



Statement of Accounts
2014 - 2015

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Explanatory Foreword

1. Introduction

The following Statement of Accounts for Northumberland County Council presents the overall financial performance and position of the Council for the year ended 31 March 2015 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 2014-2015; 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 and Arch).

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 Chief Executive, County Hall, Morpeth, Northumberland, NE61 2EF.

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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 2014-2015

Revenue

2014-2015 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 £281.04 million for 2014-2015 after taking account of the ring-fenced Dedicated Schools Grant of £163.32 million, the New Homes Bonus Grant of £3.40 million, and Education Services Grant of £4.44 million. Efficiencies and other savings totalling £32.50 million were needed in order to arrive at a balanced position after assessing what was required in terms of spending capacity to

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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	76,539
Council Tax	143,282
Retained Business Rates	61,218
	281,039

The net impact on the General Fund in 2014-2015 was a transfer of £1.84 million to fund the overall net revenue position. This reduction was a consequence of a number of factors, including the utilisation of £2.07 million to cover a number of pressures within the Local Services Group, the most significant being the phasing of the withdrawal of post 16 funding. The final position also includes the setting aside of funds for a severe weather provision as recommended by the Department for Transport; and, the creation of a reserve to cover the Council's Estates Rationalisation as approved by the Policy Board on 25 March 2015.

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

	£'000
Balance as at 1 April 2014	28,472
Balance as at 31 March 2015	26,636
Change in year	(1,836)

The £26.64 million that the Council holds in the General Fund, combined with the useable reserves (as detailed in note 12) are considered sufficient to meet the funding shortfalls over the course of the Medium term Financial Plan.

The overall net worth of the Council has decreased by £56.46 million in the year. This is due to several factors including an increased Pension Fund liability and an increase in long term borrowing.

Capital

The original capital plan for 2014-2015 approved in February 2014 showed total planned gross expenditure of around £122.02 million, financed from a combination of Borrowing, External Grants, use of Reserves, Revenue Contributions and Capital Receipts. A further £74.64 million was added to the programme in respect of re-phased expenditure from 2013-2014, along with other in year additions of £71.78 million (primarily made up of capital advances to other organisations of £59.27 million) with expenditure incurred totalling £158.89 million.

Most notable amongst the projects were: Ashington Community and Leisure Facility, Schools' Planned Maintenance Programme, Fleet Replacement Programme, Highways' Local Transport Plan, Morpeth Northern Bypass, Street Lighting Replacement Programme, Morpeth Flood Alleviation, Broadband Implementation, Disabled Facilities Grants, Major Repairs Reserve, Affordable Housing Programme (HRA), and loans to Northumbria Healthcare NHS Foundation Trust and Arch.

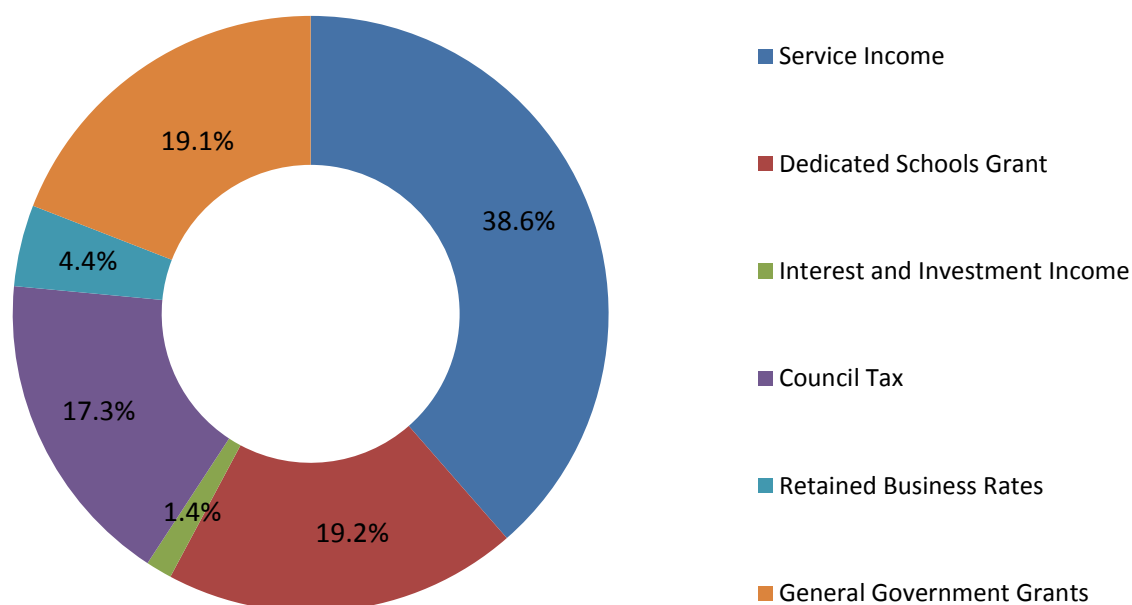
3. Income and Expenditure

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

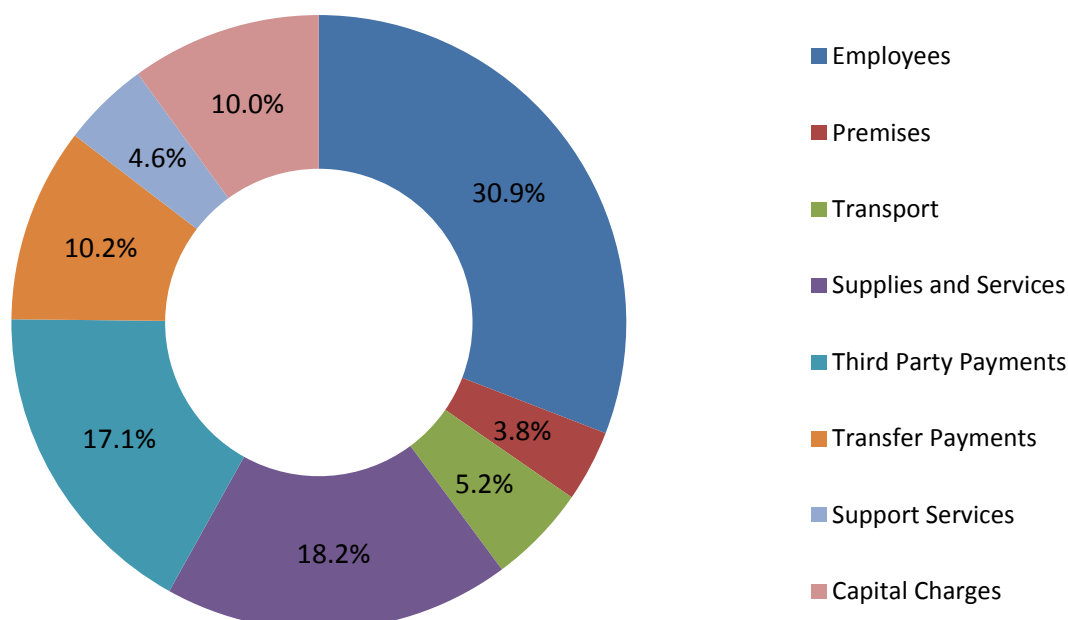
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for 79.5% of all income during the year with the remaining income being derived from other government grants and interest earned.



What the money was spent on

A large proportion of the Council's expenditure 30.9% is staff-related, 18.2% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 27.3%. The balance is mainly related to central costs and capital charges for the use of assets (depreciation and minimum revenue provision).

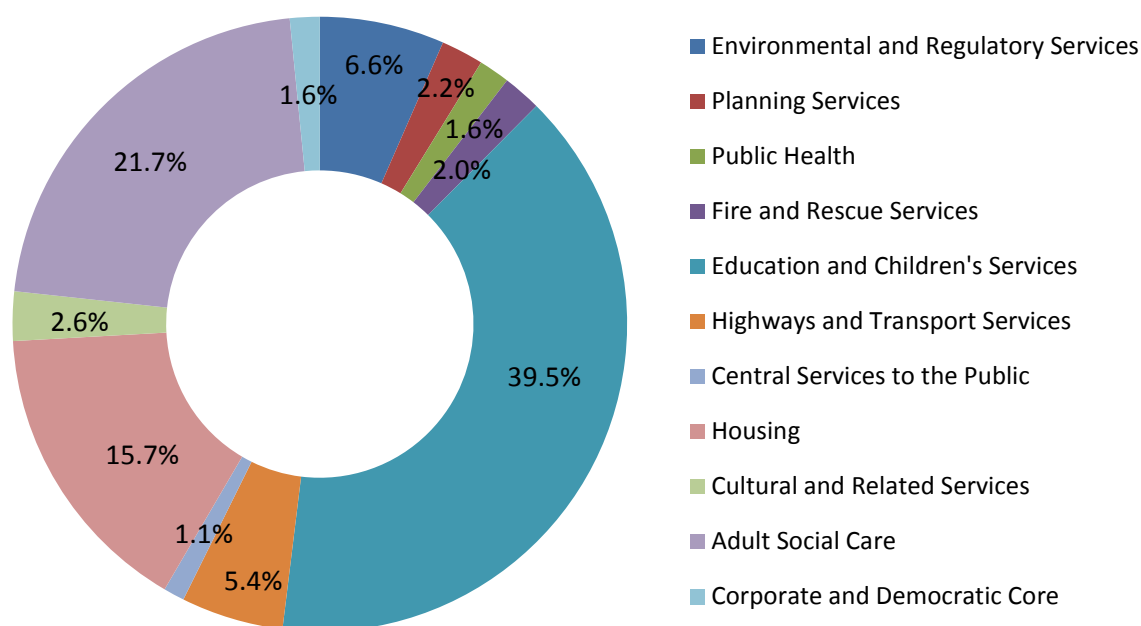


What services were provided?

Gross expenditure on the services provided by the Council is shown below. The service with the highest gross expenditure is Education and Children's Services, most of which is financed by the Dedicated Schools Grant. Adult Social Care has the second highest gross

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expenditure and the highest net expenditure. Housing Services has the third highest gross expenditure.



The Comprehensive Income and Expenditure Statement (page 10) and the Notes to the Financial Statements (pages 13 - 140) 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 £158.89 million of capital expenditure comprising £141.85 million of asset additions (including £59.27 million in respect of capital long term debtors) and £17.05 million Revenue Expenditure to be Financed from Capital under Statute (REFCUS). The REFCUS figure is net of an adjustment, which has been reversed, totalling £4.39 million in respect of equal pay claims. (A capitalisation direction is a directive issued by the Secretary of State allowing expenditure, that would otherwise be classed as revenue, to be capitalised). The expenditure can be broadly summarised as follows:

Project	£'000
Adult Services	781
Council and Commercial Property Improvements	5,439
Culture, Leisure and Tourism	13,172
Finance - Capital Loans/Investment	54,881
Fire Services Modernisation	1,522
Highways and Transport	38,491
Housing (HRA and General Fund)	20,320
Information Services	8,134
Regeneration	3,239
Schools and Children's Services	12,909

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5. Finance for Capital Expenditure

The main sources of finance for capital expenditure were borrowing of £92.47 million (58.2%), capital grants of £47.29 million (29.8%), Major Repairs Allowance of £7.83 million (4.9%), contributions from revenue of £6.68 million (4.2%) and use of capital receipts of £4.62 million (2.9%).

6. Treasury Management Activities

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

	31 March 2015	
	Principal £'000	Rate/Return %
Public Works Loans Board	297,070	3.32
Market LOBOs	260,600	4.10
Short Term Market Loan	108,273	1.37
Total Debt	665,943	3.28
Investments excluding Impaired Deposits and In-House Funds	234,350	1.46
Total Investments	234,350	1.46

The Council borrowed to fund the capital programme and to replace the repayment of £84 million of maturing loans in line with authorised limits. New long term loans of £100 million were taken between October and December 2014, when borrowing rates dropped to historically low levels. £108 million of shorter term borrowing was also taken out. However, the total borrowing figure increased by £124 million as loans were taken later in the year and at lower rates than forecast. Borrowing costs were also lower than anticipated.

Investment balances increased during the year by £82 million mainly due to slippage in capital expenditure. 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 while remaining within the authorised levels of security and liquidity.

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. Although market rates remain low the Council has achieved higher than average interest rates on its investments during the period.

The Council had £23 million deposited with the Icelandic banks and their UK subsidiaries when they went into administration in October 2008. As it was anticipated that it would be many years before final settlement was received the Council sold the outstanding claims in 2014-2015. £22 million has therefore been recovered. £1.5 million of the £22 million remains in an Icelandic interest earning account as it was paid in Icelandic Krona and at the moment cannot be removed from the country.

7. Significant charges in the accounts

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

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The amounts include a charge of £2.50 million that relates to the creation of a severe weather reserve. This is in line with the Department for Transport's recommendation that local highways authorities should ensure they retain a contingency for repairing damage to local highways and associated assets caused by incidents such as extreme weather that may occur from time to time.

There has been a charge of £23.93 million in relation to the creation of a new reserve to fund future one off costs that will arise as the Council implements its estates rationalisation programme. This was approved at the Policy Board meeting on 25 March 2015.

Part of the provision totaling £4.39 million in relation to Equal Pay has been reversed to the Comprehensive Income and Expenditure Statement following a review of the claim outstanding and a detailed calculation of the 2010-2011 liability.

8. Pension Deficit

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

At 31 March 2015 the County Council's net liability for future pension costs was £677.56 million. Sixty three 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 2014-2015 was set on the basis of the actuarial valuation of the Fund as at 31 March 2013. This set the rate payable for the three years ending 31 March 2017 with an aim to fully fund the liabilities within approximately 22 years.

9. Significant Changes in Accounting Policies

There are no significant changes to the Code of Practice that impact on the accounting policies of the Council for 2014-2015.

Movement in Reserves Statement

for the year ended 31 March 2015

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 2015

	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 2013	(29,780)	(81,603)	(14,128)	(577)	(16,287)	(1,218)	(143,593)	(25,294)	(168,887)
Movement in Reserves during 2013-2014:									
(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 Transfers to Earmarked Reserves	4,502	-	3,580	(801)	2,260	(94)	9,447	(83,135)	(73,688)
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)
Movement in Reserves during 2014-2015:									
(Surplus)/Deficit on the provision of services	(16,054)	-	(10,030)	-	-	-	(26,084)	-	(26,084)
Other Comprehensive Income & Expenditure	-	-	-	-	-	-	-	82,551	82,551
Total Comprehensive Income & Expenditure	(16,054)	-	(10,030)	-	-	-	(26,084)	82,551	56,467
Adjustments between accounting basis & funding basis under regulations (Note 11)	(2,958)	-	9,423	(896)	(1,595)	698	4,672	(4,672)	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(19,012)	-	(607)	(896)	(1,595)	698	(21,412)	77,879	56,467
Transfers to/(from) Earmarked Reserves (Note 12)	20,848	(20,848)	-	-	-	-	-	-	-
(Increase)/Decrease in 2014-2015	1,836	(20,848)	(607)	(896)	(1,595)	698	(21,412)	77,879	56,467
Balance at 31 March 2015 carried forward	(26,636)	(99,257)	(11,155)	(2,274)	(15,622)	(614)	(155,558)	(30,550)	(186,108)

Comprehensive Income and Expenditure Statement

for the year ended 31 March 2015

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 8).

	Note	2013-2014			2014-2015		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure £'000	Income £'000	Expenditure £'000	Expenditure £'000	Income £'000	Expenditure £'000
Adult Social Care		162,141	(73,068)	89,073	160,695	(75,333)	85,362
Central Services to the Public		9,232	(4,021)	5,211	8,180	(4,036)	4,144
Corporate and Democratic Core		14,928	(1,088)	13,840	11,579	(2,521)	9,058
Cultural and Related Services		24,932	(2,466)	22,466	19,155	(2,103)	17,052
Education and Children's Services		286,806	(221,036)	65,770	292,107	(225,262)	66,845
Environmental and Regulatory Services		51,340	(9,373)	41,967	48,562	(8,689)	39,873
Exceptional Costs of Equal Pay	9	239	-	239	(4,186)	-	(4,186)
Fire and Rescue Services		17,105	(2,610)	14,495	14,931	(12,586)	2,345
Highways and Transport Services		38,849	(5,866)	32,983	39,805	(7,212)	32,593
Local Authority Housing (HRA)		15,208	(29,263)	(14,055)	19,716	(31,330)	(11,614)
Non Distributed Costs		6,355	(1)	6,354	6,969	(126)	6,843
Other Housing Services		93,236	(89,898)	3,338	96,331	(92,076)	4,255
Planning Services		21,704	(4,851)	16,853	16,484	(3,601)	12,883
Public Health		12,684	(13,309)	(625)	12,086	(13,412)	(1,326)
Cost of Services		754,759	(456,850)	297,909	742,414	(478,287)	264,127
Other Operating Expenditure	13	52,864	(3,138)	49,726	19,938	(3,125)	16,813
Financing and Investment Income and Expenditure	14	68,745	(14,149)	54,596	59,166	(21,884)	37,282
Taxation and Non-Specific Grant Income	15	-	(337,039)	(337,039)	-	(344,306)	(344,306)
(Surplus) or Deficit on Provision of Services		876,368	(811,176)	65,192	821,518	(847,602)	(26,084)
(Surplus) or Deficit on Revaluation of Non Current Assets	16			(1,800)	-	-	551
Remeasurement of the Net Defined Benefit Liability (Asset)	47			(137,080)	-	-	82,000
Other Comprehensive Income and Expenditure				(138,880)			82,551
Total Comprehensive Income and Expenditure				(73,688)			56,467

Balance Sheet

as at 31 March 2015

The Balance Sheet shows the value as at 31 March 2015 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 2014 £'000	31 March 2015 £'000
Property, Plant and Equipment	16	1,148,041	1,173,920
Heritage Assets	17	8,210	8,210
Investment Property	18	3,861	3,543
Intangible Assets	19	2,941	4,065
Assets Held for Sale - non current	24	375	388
Long Term Investments	20	110,378	110,217
Long Term Debtors	20, 22	159,797	207,956
Long Term Assets		1,433,603	1,508,299
Intangible Assets	19	19	462
Short Term Investments	20	27,480	102,414
Assets Held for Sale - current	24	5,195	2,752
Inventories	21	1,076	724
Short Term Debtors	20, 22	77,448	76,988
Cash and Cash Equivalents	20, 23	35,896	43,541
Current Assets		147,114	226,881
Bank Overdraft	20, 23	(14,843)	(17,568)
Short Term Borrowing	20	(73,202)	(68,632)
Short Term Creditors	25	(53,068)	(55,950)
Provisions	26	(49,273)	(21,345)
Revenue Grants Receipts in Advance	40	(2,253)	(1,662)
Current Liabilities		(192,639)	(165,157)
Long Term Creditors - PFI	44	(83,327)	(81,720)
Long Term Borrowing	20, 50	(471,047)	(601,400)
Other Long Term Liabilities	47	(585,940)	(677,560)
Long Term Provisions	26	-	(13,930)
Capital Grants Receipts in Advance	20, 40	(5,189)	(9,305)
Long Term Liabilities		(1,145,503)	(1,383,915)
Net Assets		242,575	186,108
Usable Reserves	11, 12	134,146	155,558
Unusable Reserves	28	108,429	30,550
Total Reserves		242,575	186,108

Cash Flow Statement

as at 31 March 2015

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year to 31 March 2015 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	2013-2014 £'000	2014-2015 £'000
Net surplus/(deficit) on the provision of services		(65,192)	26,084
Adjustments to net surplus or deficit on the provision of services for non-cash movements	32	106,402	(60,242)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	33	(39,858)	(62,178)
Net cash flows from Operating Activities		1,352	(96,336)
Investing Activities	30	10,145	(24,957)
Financing Activities	31	(10,612)	126,213
Net (increase)/decrease in cash and cash equivalents		885	4,920
Cash and cash equivalents at the beginning of the reporting period		20,168	21,053
Cash and cash equivalents at the end of the reporting period	23	21,053	25,973

Notes to the Financial Statements

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Notes to the Financial Statements

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014-2015 financial year and its position at the year-end of 31 March 2015. 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 2014-2015 and the Service Reporting Code of Practice 2014-2015, 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
Service cost comprising:	
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.
Remeasurement comprising:	
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.

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- 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:

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- 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

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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 2014-2015 (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.

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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:

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Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	10, 20, 25, 26, 30, 35, 36, 37, 40 or 45 years (as determined by the valuation officers)
Infrastructure:	
Surface Dressing	10 years
Other	40 years
Vehicles, Plant and Equipment:	
Salt Barns	25 years
Solar Panels	25 years
Fire engines	10 to 15 years
Vehicles and equipment under finance lease	10 years
Other vehicles	5 to 10 years
Mobile Accommodation	10 years
Furniture and Fittings, IT	3 to 10 years
CCTV equipment	3 to 30 years
Refuse wagons / vehicles	3 to 10 years
Wheeled bins	4 to 9 years
Diggers / forklifts	11 years
Car parking machines	10 to 11 years
Bottle Bank / Bins	7 to 10 years
Air / Noise monitoring equipment	10 years
Grounds maintenance equipment	3 to 10 years
Play / sport / gym equipment	5 to 20 years
Street Furniture	10 years
PFI Assets:	
Buildings and Infrastructure	25 to 40 years
Waste Plant Shell & Equipment	3 to 50 years

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.20 Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge (with the exception of the energy from waste plant as it is deemed to have negligible value at the end of the period), the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

Notes to the Financial Statements

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge applied to the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.21 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Notes to the Financial Statements

Provision for Back Pay Arising from Unequal Pay Claims

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

1.22 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and do not represent usable resources for the Council – these reserves are explained therefore in the relevant policies below.

1.23 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the

Notes to the Financial Statements

General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.24 Value Added Tax (VAT)

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

1.25 Accounting for the Costs of the Carbon Reduction Commitment Scheme

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the initial year of its second phase, which ends on 31 March 2019. The authority is required to purchase allowances, either prospectively or retrospectively, and surrender them 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 authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

2. Change in Accounting Policy

There have been no changes to accounting policy during 2014-2015.

3. Changes in Accounting Estimates

The Equal Pay provision is now based on the outstanding claims received and a detailed estimate of the liability for 2010-2011; based on a set of equal pay claimants employed by the Council during that year. It has still not been agreed what the final settlement agreement for the 2010-2011 claims will be.

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

For 2014-2015, the accounting standards that have been published but which have not yet been adopted by the Code relate to:

- IFRS 13 Fair Value Measurement. This standard introduces a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions). The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. This will impact on the valuation of the affected assets but this is not expected to be material due to the low value of surplus assets held by the Council.
- IFRIC 21 Levies. This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. There is no impact for the Council.
- Annual Improvements to International Financial Reporting Standards (2011–2013 Cycle).

Notes to the Financial Statements

- IFRS 1: Meaning of effective IFRSs
- IFRS 3: Scope exceptions for joint ventures
- IFRS 13: Scope of paragraph 52 (portfolio exception)
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property.

These 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 PFI schemes and similar contracts have been applied to these arrangements and the associated assets (valued at £74.88 million for Waste and £13.11 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 £2.53 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).

Notes to the Financial Statements

- 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 2014-2015	Wellbeing and Community Health			Corporate Resources	Local Services			HRA	Total
	Adult Services	Children's Services	Public Health	Corporate Resources	Fire and Rescue	Local Services	Public Protection	HRA	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	(74,763)	(36,757)	(3)	(25,339)	(10,842)	(33,765)	(2,659)	(31,330)	(215,458)
Interest and Investment Income	-	-	-	(11,762)	-	-	-	(252)	(12,014)
Government Grants and Contributions	(668)	(201,084)	(13,409)	(91,938)	(1,779)	(4,813)	(28)	-	(313,719)
Total Income	(75,431)	(237,841)	(13,412)	(129,039)	(12,621)	(38,578)	(2,687)	(31,582)	(541,191)
Employee Expenses	28,916	173,507	703	41,204	11,713	31,515	4,757	21	292,336
Other Service Expenses	129,135	99,019	10,858	79,386	4,318	66,406	1,406	13,690	404,218
Support Service Recharges	2,025	10,205	546	12,834	997	7,352	924	931	35,814
Interest Payments	1	-	-	23,236	-	-	-	4,342	27,579
Precepts and Levies	-	-	-	7,982	-	-	-	-	7,982
Total Expenditure	160,077	282,731	12,107	164,642	17,028	105,273	7,087	18,984	767,929
Net Expenditure	84,646	44,890	(1,305)	35,603	4,407	66,695	4,400	(12,598)	226,738

Notes to the Financial Statements

Income and Expenditure 2013-2014	Adult Services	Children's Services	Finance	Fire & Rescue	HRA	Local Services	Public Health and Public Protection	Regener- ation	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)
Total Income	(75,108)	(238,719)	(113,793)	(3,038)	(23,456)	(62,509)	(16,141)	(462)	(27,682)	(560,908)
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
Total Expenditure	168,715	288,183	141,738	18,806	18,564	135,254	20,007	6,020	46,765	844,052
Net Expenditure	93,607	49,464	27,945	15,768	(4,892)	72,745	3,866	5,558	19,083	283,144

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.

	2013-2014	2014-2015
	£'000	£'000
Net expenditure in the Service Area Analysis	283,144	226,738
Net expenditure of services and support services not included in the Analysis	(8,418)	2,658
Amounts in the Comprehensive Income and Expenditure Statement not reported to management for decision making	46,281	58,513
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(23,098)	(23,782)
Cost of Services in Comprehensive Income and Expenditure Statement	297,909	264,127

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.

2014-2015	Service Area Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to managment for decision making £'000	Amounts not included in CIES £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(215,458)	9,082	-	99	41,021	(165,256)	(9,182)	(174,438)
Interest and investment income	(12,014)	140	-	12,014	-	140	(12,154)	(12,014)
Income from council tax	-	-	-	-	-	-	(145,743)	(145,743)
Government grants and contributions	(313,719)	549	-	-	-	(313,170)	(199,112)	(512,282)
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	(3,125)	(3,125)
Total Income	(541,191)	9,771	-	12,113	41,021	(478,286)	(369,316)	(847,602)
Employee expenses	292,336	(26,363)	(14,520)	-	-	251,453	50,504	301,957
Other service expenses	404,218	34,266	-	(334)	(41,021)	397,129	(33,932)	363,197
Support Service recharges	35,814	(8,748)	-	-	-	27,066	8,748	35,814
Depreciation, revaluation, amortisation and impairment	-	(6,268)	73,033	-	-	66,765	6,336	73,101
Interest Payments	27,579	-	-	(27,579)	-	-	27,579	27,579
Precepts & Levies	7,982	-	-	(7,982)	-	-	7,982	7,982
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	831	831
Gain or loss on Disposal of Non-Current Assets	-	-	-	-	-	-	11,057	11,057
Total Expenditure	767,929	(7,113)	58,513	(35,895)	(41,021)	742,413	79,105	821,518
(Surplus) or deficit on the provision of services	226,738	2,658	58,513	(23,782)	-	264,127	(290,211)	(26,084)

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

2013-2014	Service Area Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to managment for decision making £'000	Amounts not included in CIES £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'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)
Total Income	(560,908)	50,847	(383)	7,797	45,797	(456,850)	(354,326)	(811,176)
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
Total Expenditure	844,052	(59,265)	46,664	(30,895)	(45,797)	754,759	121,609	876,368
(Surplus) or deficit on the provision of services	283,144	(8,418)	46,281	(23,098)	-	297,909	(232,717)	65,192

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 2015 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 2015 was £1,173.92 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 decreased its Equal Pay Provision by £4.39 million in 2014-2015 bringing the total amount provided for since 2008-2009 to £13.60 million. Of this, £2.53 million remains on the balance sheet as at 31 March 2015 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 £1.36 million to the provision needed.
Pensions Liability	At 31 March 2015, the Council had a net pensions liability of £677.56 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	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 £25.95 million.

