

NORTHUMBERLAND

Northumberland County Council

Statement of Accounts
2009 – 2010

Contents

	Page
Summary of the 2009-2010 Financial Year	1
Explanatory Foreword	3
Statement of Accounting Policies	8
Core Financial Statements	
Income and Expenditure Account	18
Statement of Movement on the General Fund Balance	19
Statement of Total Recognised Gains and Losses	20
Balance Sheet	21
Cash Flow Statement	23
Notes to the Financial Statements	25
Supplementary Financial Statements	
Housing Revenue Account Income and Expenditure Account	99
Statement of Movement on the Housing Revenue Account Balance	100
Notes to the Housing Revenue Account Income and Expenditure Account	101
Collection Fund Account	106
Notes to the Collection Fund Account	107
Pension Fund Accounts	
Northumberland County Council Pension Fund	109
Statement of Accounting Policies	110
Fund Account	112
Net Assets Statement	113
Notes to the Financial Statements	114
Pension Fund Performance	123
Statement of the Actuary	125
The Firefighters' Pension Fund	
Fund Account	127
Net Assets Statement	127
Notes to the Financial Statements	128
Statement of Responsibilities for the Statement of Accounts	130
Annual Governance Statement	131
Independent Auditor's Report to the Members of Northumberland County Council	139
Glossary of Terms	144

Summary of the 2009-2010 Financial Year

The County Council's financial position for the 2009-2010 financial year is reported by the various statements in this document.

With effect from 1 April 2009, the County Council merged with the six Borough and District Councils within Northumberland to create a single unitary authority. This resulted in the Council's net worth increasing from £87.2 million to £455.3 million, by virtue of the merger.

The County Council approved a net revenue budget of £284.3 million for 2009-2010 after taking account of the Dedicated Schools Grant of £167.7 million. Efficiencies and other savings totalling £22.5 million were needed in order to arrive at a reasonably balanced position after assessing what was required in terms of spending capacity to maintain service provision and respond to essential growth pressures, and the consequent impact upon the increase in council tax levels.

The original capital plan for 2009-2010 approved in February 2009 showed total planned gross expenditure of the order of £110.3 million, financed from a combination of Supported Borrowing, Prudential Borrowing, Dedicated Schools Grant, Academies Programme, Grants, use of Reserves and Revenue Contributions, and, a significant level of Capital Receipts. The Capital Programme for 2009-2010 included spending rephased from 2008-2009, plans from former Borough and District Councils, and Housing expenditure. Most notable amongst the projects were Putting the Learner First (Ashington and Blyth), various Children's Services schemes, health and safety/backlog maintenance works, the Local Transport Plan, Ashington Town Centre and Haltwhistle Library.

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

	£'000
Council Tax	144,406
Formula Grant	126,590
Decrease in General Fund	13,300
	<hr/>
	284,296

Adjusting for slippage from financial year 2008-2009 together with slippage into the year 2010-2011 the financial position for 2009-2010 can be summarised as follows:

	£'000
Original budget approved February 2009	284,296
Add: Slippage from 2008-2009	2,669
	<hr/>
	286,965
Less: Slippage to 2010-2011	(10,056)
	<hr/>
	276,909
Less: Net expenditure	(275,885)
Underspend for the year	1,024

The financial results for the year show that net expenditure after transfers to and from earmarked reserves was £275.9 million, £8.4 million less than budgeted for. The County Council had originally intended to reduce the General Fund by £13.3 million when the budget was set. The financial results for 2009-2010 demonstrate a reduction in the General Fund of £4.9 million some £8.4 million less than originally anticipated, demonstrating an improved financial performance.

Summary of the 2009-2010 Financial Year

This increase in reserves can be reconciled back to the increase of £8.4 million shown in the General Fund as follows:

	£'000
"Return to Reserves"	(1,024)
Slippage Adjustments:	
2008-2009	2,669
2009-2010	(10,056)
	(8,411)

The accounts demonstrate a strong financial performance when viewed against the workload and financial pressures associated with LGR and the exceptional financial pressures experienced throughout the financial year, most notably falling interest rates on short term investments.

Service allocated budgets underspent overall by £9.3 million, per the provisional out turn report, with particularly strong performances within Resources and Adult Services.

The table below shows the level of the General Fund which is available for use equating to £17.5 million as at 31 March 2010:

	£'000
Balances as at 1 April 2009	17,185
Transferred from the Borough and District Councils	15,260
Restated balance brought forward 1 April 2009	32,445
Less: amount to fund slippage from 2008-2009	(2,669)
	29,776
Less: LGR and budget support 2009-2010 transfer from balances	(13,300)
"Return to Reserves"	1,024
Usable Balances as at 31 March 2010	17,500

The minimum recommended level in respect of 2009-2010 was £15.1 million. The actual level of balances at 31 March 2010 was £27.6 million as analysed below:

	£'000
Usable Balances (see above)	17,500
Slippage to 2010-2011 (see below) #	10,056
General Fund Balance 31 March 2010	27,556

# Slippage to 2010-2011:	£'000
Working Neighbourhood Fund balances	1,814
Statutory Maintenance	380
Redundancy Costs per capitalisation bid	3,460
LGR projects ICT	1,718
Revenue & Benefits projects	1,002
Local Enterprise Growth Initiative funding	341
Transport Asset Management Plan revenue grant	248
Other	1,093
	10,056

Explanatory Foreword

1. Information and Financial Statements

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts. The pages which follow are the Council's final accounts for 2009-2010 and comprise:

Statement of Accounting Policies

This explains the basis of the figures in the accounts.

Income and Expenditure Account

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

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the County Council's actual financial performance for the year, measured in terms of resources consumed and generated over the past twelve months. However, the County Council is required to raise council tax on a different basis, the main differences being accounting for capital investment as it is financed, and charging retirement benefits as amounts become payable to pensioners, rather than as future benefits are earned.

The General Fund balance shows 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.

Statement of Total Recognised Gains and Losses

This shows all of the gains and losses of the County Council over the year and shows the aggregate change in its net worth. In addition to the surplus or deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

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 and its long term indebtedness, the net current assets employed in its operations, and summarised information on the fixed assets held. It excludes Trust Funds and the Pension Fund.

Cash Flow Statement

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

Pension Fund Financial Statements

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

Explanatory Foreword

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

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.

Statement of Movement on the Housing Revenue Account Balance

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

Collection Fund Account

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

Statement of Responsibilities for the Statement of Accounts

The Statement of Responsibilities details the responsibilities of the County Council and the Corporate Director of Finance regarding the accounts. In addition the statement includes the issue date for the accounts and a certification by the Corporate Director of Finance that the accounts present the Council's financial position fairly. The date of the authorisation for the issue of the accounts is also stated.

Annual Governance Statement

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

Independent Auditor's Report

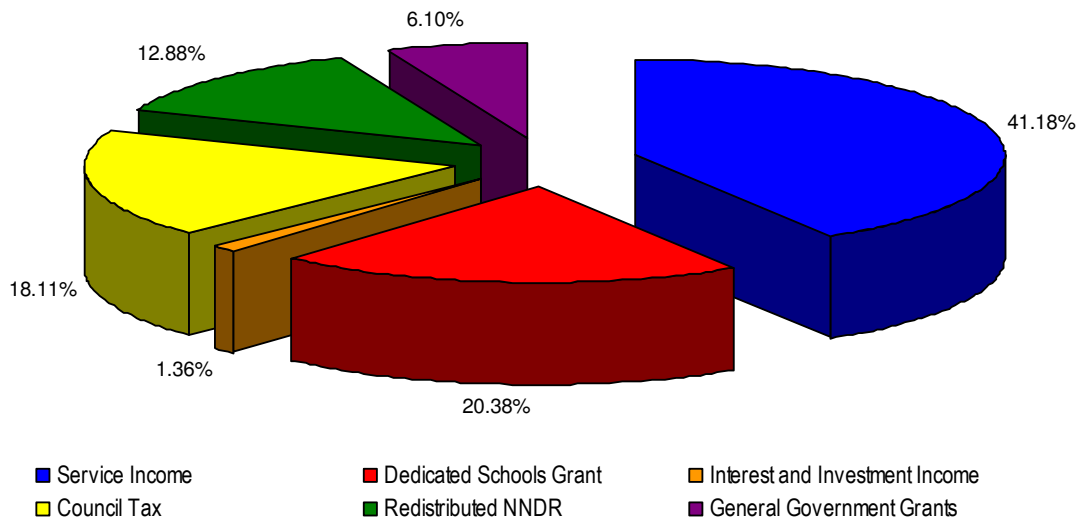
The Independent Auditor's Report presents the External Auditor's report and opinion on the Statement of Accounts.

Explanatory Foreword

2. Influences on Income and Expenditure

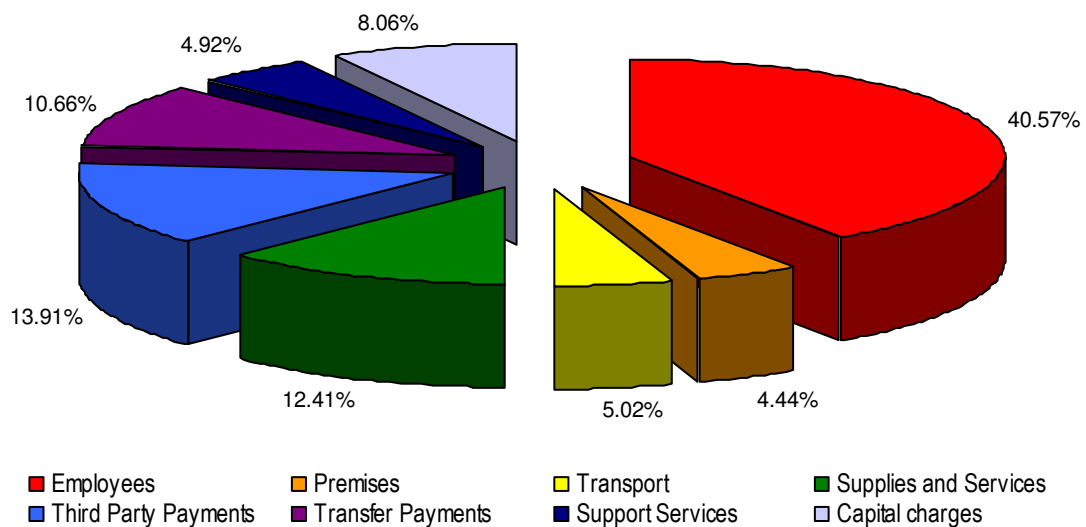
Where the money comes from

The Council relies in the main on service income, Dedicated Schools Grant, local taxation and redistributed non domestic rates to fund service provision. These sources of funding accounted for 92.6% of all income during the year with the remaining income being derived from other government grants, non domestic rates and interest earned.



What the money was spent on

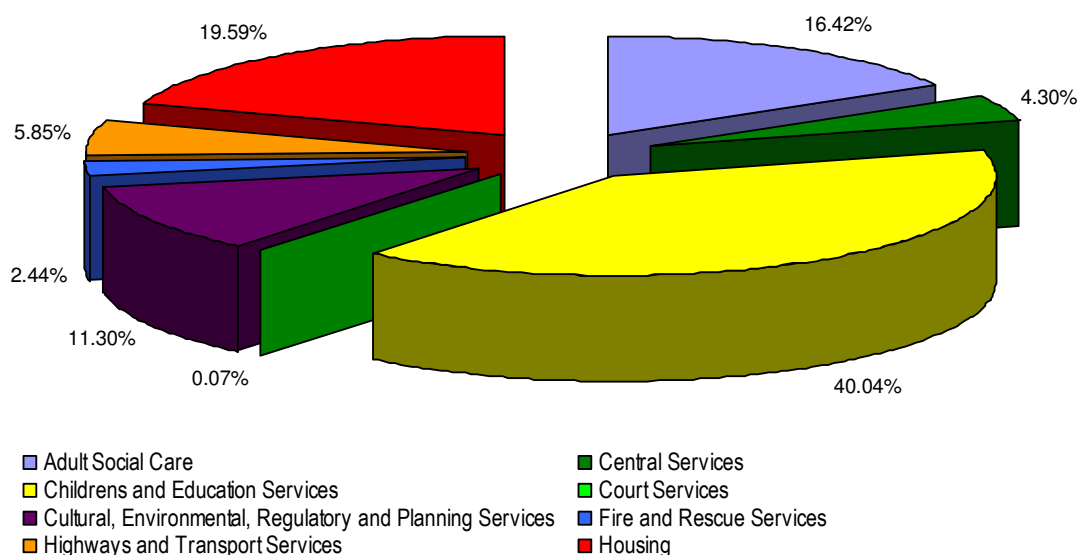
A large proportion of the Council's expenditure is staff related (40.6%), 12.4% relates to the purchase of supplies and services, with transfer payments and third party payments accounting for a further 24.6%. The balance is mainly related to central costs and capital charges for the use of assets (depreciation).



Explanatory Foreword

What services were provided?

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



The Income and Expenditure Account (page 18) and the Notes to the Financial Statements (pages 25-98) provide more detail regarding the charts above.

3. Capital Expenditure

Each year the Council invests in projects to maintain and develop services. The level of investment is subject to the ability of the Council to finance and run projects within affordable limits as informed by prudential indicators. During the year the Council incurred £120.07 million of capital expenditure comprising £69.94 million of asset additions and £50.13 million revenue expenditure to be financed from capital under statute. Of this £26.11 million (21.7%) related to Children's and Educational Services and £23.73 million (19.7%) related to Highways and Transport. The Council's fixed assets were also increased by £60.31 million for the Waste PFI and £0.15 million land exchange. Examples of the capital projects delivered are:

Project	£'000
Revenue expenditure funded from capital under statute	
Equal Pay	26,400
Icelandic Bank Investments	9,100
Redundancy and restructuring costs	7,205
Other revenue expenditure funded from capital under statute	7,421
Local Transport Plan	21,719
Housing Services	11,748
Cramlington and Blyth PLF Projects	11,590
Regeneration Projects	2,934
Health and Safety/Backlog Maintenance	2,560
Fire Service Modernisation	1,550
Adult Social Care Modernisation	716

Explanatory Foreword

The Council obtained agreement from the Department of Communities and Local Government (DCLG) to fund from capital resources redundancy and restructuring costs, equal pay claims, and forecast losses on Icelandic Bank Investments.

4. Finance for Capital Expenditure

The main sources of finance for capital expenditure were borrowings of £47.7 million (39.7%), capital grants of £27.9 million (23.2%), use of capital receipts of £32.9 million (27.4%) and Major Repairs Allowance of £7.3 million (6.1%). Additional sources include contributions from other bodies and contributions from revenue.

5. Pension Deficit

The accounts have been prepared incorporating the requirements of FRS17 *Retirement Benefits* for the treatment of pension costs. FRS17 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 2009 the County Council's net liability for future pension costs was £410.9 million. On 1 April 2009 a Local Government Reorganisation merged the County Council with the former Borough and District Councils adding £142.5 million to County Council's net liability resulting in an increased net liability of £553.4 million. During the year the net liability for future pension costs shown on the Balance Sheet has increased to £702.2 million as at 31 March 2010. The main reason for this increase is an actuarial loss of £127.8 million. Sixty eight 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 2009-2010 was set at the actuarial valuation of the Fund as at 31 March 2007 and was intended to fully fund the liabilities within approximately 25 years.

The next actuarial valuation of the fund will be as at 31 March 2010 and the Medium Term Financial Plan includes a forecast additional employer's contribution of £6.5 million per annum with effect from the 2011-2012 financial year as a result of this valuation. The Pension Fund Panel will be required to agree the approach to funding as part of the valuation exercise.

6. Significant Changes in Accounting Policies

In accordance with the CIPFA Statement of Recommended Practice (2009), the accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS).

The change means that the PFI assets which were 'off Balance Sheet' will generally be required to be recognised on the Council's Balance Sheet along with a liability for the financing provided by the PFI operator. This has resulted in the plant shell and project assets for the Council's waste PFI scheme being recognised as Council owned assets in year.

