2013-2014 which was well above the growth in average earnings of 1.5% for the same period.

The Fund return of 3.8% was above its benchmark. Asset allocation detracted 0.1% from performance, while stock selection added 0.5% over the period.

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

The WM Local Authority Pension Fund Universe for 2013-2014 produced an average return of 6.4% in the period. The range of returns was 10.1% for the 5<sup>th</sup> ranked to 3.5% for the 95<sup>th</sup> ranked fund. Northumberland County Council Pension Fund ranked 91<sup>st</sup> in 2013-2014 (50<sup>th</sup> in 2012-2013).

Over five years the Fund returned 13.3% p.a. which was above the benchmark return of 12.7% p.a. giving a relative outperformance of 0.5% p.a. and ranking 35<sup>th</sup> in the Local Authority Universe.

Over ten years the Fund achieved a return of 7.7% (annualised). This compares well with the RPI return of 3.3% p.a. and the average earnings index return of 3.1% p.a., and ranks 50<sup>th</sup> in the Local Authority Universe but is below the fund's benchmark return of 7.9% p.a. for the same period.

# Statement of the Actuary for the year ended 31 March 2014

## 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 2013 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 2013 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 £914.4 million) covering 81% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions to be paid by participating employers with effect from 1 April 2014 is:
  - 16.4% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, 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 22 years from 1 April 2014, amounting to £11.4 million in 2014-2015 and increasing by 3.9% p.a. thereafter.
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 2014 (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.

## Statement of the Actuary for the year ended 31 March 2014

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	5.3% per annum
Orphan Bodies	5.2% per annum
Discount rate for periods after leaving service	
Scheduled Bodies	5.3% per annum
Orphan Bodies	3.7% per annum
Rate of pay increases (additional allowance made for promotional increases)	3.9% per annum
Rate of increase to pension accounts	2.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	2.4% 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 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. 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 were signed on 31 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.
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 2013. 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

21 May 2014

## Firefighters' Pension Fund

Fund Account		2012-2013	2013-2014
		£'000	£'000
<b>Contributions</b>			
	From employer - normal	1,198	<b>1,182</b>
	From employer – ill health	269	<b>19</b>
	From members	691	<b>776</b>
		2,158	<b>1,977</b>
<b>Transfers in</b>			
	Individual transfers from other schemes	4	-
		2,162	<b>1,977</b>
<b>Benefits</b>			
	Pensions	(4,014)	<b>(4,296)</b>
	Commutations and lump sum retirement benefits	(1,148)	<b>(990)</b>
		(5,162)	<b>(5,286)</b>
<b>Payments to and on account of leavers</b>			
	Individual transfers to other schemes	(180)	<b>(1)</b>
<b>Net amount payable before top-up grant</b>		3,180	<b>3,310</b>
	Top-up grant payable by central Government	(3,180)	<b>(3,310)</b>
<b>Net Amount Payable for the year</b>		-	-
<b>Net Assets Statement</b>			
		As at	<b>As at</b>
		31 March	<b>31 March</b>
		2013	<b>2014</b>
		£'000	<b>£'000</b>
<b>Current assets</b>			
	Transfer Values Received - Debtor	-	-
	Top-up grant receivable from central Government	649	-
	Amount receivable from the General Fund	-	<b>168</b>
<b>Current liabilities</b>			
	Top-up grant payable to the Government	-	<b>(168)</b>
	Amount payable to the General Fund	(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.

## **Notes to the Firefighters' Pension Fund Financial Statements**

Prior to 1 April 2006, the Council administered and paid firefighters' pensions on a 'pay-as-you-go' basis, which meant that employees' contributions were paid into the Council's operating account from which pension awards were made and no employer contributions were made. Following the change in financial arrangements on 1 April 2006, the Council has continued to administer and pay firefighters' pensions, but this is now from a separate local firefighters' pension fund. Employee contributions, employer contributions and transfer values received are paid into the pension fund from which pension payments and other benefits are paid. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments. Any surplus in the fund is recouped by Government. Therefore the fund is balanced to nil each year by receipt of pension top-up grant or by paying the surplus back to the Government.

The Schemes are unfunded and therefore the fund has no investment assets.

## **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 Lead Executive Director Corporate Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

### **The Lead Executive Director Corporate Resources Responsibilities**

The Lead Executive Director Corporate Resources 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 Lead Executive Director Corporate Resources 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 Lead Executive Director Corporate Resources 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 September 2014. All known material events that have occurred up to and including 30 September which relate to 2013-2014 or before have been reflected in the accounts.

### **Lead Executive Director Corporate Resources 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 2014 and their income and expenditure for the year ended 31 March 2014.

**Steven Mason**

**Lead Executive Director Corporate Resources**

**30 September 2014**

# Annual Governance Statement

## 1. Standards of Governance

The Annual Governance Statement is approved by the Audit Committee and is signed by the Leader of the Council; the Lead Executive Director Corporate Resources and the Deputy Section 151 Officer.

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

- Heads of Service complete returns and provide assurance in the returns on their areas with supporting evidence and identify areas of weakness.
- From the information contained within the returns the Deputy Section 151 Officer prepares the Annual Governance Statement.
- Internal Audit will; review the Annual Governance Statement to provide assurance on its accuracy and completeness.

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.

This Annual Governance Statement explains how the Council has complied with the Code, and also how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the publication of an Annual Governance Statement. This document is reviewed by the Executive Directors, Audit Committee, Heads of Service, Arch, and Homes for Northumberland (HfN.)

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

- The Arch Group – an arms-length company which acts as the development arm of the Council dedicated to economic development, regeneration and housing market renewal throughout Northumberland; and,
- Homes for Northumberland – an arm's length management organisation that manages the Council's housing stock in Blyth and Alnwick; and,
- Rural Enterprise Action CIC (Reaction) – which promoted enterprise activities in rural areas. The company was dissolved in June 2013 but had been dormant since 1 July 2012.

Following the elections in May 2013 new arrangements were put in place by the new Administration. The Policy Board, consisting of the Leader, Deputy Leader and eight Policy Board members replaced the Executive.

## 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.

## Annual Governance Statement

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 Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of 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 current governance framework for the Council and the wider Group has been in place since 1 April 2011, and has been further developed 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 were reported to and are monitored by the Audit Committee.