Notes to the Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	However, the assumptions interact in complex ways. During 2014-2015, the Council's actuary advised that the net pensions liability for funded LGPS benefits had decreased by £9.32 million due to changes in demographic assumptions and experience, and increased by £152.59 million due to changes in actuarial assumptions.
Arrears	At 31 March 2015, the Council had a balance of sundry debtors of £8.37 million. A review of significant balances suggested that an impairment of doubtful debts of 12.2% (£1.02 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 £2.04 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. Material Items of Income and Expense

Exceptional Item Equal Pay

A reduction to the Provision has been made during 2014-2015 in relation to equal pay, the credit to the Comprehensive Income and Expenditure Statement is £4.19 million (£4.39 million in respect of a reduction to the provision and £0.20 million in relation to additional administration costs). In previous years the costs were deferred from being charged to the General Fund under Regulation 31A of the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2003/3146 by the creation of an Equal Pay Back Pay Account pending actual payment of the claims. This reduction has been met through a reversal of these entries. It is now anticipated that the total provision required as at 31 March 2015 will be £2.53 million based on the outstanding claims to date and a detailed estimate of the liability for 2010-2011.

10. Events After the Reporting Period

The Statement of Accounts will be authorised for issue by the Chief Executive on 30 September 2015. 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 existed at 31 March 2015, 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 2015:

Academy Conversions

Prudhoe St. Matthew's Catholic Primary School converted to an academy on 1 April 2015. The Property, Plant and Equipment line in the Balance Sheet contains valuations totalling £0.01 million for the school which transferred out of Council ownership. The Usable Reserves for the Council includes £0.03 million in relation to this school.

Notes to the Financial Statements

Homes for Northumberland

Policy Board met on the 9 December 2014 and considered a report that reviewed the future arrangements for the management of the Council's housing stock. At its meeting on the 9 June 2015 the Cabinet of the Council agreed to terminate the arm's length management arrangement for its housing stock and establish an integrated housing management structure within the Council with effect from 1 September 2015.

Active Northumberland

Following a review of the delivery of Cultural Services of the Council the responsibility and provision of Culture, Libraries and Tourism has been transferred under a management agreement to Active Northumberland with effect from 1 April 2015; with a clear brief to modernise services and to identify options for future service delivery. As part of the drive to integrate all services within the leisure and cultural sector, the strategic management of all open spaces has also transferred to Active Northumberland.

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 8.

Notes to the Financial Statements

2014-2015

	Usable Reserves					
	General	Housing	Capital	Capital	Major	Movement
	Fund	Revenue	Receipts	Grants	Repairs	in
	Balance	Account	Reserve	Unapplied	Reserve	Unusable
	£'000	£'000	£'000	£'000	£'000	Reserves
						£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(33,634)	(7,194)	-	-	-	40,828
Revaluation (losses)/gains on Property Plant and Equipment	(2,914)	2,428	-	-	-	486
Movements in the market value of Investment Properties	(312)	-	-	-	-	312
Amortisation of intangible assets	(814)	-	-	-	-	814
Capital grants and contributions applied	41,218	2,542	-	-	-	(43,760)
Revenue expenditure funded from capital under statute	(17,047)	-	-	-	-	17,047
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	(21,271)	(103)	-	-	-	21,374
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	17,015	-	-	-	-	(17,015)
Capital expenditure charged against the General Fund and HRA balances	2,049	4,635	-	-	-	(6,684)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,126	-	-	(5,126)	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	3,531	-	(3,531)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	11,042	-	(11,042)	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	4,615	-	-	(4,615)
Voluntary set aside of Capital Receipts to repay debt	-	-	7,613	-	-	(7,613)

Notes to the Financial Statements

2014-2015

	Usable Reserves					
	General	Housing	Capital	Capital	Major	Movement
	Fund	Revenue	Receipts	Grants	Repairs	in
	Balance	Account	Reserve	Unapplied	Reserve	Unusable
	£'000	£'000	£'000	£'000	£'000	Reserves
						£'000
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	(97)	-	97	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(831)	-	831	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(3,010)	-	-	3,010
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	2,489	-	-	-	-	(2,489)
Transfer to the Capital Receipts Reserve upon receipt of cash	(41)	-	-	-	-	41
Adjustment primarily involving the Major Repairs Reserve						
Reversal of Major Repairs Allowance credited to the HRA	-	7,131	-	-	(7,131)	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	-	7,829	(7,829)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(980)	-	-	-	-	980
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(48,277)	(73)	-	-	-	48,350
Employer's pensions contributions and direct payments to pensioners payable in the year	38,673	57	-	-	-	(38,730)
Adjustments primarily involving the Collection Fund Adjustment Account:						
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	4,301	-	-	-	-	(4,301)

Notes to the Financial Statements

2014-2015	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
Adjustment primarily involving the Unequal Pay Back Pay Adjustment Account:						
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,347	-	-	-	-	(1,347)
Total Adjustments	(2,958)	9,423	(896)	(1,595)	698	(4,672)

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
	£'000	£'000	£'000	£'000	£'000	Reserves
						£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(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
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
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)
Adjustments primarily involving the Capital Grants Unapplied Account:						
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)
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	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 Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(943)	-	943	-	-	-
Transfer from Deferred Capital Receipts Reserve	-	-	(467)	-	-	467
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	-	-	(68)	-	-	68
Transfer to the Capital Receipts Reserve upon receipt of cash	(38)	-	-	-	-	38
Adjustment primarily involving the Major Repairs Reserve						
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)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(703)	-	-	-	-	703
Adjustments primarily involving the Pensions Reserve:						
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)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(2,303)	-	-	-	-	2,303

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

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 2014-2015.

	2013-2014			2014-2015			
	Balance as at 1 April 2013	Transfers Out	Transfers In	Balance as at 31 March 2014	Transfers Out	Transfers In	Balance as at 31 March 2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund Reserves:							
Adults Services	9,737	(27)		9,710	(3,891)	-	5,819
Balances held by schools under a scheme of delegation	9,685	(3,484)	2,843	9,044	(760)	584	8,868
Contingency Reserve	20,541	-	-	20,541	-	-	20,541
Deprived Seaside Reserve	186	(87)	-	99	(99)	-	-
Estates Rationalisation	-	-	-	-	-	23,934	23,934
Homefinders	-	-	-	-	-	76	76
Insurance Reserve	9,040	(86)	-	8,954	(426)	-	8,528
Invest to Save	3,931	(362)	-	3,569	(375)	-	3,194
Local Authority Mortgage Scheme	121	-	85	206	-	85	291
Market Traders' Levy	4	(4)	5	5	(5)	6	6
NCC Economic Regeneration Reserve	164	-	-	164	-	-	164
NCC Fire and Rescue PFI Sinking Fund	914	-	-	914	-	-	914
NCC Waste PFI Sinking Fund Reserve	10,989	(1,846)	-	9,143	(2,598)	-	6,545
Neighbourhood Partnerships	-	-	-	-	-	76	76
Pension Cost Reserve	2,970	-	-	2,970	-	-	2,970
Planning Delivery Grant	282	-	270	552	-	-	552
Revenue Grants	7,634	(7,634)	9,157	9,157	(9,157)	11,276	11,276
Rural Growth Network	3,143	(2,348)	-	795	(461)	-	334
Section 106 Reserve	1,347	(355)	1,110	2,102	(438)	631	2,295
Severe Weather Reserve	-	-	-	-	-	2,500	2,500

Notes to the Financial Statements

	2013-2014			2014-2015			
	Balance as at 1 April 2013	Transfers Out	Transfers In	Balance as at 31 March 2014	Transfers Out	Transfers In	Balance as at 31 March 2015
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transformation Projects	420	(420)	-	-	-	-	-
	81,108	(16,653)	13,470	77,925	(18,210)	39,168	98,883
Transferred from the Borough and District Councils:							
ADC Housing Capital	201	-	-	201	-	-	201
ADC Parks & Open Spaces	215	(19)	-	196	(110)	-	86
ADC Section 106 Monies	79	-	8	87	-	-	87
	495	(19)	8	484	(110)	-	374
Total General Fund Reserves	81,603	(16,672)	13,478	78,409	(18,320)	39,168	99,257
HRA Account:							
Major Repairs Reserve	1,218	-	94	1,312	(698)	-	614
Total Reserves	82,821	(16,672)	13,572	79,721	(19,018)	39,168	99,871

Notes to the Financial Statements

Adults Services Reserve

This reserve is funded from the Adult Services revenue budgets to support future service reconfiguration. During 2014-2015 £3.81 million was utilised to fund cost pressures within Wellbeing and Community Health and £0.08 million was transferred out to the Homefinders Reserve.

Balances Held by Schools under a Scheme of Delegation

The School Balances Reserve of £8.87 million includes school balances of £7.31 million (£7.57 million in 2013-2014), 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 £1.56 million (£1.47 million in 2013-2014). The school balances are made up as follows:

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Unspent Balances	8,631	7,934
Overspent Balances	(1,000)	(592)
Loan Outstanding	(57)	(37)
	7,574	7,305

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 2015 there were two loans outstanding of £0.04 million (2013-2014: £0.06 million) for Morpeth Chantry Middle School £0.02 million and Morpeth Abbeyfields First School £0.02 million.

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

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. The reserve was fully expended in 2014-2015.

Estates Rationalisation

This reserve has been created to cover the future costs arising from the Council's estates rationalisation programme and was agreed by Policy Board 25 March 2015.

Homefinders

This balance was previously included within Adults' and Housing services but following the creation of the service 'Planning, Economy and Housing' this is now shown separately.

Notes to the Financial Statements

The balance was transferred from Homes for Northumberland when the Homefinder service came back into the Council and is to be used to contribute to the development of the Homefinder Service, including the management of the Housing Register and the Homelessness module.

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 2015 is £8.53 million (31 March 2014 £8.95 million) and is assessed as sufficient to cover unforeseen levels of claim settlements in future years.

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

Additional funds have been provided for in previous years to cover potential liabilities arising from the Council's exposure resulting from the deterioration in MMI's financial position. An initial payment was 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 2015.

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.

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 2014-2015 £0.08 million was received by the Council.

Market Traders' Levy

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

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

Notes to the Financial Statements

key areas within the Economic Regeneration Strategy: inward investment, support for existing companies, key projects in communities and development opportunities or major projects.

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

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 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 2014-2015 £2.60 million was utilised to fund expenditure.

Neighbourhood Partnerships

This reserve was created to hold unspent funds in relation to various neighbourhood partnerships.

Pension Cost Reserve

This reserve is used to hold sums to offset the pension liabilities of staff transferring to Northumbria Healthcare NHS Foundation Trust.

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 and will be utilised during 2015-2016.

Revenue Grants Reserve

Revenue government grants on occasion are paid to local authorities but have a number of conditions attached to them. 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.

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. Funding 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.

Notes to the Financial Statements

The scheme commenced on 1 October 2012 and is scheduled for completion in October 2015.

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 2014-2015 £0.63 million was received from developers with £0.44 million used to fund schemes.

Severe Weather Reserve

This reserve was created following the Department for Transport's recommendation that local highways authorities ensure they retain a contingency for repairing damage to local highways and associated assets caused by incidents such as extreme weather that may occur from time to time.

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.

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 2014-2015.

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. £0.1 million was utilised during 2014-2015.

Alnwick District Council – Section 106 Monies

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

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

	2013-2014	2014-2015
	£'000	£'000
Parish and other precepts	6,090	7,982
Payments to the Government Housing Capital Receipts Pool	943	831
Downward Valuation of Assets Held for Sale	381	68
Losses on the disposal of non-current assets	42,312	7,932
Total net operating expenditure	49,726	16,813

14. Financing and Investment Income and Expenditure

	2013-2014	2014-2015
	£'000	£'000
Interest payable and similar charges	25,754	27,579
Pensions interest cost and expected return on pensions assets	29,170	24,140
Interest receivable and similar income	(7,691)	(12,014)
(Surplus)/Deficit on trading undertakings	8,417	(2,658)
Income and expenditure in relation to investment properties and changes in their fair value	(1,054)	235
Total Financing and Investment Income and Expenditure	54,596	37,282

15. Taxation and Non-Specific Grant Income

	2013-2014	2014-2015
	£'000	£'000
Council tax income	(139,123)	(145,743)
Non domestic rates	(34,628)	(37,349)
Non-ring fenced government grants	(126,451)	(112,328)
Capital grants and contributions	(36,837)	(48,886)
Total Taxation and Non Specific Grant Income	(337,039)	(344,306)

Notes to the Financial Statements

16. Property, Plant and Equipment

Movements in 2014-2015:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation:									
At 1 April 2014	251,816	502,707	132,592	371,331	9,616	11,434	37,399	1,316,895	91,391
Additions	13,350	11,032	8,293	17,159	1	146	33,399	83,380	1,052
Reclassifications	6,757	1,195	1,013	3,531	37	7,593	(21,821)	(1,695)	-
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve	-	(12,031)	-	-	-	873	-	(11,158)	4,949
Revaluation Increases/(Decreases) recognised in the Surplus/(Deficit) on the Provision of Services	(4,702)	(6,136)	-	-	-	(1,290)	-	(12,128)	9,453
De-recognition - Disposals	(1,258)	(2,078)	(5,078)	-	-	(95)	(1,081)	(9,590)	-
De-recognition - Other	(104)	(8,943)	-	-	-	-	-	(9,047)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(62)	-	(62)	-
At 31 March 2015	265,859	485,746	136,820	392,021	9,654	18,599	47,896	1,356,595	106,845
Accumulated Depreciation and Impairment:									
At 1 April 2014	-	39,180	34,675	93,356	1,168	475	-	168,854	16,604
Depreciation/Impairment charge	7,131	13,828	8,857	10,721	124	167	-	40,828	3,963
Reclassifications	-	(755)	-	-	-	755	-	-	-
Depreciation written out to the Revaluation Reserve	-	(10,446)	-	-	-	(161)	-	(10,607)	(1,455)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(7,131)	(4,273)	-	-	-	(87)	-	(11,491)	(253)

Notes to the Financial Statements

Movements in 2014-2015:	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
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-	-
Impairment Losses/(Reversals) recognised in the Surplus/(Deficit) on the Provision of Services	-	-	-	-	-	-	-	-	-
De-recognition - Disposals	-	(50)	(3,978)	-	-	-	-	(4,028)	-
De-recognition – Other	-	(881)	-	-	-	-	-	(881)	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-	-
At 31 March 2015	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859
Net Book Value:									
At 31 March 2015	265,859	449,143	97,266	287,944	8,362	17,450	47,896	1,173,920	87,986
At 31 March 2014	251,816	463,527	97,917	277,975	8,448	10,959	37,399	1,148,041	74,787

Notes to the Financial Statements

Movements in 2013-2014:	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation:									
At 1 April 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
Accumulated Depreciation and Impairment:									
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

Movements in 2013-2014:	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

17. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council:

	Museum, Art and Artefact Collection £'000	Public Sculptures and Memorials £'000	Historic Buildings £'000	Total £'000
Cost or Valuation:				
As at 1st April 2014	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	-	-	-	-
As at 31 March 2015	6,082	1,276	927	8,285
Accumulated Depreciation and Impairment :				
As at 1st April 2014	-	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	-	-	-	-
As at 31 March 2015	-	52	23	75
Net Book Value 31 March 2015	6,082	1,224	904	8,210
Net Book Value 31 March 2014	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
Cost or Valuation:				
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	-	-	-	-
As at 31 March 2014	6,082	1,276	927	8,285
Accumulated Depreciation and Impairment :				
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	-	-	-	-
As at 31 March 2014	-	52	23	75
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

Heritage Assets: Five Year Summary of Transactions

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
	£'000	£'000	£'000	£'000	£'000
Cost of Acquisitions of Heritage Assets					
Museum, Art and Artefact Collection	-	-	-	-	-
Public Sculptures and Memorials	-	86	-	-	-
Historic Buildings	-	-	12	-	-
Total Cost of Purchases	-	86	12	-	-
Value of Heritage Assets Acquired by					
Museum, Art and Artefact Collection	-	-	-	-	-
Public Sculptures and Memorials	-	-	-	-	-
Historic Buildings	-	-	-	-	-
Total Donations	-	-	-	-	-
Disposals of Heritage Assets					
Museum, Art and Artefact Collection	-	(127)	-	-	-
Public Sculptures and Memorials	-	-	(18)	-	-
Historic Buildings	-	-	-	-	-
Carrying Value	-	(127)	(18)	-	-
Proceeds	-	-	-	-	-
Impairment Recognised in Period					
Museum, Art and Artefact Collection	-	-	-	-	-
Public Sculptures and Memorials	-	-	-	-	-
Historic Buildings	-	-	-	-	-
Total Impairments	-	-	-	-	-
Revaluations in the Period					
Museum, Art and Artefact Collection	-	4,600	-	-	-
Public Sculptures and Memorials	-	375	-	-	-
Historic Buildings	-	-	-	-	-
Total Revaluations	-	4,975	-	-	-

Museum, Art and Artefact Collection

The Council's museum and art collections are included in the Balance Sheet on the basis of their insurance valuation. These valuations are periodically reviewed.

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

There are three museum collections:

- The Woodhorn Museum collection is on permanent loan to the Woodhorn Trust and comprises some two thousand items relating to coal mining heritage and social history.

Notes to the Financial Statements

- 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 Freeman 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:

	2013-2014 £'000	2014-2015 £'000
Rental income from investment property	(105)	(99)
Direct operating expenses arising from investment property	13	15
Net Gain	(92)	(84)

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:

	2013-2014 £'000	2014-2015 £'000
Balance at the start of the year	2,354	3,861
Additions	13	-
Reclassifications	688	-
Assets reclassified (to)/from Held For Sale	-	-
Disposals	(155)	-
Net (losses)/gains from fair value adjustments	961	(318)
Balance at the end of the year	3,861	3,543

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 mobilising system

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.81 million charged to revenue in 2014-2015 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	
	2013-2014	2014-2015	2013-2014	2014-2015
	Total	Total	Total	Total
	Intangible	Intangible	Intangible	Intangible
	Assets	Assets	Assets	Assets
	(Other)*	(Other)*	(Other)*	(Other)*
	£'000	£'000	£'000	£'000
Balance at start of year:				
Gross carrying amounts	19	19	2,882	5,295
Accumulated amortisation	-	-	(2,091)	(2,354)
Net carrying amount at the start of year	19	19	791	2,941
Additions:				
- Purchases	-	462	1,183	243
Assets reclassified from PPE	-	-	1,230	1,695
Other Disposals	-	(19)	-	-
Amortisation for the period	-	-	(263)	(814)
Net carrying amount at the end of year	19	462	2,941	4,065
Comprising:				
Gross carrying amounts	19	462	5,295	7,233
Accumulated amortisation	-	-	(2,354)	(3,168)
	19	462	2,941	4,065

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
	2014	2015	2014	2015
	£'000	£'000	£'000	£'000
Investments:				
Loans and receivables (principal)	93,639	93,478	26,552	102,313
Add: Accrued Interest	-	-	928	101
Loans and receivables at amortised cost	93,639	93,478	27,480	102,414
Available for sale financial assets	13,399	13,399	-	-
Unquoted equity investment at cost	3,340	3,340	-	-
Total Investments	110,378	110,217	27,480	102,414
Debtors:				
Loans and receivables *	159,797	207,956	77,448	71,791
Total Debtors	159,797	207,956	77,448	71,791
Borrowings:				
Financial liabilities at amortised cost	(472,865)	(603,201)	(68,972)	(62,741)
Add: Accrued Interest	-	-	(4,245)	(5,907)
Add : Amortised premiums/(discounts)	1,818	1,801	15	16
Total Borrowings	(471,047)	(601,400)	(73,202)	(68,632)
Creditors:				
Financial liabilities at amortised cost	(5,189)	(9,305)	(53,587)	(55,805)
Total Creditors	(5,189)	(9,305)	(53,587)	(55,805)

* Note – The debtors figure quoted as at 31 March 2015 excludes amounts in respect of Council Tax, Non-Domestic Rates and general rates. These items are outside the scope of the accounting provisions as they are statutory debts and do not arise from contracts.

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 2014 £'000	New Advances in Year £'000	Fair Value adjustment on initial recognition £'000	Loans Repaid £'000	Increase in discounted amount £'000	Closing Balance (Fair Value) 31 March 2015 £'000	Closing Balance (Nominal) 31 March 2015 £'000
Homes for Northumberland - Allendale Properties	40	4.50%	6.00%	1,124	-	-	(15)	12	1,121	1,355
Homes for Northumberland - Redundancies	3	0.00%	2.79%	850	-	-	(462)	62	450	462
Northumberland Healthcare Trust - Local Gov't Pension Scheme	15	1.50%	5.00%	1,837	-	-	-	201	2,038	2,178
Persimmon Homes - Deferred Capital Receipt (Wellesley Site)	4	0.00%	5.25%	1,444	-	-	(570)	182	1,056	1,140
Loans to Adoptive Parents	10	0.00%	3.70%	7	-	-	(3)	1	5	5
NCC Staff - Cycle to Work Scheme	1	0.00%	3.70%	39	44	(1)	(44)	3	41	41
Berwick Core - Solar Panels	9	4.00%	9.34%	53	-	-	(8)	5	50	58
Northumberland Aged Miners - Solar Panels	20	3.54%	5.87%	-	1,552	(268)	-	9	1,293	1,552
The Maltings - LED Technologies Investment	10	3.87%	5.85%	-	150	(15)	-	-	135	150

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.

Notes to the Financial Statements

Loans to Other Organisations

In the addition to the above, the following loans were made to other organisations during the year.

Loans Not Considered as Soft Loans

Taking into consideration the Council's prevailing cost of borrowing and adding an allowance for the risk that the loans might not be repaid, the Council does not consider that soft loan adjustments are appropriate for these loans, as the assessed fair value rate is lower than the contracted rate:

Not Considered as Soft Loans	Purpose of Loan	Contracted Rate	Assessed Fair Value Rate	New Advances in Year £'000
Arch Group	Property Purchases	5.75%	3.88%	9,983
Northumbria Healthcare NHS Foundation Trust	Berwick Hospital	3.16%	3.00%	25,000
Northumberland College	Ashington and Kirkley Hall Campus	4.48%	4.14%	6,500
Cramlington Town Council	Premises Purchase	4.01%	3.78%	350

Non-Material Soft Loans

The following loans have not been classified as soft loans as the effective loss on interest receivable (i.e. the difference between the contracted and assessed fair value rate) over the life of the instrument is negligible and not considered to be material.

Non-Material Soft Loans	Purpose of Loan	Contracted Rate	Assessed Fair Value Rate	New Advances in Year £'000
Alnwick Playhouse	Invest to Save - LED Technologies	3.87%	5.51%	60
Queen's Hall	Invest to Save - LED Technologies	3.87%	5.29%	26

Notes to the Financial Statements

Financial Instruments Gains and Losses

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

	2013-2014					2014-2015				
	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	(26,031)	-	-	-	(26,031)	(27,575)	-	-	-	(27,575)
Impairment losses	-	(53)	-	-	(53)	-	(84)	-	-	(84)
Fee Expense	(19)	-	-	-	(19)	(119)	-	-	-	(119)
Total expense in surplus or deficit on the provision of services	(26,050)	(53)	-	-	(26,103)	(27,694)	(84)	-	-	(27,778)
Interest income	-	8,554	-	-	8,554	-	13,157	-	-	13,157
Interest income accrued on impaired financial assets	-	178	-	-	178	-	15	-	-	15
Total income in surplus or deficit on the provision of services	-	8,732	-	-	8,732	-	13,172	-	-	13,172
Net gain/(loss) for the year	(26,050)	8,679	-	-	(17,371)	(27,694)	13,088	-	-	(14,606)

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 2014		31 March 2015	
	Carrying	Fair Value	Carrying	Fair Value
	Amount		Amount	
	£'000	£'000	£'000	£'000
PWLB - Maturity	131,352	144,514	232,771	311,814
PWLB - Annuity	994	1,556	876	1,515
PWLB - EIP	73,502	75,674	64,939	68,778
LOBOs	262,616	247,017	262,616	320,694
Temporary Loans	30,001	30,002	-	-
Cash Overdrawn	14,843	14,843	17,568	17,568
Market Loans	45,784	45,686	108,830	109,144
Financial Liabilities	559,092	559,292	687,600	829,513
Long-Term Creditors	5,189	5,189	9,305	9,305
Total Liabilities	564,281	564,481	696,905	838,818

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 as at 31 March 2015) arising from a commitment to pay interest to lenders above current market rates.

Notes to the Financial Statements

	31 March 2014		31 March 2015	
	Carrying	Fair Value	Carrying	Fair Value
	Amount		Amount	
	£'000	£'000	£'000	£'000
Cash	35,896	35,896	43,541	43,541
Short Term Investments	27,480	27,480	102,414	102,414
Long Term Investments	110,378	113,646	110,217	115,778
Loans and Receivables	173,754	177,022	256,172	261,733
Long Term Debtors	159,797	159,797	207,956	207,956
Total Assets	333,551	336,819	464,128	469,689

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 2015. 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	31 March	31 March	31 March	31 March	31 March
	2014	2015	2014	2015	2014	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at start of year	432	805	191	271	623	1,076
Purchases	1,560	1,283	3,464	2,160	5,024	3,443
Recognised as an expense in the year	(1,187)	(1,478)	(3,370)	(2,257)	(4,557)	(3,735)
Written off balances	-	(26)	(14)	(34)	(14)	(60)
Balance at end of year	805	584	271	140	1,076	724

Notes to the Financial Statements

22. Debtors

	31 March 2014 £'000	31 March 2015 £'000
Short Term:		
Central government bodies	13,450	16,205
NHS bodies	9,520	10,869
Other entities and individuals	39,123	41,829
Other local authorities	12,785	6,687
Public corporations and trading funds	2,570	1,398
Total Short Term	77,448	76,988
Long Term:		
ADC – Anchor Trust (Erection of dwellings at Bailiffgate)	8	6
ADC – Anchor Trust (Erection of dwellings at Percy Street)	17	13
ADC – Anchor Trust (Erection of dwellings at West Crescent)	57	56
Aged Miners Solar Panel Loan	-	1,196
Alnwick Playhouse Lighting Invest to Save Loan	-	60
ARCH Loan - Assets Tranche 1	9,930	9,857
ARCH Loan - B & Q	12,640	25,484
ARCH Loan - Development Projects	-	2,900
ARCH Loan - Housing	5,473	15,365
Berwick CoRE PV Panels Loan	45	38
Berwick Maltings Lighting Invest to Save Loan	-	119
Broadband Loan - Avonline	12	5
Broadband Loan - Briskona	50	14
CMBC – Your Homes Newcastle	301	288
CMBC - Anchor Housing Association	17	15
Cramlington Town Council Premises Loan	-	342
Finance Lease Receivable	568	527
Haltwhistle Leisure Centre Loan for Solar Panels	18	11
Harleyburn Parish Council Loan for Legal Advice	3	3
Kielder Parish Council Loan for Mower	3	2
Lloyds TSB Lend a Hand Scheme	2,000	2,000
NCC - Airport Loan Notes	11,916	11,916
NCC - Car Loans to Employees	6	4
NCC - Soft Loans (Adoptive Parents)	4	1
NCC - Homes for Northumberland	1,355	1,339
NCC - Homes for Northumberland Redundancy Costs Loan	425	-
NCC - Homes for Northumberland Soft Loan Notional Interest	(240)	(234)
NCC - Persimmon Homes Deferred Payment (Wellesley Site)	1,056	542
North Country Leisure - Office Accommodation	81	-
North Country Leisure - Ten Pin Bowling	496	457
Northumberland College	2,221	2,040
Northumberland College Loan 2014	-	5,958
Northumbria Healthcare NHS Foundation Trust Berwick Hospital Loan	-	23,500

Notes to the Financial Statements

	31 March 2014 £'000	31 March 2015 £'000
Northumbria Healthcare NHS Foundation Trust LGPS Loan	1,682	1,549
Northumbria Healthcare NHS Foundation Trust Loan	109,632	102,548
Queen's Hall Lighting Invest to Save Loan	-	21
TDC – Loans to Parishes	13	12
WDC – Housing Act Advances Mortgages	8	2
Total Long Term	159,797	207,956
Total Debtors	237,245	284,944

23. Cash and Cash Equivalents

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

	31 March 2014 £'000	31 March 2015 £'000
Cash and Bank Balances	35,896	43,541
Bank overdraft	(14,843)	(17,568)
Total Cash and Cash Equivalents	21,053	25,973

24. Assets Held for Sale

	Current		Non-Current	
	2013-2014 £'000	2014-2015 £'000	2013-2014 £'000	2014-2015 £'000
Balance at 1 April	4,030	5,195	420	375
<i>Assets newly classified as held for sale:</i>				
Property, Plant and Equipment	1,797	500	-	-
Revaluation Losses	(381)	(80)	-	-
Revaluation gains	-	-	-	13
<i>Assets declassified as held for sale:</i>				
Property, Plant and Equipment	-	(438)	-	-
Assets sold	(251)	(2,425)	(45)	-
Other movements	-	-	-	-
Balance outstanding at year-end	5,195	2,752	375	388

25. Creditors

	31 March 2014 £'000	31 March 2015 £'000
Central government bodies	(9,019)	(11,498)
NHS bodies	(1,853)	(1,034)
Other entities and individuals	(41,113)	(42,244)
Other local authorities	(935)	(1,140)
Public corporations and trading funds	(148)	(34)
Total	(53,068)	(55,950)

Notes to the Financial Statements

26. Provisions

	Redundancy Costs	Unequal Pay Back Pay	Accumulated Absences	MMI Liability	Repairs & Maintenance	Leisure Management	Land Restoration	NNDR Appeals	Estates Rationalisation	Other	Total
Provisions	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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
Balance at 1 April 2014	(2,573)	(7,000)	(6,860)	(600)	(11,978)	(1,781)	(9,000)	(2,633)	(6,000)	(848)	(49,273)
Amounts used in 2014-2015	1,723	-	6,860	-	297	1,161	-	893	1,086	782	12,802
Additional provisions made in 2014-2015	(2,934)	-	(5,512)	-	(577)	-	-	(1,712)	(3,237)	(1,141)	(15,113)
Unused amounts reversed in 2014-2015	850	4,471	-	-	-	620	5,454	-	4,914	-	16,309
Balance at 31 March 2015	(2,934)	(2,529)	(5,512)	(600)	(12,258)	-	(3,546)	(3,452)	(3,237)	(1,207)	(35,275)
Comprising:											
Short Term	(2,934)	(2,529)	(5,512)	(600)	(597)	-	(3,546)	(3,452)	(968)	(1,207)	(21,345)
Long Term	-	-	-	-	(11,661)	-	-	-	(2,269)	-	(13,930)
Total Provisions	(2,934)	(2,529)	(5,512)	(600)	(12,258)	-	(3,546)	(3,452)	(3,237)	(1,207)	(35,275)

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 2014-2015 (and for comparative amounts during 2013-2014) 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 2015 will be extinguished in 2015-2016 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 2015, the total amount of the Council's claims to date subject to reclamation was £5.02 million (£5.02 million as at 31 March 2014). 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 2014 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 2015. Thereafter Northumberland County Council will review its level of provision.