As well as contracts entered into from 1 April 2009, the requirements apply in respect of PFI contracts existing at 31 March 2009 and prior period adjustments have been made for these.

Statement of Accounting Policies

1. General

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (2009) (SORP) and the Best Value Accounting Code of Practice (2009), issued by the Chartered Institute of Public Finance and Accountancy.

2. Changes to Accounting Policies

As noted in the explanatory foreword, in the 2009-2010 Statement of Accounts, the Council has adopted IFRS for PFI assets. This has resulted in certain PFI assets being brought onto the Council's Balance Sheet along with the associated liability for the financing.

From 1 April 2009, the Council has adopted a de minimis level on its General Fund assets of £10,000 for the capitalisation of fixed assets.

The SORP requires an amendment to the treatment of income and related debtors or creditors from Council Tax and National Non-Domestic Rates (NNDR) to demonstrate the Council's role as an agent for collecting income on behalf of precepting authorities and central government.

3. Fixed Assets

Expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis, provided that it yields benefits to the Council and the services it provides are for more than one financial year. For General Fund assets a de minimis level of £10,000 has been applied. Assets acquired under finance leases and capitalised are included in the Balance Sheet on the basis of depreciated historical cost.

Assets are included in the Balance Sheet (net of depreciation) as follows:

Land and Buildings

Operational Land and Buildings

Included on the basis of Existing Use Value, or where this could not be assessed because there was no known market for the asset, the Depreciated Replacement Cost (DRC) method of obtaining market value has been used. Properties valued on a DRC basis have been subject to the test of adequate service potential through the Corporate Asset Management process. Also where a DRC has been provided the market value for alternative uses has been investigated and an opinion given as to whether this figure would be significantly higher or lower than the DRC.

Land and Buildings are revalued at least every five years in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (Red book - 6th Edition).

Surplus Assets, Held for Disposal

Included on the basis of Market Value and reviewed annually.

New additions are included in the accounts at cost until a formal valuation is made.

Investment Properties

These are assets purchased for the purpose of making a profit or where the whole property is let at a market rent. Investment properties are valued at market value, and reviewed annually. They are therefore not depreciated.

Statement of Accounting Policies

Infrastructure

Valued at historical cost.

Community Assets

These include urban and country parks, the land element of cemeteries and crematoria, and buildings which are of an architectural or historical interest, but which are not primarily held for delivery of a service, such as monuments. The assets are perceived as being dedicated for public use, and the local authority is considered the custodian. The valuation is based on historical cost.

Council Dwellings

Council dwellings are included in the Balance Sheet at existing use value for social housing (EUV-SH). Properties were valued by the Valuation Office Agency during 2005-2006, using the Beacon principle. The Beacon principle is used for large groups of properties that are of similar design, age, type or construction. A sample property, 'the beacon', is selected which is representative of the group, and a detailed valuation is carried out.

Assets under construction

These are valued at historic cost, with the exception of land which has been valued at market value.

Vehicles, Plant and Equipment

Valued at historical cost.

Intangible Fixed Assets

Intangible assets are capitalised at cost and amortised over their estimated useful life. An intangible asset may only be revalued where it has a readily ascertainable market value.

Impairment of Fixed Assets

The values of each category of assets, assets with an estimated remaining useful life exceeding fifty years and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- Where attributable to the clear consumption of benefits – the loss is charged to the relevant service.
- Otherwise it is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset an amount up to the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposal of Fixed Assets

When an asset is disposed of or decommissioned:

- The value of the asset in the Balance Sheet is written off to the Income and Expenditure Account.
- Receipts from disposals are credited to the Income and Expenditure Account.

Statement of Accounting Policies

The net of these two entries represents part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Receipts are credited to the Capital Receipts Reserve and can then only be used for new capital expenditure or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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 Statement of Movement on the General Fund Balance.

4. Depreciation

Following the implementation of FRS 15 *Tangible Fixed Assets*, all assets, other than land, are depreciated over their useful economic lives. In the year assets are acquired, land and buildings and finance leases are depreciated from the month they are acquired whilst vehicles, plant and equipment and infrastructure are depreciated at the midpoint through the year. Assets are being depreciated using the straight line method over the following periods:

Asset	Depreciation Period
Land & Buildings & Community Assets (after deducting residual value)	10, 20, 25, 30, 35, 40, 45, 50, 55, 75 or 100 years (as determined by the valuation officers)
Infrastructure:	
Surface Dressing	10 years
Other	40 years
Vehicles, Plant and Equipment:	
Salt Barns	25 years
Buses	12 years
Fire engines	15 years
Vehicles and equipment under finance lease	2 to 10 years
Other vehicles	5 to 10 years
Mobile Accommodation	10 years
Furniture and Fittings, IT	2 to 11 years
CCTV equipment	10 to 30 years
Refuse wagons / vehicles	3 to 17 years
Wheeled bins	4 to 8 years
Diggers / forklifts	11 years
Car parking machines	10 to 11 years
Bottle Bank / Bins	5 years
Air / Noise monitoring equipment	10 years
Grounds maintenance equipment	4 to 30 years
Play / sport / gym equipment	5 to 20 years
Street Furniture	10 years
PFI Assets:	
Buildings and Infrastructure	26 to 50 years
Waste Plant Shell	25 years
Equipment	3 to 8 years

Statement of Accounting Policies

5. Capital Charges

The capital charges made to services, central support services and trading accounts, equate to the sum of depreciation, and external interest payable (including the interest element of finance lease rentals).

The Code of Practice requires that certain additional transfers be made between the Income and Expenditure Account and the Capital Adjustment Account. As a result, the asset charges have no impact on the amount to be raised from the Council Taxpayer.

All expenditure on repairs and maintenance relating to fixed assets is charged to the appropriate service within the Income and Expenditure Account.

6. Leases

6.1 Operating Leases

Where assets are acquired under operating leases the lease rental payments are charged to services.

6.2 Finance Leases

Assets acquired under finance leases, which are capitalised are included in the Balance Sheet on the basis of the outstanding obligation to make future rental payments.

The finance charge is charged to services over the term of the lease.

7. Government Grants

Government grants are recognised in the accounts when the conditions of the grant entitlement have been met. Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate service in the Income and Expenditure Account or, in the case of capital grants, to a government grants deferred account. Amounts are released from the government grants deferred account to offset any provision for depreciation charged to services in respect of assets to which the grants relate. Government grants received are analysed in note 46 (page 94) to the financial statements.

8. Accruals

Both Revenue and Capital Accounts are maintained on a system of income and expenditure. Sums which had not been paid by 31 March 2010 for goods supplied or services rendered to the Council during 2009-2010 are included in the accounts and recorded at the end of the year as creditors in the Balance Sheet. Similarly, income due but not received by 31 March 2010 has been included in the accounts and recorded as debtors in the Balance Sheet. The only exception to this relates to those schools that do not use the full extent of the e-Business Suite's purchasing and invoicing functionality, as this part of their income and expenditure is recorded in the accounts on a cash basis. The full functionality of the e-Business Suite is available to all schools.

9. Revenue Recognition

Income is accounted for by applying the accruals convention apart from where schools do not use the e-Business Suite, where accounting is on a cash basis. The main source of income for the Council is from Government grants, Council precepts and service charges. Income is recognised in the period in which services are

Statement of Accounting Policies

provided. Where income is received for a specific activity which is to be delivered in future periods, that income is deferred.

10. Capital Receipts

Income from the disposal of fixed assets is split into usable and reserved proportions. The usable proportion is available to the Council and is used to finance capital expenditure. The amount available is held on the Balance Sheet in the Usable Capital Receipts Reserve. The reserved proportion of the Housing Revenue capital receipt is paid to central government under the pooling arrangements, with the receipt being shown in the Statement of Movement on the General Fund Balance and the balance within the Income and Expenditure Account. Upon disposal the net book value of the asset in the accounts is written off against the Capital Adjustment Account.

Deferred Capital Receipts are amounts derived from sales of assets, which will be received in instalments over agreed periods of time. When an amount is received, it is credited to the Usable Capital Receipts Reserve, and a corresponding amount is deducted from Deferred Capital Receipts.

11. Allocation of Central Administration Expenses

Central administration expenses are allocated over all services based on an estimate of time spent by officers on each service, with the following exceptions:

Section/Service	Basis of Apportionment
Premises	Floor area
Customer Services	Number of enquiries
Audit	Audit Plan
Risk Management	Insurance premiums
Payroll	Number of payroll payments and resource expended
Accounts Payable	Number of creditor payments and resource expended
Accounts Receivable	Number of debts raised and resource expended
Cashiers	Number of payments received and resource expended
ICT	Number of e-Business users
Occupational Health	Number of screenings and time
Property	Repairs and maintenance budgets, orders and time

12. Work in Progress, Stock and Stores

Rechargeable work in progress less interim payments which is included within general debtors and stocks and stores included in the Balance Sheet are valued at replacement current cost with the exception of relatively small values of stock held by the Central Printing Unit which are valued at historical cost.

13. Investments in Companies

The investment in Newcastle International Airport Limited has been shown at fair value in accordance with the policy introduced in 2008-2009 on Financial Assets. The Council commissioned from Grant Thornton to provide the basis for the Council to update the previous valuation exercise carried out based on market intelligence provided by Deloitte LLP to determine the value as at 31 March 2010.

14. Revenue Expenditure Funded from Capital under Statute

Expenditure that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service in the year. Where the Council has determined to meet the cost of this expenditure

Statement of Accounting Policies

from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

15. Pension Costs

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

The Council accounts for pension costs for six of these schemes as defined benefit schemes, in accordance with FRS 17, *Retirement benefits*. In contrast, the Teachers' Scheme is treated as a defined contribution scheme under FRS17, because arrangements for the Scheme mean that liabilities for these benefits cannot be identified to the Council. Therefore the Teachers' Scheme liability for future payment of benefits does not form part of the Net Pensions Liability shown in the Balance Sheet.

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

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

Component	Description
Current service cost	The increase in liabilities as a result of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
Past service cost	The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
Interest cost	The expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
Expected return on assets	The annual investment return on the Northumberland County Council Pension Fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account
Actuarial gains and losses	Changes in the Net Pensions Liability that arise because of changes in the actuarial assumptions from the previous year – debited to the Statement of Total Recognised Gains and Losses
Amount charged against the General Fund Balance for pensions in the year	Amounts payable as employer's contributions to the funded schemes and net retirement benefits paid to pensioners

Statutory provisions require the General Fund balance to be charged with the amount payable by the Council in the year either as employer pension contributions for the funded schemes or as pension payments for the unfunded schemes, and not the amount calculated in accordance with FRS17. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the employer contributions paid or payable

Statement of Accounting Policies

in the year (for the funded schemes) and the pensions paid or payable in the year (for the unfunded schemes).

16. Provision for Bad Debts

The Council maintains a provision for bad and doubtful debts based on an assessment related to the type of debt, the history of the debt since it was raised, evidence of local patterns of collection and the likelihood of making a recovery.

17. Reserves

As part of agreeing the Medium Term Strategy, the Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of the Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and such reserves do not represent usable resources for the Council.

As a result of Local Government Reorganisation, a number of earmarked reserves which were created by the six former District and Borough Councils and appeared on their closing Balance Sheets were re-appropriated during 2009-2010. These are now included within either the General Fund or Capital Reserves, to align with the requirements of the Medium Term Financial Plan.

18. Provisions

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. In accordance with FRS12 *Provisions, contingent liabilities and contingent assets*, provisions are made when the Council has a present obligation (either legal or constructive) as a result of a past event; it is probable that a transfer of economic benefit will be required to settle it; and a reliable estimate can be made of the financial obligation.

Provisions are charged to the Income and Expenditure Account; when payments for expenditure are incurred to which the provision relates they are charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events.

The provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. If it is no longer thought that it is probable that a transfer of economic benefits will be required to settle the obligation, the provision will be reversed.

19. 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.

Statement of Accounting Policies

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of the 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 Income and Expenditure Account.

In the case of Icelandic Bank Investments, the Council made use of the Statutory Instruction issued by the Department for Communities and Local Government (DCLG) to defer the impact within previous financial years. During 2009-2010 the Council received approval from the DCLG to finance through Capital up to a maximum of £9.1 million.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-Sale Assets

Available-for-sale assets are initially measured and carried at fair value. The only asset in this category is the share in Newcastle Airport Local Authority Holding Company Limited and the Council credits dividends to the Income and Expenditure Account when they become receivable.

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.
- Investments are shown gross of accrued interest owing up until 31 March 2010.

Changes in fair value are balanced by an entry in the Available-for-Sale Financial Instruments Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses.

Where assets are identified as impaired because of the likelihood arising from a past event that payments under a contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Income and Expenditure Account, along with any accumulated gains or losses previously recognised in the Statement of Total Recognised Gains and Losses. Where fair value cannot be recognised reliably, the instrument is carried at cost, less any impairment losses.

Statement of Accounting Policies

20. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for that instrument. For most of the Council's borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. The loans are shown in the Balance Sheet gross of any accrued interest liability up until 31 March 2010.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase or settlement. However, where repurchase has taken place as part of the restructuring of the loan portfolio that involves the exchange or modification 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the shortest period allowed within the regulations. The reconciliation of amounts charged to the Income and Expenditure 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 Statement of Movement on the General Fund Balance.

21. Private Finance Initiative

Private Finance Initiative (PFI) schemes involve the private sector designing, building, financing and ultimately providing services on behalf of the Council. The Council entered into a PFI contract for the disposal of waste from 1 April 2007.

The Government provides specific grants to the Council in support of the PFI scheme. These grants are credited to the Net Cost of Services within the Income and Expenditure Account, to partially offset the payments the Council makes under the contract.

The cost of the contract will increase significantly in later years to pay for new facilities that will divert waste away from landfill. In order to equalise the impact upon the Income and Expenditure Account over the life of the contract, the Council will set aside a proportion of grant by an appropriation from the Statement of Movement on the General Fund Balance to earmarked reserves. These earmarked reserves will be drawn upon to smooth payments over the life of the contract.

Where assets are needed to fulfil the PFI contract for services, these are accounted for in line with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual. IFRIC 12 sets out to establish the entity controlling the use to which the PFI asset is put throughout its useful life. Where it is deemed that the Council is the controlling entity, the PFI assets will be recognised on the Council's Balance Sheet along with a liability for the financing provided by the PFI operator.

Statement of Accounting Policies

Where the PFI assets fall outside the scope of IFRIC 12, the Council will consider the arrangement against Statement of Standard Accounting Practice 21- 'Accounting for leases and hire purchase contracts'. If a lease arrangement is identified the assets will be treated in line with the Council's accounting policies for leases.

Where the PFI arrangement does not fall within the scope of IFRIC 12 or SSAP 21 the asset remains off-Balance Sheet and the expenditure will be charged to the Income and Expenditure Account as incurred.

Income and Expenditure Account

for the year ended 31 March 2010

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

	Note	2009-2010 Gross Expenditure	2009-2010 Income	2009-2010 Net Expenditure	2008-2009 As Restated Net Expenditure
		£'000	£'000	£'000	£'000
Adult Social Care		134,784	(48,758)	86,026	88,562
Central Services to the Public		7,110	(2,808)	4,302	841
Children's and Education Services		324,951	(266,995)	57,956	84,574
Court Services		572	-	572	545
Cultural, Environmental, Regulatory & Planning Services		92,117	(29,819)	62,298	19,070
Fire Services		17,005	(1,542)	15,463	15,771
Highways, Roads & Transport Services		47,783	(7,975)	39,808	22,104
Other Housing Services		95,182	(95,034)	148	352
Corporate and Democratic Core		12,678	(911)	11,767	30,094
Non Distributed Costs		13,785	(68)	13,717	7,205
Exceptional Items	4	11,230	-	11,230	15,350
		757,197	(453,910)	303,287	284,468
Housing Revenue Account (HRA)		67,291	(28,713)	38,578	-
Net cost of services		824,488	(482,623)	341,865	284,468
(Gain)/loss on the disposal of fixed assets				(1,993)	44,354
Precepts				3,830	1,155
Deficit/(Surplus) on trading undertakings	7			1,118	(1,114)
Interest payable and similar charges				23,319	13,954
Amounts payable to the Housing Capital Receipts Pool				498	-
Interest and investment income				(10,838)	(7,148)
Pensions interest cost and expected return on pensions assets	39			38,240	18,060
Net operating expenditure				396,039	353,729
Income from Council Tax				(145,007)	(120,577)
General Grants	8			(48,814)	(27,325)
Redistributed Non Domestic Rates				(102,850)	(81,688)
Deficit for the year	13			99,368	124,139

At 1 April 2009 the County Council acquired services from the former Borough and District Councils in the County under Local Government Reorganisation. In Net Cost of Services, Adult Social Care, Children's and Education Services, Court Services and Fire Services are all continuing operations of the County Council and Local Authority Housing (HRA) is a service that has been wholly acquired. The remainder of services are a mix of continuing and acquired services and it is not possible to split their costs between continuing and acquired operations. The 2008-2009 comparative figures in the Income and Expenditure Account and the associated notes relate to the County Council only.