#### *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 in conjunction with partners are provided in the Sustainable Community Strategy (SCS) – Northumberland: Resilient for the Future – which was agreed through the Northumberland Strategic Partnership in May 2011 setting out ambitions for the period through to 2025. The Council's initial corporate strategy 'Stronger Together' was published in December 2010 and has been replaced during the 2013-14 financial year by the Corporate Plan which was adopted in November 2013. The Corporate Plan focuses on four outward facing priorities – Economic Growth; Places and

## Annual Governance Statement

Environment; Stronger Communities and Families; and Health and Well Being – complemented by an internal priority of Developing the Organisation and covers the period up to 2017.

The emerging Core Strategy will set out the long term spatial vision and strategic planning policies of the Council. It will identify the scale and distribution of new development which is required to deliver the Council's economic growth ambitions. It will also provide the strategic planning principles that will be used to inform Neighbourhood Development Plans across Northumberland.

As with every UK local authority, the Council is now faced with the prospect of 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, the latter being published on the Internet, and considered at quarterly meetings of Strategic Management Team (SMT), and the Members' Performance Management Working Group (this Group is no longer required as performance reports are subject to pre-scrutiny prior to the Policy Board). In summary performance has been as follows:

- In 2013-2014, Adult Services continued to have positive inspection results.
- Over the course of 2013-2014, the proportion of schools being judged by Ofsted as good or outstanding remained stable at 84% for quarters 1 and 2. However, the new, more challenging, school inspection framework was implemented in September and with it came the round of 17 inspections in Northumberland that took place in October. Whilst the impact of these inspections was challenging for the local authority, they did

## Annual Governance Statement

not have a major impact on the overall performance indicator, which fell to 83.5% by 31st December 2013. The underlying detail of the 17 Northumberland schools that were subject to a programme of focused inspections were that only a small number of the schools inspected in that round moved from satisfactory/requires improvement/inadequate to good or outstanding, or vice versa. Specifically: 1 school was graded as outstanding, improving from its previous judgement of good; 3 were graded as good, all improving since their previous inspection; 9 were judged to require improvement to become good - 6 of these schools were graded satisfactory at their previous inspection and three had been previously judged as good or better. 4 schools were placed in special measures, three of which were previously judged as satisfactory and one school which was previously judged as good. The overall proportion of schools judged good or outstanding has reduced since the end of December to 82.6% at the end of March, with the proportion of schools that are not yet good or outstanding much higher in the secondary (including middle) school sector. The actions taken are detailed in the issues section of statement.

- Whilst there has not been a Looked After Children and Safeguarding inspection since March 2012, Ofsted continues to inspect residential children's homes and all the Council's provision is rated as good or better.
- Furthermore, the Fostering Service is rated as good and the inspection of the central area Children's Centre locality judged it as good with some outstanding features.
- Northumberland's Youth Offending Service is RAG rated as green by the Youth Justice Board and is better than the national average in its record on tackling and preventing youth offending with very few remands to custody, a high proportion living in suitable accommodation and relatively low rates of reoffending.
- There have been no benefits or housing inspections during the year.

The performance process is also supported by formal budget monitoring through the Policy Board and Pre-Scrutiny.

Each Head of Service also prepares a service plan which provides the link to the Corporate Plan and provides 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, and, the Leaders of the two main opposition parties, sit on Arch's Board. In 2013-2014 the newly elected Cabinet Member for Planning, Housing and Regeneration joined the Board. The Council's Chief Executive also sat on the Board until his resignation at the end of November 2013. Three private sector individuals were also elected to the Board.
- Homes for Northumberland (HfN) operates under a management agreement with the Council. The Company's Strategic Board has four Council representatives, four tenant members, three independent members (including the chair), and three non-voting co-opted members.
- The Board of Reaction consisted solely of senior managers from the Council.

The principal objective in dealing with the current budget preparation has been to achieve a balanced budget for 2014-2015, ensuring that the required level of savings is delivered.

## Annual Governance Statement

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. Following the change to the Council's Administration in May 2013 the Council's Constitution was updated; the most recent amendments were agreed in December 2013. The Finance and Contract Rules were last updated in 2011-2012. A review of both documents is to take place early in financial year 2014-2015. Within each group Corporate Directors also have their own internal scheme of delegation.

In relation to finance, the Council's management arrangements conform to 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 now handled corporately within the Corporate Resources Group (formerly 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 receives 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

## Annual Governance Statement

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 Council's 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 recently introduced a risk management policy and monitors high level risks through its Audit Committee and Board. This process continued to develop and was rolled out in October 2013 with high level risks being reported to the Board every quarter.

A revised risk management strategy framework for Homes for Northumberland was approved in 2013-2014. The Corporate Risk Register was subject to frequent revision during the year and operational risk registers have been developed across the business.

### *Developing the capacity and capability of senior officers and Councillors*

Development needs of senior officers are identified through the appraisal process, which is carried out at least once per year. A competency framework has been developed, applicable to all managers, which sets out the key skills and attributes which senior officers must display. Through a process of self-assessment, validated by managers, any training needs are identified. Members have their own personal development plans and a training programme. New staff and members are enrolled onto an induction programme to ensure a common baseline.

Changes have been made at the senior management level in the Council, 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 a 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. From 2014-2015 the Heads of Service Group will be heavily involved in this process.

## 5. Review of Effectiveness of the Governance Framework

## Annual Governance Statement

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.

Every year, Heads of Service provide evidence-based assurance statements setting out how their areas have complied with principles of good governance and highlight 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. Following the change to the Council's Administration and to reflect the changes agreed at Annual Council on 22 May 2013, the Constitution was reviewed, updated and agreed at the meeting of the County Council 4 December 2013. This work was led by the Chief Legal Officer in consultation with the Constitutional Working Group comprising elected members from all political groups. Following the latest management restructure the Constitution requires further amendment. A revised Constitution will be recommended to the County Council meeting during 2014-2015.

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. It monitors and scrutinises 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 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 Committee meets at least six times per annum, with additional ad hoc meetings as required. The work

## Annual Governance Statement

programme for the Committee is reviewed annually 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. During July 2012, the membership of the Standards Committee was revised to meet the requirements of the Localism Act 2011 and 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 an independent chair was appointed to the Committee.