Notes to the Financial Statements

Repairs and Maintenance

A sum of £12.26 million has been set aside to provide for future repairs and maintenance liabilities.

Leisure Management

This provision was created to meet the 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 2015.

Estates Rationalisation

This provision was created to cover anticipated costs in relation to rationalising the Council's estate and was approved by the Policy Board at its meeting on 15 March 2015.

Other Provisions

This provision represents amounts set aside to meet future liabilities and includes Property Snagging issues arising from GB Building Solutions administration £0.75 million, Amalgamated Personal Property Searches £0.39 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 8 and in Note 12 on page 51.

28. Unusable Reserves

	31 March 2014 £'000	31 March 2015 £'000
Revaluation Reserve	149,016	143,333
Pensions Reserve	(585,940)	(677,560)
Capital Adjustment Account	537,451	552,769
Deferred Capital Receipts Reserve	2,044	1,482
Financial Instruments Adjustment Account	1,008	28
Collection Fund Adjustment Account	(1,395)	2,906
Available-for-Sale Financial Instruments Reserve	13,104	13,104
Accumulated Absences Adjustment Account	(6,859)	(5,512)
Total Unusable Reserves	108,429	30,550

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

	2013-2014	2014-2015
	£'000	£'000
Balance at 1 April	157,291	149,016
Upward revaluation of assets	5,510	17,744
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	(3,710)	(18,295)
Difference between fair value depreciation and historical cost depreciation	(3,278)	(3,070)
Accumulated gains on assets sold or scrapped	(6,307)	(2,062)
Amount written off to the Capital Adjustment Account	(490)	-
Balance at 31 March	149,016	143,333

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.

	2013-2014	2014-2015
	£'000	£'000
Balance at 1 April	(699,680)	(585,940)
Return on plan assets	(31,580)	61,270
Actuarial gains or (losses) arising on changes in financial assumptions	115,380	(152,590)
Actuarial gains or (losses) arising on changes in demographic assumptions	12,140	-
Other	41,140	9,320
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	(58,910)	(48,350)
Employer's pensions contributions and direct payments to pensioners payable in the year	35,570	38,730
Balance at 31 March	(585,940)	(677,560)

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

	2013-2014 £'000	2014-2015 £'000
Balance at 1 April	556,585	537,451
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	(39,204)	(40,828)
Deficit on Available for Sale financial assets	(381)	(68)
Revaluation losses on Property, Plant and Equipment	(2,045)	(418)
Amortisation of intangible assets	(263)	(814)
Revenue expenditure funded from capital under statute *	(16,442)	(17,047)
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	(45,496)	(21,374)
Adjusting amounts written out of the Revaluation Reserve	10,075	5,132
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	1,903	4,615
Use of the Major Repairs Reserve to finance new capital expenditure	6,860	7,829
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	34,592	43,760
Application of grants to capital financing from the Capital Grants Unapplied Account	4,505	3,531
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,695	17,015
Voluntary set aside of capital receipts	-	7,613
Capital expenditure charged against the General Fund and HRA balance	10,106	6,684
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	961	(312)
Balance at 31 March	537,451	552,769

*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.

	2013-2014 £'000	2014-2015 £'000
Balance at 1 April	2,617	2,044
Finance Lease receivables principal	(38)	(41)
Transfer of deferred sale proceeds credited as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(68)	2,489
Transfer to the Capital Receipts Reserve upon receipt of cash	(467)	(3,010)
Balance at 31 March	2,044	1,482

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.

	2013-2014 £'000	2013-2014 £'000
Balance at 1 April	1,711	1,008
Proportion of premiums/(discounts) incurred in previous financial years to be charged/(credited) against the General Fund Balance in accordance with statutory	(771)	(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	68	(209)
Balance at 31 March	1,008	28

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.

	2013-2014 £'000	2014-2015 £'000
Balance at 1 April	908	(1,395)
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	(2,303)	4,301
Balance at 31 March	(1,395)	2,906

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 2015 (£13.10 million at 31 March 2014) and is reflected in the Available for Sale Financial Instruments Reserve:

	2013-2014	2014-2015
	£'000	£'000
Balance at 1 April	13,104	13,104
Upward Revaluation of Investment	-	-
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.

	2013-2014	2013-2014	2014-2015	2014-2015
	£'000	£'000	£'000	£'000
Balance at 1 April		(7,242)		(6,859)
Settlement or cancellation of accrual made at the end of the preceding year	7,242		6,859	
Amounts accrued at the end of the current year	(6,860)		(5,512)	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable		383		1,347
Balance at 31 March		(6,859)		(5,512)

Notes to the Financial Statements

29. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2013-2014	2014-2015
	£'000	£'000
Interest received	(8,679)	(11,900)
Interest paid	25,867	25,816

30. Cash Flow Statement – Investing Activities

	2013-2014	2014-2015
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(67,961)	(79,114)
Purchase of short term and long term investments	(88,000)	(275,092)
Other payments for investing activities	(128,283)	(59,564)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,074	13,393
Proceeds from short term and long term investments	233,805	200,289
Other receipts from investing activities	57,510	175,131
Net cash flows from investing activities	10,145	(24,957)

31. Cash Flow Statement – Financing Activities

	2013-2014	2014-2015
	£'000	£'000
Cash receipts of short term and long term borrowing	40,333	208,602
Other receipts from financing activities	2,296	3,159
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(925)	(1,067)
Repayments of short and long term borrowing	(52,316)	(84,481)
Net cash flows from financing activities	(10,612)	126,213

Notes to the Financial Statements

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

	2013-2014	2014-2015
	£'000	£'000
Depreciation	39,204	40,828
Impairment and downward valuations	2,426	486
Amortisation	263	814
Reduction in fair value of Soft Loans (non-subsidiary) made in year	2	148
Soft Loans (non-subsidiary) - Interest adjustment credited to the Comprehensive Income and Expenditure Statement during the year	(68)	(43)
Increase/(Decrease) in Interest Creditors	(166)	1,662
Increase/(Decrease) in Creditors	1,038	(5,133)
(Increase)/Decrease in Interest and Dividend Debtors	1,056	(70)
(Increase)/Decrease in Debtors	(30,090)	(116,003)
(Increase)/Decrease in Inventories	(453)	352
Increase/(Decrease) in Receipts in Advance	1,837	(591)
Increase/(Decrease) in Pension Liability	23,340	9,620
Contributions to/(from) Provisions	23,478	(13,998)
Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	45,496	21,374
Movement in Investment Property Values	(961)	312
Net Deficit on the Provision of Services for Non-Cash Movements	106,402	(60,242)

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

	2013-2014	2014-2015
	£'000	£'000
Capital grants credited to the surplus or deficit on the provision of services	(36,837)	(48,886)
Material impairment losses on investments debited to the surplus or deficit on the provision of services in year.	53	101
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3,074)	(13,393)
Items included in the Net Surplus or Deficit on the Provision of Services that are Investing or Financing Activities	(39,858)	(62,178)

34. Acquired and Discontinued Operations

There were no acquired or discontinued operations during 2014-2015.

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

	2013-2014			2014-2015		
	Income	Cost	(Surplus) /	Income	Cost	(Surplus) /
	£'000	£'000	Deficit £'000	£'000	£'000	Deficit £'000
Building, Pest Control and Land Charges	-	-	-	(1,373)	1,633	260
Catering	(3,177)	3,329	152	(2,728)	2,778	50
Cemeteries and Crematorium	-	-	-	(1,420)	2,166	746
Central and Other Services	(32,069)	36,355	4,286	(36,861)	32,071	(4,790)
Cleaning and Caretaking	(10,319)	14,172	3,853	(8,750)	10,187	1,437
Highways Maintenance	-	-	-	(2,688)	2,730	42
Markets	-	-	-	(167)	342	175
Property	(5,283)	5,409	126	(4,741)	4,163	(578)
Total Trading Operations	(50,848)	59,265	8,417	(58,728)	56,070	(2,658)

Buildings, Pest Control and Land Charges

These services deal with dangerous structures, planning applications, they support high quality housing development and provide value for money pest control services.

Catering

This includes daily school meals service to 66 of the County's schools (7,244 meals per day), civic catering for specific functions and operation of the staff restaurant.

Cemeteries and Crematorium

The service manages 15 cemeteries and one crematorium in Blyth. The service employs 16 FTE staff.

Central and Other Services

The Council operates several central services and SLAs with a financial break even objective or achievement of agreed budgets.

Cleaning and Caretaking

Trading includes building cleaning and caretaking at schools and other establishments, as well as facilities management at County Hall and Hepscott Park.

Highways Maintenance

The service maintains highways and structures, has responsibility for land drainage and new street works and also provides professional highways and engineering services.

Markets

The council operates markets in locations throughout the county.

Property

Services include comprehensive architectural design, property maintenance, consultancy advice service and management of the estates portfolio.

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). Other areas including Trade Waste and Fleet Services are undertaken on a partial trading basis, with income of £1.1 million (Trade Waste) and £0.6 million (Fleet Services) being generated. It is not possible to identify the expenditure

Notes to the Financial Statements

associated with the trading element of these services therefore these areas are not included above and remain within their respective service areas. During 2014-2015 a sum of £3.2 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 57).

	2013-2014	2014-2015
	£'000	£'000
Net (surplus)/deficit on trading operations	8,417	(2,658)
Support services recharged to Expenditure of Continuing Operations	-	-
Net (surplus)/deficit credited to Other Operating Expenditure	8,417	(2,658)

36. Members' Allowances

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

	2013-2014	2014-2015
	£'000	£'000
Salaries	151	153
Allowances	1,228	1,235
Expenses	64	57
Total	1,443	1,445

Notes to the Financial Statements

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.

	2013-2014	2014-2015
	All	All
Remuneration Band	Employees	Employees
£50,000 to £54,999	101	98
£55,000 to £59,999	68	76
£60,000 to £64,999	32	29
£65,000 to £69,999	23	20
£70,000 to £74,999	11	15
£75,000 to £79,999	5	7
£80,000 to £84,999	7	9
£85,000 to £89,999	8	4
£90,000 to £94,999	6	2
£95,000 to £99,999	-	1
£100,000 to £104,999	3	6
£105,000 to £109,999	-	1
£110,000 to £114,999	1	2
£115,000 to £119,999	-	1
£120,000 to £124,999	1	-
£125,000 to £129,999	-	-
£130,000 to £134,999	2	-
£135,000 to £139,999	2	1
£140,000 to £144,999	-	1
£170,000 to £174,999	-	1
£230,000 to £234,999	2	-
£295,000 to £299,999	1	-
Total	273	274

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 2013- 2014 or 2014- 2015.

2014-2015	Salary	Expense Allowances	Compensation for loss of office	Benefits in kind	Total Remuneration	Pension Contributions	Total Remuneration incl. Pension Contributions
Post Holder Information	£	£	£	£	£	£	£
Senior Officers emoluments – salary is £150,000 or more per year							
Lead Executive Director - Steven Mason ①	143,281	-	-	29,998	173,279	22,580	195,859
Senior Officers emoluments – salary is between £50,000 and £150,000 per year							
Executive Director: Local Services - Barry Rowland	142,188	-	-	-	142,188	-	142,188
Executive Director: Wellbeing and Community Health Services - Daljit Lally ②	129,978	-	-	6,081	136,059	20,333	156,392
Director of Planning, Economy and Housing - Geoff Paul ③	89,073	-	-	14,114	103,187	14,131	117,318
Chief Fire Officer - Alex Bennett	104,270	-	-	-	104,270	22,210	126,480

Notes:

- ① Now Chief Executive.
- ② Jointly funded post with the Northumbria Healthcare NHS Foundation Trust, each organisation pays 50% of costs.
- ③ Part year, joined May 2014.

Notes to the Financial Statements

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

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

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	
	2013-2014	2014-2015	2013-2014	2014-2015	2013-2014	2014-2015	2013-2014 £	2014-2015 £
£0 - £20,000	62	66	46	62	108	128	685,906	790,206
£20,001 - £40,000	5	11	13	14	18	25	498,479	688,605
£40,001 - £60,000	1	2	3	7	4	9	208,517	408,080
£60,001 - £80,000	-	2	4	3	4	5	267,581	333,691
£80,001 - £100,000	-	1	3	6	3	7	294,293	631,419
£100,001 - £150,000	-	-	4	1	4	1	502,347	144,630
£150,001 - £200,000	-	-	1	-	1	-	196,203	-
£200,001 - £250,000	-	-	-	-	-	-	-	-
	68	82	74	93	142	175	2,653,326	2,996,631
Add amounts provided for in Comprehensive Income and Expenditure Statement not included in bandings	-	-	181	-	181	-	2,573,042	2,934,068
Total cost included in Comprehensive Income and Expenditure Statement	68	82	255	93	323	175	5,226,368	5,930,699

The Council's Comprehensive Income and Expenditure Statement includes a provision for £2.93 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:

	2013-2014	2014-2015
	£'000	£'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor for the year	253	254
Fees payable to the appointed auditor for the certification of grant claims and returns for the year	15	13
Fees payable in respect of any other services provided by the appointed auditor during the year	12	18
Total	280	285

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 2014-2015.

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 2014-2015 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2014-2015			208,665
Academy figure recouped for 2014-2015			(46,229)
Total DSG after Academy Recoupment			162,436
Brought forward from 2013-2014			1,790
Agreed budgeted distribution in 2014-2015	35,531	128,695	164,226
In Year Adjustments *	5	34	39
Final Budget Distribution for 2014-2015	35,536	128,729	164,265
Actual Central Expenditure	(33,034)	-	(33,034)
Actual ISB deployed to Schools	-	(128,729)	(128,729)
Carried forward to 2015-2016	2,502	-	2,502

*Note – Includes £0.04 million in relation to the final Early Years Block adjustment.

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 2014-2015:

	2013-2014	2014-2015
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Revenue		
Central New Homes Bonus Grant	3,194	3,872
Central Services Education Grant	4,805	4,728
Council Tax Freeze Grant	1,538	-
Efficiency Support for Services in Sparse Areas	256	58
Localising Services Support Grant	532	-
Local Services Support Grant	425	486
Other	-	7
Revenue Support Grant	90,970	76,539
Small Business Rates Relief Grant	1,767	3,226
Top Up Grant	22,964	23,412
Total Revenue	126,451	112,328
Capital		
Department for Communities and Local Government - Broadband Delivery UK	-	2,832
Department for Communities and Local Government - Coastal Communities Fund	-	1,429
Department for Communities and Local Government - Disabled Facilities Grant	1,071	1,111
Department for Communities and Local Government - Fire Brigade Modernisation Fund	670	670
Department for Education - Basic Needs	419	419
Department for Education - Devolved Formula Capital	1,319	961
Department for Education - Other	11	476
Department for Education - Schools Capital Maintenance Grant	4,385	4,217
Department for Environment, Food and Rural Affairs - Broadband	14	390
Department for Environment, Food and Rural Affairs - Rural Growth Network	1,482	379
Department for Transport - Local Sustainable Transport	271	257
Department for Transport - Local Transport Plan	18,567	17,907
Department for Transport - Morpeth Northern Bypass	-	3,960
Department for Transport - OLEV Vehicle Charge Point	308	480
Department for Transport - Other	302	94
Department for Transport - Pinch Point	802	3,015
Department for Transport - Pot Hole Grant	-	2,902
Department for Transport - Severe Weather Recovery	1,004	-
Department of Health	708	725
Energy Companies Obligation (ECO) - British Gas	165	(12)
English Heritage	46	(1)
Environment Agency	235	19
European Regional Development Fund	-	4,123
Football Foundation	-	308

Notes to the Financial Statements

	2013-2014	2014-2015
	£'000	£'000
Homes and Communities Agency	1,469	2,542
Homes for Northumberland	25	-
National Lottery	621	208
Northumbria Healthcare NHS Foundation Trust	2,540	(2,052)
Other	314	190
Sport England	88	1,162
Sustrans	1	175
Total Capital	36,837	48,886
Total Credited to Taxation and Non Specific Grant Income	163,288	161,214
Grants Credited to Services:		
Revenue :		
Adoption Improvement Grant	685	252
Bus Service Grant	126	484
Care Bill Implementation Grant	-	125
Council Tax/Housing Benefit Subsidy Grant	88,313	90,325
Council Tax Support New Burdens Grant	175	153
Countryside Agency	166	120
Cycle Scheme	82	106
Dedicated Schools Grant (DSG)	165,349	162,475
Education Funding Agency	-	12,775
Education Services Grant	13	12
Environment Agency Coast Protection	84	32
European Community Grants	309	36
European Regional Development Fund	752	1,632
Fire Revenue Grant	180	159
Food Standards Agency	-	148
Forestry Commission	122	-
Grants in Support of Individual School Budgets	8,410	12,425
Helping People Grant	-	120
Local Area Agreement Reward Grant	25	12
Local Reform and Community Voices	269	275
Lottery Funding	389	84
National Citizen Service Pilot	189	202
New Homes Bonus Grant	100	28
Other Grants	1,302	1,456
Private Finance Initiative	4,760	4,760
Public Health Grant	13,043	13,408
Regional Growth Fund	172	185
Rural Growth Network Grant	(1,455)	-
Severe Weather Recovery Scheme	-	898
SITA Trust	104	24

Notes to the Financial Statements

	2013-2014	2014-2015
	£'000	£'000
Skills Funding Agency	2,463	2,610
Social Care IT Infrastructure	110	110
Social Fund Grant	1,054	1,039
Special Educational Needs Reform Grant	-	353
Special Educational Needs and Disability Grant	-	297
Sport England	569	5
Standards Fund	341	366
Supporting Community Transport Grant	48	154
Supporting Families Grant	814	1,043
Sustainable Transport Fund	478	666
Teacher Development Agency	147	137
Young People's Learning Agency	13,229	-
Youth Justice Board	706	706
Young People's Substance Misuse Partnership	-	5
Total Revenue Grants	303,623	310,202
Donations and Contributions		
Contributions to Shared Schemes	147	179
Contributions towards Music	1,174	862
Contributions from Other Local Authorities	-	724
Contributions towards Swimming	349	320
Contributions to Work Programmes	1,508	-
Donations	169	175
European Elections	59	578
Food Standards Agency	42	-
Health Service	9,941	7,201
Milk Subsidy	170	157
Offender Health Commissioning Units	68	75
Other Contributions	2,716	2,922
Parental Contributions	423	525
Police Authority Contribution	316	167
Probation Contribution	64	(11)
Parent Teacher Association / School Fund Contributions	421	462
S117 Health Contribution	2,683	3,138
Social Care Demonstration Site	234	-
Student Placement Contributions	38	59
Total Donations and Contributions	20,522	17,533
Total Credited to Services	324,145	327,735

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 2014 £'000	31 March 2015 £'000
Capital Grant Receipts in Advance:		
Department for Education	2,591	2,559
Department for Rural Affairs	-	135
Department for Transport	200	4,156
Environment Agency	318	344
Homes and Communities Agency	1,364	1,410
National Lottery	-	6
Northumbria Healthcare NHS Foundation Trust	648	648
Other	68	47
Total Capital Grant Receipts in Advance	5,189	9,305
Revenue Grant Receipts in Advance:		
Countryside Agency	68	-
DEFRA Lead Local Food Authorities Grant	-	106
Department for Transport - Total Transport Pilot Fund	-	250
English Heritage Grants	4	-
Environment Agency Coast Protection Grant	164	386
European Marine Site Project	27	41
Local Sustainable Transport Fund	19	-
National Children's Bureau	-	21
Natural England Grant	10	-
New Burdens Grant	6	-
Severe Weather Recovery Scheme	1,732	834
SITA Trust	23	24
Social Care Efficiency Grant	20	-
Supporting Community Transport	180	-
Total Revenue Grant Receipts in Advance	2,253	1,662
Total Receipts in Advance	7,442	10,967

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 2014-2015 that are considered to be related parties:

- Arch Group
- Homes for Northumberland

Arch Group owed £55.90 million to Northumberland County Council (the ultimate holding company) primarily in respect of principal and interest due on a commercial loan facility, whilst Northumberland County Council owed the Group £0.07 million. Expenditure by Northumberland County Council to Arch Group was £0.45 million. Income to Northumberland County Council from Arch Group was £2.11 million.

Transactions and balances with Homes for Northumberland were as follows:

	£'000
Expenditure made by the Council to Homes for Northumberland in 2014-2015	19,057
Income to the Council from Homes for Northumberland in 2014-2015	2,016
Amounts due to the Council from Homes for Northumberland at 31 March 2015	1,973
Amounts owed by the Council to Homes for Northumberland at 31 March 2015	1,994

Homes for Northumberland acts as agent for Northumberland County Council in respect of certain elements of the capital programme spend. Costs reclaimed from Northumberland County Council were £7.87 million.

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 149.

Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2014-2015 the Pension Fund had an average balance of £4.88 million loaned to Council for which it received interest of £0.02 million. The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2014-2015 these costs amounted to £0.58 million (2013-2014 £0.58 million). £3.99 million was due to the Council at 31 March 2015 (£9.58 million was due to the Council at 31 March 2014).

Other Bodies

Transactions with other related parties are detailed below:

	Receipts £'000	Payments £'000
Environment Agency - Precept	106	306
Northumberland Sea Fisheries Committee - Precept	16	652
Northumberland National Park Authority	76	222
Northumberland Pension Fund:		
Payment of employer's pension contributions in respect of employees	-	27,915

Notes to the Financial Statements

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2014-2015 goods and services were commissioned from organisations in which Members had an interest. All interests were declared by the appropriate Members. Members had interests in eighty four organisations with transactions totalling £76.13 million in respect of goods or services provided to the Council.

During 2014-2015 goods and services amounting to £11.09 million were provided by the Council to fifty four organisations in which Members had an interest.

Included in the above sums are amounts due from the Council of £37.22 million and due to the Council of £2.18 million as at 31 March 2015.

Officers

During 2014-2015 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 six organisations with transactions totalling £51.41 million in respect of goods or services provided to the Council.

During 2014-2015 goods and services amounting £9.63 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 £25.65 million and due to the Council of £0.63 million as at 31 March 2015.

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.

	2013-2014 £'000	2014-2015 £'000
Opening Capital Financing Requirement	507,017	643,506
Capital Investment:		
Property, Plant and Equipment	65,595	82,571
Capital Long Term Debtors	128,283	59,275
PFI / Finance Lease Additions	-	1,052
Revenue Expenditure Funded From Capital under Statute (REFCUS)	16,442	21,437
Reversal of Capitalisation (REFCUS)	-	(4,390)
HRA Downward Revaluation (non-dwelling assets)	(170)	(225)
Sources of Finance:		
Capital receipts	(1,903)	(4,615)
Government grants and other contributions	(39,097)	(47,291)
Sums set aside from revenue/Major Repairs Reserve:		
Major Repairs Reserve	(6,860)	(7,829)
Direct revenue contributions	(10,106)	(6,684)
Capital Long Term Debtors Amortisation	(35)	(7,613)
Minimum Revenue Provision	(15,660)	(17,015)
Closing Capital Financing Requirement	643,506	712,179
Explanation of movements in year:		
Increase in underlying need to borrowing (unsupported by government financial assistance)	152,354	92,474
Minimum Revenue Provision	(15,695)	(24,628)
Assets acquired under PFI / PPP contracts	-	1,052
HRA Downward Revaluation (non-dwelling assets)	(170)	(225)
Increase/(Decrease) in Capital Financing Requirement	136,489	68,673

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 2014 £'000	31 March 2015 £'000
Vehicles, Plant, Furniture and Equipment	470	281

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 2014 £'000	31 March 2015 £'000
Finance lease liabilities (net present value of minimum lease payments):		
Current	189	135
Non Current	281	146
Finance costs payable in future years	111	74
Minimum lease payments	581	355

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Not later than one year	226	164	189	135
Later than one year and not later than five years	355	191	281	146
Later than five years	-	-	-	-
	581	355	470	281

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 2014 £'000	31 March 2015 £'000
Not later than one year	1,338	2,013
Later than one year and not later than five years	4,869	3,728
Later than five years	3,049	2,654
	9,256	8,395

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 2014 £'000	31 March 2015 £'000
Minimum lease payments	2,496	2,457

Council as Lessor

Finance Leases

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

Name	Term (Years)	Commencement Date	End Date	Rent Amount £'000
Ashmore House, Ashington	25	01.04.1998	31.03.2023	26
Bell View, Belford	999	06.10.2003	06.10.3002	-
Church Point, Newbiggin by the Sea	99	09.01.2013	08.01.2112	-
Croft Park, Plessey Road, Blyth	99	15.10.2014	14.10.2113	-
Dr Pit Park - Bedlington Terriers Football Ground	99	26.02.2013	01.07.2112	-
Haltwhistle Integrated Care Hospital Floor	99	11.09.2012	10.09.2111	-
Merley Croft, Morpeth	25	01.02.1999	31.01.2024	62
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 2014 £'000	31 March 2015 £'000
Finance lease debtor (net present value of minimum lease payments):		
Current	41	45
Non Current	527	482
Unearned finance income	276	229
Gross investment in the lease	844	756

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

Notes to the Financial Statements

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March	31 March	31 March	31 March
	2014	2015	2014	2015
	£'000	£'000	£'000	£'000
Not later than one year	88	88	88	88
Later than one year and not later than five years	352	352	352	352
Later than five years	404	316	404	316
	844	756	844	756

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	31 March
	2014	2015
	£'000	£'000
Not later than one year	487	534
Later than one year and not later than five years	727	643
Later than five years	363	315
	1,577	1,492

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	31 March
	2014	2015
	£'000	£'000
Long term finance lease liability:		
Waste PFI	(57,310)	(56,728)
Fire PFI	(12,394)	(12,171)
Other finance leases (Note 43)	(281)	(146)
Total Finance Lease Liability	(69,985)	(69,045)
Long term deferred credits:		
Waste PFI	(13,342)	(12,675)
Total Deferred Credits	(13,342)	(12,675)
Total Long Term Creditors	(83,327)	(81,720)

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

Notes to the Financial Statements

Waste PFI

2014-2015 was the eighth year of a twenty-eight year integrated Waste PFI contract covering the construction, maintenance and operation of a range of waste treatment facilities and reception, storage, transport, recycling, composting, energy recovery and landfill disposal of household and commercial wastes collected by the County Council. The Council has the rights under the agreement to use the various waste facilities for the provision of Waste Services.