Statement of Movement on the General Fund Balance

for the year ended 31 March 2010

The Income and Expenditure Account shows the County Council's actual financial performance for the year, measured in terms of resources consumed and generated over the past twelve months. However the County Council is required to raise council tax on a different basis, the main differences being accounting for capital investment as it is financed, and charging retirement benefits as employer contributions or pensions become payable rather than as future benefits are earned.

The General Fund Balance shows 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.

	Note	2009-2010 £'000	2008-2009 As Restated £'000
Deficit on the Income and Expenditure Account		99,368	124,139
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	14	(94,479)	(109,333)
Decrease in the General Fund		4,889	14,806
General Fund Balance brought forward 1 April		(17,185)	(31,991)
Transferred from the Borough and District Councils		(15,260)	-
Restated balance brought forward 1 April		(32,445)	(31,991)
General Fund Balance carried forward 31 March		(27,556)	(17,185)
Schools' Revenue Reserves brought forward at 1 April		(8,317)	(12,563)
Deficit for the year		265	4,246
Loans outstanding		17	-
Schools' Revenue Reserves carried forward at 31 March		(8,035)	(8,317)

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2010

This statement shows all of the gains and losses of the County Council over the year and shows the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains (£54.33 million) less losses (£34.36 million) relating to the Revaluation Reserve for fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	Note	2009-2010 £'000	2008-2009 As Restated £'000
Deficit for the year on the Income and Expenditure Account		99,368	124,139
Surplus arising on the revaluation of fixed assets		(19,976)	(5,614)
Deficit arising on the revaluation of available-for-sale financial instruments	32	1,229	9,089
Actuarial losses on pension fund assets and liabilities	32	127,770	135,340
		208,391	262,954
Prior year adjustment		-	(470)
		208,391	262,484
Transferred from former Borough and District Councils		(368,055)	-
Total recognised (gains)/ losses for the year		(159,664)	262,484

Cumulative Effect on Reserves of Prior Period Adjustments

	2008-2009 As Restated £'000
Prior period adjustment for amortisation of Deferred Income re: Waste PFI	24
Prior period adjustment for amortisation of Deferred Consideration re: Waste PFI	(116)
Collection Fund Adjustment Account	(378)
	(470)

Balance Sheet

as at 31 March 2010

The Balance Sheet shows the end of year position of the County Council as a whole and summarises its assets and liabilities:

	Note	31 March 2010 £'000	31 March 2009 As Restated £'000
Intangible Assets	22	252	257
Tangible Fixed Assets:			
Operational Assets:			
Council Dwellings	15	327,259	-
Other Land and Buildings	15	665,581	508,550
Vehicles, Plant and Equipment	15	89,102	22,150
Infrastructure	15	234,468	189,903
Community Assets	15	12,183	245
Total Operational Assets		1,328,593	720,848
Non-Operational Assets:			
Investment Properties	15	36,148	1,554
Assets under Construction	15	66,696	47,187
Surplus Assets Held for Disposal	15	33,210	52,471
		1,464,899	822,317
Long Term Investments	27	10,070	7,481
Long Term Debtors	25 & 27	3,071	1,993
Total Non-Current Assets		1,478,040	831,791
Current Assets:			
Stock	36	993	700
Debtors – General	27 & 34	49,960	35,539
Prepayments	27 & 34	3,372	4,390
Short Term Investments	27	41,843	65,757
Cash and Bank	27	2,555	2,435
Less Current Liabilities:			
Loans Repayable on Demand or Within 12 Months		(14,825)	-
Creditors	27 & 35	(65,747)	(65,736)
Receipts in Advance	27 & 35	(16,588)	(21,482)
Provisions	28	(23,196)	(20,784)
Deferred Income		(667)	(667)
Finance Lease		(284)	(244)
Bank Overdraft	27	(22,227)	(6,372)
Total Assets less Current Liabilities		1,433,229	825,327
Borrowing repayable within a period in excess of 12 months	27	(234,441)	(210,235)
Deferred Income		(16,011)	(5,166)
Government Grants & Contributions Deferred	32	(173,325)	(99,112)
Finance Leases	6 & 19	(60,423)	(12,669)
Net Pensions Liability	39	(702,160)	(410,940)
Total Assets less Liabilities		246,869	87,205

Balance Sheet

as at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 As Restated £'000
Financed by			
Capital Adjustment Account	32	722,745	372,056
Financial Instruments Adjustment Account	32	3,596	(2,751)
Unequal Pay Back Pay Account	33	(180)	(15,350)
Revaluation Reserve – Land & Buildings	32	151,283	109,168
Pensions Reserve	32	(702,160)	(410,940)
Capital Receipts Reserve	32	632	444
Deferred Capital Receipts		1,215	1,577
Collection Fund Adjustment Account		(3,311)	(837)
HRA Major Repairs Reserve	31	1,400	-
General Fund Balance	30	27,556	17,185
Earmarked Reserves – Housing Revenue Account		8,979	-
Earmarked Reserves – General Fund	29 & 30	35,114	16,653
Total Net Worth		246,869	87,205

The comparative Balance Sheet as at 31 March 2009 and associated notes relate to the County Council only. The assets and liabilities of the former Borough and District Councils and the River Blyth Port Health Authority were acquired by the County Council on 1 April 2009. Note 3 shows the impact of these transfers.

Cash Flow Statement

for the year ended 31 March 2010

This summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Note	2009-2010 £'000	2008-2009 Restated £'000
Revenue Activities			
Cash Outflows			
Cash Paid to and on Behalf of Employees		363,488	368,977
Other Operating Cash Payments		354,851	186,632
Housing Benefit Paid Out		12,890	-
Precepts Paid		3,830	1,155
Payments to the Capital Receipts Pool		498	-
Total Revenue Cash Outflows		735,557	556,764
Cash Inflows			
Rents (after rebates)		(22,461)	-
Council Tax Receipts		(129,986)	-
Precepts Received		-	(121,793)
National Non-Domestic Rates Receipts from National Pool		(102,850)	(81,688)
Revenue Support Grant		(23,739)	(11,372)
DWP Grants for Benefits		(91,315)	-
Other Government Grants	46	(298,599)	(268,751)
Cash Received for Goods and Services		(94,464)	(86,226)
Other Operating Cash Receipts		(461)	-
Total Revenue Cash Inflows		(763,875)	(569,830)
Net Cash Inflow from Revenue Activities	41	(28,318)	(13,066)
Dividends from Joint Ventures and Associates			
Cash Inflows			
Dividends Received		(167)	-
Returns on Investments and Servicing of Finance			
Cash Outflows			
Interest Paid		12,220	9,395
Interest Element of Finance Lease Rental Payments		5,895	454
Cash Inflows			
Interest Received		(4,286)	(5,771)
Net Cash Outflow from Servicing Finance		13,829	4,078
Capital Activities			
Cash Outflows			
Purchase of Fixed Assets		70,938	74,181
Purchase of Long-Term Investments		-	-
Other Capital Cash Payments		7,421	-
Cash Inflows			
Sale of Fixed Assets		(4,742)	(3,820)
Capital Grants Received	46	(48,523)	(17,230)
Other Capital Cash Receipts		(5,563)	(1,352)
Net Cash Outflow from Capital Activities		19,531	51,779
Management of Liquid Resources			
Net (decrease) in Short Term Deposits		(53,995)	(74,360)
Net increase/(decrease) in Long Term Deposits		2,857	(9,000)
Net Cash (Inflow) from Liquid Resources		(51,138)	(83,360)
Net Cash (Inflow) before Financing		(46,263)	(40,569)

Cash Flow Statement
for the year ended 31 March 2010

	Note	2009-2010 £'000	2008-2009 Restated £'000
Financing			
Cash Outflows			
Repayments of Amounts Borrowed		76,027	37,000
Capital Element of Finance Lease Rental Payments	41	1,140	4,506
Cash Inflows			
New Loans Raised		-	(15,000)
Net Cash Outflow from Financing	43	77,167	26,506
Net Decrease/(Increase) in Cash	45	30,904	(14,063)

Notes to the Financial Statements

1. Prior Period Adjustments to NCC's Core Statements for PFI and Council Tax

The SORP changes in relation to PFI assets require a prior period adjustment to be made in the 2009-2010 financial statements. The Waste PFI contract was entered into by Northumberland County Council prior to Local Government Reorganisation.

Income and Expenditure Account for the year ended 31 March 2009

	Previously reported 2008-2009 Net Expenditure £'000	PFI Changes £'000	Council Tax Changes £'000	2008-2009 Net Expenditure As Restated £'000
Cultural, Environmental & Planning Services	27,956	(8,886)	-	19,070
Net cost of services	293,354	(8,886)	-	284,468
Interest payable and similar charges	13,557	397	-	13,954
Net operating expenditure	362,218	(8,489)		353,729
Income from Council Tax	(121,793)	-	1,216	(120,577)
Deficit for the year	131,412	(8,489)	1,216	124,139

Statement of Movement on the General Fund Balance for the year ended 31 March 2009

	Previously reported 2008-2009 £'000	PFI Changes £'000	Council Tax Changes £'000	2008-2009 As Restated £'000
Deficit on the Income & Expenditure Account	131,412	(8,489)	1,216	124,139
Net additional amount required by statute and non statutory proper practices to be debited or credited to the General Fund balance for the year	(116,606)	8,489	(1,216)	(109,333)

Statement of Total Recognised Gains and Losses for the year ended 31 March 2009

	Previously reported 2008-2009 £'000	PFI Changes £'000	Council Tax Changes £'000	2008-2009 As Restated £'000
Deficit for the year on the Income & Expenditure Account	131,412	(8,489)	1,216	124,139
	270,227	(8,489)	1,216	262,954
Prior year adjustment re 2007-2008	-	(92)	(378)	(470)
Total recognised losses/(gains) for the year	270,227	(8,581)	838	262,484

Notes to the Financial Statements

Balance Sheet as at 31 March 2009

See note 2 below for an explanation of the Council Tax changes.

The restated Balance Sheet as at 1 April prior to consolidation with the districts comprises the following:

	Previously reported As at 31 March 2009 £'000	PFI Changes £'000	Council Tax Changes £'000	NCC As at 1 April 2009 As Restated £'000
Intangible Assets	257			257
Tangible Fixed Assets:				
Operational Assets:				
Other Land and Buildings	500,385	8,165		508,550
Vehicles, Plant and Equipment	3,431	18,719		22,150
Infrastructure	189,903			189,903
Community Assets	245			245
Total Operational Assets	693,964	26,884	-	720,848
Non-Operational Assets:				
Investment Properties	1,554			1,554
Assets under Construction	47,187			47,187
Surplus Assets Held for Disposal	52,471			52,471
	795,433	26,884	-	822,317
Long Term Investments	7,481			7,481
Long Term Debtors	1,993			1,993
Deferred Consideration	3,016	(3,016)		-
Total Non-Current Assets	807,923	23,868	-	831,791
Current Assets:				
Stock	700			700
Debtors – General	30,275		5,264	35,539
Prepayments	2,547	1,843		4,390
Short Term Investments	65,757			65,757
Cash and Bank	2,435			2,435
Less Current Liabilities:				
Creditors	(59,635)		(6,101)	(65,736)
Receipts in Advance	(21,482)			(21,482)
Provisions	(20,784)			(20,784)
Deferred Income	-	(667)		(667)
Bank Overdraft	(6,372)			(6,372)
Total Assets less Current Liabilities	801,364	25,044	(837)	825,571
Borrowing repayable within a period in excess of 12 months	(210,235)			(210,235)
Deferred Income		(5,166)		(5,166)
Government Grants & Contributions Deferred	(99,112)			(99,112)
Finance Leases	(1,616)	(11,297)		(12,913)
Net Pensions Liability	(410,940)			(410,940)
Total Assets less Liabilities	79,461	8,581	(837)	87,205
Financed by				
Capital Adjustment Account	363,475	8,581		372,056
Financial Instruments Adjustment Account	(2,751)			(2,751)
Unequal Pay Back Pay Account	(15,350)			(15,350)

Notes to the Financial Statements

	Previously reported As at 31 March 2009 £'000	PFI Changes £'000	Council Tax Changes £'000	NCC As at 1 April 2009 As Restated £'000
Revaluation Reserve	109,168			109,168
Pensions Reserve	(410,940)			(410,940)
Capital Receipts Reserve	444			444
Deferred Capital Receipts	1,577			1,577
Collection Fund Adjustment Account	-		(837)	(837)
General Fund Balance	17,185			17,185
Earmarked Reserves – General Fund	16,653			16,653
Total Net Worth	79,461	8,581	(837)	87,205

Cash Flow Statement for the year ended 31 March 2009

	Previously reported 2008-2009 £'000	PFI Changes £'000	2008-2009 As Restated £'000
Other Operating Cash Payments	191,385	(4,753)	186,632
Total Revenue Cash Outflows	561,517	(4,753)	556,764
Net Cash Inflow from Revenue Activities	(8,313)	(4,753)	(13,066)
Interest Element of Finance Lease Rental Payments	60	394	454
Net Cash Outflow from Servicing Finance	3,684	394	4,078
Purchase of Fixed Assets	74,073	108	74,181
Net Cash Outflow from Capital Activities	51,671	108	51,779
Capital Element of Finance Lease Rental Payments	255	4,251	4,506
Net Cash Outflow from Financing	22,255	4,251	26,506

2. Prior Period Adjustments for Council Tax and National Non-Domestic Rates

The changes in accounting policies for Council Tax and National Non-Domestic Rates (NNDR) income require the opening Balance Sheets for the billing authorities to be restated in line with the SORP. The treatment of income was clarified in the SORP to demonstrate the Council's role as an agent collecting income on behalf of precepting authorities and central government. The adjustments required for this change in policy impact on general debtors, creditors, the collection fund adjustment account and the collection fund balance as indicated below. The restated Balance Sheets for the former Borough and District Councils as at 31 March 2009 (see note 3 for an explanation of the abbreviations) prior to consolidation with the County Council comprise the following:

Notes to the Financial Statements

	ADC Previously Reported £'000	ADC As Restated £'000	BBC Previously Reported £'000	BBC As Restated £'000	BVBC Previously Reported £'000	BVBC As Restated £'000	CMBC Previously Reported £'000	CMBC As Restated £'000	TDC Previously Reported £'000	TDC As Restated £'000	WDC Previously Reported £'000	WDC As Restated £'000
Intangible Assets	35	35	18	18	268	268	-	-	-	-	-	-
Tangible Fixed Assets:												
Operational Assets:												
Council Dwellings	117,226	117,226	-	-	240,961	240,961	-	-	-	-	-	-
Other Land and Buildings	22,135	22,135	15,828	15,828	47,165	47,165	10,913	10,913	23,960	23,960	14,718	14,718
Vehicles, Plant and Equipment	1,681	1,681	-	-	3,688	3,688	1,632	1,632	2,152	2,152	340	340
Infrastructure	143	143	5,326	5,326	5,017	5,017	964	964	-	-	19,507	19,507
Community Assets	100	100	385	385	3,896	3,896	1,811	1,811	955	955	6,600	6,600
Total Operational Assets	141,285	141,285	21,539	21,539	300,727	300,727	15,320	15,320	27,067	27,067	41,165	41,165
Non-Operational Assets:												
Investment Properties	-	-	882	882	12,862	12,862	1,187	1,187	6,271	6,271	4,077	4,077
Assets under Construction	-	-	-	-	3,829	3,829	96	96	9	9	-	-
Surplus Assets Held for Disposal	-	-	-	-	11,881	11,881	148	148	-	-	341	341
	141,320	141,320	22,439	22,439	329,567	329,567	16,751	16,751	33,347	33,347	45,583	45,583
Long Term Investments	-	-	-	-	-	-	2,160	2,160	-	-	-	-
Long Term Debtors	128	128	-	-	460	460	2,099	2,099	221	221	29	29
Total Non-Current Assets	141,448	141,448	22,439	22,439	330,027	330,027	21,010	21,010	33,568	33,568	45,612	45,612
Current Assets:												
Stock	80	80	40	40	-	-	79	79	73	73	131	131
Debtors – General	3,367	2,990	5,635	5,322	13,407	12,881	5,941	5,734	3,480	2,624	7,407	7,296
Prepayments	-	-	-	-	-	-	10	10	132	132	-	-
Short Term Investments	500	500	-	-	13,609	13,609	-	-	14,010	14,010	17,695	17,695
Cash and Bank	2,451	2,451	480	480	-	-	470	470	10,725	10,725	5,315	5,315
Less Current Liabilities:												
Loans Repayable on Demand or Within 12 Months	(77)	(77)	-	-	(13,989)	(13,989)	(4,203)	(4,203)	-	-	-	-
Creditors	(2,407)	(2,100)	(1,742)	(1,400)	(8,282)	(7,616)	(3,518)	(3,280)	(3,890)	(3,527)	(4,851)	(4,740)
Receipts in Advance	(66)	(66)	(30)	(31)	(27)	(27)	(459)	(459)	(1,156)	(1,156)	(883)	(883)
Provisions	(720)	(720)	(799)	(799)	-	-	(184)	(184)	(985)	(985)	(487)	(487)
Bank Overdraft	-	-	-	-	(4,296)	(4,296)	-	-	-	-	-	-
Total Assets less Current Liabilities	144,576	144,506	26,023	26,051	330,449	330,589	19,146	19,177	55,957	55,464	69,939	69,939

Notes to the Financial Statements

	ADC Previously Reported £'000	ADC As Restated £'000	BBC Previously Reported £'000	BBC As Restated £'000	BVBC Previously Reported £'000	BVBC As Restated £'000	CMBC Previously Reported £'000	CMBC As Restated £'000	TDC Previously Reported £'000	TDC As Restated £'000	WDC Previously Reported £'000	WDC As Restated £'000
Borrowing repayable within a period in excess of 12 months	(9,345)	(9,345)	(1,000)	(1,000)	(85,421)	(85,289)	(2,051)	(2,051)	-	-	-	-
Provisions	-	-	-	-	(88)	(88)	-	-	-	-	-	-
Government Grants & Contributions Deferred	(819)	(819)	(1,234)	(1,234)	(18,663)	(18,655)	(1,575)	(1,575)	(383)	(383)	(14,662)	(14,662)
Finance Leases	-	-	-	-	-	(132)	-	-	-	-	-	-
Net Pensions Liability	(15,270)	(15,270)	(10,500)	(10,500)	(41,100)	(41,100)	(20,130)	(20,130)	(18,890)	(18,890)	(36,640)	(36,640)
Total Assets less Liabilities	119,142	119,072	13,289	13,317	185,177	185,325	(4,610)	(4,579)	36,684	36,191	18,637	18,637
Financed by												
Capital Adjustment Account	131,268	131,268	16,163	16,163	212,972	212,990	12,558	12,558	27,621	27,621	23,074	23,074
Financial Instruments Adjustment Account	(94)	(94)	-	-	(1,191)	(1,191)	-	-	-	-	-	-
Revaluation Reserve	65	65	4,238	4,238	6,788	6,770	328	328	6,044	6,044	8,399	8,399
Pensions Reserve	(15,270)	(15,270)	(10,500)	(10,500)	(41,100)	(41,100)	(20,130)	(20,130)	(18,890)	(18,890)	(36,640)	(36,640)
Capital Receipts Reserve	-	-	1,787	1,786	84	84	1,720	1,720	13,780	13,780	10,946	10,946
Deferred Capital Receipts	-	-	-	-	-	8	17	17	-	-	18	18
General Fund Balance	902	902	650	650	860	860	387	387	4,903	4,903	7,557	7,557
Housing Revenue Account (HRA) Balance	490	490	927	927	5,293	5,293	541	541	-	-	2,137	2,137
Collection Fund Balance	70	-	(30)	-	(140)	-	(31)	-	493	-	-	-
Earmarked Reserves – HRA	434	434	-	-	1,343	1,343	-	-	-	-	531	531
Earmarked Reserves – General Fund	1,277	1,277	54	54	268	268	-	-	2,733	2,733	2,615	2,615
Total Net Worth	119,142	119,072	13,289	13,317	185,177	185,325	(4,610)	(4,579)	36,684	36,191	18,637	18,637

Notes to the Financial Statements

This page left intentionally blank.

Notes to the Financial Statements

3. Acquired Operations

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

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

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

The functions and assets of River Blyth Port Health Authority (RBPHA) were also transferred to the County Council on the 1 April 2010 by separate order.

The consolidation of the Balance Sheets as at 1 April 2009 is shown below.

Note: the column headed "Adjust" shows the effect of adjusting for each council's indebtedness to each other. So, for example if Northumberland County Council owed Blyth Valley Borough Council some money it would be shown as a creditor on the County Council's accounts and as a debtor on Blyth Valley's accounts and when the council's came together these amounts were required to be taken of the Balance Sheet.

Notes to the Financial Statements

	NCC As Restated £'000	ADC As Restated £'000	BBC As Restated £'000	BVBC As Restated £'000	CMBC As Restated £'000	TDC As Restated £'000	WDC As Restated £'000	RBPHA £000	Adjust £'000	Total As Restated £'000
Intangible Assets	257	35	18	268	-	-	-	-	-	578
Tangible Fixed Assets:										
Operational Assets:										
Council Dwellings	-	117,226	-	240,961	-	-	-	-	-	358,187
Other Land and Buildings	508,550	22,135	15,828	47,165	10,913	23,960	14,718	65	-	643,334
Vehicles, Plant and Equipment	22,150	1,681	-	3,688	1,632	2,152	340	-	-	31,643
Infrastructure	189,903	143	5,326	5,017	964	-	19,507	-	-	220,860
Community Assets	245	100	385	3,896	1,811	955	6,600	-	-	13,992
Total Operational Assets	720,848	141,285	21,539	300,727	15,320	27,067	41,165	65	-	1,268,016
Non-Operational Assets:										
Investment Properties	1,554	-	882	12,862	1,187	6,271	4,077	-	-	26,833
Assets under Construction	47,187	-	-	3,829	96	9	-	-	-	51,121
Surplus Assets Held for Disposal	52,471	-	-	11,881	148	-	341	-	-	64,841
	822,317	141,320	22,439	329,567	16,751	33,347	45,583	65	-	1,411,389
Long Term Investments	7,481	-	-	-	2,160	-	-	-	-	9,641
Long Term Debtors	1,993	128	-	460	2,099	221	29	-	-	4,930
Deferred Consideration	-	-	-	-	-	-	-	-	-	-
Total Non-Current Assets	831,791	141,448	22,439	330,027	21,010	33,568	45,612	65	-	1,425,960
Current Assets:										
Stock	700	80	40	-	79	73	131	-	-	1,103
Debtors – General	35,539	2,990	5,322	12,881	5,734	2,624	7,296	6	(28,708)	43,684
Prepayments	4,390	-	-	-	10	132	-	-	-	4,532
Short Term Investments	65,757	500	-	13,609	-	14,010	17,695	-	-	111,571
Cash and Bank	2,435	2,451	480	-	470	10,725	5,315	21	-	21,897
Less Current Liabilities:										
Loans Repayable on Demand or Within 12 Months	-	(77)	-	(13,989)	(4,203)	-	-	-	-	(18,269)
Creditors	(65,736)	(2,100)	(1,400)	(7,616)	(3,280)	(3,527)	(4,740)	-	28,708	(59,691)
Receipts in Advance	(21,482)	(66)	(31)	(27)	(459)	(1,156)	(883)	-	-	(24,104)

Notes to the Financial Statements

	NCC As Restated £'000	ADC As Restated £'000	BBC As Restated £'000	BVBC As Restated £'000	CMBC As Restated £'000	TDC As Restated £'000	WDC As Restated £'000	RBPHA £000	Adjust £'000	Total As Restated £'000
Deferred Income	(667)	-	-	-	-	-	-	-	-	(667)
Provisions	(20,784)	(720)	(799)	-	(184)	(985)	(487)	-	-	(23,959)
Bank Overdraft	(6,372)	-	-	(4,296)	-	-	-	-	-	(10,668)
Total Assets less Current Liabilities	825,571	144,506	26,051	330,589	19,177	55,464	69,939	92	-	1,471,389
Borrowing repayable within a period in excess of 12 months	(210,235)	(9,345)	(1,000)	(85,289)	(2,051)	-	-	-	-	(307,920)
Provisions	-	-	-	(88)	-	-	-	-	-	(88)
Deferred Income	(5,166)	-	-	-	-	-	-	-	-	(5,166)
Government Grants & Contributions Deferred	(99,112)	(819)	(1,234)	(18,655)	(1,575)	(383)	(14,662)	-	-	(136,440)
Finance Leases	(12,913)	-	-	(132)	-	-	-	-	-	(13,045)
Net Pensions Liability	(410,940)	(15,270)	(10,500)	(41,100)	(20,130)	(18,890)	(36,640)	-	-	(553,470)
Total Assets less Liabilities	87,205	119,072	13,317	185,325	(4,579)	36,191	18,637	92	-	455,260
Financed by										
Capital Adjustment Account	372,056	131,268	16,162	212,990	12,558	27,621	23,074	65	-	795,794
Financial Instruments Adjustment Account	(2,751)	(94)	-	(1,191)	-	-	-	-	-	(4,036)
Unequal Pay Back Pay Account	(15,350)	-	-	-	-	-	-	-	-	(15,350)
Revaluation Reserve	109,168	65	4,238	6,770	328	6,044	8,399	-	-	135,012
Pensions Reserve	(410,940)	(15,270)	(10,500)	(41,100)	(20,130)	(18,890)	(36,640)	-	-	(553,470)
Capital Receipts Reserve	444	-	1,786	84	1,720	13,780	10,946	-	-	28,760
Deferred Capital Receipts	1,577	-	-	8	17	-	18	-	-	1,620
Collection Fund Adjustment Account	(837)	-	-	-	-	-	-	-	-	(837)
General Fund Balance	17,185	902	650	860	387	4,903	7,557	-	-	32,444
Housing Revenue Account Balance	-	490	927	5,293	541	-	2,137	-	-	9,388
Earmarked Reserves – HRA	-	434	-	1,343	-	-	531	-	-	2,308
Earmarked Reserves – General Fund	16,653	1,277	54	268	-	2,733	2,615	27	-	23,627
Total Net Worth	87,205	119,072	13,317	185,325	(4,579)	36,191	18,637	92	-	455,260

Notes to the Financial Statements

4. Exceptional Item Equal Pay

A Back Pay Provision of £11.23 million has been charged to the Net Cost of Services in the Income and Expenditure Account (in addition to £15.35 million during 2008-2009) to recognise the estimated costs of equal pay claims brought by employees seeking compensation for lost back pay. These costs have however been deferred from being charged to the General Fund under Regulation 31A of the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2003/3146 by the creation of an Equal Pay Back Pay Account pending the actual payment of the claims.

5. Revenue expenditure financed from capital under statute

The Department for Communities and Local Government (DCLG) has provided orders allowing certain revenue costs to be financed from capital under statute as follows (see note 14):

	Capitalisation Approval £'000	Capitalisation Utilised £'000
Redundancy payments – Efficiency Costs		
Statutory redundancy	1,400	1,205
Contributions to the Pension Fund	6,000	6,000
Impairment of Icelandic Bank Investments	9,100	9,100
Impact of Equal Pay Awards	26,400	26,400
Total	42,900	42,705

6. Private Finance Initiative

The Council has entered into a PFI scheme as detailed within note 21 of the Statement of Accounting Policies. 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 PFI assets held on the Council's Balance Sheet during 2009-2010:

	Plant Shell £'000	Project Assets £'000	2009-2010 £'000	2008-2009 £'000
Restated cost brought forward 1 April	-	27,393	27,393	-
Recognition of deferred asset within fixed assets	-	-	-	3,248
Additions in year	13,566	46,748	60,314	24,145
Cost carried forward 31 March	13,566	74,141	87,707	27,393
Restated accumulated depreciation brought forward 1 April	-	(509)	(509)	(25)
Depreciation charge for year	(271)	(2,053)	(2,324)	(484)
Depreciation at 31 March	(271)	(2,562)	(2,833)	(509)
Net book value carried forward 31 March	13,295	71,579	84,874	26,884

The figures below provide information on the movement of the PFI lease liability held on the Council's Balance Sheet during 2009-2010:

Notes to the Financial Statements

	Plant Shell £'000	Project Assets £'000	2009-2010 £'000	2008-2009 £'000
Lease liability brought forward 1 April	-	11,297	11,297	-
Additions	13,566	36,092	49,658	18,198
Payments made in year	(1,689)	-	(1,689)	(6,901)
Liability carried forward 31 March	11,877	47,389	59,266	11,297

The difference between the initial value of the PFI asset additions and PFI liability above relates to the asset's service potential to generate third party income. This has been recognised as a deferred income liability which was brought onto the Balance Sheet with an initial value of £5.95 million at 1 April 2008.

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

	Lifecycle Replacement £'000	Repayment of Liability £'000	Interest Charges £'000	Service Charges £'000	As at 31 March 2010 Total £'000	As at 31 March 2009 As Restated £'000
Within one year	945	(50)	6,876	9,893	17,664	15,830
Within two to five years	3,972	2,008	28,367	44,904	79,251	76,315
Within six to ten years	5,429	4,036	36,745	63,547	109,757	107,446
Within eleven to fifteen years	5,994	7,814	37,638	72,717	124,163	120,912
Within sixteen to twenty years	6,617	15,866	36,138	83,353	141,974	138,215
Within twenty to twenty-five years	7,306	29,592	29,504	95,554	161,956	157,783
Within twenty-six to thirty years	-	-	-	-	-	34,094
	30,263	59,266	175,268	369,968	634,765	650,595

The following table reconciles the annual PFI payment back to the value which has been recognised in the Income and Expenditure Account:

	2009-2010 £'000	2008-2009 As Restated £'000
Payments to Contractors	15,802	13,253
Prepayments made towards capital expenditure	809	(108)
Finance creditor repayment	(1,689)	(4,285)
Additional finance creditor liability	856	-
Grant Received in year	(3,141)	(3,141)
Deferred income amortisation	(667)	(112)
Depreciation in year	2,324	484
Transfer to the sinking fund	4,011	2,952
Amount Charged to General Fund	18,305	9,043

Notes to the Financial Statements

Two Fire PFI projects (NEFRA 1 and NEFRA 2) are to be brought into the accounts in 2010-2011. During the financial year 2009-2010 the Council purchased land to the value of £1.25 million in relation to these contracts.