### *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 the Accounts and Audit (England) Regulations 2011 (March 2011), the Public Sector Internal Audit Standards (December 2012) and the related Local Government Application Note published jointly by the Chartered Institute of Public Finance and Accountancy and Institute of Internal Auditors (April 2013). Following wide consultation with stakeholders and assessment of risk, a Strategic Audit Plan is presented annually to the Audit Committee for their approval of the planned work and proposed coverage of Internal Audit.

The internal audit service has been engaged by other entities and partners with which the Council works, such as Homes for Northumberland and Arch.

During 2012-2013, the Council established a shared arrangement with North Tyneside Council for Internal Audit and Risk Management Services. The Shared Service Management Board which includes the Chief Financial Officers of Northumberland County Council and North Tyneside Council oversees the arrangements across the two councils.

### *Group Arrangements*

Each Group 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.

## Annual Governance Statement

### *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.

Following a senior management restructure the Corporate Director of Finance was appointed as the Executive Director for Corporate Resources and designated the Lead Executive Director. The Lead Executive Director holds the statutory positions of Head of Paid Service and Section 151 Officer.

As a result of this appointment, governance was discussed with the external auditor and in order to provide additional assurance a Deputy Section 151 Officer was appointed. This officer has direct access to the Leader, Deputy Leader and Chair of the Audit Committee.

### *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.

## Annual Governance Statement

### 6. Significant Governance Issues

#### *Issues Identified in 2010-2011*

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Wansbeck Chief Officer Salaries</i></b> 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.</p>	<p>Legal action commenced in November 2012 and is on-going with a pre-trial review having been listed for 5 March 2014. All parties were requested to give details of witness availability over the next twelve month period and these were submitted on 20 March. The trial date is set for 16 February 2015. It is estimated the hearing will last 10 days.</p>

## Annual Governance Statement

### *Issues identified in 2011-2012*

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Data Security</i></b></p> <p>The Council suffered seven separate losses of personal data in 2011-2012. Five of these were reported to the Information Commissioner's Office (ICO). The remaining two were reviewed and considered internally for reporting.</p> <p>Of the five that were reported, none resulted in formal regulatory action.</p>	<p>NCC continues to work towards the improvement via actions from the ICO consensual audit. The organisation was due to be re-assessed for improvement in August 2013.</p> <p>An update is in the 2013-2014 section of this statement.</p> <p>This issue can now be closed.</p>
<p><b><i>Data Management</i></b></p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>An update is in the 2013-2014 section of this statement.</p> <p>This issue can now be closed.</p>

## Annual Governance Statement

### Issues identified in 2012-2013

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Business Continuity Planning</i></b></p> <p>At the start of 2012-2013, business continuity arrangements across the Council were at different stages of development.</p> <p>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).</p> <p>Further BIAs were required to be carried out to identify all other service critical functions leading to the development of Group BCPs.</p>	<p>See issue and current position in 2013-2014.</p> <p>This issue can now be closed.</p>
<p><b><i>Overspends in Groups</i></b></p> <p>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.</p> <p>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.</p>	<p>The 2012-2013 overspends in Children's Services and Property Services were funded corporately.</p> <p>This issue can now be closed.</p>
<p><b><i>School Budgets</i></b></p> <p>There are an increasing number of schools requesting licensed deficits and overspending their budget allocations.</p>	<p>On-going issue which is now shown in 2013-2014.</p> <p>This issue can now be closed.</p>
<p><b><i>Impact of Reduced Staff Levels on the Control Environment</i></b></p> <p>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).</p>	<p>See issue and current position in 2013-2014.</p> <p>This issue can now be closed.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Child Care Proceedings</i></b>            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.</p>	<p>The situation continues to be monitored. Additional funding via central government has enabled Legal to appoint a temporary lawyer for 12 months; this contract will expire in August 2014. It is not known at this time whether additional funds will be available after August 2014.</p> <p>The numbers are not reducing but do appear to have plateaued during 2013-2014. However, a direct comparison is difficult due to new timescales.</p>
<p><b><i>Care Homes Judicial Review</i></b>            Care Home providers challenged the council fees structure by way of Judicial Review.</p>	<p>Following a successful hearing for the Council in January 2013 the Providers sought permission to appeal to the Court of Appeal which was agreed; and, a two day hearing took place in November 2013. The appeal was dismissed and the Providers were ordered to pay the Council's cost. These remain unpaid to date and correspondence is on-going with the clients' solicitors to secure the recovery of these costs.</p>
<p><b><i>Property Services Information System</i></b>            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.</p>	<p>A review was included in the Internal Audit work plan as agreed. The report is awaiting management response before final issue. Improvement has been identified but more needs to be done to reconcile committed and actual expenditure.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Section 106 Agreements</b></p> <p>Internal Audit issued a no assurance report in September 2012 in relation to Section 106 (S106) 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.</p> <p>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.</p>	<p>The Head of Development Services acknowledged the issues highlighted in the audit report which included the need for a single database to record all relevant information. The Head of Service 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.</p> <p>An action plan was agreed with Internal Audit to ensure robust procedures for recording and monitoring the collection and spend of S106 monies. A spreadsheet was developed with advice from Internal Audit on the information to be included and a data cleansing exercise was carried out to provide assurances on the accuracy of the data. Regular financial reconciliation is undertaken to provide additional assurances on the financial management of S106 agreements and there are new procedure notes in place. The spreadsheet has been a useful tool to capture all of the information relating to S106 agreements. Going forward, the service is looking to purchase a S106 tracker module that sits within the single IT system used by the service to ensure a more effective control of the S106 monitoring process.</p> <p>The Council is in the process of implementing a new IT module which will further assist in the monitoring of S106 agreements and also will enable information on individual agreements, and monies received and spent, to be accessed via the website by Members and the general public. All S106 agreements are available to view on line. The Council is also encouraging developers to discuss S106 requirements with ward members and local communities during the early stages of the planning process – ideally at the pre-application stage.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Dispute with SITA</i></b></p> <p>The Council has had a long standing and highly complex dispute with its Waste PFI Contractor (SITA Northumberland Ltd) which related to the formulation of the PFI contract. NCC accepted that it had not been able to meet all of its obligations under the Contract in terms of the proportion of recyclable materials it had delivered for processing, due to the economic downturn and lower than forecast levels of recycling activity, but did not agree with the methodology used by the PFI Contractor to determine their financial loss. The Council also believed that the Contractor had 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.</p>	<p>The dispute relating to a shortfall in the proportion of recyclable materials being delivered was referred to an independent adjudicator in accordance with the formal dispute resolution procedure within the PFI contract. The adjudicator found broadly in favour of SITA, but supported the Council's position in relation to several factors that should be taken into consideration when assessing the value of the claim. The dispute has now been resolved and the claim settled. With regard to the refinancing benefits SITA has agreed that the Council was due a share of these benefits and has now paid the outstanding benefits to the Council.</p> <p>This issue can now be closed.</p>
<p><b><i>Homes for Northumberland Overspend</i></b></p> <p>Homes for Northumberland has reported an overspend in 2012-2013 reflecting poor financial management during the year.</p>	<p>During 2013-2014, the Finance Team in the ALMO has been strengthened. A formal training programme for budget holders has also been delivered.</p> <p>Together, these measures have had a positive impact on the frequency and accuracy of financial information available to the business. As a result, the Company has reported an underspend for 2013-2014.</p> <p>This issue can now be closed.</p>
<p><b><i>Winter Services</i></b></p> <p>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.</p>	<p>A review was included in the Internal Audit work plan as agreed. It is clear that action has been taken to improve the control environment; however, further testing awaits a severe weather event.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Planning Judicial Reviews</i></b></p> <p>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.</p> <p>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.</p>	<p>The Council continues to be subject to various legal challenges to its planning decisions, mainly on, but not exclusively, wind turbine proposals. Specific legal advice has been sought to assist the service in addressing these issues. Staff and Member training has been provided by our barrister and further training is planned during the coming year. A 'lessons learnt' exercise will be implemented after any Judicial Review decision to ensure procedures are as robust as possible to minimise the risks of decisions being quashed. A programme of preparing and updating procedure notes and checklists for staff is being developed and will be implemented during the year.</p> <p>During 2013-2014 the Council won the two cases mentioned.</p> <p>This issue can now be closed.</p>
<p><b><i>Planning Appeals and Public Inquiries</i></b></p> <p>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.</p> <p>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.</p>	<p>The number of appeals and appeal decisions are monitored because of the implications for staff resources, budgets and the 'special measures' trigger introduced by Government. Training has been provided to Planning Committee Members on the decision making process to help ensure Members are equipped with the knowledge they need to make sound decisions. A training programme is being developed for the year which will focus on particular subject areas such as flood risk to support Members and officers' decision making.</p> <p>During 2013-2014 the Council won the case mentioned.</p> <p>This issue can now be closed.</p>