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

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

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

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

The figures below provide information on the movement of the Waste PFI assets held on the Council's Balance Sheet during 2014-2015:

	2013-2014	2014- 2015	2014-2015	2014-2015
		Plant Shell	Project	
	£'000	£'000	Assets	£'000
Cost brought forward 1 April	89,389	15,291	74,098	89,389
Additions in year	-	-	1,052	1,052
Revaluation Gain	-	-	2,849	2,849
Cost carried forward 31 March	89,389	15,291	77,999	93,290
Accumulated depreciation brought forward 1 April	(12,882)	(2,506)	(13,804)	(16,310)
Revaluation in year	-	-	1,414	1,414
Depreciation charge for year	(3,428)	(658)	(2,856)	(3,514)
Depreciation at 31 March	(16,310)	(3,164)	(15,246)	(18,410)
Net book value carried forward 31 March	73,079	12,127	62,753	74,880

The following table provides information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2014-2015:

Notes to the Financial Statements

	2013-2014	2014-2015	2014-2015	2014-2015
		Plant Shell	Project Assets	
	£'000	£'000	£'000	£'000
Lease liability brought forward 1 April	58,517	46,339	11,645	57,984
Payments made in year	(533)	(546)	(128)	(674)
Liability carried forward 31 March	57,984	45,793	11,517	57,310

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.

	Total as at 31 March 2014 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	Total as at 31 March 2015 £'000
Within one year	21,483	1,124	582	7,254	13,018	21,978
Within two to five years	90,805	4,727	3,379	29,924	54,997	93,027
Within six to ten years	127,089	6,460	7,853	38,811	77,752	130,876
Within eleven to fifteen years	146,296	7,133	15,997	38,626	89,003	150,759
Within sixteen to twenty years	168,478	7,875	29,499	34,288	101,883	173,545
Within twenty-one to twenty-five years	36,616	-	-	-	-	-
Within twenty-six to thirty years	-	-	-	-	-	-
	590,767	27,319	57,310	148,903	336,653	570,185

Fire & Rescue PFI

2014-2015 was the fifth 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,

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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 2014-2015:

	2013-2014	2014-2015
	£'000	£'000
Cost brought forward 1 April	2,002	2,002
Recognition of deferred asset within fixed assets	-	-
Additions in year	-	-
Revaluation Gain	-	11,553
Cost carried forward 31 March	2,002	13,555
Accumulated depreciation brought forward 1 April	(213)	(294)
Revaluation in year	-	294
Depreciation charge for year	(81)	(449)
Depreciation at 31 March	(294)	(449)
Net book value carried forward 31 March	1,708	13,106

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2014-2015:

	2013-2014	2014-2015
	£'000	£'000
Lease liability brought forward 1 April	12,786	12,598
Payments made in year	(188)	(204)
Liability carried forward 31 March	12,598	12,394

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.

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	Total as at 31 March 2014 £'000	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	Total as at 31 March 2015 £'000
Within one year	2,436	201	222	1,334	708	2,465
Within two to five years	10,025	855	1,112	5,111	3,073	10,151
Within six to ten years	13,223	1,195	2,100	5,651	4,454	13,400
Within eleven to fifteen years	14,089	1,352	3,377	4,308	5,253	14,290
Within sixteen to twenty years	15,072	1,529	5,511	2,058	6,202	15,300
Within twenty-one to twenty-five years	3,706	179	72	(96)	405	560
Within twenty-six to thirty years	-	-	-	-	-	-
	58,551	5,311	12,394	18,366	20,095	56,166

45. Impairment Losses

There has been one specific impairment loss of £0.31 million in 2014-2015 for the Cowpen Cremators following a fire. Other losses are through downward revaluations to Property, Plant and Equipment balances in 2014-2015 and 2013-2014.

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 2014-2015 the County Council paid £10.18 million (£10.48 million in 2013-2014) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay.

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

Notes to the Financial Statements

benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

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

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

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

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

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

Notes to the Financial Statements

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:

2014-2015	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Actuarial gains and losses arising on changes in demographic assumptions					
Comprehensive Income and Expenditure Statement					
Cost of Services:					
Current service cost	(21.02)	(2.34)	-	-	(23.36)
Past service cost	(0.85)	-	-	-	(0.85)
Financing and Investment Income and Expenditure:					
Net interest expense	(14.75)	(6.34)	(1.48)	(1.57)	(24.14)
Total post employment benefit charged to the deficit on the provision of services	(36.62)	(8.68)	(1.48)	(1.57)	(48.35)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement					
Remeasurement of the net defined liability comprising:					
Return on plan assets (excluding the amount included in the net interest expense)	61.27	-	-	-	61.27
Actuarial gains and losses arising on changes in financial assumptions	(130.90)	(16.54)	(2.56)	(2.59)	(152.59)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-	-
Other	7.15	0.86	0.90	0.41	9.32
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(62.48)	(15.68)	(1.66)	(2.18)	(82.00)
Movement in Reserves - General Fund Balance:					
Reversal of net charges made to the deficit for the provision of services for post employment benefit	36.62	8.68	1.48	1.57	48.35
Actual amount charged against the General Fund Balance for pensions in the year:					
Employer's contributions payable to the scheme	(27.86)	-	-	-	(27.86)
Net retirement benefits payable to pensioners	-	(5.67)	(2.41)	(2.79)	(10.87)

Notes to the Financial Statements

2013-2014	LGPS	Firefighters' Schemes	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement					
Cost of Services:					
Current Service Cost	(26.07)	(2.86)	-	-	(28.93)
Past Service Cost	(0.81)	-	-	-	(0.81)
Financing and Investment Income and Expenditure:					
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)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement					
Remeasurement of the net defined liability comprising:					
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
Movement in Reserves - General Fund Balance:					
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
Actual amount charged against the General Fund Balance for pensions in the year:					
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)

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

Notes to the Financial Statements

2014-2015	Firefighters' Pension Scheme £m	New Firefighters' Pension Scheme £m	Injury and non scheme III Health £m	Total £m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	(1.81)	(0.41)	(0.12)	(2.34)
Past service cost	-	-	-	-
Financing and Investment Income and Expenditure:				
Net interest expense	(5.96)	(0.17)	(0.21)	(6.34)
Total post employment benefit charged to the deficit on the provision of services	(7.77)	(0.58)	(0.33)	(8.68)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	-	-	-	-
Actuarial gains and losses arising on changes in financial assumptions	(15.20)	(0.82)	(0.52)	(16.54)
Actuarial gains and losses arising on changes in demographic assumptions	-	-	-	-
Other	0.82	0.01	0.03	0.86
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(14.38)	(0.81)	(0.49)	(15.68)
Movement in Reserves - General Fund Balance:				
Reversal of net charges made to the deficit for the provision of services for post employment benefit	7.77	0.58	0.33	8.68
Actual amount charged against the General Fund Balance for pensions in the year:				
Net retirement benefits payable to pensioners	(5.64)	0.13	(0.16)	(5.67)

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
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	(2.21)	(0.52)	(0.13)	(2.86)
Past service cost	-	-	-	-
Financing and Investment Income and Expenditure:				
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)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined liability comprising:				
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
Movement in Reserves - General Fund Balance:				
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
Actual amount charged against the General Fund Balance for pensions in the year:				
Net retirement benefits payable to pensioners	(4.64)	0.13	(0.16)	(4.67)

The amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2014-2015 is a loss of £82.00 million (£137.08 million gain in 2013-2014).

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:

2014-2015	LGPS Firefighters' Schemes		LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Present value of the defined benefit obligation	(1,297.55)	(172.53)	(37.14)	(39.72)	(1,546.94)
Fair value of plan assets	869.38	-	-	-	869.38
Net liability arising from defined benefit obligation	(428.17)	(172.53)	(37.14)	(39.72)	(677.56)

2013-2014	LGPS Firefighters' Schemes		LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Present value of the defined benefit obligation	(1,132.99)	(153.84)	(36.41)	(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)	(36.41)	(38.76)	(585.94)

Notes to the Financial Statements

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

	LGPS	Firefighters' Pension Scheme	New Firefighters' Pension Scheme	Firefighters' Injury & non scheme III Health	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m	£m	£m
Opening balance as at 1 April 2014	(1,132.99)	(144.74)	(4.08)	(5.02)	(36.41)	(38.76)	(1,362.00)
Current service cost	(21.02)	(1.81)	(0.41)	(0.12)	-	-	(23.36)
Interest cost	(48.11)	(5.96)	(0.17)	(0.21)	(1.48)	(1.57)	(57.50)
Contributions from scheme participants	(6.42)	(0.67)	(0.16)	-	-	-	(7.25)
Remeasurement (gains)/losses:							
Actuarial (gains)/losses arising from changes in financial assumptions	(130.90)	(15.20)	(0.82)	(0.52)	(2.56)	(2.59)	(152.59)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	-	-	-	-	-	-
Other	7.15	0.82	0.01	0.03	0.90	0.41	9.32
Past service cost	(0.85)	-	-	-	-	-	(0.85)
Liabilities assumed on entity combinations	-	-	-	-	-	-	-
Benefits paid	35.59	6.31	0.03	0.16	2.41	2.79	47.29
Liabilities extinguished on settlements	-	-	-	-	-	-	-
Closing balance as at 31 March 2015	(1,297.55)	(161.25)	(5.60)	(5.68)	(37.14)	(39.72)	(1,546.94)
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)

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	
			Scheme	Health			
	£m	£m	£m	£m	£m	£m	£m
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)

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

	Local Government Pension Scheme	
	2013-2014	2014-2015
	£m	£m
Opening fair value of scheme assets	777.08	776.06
Interest income	33.37	33.36
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	(31.58)	61.27
Other	-	-
Effect of changes in foreign exchange rates	-	-
Contributions by the employer	25.69	27.86
Contributions by participants	6.32	6.42
Business Combinations	-	-
Settlements	-	-
Benefits paid	(34.82)	(35.59)
Closing balance of scheme assets	776.06	869.38

Notes to the Financial Statements

Local Government Pension Scheme assets comprised:

LGPS assets comprised:	Fair value of scheme assets			
	2013-2014		2014-2015	
	£m	%	£m	%
UK and overseas equities	483.81	62.34	536.49	61.71
Fixed interest and index linked	209.37	26.98	232.67	26.76
Property unit trusts	34.12	4.40	37.73	4.34
Ventures and partnerships	53.31	6.87	61.36	7.06
Other net current (liabilities)/assets	(4.55)	(0.59)	1.13	0.13
	776.06	100.00	869.38	100.00

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			
	2013-2014		2014-2015	
	£m	%	£m	%
United Kingdom	274.68	56.78	301.89	56.27
Europe	54.32	11.23	59.19	11.03
North America	53.61	11.08	58.00	10.81
Japan	24.98	5.16	28.90	5.39
Pacific	26.25	5.42	29.47	5.49
Other	49.97	10.33	59.04	11.01
	483.81	100.00	536.49	100.00

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 2015.

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 2015			
Mortality assumptions:			
Longevity at age 65 for current pensioners:			
Men	23.0	23.0	23.0
Women	25.5	25.5	25.5
Longevity at age 65 for future pensioners:			
Men	25.2	25.2	-
Women	27.8	27.8	-
Inflation - CPI	1.8%	1.8%	1.8%
Salary increases	3.3%	3.3%	-
Pension increases	1.8%	1.8%	1.8%
Pension accounts revaluation rate	1.8%	-	-
Discount rate	3.2%	3.1%	3.1%
As at 31 March 2014			
Mortality assumptions:			
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%

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 2013 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 2014.

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.

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	Impact on the Defined Benefit Obligation in the Scheme			
	Local Government Pension Scheme			
	Increase in assumption	Decrease in assumption		
	£m	%	£m	%
Local Government Pension Scheme (LGPS Funded)				
Longevity (increase or decrease in 1 year)	34.29	2.6	(34.29)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	5.00	0.4	(4.95)	(0.4)
Rate of increase in pensions (increase or decrease by 0.1%)	18.54	1.4	(18.26)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(22.59)	(1.7)	22.99	1.8
Firefighters' Pension Scheme				
Longevity (increase or decrease in 1 year)	4.32	2.7	(4.32)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.36	0.2	(0.36)	(0.2)
Rate of increase in pensions (increase or decrease by 0.1%)	2.45	1.5	(2.41)	(1.5)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.46)	(1.5)	2.50	1.6
New Firefighters' Pension Scheme				
Longevity (increase or decrease in 1 year)	0.15	2.7	(0.15)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.07	1.2	(0.07)	(1.2)
Rate of increase in pensions (increase or decrease by 0.1%)	0.09	1.6	(0.09)	(1.6)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.14)	(2.6)	0.15	2.6

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.

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);

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- 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.

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Impact on the Council's Cash Flows

The Council anticipates paying the following amounts in 2015-2016 in relation to the six post-employment schemes covered by this note:

	LGPS	LGPS Unfunded	Teachers' Unfunded	FPS	NFPS	Firefighters' Injury	Total
	£m	£m	£m	£m	£m	£m	£m
Regular employer contributions payable to Northumberland County Council Pension Fund	27.42	-	-	-	-	-	27.42
Payments to beneficiaries	-	2.44	2.82	-	-	0.17	5.43
Payments to beneficiaries net of member contributions receivable, where contributions include the Government Grant	-	-	-	4.70	-	-	4.70
(Member contributions including Government Grant net of payments to beneficiaries)	-	-	-	-	(0.14)	-	(0.14)
Total	27.42	2.44	2.82	4.70	(0.14)	0.17	37.41

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2015-2016 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 2014 No. of years	31 March 2015 No. of years
Local Government Pension Scheme	16.70	17.60
LGPS Unfunded	12.00	10.30
Teachers' Unfunded	12.00	9.70
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	15.40	15.40

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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

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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 5 year formal aftercare programme has also been successfully completed. The site has therefore been fully restored and undergoing routine pollution monitoring and aftercare for a period of over 10 years, during which time no issues of concern have been identified. Given the usage of the site for the landfill disposal of construction and demolition wastes (which have a relatively low pollution risk), the significant period that has now elapsed following completion of the site restoration works and there being no issues of concern identified through routine pollution control monitoring activity, it is considered highly unlikely that any issues would arise that would result in a significant financial liability for the Council. The Council has deferred surrendering the waste management licence for the site due to other work priorities, but will now progress the formal surrender of the licence during 2015-2016.

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.

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

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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 £6.90 million has been created within the 2014-2015 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 so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

Holiday Pay

The Council is currently subject to two employment tribunal cases relating to unlawful deduction of wages in relation to holiday pay. Following the Bear Scotland case, which decided that regular overtime payments should be included for holiday pay purposes, the Council is aware that there may, in the future, be similar claims against the Council. The amount being claimed has not yet been quantified by the claimants and, given the nature of the cases and the fact that there will probably be more claims made in the future, gross liability is not quantifiable at this time.

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 Counterparty Policy sets out the limits for investments. From 2014-2015 the Council's policy continued to be the security of principal. There was no change to the Specified Investment Criteria and the majority of investments were specified (£983 million of investments placed throughout the year of which £10 million were unspecified).

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The policy changed at 1 April 2014 as follows;

- An additional level of criteria for the use of bonds was added so that £5 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 is 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 applied:

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
Debt Management Office	N/A	N/A	Unlimited	6 months
UK Government Gilts, Bonds	N/A	N/A	Unlimited	15 years
Treasury Bills				
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

No Treasury Management Strategy 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 summarised in the following table:

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	Date Invested	Maturity Date	As at 1 April 2014 £'000	Accrued Interest 2014- 2015 £'000	Repaid 2014- 2015 £'000	Impairment 2014-2015 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Landsbanki	08.02.08	06.02.09	-	-	-	-	5.43	-	8
Landsbanki	11.03.08	11.03.09	-	-	-	-	5.80	-	8
Heritable Kaupthing Singer &	26.03.08	29.12.08	-	-	(17)	17	6.00	-	4
Friedlander Kaupthing Singer &	02.04.08	02.01.09	126	6	(124)	(8)	6.05	-	14
Friedlander	04.04.08	05.01.09	168	8	(165)	(11)	6.05	-	14
Landsbanki	10.09.08	10.12.08	-	-	-	-	5.83	-	8
Total			294	14	(306)	(2)		-	

The Council sold the balance of its remaining Icelandic investment claims during 2014-2015 and therefore no further recoveries are anticipated.

Customer Debt

The Council has £6.04 million (2013-2014 £5.41 million) of debt past its due date for payment. The past due amount can be analysed by age as follows:

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Less than three months	1,739	2,644
Three to six months	437	619
Six months to one year	479	954
More than one year	2,750	1,823
Total	5,405	6,040

At 31 March 2015 the Council held a provision of £1.01 million (2013-2014: £1.20 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

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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:

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Analysis by Loan Type		
Public Works Loans Board	195,252	285,639
Other Market Loans	15,195	55,161
LOBO (Market Loans)	260,600	260,600
	471,047	601,400
Analysis of Loans by Maturity		
Less than 1 year	-	-
Between 1 and 2 years	9,711	53,605
Between 2 and 5 years	75,604	95,558
Between 5 and 10 years	53,563	22,336
Between 10 and 20 years	26,428	24,118
Between 20 and 30 years	9,725	9,698
Between 30 and 40 years	47,426	75,485
Between 40 and 50 years	76,990	149,000
Between 50 and 60 years	40,600	40,600
In excess of 60 years	131,000	131,000
	471,047	601,400

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.

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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. 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 2015 with all other variables held constant, the effect would have been:

	As at 31 March 2015 £'000
Increase in Interest Payable on Variable Rate Borrowings	1,402
Increase in Interest Receivable on Variable Rate Investments	(1,536)
Increase in Government Grant receivable for financing costs	(5,620)
Impact on (Surplus) or Deficit on the Provision of Services	(5,754)
Decrease in Fair Value of fixed rate borrowing (no impact on CIES)	118,921

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 134.

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.

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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 imposed by the Icelandic Government and Central Bank. The value of the deposits at 31 March 2015, based on exchange rates at the time was £1.70 million.

51. General Government Grants

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

	2013-2014	2014-2015
	£'000	£'000
Business Rates Top Up Grant	(22,964)	(23,412)
Central Services Education Grant	(4,805)	(4,728)
Council Tax Freeze Grant	(1,538)	-
Efficiency Support for Services in Sparse Areas	(256)	(58)
Local Services Support Grant	(425)	(486)
Localising Support Transitional Grant	(532)	-
New Homes Bonus Grant	(3,194)	(3,872)
Revenue Support Grant	(90,970)	(76,539)
Small Business Rates Relief Grant	(1,767)	(3,226)
Other	-	(7)
Total General Government Grants	(126,451)	(112,328)

52. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2015:

	Total Cost	Future Payments
	£'000	£'000
Ashington Community and Leisure Facility	20,970	7,020
Ashington Town Centre	9,000	2,151
Crag End Land Slip	9,628	7,591
Fire and Rescue Emergency Control Centre	1,943	72
Hirst Putting the Learner First Project	51,320	259
HRA Affordable Housing Scheme	24,624	6,314
Morpeth Northern Bypass	30,103	26,145
Ovingham Bridge Refurbishment	4,369	1,501
Streetlighting Replacement and Modernisation	23,338	21,098

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 2014-2015 of £24.63 million was calculated using both the 'regulatory' (£8.86 million) and 'asset life' (£15.77 million) methods from the guidance. The latter figures includes a voluntary set aside of

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£7.61 million in relation to capital long term debtors. The 2013-2014 provision was also based on 'regulatory' (£9.26 million) and 'asset life' (£6.43 million).

54. Valuation of Fixed Assets

Land and buildings are revalued according to a five year rolling program unless the Council is made aware of any material change. Assets subject to additions in excess of £0.10 million with an Existing Use valuation basis, in excess of £1.00 million with a Depreciated Replacement Cost (DRC) basis and new assets in excess of £2.50 million are revalued as at the date of scheme financial closure.

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

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

The freehold and leasehold properties which are contained in the Council's Schedule of Assets Requiring Valuation have been valued as at 1 April 2014 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, 56% was valued in year. In addition, 100% of the Investment Assets and Assets Held for Sale remaining at 31 March 2015 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 2014, (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.

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Opinions of the Fair Value/Market Value of each property has been primarily derived using comparable recent market transactions on arm's length terms. The depreciated replacement cost approach (DRC) has been adopted in cases where there was a lack of market transactions as the properties were primarily of a specialist nature and not generally traded freely on the open market. For properties valued on a DRC basis, valuers have considered the modern equivalent site and building areas and where appropriate instant build considerations were adopted. Adopted build costs were sourced from BCIS. Obsolescence allowances were assessed in line with relevant parts of the current RICS Valuation Professional Standards 2014 UK Edition (VPS), allowing for physical, functional and external/economic factors.

The Fair Value of properties have been assessed in accordance with VPS 4.1.5(a). under which Fair Value is defined as "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date".

Properties regarded by the Council as non-operational have been valued on the basis of the Market Value, in accordance with VPS, which means "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

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.

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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	-	20,666	97,266	287,944	8,362	253	47,896	462,387
Valued at Current Value in:								
2010-2011	-	15,173	-	-	-	1,101	-	16,274
2011-2012	-	241,020	-	-	-	6,370	-	247,390
2012-2013	-	17,123	-	-	-	510	-	17,633
2013-2014	-	17,607	-	-	-	533	-	18,140
2014-2015	265,859	139,494	-	-	-	6,743		412,096
Total	265,859	451,083	97,266	287,944	8,362	15,510	47,896	1,173,920

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

55. Heritage Assets: Further Information Museum, Art and Artefact Collection

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

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

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

Archive Collection

The Archive collection is split between two offices – Woodhorn and the Berwick-upon – Tweed Record Office. The latter holds records relating to the geographical area held by Berwick-upon-Tweed Borough Council which extends from Berwick, south to Ellingham and

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across to the Cheviots. Records relating to the remainder of the present County of Northumberland are held at Woodhorn. The collection ensures the preservation of historic artefacts, records and local studies material relating to the County of Northumberland and makes these available. The Archive holds in excess of four linear miles of records related to almost all aspects of the history of Northumberland. There are also around eight thousand 3-D objects and the Local Studies Reference and Master Collections. All of the holdings are kept in a secure environmentally controlled strong room to ensure their long term preservation.

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

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

Public Sculptures and Memorials

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

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

Historic Buildings

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

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

Also included is the Morpeth Clock Tower, which was constructed 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-20th Century and acts as a signpost to

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more detailed records held in other collections. The HER collects information about archaeological and historic sites and landscapes from the earliest period of human activity to the later 20th Century. In addition to the digital data, the HER is supplemented by photographic and aerial photographic collections, GIS historic mapping and an extensive grey literature library.

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

Preservation Management

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

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

56. Analysis of Net Assets Employed

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

	Council Dwellings	Land and Buildings	Community Assets	Infrastructure	Vehicles, Plant and Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000
General Fund	-	507,628	8,362	287,944	97,266	901,200
HRA	265,859	6,861	-	-	-	272,720
	265,859	514,489	8,362	287,944	97,266	1,173,920

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

Notes to the Financial Statements

sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2014-2015 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. No dividend was received for the year ended 31 December 2014 (£2.30 million was payable for the year ended 31 December 2013 and 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 profit before tax of £0.50 million and a profit after tax of £0.28 million for the year ended 31 December 2014. In the previous year, the Group made a loss before tax of £11.13 million and a loss after tax of £3.62 million.

Arch (Corporate Holdings) Ltd

Arch (Corporate Holdings) Ltd was formed on the 1 April 2011 and is the economic development, regeneration and private rented housing arm of Northumberland County Council. Arch (Corporate Holdings) Ltd is 100% owned by Northumberland County Council and in turn it owns 100% of the share capital of:

- Arch (Commercial Enterprise) Limited (formerly Wansbeck Life Ltd)
- Arch (Housing) Limited (formerly Northern Coalfields Property Company)
- Arch (Development Projects) Limited (formed 1 April 2011)
- Arch (Financial Services) Ltd (formed 1 April 2011)
- Arch (Corporate Holdings) Ltd
- Arch (DigEco) Ltd

In addition, during 2014-2015 the group entered into a joint venture agreement with the Duke of Northumberland with both holding a 50% ownership in Prudhoe Estate LLP, which is a property development company.

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, Arch (Development Projects) Limited and Arch (DigEco), whilst Arch (Financial

Notes to the Financial Statements

Services) Limited has remained dormant for the majority of 2014-2015 with only minimal transactions flowing through the accounts. Those transactions that have been processed throughout 2014-2015 relate to historic repayments on loans that were previously granted by Northumberland County Council.

Group accounts have been prepared for 2014-2015. 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, Arch (DigEco) Limited and Prudhoe LLP Estates Ltd.

The latest financial results are summarised below:

Arch (Corporate Holdings) Limited	2013-2014 £'000	2014-2015 £'000
Profit/(Loss) on ordinary activities before taxation	(744)	470
Profit/(Loss) on ordinary activities after taxation	(744)	(76)

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. Homes for Northumberland has its own subsidiary, Building for Northumberland, which is a registered provider of social housing.

Financial results are as follows:

	£'000	£'000
Profit/(Loss) on ordinary activities before taxation	483	1,712
Profit/(Loss) on ordinary activities after taxation	483	1,712

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 2015 was £7,582 (£7,462 as at 31 March 2014). Income received during 2014-2015 through dividends was £270 (£265 in 2013-2014). There was no expenditure incurred during 2014-2015 or during 2013-2014. 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 £2,471.

Thropton First School

The Council held £0.02 million of funds at 31 March 2015 (£0.05 million at 31 March 2014) for Thropton First School (which is a foundation school).

Trust Schools

The Council also held funds for the following Trust schools:

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	31 March 2014 £'000	31 March 2015 £'000
Ashington Partnership:		
Ashington Central First School	252	31
Ashington Community High School	592	226
Ashington Hirst Park Middle School	11	20
Ashington Wansbeck First School	8	62
Bothal Middle School	77	(3)
Total Ashington Partnership	940	336
West Partnership:		
Bellingham First School	39	72
Bellingham Middle School	59	80
Haydon Bridge High School	168	(142)
Total West Partnership	266	10

Academies

The Council acted as the Payroll provider for nine Academies during the 2014-2015 financial year, namely:

- The Northumberland Church of England Academy (NCEA - since 1 September 2009)
- Cramlington Learning Village Academy (since 1 September 2011)
- Berwick Academy (since 1 November 2011)
- The Three Rivers Academy (since 1 December 2011)
- Meadowdale Academy (since 1 April 2012)
- Blyth Quays Trust Academy (since 1 June 2013)
- Haltwhistle Community Academy (since 1 September 2013)
- The Blyth Academy (since 1 October 2013 however left NCC on 30 June 2014)
- Pax Christi Academy (since 1 March 2015)

As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on behalf of these Academies. For 2014-2015, £3.02 million (2013-2014 £2.91 million) employers' contributions (14.1% of pensionable pay) and £2.07 million (2013-2014 £1.84 million) employees' contributions (previously at rates ranging from 6.4% to 12.4% of pensionable pay but now at rates ranging from 7.4% to 11.7%), were paid over to the Teachers' Pensions Agency.