7. Trading Operations

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

	2009-2010			2008-2009		
	Income £'000	Cost £'000	(Surplus) Deficit £'000	Income £'000	Cost £'000	(Surplus) Deficit £'000
Grounds Provides services to many of the schools and public buildings within the County.	-	-	-	(588)	675	87
Catering Daily school meals service to all but 30 of the County's schools (16,658 meals per day). Civic catering for specific functions, operation of the staff restaurant and, operating an outdoor residential educational centre.	(7,363)	8,769	1,406	(7,712)	8,132	420
Cleaning and Caretaking Building cleaning and caretaking at schools and other establishments, facilities management at County Hall & Hepscoth Park.	(7,859)	8,559	700	(5,625)	5,175	(450)
Property A comprehensive architectural design, property maintenance and consultancy advice service.	(7,217)	6,486	(731)	(2,125)	719	(1,406)
Central and Other Services The Council operates several central services with a financial break-even objective or achievement of agreed budgets.	(35,256)	34,999	(257)	(22,337)	22,572	235
(Surplus)/Loss on Trading Operations	(57,695)	58,813	1,118	(38,387)	37,273	(1,114)

8. General Government Grants

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

	2009-2010 £'000	2008-2009 £'000
Revenue Support Grant	23,739	11,372
Local Authority Business Growth Incentive Grant	119	418
Area Based Grant	24,956	15,535
	48,814	27,325

9. Members' Allowances

The Council is required to report total allowances paid to members of the County Council. These comprise attendance allowances, special responsibility allowances and basic allowances. The total of members' allowances paid in the year was £1.24 million (£0.90 million in 2008-2009).

Notes to the Financial Statements

10. Officers' Remuneration

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

Remuneration Band	2009-2010		2008-2009	
	All Employees	Employees who received severance payments	All Employees	Employees who received severance payments
£50,000 to £54,999	145	11	111	4
£55,000 to £59,999	64	8	61	2
£60,000 to £64,999	42	6	25	1
£65,000 to £69,999	21	5	13	2
£70,000 to £74,999	9	5	16	3
£75,000 to £79,999	16	4	10	3
£80,000 to £84,999	7	1	4	1
£85,000 to £89,999	7	2	5	3
£90,000 to £94,999	6	6	2	-
£95,000 to £99,999	5	3	4	2
£100,000 to £104,999	8	5	4	2
£105,000 to £109,999	3	2	1	-
£110,000 to £114,999	3	2	2	1
£115,000 to £119,999	1	-	-	-
£120,000 to £124,999	-	-	-	-
£125,000 to £129,999	1	-	2	-
£130,000 to £134,999	-	-	2	2
£135,000 to £139,999	2	-	2	2
£140,000 to £144,999	-	-	1	-
£145,000 to £149,999	1	1	2	1
£150,000 to £154,999	-	-	-	-
£155,000 to £159,999	1	1	-	-
£160,000 to £164,999	-	-	-	-
£165,000 to £169,999	-	-	-	-
£170,000 to £174,999	-	-	1	1
£175,000 to £179,999	-	-	-	-
£180,000 to £184,999	-	-	-	-
£185,000 to £189,999	1	-	-	-
£190,000 to £194,999	-	-	1	1
£195,000 to £199,999	-	-	-	-
£285,000 to £289,999	1	1	1	1
£295,000 to £299,999	-	-	1	1
Total	344	63	271	33

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 37.

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

Each of the above posts carried significant responsibility particularly in a large unitary Council. Each post has an associated outline of responsibilities which can be accessed by clicking on each respective job title.

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

Notes to the Financial Statements

2008-2009								
Post Holder Information	Salary	Bonuses	Expense Allowances	Compensation for loss of office	Benefits in kind	Total remuneration	Pension contributions	Total remuneration incl. pension contributions
	£	£	£	£	£	£	£	£
Senior Officers emoluments – salary is £150,000 or more per year								
Chief Executive, Steve Stewart (from 3 Sept.) ^①	100,629	-	-	-	-	100,629	-	100,629
Chief Executive, Mark Henderson (to 21 May) ^②	23,074	-	-	-	2,044	25,118	4,176	29,294
Senior Officers emoluments – salary is between £50,000 and £150,000 per year								
Executive Director of People	145,339	-	-	-	4,028	149,367	26,306	175,673
Executive Director of Place, Richard Robson (from 1 Aug.) ^③	88,790	-	-	-	1,448	90,238	16,071	106,309
Executive Director of Performance	138,872	-	-	-	3,908	142,780	25,136	167,916
Executive Director of Adult Services, Daljit Lally	119,883	-	-	-	6,899	126,782	21,699	148,481
Director of Corporate Services	109,450	-	-	-	4,752	114,202	19,811	134,013
Director of Resources, Steven Mason	124,809	-	-	-	2,245	127,054	22,590	149,644
Director of Community Safety & Chief Fire Officer, Brian Hesler	109,310	-	-	-	-	109,310	23,313	132,623
Executive Director of Community and Environmental Services (to 31 Dec) ^④	89,169	-	-	-	5,007	94,176	16,140	110,316

Note:

- ① Steve Stewart joined the County Council as Chief Executive on 3 September 2008; his equivalent annual salary was £176,726.
- ② Mark Henderson left the post of Chief Executive on 21 May 2008; his equivalent annual salary was £160,165.
- ③ The Executive Director of Place commenced employment with the Council on 1 August 2008. The equivalent annual salary is £133,185.
- ④ The Executive Director of Community and Environmental Services left the Council on 31 December 2008. The equivalent annual salary is £118,892.

Notes to the Financial Statements

11. Related Parties

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

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

Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of grant received from government departments are set out in note 46 below. Other transactions with Government Departments e.g. HM Revenues and Customs for VAT, Income Tax and National Insurance are not disclosed in this note.

Precepts

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

Northumberland County Council Pension Fund

Northumberland County Council administers the Pension Fund. During 2009-2010 the Pension Fund had an average balance of £3.86 million borrowed from the Council for which it paid interest of £0.02 million. The costs incurred by the Council in administering the Fund, excluding audit fees in 2009-2010 (including audit fees in 2008-2009), are recharged to the Fund on an annual basis. In 2009-2010 these costs amounted to £0.58 million (£0.55 million in 2008-2009). £0.84 million was due to the Council at 31 March 2010.

Other Bodies

Transactions with other related parties are detailed below:

	Receipts £'000	Payments £'000
Northumbrian Water Authority - Precept		251
Northumberland Sea Fisheries Committee - Precept		513
Northumberland National Park Authority	72	
Northumberland Pension Fund:		
Payment of employer's pension contributions in respect of employees		31,057

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2009-2010 goods and services were commissioned from organisations in which Councillors had an interest. Also, funding composed of Single Programme and other grants was paid to organisations in which members had an interest. All interests were declared by the appropriate Members. Members had interests in 156 organisations with transactions totalling £55.85 million.

During 2009-2010, goods and services amounting to £44.58 million were provided by the Council to 91 organisations in which Councillors had an interest.

Notes to the Financial Statements

Included in the above sums are amounts due from the Council of £5.40 million and due to the Council of £3.39 million as at 31 March 2010. Write offs relating to organisations where Members have an interest amount to £0.00 million.

During the year, the Council paid grants totalling £2.38 million to voluntary organisations and individuals. The grants were made with proper consideration of declarations of interest.

Officers

During 2009-2010 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 12 organisations with transactions totalling £1.40 million in respect of goods or services provided to the Council and transactions totalling £0.21 million in respect of goods or services provided by the Council.

Included in the above sums are amounts due from the Council of £0.06 million and amounts due to the Council of £0.04 million as at 31 March 2010.

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

Regional Chamber Funding Agreement for 2009-2010 – Association of North East Councils

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

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

During 2009-2010 expenditure amounting to £1.67 million was incurred by the Association in relation to this funding agreement.

The Council holds money on behalf of the Association of North East Councils (Regional Chamber Funding) amounting to £0.28 million.

12. Audit Costs

In 2009-2010 Northumberland County Council incurred the following fees relating to external audit and inspection:

	2009-2010 £'000	2008-2009 £'000
Fees payable to the appointed auditor with regard to external audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with section 5 of the Audit Commission Act 1998	607	337
Fees payable to the appointed auditor in respect of statutory inspection under section 10 of the Local Government Act 1999	17	15
Fees payable to the appointed auditor for the certification of grant claims and returns under section 28 of the Audit Commission Act 1998	19	35
Fees payable to the appointed auditor by Northumberland County Council as successor body to and in respect of services delivered in connection with the demised District and Borough Authorities	179	-
Fees payable in respect of any other services provided by the appointed auditor over and above the duties described above	94	5
Total	916	392

Notes to the Financial Statements

Notes:

The value of audit fees for grant work related to the 2009-2010 accounts is not known at this stage. The figure that has been included is related to fees paid in 2009-2010 in respect of prior year grant claims. This is consistent with the figure provided in previous years.

Fees regarding grant claims are dependent on the volume of claims to be checked. The increase in 2009-2010 reflects the inclusion of work carried out on behalf of the former District Authorities in respect of grant claims.

Fees payable in respect of other services provided by the appointed auditor are in relation to NSP Grants and the introduction of tax efficient (SMART) benefits for employees of the Council.

Fees payable with regard to audit and inspection work are based on estimates in respect of work done and still to be completed relating to 2009-2010.

13. Significance of the Statement of Movement on the General Fund Balance

The Income and Expenditure Account (page 18) shows the County Council's actual financial performance for the year, measured in terms of resources consumed and generated over the past twelve months.

However the County Council is required to raise council tax on a different basis, the main two differences being:

- Capital expenditure is accounted for as it is financed; and
- Retirement benefits are charged as amounts become payable to pensioners or as employer contributions become payable rather than as future benefits are earned.

The Statement of Movement on the General Fund Balance (page 19) adjusts the deficit on the Income and Expenditure Account to reflect whether the Council has over or under spent against the revenue 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.

The deficit on the Income and Expenditure Account was £99.37 million (£124.14 million in 2008-2009) however, after allowing a £94.48 million net additional amount required by statute and non-statutory proper practices to be credited to the General Fund (£109.33 million in 2008-2009) the decrease in the General Fund was £4.89 million (£14.81 million decrease in 2008-2009).

Notes to the Financial Statements

14. Amounts additional to the deficit on the Income and Expenditure Account that are required by statute and non-statutory proper practices to be debited or credited to the General Fund for the year

	Note	2009-2010 £'000	2008-2009 As Restated £'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance			
Amortisation of Intangible Fixed Assets		(326)	(231)
Depreciation and Impairment of Fixed Assets		(87,572)	(48,951)
Amortisation of Government Grants Deferred		16,351	12,209
Amortisation of Deferred Income		-	112
Write down of Revenue Expenditure to be financed from Capital under Statute:			
• Expenditure not related to County Assets		(7,421)	(6,077)
• Impact of capitalised severance payments		(7,205)	(13,030)
• Impact of capitalised Icelandic Bank investment impairments		(9,100)	-
• Impact of capitalised equal pay payments		(11,230)	-
Net gain/(loss) on the Sale of Fixed Assets		2,244	(44,201)
Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft market loans and premiums and discounts on the early repayment of debt		3,422	1,892
Adjustment for Icelandic Bank Investment Impairments		4,210	(4,990)
Net charges made for retirement benefits in accordance with FRS17	39	(56,170)	(32,520)
Amount by which Council Tax income included in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation		(2,475)	(1,215)
		(155,272)	(137,002)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance			
Revenue Provision for the Repayment of Debt	18	9,673	17,167
Capital expenditure charged in year to the General Fund Balance		4,291	-
Transfer from Capital Receipts Reserve to meet payments to the Housing Capital Receipts Pool		(498)	-
Employers' contributions payable to the Pensions Account and Retirement Benefits payable directly to pensioners	39	35,250	26,810
		48,716	43,977
Transfers to or from the General Fund that are required to be taken into account when determining the Movement in the General Fund Balance			
Housing Revenue Account Balance		(410)	-
Voluntary revenue provision for Capital Financing		-	1,440
Net transfer to or from Earmarked Reserves	30 & 32	12,487	(17,748)
		12,077	(16,308)
Net Additional Amount Required to be Credited to the General Fund Balance for the Year		(94,479)	(109,333)

Notes to the Financial Statements

15. Fixed Assets

The figures below provide information on the movement of fixed assets held by the Council during 2009-2010:

	Operational Assets				Non-Operational Assets				Total
	Council Dwellings	Land & Buildings	Community Assets	Infrastructure	Vehicles, Plant & Equipment	Assets under Construction	Surplus Assets, Held for Disposal	Investment Properties	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Cost or valuation at 1 April 2009	-	524,592	245	229,148	25,515	47,187	52,471	1,554	880,712
Transferred from the Borough and District Councils	387,837	144,785	15,135	40,655	20,847	3,934	13,947	24,725	651,865
Restated balance brought forward 1 April 2009	387,837	669,377	15,380	269,803	46,362	51,121	66,418	26,279	1,532,577
Additions	9,535	13,270	482	11,561	61,741	33,817	-	1	130,407
Reclassifications	2,674	(5,149)	214	9,563	1,816	(18,163)	(1,757)	10,802	-
Disposals	(470)	(729)	-	-	(25)	-	(1,448)	(9)	(2,681)
Revaluations	-	32,055	957	-	-	-	385	7,482	40,879
Impairments	(30,861)	(18,540)	(3,621)	-	-	(79)	(30,387)	(7,834)	(91,322)
Cost or valuation at 31 March 2010	368,715	690,284	13,412	290,927	109,894	66,696	33,211	36,721	1,609,860
Depreciation at 1 April 2009	-	16,042	-	39,245	3,365	-	-	-	58,652
Transferred from the Borough and District Councils	29,649	10,000	1,346	9,742	11,355	-	22	1,001	63,115
Restated balance brought forward 1 April 2009	29,649	26,042	1,346	48,987	14,720	-	22	1,001	121,767
Provided during year	5,393	15,484	188	7,624	5,434	3	2	283	34,411
Reclassifications	-	(477)	(211)	(152)	663	(3)	32	148	-
Disposals	-	(37)	-	-	(25)	-	(2)	(9)	(73)
Revaluations	-	(13,047)	(88)	-	-	-	(26)	(294)	(13,455)
Impairments	6,414	(3,262)	(6)	-	-	-	(27)	(556)	2,563
Depreciation at 31 March 2010	41,456	24,703	1,229	56,459	20,792	-	1	573	145,213

Notes to the Financial Statements

	Operational Assets				Non-Operational Assets				Total
	Council Dwellings	Land & Buildings	Community Assets	Infrastructure	Vehicles, Plant & Equipment	Assets under Construction	Surplus Assets, Held for Disposal	Investment Properties	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net book value at 1 April 2009	-	508,550	245	189,903	22,150	47,187	52,471	1,554	822,060
Transferred from the Borough and District Councils	358,188	134,785	13,789	30,913	9,492	3,934	13,925	23,724	588,750
Restated balance brought forward 1 April 2009	358,188	643,335	14,035	220,816	31,641	51,121	66,396	25,278	1,410,810
Net book value at 31 March 2010	327,259	665,581	12,183	234,468	89,102	66,696	33,210	36,148	1,464,647
Nature of asset holding									
Owned	327,259	657,679	12,183	234,468	10,657	66,696	33,210	36,148	1,378,300
Finance Lease	-	-	-	-	1,474	-	-	-	1,474
PFI	-	7,902	-	-	76,971	-	-	-	84,873
Total	327,259	665,581	12,183	234,468	89,102	66,696	33,210	36,148	1,464,647

Notes to the Financial Statements

Impaired assets over £1 million are shown below. The reasons for these impairments are, in most cases the market downturn and differences in the revaluation methods employed by the County Council and the former Borough and District Councils.