## Annual Governance Statement

### Issues identified in 2013-2014

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Impact of the Economic Downturn</i></b></p> <p>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.</p> <p>The Council has saved over £129 million from 2009-2010 to 2013-2014 and anticipates saving an additional £130 million over the next four years.</p> <p>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.</p>	<p>A balanced budget was agreed for 2013-2014 as part of a three-year medium term financial plan, and a balanced budget has once again been agreed for 2014-2015.</p> <p>The Council has reviewed the financial resilience of individual Groups to identify those most at risk of overspending in future periods.</p> <p>Improvement and efficiency programmes are being developed and implemented by Groups at risk of overspending.</p> <p>Budget preparation for 2013-2014 (and 2014-2015) commenced early in order to increase the confidence in the process.</p> <p>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</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p data-bbox="185 220 667 248"><b><i>Compliance with Policies and Procedures</i></b></p> <p data-bbox="185 260 1137 368">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.</p> <p data-bbox="185 392 880 421">This weakens the overall control environment of the organisation.</p>	<p data-bbox="1160 220 2060 405">The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. It is suggested that the Chief Internal Auditor's overall opinion that the organisation's internal systems of governance, risk management and control are satisfactory, is considered for inclusion in the Annual Governance Statement.</p> <p data-bbox="1160 432 2060 579">Internal Audit has continued to target its assurance activity at areas of risk in its 2013-2014 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.</p> <p data-bbox="1160 603 2060 868">During the year, the Council's framework of governance, risk management and control has continued to evolve, with previous controls embedding in a number of key areas. These include important main financial systems such as cash in bank, creditors and debtors, all of which received a 'significant assurance' audit opinion. Similarly, other systems involving high value/high volume transactions such as Housing Benefit and Council Tax Support also received a 'significant assurance' audit opinion, which is positive for the organisation.</p> <p data-bbox="1160 892 2060 1115">During 2012-2013, Internal Audit drew attention to a number of issues in relation to the administration of Section 106 monies. A detailed series of recommendations were agreed with service management, and this area was subject to further audit review in October 2013, with a report being presented to Audit Committee on 27 November 2013. This has demonstrated that improvement has been made, though controls will need to embed further.</p> <p data-bbox="1160 1139 2060 1404">Internal Audit's work has highlighted some areas in which controls should be strengthened further. With regard to Payroll, Internal Audit has recommended that consistency in the level of independent verification of data input into the payroll system should be improved, including the introduction of validation reports. A review of the Information Service Strategy and Expenditure Streams also highlighted that more should be done to align decision-making on information systems with the Council's Corporate Plan and other business critical activity.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Compliance with Policies and Procedures (continued)</i></b></p>	<p>The Council's framework of governance, risk management and control has been subject to change during 2013-2014, most notably with a senior management reorganisation and the introduction of the new ERP system. Internal Audit has participated in aspects of these changes, providing assistance and advice at appropriate junctures as new arrangements have been developed. This allows the authority to take assurance as to the effective management of these significant changes. This approach will continue during 2014-2015.</p>
<p><b><i>Accommodation Review/Sale of County Hall</i></b>            During 2013-2014 there was an announcement that County Hall would be sold.</p>	<p>In seeking to address the significant financial challenges facing the Council a working group has been established. The remit of this group is to actively review all accommodation and challenge where and how services are delivered. This includes the Council's main administration centre, County Hall in Morpeth.</p>
<p><b><i>Business Continuity Planning</i></b>            At the start of 2013-2014, business continuity arrangements across the Council were at different stages of development.</p> <p>During the year, a number of awareness sessions and workshops were carried out to ensure that all Groups completed a Business Impact Analysis (BIA) to a common format. This exercise has led to the identification of critical functions for inclusion in Group BC Plans and the existing Corporate Business Continuity Plan (BCP).</p> <p>Although most Groups have been involved in the BIA process, there are a number of services that still need to go through the process of identifying their service critical functions.</p> <p>Towards the end of 2013-2014 and going into 2014-2015 the Council has undergone an organisational restructure, which has altered the format of the Group BCPs.</p>	<p>A number of departmental BIAs have either been completed or are in development. Steps will be taken to complete BIAs for all outstanding departments during 2014-2015. BCPs will also be developed in-line with the new NCC structure. This programme of work has been included as an objective within the Civil Contingencies Team Service Plan 2014-2015.</p> <p>The existing Corporate BCP has been reviewed and revised and will be published early in 2014-2015 once the new NCC structure has been finalised. Another version will be published once all BIAs have been completed and all critical functions have been identified.</p> <p>The NFRS Resilient Northumberland Plan has been reviewed and revised in response to this year's FBU Industrial Action. A NFRS Fuel Strategy has been developed in accordance with the National Emergency Plan for Fuel and a similar strategy is in production for NCC. A plan is also in development to deal with the loss of NCC's County Hall.</p> <p>A testing and exercise programme is to be agreed in 2014-2015.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Data Security</b></p> <p>The Council suffered fifteen separate losses of personal data in 2013-2014. The Senior Information Risk Owner (SIRO) advised that these did not need to be reported to the Information Commissioner's Office (ICO). All breaches were investigated by the appropriate service areas and measures implemented based on the lessons learnt from their breaches.