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 2015 the balance on these accounts was £3.87 million (£3.67 million at 31 March 2014) 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 2014-2015 this income totalled £0.05 million (£0.06 at 31 March 2014) and has been excluded from the Council's Balance Sheet.

Notes to the Financial Statements

Adult Personal Allowances

The Council holds personal allowance money paid to clients in residential care. At the end of 2014-2015 this totalled £0.01 million (£0.06 at 31 March 2014) 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 2014-2015 these funds totalled £0.20 million (£0.14 million at the end of 2013-2014) and have been excluded from the Council's Balance Sheet.

Disability Living Allowances

The Council holds Disability Living Allowance money of £0.02 million at the end of 2014-2015 (£0.02 million at the end of 2013-2014) 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 2014 £'000	31 March 2015 £'000
Blaeberry Hill	40	8
Broadband Loan Briskona	9	9
Choppington Educational Foundation	2	2
Dransfield Properties Ltd	80	-
Eland Homes Delaval House	65	16
Meg Burdon Library Legacy Fund	-	5
Network Rail Hexham Goods Yard	75	8
New Ridley Road Stocksfield	13	13
NHCT The Mount A197 Morpeth	200	-
North Stobswood Open Cast Coal Site	274	274
Northumberland Sports Fund	59	-
R. Bell Bequest	2	1
Rural Growth Fund Income in Advance	1,246	2,959
Southlane SJ Williams	80	40
The Northumberland Children's Fund	49	46
Wandylaw Wind Farm	54	54
Wingates Wind Farm	30	-
	2,278	3,435

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.

Choppington Education Foundation

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

Notes to the Financial Statements

Dransfield Property Ltd

Section S278 Agreement. All works relating to Morrisons, Morpeth are complete and the bond has been repaid.

Eland Homes Delaval House

Eland Homes S38 Bond for highway improvements at Delaval House.

Meg Burdon Library Legacy Fund

The late Meg Burdon worked for many years at Morpeth Library. £0.01 million has been left in her will to provide children's activities at Morpeth Library for a period of ten years.

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.

New Ridley Road Stocksfield

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

NHCT The Mount A197 Morpeth

Following the completion of the NHS Centre at The Mount on the A197 the funds were transferred to Northumberland County Council's Highways department for future road improvements.

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.

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. The balance of £0.05 million was transferred to Active Northumberland in 2014-2015.

R. Bell Bequest

This money is for the future benefit of the clients residing in Tynedale House. The management committee of the home are to decide how it should be used. £541 has been spent in 2014-2015. Work has been carried out in the garden and cushions, pictures and lights have been purchased. The balance should be utilised in 2015-2016.

Rural Growth Fund Income in Advance

Department for Communities and Local Government (DCLG) pay funding up front based on the quarterly forecast of payments due to be made to businesses which is submitted by Northumberland County Council. 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.

Southlane SJ Williams

Notes to the Financial Statements

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

The Northumberland Children's Fund

This money is made available for the benefit of young people in Northumberland by way of a grant. £0.05 million was added to the fund from investments. Grants totalling £0.05 million have been paid to organisations in 2014-2015.

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.

Wingates Wind Farm

Section S278 Agreement. All works are complete and the bond has been repaid.

59. Landfill Allowance Trading Scheme (LATS)

The government has abolished the Landfill Allowance Trading Scheme. The last year of trading was for 2012-2013 allowances. All trading in surplus allowances ceased in 2012-2013.

60. Construction Contracts

At 31 March 2015 and 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 2015

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	2013-2014 £'000	2014-2015 £'000
Expenditure:			
Repairs and maintenance		4,716	4,868
Supervision and management		7,823	8,154
Rents, rates, taxes and other charges		792	775
Depreciation and impairment of Fixed Assets		1,080	5,088
Debt management costs		11	22
Movement in the allowance for Bad Debt (not specified by the Code)	12	237	270
Total Expenditure		14,659	19,177
Income:			
Dwelling rents (gross)		(27,560)	(29,550)
Non dwelling rents (gross)	4	(345)	(347)
Charges for services and facilities		(1,358)	(1,433)
Total Income		(29,263)	(31,330)
Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement		(14,604)	(12,153)
HRA services' share of Corporate and Democratic Core Costs		549	539
Net cost for HRA Services		(14,055)	(11,614)
HRA Share of the operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement:			
Capital Grants and Contributions Receivable	1	(1,465)	(2,542)
Interest payable and similar charges		4,294	4,342
Interest and investment income		(357)	(246)
Pensions net interest expense		46	30
Surplus for the year on HRA Services		(11,537)	(10,030)

Movement on the Housing Revenue Account Statement for the year ended 31 March 2015

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

	Note	2013-2014 £'000	2014-2015 £'000
Balance on the HRA at the end of the previous year		(14,128)	(10,548)
Surplus for the year on the HRA Income and Expenditure Statement		(11,537)	(10,030)
Adjustments between accounting basis and funding basis under Statute	1	15,117	9,423
Net increase before transfers to or from reserves		3,580	(607)
Balance on the HRA at the end of the current year		(10,548)	(11,155)

Notes to the HRA Income and Expenditure Statement

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

	Note	2013-2014	2014-2015
		£'000	£'000
<i>Analysis of adjustments between accounting basis and funding basis</i>			
Transfers to the Capital Adjustment Account		6,044	2,262
Movements in market value of investment properties		51	-
Capital grants and contributions applied		1,465	2,542
HRA share of contributions to the Pensions Reserve		(47)	(16)
Capital expenditure funded by the HRA	8	7,604	4,635
		15,117	9,423

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.

Since 2012-2013 depreciation and impairment charges, other than valuation reductions on non-dwelling assets, have been 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 £67.78 per week in 2014-2015 (£63.66 in 2013-2014), an increase of £4.12 or 6.47% compared with 2013-2014 on a 52 week basis.

4. Other Rent Income

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

	2013-2014	2014-2015
	£'000	£'000
Garages	(284)	(283)
Shops	(42)	(42)
Miscellaneous	(19)	(22)
Total	(345)	(347)

Notes to the HRA Income and Expenditure Statement

5. Housing Stock

	2013-2014	2014-2015
	No.	No.
Houses and Bungalows	7,116	7,254
Flats	1,325	1,332
Houses in Multiple Occupation	10	10
Total	8,451	8,596

Council Stock reduced by one hundred and forty five dwellings in 2014-2015. There were thirty nine sales under the 'Right to Buy Scheme' and four demolitions due to subsidence issues. One hundred and eighty seven new builds were added to the dwelling stock in year (the schemes Hodgson's Road, Ark Royal Close and South Newsham completed in year delivering 151 new builds and Dandsfield Square was partially complete delivering 36 new builds). One former Community House was brought back into the Council stock and is now tenanted.

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 2014	251,816	2,368	98	347	633	6,920	262,182
Reclassifications	6,757	-	-	-	-	(6,757)	-
Additions	13,350	-	-	-	-	4,791	18,141
Disposals	(1,362)	(15)	(98)	(38)	-	(5)	(1,518)
Revaluations	(4,702)	(241)	-	(219)	(6)	-	(5,168)
Other Movements in Cost or Valuation	-	-	-	-	-	-	-
Gross book value 31 March 2015	265,859	2,112	-	90	627	4,949	273,637
Depreciation at 1 April 2014	-	229	98	-	-	-	327
Charged in year	7,131	61	-	-	-	-	7,192
Disposals	-	-	(98)	-	-	-	(98)
Revaluations	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
Depreciation written out	(7,131)	-	-	-	-	-	(7,131)
Depreciation at 31 March 2015	-	290	-	-	-	-	290
Net book value at 1 April 2014	251,816	2,139	-	347	633	6,920	261,855
Net book value at 31 March 2015	265,859	1,822	-	90	627	4,949	273,347

The value of Council dwellings at 31 March 2015 of £265.86 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £718.54 million. This shows that the economic cost to government of providing Council housing at less than open market value is £453.68 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 £0.73 million. Surplus Assets consists of land valued at £0.09 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 were no longer allowed to reverse non-dwelling depreciation and were only allowed to reverse dwelling depreciation on a transitional basis until 2017-2018.

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:

	2013-2014 £'000	2014-2015 £'000
Income:		
Depreciation on Fixed Assets	(6,954)	(7,131)
	(6,954)	(7,131)
Appropriations transfer from the HRA	-	-
	(6,954)	(7,131)
Expenditure:		
Capital expenditure funded from the Reserve		
Transfer to HRA	-	-
Houses	6,860	7,829
	6,860	7,829
Deficit for the year	(94)	698
Balance brought forward 1 April	(1,218)	(1,312)
Balance carried forward 31 March	(1,312)	(614)

8. HRA Capital Expenditure and Financing

	2013-2014 £'000	2014-2015 £'000
Capital Expenditure:		
Houses	16,468	18,130
	16,468	18,130
Financing:		
Borrowing	-	3,435
Government Grants	2,004	2,231
Direct Revenue Financing	7,604	4,635
Major Repairs Reserve	6,860	7,829
Total	16,468	18,130

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	1,519	688	831

10. Accounting for Pensions

The net impact on the HRA as a result of IAS 19 was a credit of £0.02 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 2014		As at 31 March 2015	
	£'000	%	£'000	%
Rents:				
Current tenants	691	2.51	829	2.81
Former tenants	403	1.46	618	2.09
Balance at 31 March	1094	3.97	1,447	4.90

12. Provision for Impairment of Debt

The actual charge to the HRA in respect of bad debts provision and debts written off in 2014-2015 was £0.27 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 2013-2014 the actual charge to the HRA was £0.24 million. Of this, £0.23 million related to write off of rents and charges 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:

	2013-2014 £'000	2014-2015 £'000
Balance at 1 April	326	560
Increase in provision	234	273
Balance at 31 March	560	833

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 Alnwick, and Blyth authorities. In 2014-2015 the Management Fee payable to Homes for Northumberland was £11.68 million (£11.19 million in 2013-2014).

Collection Fund Account

for the year ended 31 March 2015

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 2015

	Note	2013-2014 Total £'000	2014-2015 Council Tax £'000	2014-2015 NNDR £'000	Total £'000
Income:					
Council Tax Payers	1	(148,007)	(154,777)	-	(154,777)
Income collectable from Business Ratepayers	2	(75,987)	-	(76,290)	(76,290)
Total Income		(223,994)	(154,777)	(76,290)	(231,067)
Expenditure:					
Apportionment of previous year's surplus:					
Northumberland County Council	3	1,500	750	(2,671)	(1,921)
Police and Crime Commissioner for Northumbria	3	150	40	-	40
Central Government - Share		-	-	(2,671)	(2,671)
Precepts, demands and shares:					
Northumberland County Council		168,701	135,501	37,516	173,017
Parish and Town Councils		5,076	7,031	-	7,031
Police and Crime Commissioner for Northumbria		8,343	8,384	-	8,384
Central Government - Share	2	36,402	-	37,516	37,516
Charges to Collection Fund:					
Costs of collection		474	-	471	471
Provision for bad debts	4	1,756	458	578	1,036
Provision for appeals	4	5,266	-	1,638	1,638
Disregarded amounts - renewable energy		391	-	1,085	1,085
Total Expenditure		228,059	152,164	73,462	225,626
(Surplus)/Deficit for year		4,065	(2,613)	(2,828)	(5,441)
Opening fund balance		(964)	(1,229)	4,330	3,101
Closing fund balance		3,101	(3,842)	1,502	(2,340)
Allocated to:					
Northumberland County Council		1,008	(3,618)	751	(2,867)
Police and Crime Commissioner for Northumbria		(72)	(224)	-	(224)
Central Government		2,165	-	751	751
		3,101	(3,842)	1,502	(2,340)

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.

The net Council Tax liability in 2014-2015 was £154.78 million (£148.01 million in 2013-2014).

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.

	2013-2014	2014-2015
Council tax base (Band D equivalent @ 98.2% of collection rate)	96,329	96,802
Council tax (Band D property)	£1,459.10	£1,486.22

Council Tax Band	Proportion	2014-2015		Council Tax Charge £
		No. of Properties	No of Band D equivalent Properties	
		No.	No.	
A (Disabled)	5/9	-	69	825.68
A	6/9	69,959	28,761	990.81
B	7/9	23,068	14,661	1,155.95
C	8/9	18,794	14,469	1,321.08
D	9/9	15,124	13,865	1,486.22
E	11/9	9,947	11,197	1,816.49
F	13/9	6,349	8,609	2,146.76
G	15/9	3,893	6,100	2,477.03
H	18/9	505	842	2,972.44
Total		147,639	98,573	

Notes to the Collection Fund Account

Council Tax Band	Proportion	2013-2014		
		No. of	No of Band	Council
		Properties	D equivalent	Tax
		2013-2014	2013-2014	Charge
		No.	No.	£
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
Total		147,292	98,096	

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 now 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 2014-2015 were estimated before the start of the financial year as £37.52 million to Central Government and £37.52 million retained by Northumberland County Council. These sums have been paid to the General Fund and Central Government in 2014-2015 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 2014-2015 of £23.41 million.

The total income from business ratepayers in 2014-2015 was £76.29 million (£75.99 million in 2013-2014). This sum includes £0.30 million of transitional protection payments from ratepayers, which under Government regulation should have a neutral impact on the business rate retention scheme. This sum is reimbursed to Central Government by the Council.

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 2014-2015 was £56.77 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 2014-2015.

For 2014-2015 the total non-domestic rateable value at year end is £203.69 million (£201.39 million). The national multipliers for 2014-2015 were 47.1p for qualifying Small Businesses, and the standard multiplier being 48.2p for all other businesses (46.2p and 47.1p respectively for 2013-2014).

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. In January 2014 the estimated surplus and amounts due to preceptors were:

	Council Tax £'000	NNDR £'000	Total £'000
Estimated Surplus/(Deficit) 2013-2014 (January 2014)	790	(5,342)	(4,552)
Allocated to:			
Northumberland County Council	750	(2,671)	(1,921)
Police and Crime Commissioner for Northumbria	40	-	40
Central Government	-	(2,671)	(2,671)
Total	790	(5,342)	(4,552)

	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

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. Collection rates improved in 2014-2015 with council tax achieving the same percentage as in 2012-2013 which was 97.7% and the business rates collection rate exceeded all previous years.

Notes to the Collection Fund Account

	2013-2014			2014-2015		
	Council	NNDR	Total	Council	NNDR	Total
	Tax £'000	£'000	£'000	Tax £'000	£'000	£'000
Balance as at 1 April	6,435	1,183	7,618	6,052	1,526	7,578
Write offs	(757)	(1,039)	(1,796)	(919)	(858)	(1,777)
Increase in provision	374	1,382	1,756	458	578	1,036
Balance at 31 March	6,052	1,526	7,578	5,591	1,246	6,837
Northumberland County Council	5,699	763	6,462	5,265	623	5,888
Police and Crime	353	-	353	326	-	326
Commissioner for Northumbria	-	763	763	-	623	623
Central Government	-	763	763	-	623	623
	6,052	1,526	7,578	5,591	1,246	6,837

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 2015. As such, authorities are required to make a provision for these amounts.

	2013-2014	2014-2015
	£'000	£'000
Balance at 1 April	-	5,266
Use of Provision - settled cases 2014-2015	-	(1,786)
Increase in provision	5,266	3,424
Balance at 31 March	5,266	6,904
Allocated to:		
Northumberland County Council	2,633	3,452
Central Government	2,633	3,452
Total	5,266	6,904

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 2015:

- Arch Group
- Homes for Northumberland

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 and 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 2014-2015 with only minimal transactions flowing through the accounts.

Those transactions that have been processed throughout 2014-2015 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 accounted for within Arch DigEco Ltd and is therefore represented within the accounts.

Prudhoe (LLP) Estates Ltd

In addition, during 2014-2015 the group entered into a joint venture agreement with the Duke of Northumberland with both holding a 50% ownership in Prudhoe Estate LLP, which is a property development company.

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 8,600 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 2014-2015 was £11.68 million.

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

- Housing and Estate Management.

Group Accounts Explanatory Foreword

- Rent collection and arrears management.
- Responsive Repairs and Maintenance.
- Planned repairs and major works (including Decent Homes).
- Leasehold Management.
- Resident Participation.
- Resolving Anti-Social Behaviour.

Building for Northumberland is a subsidiary of Homes for Northumberland and is a registered provider of affordable housing. Building for Northumberland was dormant in 2013-2014 but began trading in 2014-2015.

At its meeting on the 9 June 2015 the Cabinet of the Council agreed to terminate the arm's length management arrangement for its housing stock and establish an integrated housing management structure within the Council with effect from 1 September 2015.

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.

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 2015

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 2015

	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 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 Movement in Reserves Statement

for the year ended 31 March 2015

	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 2014	(28,472)	(78,409)	(10,548)	(1,378)	(14,027)	(1,312)	(134,146)	(108,429)	(1,635)	(34,482)	(278,692)
Movement in Reserves during 2014-2015:											
(Surplus)/Deficit on the provision of services	(16,054)		(10,030)				(26,084)		(3,537)	-	(29,621)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	82,551		(5,329)	77,222
Total Comprehensive Income and Expenditure	(16,054)	-	(10,030)	-	-	-	(26,084)	82,551	(3,537)	(5,329)	47,601
Adjustments between accounting basis & funding basis under regulations	(2,958)	-	9,423	(896)	(1,595)	698	4,672	(4,672)	(235)	235	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(19,012)	-	(607)	(896)	(1,595)	698	(21,412)	77,879	(3,772)	(5,094)	47,601
Transfers (to)/from Earmarked Reserves	20,848	(20,848)	-	-	-	-	-	-	-	-	-
(Increase)/Decrease in 2014-2015	1,836	(20,848)	(607)	(896)	(1,595)	698	(21,412)	77,879	(3,772)	(5,094)	47,601
Balance at 31 March 2015 carried forward	(26,636)	(99,257)	(11,155)	(2,274)	(15,622)	(614)	(155,558)	(30,550)	(5,407)	(39,576)	(231,091)

Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2015

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 2015

2014-2015 Group	Note	Council Only			Group		
		Gross	Gross	Net	Gross	Gross	Net
		Expenditure £'000	Income £'000	Expenditure £'000	Expenditure £'000	Income £'000	Expenditure £'000
Adult Social Care		160,695	(75,333)	85,362	160,695	(75,333)	85,362
Central Services to the Public		8,180	(4,036)	4,144	8,180	(4,036)	4,144
Corporate and Democratic Core		11,579	(2,521)	9,058	11,194	(2,521)	8,673
Culture and Related Services		19,155	(2,103)	17,052	19,155	(149)	19,006
Education and Children's Services		292,107	(225,262)	66,845	292,107	(225,262)	66,845
Environmental and Regulatory Services		48,562	(8,689)	39,873	53,758	(16,242)	37,516
Exceptional costs of Equal Pay		(4,186)	-	(4,186)	(4,186)	-	(4,186)
Fire and Rescue Services		14,931	(12,586)	2,345	14,931	(12,586)	2,345
Highways and Transport Services		39,805	(7,212)	32,593	39,805	(7,212)	32,593
Local Authority Housing (HRA)		19,716	(31,330)	(11,614)	18,166	(32,362)	(14,196)
Non Distributed costs		6,969	(126)	6,843	6,989	(126)	6,863
Other Housing Services		96,331	(92,076)	4,255	96,862	(95,693)	1,169
Planning Services		16,484	(3,601)	12,883	16,484	(3,601)	12,883
Public Health		12,086	(13,412)	(1,326)	12,086	(13,411)	(1,325)
Cost Of Services		742,414	(478,287)	264,127	746,226	(488,534)	257,692
Other Operating Expenditure		19,938	(3,125)	16,813	19,938	(3,125)	16,813
Financing and Investment Income and Expenditure	18	59,166	(21,884)	37,282	59,423	(19,789)	39,634
Taxation and Non-Specific Grant Incomes	19	-	(344,306)	(344,306)	546	(344,306)	(343,760)
Deficit on Provision of Services		821,518	(847,602)	(26,084)	826,133	(855,754)	(29,621)
Tax Expenses of Associates		-	-	-	-	-	-
Group (Surplus)/Deficit		821,516	(847,601)	(26,084)	826,133	(855,754)	(29,621)
(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets				551			(6,128)
(Surplus) or Deficit on Revaluation of Available for Sale Financial Instruments				-			-
Actuarial (Gains)/Losses on Pension Assets/Liabilities				82,000			83,350
Other Comprehensive Income and Expenditure				82,551			77,222
Total Comprehensive Income and Expenditure				56,467			47,601

Group Comprehensive Income and Expenditure Statement

for the year ended 31 March 2015

2013-2014 Group		Council Only			Group		
	Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'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 Balance Sheet

as at 31 March 2015

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 2015

	Note	31 March 2014		31 March 2015	
		Council Only £'000	Group £'000	Council Only £'000	Group £'000
Property, Plant & Equipment	1	1,148,041	1,186,412	1,173,920	1,193,677
Heritage Assets		8,210	8,210	8,210	8,210
Investment Property	2	3,861	46,220	3,543	100,423
Intangible Assets		2,941	2,941	4,065	4,065
Assets Held for Sale - non current		375	375	388	388
Long-Term Investments		110,378	107,038	110,217	107,560
Long-Term Debtors		159,797	129,938	207,956	153,237
Long-Term Assets		1,433,603	1,481,134	1,508,299	1,567,560
Intangible Assets		19	19	462	462
Short Term Investments		27,480	27,480	102,414	102,395
Assets Held for Sale - current		5,195	5,195	2,752	2,752
Inventories		1,076	1,330	724	1,108
Short-Term Debtors	7	77,448	74,109	76,988	75,623
Cash and Cash Equivalents	3	35,896	40,439	43,541	49,721
Taxation		-	98	-	-
Current Assets		147,114	148,670	226,881	232,061
Bank Overdraft	3	(14,843)	(14,843)	(17,568)	(17,568)
Short Term Borrowing	16	(73,202)	(73,520)	(68,632)	(68,928)
Short Term Creditors	8	(53,068)	(53,329)	(55,950)	(60,010)
Provisions		(49,273)	(49,273)	(21,345)	(21,345)
Revenue Grants Receipts in Advance		(2,253)	(2,253)	(1,662)	(1,662)
Corporation tax liability		-	(53)	-	(496)
Current Liabilities		(192,639)	(193,271)	(165,157)	(170,009)
Long Term Creditors - PFI		(83,327)	(84,621)	(81,720)	(83,075)
Long Term Borrowing	17	(471,047)	(473,911)	(601,400)	(603,772)
Provisions		-	-	(13,930)	(13,930)
Other Long Term Liabilities	15	(585,940)	(591,140)	(677,560)	(684,640)
Capital Grants Receipts in Advance		(5,189)	(8,169)	(9,305)	(13,104)
Long-Term Liabilities		(1,145,503)	(1,157,841)	(1,383,915)	(1,398,521)
Net Assets		242,575	278,692	186,108	231,091
Usable Reserves		134,146	135,781	155,558	160,965
Unusable Reserves	9	108,429	142,911	30,550	70,126
Total Reserves		242,575	278,692	186,108	231,091

Group Cash Flow Statement

as at 31 March 2015

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	2013-2014		2014-2015	
		Council Only £'000	Group £'000	Council Only £'000	Group £'000
Net surplus / (deficit) on the provision of services		(65,192)	(64,447)	26,084	29,621
Adjustments to net surplus or deficit on the provision of services for non-cash movements		106,402	114,202	(60,242)	(60,254)
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(39,858)	(39,858)	(62,178)	(62,178)
Net cash flows from Operating Activities		1,352	9,897	(96,336)	(92,811)
Investing Activities	5	10,145	3,522	(24,957)	(26,845)
Financing Activities	6	(10,612)	(10,612)	126,213	126,213
Net (increase) / decrease in cash and cash equivalents		885	2,807	4,920	6,557
Cash and cash equivalents at the beginning of the reporting period		20,168	22,789	21,053	25,596
Cash and cash equivalents at the end of the reporting period	3	21,053	25,596	25,973	32,153

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

Deferred Taxation

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

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

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Group when there is reasonable assurance that:

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

Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Notes to the Group Financial Statements

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

Movements in 2014-2015:	Council Only							Subsidiaries			Group	
	Council	Other	Vehicles,	Infrastructure	Community	Surplus	Assets	Total	PFI Assets	Other	Vehicles,	Total
	Dwellings	Land and	Plant,	Assets	Assets	Assets	Under	Property,	Included in	Land and	Plant, &	Assets
		Buildings	Furniture & Equipment				Construction	Plant and Equipment	Property, Plant and Equipment	Buildings	Equipment	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation:												
At 1 April 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
Additions	13,350	11,032	8,293	17,159	1	146	33,399	83,380	1,052	4,758	2,233	90,371
Reclassifications	6,757	1,195	1,013	3,531	37	7,593	(21,821)	(1,695)	-	(25,321)	-	(27,016)
Revaluation increases/(Decreases) recognised in the												
Revaluation Reserve	-	(12,031)	-	-	-	873	-	(11,158)	4,949	-	-	(11,158)
Revaluation increases/(Decreases) recognised in the												
Surplus/(Deficit) on the												
Provision of Services	(4,702)	(6,136)	-	-	-	(1,290)	-	(12,128)	9,453	-	-	(12,128)
De-recognition - Disposals	(1,258)	(2,078)	(5,078)	-	-	(95)	(1,081)	(9,590)	-	-	(24)	(9,614)
De-recognition - Other	(104)	(8,943)						(9,047)				(9,047)
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	(62)	-	(62)	-	-	-	(62)
Other movements in Cost or Valuation	-	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2015	265,859	485,746	136,820	392,021	9,654	18,599	47,896	1,356,595	106,845	17,659	3,127	1,377,381

Notes to the Group Financial Statements

Movements in 2014-2015:	Council Only						Subsidiaries				Group	
	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment	Other Land and Buildings	Vehicles, Plant, & Equipment	Total Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Accumulated Depreciation and Impairment:												
At 1 April 2014	-	39,180	34,675	93,356	1,168	475	-	168,854	16,604	234	535	169,623
Depreciation charge	7,131	13,828	8,857	10,721	124	167	-	40,828	3,963	135	105	41,068
Reclassifications	-	(755)	-	-	-	755	-	-	-	27	-	27
Depreciation written out to the Revaluation Reserve	-	(10,446)	-	-	-	(161)	-	(10,607)	(1,455)	-	-	(10,607)
Depreciation written out to the Surplus/(Deficit) on the Provision of Services	(7,131)	(4,273)	-	-	-	(87)	-	(11,491)	(253)	-	(21)	(11,512)
De-recognition - Disposals	-	(50)	(3,978)	-	-	-	-	(4,028)	-	-	-	(4,028)
De-recognition – Other	-	(881)	-	-	-	-	-	(881)	-	-	-	(881)
Other movements in depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-	-	14	-	14
At 31 March 2015	-	36,603	39,554	104,077	1,292	1,149	-	182,675	18,859	410	619	183,704
Net Book Value:												
At 31 March 2015	265,859	449,143	97,266	287,944	8,362	17,450	47,896	1,173,920	87,986	17,249	2,508	1,193,677
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

Notes to the Group Financial Statements

Movements in 2013-2014:	Council Only							Subsidiaries			Group	
	Council	Other	Vehicles,	Infrastructure	Community	Surplus	Assets	Total	PFI Assets	Other	Vehicles,	Total
	Dwellings	Land and	Plant,	Assets	Assets	Assets	Under	Property,	Included in	Land and	Plant, &	Assets
	£'000	£'000	£'000	£'000	£'000	£'000	Construction	Plant and	Property,	Buildings	Equipment	£'000
			Furniture & Equipment					Equipment	Plant and Equipment			
Cost or Valuation:												
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 Assets reclassified	-	(4,130)	-	-	-	-	-	(4,130)	-	-	-	(4,130)
(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
Accumulated Depreciation and Impairment:												
At 1 April 2013	-	30,241	29,526	83,243	1,428	479	-	144,917	13,095	155	576	145,648
Depreciation 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
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	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

2. Investment Property

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

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Balance at start of the year	2,354	41,129	3,861	46,220
Additions	13	4,413	-	22,229
Reclassifications	688	688	-	25,321
Assets reclassified (to)/from held for sale	-	-	-	-
Disposals	(155)	(155)	-	(2,209)
Net (losses)/gains from fair value adjustments	961	145	(318)	8,862
Balance at end of the year	3,861	46,220	3,543	100,423

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:

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Cash held by the Council	35,896	35,896	43,541	43,541
Cash overdrawn within the Council	(14,843)	(14,143)	(17,568)	(17,087)
Cash overdrawn by Homes for Northumberland held by the Council	-	(700)	-	(481)
Cash held by Homes for Northumberland	-	-	-	1,666
Cash held by Arch	-	4,543	-	4,514
Total Cash and Cash Equivalents	21,053	25,596	25,973	32,153

4. Group Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Interest received	(8,679)	(8,679)	(11,900)	(13,995)
Interest paid	25,867	26,587	25,816	25,559

Notes to the Group Financial Statements

5. Group Cash Flow Statement – Investing Activities

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(67,961)	(86,758)	(79,114)	(107,102)
Purchase of short term and long term investments	(88,000)	(88,000)	(275,092)	(276,005)
Other payments for investing activities	(128,283)	(116,117)	(59,564)	(34,788)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,074	3,082	13,393	15,630
Proceeds from short term and long term investments	233,805	233,805	200,289	200,289
Other receipts from investing activities	57,510	57,510	175,131	175,131
Net cash flows from investing activities	10,145	3,522	(24,957)	(26,845)

6. Group Cash Flow Statement – Financing Activities

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Cash receipts of short term and long term borrowing	40,333	40,333	208,602	208,602
Other receipts from financing activities	2,296	2,296	3,159	3,159
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(925)	(925)	(1,067)	(1,067)
Repayments of short and long term borrowing	(52,316)	(52,316)	(84,481)	(84,481)
Net cash flows from financing activities	(10,612)	(10,612)	126,213	126,213

7. Group Short Term Debtors

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Central government bodies	13,450	13,450	16,205	16,205
Other local authorities	12,785	12,785	6,687	6,687
NHS bodies	9,520	9,520	10,869	10,869
Public corporations and trading funds	2,570	2,570	1,398	1,398
Other entities and individuals	39,123	35,784	41,829	40,464
Total Short Term Debtors	77,448	74,109	76,988	75,623

Notes to the Group Financial Statements

8. Group Short Term Creditors

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Central government bodies	(9,019)	(9,019)	(11,498)	(11,498)
Other local authorities	(935)	(935)	(1,140)	(1,140)
NHS bodies	(1,853)	(1,853)	(1,034)	(1,034)
Public corporations and trading funds	(148)	(148)	(34)	(34)
Other entities and individuals	(41,113)	(41,374)	(42,244)	(46,304)
Total Short Term Creditors	(53,068)	(53,329)	(55,950)	(60,010)

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:

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only		Only	
	£'000	£'000	£'000	£'000
Revaluation Reserve	149,016	181,801	143,333	182,796
Pensions Reserve	(585,940)	(591,140)	(677,560)	(684,640)
Capital Adjustment Account	537,451	544,348	552,769	559,962
Deferred Capital Receipts Reserve	* 2,044	2,044	1,482	1,482
Financial Instruments Adjustment Account	* 1,008	1,008	28	28
Collection Fund Adjustment Account	* (1,395)	(1,395)	2,906	2,906
Available for Sale Financial Instruments Account	* 13,104	13,104	13,104	13,104
Accumulated Absences Adjustment Account	* (6,859)	(6,859)	(5,512)	(5,512)
	108,429	142,911	30,550	70,126

* 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.