	Impairment £'000
Council Houses – economic downturn	30,861
Land in South West Sector Cramlington – residential property market decline	24,000
Land East of Rotary Way, Blyth – fall in value between valuation dates	3,200
Wentworth Leisure Centre – change in valuation methodology	2,655
Blyth South Beach First School – Change in valuation method following 125 year lease	2,019
Eltringham, Prudhoe – was at Market Value but as community asset should be valued at historical cost	1,996
Cragside Primary School – Change in valuation method to Fair Value	1,743
Land East of Newsham Road Blyth – Decline in residential land market	1,210
Land at West View Cramlington – reduction in saleable area and decline in market	1,039

Capital expenditure and financing is shown below:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Opening Capital Financing Requirement	238,357	197,963
Restatement to balance brought forward (Airport)	5,266	-
Restatement re PFI transactions	3,990	-
Transferred from the Borough and District Councils	102,487	-
Restated balance brought forward 1 April	350,100	197,963
Capital Investment		
Operational assets	69,940	19,280
Non operational assets	-	35,305
PFI transactions	11,678	-
Capitalisation directions		
Redundancy Payments – Efficiency Costs	7,205	-
Impairment of Icelandic Bank Investments	9,100	-
Impact of Equal Pay Awards	26,400	-
Revenue expenditure funded from capital under statute	7,421	20,405
Source of Finance		
Capital receipts	(32,887)	(12,057)
Government Grants and other contributions	(27,866)	(12,678)
Major Repairs Reserve	(7,301)	-
Revenue Contributions and use of Reserves	(4,291)	-
Sums set aside from revenue (NB: includes direct revenue financing, Minimum Revenue Provision (MRP) and any voluntary set aside)	(9,673)	(9,861)
Closing Capital Financing Requirement	399,826	238,357
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	20,809	21,737
Increase in underlying need to borrow (unsupported by government financial assistance)	26,912	27,079
Impact of PFI transactions	11,678	-
Revenue Provision	(9,673)	(8,421)
Increase in Capital Financing Requirement	49,726	40,395

Notes to the Financial Statements

16. Significant Commitments under Capital Contracts

The following significant capital contracts have been entered into by the County Council as at 31 March 2010:

	Total Cost £m	Future Payments £m
Blyth Putting the Learner First Project	29.71	6.04
Hirst Putting the Learner First Project	51.20	50.10
Hexham Priory Special Needs School	6.98	0.20
Atkinson House Special School	3.50	2.10
Haydon Bridge Zero Carbon Learning Centre	1.00	0.88
Prudhoe Creative and Media Innovative Diploma Centre	4.60	4.39
Haltwhistle Library	2.19	0.37
Ashington Town Centre	9.00	8.74

17. Information on Assets Held

Tangible fixed assets owned or partially owned by the Council at 31 March 2010 have increased significantly due to LGR. These include 782 Operational Assets (422 at 31 March 2009) which include 142 schools, 123 car parks, 69 public conveniences and 24 offices. There are also 309 non operational assets (50 at 31 March 2009) including 118 investment properties and 82 assets held for disposal. The council also holds 538 community assets (8 at 31 March 2009) including 316 parks and open spaces. In addition, there is 484 km of principal roads, 4,640 km of other roads and 4,183 bridges, culverts, foot bridges, subways and other infrastructure.

18. 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 2009-2010 of £9.67 million was calculated using both the 'regulatory' (£9.26 million) and 'asset life' (£0.41 million) methods from the guidance. (The 2008-2009 provision was based on 4% of a financing requirement of £197.96 million which was £7.92 million)

	2009-2010 £'000	2008-2009 £'000
Amount Charged as Depreciation (excluding finance leases)	34,104	18,032
Amount Charged as Amortisation	326	231
Less: Government Grants and Contributions Released	(16,351)	(15,144)
Amount Transferred (to)/from the Capital Adjustment Account	(8,406)	4,802
Minimum Revenue Provision	9,673	7,921
Voluntary Revenue Provision (Hexham Priory School)	-	500
Revenue Provision	9,673	8,421

19. Leases

The Council uses cars, commercial vehicles, fire appliances and information technology equipment financed under terms of an operating lease. Operating leases taken out prior to 1 April 2004 are compliant with Statutory Instrument 319 of the Local Authority (Capital Finance) Regulations 1997. Those taken out after 1 April 2004 are in compliance with SSAP21 *Income Recognition for Finance Leases*.

Notes to the Financial Statements

The amount paid under operating lease arrangements in 2009-2010 was £2.23 million (£3.00 million in 2008-2009). However the amount charged to the Income and Expenditure Account was £2.40 million because the arrangement for all items in the year of acquisition is that only a proportion of the rental is charged, with the balance charged in the final year, and a significant number of leases ended in 2009-2010. The SORP requires charges to be made evenly throughout the period of the lease. The Council is committed to making payments of £2.19 million under these leases in 2010-2011 (£1.99 million in 2009-2010), comprising the following elements:

	2010-2011 £'000	2009-2010 £'000
Leases expiring within 12 months	332	608
Leases expiring between 1 to 5 years	1,346	1,318
Leases expiring over 5 years	514	60
	2,192	1,986

The amount paid under finance lease arrangements in 2009-2010 was £0.30 million and this was also charged to the Income and Expenditure Account. The SORP requires charges to be made evenly throughout the period of the lease. The Council is committed to making payments of £0.35 million under these leases in 2010-2011 as follows:

	2010-2011 £'000	2009-2010 £'000
Leases expiring within 12 months	57	3
Leases expiring between 1 to 5 years	175	104
Leases expiring over 5 years	118	189
	350	296

Finance leases, as defined by SSAP 21 Accounting for Leases and Hire Purchase Agreements, held by the County Council as at 31 March 2010 have been valued at £1.42 million on the basis of depreciated historical cost. The aggregate finance charge over the life of these leases is £0.35 million.

The breakdown of finance lease obligations net of finance charges are as follows:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Within 12 months	284	244
Between 12 months and 2 years	449	234
Between 2 and 5 years	417	653
After 5 years	291	485
Total	1,441	1,616

Relevant disclosures for Private Finance Initiative agreements have been included within note 6.

Notes to the Financial Statements

20. Valuation of Fixed Assets

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

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

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 2009 unless stated otherwise. The work has been coordinated by internal Senior Estates Surveyors (MRICS) of Northumberland County Council, County Hall, Morpeth, Northumberland, NE61 2EF. The valuations have been undertaken in part by the internal Senior Estates Surveyors and in part by external valuers at Mouchel, York House, Thornfield Business Park, Standard Way, Northallerton, DL6 2XQ.

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

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

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

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

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

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

Notes to the Financial Statements

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

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

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

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

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

Valuation of Fixed Assets Carried at Current Value

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

	Council Dwellings	Land and Buildings	Community Assets	Non Operational Land and Buildings	Non Operational Investment Property	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Valued at Historical Cost (capital works additions not yet subject to revaluation)	-	3,307	*12,183	-	-	15,490
Valued at Current Value in:						
2005-2006	220,754	24,644	-	228	733	246,359
2006-2007	-	88,360	-	-	815	89,175
2007-2008	106,505	126,370	-	75	206	233,156
2008-2009	-	83,386	-	5,418	2,931	91,735
2009-2010	-	339,514	-	27,489	31,463	398,466
Total	327,259	665,581	12,183	33,210	36,148	1,074,381

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

21. Depreciation

Depreciation methodologies are included as Accounting Policy 4 in this Statement of Accounts. There have been no changes to the depreciation methods used during the year. New categories have been introduced to accommodate the transfer of assets from the former Borough and District Councils, and the appropriate depreciation method applied as set out in the Policy.

Notes to the Financial Statements

22. Intangible Assets

The figures below provide information on the movement of intangible assets held by the Council during 2009-2010. All intangible assets held are purchased software licences with useful economic lives of three, four, five or ten years.

	2009-2010 £'000	2008-2009 £'000
Cost or valuation at 1 April 2009	806	806
Transferred from the Borough and District Councils	782	-
Restated balance brought forward 1 April	1,588	806
Reclassifications	-	-
Additions	-	-
Cost or valuation at 31 March 2010	1,588	806
Amortisation at 1 April 2009	549	318
Transferred from the Borough and District Councils	461	-
Restated balance brought forward 1 April	1,010	318
Provided during year	326	231
Amortisation at 31 March 2010	1,336	549
Net book value at 1 April 2009	257	488
Transferred from the Borough and District Councils	321	-
Restated balance brought forward 1 April	578	488
Net book value at 31 March 2010	252	257

23. Amortisation Method

As per Accounting Policy 3, intangible assets are amortised over their useful economic life. There has been no changes to the amortisation method used during the year.

24. Analysis of Net Assets Employed

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

	Council Dwellings £'000	Land and Buildings £'000	Community Assets £'000	Infrastructure £'000	Vehicles, Plant & Equipment £'000	Total £'000
General Fund	-	654,149	12,183	234,468	89,075	989,875
HRA	327,259	11,432	-	-	27	338,718
	327,259	665,581	12,183	234,468	89,102	1,328,593

Notes to the Financial Statements

25. Long Term Debtors

Long term debt owed to the County Council is analysed below:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
NCC - Probation	723	765
NCC - Airport Loan Notes	788	1,182
NCC - Car Loans to Employees	112	26
NCC - Soft Loans (Adoptive Parents)	17	20
ADC - Anchor Trust (Erection of dwellings at West Crescent)	57	-
ADC - Anchor Trust (Erection of dwellings at Bailiffgate)	15	-
ADC - Anchor Trust (Erection of dwellings at Percy Street)	26	-
ADC - Amble Development Trust	8	-
ADC - Alnwick Playhouse Trust	3	-
BVBC - Right to Buy Mortgages	7	-
BVBC - Lydia's House Project	20	-
CMBC – Large Scale Voluntary Transfer Project Costs	706	-
CMBC – Your Homes Newcastle	360	-
CMBC - Anchor Housing Association	23	-
CMBC - 1985 Act Sales	16	-
TDC – Loans to Parishes	19	-
TDC –Leisure Tynedale	154	-
TDC –Tyne Green Golf Club	3	-
WDC – HRA Mortgages	13	-
WDC – Housing Act Advances Mortgages	1	-
	3,071	1,993

26. Subsidiary or Associated Companies

Newcastle International Airport Limited

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company.

On 4 May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities.

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

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

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134 million and the Council's share of this valuation (15.08% of 51%) was £10.31 million. The valuation of NIAL Holdings Limited is reviewed annually. During 2009-2010 the valuation of the shareholding reduced by £1.23 million to nil. With the exception of the original cost of the shares, (£1,508) which was treated as a loss in the Income and Expenditure Account, the fall in value was offset against

Notes to the Financial Statements

the Capital Adjustment Account where increases in value prior to 2008-2009 were accounted for.

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

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

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

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

Dividends paid for year-end 31 December 2009 amounted to £nil. Dividends paid for year-end 31 December 2008 amounted to £nil. The total dividend payable for year ended 31 December 2007 was £2.171 million. Newcastle Airport Local Authority Holding Company Ltd's share of this is £1.11 million and a meeting of the Board in April 2009 agreed to distribute this among the seven member authorities. The amount due to the Council was £0.17 million which was received in April 2009.

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Ltd made a loss before tax of £4.17 million and a loss after tax of £3.16 million for the year ended 31 December 2009.

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

Wansbeck Life Limited

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

The Council has a programme of work in place to obtain the necessary information from the subsidiary companies to permit the preparation of group accounts however, at this time, this information is not available and hence, in a departure

Notes to the Financial Statements

from the requirements of the statement of recommended practice, group accounts have not been prepared.

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

Wansbeck Life Limited	2009-2010	2008-2009
	£'000	£'000
Loss on ordinary activities before taxation	(83)	(11)
(Loss)/Profit on ordinary activities after taxation	(50)	4

Northern Coalfields Limited	2009-2010	2008-2009
	£'000	£'000
Profit on ordinary activities before taxation	691	476
Profit on ordinary activities after taxation	501	337

27. Financial Instruments (Assets and Liabilities)

The borrowing and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long -Term		Current	
	31 March	31 March	31 March	31 March
	2010	2009	2010	2009
		As Restated		As Restated
	£'000	£'000	£'000	£'000
Financial Liabilities at Amortised Cost				
Creditors – General	-	-	(65,747)	(65,736)
Bank Overdraft	-	-	(22,227)	(6,372)
Short Term Borrowing	-	-	(14,825)	-
Accruals	-	-	(16,588)	(21,482)
Long Term Borrowing	(234,441)	(210,235)	-	-
Waste PFI lease liability	(59,266)	(11,297)	-	-
	(293,707)	(221,532)	(119,387)	(93,590)
Loans and Receivables				
Debtors – General	-	-	49,960	35,539
Prepayments	-	-	3,372	4,390
Investments	10,070	6,251	41,843	65,757
Cash and Bank	-	-	2,555	2,435
Long Term Debtors	3,071	1,993	-	-
Deferred Consideration	-	-	-	-
	13,141	8,244	97,730	108,121
Available-For-Sale Financial Assets				
Investments	-	1,230	-	-
	-	1,230	-	-

The financial liabilities and financial assets represented by loans and receivables have been assessed at fair value. This has been calculated as present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Notes to the Financial Statements

- The discount rate used is the current rate in relation to the same or a similar instrument from a comparable lender i.e. it is the market rate at the date of valuation.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Note 26 provides information on the Council's shares in Newcastle Airport Local Authority Holding Company Limited and Wansbeck Life Limited. The shares in Newcastle Airport Local Authority Holding Company Limited have been valued as an available-for-sale financial asset where there is not an active market for trading. The Shares in Wansbeck Life Limited are included in long term investments at historic cost.

The fair values calculated are as follows:

	As at 31 March 2010		As at 31 March 2009 Restated	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Current Financial Liabilities	(118,176)	(116,296)	(94,257)	(94,257)
Waste PFI lease liability	(59,266)	(59,266)	(11,297)	(11,297)
Loans from Public Works Loan Board	(60,841)	(55,501)	(60,730)	(50,896)
Other Loans	(173,600)	(203,435)	(149,505)	(153,073)
	(411,883)	(434,498)	(315,789)	(309,523)
Current Investments	41,843	41,849	65,757	65,879
Other Current Loans and Receivables	48,083	48,083	35,539	35,539
Long Term Investments	10,070	10,070	6,251	6,251
Long Term Debtors	3,071	3,071	1,993	1,993
Deferred Consideration	-	-	-	-
Available for sale assets	-	-	1,230	1,230
	103,067	103,073	110,770	110,892

The difference between the carrying amount and fair value of liabilities is the premium or discount calculated at prevailing interest rates for new borrowing on 31 March 2010. The difference of £22.62 million comprises of discounts of £10.05 million on PWLB loans and net premium of £32.67 million on other loans.

The fair value of current investments has been calculated using fixed deposit rates as at 31 March 2010 and a market rate reduction of £0.01 million.

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.

Notes to the Financial Statements

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposure from the Council's customers. The Council's Treasury Management Policy sets out the limits for investments. The policy changed once during 2009-2010 due to difficulty investing surplus cash within the current policy limits. The policy at the year end had the following limits for the investment of surplus monies:

Type of Organisation	Minimum Credit Rating Criteria		Maximum Investment Amount	Maximum Period of Investment
	Fitch	Moody		
UK Local Authorities	N/A	N/A		12 months
DMO	N/A	N/A	£50m	12 months
Nationalised Banks	N/A	N/A	£25m	6 months
Money Market Funds	AAA	Aaa	£25m	Instant access
UK Clearing Banks/ Building Societies	AA+	Aa1	£20m	12 months
	AA-	Aa3	£12m (Group limit £25m)	7 months
	A	A2	£12m (Group limit £25m)	3 months
	A	A3	£12m (Group limit £25m)	1 month

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

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

Icelandic Bank Defaults

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £23 million deposited across four of these institutions, with varying maturity dates and interest rates as follows:

	Date Invested	Maturity Date	As at 1 Apr 2009 £'000	Accrued Interest 2009-2010 £'000	Repaid 2009-2010 £'000	Impairment 2009-2010 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Landsbanki	08.02.08	06.02.09	4,035	225	-	(364)	5.43%	3,896	5%
Glitnir	08.02.08	06.02.09	8,331	466	-	(6,810)	5.45%	1,987	71%
Landsbanki	11.03.08	11.03.09	789	47	-	(70)	5.80%	766	5%
Heritable	26.03.08	29.12.08	745	38	(350)	54	6.00%	487	15%
Kaupthing Singer & Friedlander	02.04.08	02.01.09	1,420	59	(900)	617	6.05%	1,196	29%

Notes to the Financial Statements

	Date Invested	Maturity Date	As at 1 Apr 2009 £'000	Accrued Interest 2009-2010 £'000	Repaid 2009-2010 £'000	Impairment 2009-2010 £'000	Interest Rate %	Amount to be recovered £'000	Principal Default %
Kaupthing Singer & Friedlander	04.04.08	05.01.09	1,893	79	(1,200)	822	6.05%	1,594	29%
Landsbanki	10.09.08	10.12.08	796	48	-	(100)	5.83%	744	5%
Total			18,009	962	(2,450)	(5,851)		10,670	

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

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

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

Heritable Bank

Heritable Bank is a UK registered bank under English Law. The company was placed in administration on 7 October 2008. The administrators issued the latest creditors report in January 2010. This noted that current projections suggest a return to creditors of between 79% and 85%. Three dividend payments had been received by the Council, as at 31 March 2010, totalling 34.98% of the anticipated claim.