</p>	<p>NCC had established an Information Governance Board chaired by the Deputy Chief Executive who was also our SIRO. The Board was held monthly and operated across the organisation with representation from all areas of the business.</p> <p>As a result of the authority's Senior Management restructure the roll of this board has now been absorbed into the organisations Operating Board (Heads of Service Forum). There is an Information Governance Working Group which continues to meet to on a monthly basis to discuss the practical day to day security and information governance issues.</p> <p>It is accepted that little progress has been made in this area. However, changes have been made to the management structure and NCC continues to work towards the improvement via actions from the ICO consensual audit. The current management is committed to ensuring that all actions are now implemented in a timely manner. The organisation was re-assessed for improvement during 2013-2014 and obtained an upgraded status of Reasonable Assurance.</p> <p>We are looking at devising a better system for the management of Security Incidents including Data Breaches. This will enable us to capture all information which will go directly into workflows for the relevant service area and will make the reporting process more robust.</p>
<p><b>Data Management</b></p> <p>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 there is no more room in our partner storage organisation Woodhorn to store additional material.</p>	<p>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.</p> <p>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.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b><i>Impact of Reduced Staff Levels on the Control Environment</i></b></p> <p>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).</p>	<p>Financial pressures continue to present issues for the Council. Executive 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.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>School Inspections</b> The Council is acting on the challenging issues that have arisen from the round of Focused school inspections.</p>	<p>At May's meeting with head teachers, also attended by Ofsted senior managers the Executive Director described the actions the Council is already taking (a) and the areas where it knows it has to improve (b):</p> <p>(a)</p> <ul style="list-style-type: none"> <li>• School to school support using partnering arrangements with other schools.</li> <li>• Updated strategic vision.</li> <li>• Standardised tests at phase transitions, to improve transfer of pupil information.</li> <li>• Gained £75000 from National Teaching College to support schools in need of improvement.</li> <li>• Took decisive action on the future of schools falling into the special measures category, including consultation on closure.</li> <li>• Partnered with neighbouring LA (Durham) in delivering training to school leaders.</li> </ul> <p>(b)</p> <ul style="list-style-type: none"> <li>• Reviewing resource base of school improvement advisory service and how resources are allocated.</li> <li>• Improving our engagement, monitoring and challenge with academies.</li> <li>• Maximising our knowledge of where good practice exists and communicating that to other schools to build further school to school support capacity.</li> <li>• Asking robust questions of schools with large FSM gaps and being clear about what will happen if improvements are not seen.</li> <li>• Tackling hard issues about culture and expectations.</li> <li>• Better hands on knowledge about Northumberland's schools aside from reliance on performance data, e.g. lesson observation, more robust monitoring and challenge.</li> </ul>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>School Budgets</b></p> <p>There are an increasing number of schools requesting licensed deficits and overspending their budget allocations.</p>	<p>Staff in Corporate Resources and Wellbeing and Community Health 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 July advising members and the Management Board of the position of each school.</p>
<p><b>Implementation of the Financial Information System</b></p> <p>The original implementation date of the Enterprise Resource Planning (ERP) system was 1 April 2014. Following the requirement to review IT security advice that date has now slipped.</p>	<p>Contingency arrangements have been put in place to minimise the risk to the Council and to ensure that the organisation can still conduct its business. A revised implementation date of 1 August 2014 is now envisaged.</p>
<p><b>Overspends in Groups</b></p> <p>In aggregate, for 2013-2014, the Council performed strongly overall resulting in the achievement of a surplus against its revenue budget. However, this masks overspends in Children's Services (£1.4 million) and Property Services (£0.5 million) in the year.</p> <p>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.</p> <p>At the time of writing the report the financial position has not been finalised. The final version of the report will incorporate the final figures.</p>	<p>The 2013-2014 overspend in Children's Services has been funded from the newly formed Wellbeing and Commissioning Group. Following the restructure of the Management Team and re alignment of services the Executive Director of Wellbeing and Community Health Services will review the budgets and the spending and produce a robust plan which achieves a balanced budget going forward.</p> <p>The 2013-2014 overspend in Property Services has been funded by the Place Group. Following the restructure of the Management Team and re alignment of services the Executive Director Place will review the budgets and the spending and produce a robust plan which achieves a balanced budget going forward.</p>
<p><b>Single Fraud Investigation Service (SFIS)</b></p> <p>As part of Welfare Reform the DWP intend to create a SFIS which will bring together council, DWP and HMRC investigation services under one umbrella, to investigate all benefit and tax credit fraud and to conduct a single investigation covering the totality of the fraud. SFIS will not investigate non-benefit and local taxation fraud such as local council tax support, single persons discount and tenancy fraud. The creation of the SFIS and the potential transfer of resources to that service mean that the Council may not have capacity to deliver against its commitment to zero tolerance of fraud, corruption, bribery and/or money laundering within or against the organisation, public money, its partners, contractors and also the community it serves.</p>	<p>The Council has created a Corporate Fraud Team to investigate all fraud and take a proactive approach to prevention. The team is split into two teams; one looking at benefit fraud and the other looking at other areas of fraud (such as council tax support, single person discount, housing tenancy, procurement, employee vetting/recruitment, blue badge, student awards, grants and personal payments fraud). This will ensure sufficient prevention and investigative capacity remains once the investigation of benefit fraud transfers to SFIS.</p>

## Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><b>Senior Management Restructure</b>            The Chief Executive, Deputy Chief Executive and Corporate Director of Children's Services left the authority in December 2013.</p>	<p>Interim arrangements were established immediately and the Council has subsequently agreed and moved to a new structure of three Executive Directors (Corporate Resources, Wellbeing &amp; Community Health, and Place). The Executive Director for Corporate Resources is designated the Lead Executive Director and holds the statutory positions of Head of Paid Service and Section 151 Officer.</p> <p>Governance was discussed with the external auditor and in order to provide additional assurance a Deputy Section 151 Officer has been appointed. This officer has direct access to the Leader, Deputy Leader and Chair of the Audit Committee.</p> <p>This issue is now closed.</p>

## Annual Governance Statement

### 7. 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**

**Steven Mason**

**Lead Executive Director Corporate Resources**

**Alison Elsdon**

**Deputy 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 2014 under the Audit Commission Act 1998. The 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 1 to 60 (Authority), 1 to 13 (Housing Revenue Account), 1 to 4 (Collection Fund Account) and 1 to 20 (Group Accounts). 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 applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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 Lead Executive Director and auditor**

As explained more fully in the Statement of the Lead Executive Director's Responsibilities, the Lead Executive Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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 me 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Lead Executive Director; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 2014 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, 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 2013/14.

## 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 2014 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 2013/14.

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.

## Respective responsibilities of the Lead Executive Director and auditor

As explained more fully in the Statement of the Lead Executive Director's Responsibilities, the Lead Executive Director is responsible for the preparation of the Authority and Group's Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the

## **Independent Auditors' Report to the Members of Northumberland County Council**

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 me 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 Lead Executive Director; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the 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 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **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.

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

#### *Respective responsibilities of the Authority and the auditor*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

# Independent Auditors' Report to the Members of Northumberland County Council

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, 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 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, 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 2014.

## **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 2014

### **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 (IAS 19 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 on any adverse matters. A requirement which is set out in the Constitution.

### Movement in Reserves Statement

Statement showing whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

### National Non-Domestic Rates

The government levies a standard rate on all properties used for commercial purposes. The rates are collected on behalf of the government by District and Unitary Councils, and are then redistributed nationally on the basis of resident population. This is paid by way of a general grant to local authorities, to support local authority revenue expenditure.

### Net Book Value

The amount at which fixed assets are included in the Balance Sheet i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

### Net Debt

This comprises cash in hand, cash overdrawn, short term investments and long term borrowing.

### Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### Net Realisable Value

The open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred realising the asset.

### Non Distributed Costs

Overhead costs for which no user now benefits so are not apportioned to services.

### Non Operational Assets

Fixed assets not used or consumed by the Council in the delivery of services or for the service or strategic objectives of the Council such as investment properties.

### **Operating Leases**

A lease other than a finance lease.

### **Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility for the service or strategic objectives of the Council.

### **Past Service Cost**

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

### **Pension Liabilities**

See scheme liabilities.

### **Precept**

The amount of money levied on the County Council by other public bodies.

### **Prepayments**

Amounts paid by the Council in the year of account that related to goods and services not received until subsequent years.

### **Private Finance Initiative**

Long term contracts with the private sector to procure the design, build and running of assets for the delivery of public services.

### **Property, Plant and Equipment**

Non-current assets that yield benefits to the Council and the services they provide for a period of more than one year.

### **Provisions**

Provisions represent sums set aside for any liabilities of uncertain amount or timing that have been incurred.

### **Rack Rent**

The full market rent of land or buildings.

### **Receipts in Advance**

Amounts received by the Council during the year of account relating to services delivered in subsequent years.

### **Remuneration**

All sums paid to or receivable by an employee, and includes sums due by way of expenses allowances (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash.

### **Reserves**

The surpluses built up in the Revenue Reserve. Except where specified for other purposes amounts may be used from reserves to reduce the Council tax precept.

### Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange in services rendered by employees.

### Revaluation Reserve

The accumulated gains in value on fixed assets held by the Council since 1 April 2007 less the part of depreciation charges that have been incurred because the assets have been valued.

### Revenue Expenditure

Revenue expenditure is spending on day to day running costs of the Council. It includes expenditure on employees, premises, transport and supplies & services.

### Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of fixed assets.

### Revenue Support Grant

A general grant paid by Central Government to local authorities, to support local authority revenue expenditure.

### Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

### Section 151 Officer

The Officer designated to assume overall responsibility for the administration of the financial affairs of the County Council and for the preparation of the Council's Statement of Accounts.

### Settlements and Curtailments (Pensions)

Settlements are liabilities settled at a cost materially different to the Pensions Reserve during the year. Curtailments represent the cost arising from early payment of accrued pensions in respect of any redundancies during the year.

### Service Reporting Code of Practice (SeRCOP)

The SeRCOP replaced the Best Value Accounting Code of Practise (BVACOP) on the 1<sup>st</sup> 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 SeRCOP will support the objective to establish the widest range of financial reporting requirements, in order that data consistency and comparability are achieved. SeRCOP 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 IAS 26

Northumberland County Council Pension Fund

<b>Prepared for</b>	Northumberland County Council, as Administering Authority to the Fund
<b>Prepared by</b>	Chris Archer FIA Aon Hewitt Ltd
<b>Date</b>	23 May 2014

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## 1 Introduction

**Addressee** This report sets out pension cost information required by Northumberland County Council in its capacity as Administering Authority to the Fund (the "Administering Authority") in order to meet their disclosure requirements in relation to their pension obligations as specified by the accounting standard, IAS 26.

We have carried out this work in relation to benefits payable from the Northumberland County Council Pension Fund (the "Fund").