	2013-2014		2014-2015	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Balance at 1 April	157,291	157,291	149,016	149,016
Amounts held in Subsidiaries	-	35,711	-	32,785
Restated balance 1 April	157,291	193,002	149,016	181,801
Upward revaluation of assets	5,510	5,510	17,744	17,745
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	(3,710)	(1,214)	(18,295)	(11,617)
Difference between fair value depreciation and historical cost depreciation	(3,278)	(3,278)	(3,070)	(3,070)
Accumulated gains on assets sold or scrapped	(6,307)	(6,307)	(2,062)	(2,063)
Amount written off to the Capital Adjustment Account	(490)	(4,462)	-	-
Amount transferred to other capital reserves	-	(1,450)	-	-
Balance at 31 March	149,016	181,801	143,333	182,796

Notes to the Group Financial Statements

Pensions Reserve

The accounts have been prepared incorporating the 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.

	2013-2014		2014-2015	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Balance at 1 April	(699,680)	(708,070)	(585,940)	(591,140)
Return on plan assets	(31,580)	(32,360)	61,270	63,270
Actuarial gains or (losses) arising on changes in financial assumptions	115,380	116,840	(152,590)	(156,060)
Actuarial gains or (losses) arising on changes in demographic assumptions	12,140	13,220	-	-
Other	41,140	43,120	9,320	9,440
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	(58,910)	(60,300)	(48,350)	(49,790)
Employer's pensions contributions and direct payments to pensioners payable in the year	35,570	36,410	38,730	39,640
Balance at 31 March	(585,940)	(591,140)	(677,560)	(684,640)

Share Capital

Share capital is classified into two categories; 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.

	2013-2014		2014-2015	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Authorised:				
500 ordinary shares of £1 each – Wansbeck Life	-	-	-	-
500 voting shares of £1 each – Wansbeck Life	-	-	-	-
200 ordinary shares of £1 each – Northern Coalfields Property Company	-	-	-	-
250 voting shares of £1 each	-	-	-	-
3,340,702 ordinary shares	-	3,341	-	3,341
Total authorised share capital	-	3,341	-	3,341

Notes to the Group Financial Statements

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Allotted, called up and fully paid:				
99 Ordinary shares of £1 each	-	-	-	-
175 (200 2009-2010) Voting shares of £1 each	-	-	-	-
100 Ordinary shares of £1 each	-	-	-	-
3,340,702 ordinary £1 shares	-	1	-	1
100 Ordinary shares of £1 each	-	-	-	-
Total allotted, called up and fully paid	-	1	-	1

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

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

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

	2013-2014		2014-2015	
	Council Only £	Group £	Council Only £	Group £
Balance at 1 April	556,585	556,585	537,451	544,348
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	(39,204)	(39,204)	(40,828)	(40,828)
Deficit on Available-for-Sale financial assets	(381)	(381)	(68)	(68)
Revaluation losses on Property, Plant and Equipment	(2,045)	(2,045)	(418)	(418)
Amortisation of intangible assets	(263)	(263)	(814)	(814)
Revenue expenditure funded from capital under statute	(16,442)	(13,517)	(17,047)	(16,751)
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	(45,496)	(45,496)	(21,374)	(21,374)
Adjusting amounts written out of the Revaluation Reserve	10,075	14,047	5,132	5,132
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	1,903	1,903	4,615	4,615
Use of the Major Repairs Reserve to finance new capital expenditure	6,860	6,860	7,829	7,829
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	34,592	34,592	43,760	43,760
Application of grants to capital financing from the Capital Grants Unapplied Account	4,505	4,505	3,531	3,531
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	15,695	15,695	17,015	17,015
Voluntary set aside of capital receipts	0	0	7,613	7,613
Capital expenditure charged against the General Fund and HRA balance	10,106	10,106	6,684	6,684
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	961	961	(312)	(312)
Balance at 31 March	537,451	544,348	552,769	559,962

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 Dwellings	Other Land and Buildings	Vehicles, plant, furniture and equipment	Council Infrastructure Assets	Community Assets	Surplus Assets	Assets under construction	Council Total	Subsidiaries Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Group Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	20,666	97,266	287,944	8,362	253	47,896	462,387	12,186	2,509	477,082
Valued at Current Value in:											
2010-2011	-	15,173	-	-	-	1,101	-	16,274	1,557	-	17,831
2011-2012	-	241,020	-	-	-	6,370	-	247,390	-	-	247,390
2012-2013	-	17,123	-	-	-	510	-	17,633	-	-	17,633
2013-2014	-	17,607	-	-	-	533	-	18,140	3,505	-	21,645
2014-2015	265,859	139,494	-	-	-	6,743	-	412,096	-	-	412,096
Total	265,859	451,083	97,266	287,944	8,362	15,510	47,896	1,173,920	17,248	2,509	1,193,677

Notes to the Group Financial Statements

13. Group Deferred Taxation

The movement in deferred taxation provision during the year was:

	2013-2014		2014-2015	
	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Provision brought Forward	-	13	-	13
Adjustment in respect of previous year	-	-	-	44
Profit and Loss account movement arising during the year	-	-	-	57
Provision to Carry forward	-	13	-	114

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

	Council Only	Group	Council Only	Group
	£'000	£'000	£'000	£'000
Excess of taxation allowances over depreciation on fixed assets	-	13	-	114

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) and 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 2014-2015 Arch Housing Ltd paid dividend of £0.74 million to Arch Corporate Holdings Ltd and Arch Development Projects paid dividend of £0.02 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 2014-2015	Council Only £m	Homes for N'land £m	Group Total £m
Comprehensive Income and Expenditure Statement:			
Cost of Services:			
Current service cost	(23.36)	(1.22)	(24.58)
Past service cost	(0.85)	(0.02)	(0.87)
Financing and Investment Income and Expenditure:			
Net interest expense	(24.14)	(0.20)	(24.34)
Total post employment benefit charged to the deficit on the provision of services	(48.35)	(1.44)	(49.79)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
Remeasurement of the net defined liability comprising:			
Return on plan assets (excluding the amount included in the net interest expense)	61.27	2.00	63.27
Actuarial gains and losses arising on changes in financial assumptions	(152.59)	(3.47)	(156.06)
Other	9.32	0.12	9.44
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	(82.00)	(1.35)	(83.35)
Movement in Reserves - General Fund Balance:			
Reversal of net charges made to the deficit for the provision of services for post employment benefit	48.35	1.44	49.79
Actual amount charged against the General Fund Balance for pensions in the year:			
Employer's contributions payable to the scheme	(27.86)	(0.91)	(28.77)
Net retirement benefits payable to pensioners	(10.87)	-	(10.87)

Notes to the Group Financial Statements

2013-2014	Council Only £m	Homes for N'land £m	Group Total £m
Comprehensive Income and Expenditure Statement:			
Cost of Services:			
Current service cost	(28.93)	(1.00)	(29.93)
Past service cost	(0.81)	(0.02)	(0.83)
Financing and Investment Income and Expenditure:			
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)
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement:			
Remeasurement of the net defined liability comprising:			
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
Movement in Reserves - General Fund Balance:			
Reversal of net charges made to the deficit for the provision of services for post employment benefit	58.91	1.39	60.30
Actual amount charged against the General Fund Balance for pensions in the year:			
Employer's contributions payable to the scheme	(25.69)	(0.84)	(26.53)
Net retirement benefits payable to pensioners	(9.88)	-	(9.88)

The amount of actuarial gains and losses for the Group recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2014-2015 is a loss of £83.35 million (£140.82 million gain in 2013-2014).

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:

2014-2015	Council Only £m	Homes for N'land £m	Group Total £m
Present value of the defined benefit obligation	(1,546.94)	(35.91)	(1,582.85)
Fair value of plan assets	869.38	28.83	898.21
Sub-total	(677.56)	(7.08)	(684.64)
Net liability arising from defined benefit obligation	(677.56)	(7.08)	(684.64)

Notes to the Group Financial Statements

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)
Net liability arising from defined benefit obligation	(585.94)	(5.20)	(591.14)

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 2014	(1,362.00)	(30.02)	(1,392.02)
Current service cost	(23.36)	(1.22)	(24.58)
Interest cost	(57.50)	(1.29)	(58.79)
Contributions from scheme participants	(7.25)	(0.36)	(7.61)
Remeasurement (gains)/losses:			
Actuarial (gains) / losses arising from changes in financial assumptions	(152.59)	(3.47)	(156.06)
Actuarial (gains) / losses arising from changes in demographic assumptions	-	-	-
Other	9.32	0.12	9.44
Past service cost	(0.85)	(0.02)	(0.87)
Liabilities assumed on entity combinations	-	-	-
Benefits paid	47.29	0.35	47.64
Liabilities extinguished on settlements	-	-	-
Closing balance as at 31 March 2015	(1,546.94)	(35.91)	(1,582.85)
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)
Remeasurement (gains)/losses:			
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)

Notes to the Group Financial Statements

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

	2013-2014			2014-2015		
	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	777.08	23.72	800.80	776.06	24.82	800.88
Interest income	33.37	1.11	34.48	33.36	1.09	34.45
Remeasurement gain/(loss):						
The return on plan assets, excluding the amount included in the net interest expense	(31.58)	(0.78)	(32.36)	61.27	2.00	63.27
Other	-	-	-	-	-	-
Effect of changes in foreign exchange rates	-	-	-	-	-	-
Contributions by the employer	25.69	0.84	26.53	27.86	0.91	28.77
Contributions by participants	6.32	0.26	6.58	6.42	0.36	6.78
Business combinations	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
Benefits paid	(34.82)	(0.33)	(35.15)	(35.59)	(0.35)	(35.94)
Closing balance as at 31 March	776.06	24.82	800.88	869.38	28.83	898.21

Notes to the Group Financial Statements

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets							
	2013-2014				2014-2015			
	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	483.81	15.47	499.28	62.34	536.49	17.79	554.28	61.71
Fixed Interest and Index Linked	209.37	6.70	216.07	26.98	232.67	7.72	240.39	26.76
Property Unit Trust	34.12	1.09	35.21	4.40	37.73	1.25	38.98	4.34
Ventures and Partnerships	53.31	1.71	55.02	6.87	61.36	2.03	63.39	7.06
Net Current (Liabilities)/Assets	(4.55)	(0.15)	(4.70)	(0.59)	1.13	0.04	1.17	0.13
Total assets	776.06	24.82	800.88	100.00	869.38	28.83	898.21	100.00
Equity instruments (by geographical area):								
United Kingdom	274.68	8.78	283.46	56.78	301.89	10.01	311.90	56.27
Europe	54.32	1.74	56.06	11.23	59.19	1.96	61.15	11.03
North Americas	53.61	1.71	55.32	11.08	58.00	1.92	59.92	10.81
Japan	24.98	0.80	25.78	5.16	28.90	0.96	29.86	5.39
Pacific	26.25	0.84	27.09	5.42	29.47	0.98	30.45	5.49
Other	49.97	1.60	51.57	10.33	59.04	1.96	61.00	11.01
Total equity	483.81	15.47	499.28	100.00	536.49	17.79	554.28	100.00

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 2015					
Mortality assumptions:					
Longevity at age 65 for current pensioners:					
Men	23	23	23	23	23
Women	25.5	25.5	25.5	25.5	25.5
Longevity at age 65 for future pensioners:					
Men	25.2	25.2	-	-	25.2
Women	27.8	27.8	-	-	27.8
Inflation - CPI	1.8%	1.8%	1.8%	1.8%	1.8%
Salary increases	3.3%	3.3%	-	-	3.4%
Pension increases	1.8%	1.8%	1.8%	1.8%	1.9%
Pension accounts revaluation rate	1.8%	-	-	-	1.9%
Discount rate	3.2%	3.1%	3.1%	3.1%	3.3%
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%

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 2013 and the Firefighters' schemes as at 31 March 2011.

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

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 Group Financial Statements

	Impact on the Defined Benefit Obligation in the Scheme			
	Local Government Pension Scheme			
	Increase in assumption	Decrease in assumption		
	£m	%	£m	%
Local Government Pension Scheme (LGPS Funded)				
Longevity (increase or decrease in 1 year)	34.29	2.6	(34.29)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	5.00	0.4	(4.95)	(0.4)
Rate of increase in pensions (increase or decrease by 0.1%)	18.54	1.4	(18.26)	(1.4)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(22.59)	(1.7)	22.99	1.8
Firefighters' Pension Scheme				
Longevity (increase or decrease in 1 year)	4.32	2.7	(4.32)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.36	0.2	(0.36)	(0.2)
Rate of increase in pensions (increase or decrease by 0.1%)	2.45	1.5	(2.41)	(1.5)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(2.46)	(1.5)	2.50	1.6
New Firefighters' Pension Scheme				
Longevity (increase or decrease in 1 year)	0.15	2.7	(0.15)	(2.7)
Rate of increase in salaries (increase or decrease by 0.1%)	0.07	1.2	(0.07)	(1.2)
Rate of increase in pensions (increase or decrease by 0.1%)	0.09	1.6	(0.09)	(1.6)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.14)	(2.6)	0.15	2.6
Homes for Northumberland				
Longevity (increase or decrease in 1 year)	0.95	2.6	(0.95)	(2.6)
Rate of increase in salaries (increase or decrease by 0.1%)	0.23	0.6	(0.23)	(0.6)
Rate of increase in pensions (increase or decrease by 0.1%)	0.54	1.5	(0.54)	(1.5)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(0.74)	(2.1)	0.74	2.1

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;

Notes to the Group Financial Statements

- 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.

Impact on the Group's Cash Flows

The Group anticipates paying the following amounts in 2015-2016 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	27.42	0.93	28.35
Payments to beneficiaries	5.43	-	5.43
Payments to beneficiaries net of members contributions receivable, where contributions include Government Grant	4.70	-	4.70
(Member contributions including Government Grant net of payment to beneficiaries)	(0.14)	-	(0.14)
Total	37.41	0.93	38.34

LGPS regular employer contributions payable by the Council to Northumberland County Council Pension Fund in 2015-2016 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:

Notes to the Group Financial Statements

	31 March 2014 No of years	31 March 2015 No of years
Council only:		
Local Government Pension Scheme	16.70	17.60
LGPS Unfunded	12.00	10.30
Teachers' Unfunded	12.00	9.70
Weighted average duration for FPS, NFPS and Firefighters' Injury Scheme	15.40	15.40
Homes for Northumberland	20.40	20.90

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:

	2013-2014		2014-2015	
	Council Only £'000	Group £'000	Council Only £'000	Group £'000
Borrowings:				
Financial liabilities at amortised cost	(68,972)	(69,290)	(62,741)	(63,037)
Add: Accrued Interest	(4,245)	(4,245)	(5,907)	(5,907)
Add: Amortised premiums/(discounts)	15	15	16	16
Total Borrowings	(73,202)	(73,520)	(68,632)	(68,928)

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 2014		As at 31 March 2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Analysis by Loan Type:				
Public Works Loans Board	195,252	195,252	285,639	285,639
Other Market Loans	15,195	18,059	55,161	57,533
LOBO (Market Loans)	260,600	260,600	260,600	260,600
	471,047	473,911	601,400	603,772
Analysis of Loans by Maturity:				
Less than 1 year	-	-	-	-
Between 1 and 2 years	9,711	9,711	53,605	53,605
Between 2 and 5 years	75,604	75,604	95,558	95,558
Between 5 and 10 years	53,563	53,563	22,336	22,336
Between 10 and 20 years	26,428	29,292	24,118	26,490
Between 20 and 30 years	9,725	9,725	9,698	9,698
Between 30 and 40 years	47,426	47,426	75,485	75,485
Between 40 and 50 years	76,990	76,990	149,000	149,000
Between 50 and 60 years	40,600	40,600	40,600	40,600
In excess of 60 years	131,000	131,000	131,000	131,000
	471,047	473,911	601,400	603,772

18. Finance and Investment Income and Expenditure

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Interest payable and similar charges	25,754	26,104	27,579	27,629
Pensions net interest expense	29,170	29,540	24,140	24,340
Interest receivable and similar income	(7,691)	(7,101)	(12,014)	(9,912)
(Surplus)/Deficit on trading undertakings	8,417	8,417	(2,658)	(2,658)
Income and expenditure in relation to investment properties and changes in their fair value	(1,054)	(1,054)	235	235
Total Financing and Investment Income and Expenditure	54,596	55,906	37,282	39,634

Notes to the Group Financial Statements

19. Taxation and Non-Specific Grant Income

	2013-2014		2014-2015	
	Council	Group	Council	Group
	Only £'000	£'000	Only £'000	£'000
Council tax income	(139,123)	(139,123)	(145,743)	(145,743)
Non domestic rates	(34,628)	(34,628)	(37,349)	(37,349)
Non-ring fenced government grants	(126,451)	(126,451)	(112,328)	(112,328)
Capital grants and contributions	(36,837)	(36,837)	(48,886)	(48,886)
Tax on profit on ordinary activities	-	-	-	546
Total Taxation and Non-Specific Grant Income	(337,039)	(337,039)	(344,306)	(343,760)

Pension Fund Accounts

for the year ended 31 March 2015

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 Chief Executive 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 £944 million to £1,067 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 £131 million experienced during 2014-2015, reflecting the positive return on investments experienced by funds generally over that period.

The overall annual return on the Fund was 13.4% for the year (3.8% in 2013-2014), which compares with the Fund specific benchmark annual return of 13.4%.

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 2015 was 8.1%, which compares with the benchmark annualised return of 8.3%. Fund returns for the ten-year period were higher than the growth in average earnings and RPI/CPI increases.

Membership of the Fund at 31 March 2015 is summarised below:

	31 March 2014	31 March 2015
Active members	8,322	8,525
Pensioner members	7,649	7,789
Deferred members	7,875	8,239
	23,846	24,553

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 2015.

Pension Fund Accounts
Fund Account
for the year ended 31 March 2015

	Note	2013-2014 £'000	2014-2015 £'000
Contributions and benefits			
Contributions	5	42,153	43,406
Transfers in from other pension funds	6	1,452	1,019
		43,605	44,425
Benefits	7	(45,976)	(49,130)
Payments to and on account of leavers	8	(1,870)	(1,275)
Administrative expenses	9	(918)	(989)
		(48,764)	(51,394)
Net withdrawals from dealings with members		(5,159)	(6,969)
Returns on investments			
Investment income	10	2,257	2,833
Taxes on income		-	(1,954)
Profit and losses on disposal of investments and changes in the market value of investments	11	34,713	131,029
Investment management expenses	12	(2,012)	(2,039)
Net returns on investments		34,958	129,869
Net increase in net assets available for benefits during the year		29,799	122,900
Net assets of the Fund at 1 April		914,422	944,221
At 31 March		944,221	1,067,121

Pension Fund – Net Assets Statement as at 31 March 2015

	Note	31 March 2014 £'000	31 March 2015 £'000
UK Investments			
Pooled Investment Vehicles			
Property		41,510	46,310
Equity		334,205	370,550
Index Linked		164,427	191,732
Ventures and Partnerships		18	7
Overseas Investments			
Quoted			
Other Fixed Interest		90,315	93,857
Pooled Investment Vehicles			
Equity		254,442	287,964
Ventures and Partnerships		64,846	75,316
	11	949,763	1,065,736
Other Investment Balances	11	2,082	2,097
	11	951,845	1,067,833
Cash Deposits		2,215	3,451
Current Assets	13	720	310
Current Liabilities	14	(10,559)	(4,473)
Net Assets of the Fund at 31 March	15	944,221	1,067,121

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 219 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 2015;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2015;
- (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 2015 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 2015 are credited to the Fund.

- *Investment transactions*

Investment transactions arising up to 31 March 2015 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 2015 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 2015 which provide evidence of conditions that existed as at 31 March 2015 are included in the accounts. Events that are indicative of conditions that arose after 31 March 2015 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 2015 and Appendix 2 involving assumptions about the future and major sources of estimation uncertainty for which there is a significant risk of material adjustment to the value disclosed within the next financial year are as follows:

	Uncertainties	Effect if actual results differ from assumptions
Unquoted private equity 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 £75.32 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 7.9%. This equates to a tolerance of +/- £5.98 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 at 31 March 2013. An increase of 0.25% in assumed salary inflation would increase the pension liability by approximately £14.00 million at 31 March 2013. A one year increase in assumed life expectancy would increase the pension liability by approximately £31.00 million 31 March 2013.

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

	2013-2014	2104-2015
	£'000	£'000
Employers' normal contributions		
Administering authority	14,693	15,992
Scheduled bodies	3,540	3,619
Admitted bodies	2,347	2,245
Employers' other contributions		
Deficit funding	12,321	12,146
Strain on the Fund following early retirement	1,140	928
Members		
Normal	8,112	8,476
	42,153	43,406

6. Transfers in from other pension funds

	2013-2014	2014-2015
	£'000	£'000
Individual transfers in from other schemes	1,452	1,019
	1,452	1,019

7. Benefits

	2013-2014	2014-2015
	£'000	£'000
Pensions		
Administering authority	34,292	36,020
Scheduled bodies	1,926	2,174
Admitted bodies	1,453	1,361
Commutation of pensions and lump sum retirement benefits	7,193	8,834
Lump sum death benefits	1112	741
	45,976	49,130

8. Payments to and on account of leavers

	2013-2014	2014-2015
	£'000	£'000
Refunds to members leaving service	2	24
Individual transfers to other schemes	1,868	1,238
Payments for members joining state scheme	-	13
	1,870	1,275

9. Administrative expenses

	2013-2014	2014-2015
	£'000	£'000
Administrative costs	599	597
Oversight and governance costs	319	392
	918	989

Pension Fund – Notes to the Financial Statements

10. Investment income

	2013-2014	2014-2015
	£'000	£'000
Income from pooled investment vehicles	2,077	2,054
Income from ventures and partnerships	209	803
Net interest on cash deposits	(29)	(24)
	2,257	2,833

11. Investments

	Value at 1 April 2014	Purchases at cost	Sales proceeds	Change in market value	Value at 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Actively managed investments	305,734	14,111	(20,353)	36,827	336,319
Passively managed investments	644,029	57,580	(66,411)	94,219	729,417
	949,763	71,691	(86,764)	131,046	1,065,736
Other investment balances	2,082	-	-	(17)	2,097
Total	951,845	-	-	131,029	1,067,833

	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

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, and stamp duty, 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 2013-2014). Indirect transaction costs are not separately provided to the Fund.

Pension Fund – Notes to the Financial Statements

Other investment balances

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Outstanding dividends, tax and other investment income	78	35
Cash deposits	2,004	2,062
	2,082	2,097

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.

	2013-2014 £'000	2014-2015 £'000
Contributions due from employers in respect of		
Management fees	1,977	2,003
Custody fees	35	36
	2,012	2,039

13. Current assets

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Contributions due from employers in respect of		
Employers	310	174
Members	63	42
Strain on the Fund contributions due from employers	15	-
Retirement grants prepaid	329	94
Other	3	-
	720	310

These can be further analysed as follows:

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Central government bodies	44	57
Other local authorities	9	1
NHS bodies	87	47
Bodies external to general government	580	205
	720	310

Pension Fund – Notes to the Financial Statements

14. Current Liabilities

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Due to Northumberland County Council	(9,583)	(3,990)
Retirement/death grants due	(307)	(169)
Investment management and custodial fees due	(557)	(211)
Other	(112)	(103)
	(10,559)	(4,473)

These can be further analysed as follows:

	As at 31 March 2014 £'000	As at 31 March 2015 £'000
Central government bodies	-	(5)
Other local authorities	(9,583)	(3,990)
Bodies external to general government	(976)	(478)
	(10,559)	(4,473)

15. Analysis of Investments

The total market value of the Fund as at 31 March 2015 was £1067.12 million (£944.22 million as at 31 March 2014), which can be analysed as follows:

	As at 31 March 2014 £m	%	As at 31 March 2015 £m
UK and overseas equities	588.65	61.7	658.51
Fixed interest and index linked	254.74	26.8	285.59
Property unit trusts	41.51	4.3	46.31
Ventures and partnerships	64.86	7.1	75.32
Other investment balances	2.08	0.2	2.10
Cash deposits and net current liabilities	(7.62)	(0.1)	(0.71)
	944.22	100.0	1,067.12

Pension Fund – Notes to the Financial Statements

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

	As at 31 March 2014 £m	%	As at 31 March 2015 £m
United Kingdom	334.21	56.3	370.55
Europe	66.09	11.0	72.65
North America	65.23	10.8	71.19
Japan	30.39	5.4	35.47
Pacific	31.93	5.5	36.18
Other	60.80	11.0	72.47
	588.65	100.0	658.51

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

	As at 31 March 2014 £m	%	As at 31 March 2015 £m
Basic materials	4.83	1.3	4.86
Consumer goods	18.41	0.5	1.98
Consumer services	6.86	4.8	17.62
Financials	20.42	5.6	20.75
Health care	12.31	6.1	22.54
Industrials	16.71	4.3	15.94
Oil and gas	7.37	2.0	7.56
Technology	19.30	7.1	26.15
Other (including managed funds)	228.00	68.3	253.15
	334.21	100.0	370.55

Fund Value and Proportions

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

	As at 31 March 2014 £m	%	As at 31 March 2015 £m
Legal & General Investment Management	644.03	68.3	729.42
M&G Investment Management	109.05	11.3	120.83
Wellington Management International	90.32	8.8	93.86
Morgan Stanley (private equity)	44.20	4.3	46.22
NB Alternatives (private equity)	12.76	1.5	15.83
Schroder Investment Management	20.64	2.2	23.33
BlackRock Investment Management (UK)	21.20	2.2	23.35
GIP (infrastructure)	9.63	0.8	8.89
Antin (infrastructure)	-	0.6	6.10
	951.83	100.0	1,067.83

Pension Fund – Notes to the Financial Statements

Net current liabilities (net of cash deposits) of £0.71 million are not externally managed and therefore not, shown in the analysis above.