In line with CIPFA guidance (LAAP 82, update 3), the Council has calculated the impairment based on recovering 84.98% of the original investment (including interest calculated up to the claim date of 6 October 2008), and made the following assumptions regarding timing of the recovery:

Date	Percentage
July 2010	6.27
October 2010	4.86
December 2010	4.86
March 2011	4.86
June 2011	4.86
September 2011	4.86
December 2011	4.86
March 2012	4.86
June 2012	4.86
September 2012	4.85

Notes to the Financial Statements

Kaupthing Singer and Friedlander Ltd

The administrators issued the latest creditors' report in April 2010. This report noted that the estimated total distribution to unsecured creditors should be between 65% and 78%. Three dividend payments had been received by the Council, as at 31 March 2010, totalling 35% of the anticipated claim.

In line with CIPFA guidance, the Council has calculated the impairment based on recovering 71% of the original investment (including interest calculated up to the claim date of 7 October 2008), and made the following assumptions regarding timing of the recovery:

Date	Percentage
July 2010	10.0
December 2010	5.2
July 2011	5.2
January 2012	5.2
July 2012	5.2
January 2013	5.2

Glitner and Landsbanki – Creditor Status

With regard to the remaining two Iceland-domiciled banks, Giltner and Landsbanki, previous advice has been based on the assumption that local authority deposits had priority status, and would therefore be repaid ahead of any creditors that did not have priority status. This was based on the legal advice obtained by local authorities, and on announcements made by the banks.

The Glitnir Winding-Up Board has since expressed the view that local authority deposits do not have priority status. This view contrasts with the view expressed by the Landsbanki Winding-Up Board that local authority deposits do have priority status. Local authorities' legal advice remains that deposits have priority status under Icelandic law.

Decisions about the priority status of local authority deposits will be made by the Icelandic courts. There is no evidence to suggest that Glitnir and Landsbanki accepted deposits on different terms, and therefore it is expected that the courts will come to the same conclusion in both cases.

Landsbanki

The Council has calculated the recovery and impairment of its Landsbanki deposits based on the assumption that it gains priority status. This would see a return of 71% of the original investment (including interest calculated up to the claim date of 22 April 2009) over the following period:

Date	Percentage
October 2011	22.17
October 2012	8.87
October 2013	8.87
October 2014	8.87
October 2015	8.87
October 2016	8.87
October 2017	8.87
October 2018	19.47

If the Council did not receive priority status the return is estimated to be 38.19%.

Notes to the Financial Statements

Glitnir Bank hf

In light of the views expressed by the Glitnir Winding-Up Board (see above), the Council has taken the decision to calculate its recovery and impairment based on the assumption that it will not gain priority creditor status. This would see a return of 29% of the original investment (including interest calculated up to the claim date of 22 April 2009) over the following period:

Date	Percentage
October 2011	4.35
October 2012	4.35
October 2013	4.35
October 2014	4.35
October 2015	11.60

No payment is expected to be received prior to the court cases and any appeals in respect of priority status being heard.

Customer Debt

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

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Less than three months	2,783	1,805
Three to six months	844	395
Six months to one year	2,490	417
More than one year	2,618	564
Total	8,735	3,181

At 31 March 2010 the Council held a provision of £1.67 million (£0.39 million as at 31 March 2009) 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 Queen Hall Arts and Groundwork Northumberland, but the risk of either guarantee being called upon is assessed as negligible.

Liquidity Risk

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

Notes to the Financial Statements

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

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Analysis by Loan Type		
Public Works Loans Board	60,841	60,730
LOBO (Market Loans)	173,600	149,505
	234,441	210,235
Analysis of Loans by Maturity		
Between 1 and 2 years	-	-
Between 2 and 5 years	15	-
Between 5 and 10 years	1,449	-
Between 10 and 20 years	2,419	-
Between 20 and 30 years	2,647	-
Between 30 and 40 years	2,500	13,009
Between 40 and 50 years	68,811	75,881
Between 50 and 60 years	22,600	18,515
Between 60 and 70 years	134,000	102,830
	234,441	210,235

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

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

The Council has a number of strategies for managing interest rate risk. The Prudential Code sets an upper limit of 50% for borrowings in variable rate loans as a percentage of net outstanding principal sums. Prudential indicators are monitored each month and cover actual borrowing, the operational boundary for external debt and the authorised limit for external debt.

The money market is monitored in conjunction with the prevailing Public Works Loan Board rates and the most advantageous arrangements selected to overcome temporary cash deficiencies due to an unfavourable cash flow position. All

Notes to the Financial Statements

borrowing on the money market will, under normal circumstances, be conducted through the list of approved brokers. On occasions however, it may be necessary due to the small amounts involved to deal direct with individual lenders. Similarly loans can be arranged directly with the Public Works Loan Board.

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

According to this assessment strategy, at 31 March 2010, if interest rates had been 1% higher with all other variables held constant, the effect would have been:

	31 March 2010 £'000
Increase in Interest Payable on Long term Borrowings	811
Increase in Interest Receivable on Variable Rate Investments	(412)
Impact on Income and Expenditure Account	399

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

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

Market Risk – Price Risk

The Council does not invest in equity shares but does have shareholdings in Newcastle Airport Local Authority Holding Company and Wansbeck Life Limited. Further information on the holding is contained in note 26, Subsidiary or Associated Companies.

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

28. Provisions

Redundancy Costs

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

Notes to the Financial Statements

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 Income and Expenditure Account during the year.

Alnwick District Council (ADC) - Provision for Efficiency Savings following LGR

This account represents the cost of severance payments and strain on the pension fund in respect of payments made to employees of ADC who were made redundant post 31 March 2009 as a result of LGR. This was fully utilised during 2009-2010

Berwick-upon-Tweed Borough Council (BBC) - Wind Farm Enquiry

This provision relates to the ongoing enquiries at Wandylaw, Barmoor and Moorside.

Berwick-upon-Tweed Borough Council – Severance and Strain on the Fund (LGR)

This account represents the cost of severance payments plus strain on the pension fund in respect of payments made to employees of BBC who were made redundant post 31 March 2009 as a result of LGR.

Berwick-upon-Tweed Borough Council – Employment Tribunal/TUPE Transfer

This provision was created to deal with any potential employment tribunal as a result of employees transferring with the Large Scale Voluntary Transfer in 2008-2009.

Blyth Valley Borough Council (BVBC) – Insurance claims

This provision was created to deal with any significant risk issues, and has been fully utilised in 2009-2010.

Blyth Valley Borough Council – Cemeteries

This provision was created to fund any restoration work required to War Memorials within the District.

Castle Morpeth Borough Council (CMBC) – Redundancy Costs

This account represents the cost of severance payments and strain on the pension fund in respect of payments made to employees of CMBC who were made redundant post 31 March 2009 as a result of LGR. This was fully utilised during 2009-2010

Tynedale District Council (TDC) – Redundancy Costs

This account represents the cost of severance payments and strain on the pension fund in respect of payments made to employees of TDC who were made redundant post 31 March 2009 as a result of LGR. This was fully utilised during 2009-2010

Wansbeck District Council (WDC) – Redundancy Costs

This account represents the cost of severance payments and strain on the pension fund in respect of payments made to employees of TDC who were made redundant post 31 March 2009 as a result of LGR. This was fully utilised during 2009-2010

Wansbeck District Council – Employment Tribunal

This account represents a provision for current employment tribunal cases, the balance brought forward is from the previous district of Wansbeck with additional provision created for further ongoing cases.

Notes to the Financial Statements

	Balance as at 1 April 2009 £'000	Transfers In/(Out) £'000	Balance as at 31 March 2010 £'000
NCC - Redundancy Costs	5,434	(2,737)	2,697
NCC - Unequal Pay Back Pay	15,350	4,976	20,326
	20,784	2,239	23,023
Transferred from the borough and District Councils:			
ADC – Provision for Efficiency Savings following LGR	720	(720)	-
BBC – Wind Farm Enquiry	188	(188)	-
BBC – Severance & Strain on the Fund (LGR)	514	(514)	-
BBC – Employment Tribunal/TUPE Transfer	96	(50)	46
BVBC – Insurance reserves	82	(82)	-
BVBC – Cemeteries	6	4	10
CMBC – Redundancy Costs	184	(184)	-
TDC – Redundancy Costs	985	(985)	-
WDC – Redundancy Provision	418	(418)	-
WDC – Employment Tribunal	70	47	117
Total Provisions	24,047	(851)	23,196

29. Insurance Reserve

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

	Balance as at 1 April 2009 £'000	Transfers In/(Out) £'000	Balance as at 31 March 2010 £'000
NCC Insurance Reserve	3,036	1,217	4,253
Transferred from the Borough and District Councils:			
BVBC Insurance Reserve	263	(263)	-
BVBC Insurance Risk Management Reserve	5	(5)	-
TDC Insurance Reserve	286	(286)	-
WDC Insurance Reserve	397	(397)	-
Total Insurance Reserve	3,987	266	4,253

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 2010 is £4.25 million and is assessed as sufficient to cover unforeseen levels of claim settlements in future years. This balance includes £0.95 million of insurance funds previously held by District and Borough Councils.

The County Council pays the first £0.10 million of each building claim, apart from schools where the figure is £0.05 million, unless they 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.

Notes to the Financial Statements

30. General Fund Reserves

Movements in the general fund balance and other earmarked reserves during the year are shown below:

	Balance as at 1 April 2009 £'000	Surplus/ (Deficit) £'000	Transfers In/(Out) £'000	Balance as at 31 March 2010 £'000
General Balances				
General Fund Balance from NCC	17,185	(4,889)	15,260	27,556
Transferred from the Borough and District Councils	15,260	-	(15,260)	-
	32,445	(4,889)	-	27,556
Earmarked General Fund Reserves				
NCC - School Balances Reserve	8,106	-	332	8,438
NCC - Economic Regeneration Reserve	604	-	(226)	378
NCC - Adverse Weather Reserve	750	-	-	750
NCC - Waste PFI Sinking Fund Reserve	2,952	-	4,011	6,963
NCC - Single Status Reserve	1,205	-	(740)	465
Planning Delivery Grant	-	-	605	605
Restructuring & Redundancy Reserve	-	-	10,900	10,900
Road Defect Rectification Reserve	-	-	414	414
	13,617	-	15,296	28,913
Transferred from the Borough and District Councils:				
ADC – Section 106 Monies	134	-	-	134
ADC – Parks & Open Spaces	215	-	-	215
ADC – Planning	250	-	(250)	-
ADC – Community Development	18	-	(18)	-
ADC – Capital Reserve	236	-	(236)	-
ADC – Housing Capital	424	-	(70)	354
BBC – Asset Maintenance	54	-	(54)	-
TDC – Deferred Capital Receipts	(21)	-	21	-
TDC – Capital Reserve	438	-	(438)	-
TDC – Repairs & Renewals Fund	1,137	-	(362)	775
TDC – Highways Fund	20	-	-	20
TDC – Planned Maintenance Fund	623	-	(623)	-
TDC – Kielder Funding Reserve	250	-	-	250
WDC – Capital Contingency	435	-	(435)	-
WDC – Partnership Development	129	-	(129)	-
WDC – Woodhorn Colliery Operations	297	-	(297)	-
WDC - Job Evaluation	106	-	(106)	-
WDC - Energy Efficiency	132	-	(132)	-
WDC - DSO Insurance	46	-	(46)	-
WDC - Regeneration Team	30	-	(30)	-
WDC - Lynemouth Coastal Works	31	-	(31)	-
WDC - Members Improvement Schemes	5	-	(5)	-
WDC - CCTV	176	-	(176)	-
WDC - Environmental Services	17	-	(17)	-
WDC – Healthy Living Centres	173	-	-	173
WDC – DSO Reserve	122	-	(122)	-
WDC – Vehicles Renewal Reserve	520	-	(520)	-
River Blyth Port Health Authority	27	-	-	27
	19,641	-	11,220	30,861

Notes to the Financial Statements

General Fund

The General Fund is the main fund of the County Council to which all revenue receipts are credited and from which all revenue liabilities are discharged; all such transactions are recorded in the Council's Income and Expenditure Account. The decrease of £4.89 million (£14.81 million decrease in 2008-2009) is represented by the £99.37 million deficit on the Income and Expenditure Account (£124.14 million in 2008-2009) after adjusting for a £94.48 million net additional amount required by statute and non-statutory proper practices to be credited to the General Fund (£109.33 million in 2008-2009).

School Balances Reserve

The School Balances Reserve of £8.44 million includes school balances of £8.03 million (£8.32 million in 2008-2009), 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 £0.40 million (£0.21 million in 2008-2009). The school balances are made up as follows:

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Unspent Balances	8,909	9,241
Overspent Balances	(857)	(924)
Loan Outstanding	(17)	-
	8,035	8,317

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

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

Economic Regeneration Reserve

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

During the year there was expenditure from the reserve of £0.23 million in support of the Economic Regeneration Strategy. The reserve earned interest of £0.01 million during the year.

It is anticipated that the remaining balance of £0.38 million will be fully utilised within 2010-2011.

Adverse Weather Reserve

This reserve provides contingency funds in the event of adverse weather over a prolonged period. The reserve has been capped at £0.75 million, any balance above this figure is returned to the General Fund. The minimum level of the reserve is £0.50 million. During the year transfers from the reserve totalling £0.75 million were made to support additional spend incurred on adverse weather in the period.

Notes to the Financial Statements

The reserve earned interest of £4 thousand during the year and was topped up to the capped limit of £0.75 million from General Fund balances.

Waste PFI Sinking Fund Reserve

The cost of the Waste PFI contract which commenced in 2008-2009 will increase significantly in later years to pay for newer facilities that will divert waste away from landfill. In order to smooth the impact on the Income and Expenditure Account over the life of the contract, the Council has set aside a proportion of the PFI grant from 2009-2010 and contributed to an earmarked reserve. This reserve will be drawn upon to compensate for increased costs during the later years of the contract.

Single Status Reserve

This reserve was originally established to build up funding to cover the final settlement from the 1997 National Single Status Agreement and has already been used to fund an interim settlement. The position has been complicated by a number of equal pay claims brought by employees seeking increases in current pay rates and compensation for lost back pay. The reserve is now held to fund the costs of defending equal pay claims and the negotiation of the Single Status Agreement. Planned and budgeted contributions are made from the fund to revenue and the reserve is capped at £2.0 million with any excess funds returned to the General Fund. Expenditure of £0.74 million was incurred during 2009-2010 in respect of legal fees and additional HR support.

Restructuring & Redundancy Reserve

In accordance with the capitalisation bid submitted to CLG a reserve of £10.9 million has been established to cover future redundancy and restructuring costs. The current scheme is under review to ensure such future costs are effectively managed.

Road Defect Rectification Reserve

During 2009-2010 the Executive recommended to the County Council that the Council establish a Road Defect Rectification Reserve in response to the exceptional damage caused to the public highway as a result of the severe weather. The reserve is non-recurrent and will be closed once the allocation of £1.50 million has been fully expended. £1.09 million was expended during 2009-2010 leaving a balance of £0.41 million to be carried forward to 2010-2011.

Alnwick District Council – Section 106 Monies

This reserve was established by Alnwick District Council from income received in relation to section 106 agreements. The reserve has not been utilised during 2009-2010.

Alnwick District Council – Parks & Open Spaces

This reserve was established by Alnwick District Council during 2005-2006 and 2006-2007 with total funding of £0.22 million from capital receipts. It was to be utilised in a similar way to Section 106 agreements, to fund work within the District's parks and open spaces. The reserve has not been utilised during 2009-2010.