**Related Documents** The advice provided in this report is supported by advice contained in the following documents:

- IAS 26 Terms of Reference dated 27 March 2014 (the 'Terms of Reference').
- Advice in relation to the actuarial assumptions was provided by Aon Hewitt in a document dated 23 May 2014 ('Assumptions Advice').

In addition, the following document should be referred to which contains a more detailed description of the approach taken in valuing liabilities, further detail on the demographic assumptions and the treatment of data.

- Actuarial Valuation at 31 March 2013 – Northumberland County Council Pension Fund dated 31 March 2014 (the '2013 Valuation').

**Background** The Code of Practice indicates that the Fund accounts for the year ending 31 March 2014 should disclose the "actuarial present value of the promised retirement benefits" as set out in IAS 26 and that the actuarial present value should be calculated on assumptions set in accordance with IAS 19 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 27 March 2014. Option C requires the actuarial valuation of the liabilities on an IAS 19 basis to be prepared at formal triennial valuations only, the most recent being as at 31 March 2013. Under Option C this, together with other related information, should be disclosed in an actuarial report which will accompany the notes to the accounts.

The calculations contained in this document have been carried out on a basis consistent with our understanding of IAS 19.

I confirm that I am a Fellow of the Institute and Faculty of Actuaries.

**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.
- 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 sets out compliance and legal considerations.

**Methodology**

The approach to our calculations under the various options was set out in the Terms of Reference.

Comments on the methodology as it applies to IAS 26 are set out as Appendix B.

## 2 Information Required for IAS 26

**Introduction** IAS 26 requires the "actuarial present value of the promised retirement benefits" to be disclosed, which is the IAS 26 terminology for what IAS 19 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 6.5.2.7 of CIPFA's Code of Practice on local authority accounting for 2013/14 sets out that the actuarial present value of promised retirement benefits based on projected salaries should be disclosed.

The results at as 31 March 2013, together with the 2010 figures 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 IAS 19 assumptions. We do not believe the Authority needs to show the 2010 figures under IAS 26 if it does not wish to do so. The Code of Practice is not clear if the fair value of assets and the surplus / deficit at 31 March 2013 also needs to be disclosed but you may want to include these figures for clarity.

	<b>Value as at 31 March 2013 £M</b>	<b>Value as at 31 March 2010 £M</b>
Fair value of net assets	914.4	719.0
Actuarial present value of the promised retirement benefits	1,281.2	1,209.3
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(366.8)	(490.3)

**Assumptions**

The latest full triennial actuarial valuation of the Fund's liabilities in accordance with the requirements of IAS 26 took place at 31 March 2013. The principal assumptions used by the Fund's independent qualified actuaries were:

	<b>31 March 2013</b>	<b>31 March 2010</b>
	<b>(% p.a.)</b>	<b>(% p.a.)</b>
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment*	2.4	3.9
Rate of increase to deferred pensions*	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

\* *In excess of Guaranteed Minimum Pension increases in payment where appropriate*

\*\* *In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.*

**Principal demographic assumptions**

<b>Post retirement mortality</b>	<b>31 March 2013</b>	<b>31 March 2010</b>
<b>Males</b>		
Base table	Standard SAPS Normal Health All Amounts tables (S1NMA)	Standard SAPS Normal Health All Amounts tables (S1NMA)
Scaling to above base table rates **	100%	115%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5% p.a.	CMI 2009 with a long term rate of improvement of 1.25% p.a..
Future lifetime from age 65 (currently aged 65)	22.8	22.1
Future lifetime from age 65 (currently aged 45)	25.0	24.0

<b>Females</b>		
Base table	Standard SAPS Normal Health All Amounts tables (S1NFA)	Standard SAPS Normal Health All Amounts tables (S1NFA)
Scaling to above base table rates **	100%	100%
Allowance for future improvements	CMI 2012 with a long term rate of improvement of 1.5%	CMI 2009 with a long term rate of improvement of 1.25%
Future lifetime from age 65 (currently aged 65)	25.3	24.3
Future lifetime from age 65 (currently aged 45)	27.6	26.3

\* 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

	<b>31 March 2013</b>	<b>31 March 2010</b>
<b>Commutation</b>	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

**Changes in benefits during the accounting period** There have been no changes in benefits during the accounting period. No allowance has been made in our calculations for the new Scheme benefits accruing from 1 April 2014.

**Key risks associated with reporting under IAS 26**

**Volatility of results**

Results under IAS 26 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while a significant proportion 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 pension fund.

If at any time during the year you want us to provide you with an update of the IAS 26 position, please let us know.

**Choice of accounting assumptions**

The calculation of the actuarial present value of the promised retirement benefits involves projecting future cash-flows from the Fund many years into the future. This means that the assumptions used can have a material impact on the surplus / deficit. As such, the Administering Authority should ensure that it understands the reasoning behind the assumptions adopted and are comfortable that they are appropriate.

Furthermore, the Administering Authority should bear in mind that, as required by the accounting standard, the assumptions (with the exception of the discount rate) have been set so that they represent a best estimate of future experience from the Fund. In practice future experience within the Fund may not be in line with the assumptions adopted. This means that the liabilities shown in this report only represent one view of the future and the true position could be different from those shown. For example members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculations.

**Sensitivity of results to key assumptions**

In order to understand the magnitude of the possible volatility in the balance sheet position and to understand which assumptions are most important in determining the size of the liabilities, it is helpful to understand how sensitive the results are to key assumptions.

The revised version of IAS 19 requires entities to disclose information about the sensitivity of the defined benefit obligation to changes in key assumptions although it is not clear that IAS 26 or the CIPFA Code of Practice requires this information. Please let us know if you require this information.

**GMP equalisation**

The Government intends that GMPs will be equalised in due course. At present it is not appropriate to allow for this in the accounts because the methodology for implementing the equalisation is uncertain. However, once the methodology is clarified, the defined benefit obligation will increase and it is likely that the associated cost will need to be recognised through the

profit and loss account. As such, a risk exists as to the magnitude of the impact of equalising GMPs.