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

16. Significant Holdings

As at 31 March 2015, 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:

- £124.88 million (11.7%) in the UK Equity Index Fund managed by Legal & General Investment Management, and a further £124.84 million (11.7%) also in the UK Equity Index Fund managed by Legal & General Investment Management, each in a separate insurance contract.
- £95.89 million (9.0%) in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, and a further £95.84 million (9.0%) also in the Over Five Year Index Linked Gilts Fund managed by Legal & General Investment Management, each in a separate insurance contract.
- £120.83 million (11.3%) in the Global Leaders Fund managed by M&G Investment Management.
- £59.89 million (5.6%) 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 2014-2015 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 2014-2015 to AVC investments were £0.33 million (£0.44 million in 2013-2014) to Prudential, £97 (£120 in 2013-2014) to Equitable Life, and £3,712 (£3,514 in 2013-2014) to Phoenix Life Limited.

As at 31 March 2015, the aggregate value of the AVC investments with Prudential was £1.83 million (£2.15 million as at 31 March 2014), with Equitable Life was £0.05 million (£0.05 million as at 31 March 2014), and with Phoenix Life Limited was £0.03 million (£0.03 million as at 31 March 2014).

18. Related party transactions

Northumberland County Council administers the Pension Fund. During 2014-2015 the Pension Fund had an average balance of £4.88 million borrowed from the Council for which

Pension Fund – Notes to the Financial Statements

it paid interest of £23,679 (and an average balance of £4.32 million borrowed from the Council during 2013-2014 for which it received interest of £30,588). The costs incurred by the Council in administering the Fund, excluding audit fees, are recharged to the Fund on an annual basis. In 2014-2015 these costs amounted to £0.58 million (£0.58 million in 2013-2014). £3.99 million was due to the Council at 31 March 2015 (£9.58 million at 31 March 2014).

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 2015 (four as at 31 March 2014).

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, 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 2015 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 2013 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.

Pension Fund – Notes to the Financial Statements

Northumberland County Council is the administering authority for Northumberland County Council Pension Fund under the LGPS Regulations, and has delegated its responsibility for determining investment policy and monitoring performance to the Pension Fund Panel.

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

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

As at 31 March 2015 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 2015 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Capital North East, and an infrastructure investment with Global Infrastructure Partners and Antin 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 Chief Executive.

21. Outstanding commitments

As at 31 March 2015 the Fund had outstanding commitments to six private equity investments.

	Initial commitment	Capital payments made	Outstanding commitment as at 31 March 2015	
	m	m	m	£m
Morgan Stanley Private Markets III	\$50.00	\$47.60	\$2.40	1.62
Morgan Stanley GDO Fund	\$10.00	\$9.56	\$0.44	0.29
NB Crossroads Fund XVIII	\$27.00	\$22.41	\$4.59	3.09
Morgan Stanley Private Markets IV	\$30.00	\$27.83	\$2.17	1.46
NB Crossroads Fund XX	\$26.00	\$5.59	\$20.41	13.75
Global Infrastructure Partners II-C	\$43.00	\$15.79	\$27.21	18.33
Antin Infrastructure Partners II	€24.00	€7.92	€16.08	11.63
Total outstanding commitments				50.17

Outstanding capital commitments totalled £50.17 million as at 31 March 2015 (£46.06 million as at 31 March 2014). 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 2015 was one year for Morgan Stanley Private Markets Fund III and Morgan Stanley GDO Fund, two years for NB Crossroads Fund XVIII and Morgan Stanley Private Markets Fund IV, eight years for Global Infrastructure Partners Fund II-C, nine years for NB Crossroads Fund XX and eleven 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 2015		
	Level 1	Level 3	Total
	£'000	£'000	£'000
Financial assets at fair value through profit and loss	990,413	75,323	1,065,736
Loans and receivables	5,858	-	5,858
Financial liabilities at amortised cost	(4,473)	-	(4,473)
Net financial assets	991,798	75,323	1,067,121

	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

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:

	2013-2014	2014-2015
	£'000	£'000
Financial assets at fair value through profit and loss	34,786	131,046
Loans and receivables	(73)	(17)
Total net gains on financial instruments	34,713	131,029

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 219 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 Chief Executive.

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 2015. 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 £792.42 million as at 31 March 2015, can be realised at short notice and at minimal cost. In six 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 £6.97 million.

With the exception of investments in private equity and infrastructure, 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 and infrastructure 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 Chief Executive.

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 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
UK equities	370,550	10.3	408,717	332,383
Overseas equities	287,964	9.6	315,609	260,319
Index linked	191,732	9.7	210,292	173,172
Other fixed interest	93,857	3.4	97,048	90,666
Property	46,310	2.3	47,394	45,226
Ventures and partnerships	75,323	7.9	81,304	69,342
Other investment balances	2,097	-	2,097	2,097
Total investment assets	1,067,833	6.4	1,135,961	999,705

	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	-	2,082	2,082
Total investment assets	951,845	7.1	1,019,331	884,359

The percentage change for total investment assets as at 31 March 2015 and as at 31 March 2014 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 2015	Value following 1% decrease in interest rates	Value following 1% increase in interest rates
	£'000	£'000	£'000
Index linked	191,732	235,792	147,672
Other fixed interest	93,857	98,123	89,530
Total fixed interest investments	285,589	333,915	237,202

	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
Total fixed interest investments	254,742	292,311	217,172

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 2015 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Equities :				
Europe	72,657	3.8	75,401	69,913
North America	71,187	7.4	76,464	65,910
Japan	35,469	11.0	39,379	31,559
Pacific	36,182	6.4	38,512	33,852
Other	72,469	6.8	77,394	67,544
Other fixed interest	93,857	5.6	99,121	88,593
Ventures and partnerships	75,316	7.6	81,077	69,555
Total overseas investments	457,137	5.6	482,920	431,354

	As at 31 March 2014 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Equities :				
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
Total overseas investments	409,603	5.3	431,289	387,917

The percentage change for total overseas investments as at 31 March 2015 and as at 31 March 2014 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 2015

	Active members	Pensioner members	Deferred members
Northumberland County Council			
Employees	6,474	7,081	7,309
Councillors	20	12	12
Local Government Pension Scheme Employers (known as "Scheduled Bodies")			
Ashington Town Council	2	-	-
Bede Academy	101	10	33
Berwick Academy	46	8	6
Blyth Academy (formerly Blyth Community College)	55	7	5
Blyth Quays Academy	133	7	21
Choppington Parish Council	2	-	-
Corbridge Parish Council	2	-	-
Cramlington Learning Village Academy	98	6	16
Cramlington Primary School (free school)	10	-	1
Haltwhistle Community Campus Academy	38	3	6
Hexham Town Council	4	5	-
Homes for Northumberland Ltd	241	77	128
Meadowdale Academy	26	2	14
Morpeth Town Council	4	2	-
Northumberland College	194	137	239
Northumberland Church of England Academy	298	36	98
Northumberland Inshore Fisheries and Conservation Authority	13	5	2
Northumberland National Park Authority	56	28	92
Northumberland Valuation Tribunal Service	1	7	-
Northumbria Magistrates Courts Committee	-	82	60
Pax Christi Academy	91	-	-
Ponteland Town Council	1	1	-
Three Rivers Learning Trust Academy	143	5	45
West Bedlington Town Council	1	-	1
Admitted Bodies			
Action for Children	20	1	5
Active Northumberland	182	-	1
Age UK Northumberland	3	13	15
Barnado's Services Ltd	10	1	11
Berwick Borough Housing Ltd	7	11	4
Bullough Cleaning Services Ltd	9	-	-
Creative Management Services Ltd	1	-	4
Feversham School	-	26	14
Helping Hands Community Care	1	-	-
Isos Housing Ltd	22	55	20
Northumberland Aged Mineworkers Homes Association	8	6	-

Pension Fund – Notes to the Financial Statements

Northumberland County Blind Association	2	6	7
Northumbrian Healthcare NHS Foundation Trust	56	73	45
Queens Hall Arts Centre	4	1	2
The Disabilities Trust	1	3	3
The Maltings (Berwick) Trust	1	1	2
Three Rivers Housing Association Ltd	2	1	-
Wansbeck Homes	111	49	14
Woodhorn Charitable Trust	31	5	4
Other Bodies pre 1974	-	16	-
	8,525	7,789	8,239

Pension Fund Performance

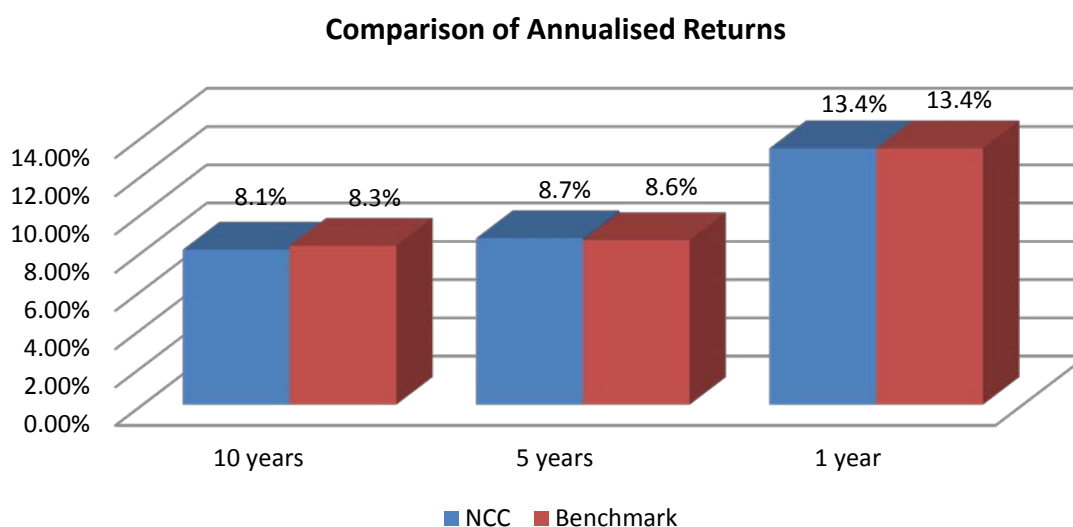
Annual returns

Over the year to 31 March 2015, the Northumberland County Council Pension Fund's return was in line with its benchmark of 13.4%.

Year ending 31 March	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)
Fund performance	6.4	5.3	14.0	3.8	13.4
Benchmark	7.6	4.8	14.2	3.4	13.4

Annualised returns

The following shows the Northumberland County Council Pension Fund's longer-term returns compared with the Fund specific benchmark.



Analysis of returns

Investment category	Returns for year ended 31 March 2015	
	Fund	Benchmark
	%	%
Legal & General (Index tracker)	14.5	14.2
M&G Investments (Global equities)	10.6	19.0
Wellington (Bonds)	3.7	2.6
BlackRock (Property)	15.7	16.6
Schroder (Property)	18.7	16.6
Morgan Stanley (private equity)	17.8	18.8
NB Alternatives (private equity)	24.4	18.8
Combined Fund	13.4	13.4

All returns are shown net of fees.

Pension Fund Performance

Market Commentary

The average local authority LGPS pension fund returned 13% in the year to 31 March 2015.

Equity markets performed strongly but with marked regional differences. Domestic equities returned only 6% for the year with investors concerned about the possibility of political uncertainty resulting from a hung parliament following the May 2015 general election. Japan was the strongest performing of the major overseas markets returning over 30% to local investors, but a slightly lower 27% to UK investors as the Yen continued to weaken against Sterling. Conversely, UK investors benefited from the strength of the US Dollar over the year which represented almost half of the US equity return of 25%. Pacific and emerging markets returned 16% and 14% respectively whilst Europe returned 9% for the year.

After the near flat outcome in 2013-2014, UK bonds bounced back strongly, producing double digit returns. Duration was the big story of the latest year with marked differences in return depending upon where funds were invested across the yield curve. Long dated gilts produced returns approaching 30% as yields reached historic lows and investors needing to hold them for liability matching purposes continued to buy them at any price. On the other hand, short dated bonds returned only 3% for the year. The index-linked story for the year was much the same; funds returning 20% on average with the return driven by longer dated issues.

Alternative investments in aggregate also had a good year. Private equity returned 19% whilst hedge funds averaged 9%. Pooled multi asset (diversified growth) investments, which have recently been gaining traction amongst funds, returned a strong 10%, well ahead of most funds' targets for this asset class.

Property returned 17% for the year.

Pension Fund Performance

The Fund's returns

The Northumberland County Council Pension Fund produced a return of 13.4% in 2014-2015 which was well above the growth in average earnings of 3.3% for the same period.

The Fund return of 13.4% was in line with its benchmark. Asset allocation had a marginally positive impact overall, while stock selection detracted 0.2% due to underperformance in equities.

Manager performance was mixed. Schroder, Wellington and L&G beat their respective benchmarks, but this was offset by M&G and Blackrock underperforming their benchmarks.

The WM Local Authority Pension Fund Universe for 2014-2015 produced an average return of 13.2% in the period. The range of returns was 17.6% for the 5th ranked to 10.0% for the 95th ranked fund. Northumberland County Council Pension Fund ranked 46th in 2014/2015 (89th in 2013-2014).

Over five years the Fund returned 8.7% p.a. which was marginally above the benchmark return of 8.6% p.a. giving a relative outperformance of 0.1% p.a. and ranking 51st in the Local Authority Universe.

Over ten years the Fund achieved a return of 8.1% (annualised). This compares well with the RPI return of 3.0% p.a. and the average earnings index return of 3.1% p.a., and ranks 37th in the Local Authority Universe and marginally below the fund's benchmark return of 8.3% 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 latest 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 £914.4M) covering 81% of the liabilities in respect of service prior to the valuation date 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 required 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 £11.4M 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 31 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 was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.
 5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Scheduled Bodies	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.

Statement of the Actuary for the year ended 31 March 2014

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 Adjustments 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 in accordance with Regulation 62 of the Local Government Pension Scheme regulations 2013.
8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 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
15 May 2015

Firefighters' Pension Fund

Fund Account		2013-2014	2014-2015
		£'000	£'000
Contributions			
	From employer - normal	1,182	1,258
	From employer – ill health	19	57
	From members	776	832
		1,977	2,147
Transfers in			
	Individual transfers from other schemes	-	-
		1,977	2,147
Benefits			
	Pensions	(4,296)	(4,610)
	Commutations and lump sum retirement benefits	(990)	(1,864)
	Lump sum death benefits	-	(64)
		(5,286)	(6,538)
Payments to and on account of leavers			
	Individual transfers to other schemes	(1)	(274)
Net amount payable before top-up grant		3,310	4,665
	Top-up grant payable by central Government	(3,310)	(4,665)
Net Amount Payable for the year		-	-
Net Assets Statement		As at	As at
		31 March	31 March
		2014	2015
		£'000	£'000
Current assets			
	Transfer Values Received - Debtor	-	-
	Top-up grant receivable from central Government	-	1,605
	Amount receivable from the General Fund	168	-
Current liabilities			
	Top-up grant payable to the Government	(168)	-
	Provision for Pensions payable	-	(475)
	Amount payable to the General Fund	-	(1,130)
		-	-

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 Chief Executive;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

The Chief Executive's Responsibilities

The Chief Executive 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 Chief Executive 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 Chief Executive 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 2015. All known material events that have occurred up to and including 30 September which relate to 2014-2015 or before have been reflected in the accounts.

Chief Executive 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 2015 and their income and expenditure for the year ended 31 March 2015.

Steven Mason

Chief Executive

30 September 2015

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; 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 for improvement.
- From the information contained within the returns the Deputy Section 151 Officer prepares the Annual Governance Statement.
- Internal Audit 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,
- Building for Northumberland – a company established by Homes for Northumberland in 2014-2015 to build social housing.

The Council works in close partnership with a number of other bodies such as Active Northumberland, a registered charity delivering Northumberland's leisure and cultural services. Social Care support for ill or disabled adults in Northumberland is operated by Northumbria Healthcare NHS Foundation Trust and support for working age adults with mental health problems is operated by the Northumberland, Tyne and Wear NHS Foundation Trust. Since Local Government Review, the role of Town and Parish Councils has become increasingly important both in sharing information and in carrying out complementary services. There are a number of shared services for back office functions either in place or which were being actively explored during 2014-2015 with North Tyneside or Durham County Council – audit, risk management, strategic human resources, legal

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services and ICT. A shared procurement service with Northumbria NHS Trust and North Cumbria University Hospitals NHS Trust has now been put in place.

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 is used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the ways in which its functions are exercised; having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for ensuring that there is a sound system of governance in place. Governance incorporates the system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

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

2. 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.

3. 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 took place during 2012-2013 and the outcomes of this review were reported to and monitored by the Audit Committee. All recommendations were agreed for implementation via the appropriate decision-making processes of the respective organisations.

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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 was replaced during the 2013-2014 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 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. Understanding of the Council's priorities, purpose and better outcomes for the people of Northumberland has been further strengthened during 2014-2015 by preparation of the Council's vision and values statement which has been clearly communicated to all staff through the Lead Executive Director's regular briefings.

In addition, the Policy Board and the Economic Prosperity and Strategic Services Overview and Scrutiny Committee received a detailed review in October and November 2014 respectively on the State of Northumberland in relation to the Council's policy priorities and details of progress so far in delivering the Corporate Plan.

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. The Core Strategy will be submitted to the Secretary of State for approval during 2015-2016.

The Arch Group's first Corporate Strategy covering the period up to 31 March 2015 was published during 2012-2013 and set the scene on its contribution towards the Council vision. "Arch is the Northumberland Development Company, it is a private sector business dedicated to economic development, regeneration and housing market renewal throughout the county. Arch has been set up as an arms-length company, designed to bring a new, more enterprising and business-like approach to development and regeneration in the county".

The second Arch Corporate Strategy covering the period 1 April 2015 through 31 March 2018 is due to be published in the coming months and provides insight into how the group will develop over the coming 36 months and importantly what role it will play in the delivery of Northumberland County Council's Economic Strategy. The Group also produces business plans for each financial year that provide detailed targets in to ensure delivery of the Corporate Strategy. The business plans form the cornerstone of performance monitoring/indicators in conjunction with the Corporate Strategy.

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.

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Within the challenging financial context, the Council's agreed approach to achieving a balanced budget over the four year period 2014-18 was to focus on four key areas:

- Effectively **managing demand** (particularly in social care) with a targeted approach, emphasising early intervention and prevention.
- Doing all we can to **stimulate economic growth and generate income** – given reductions in central government funding, success in this area will enable us to redirect resource to activities which protect the most vulnerable.
- **Enabling local communities** to engage with the design and delivery of a range of services
- Continuing to **drive efficiencies** through changes to the way the Council works, for example, through use of new technology, consolidation of buildings and services, and reducing complex processes.

The Council further developed its approach during 2014-2015 by establishing a budget management programme comprising 14 strategic workstreams:

Managing Demand

- A. Modernising our social care and support for adults
- B. Targeting our most troubled families
- C. Targeting our most troubled neighbourhoods
- D. Integrating partnership working for public health

Income Generation

- E. Planning for economic growth
- F. Protecting our cultural and leisure assets
- G. Maximising the scope to trade

Efficiency

- H. Digital agenda and moving to self-service
- I. Rationalising our footprint
- J. Sharing the back office and reducing bureaucracy

Innovation

- K. Capturing the energy dividend
- L. Investing in our staff
- M. Driving educational excellence
- N. Working together to improve where we live

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.

The Council has reviewed its corporate performance management arrangements during 2014-2015 to fully reflect the current corporate plan and organisational structure. This has been supported by publication on the website of all Service Statements including a supporting performance framework. A web-enabled corporate performance reporting system will be launched in the early part of 2015-16 to make information widely available to Members, staff, Northumberland's communities and other stakeholders.

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During 2014-2015, the Council has used 2 baskets of indicators focussing on customer care and corporate standards measures; and regulatory and statutory measures which have been updated monthly on the website. In addition, services have regularly reported to the Policy Board and relevant Overview and Scrutiny Committees on performance throughout the year. The performance process is also supported by formal budget monitoring through the Policy Board and Pre-Scrutiny.

At service level there have continued to be regular regulatory inspections:

- In 2014-2015, all Adult Services continued to be registered without condition against the Care Quality Commission standards.
- Ofsted inspected the Council's Adult Learning Service, its residential care homes for children and the Blyth Valley Children's Centre locality. This amounted to seven inspections: two of which were judged Outstanding (Barndale and Thornbrae children's homes); three were Good (Kylloe Secure Unit, Coanwood Residential Home and the Adult Learning Service); one adequate (Kestrel House Children's Home), and one inadequate (Blyth Valley Children's Centre Locality).
- In addition, school inspection outcomes are reported regularly to the Schools Improvement and Monitoring Committee. Of the 123 primary and first schools, 113 are judged as Good or Outstanding as at March 2015, which is better than the national average. However, that means that 2,516 children are in schools that are not yet good enough. Of the 43 secondary schools, 26 are judged as Good or Outstanding as at March 2015, which is significantly worse than the national average. This means that 8,889 children are in schools that are not yet good enough.
- Not all services were inspected in 2014-2015. Of these, Fostering and Adoption services have both previously been judged as Good; ten out of eleven Children's Centres inspections have been judged as Good or Outstanding, with one, (Blyth Valley) judged Inadequate; and Youth Offending is judged as Green (Good) by the Youth Justice Board.

The Council invited the Local Government Association (LGA) to carry out a Corporate Peer Challenge focusing on corporate arrangements and the effectiveness of the governance arrangements for the Northumberland family of services. The LGA's report was positive and strengths were seen as:

- Strong and decisive political leadership
- Effective and empowering senior management
- Positive relationships with partners, particularly Town and Parish Councils and Health
- Strong financial position
- Health integration
- Role of ARCH

The LGA also highlighted a number of areas for consideration:

- Consider whether normal nomenclature such as Chief Executive and Cabinet might add more credence and clarity to your external relationships

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- Work harder to help all elected members to understand their roles in representing the council and being more statesman-like, irrespective of seniority or political persuasion
- Consider the re-introduction of Group Leaders' meetings
- Create an integrated business plan drawing together the whole picture and policy priorities, resource allocation, performance and risk
- Continue to improve your approach to performance management and reporting, across a whole range of issues including action plans with clear targets, milestones, ownership and reporting mechanisms for:
 - Longer term financial sustainability
 - Delivery of the corporate plan
 - The economic development strategy
- Fully evaluate the Council's skills and capacity needs for the future
- Refresh the workforce development strategy and organisational development plan in the context of significant budget reductions, asset rationalisation and flexible working requirements, to ensure you have the right framework to support staff in the future
- Clarify processes relating to decision making and information provision
- Explain the purpose, remit and operational freedoms of ARCH
- Engage more visibly and actively with the wider business community
- Re-visit approaches to procurement to ensure your expenditure has maximum beneficial impact on the local economy
- Pay closer attention in keeping up to date with local government best practice, utilising opportunities to see how other places deliver
- Take as many opportunities as you can to share good practice with other authorities

The Council responded by agreeing an action plan to implement the LGA's recommendations.

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

- The Leader, Deputy Leader, the Leaders of the two main opposition parties, and two other members sit on Arch's Board. Three private sector individuals have also been 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 housing-related objects of Building for Northumberland are set out in the Company's Articles of Association. The Board of the Company consists of two Council and three independent members.

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.

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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. The Council's Constitution was last updated in October 2014 following changes to the senior management structure. The Finance and Contract Rules were last updated in 2011-2012 and a review is to take place during financial year 2015-2016. Within each group Executive 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, maintaining consistency across the organisation.

A dedicated resource is available within the Corporate Fraud Team 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

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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 has continued to develop its risk management process with high level risks being reported to both the Arch Board and Arch Group Audit Committee at each meeting. The Group has further strengthened risk management processes and reporting throughout 2014-2015 by rolling out and creating risk registers for each programme delivery area. These operational risks are discussed at programme meetings which then determines whether any of the operational risks need to be escalated to the High Level Risk Register.

Additionally, the Group has recently benefited (final quarter 2014-2015) from a Risk Management Audit by Northumberland County Council's Internal Audit Team with a "Moderate Assurance" being achieved. Arch management team will work through the recommendations from this process with a view to implementing them in 2015-2016.

A revised risk management strategy for Homes for Northumberland and Building for Northumberland was approved in 2014-2015. The Corporate Risk Registers for both companies were subject to frequent revision during the year.

Developing the capacity and capability of senior officers and Councillors

Development needs of senior officers are identified through the annual performance appraisal process. Outcomes from discussions with senior officers and the appraisal process have led to the development and delivery of a leadership and management development programme. A variety of provision including briefing sessions, master class workshops and taught delivery sessions have been delivered ensuring learning and development outcomes are appropriate, aligned to the core competency framework and help to develop the key skills and attributes required by all officers. Senior officers have also been afforded the opportunity to engage with experiential peer to peer learning through the activities and challenge of the Head of Service group.

Elected members undertake an annual personal development process (PDP) and six monthly review, which are recorded electronically. The outcome of the PDP is a personal learning plan for each member. The individual learning plans collectively inform the annual member development programme, which aims to address areas of identified need. The

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Members' Services Working Group guides and oversees the monitoring and performance of the members development programme.

All officers and members are enrolled onto statutory and mandatory required learning plans when a corporate need is identified. A corporate induction programme and information security and governance programme exist for all staff, providing a common baseline.

Engaging with Stakeholders

An engagement strategy has been developed for the authority, to ensure that services are developed and delivered in an appropriate manner.

With regard to public engagement, the Council has produced a consultation toolkit for officers, and the Policy and Research Team offer support with regard to compiling questionnaires, identifying appropriate sample sizes, and evaluating feedback.

The Policy and Research Team also co-ordinates the Council's People's Panel. Each year a standard survey is conducted as to how the participating residents feel about their area and their general satisfaction with the Council. The People's Panel can also be used to seek views on one or two particular strategic issues in a year – the most notable of these in the past has been consultation on the emerging budget.

The Council last carried out an extensive Place Survey of 11,000 residents in 2012 which provides a range of quality of life perception data statistically valid at local super output area level. The survey will be conducted again in 2015 to provide updated understanding of local communities and the impact of the Council's activities.

The results of the Employee Survey conducted during 2013-2014 were used to inform a review and restructure of the Communications function in 2014-2015. Central to this was the re-design of communications to staff, an increased focus on gauging employee opinion via short general surveys, ('temperature checks'), increased use of direct contact with senior officers, and a focus on supporting the development of a coaching culture. In 2015 pilots of a new communications tool for managers and team leaders designed to orient team briefings towards corporate challenges and innovation will commence, designed to embody 360 degree feedback into all informal and formal communications. Feedback from these projects will be used during 2015 to support a new Employee Engagement strategy that reflects the challenges posed by new working practices in support of the Accommodation Project.

4. Review of Effectiveness of the Governance Framework

Northumberland County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. It discharges this responsibility through the Audit Committee, which is tasked with considering the framework. During 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.

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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 last updated and agreed on 1 October 2014 in order to reflect the changes to the senior management structure.

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. The risk management framework is reviewed and updated annually. Where changes to the framework are minor, approval is delegated to the Lead Executive Director, Corporate Resources in consultation with the Deputy Leader, as the relevant Portfolio Holder. Policy Board are involved in the review of the key strategic risks on an annual basis.

The Audit Committee

The Audit Committee plays a key role in the assurance process, advising on the adequacy and effectiveness of the authority's risk management arrangements, the control environment, corporate governance and associated anti-fraud and anti-corruption arrangements; and seeking assurances that action is being taken on risk-related issues identified.

The Committee considers the scope and remit of external audit, and internal audit and risk management and receives regular reports from each throughout the year. It also considers and advises upon any significant reports of inspection agencies where these have not been referred to a more relevant Scrutiny Committee. Audit Committee monitors management actions in response to the issues raised and recommendations made.

The role of Audit Committee includes being satisfied that the authority's assurance statements properly reflect the risk environment and any actions required to improve it. Annually, it receives a report of the Chief Internal Auditor, assessing the adequacy and effectiveness of the framework of governance, risk management and control; and provides an assurance to the County Council that its systems of governance are operating effectively through approval of the Annual Governance Statement.

The Committee meets at least six times per annum, with additional ad hoc meetings as required. The work programme for the Committee is reviewed annually to ensure compliance with all professional guidance.

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Scrutiny Committees

The Council operated 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 an Independent Chairman. In addition to the membership of the Committee the Council has appointed one independent person in accordance with the requirements of the Localism Act 2011.

Internal Audit

The Council's Internal Audit Service plays a key role in the assessment of the control environment, and will make suggestions for improvement where necessary.

The Service operates in accordance with 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 to consider and review 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 respective Lead Executive Director/Chief Executive and Deputy Leader/Portfolio Holder of Northumberland County Council and North Tyneside Council oversees the arrangements across the two councils.

Service Group Arrangements

Each Service 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.

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Head of Paid Service

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

Chief Finance Officer

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

Following a senior management restructure in 2013 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 the Head of Corporate Services was appointed as the Deputy Section 151 Officer. 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.

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5. Significant Governance Issues

Issues Identified in 2010-2011

<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Wansbeck Chief Officer Salaries</i></p> <p>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>The legal action which was commenced in November 2012 and which had been set for a ten day trial from the 16 February 2015 was discontinued by the Council shortly before the trial date following an agreed settlement with all of the defendants.</p> <p>This issue can now be closed.</p>

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Issues identified in 2012-2013

<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Child Care Proceedings</i></p> <p>There was 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 numbers did not reduce but appeared to plateau during 2013-2014. However, a direct comparison was difficult due to new timescales.</p> <p>The number of care proceedings increased significantly during the period 2014-2015 with the highest volume of cases being conducted in any year to date.</p>	<p>The situation continues to be monitored.</p> <p>As a result funding has been agreed to appoint a further temporary child care lawyer from March 2015 for an initial period of twelve months in an effort to cope with the increased workload.</p>
<p><i>Care Homes Judicial Review</i></p> <p>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. There was a delay in these costs being paid but the Council has now been successful in recovering monies from Care North East Northumberland towards their payment.</p> <p>This issue can now be closed.</p>
<p><i>Property Services Information System</i></p> <p>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>The report was issued and made a number of recommendations which have all been agreed for implementation by the relevant managers. A review of progress will take place during 2015.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Winter Services</i></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>Internal Audit has followed up the 2013-2014 work with regular meetings during 2014-2015, involving key officers from Local Services and Business Support, to ensure clarity on actions agreed.</p> <p>Internal Audit considers that the main issues regarding monitoring, operational controls and storage of salt have been addressed.</p> <p>Whilst there has not been an actual severe weather event to test, the controls in place were tested and were found to be robust if operated correctly.</p> <p>This issue can now be closed.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p>Section 106 Agreements</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>A new post has been created dedicated to the management and monitoring of S106 agreements. The 'S106 Officer' has been in post since October 2014 and works closely with planning and legal officers and other officers across the Council. The proposed IT module has been fully developed and implemented. It contains accurate information concerning over 1,000 S106 agreements. The service purchased an Obligation Tracker IT system that works alongside the module and this has been uploaded with details of all S106 agreements since Local Government Review including details of their obligations and trigger points. This tracker system provides information to produce various reports including a monthly report showing all new agreements; a report showing all signed agreements by Parish; and, a report on income received. All reports are published on the Council's website for Member and public viewing.</p> <p>Procedures have been developed further to ensure effective monitoring which is aided by the ability of the Obligation Tracker system to notify the S106 officer and compliance officers with a weekly email of forthcoming and pending obligation requirements.</p> <p>Financial reconciliation is undertaken monthly to ensure the financial management of S106 contributions. All S106 agreements are available to view on-line and a direct e-mail address has been developed for any feedback, enquiries or comments relating to S106 agreements.</p> <p>New protocols are currently being prepared to be introduced in Summer 2015 which will outline the Council's commitment to encouraging developers to discuss S106 requirements with ward members and local communities before and during the planning process and will set out how local members, town and parish councils and local communities can more easily get involved in negotiations on S106 agreements.</p> <p>The action plan agreed with Internal Audit has been completed and a follow up review is taking place.</p>

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Issues identified in 2013-2014

<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Accommodation Review/Sale of County Hall</i></p> <p>During 2013-2014 there was an announcement that County Hall would be sold.</p>	<p>In October 2014 Policy Board considered the business case for relocating County Hall, including reports from specialist external consultants. The business case was accepted, and instruction given to progress the project.</p> <p>Work has continued to develop a more detailed design brief and to test the costs contained within the original reports. The impact of the wider work on the Council's property portfolio, particularly with regard to Ashington and Morpeth, has also been considered. A complete proposal for the relocation of the Council's corporate headquarters is to be submitted to full Council during 2015.</p>
<p><i>Implementation of the Financial Information System</i></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>The new system went live on its revised date of 1 August 2014.</p> <p>This issue can now be closed.</p>

Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Single Fraud Investigation Service (SFIS)</i></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> <p>The newly-established Corporate Fraud Team has detected £1.5 million of fraud in its first nine months.</p> <p>The team carried out more than 500 investigations resulting in one person being sent to prison for three years and ten suspended sentences for fraud offenders.</p> <p>The team identified housing benefit overpayments of £659,614 and has so far recovered £116,864, as well as recovering council tax benefit overpayments of £96,567. The team's work has also led to the withdrawal of 24 Right to Buy applications that would have allowed a discount to the property purchase price, saving £799,395 and adding value by retaining the properties as part of the Council's housing stock.</p> <p>The team will also be proactively investigating tenancy fraud and is clamping down on Blue Badge misuse – filming potential offenders and working to prevent abuse of the scheme.</p> <p>The transfer of benefit fraud to SFIS is scheduled for 1 July 2015.</p>

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Issues Identified in 2014-2015

<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Impact of the Economic Downturn</i></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 £160 million from 2009-2010 to 2014-2015 and anticipates saving an additional £95 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 2014-2015 as part of a three-year medium term financial plan, and a balanced budget has once again been agreed for 2015-2016.</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 2014-2015 (and 2015-2016) 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> <p>Following the General Election in May 2015 the Council awaits the detail of the newly formed Government's in-year budget scheduled to be released in July 2015. The financial impact of this will need to be assessed as a matter of urgency for the Council.</p>
<p><i>Impact of Reduced Staff Levels on the Control Environment</i></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>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>School Inspections</i></p> <p>The Council is acting on the challenging issues that have arisen from the round of Focused school inspections.</p>	<p>In 2014-15 several secondary schools were placed in categories of concern (special measures) by Ofsted. Outcomes for students at the end of Key Stage 4 were weak in comparison to other local authorities. The Council is taking the following actions (a) and knows it has to improve several areas (b):</p> <p>(a)</p> <ul style="list-style-type: none"> • Restructure of Education and Skills Service including; appointment of Director of Education and Skills (October 2014); appointment of three new Education Commissioners (March 2015); • Revised approach to partnership arrangements across schools, new focus on school to school support, appointment of part-time co-ordinators (March 2015) • Updated Strategic vision, including publication of annual report (December 2014), Service Statement (April 2015) and Operational plan/Workstream (April 2015) • Decisive Action taken including removal of governing bodies and imposition of IEB and Warning Notices • Revised approach to all school improvement activity including new report format and contract for School Improvement Partners • Revised approach to supporting pupils with SEND (by September 2015)

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<i>Issues Identified</i>	<i>Current Position</i>
<i>School Inspections (continued)</i>	<p>(b)</p> <ul style="list-style-type: none"> • Improve impact of school improvement service on enhancing quality of leadership and teaching. • Improve engagement and challenge with schools and academies to ensure a degree of system leadership across Northumberland. • Improve partnership working and commissioning of good practice across Northumberland and NE region to allow schools to tackle hard issues of low expectation and cultural change • Improve approach to closing gap in attainment for most disadvantaged groups, in particular those entitled to pupil premium • Improve use of data by school to track and improve achievement, reduce focus on measuring pupils ability and increase focus on improving quality of teaching • Improve engagement with Ofsted and Academies Commissioner to promote joint working on increasing levels of achievement and quality of teaching in schools and academies.

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>School Budgets</i></p> <p>There are a number of schools requesting licensed deficits and overspending their budget allocations.</p>	<p>Although the number of schools with licenced deficits decreased from seventeen in 2013-2014 to thirteen in 2014-2015 the number of deficit budgets is still a concern and a number of schools continue to overspend against their budget allocations. Staff within 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 following the completion of the 2015-2016 budget setting exercise which will update the Education and Skills Management Team on the three year budget position for each school. This will be reviewed by the School Operations Group on a quarterly basis and schools that are causing concern will be contacted in an attempt to resolve any issues in advance of formal procedures. This strategy was adopted towards the end of 2014-2015 and has proven to be successful.</p>
<p><i>Overspends in Groups</i></p> <p>In aggregate, for 2014-2015 the Council performed strongly and after providing for future commitments only a small use of balances was required (£1.8 million). However, this masks the reliance on the planned use of previous years' underspends in Local Services (£2.0 million) and use of Earmarked Reserves in Wellbeing and Community Health (£3.7 million) in order to offset overspends.</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 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 overspend in Local Services mainly related to 'one off ' issues, the main one being the phased implementation of charging for post 16 transport. The Executive Director for Local Services will review recurring budget shortfalls and produce a robust plan which achieves a balanced budget going forward.</p>

Annual Governance Statement

<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Business Continuity Planning</i></p> <p>The NCC re-structure has been ongoing throughout much of 2014-2015, delaying the Business Continuity programme.</p> <p>The Business Continuity Management (BCM) Policy and Strategic Framework has been reviewed and revised to reflect the new BC standard ISO 22301. These documents are now at version 3.0.</p> <p>Work has continued on Business Impact Assessments to reflect the new structure and Group Business Continuity Plans will be replaced with Service Business Continuity Plans, complementing the Corporate Business Continuity Plan.</p> <p>Fire Brigade Union Industrial Action has been ongoing throughout the year; the Resilient Northumberland Plan was activated on numerous occasions and amended where necessary. There was also combined union action over pay on 10 July, which had an effect on all Council services and resulted in the activation of the Corporate Business Continuity Plan. As a result of this action the Corporate Business Continuity Plan was reviewed and revised and published as version 4.0.</p> <p>The industrial action on 10 July also led to the development of a NCC Industrial Action Plan, a bespoke business continuity plan designed to deal with future instances of industrial action and based on lessons learnt from 10 July. This plan was ready for use on the planned action in October 2014, which was eventually resolved.</p>	<p>The new NCC structure has led to changes and fresh impetus to the Strategic Risk Management Group (SRMG). This in turn has led to BCM coming under the umbrella of the SRMG. As a result, the BCM Policy and Strategic Framework has been reviewed and revised to version 4.0 and has been agreed by the SRMG and is now to be considered by the Heads of Service group for approval during 2015-2016. This will then lead to a programme of business continuity work going into 2015-2016. This programme of work has been included as an objective within the Civil Contingencies Team Service Plan 2015-2016.</p>
<p><i>Children's Social Worker Caseloads</i></p> <p>Internal monitoring has indicated that current caseload levels are high; including levels for recently qualified staff and this has been confirmed by an LGA Peer Review of Children's care services.</p>	<p>A new Head of Service has now been appointed and is preparing a response to the review findings. The project to appropriately reduce caseloads and achieve a more equitable distribution across the service began in December and caseloads have reduced from an average of 38 per worker to 32 by March 2015. This work is continuing and the service is reviewing how the early help offer could be used more substantially to bring about the further reductions that have been targeted.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<i>Independent Reviewing Officers (IRO) Service</i>	Capacity demands of the service have been reviewed and additional resources have been identified. Recruitment is underway with an aim of sufficient capacity being in place by June 2015. Current average caseloads are at 116 per IRO, having fluctuated between 110 and 120 over the last 6 months. It is important to note that whilst work has been ongoing in relation to addressing the capacity issues, this has taken place within the context of significantly increased numbers of children subject to child protection plans and children looked after, both of whom need to be allocated to an IRO. For instance, the rates of child protection plans per 10,000 have increased from 33.4 to 60 between 2012 and now.
<p><i>Assurance on Premises Responsibilities</i></p> <p>It has been recognised through the property management function and strategic estates programme, that greater scrutiny and control needs to be undertaken with regard to the current and future use of buildings by the council to ensure the effective management of health and safety risks.</p>	A review is being carried out to provide assurance that the Council is fully discharging its regulatory and statutory responsibilities with regard to its property portfolio.

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Planning Inquiries and Judicial Reviews</i></p> <p>In 2014-2015 the Council was involved in three significant public inquiries relating to planning appeals against decisions to refuse permission for major residential developments. These related to sites at South Loansdean and Stobhill in Morpeth, and at Birney Hill near Ponteland. The combined cost of these inquiries in terms of providing expert witnesses and consultancy support to present the Council's case, venue hire etc. amounted to £193,000. In one of those cases (South Loansdean) costs were awarded against the Council for acting unreasonably in refusing planning permission although to date the costs claim has not been pursued any further. In addition to this, the Council had a number of its planning decisions judicially reviewed in 2014-2015, most notably in relation to a proposed wind turbine at Brackenside which resulted in the planning decision being quashed and costs of over £70,000 being incurred by the authority.</p> <p>So far in 2015-2016 it is not envisaged that the Council will be involved in any significant public inquiries relating to planning appeals and therefore costs in this respect are likely to be far less significant. The Council is aware that a number of its planning decisions in 2015-2016 could potentially be challenged through the judicial review process but at the moment no decisions are subject to challenge.</p>	<p>One of the significant planning inquiries during 2014-2015 (South Loansdean) related to a decision that resulted from the officer recommendation being overturned by Planning Committee on grounds that could not be defended at the appeal. In doing so the Inspector concluded that the Council had acted unreasonably and made an award of costs against the authority on this basis. Training for Committee members has been carried out in respect of flood risk/drainage and the robustness of planning decisions has been undertaken since that decision, and a rolling programme of further training for Members is currently being developed for delivery in Summer 2015.</p> <p>Following the Brackenside judicial review decision a thorough investigation has been carried out and clear lines of action established to ensure that all future planning decisions are robust and capable of standing up to legal challenge. The implications of the decision have been discussed at length with planning staff and a briefing note circulated setting out the basis of the decision and the issues arising from it. Specific actions have been identified and implemented with immediate effect to address the issues where the Council were found to be at fault in the Brackenside case.</p> <p>A Specialist Planning Team has been created to deal with applications most at risk of judicial review, including renewable energy, minerals and waste. Managers have been instructed to ensure that all Officer reports are carefully scrutinised before sign-off.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p>Data Security</p> <p>The Council suffered twenty eight separate security incidents/data breaches in 2014-2015. The Senior Information Risk Owner (SIRO) did not require for these 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>The Council has an Information Governance Working Group which meets on a monthly basis to discuss the practical day to day security and information governance issues. Any significant issues of policy decisions are referred to the Council's Heads of Service group.</p> <p>The Council continues to make progress in this area and management are committed to continually improve. The SIRO and other senior officers within the organisation have undertaken a formal Information Risk Owner's course.</p> <p>A portal is being developed to improve the management of security incidents including data breaches which will enable all information to be captured and will go directly into workflows for the relevant service area and will make the reporting process more robust.</p> <p>An Internal Audit of our information governance processes has highlighted a number of areas which the Council needs to address, to enhance information governance processes and to ensure full compliance with relevant legislation. All recommendations have been accepted and Information Services management are in the process of implementing these.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p>Data Management</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 has in the past caused operational problems for officers as there is no more room in our partner storage organisation Woodhorn to store additional material.</p> <p>The Council does not have a Records Manager to deal with the day to day issues of records management resulting in the Council/Woodhorn holding information that is past its retention period. Principle 5 of the Data Protection Act states that "Personal data processed for any purpose or purposes shall not be kept longer than is necessary for that purpose or purposes" therefore the Council could be breaching this principle.</p>	<p>As part of the accommodation review a work stream has been created to resolve the data management issues.</p> <p>Initially, all storage held at Woodhorn was reviewed and either destroyed (in line with our Records Management and Disposal Policy and Retention Schedules), relocated to an appropriate Council facility or scanned into a document management system therefore significantly reducing the amount of Council data held at Woodhorn.</p> <p>A programme is now in place to replicate this process across all Council buildings, significantly reducing the physical footprint of paper storage held in all facilities.</p> <p>The Information Governance Working Group continues to monitor services to ensure they are reviewing their documents (including those held in storage) and their Retention Schedules to allow for any changes in the appropriate legislation.</p> <p>The annual increase in the volume of freedom of information requests received, has placed a further strain on all service areas. Publishing this data will result in fewer requests needing exhaustive searches. Whilst the Council will encounter issues with implementing this, it will require time and resource across all services. Publishing data will show the public, the Council's clients; that it is trying to be transparent.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Compliance with Policies and Procedures</i></p> <p>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>This weakens the overall control environment of the organisation.</p>	<p>The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2014-2015 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 awareness of the application of the Council's governance structure.</p> <p>It is suggested that the following issues are considered for inclusion in the Annual Governance Statement.</p> <p><i>Overall Opinion on the organisation's internal systems of governance, risk management and control:</i></p> <p>(a) The overall opinion of Chief Internal Auditor on the organisation's internal systems of governance, risk management and control, which was found to be satisfactory;</p> <p><i>Areas where the framework of governance, risk management and control is working well include important main financial systems which received a 'significant assurance' and some specific areas of good practice were identified as follows:</i></p> <p>(b) Detailed procedure notes in place for cash in bank and development of electronic banking;</p> <p>(c) Monthly performance monitoring reports are issued in relation to creditors procedures for action by services;</p> <p>(d) The Corporate Debt Policy which is readily accessible by staff has been supported by LEAN events to raise awareness and improve processes, and the Paye.Net facility is promoted;</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Compliance with Policies and Procedures (continued)</i></p>	<p>(e) There are well established processes in place for the daily and monthly reconciliation of business rates income, and additional monthly monitoring of actual against budgeted business rates retention since the localisation of business rates from 1 April 2013;</p> <p><i>Good practice has been identified in the governance arrangements for the Social Fund and NETs which is likely to receive a 'full assurance' opinion:</i></p> <p>(f) The operational aspects of the partnership are working effectively and the Council's monitoring arrangements are working satisfactorily as part of the NETs performance management framework with regular meetings between key stakeholders to review performance and discuss ongoing development;</p> <p><i>Attention is drawn to the assurance level in relation to schools' local accounts which appears to show an improvement from previous 'limited assurance' opinions to 'moderate assurance' opinion:</i></p> <p>(g) Reminders regarding financial procedures for local accounts are now issued by Business Support through their School Newsletter, and learning points from the thematic reviews are shared through the Internal Audit Newsletter;</p> <p><i>Some areas where the Council needs to pay more attention to ensure the control environment is strengthened and risk reduced which have received a 'limited assurance' opinion include:</i></p> <p>(h) The reconciliation of committed and actual expenditure for property repairs and maintenance;</p> <p>(i) Compliance with EU and domestic driving licence regulations and operator licence regulations; and,</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Compliance with Policies and Procedures (continued)</i></p>	<p><i>A final area of focus is the system for Highways' Recoverables which is likely to receive a 'no assurance' opinion:</i></p> <p>(j) Overall the procedures for the administration and recovery of costs incurred by the Council for repairing damage caused by third parties require improvement. Management set up a LEAN project to develop a proposed action plan which, if implemented, addresses the issues identified by Internal Audit.</p>
<p><i>Arch SLA</i></p> <p>Arch, the arm's length delivery company of the Council, has been criticised externally for having an unclear relationship with the Council. The development of a new Economic Growth Strategy for the county has enabled a more formal relationship to be developed.</p>	<p>The Council approved a new Economic Strategy in late 2014 and work has been ongoing with stakeholders to identify the role they will play in delivering projects and support to the delivery of the plan. Arch is a key stakeholder and ongoing officer meetings in early 2015 have assisted in the development of a range of projects to be delivered across Northumberland. These projects will be agreed by the Board of Arch and will also be incorporated into a report to Scrutiny and Policy Board within the Council. This will then form the basis of the agreement between the two parties. The Arch Board will take responsibility for overseeing the delivery of the specific projects and the Council via the Scrutiny process and will hold Arch to account for their delivery performance on an annual basis.</p>
<p><i>Impact of NCC Review of Housing Management on the delivery of functions</i></p>	<p>During 2014-2015, NCC initiated an exercise to consider transferring Housing Management from Homes for Northumberland and taking it under the direct control of the Council. The transfer will be completed during 2015-2016.</p> <p>The uncertainty associated with the review has the potential to adversely impact on the morale of staff. This may put pressure on the remaining staff involved in supporting the business prior to the transfer.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p><i>Development of Tenant Engagement</i></p>	<p>The Homes and Communities Agency's regulatory framework for social housing requires providers to give tenants a wide range of opportunities to influence and be involved in the formulation of housing-related priorities and strategies and the delivery of housing services.</p> <p>During 2014-2015, Homes for Northumberland suspended some key aspects of the involvement framework including a forum of engaged tenants, Area Boards in Blyth and Alnwick and some service panels. These were suspended with a view to rebuilding a more empowered base of involved tenants. However, this is still a work in progress.</p> <p>A Tenant Steering Group has been established, supported by an Independent Tenant Advisor (ITA), to represent the tenant voice in relation to the Northumberland County Council review of housing management.</p> <p>The Steering Group, together with a range of other tenants who have expressed a wish to become involved, will be guided to re-establish the engagement framework – including the development of a new forum that will have its membership populated through a vote by all tenants. The forum will act as the hub for tenant engagement activities.</p> <p>A roadshow was conducted in 2014-2015 to establish tenants' requirements in relation to service standards. These are currently being worked up into a new service offer document.</p>

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<i>Issues Identified</i>	<i>Current Position</i>
<p>Active Northumberland</p> <p>During 2012 there was a fundamental review of leisure arrangements within the County. As a result of this review a number of major changes were introduced to the management of the Council's Culture and Leisure services during 2014-2015.</p> <p>Previously, leisure services throughout the County were delivered via a number of providers originating under the former County and District Council arrangements. The review of leisure resulted in the integration of five previous sets of leisure management arrangements into one Trust, called 'Active Northumberland'.</p> <p>Active Northumberland is a charity and not-for-profit limited company, with Northumberland County Council as the only member, and is governed by a Board of 16 trustees. The turnover for service provision during 2014-2015 was approximately £14 million. As part of the County Council's agreed two year budget 2015-17, a detailed savings plan (contributing to the Council's Medium Term Financial Plan) has been agreed. This savings plan sets out proposed revenue savings of £1.77 million from Active Northumberland's management of Leisure in the period 2015-17. Additionally, further services from Culture, Libraries and Tourism transferred to Active Northumberland with effect from 1 April 2015. This transfer is intended to realise an additional £1.72 million in savings in the period 2015-17.</p> <p>As with any new ways of working and delivering services differently, it is important that the Council is assured on the governance arrangements in place and that these are appropriately monitored and reviewed to ensure that stakeholder interests are protected.</p>	<p>Given the increased scope and breadth of services now delivered via the Active Northumberland model, the significant combined budget of the new arrangements, and the savings proposed to be realised, it is considered timely to review and evaluate the governance arrangements which are in place at this early juncture of operation. An Internal Audit review, assessing the culture, systems and procedures in key business processes, is currently underway.</p>

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6. Conclusion

We propose over the coming year to take steps to address the above matters, and ensure the robustness of governance -arrangements within the Council and its subsidiaries. Through the Audit Committee, the actions taken in response to identified weaknesses will be actively monitored. We are satisfied that these actions will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

This statement has been prepared having regard for issues within the financial year to which the Statement of Accounts relates. Any significant events or developments relating to the governance system between the end of the financial year and the date on which the Statement of Accounts is signed are also reflected.

Signed:

Grant Davey

Leader of the County Council

Steven Mason

Chief Executive

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 2015 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 19 (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 2014/15.

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 Chief Executive and auditor

As explained more fully in the Statement of the Chief Executive's Responsibilities, the Chief Executive 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 Chief Executive; 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 2015 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 2015 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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, 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 2014/15.

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 2015 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 2014/15.

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 Chief Executive and auditor

As explained more fully in the Statement of the Chief Executive's Responsibilities, the Chief Executive 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 United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express

Independent Auditors' Report to the Members of Northumberland County Council

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 Chief Executive; 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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, 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 2014/15.

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 on 13 October 2014, 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 2015.

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 on 13 October 2014, 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 2015.

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 2015

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 Practice (BVACOP) on the 1st April 2011. It provides guidance on financial reporting to stakeholders but does not provide guidance on the Statement of Accounts. The overall framework adopted by 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

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

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1 Introduction

Addressee	<p>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.</p> <p>We have carried out this work in relation to benefits payable from the Northumberland County Council Pension Fund (the "Fund")..</p>
Related Documents	<p>The advice provided in this report is supported by advice contained in the following documents:</p> <ul style="list-style-type: none">▪ 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'). <p>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.</p> <ul style="list-style-type: none">▪ Actuarial Valuation at 31 March 2013 – Northumberland County Council Pension Fund dated 31 March 2014 (the '2013 Valuation').
Background	<p>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.</p> <p>CIPFA put forward three options for disclosing the actuarial present value of promised retirement benefits and further detail on these can be found in our Terms of Reference document noted above.</p> <p>The Administering Authority has chosen "Option C" which was confirmed to us in an e-mail dated 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.</p> <p>The calculations contained in this document have been carried out on a basis consistent with our understanding of IAS 19.</p> <p>I confirm that I am a Fellow of the Institute and Faculty of Actuaries.</p>
Document structure	<p>This document is structured as follows:</p> <ul style="list-style-type: none">▪ 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.

	Value as at 31 March 2013 £M	Value as at 31 March 2010 £M
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:

	31 March 2013 (% p.a.)	31 March 2010 (% p.a.)
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

Post retirement mortality	31 March 2013	31 March 2010
Males		
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%	100%
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
Females		
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

	31 March 2013	31 March 2010
Commutation	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

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

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

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

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

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

Benefits valued	<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>
Data	<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>
Assumptions	<p>IAS 19 sets out the following general requirements for the setting of assumptions:</p> <ul style="list-style-type: none"> ▪ Actuarial assumptions shall be unbiased and mutually compatible; and ▪ Financial assumptions shall be based on market expectations, at the balance sheet date, for the period over which the obligations are to be settled.

Furthermore IAS 19 requires that the assumed discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds and in countries where there is no deep market in such bonds, the market yield (at the balance sheet date) on government bonds shall be used.

CIPFA have informed us that under IAS26 the assumptions are ultimately the responsibility of the Administering Authority. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

The key financial assumptions are set out on the first page of Section 2 and the derivation of the assumptions is set out in our assumptions letter 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	<p>This report should be read in conjunction with the supporting documents listed in Section 1.</p> <p>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.</p> <p>The results of the calculations provided in this document constitute a valuation exercise.</p>
Disclaimer	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

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.