## Appendix A Data Summary

**Active members at 31 March 2013**

		<b>Number</b>	<b>Average age</b>	<b>Total Pensionable Pay (£000 p.a.)</b>	<b>Average Pensionable Pay (£ p.a.)</b>	<b>Average service (years)</b>
<b>Men</b>	<b>2013</b>	<b>2,175</b>	<b>46.8</b>	<b>50,193</b>	<b>23,077</b>	<b>13.5</b>
	2010	2,369	46.4	53,296	22,497	13.5
<b>Women</b>	<b>2013</b>	<b>5,565</b>	<b>46.2</b>	<b>77,114</b>	<b>13,857</b>	<b>7.2</b>
	2010	6,079	45.2	79,053	13,004	6.6
<b>Total</b>	<b>2013</b>	<b>7,740</b>	<b>46.4</b>	<b>127,307</b>	<b>16,448</b>	<b>8.9</b>
	2010	8,448	45.5	132,349	15,666	8.5

*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 2013**

		<b>Number</b>	<b>Average age</b>	<b>Total pension (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2013</b>	<b>1,924</b>	<b>44.9</b>	<b>4,374</b>	<b>2,273</b>
	2010	1,758	44.5	3,529	2,008
<b>Women</b>	<b>2013</b>	<b>5,658</b>	<b>45.7</b>	<b>6,187</b>	<b>1,093</b>
	2010	4,857	44.6	4,526	932
<b>Total</b>	<b>2013</b>	<b>7,582</b>	<b>45.5</b>	<b>10,561</b>	<b>1,393</b>
	2010	6,615	44.5	8,055	1,218

*Note: The deferred pensions include increases granted in April 2013 (2010).*

*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 2013**

		<b>Number</b>	<b>Average age</b>	<b>Total pensions (£000 p.a.)</b>	<b>Average pension (£ p.a.)</b>
<b>Men</b>	<b>2013</b>	<b>2,727</b>	<b>70.0</b>	<b>22,428</b>	<b>8,225</b>
	2010	2,532	69.4	19,166	7,570
<b>Women</b>	<b>2013</b>	<b>3,683</b>	<b>69.4</b>	<b>11,892</b>	<b>3,229</b>
	2010	3,291	68.6	9,444	2,870
<b>Dependants</b>	<b>2013</b>	<b>967</b>	<b>76.2</b>	<b>2,755</b>	<b>2,849</b>
	2010	943	76.5	2,344	2,485
<b>Total</b>	<b>2013</b>	<b>7,377</b>	<b>70.5</b>	<b>37,075</b>	<b>5,026</b>
	2010	6,766	70.0	30,954	4,575

*Note: The pensions include increases granted in April 2013 (2010).*

*The 2013 figures include 54 children (2010: 45) who are in receipt of pensions. Suitable allowance has been made for these in our calculations.*

## Appendix B Explanation of actuarial methods used

<b>Benefits valued</b>	<p>Our calculations relate to benefits payable from the Fund (as 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.</p> <p>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 2013 and 31 March 2010.</p> <p>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 IAS 19 figures prepared for individual employers within the Fund.</p>
<b>Data</b>	<p>The valuation of accrued pension benefits for IAS 26 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.</p> <p>This information was supplied by the Administering Authority for the 2013 and 2010 formal actuarial valuations of the Fund in the form of a standardised data extract from the Authority's administration systems.</p> <p>The formal valuation process (which is a precursor to the valuation for IAS 26 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.</p> <p>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.</p> <p>We can confirm that no data issues were identified at either the 2013 or the 2010 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 IAS 19 (IAS 26) figures.</p>
<b>Assumptions</b>	<p>IAS 19 sets out the following general requirements for the setting of assumptions:</p> <ul style="list-style-type: none"> <li>▪ Actuarial assumptions shall be unbiased and mutually compatible; and</li> <li>▪ Financial assumptions shall be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.</li> </ul>

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 referred to in the Related Documents section.

**Method and calculations**

The figures at 31 March 2013 have been based on a full calculation of the liabilities using the same method as for the full 2013 triennial valuation Fund, but with IAS 19 financial assumptions used.

**Assets**

IAS 19 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 2013.

**Treatment of Risk Benefits**

To value the risk benefits we have valued service related benefits based on service completed to the date of calculation 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 IAS 19 disclosures. If the Fund wishes the administration expenses to be treated in a different way they should discuss this further with their auditor and ourselves.

**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 recognised by employing organisations in their accounts. We do not believe it has any relevance to IAS 26.

**Appendix C Compliance and Disclaimer**

**Compliance with actuarial standards** This report should be read in conjunction with the supporting documents listed in Section 1.

This report and the work related to it, is subject to and complies with the Financial Reporting Council Limited's Pensions Technical Actuarial Standard and the Technical Actuarial Standards on reporting actuarial information, data and modelling.

The results of the calculations provided in this document constitute a valuation exercise.

**Disclaimer** The calculations contained in this report have been made on a basis consistent with our understanding of IAS 19 and IAS 26. 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 IAS 26, which we present in this report, have any relevance beyond the scope of the Financial Reporting Standards requirements.

This report is prepared on the instructions of the Administering Authority as appropriate ("you" or "your") in relation to the preparation of IAS 26 figures for the Administering Authority's financial reporting as at the accounting date. It has been prepared at this date, for the purpose and on the basis set out in this report and for the benefit and use of the Administering Authority.

This report should not be used or relied upon by any other person for any other purpose including, without limitation, other professional advisers, including your auditors and accountants ("third parties" or "third party"), to the Administering Authority. All third parties are hereby notified that this report 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 report.

We neither warrant nor represent (either expressly or by implication) to any third party who receives this report 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 report should be reproduced, distributed or communicated to any other person other than to meet any statutory requirements and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the Administering Authority as appropriate.

We recognise that your auditors may request you directly to see a copy of our report, as part of their audit process and under statutory requirements. We agree that you may release our report to those auditors for such purpose however in making such disclosure, you shall ensure that this disclaimer remains attached to this report, and you further agree that you shall ensure that your auditors have read

this disclaimer. For the avoidance of doubt, if we are approached directly by any third party for copies of this report or requested to answer queries about the report, we will require such third party to accept a third party release non-reliance letter agreeing that we did not prepare the report for the third party and we do not accept any legal obligations to them. Please rest assured that this approach does not affect our contractual obligations to you as our client, with whom we continue to hold a duty of care in accordance with our terms of engagement.

This report 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 report, 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 report and Appendix A.