Alnwick District Council – Planning

This reserve was established by Alnwick District Council from Planning Delivery Grant income. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into capital balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Notes to the Financial Statements

Alnwick District Council – Community Development

This reserve was established by Alnwick District Council to fund future community development work. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into capital balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Alnwick District Council – Capital Reserve

This reserve was established by Alnwick District Council to fund future capital expenditure within the General Fund. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into capital balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Alnwick District Council – Housing Capital

This reserve was established by Alnwick District Council to fund future Affordable Housing capital expenditure. During 2009-2010, £0.07 million was utilised on the Whin Hill capital scheme.

Berwick-upon-Tweed Borough Council – Asset Maintenance

This reserve was established by Berwick upon Tweed Borough Council to fund future maintenance work on its asset base. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into capital balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Tynedale District Council – Deferred Capital Receipts

This reserve was established by Tynedale District Council, and has not had any movement during the previous two financial years. This balance has been transferred to the General Fund during 2009-2010.

Tynedale District Council – Capital Reserve

This reserve was established by Tynedale District Council to fund future capital work. The reserve was fully released into capital balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Tynedale District Council – Repairs & Renewals Fund

This reserve was established by Tynedale District Council to fund repairs and renewals costs which were in excess of those included within the General Fund budgets. £0.36 million was required for funding during 2009-2010.

Tynedale District Council – Highways Fund

This reserve was established by Tynedale District Council to fund additional highways costs. The reserve has not been utilised during 2009-2010.

Tynedale District Council – Planned Maintenance Fund

This reserve was established by Tynedale District Council to fund maintenance costs that were over and above the costs included within the General Fund budgets. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into capital balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Notes to the Financial Statements

Tynedale District Council – Kielder Funding Reserve

This reserve was established by Tynedale District Council to fund expenses on Kielder, in addition to the reserve a creditor was also held within the Balance Sheet. The creditor has been fully utilised in 2009-2010, with the reserve being maintained at the opening position.

Wansbeck District Council – Capital Contingency

This reserve was established by Wansbeck District Council to fund future capital work and emergency ICT infrastructure replacement. The reserve was fully released into General Fund balances during 2009-2010 in line with Medium Term Financial plan requirements.

Wansbeck District Council – Partnership Development

This reserve was established by Wansbeck District Council to fund salary costs when Neighbourhood Renewal Fund Grant ceased. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into General Fund balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Wansbeck District Council – Woodhorn Colliery Operations

This reserve was established by Wansbeck District Council to allow for any additional liabilities incurred by the operation and to mainstream the additional cost of the museum. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into General Fund balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Wansbeck District Council – Job Evaluation

This reserve was established by Wansbeck District Council in 2003-2004 to minimise the impact of the job evaluation process on the Council Tax Payer. This reserve was fully released into General Fund balances during 2009-2010 in line with Medium Term Financial Plan requirements.

Wansbeck District Council – Energy Efficiency

This reserve was established by Wansbeck District Council from savings made a result of energy efficiency schemes. The reserve was fully released into General Fund balances during 2009-2010, in line with Medium Term Financial Plan requirements.

Wansbeck District Council – DSO Insurance

This reserve was established by Wansbeck District Council to offset the impact of any large insurance claims against the Council. The reserve was fully released into General Fund balances during 2009-2010 in line with Medium Term Financial Plan requirements.

Wansbeck District Council – Regeneration Team

This reserve was established by Wansbeck District Council in 2006-2007 to mainstream the costs of the Regeneration Team as the funding for the team ceased 31 March 2007. The reserve was fully released into General Fund balances during 2009-2010 in line with Medium Term Financial Plan requirements.

Wansbeck District Council – Lynemouth Coastal Works

This reserve was established by Wansbeck District Council in 2006-2007 to fund emergency and maintenance works. The reserve was fully released into General

Notes to the Financial Statements

Fund balances during 2009-2010 in line with Medium Term Financial Plan requirements.

Wansbeck District Council – Members Improvement Schemes

This reserve was established by Wansbeck District Council in 2006-2007, and was to be utilised to fund a number of member improvement schemes. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into General Fund balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Wansbeck District Council – CCTV

This reserve was established by Wansbeck District Council in 2006-2007 to fund maintenance of CCTV equipment over and above the budgeted revenue level. This reserve was fully released into General Fund balances during 2009-2010 in line with Medium Term Financial Plan requirements.

Wansbeck District Council – Environmental Services

This reserve was established by Wansbeck District Council to fund Christmas lighting, beach and promenade protection works. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into General Fund balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Wansbeck District Council – Healthy Living Centres

This reserve was established by WDC in 2007-2008 to fund the ongoing provision of Healthy Living Centres. The reserve has not been utilised in 2009-2010, but will be called upon during 2010-2011.

Wansbeck District Council – DSO Reserve

This reserve was established by Wansbeck District Council to fund additional DSO costs over and above the trading contracts. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into General Fund balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

Wansbeck District Council – Vehicles Renewal Reserve

This reserve was established by WDC to fund future vehicle renewals. As a result of Local Government Reorganisation and subsequent Balance Sheet review, this reserve was fully released into General Fund balances during 2009-2010, in line with the requirements of the Medium Term Financial Plan.

31. Housing Revenue Account – Major Repairs Reserve

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

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

Notes to the Financial Statements

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

32. Movements on Other Reserves

Revaluation Reserve

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

	31 March 2010 £'000	31 March 2009 £'000
Balance brought forward 1 April	109,168	113,889
Transferred from the Borough and District Councils	25,844	-
Restated balance brought forward 1 April	135,012	113,889
Amortisation for the year	(2,660)	(1,793)
Adjustment following Impairments	(34,358)	(9,157)
Disposal of Fixed Assets	(1,045)	(8,541)
Revaluations during the year – cost or valuation	40,879	9,466
Revaluations during the year - depreciation	13,455	5,304
Balance carried forward 31 March	151,283	109,168

Available-For-Sale Financial Instruments Reserve

This reserve records unrealised revaluation gains arising from holding available-for-sale investments plus any unrealised losses that have not arisen from impairments of the assets. The loss below is the result of a Council commissioned report from Grant Thornton to update the valuation of the Council's shares in the Newcastle Airport Local Authority Holding Company Ltd at fair value. Note 26 provides more information about the shares.

	31 March 2010 £'000	31 March 2009 £'000
Balance brought forward 1 April	-	5,051
Movement in year	-	(9,089)
Appropriation to Capital Adjustment Account	-	4,038
Balance carried forward 31 March	-	-

Notes to the Financial Statements

Capital Adjustment Account

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

	31 March 2010	31 March 2009
	£'000	As Restated £'000
Balance brought forward 1 April	372,056	438,569
Transferred from the Borough and District Councils and River Blyth Port Health Authority	423,736	-
Restated balance brought forward 1 April	795,792	438,569
Revenue Expenditure Funded from Capital under Statute Written Down	(50,282)	(19,107)
Capital Receipts Applied	32,887	12,057
Release of Government Grants	16,351	14,723
Release of Contributions	-	421
Use of reserves for capital financing	242	-
Use of Major Repairs Allowance	7,301	-
Revenue Contributions to Capital	4,049	1,440
Provision for Debt Repayment	9,673	8,421
Depreciation of assets, impairment and amortisation	(93,476)	(48,582)
Amortisation of Airport shares	(1,229)	-
Amortisation of Intangible Assets	(326)	(231)
PFI financing	-	8,581
Credit liability for PFI	667	-
Disposal of Fixed Assets	(2,609)	(50,532)
Revaluation Reserve written down on disposal	1,045	8,451
Revaluation Reserve Amortisation	2,660	1,883
Appropriation from available for sale financial instruments reserve	-	(4,038)
Balance carried forward 31 March	722,745	372,056

Capital Receipts Reserve

This reserve includes capital receipts that are available to finance the Council's capital programme.

	31 March 2010	31 March 2009
	£'000	£'000
Balance brought forward 1 April	444	8,709
Transferred from the Borough and District Councils	28,316	-
Restated balance brought forward 1 April	28,760	8,709
Received in year	5,257	3,792
Less reserved amount paid to pool	(498)	-
Applied to Capital Adjustment Account	(32,887)	(12,057)
Balance carried forward 31 March	632	444

Notes to the Financial Statements

Financial Instruments Adjustment Account

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

	31 March 2010 £'000	31 March 2009 £'000
Balance brought forward 1 April	(2,751)	346
Transferred from the Borough and District Councils	(1,285)	-
Restated balance brought forward 1 April	(4,036)	346
Premiums in the year	(443)	-
Discounts in the year	4,521	2,151
Amortisation of premiums	218	217
Amortisation of discounts	(877)	(470)
Soft loans	3	(4)
Icelandic bank investment interest adjustment	961	1,382
Icelandic bank investment adjustment to remove impact of impairment	(5,851)	(6,373)
Icelandic bank investment capitalisation	9,100	-
Balance carried forward 31 March	3,596	(2,751)

Notes to the Financial Statements

Government Grants & Contributions Deferred Account

This account includes all government grants and contributions where the project is financed either wholly or in part by a government grant or contribution. The amounts are retained in the deferred government grant account and released to the Income and Expenditure Account over the useful life of the asset to match the depreciation charged on the asset to which it relates. The account does not represent cash received, but the balance of undischarged credit.

	31 March 2010 £'000	31 March 2009 £'000
Government Grants & Contributions Deferred (Applied)		
Balance brought forward 1 April	81,795	85,558
Transferred from the Borough and District Councils	37,003	-
Restated balance brought forward 1 April	118,798	85,558
Add amounts received (applied to financing):		
Grants	26,925	10,266
Gifted asset ①	153	-
Other contributions	941	1,115
Less amounts amortised to revenue:		
Grants	(15,925)	(14,723)
Other contributions	(426)	(421)
Balance carried forward 31 March (Government Grants Deferred)	130,466	81,795
Unapplied Government Grants & Contributions		
Balance brought forward 1 April	17,317	14,295
Transferred from the Borough and District Councils	325	-
Restated balance brought forward 1 April	17,642	14,295
Add Income for year:		
Grants	52,005	15,534
Contributions	1,078	166
Less amounts released to Government Grants Deferred Account:		
Grants	(26,925)	(10,266)
Contributions	(941)	(1,115)
Less amounts released to revenue:		
Grants	-	(1,243)
Contributions	-	(54)
Balance carried forward 31 March (Unapplied Grants)	42,859	17,317
Total	173,325	99,112

Note ① Dark Lane Car Park was gifted to the Council as part of Morpeth Town Centre redevelopment and was an exchange of land with a supermarket.

Notes to the Financial Statements

Pensions Reserve

The accounts have been prepared incorporating the requirements of FRS17 *Retirement Benefits* for the treatment of pension costs. FRS17 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.

	31 March 2010 £'000	31 March 2009 £'000
Balance brought forward 1 April	(410,940)	(269,890)
Transferred from the former Borough and District Councils	(142,530)	-
Restated balance brought forward 1 April	(553,470)	(269,890)
Appropriations to Revenue	(20,920)	(5,710)
Actuarial Gains and Losses	(127,770)	(135,340)
Balance carried forward 31 March	(702,160)	(410,940)

33. Unequal Pay Back Pay Account

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

	31 March 2010 £'000	31 March 2009 £'000
Balance brought forward 1 April	(15,350)	-
Appropriations to Revenue	(11,230)	(15,350)
Capitalisation approval	26,400	-
Balance carried forward 31 March	(180)	(15,350)

Notes to the Financial Statements

34. Debtors and Prepayments

	31 March 2010	31 March 2009 As Restated
	£'000	£'000
Sundry Revenue Debtors	33,655	29,167
Revenue Grant Debtors	11,611	850
Capital Debtors	-	110
Capital Grant Debtors	4,068	537
Collection Fund	3,905	5,264
Less Bad Debt Provision	(3,279)	(389)
Total Debtors - General	49,960	35,539
Prepayments	3,372	4,390

35. Creditors and Receipts in Advance

	31 March 2010	31 March 2009 As Restated
	£'000	£'000
Sundry Revenue Creditors	48,339	55,369
Capital Creditors	3,145	3,403
Revenue Grant Creditors	11,883	863
Collection Fund	2,380	6,101
Total Creditors	65,747	65,736
Revenue Receipts in Advance	16,578	21,361
Capital Receipts in Advance	10	121
Total Receipts in Advance	16,588	21,482

36. Stock

	31 March 2010	31 March 2009
	£'000	£'000
NCC - Cashier's Cheques	4	7
NCC - Central Print Unit	17	15
NCC - Civic Catering	7	7
NCC - Country Parks	9	8
NCC - Fire Brigade	17	33
NCC - Highways Salt	70	53
NCC - Highways Stores	359	219
NCC - Transport - Suppliers	19	24
NCC - Caretaking and Cleaning	114	179
NCC - Postal Franking Machines	7	6
NCC - School & Welfare Catering	103	119
NCC - Woodhorn Café	-	4
NCC - Woodhorn Retail	-	26
ADC - Highways Stores	21	-
BBC - Stock	32	-
TDC - Old Gaol, Hexham shop stock	3	-
BVBC - Crematorium Urn Stock	1	-
CMBC - Chantry Tourist Information Centre Stock	13	-
TDC - Vehicle Parts & Fuel	17	-
TDC - Tourist Information Centre Stock	46	-

Notes to the Financial Statements

	31 March 2010	31 March 2009
	£'000	£'000
WDC – Highways Stores	126	-
WDC – Leisure Stock (Client)	14	-
WDC – Leisure Stock (Contract)	2	-
WDC – Highways Stores Stock Obsolescence Provision	(8)	-
	993	700

37. Contingent Liabilities

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

In September 1993 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 1993. The County Council has a contingent liability in this respect. As at 31 March 2010, the total amount of the Council's claims to date subject to reclamation is £4.71 million. However, the view of the MMI Board, as reported to the meeting of its Creditors' Committee is that a solvent run-off of the company continues to be achievable. Thus it is unlikely that the Council will be called upon to meet these claims.

The Council has a provision of £20.33 million which is the estimated remaining liability resulting from Equal pay claims brought by employees seeking compensation for lost back pay. Settlement of these claims is subject to negotiations and additional claims being brought into the account. The funding of these claims has been dealt with through the provision of capitalisation approval from the Department for Communities and Local Government (DCLG). Any additional payments over and above the remaining provision of £20.33 million will need to be financed through the authorities General Fund.

Notes to the Financial Statements

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

38. Trust Funds

The County Council is responsible for looking after one small charitable fund that has been set aside for specific educational aid (Choppington Schools Educational Fund). This fund is not included in the County Council’s Balance Sheet. The fund is invested in Equities Investment Fund for Charities, Charishare Common Investment Funds and with the County Council. The value of the trust as at 31 March 2010 was £5,499, (£5,255 as at 31 March 2009). Income received during 2009-2010 through dividends was £111 (£271 in 2008-2009). There was no expenditure incurred during 2009-2010 (no expenditure incurred during 2008-2009). The increase in the value of the fund was due to an increase in the value of the equities held.

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

The Council also held funds totalling £0.01 million at 31 March 2009 for Thropton First School which is a foundation school. This amount is not included in the Balance Sheet. However, at 31 March 2010 the school was in deficit and this has been included as a debtor in the Balance Sheet.

The Council also held funds for the following Trust schools:

	31 March 2010 £'000	31 March 2009 £'000
Ashington Partnership:		
Ashington Community High School	403	316
Bothal Middle School	262	89
Ashington Hirst Park Middle School	64	150
Ashington Wansbeck First School	24	(14)
Ashington Central First School	177	86
Total Ashington Partnership	930	627
West Partnership:		
Haydon Bridge High School	54	69
Allendale Community	73	30
Bellingham Middle School	108	66
Bellingham First School	26	52
Total West Partnership	261	217

The Council controls income received from non-County bodies for particular clients and client groups. At the end of 2009-2010 this income totalled £0.05 million (£0.05

Notes to the Financial Statements

million at the end of 2008-2009) and has been excluded from the Council's Balance Sheet.

The Council holds personal allowance money paid to clients in residential care. At the end of 2009-2010 this totalled £7,242 (£3,549 at 31 March 2009) and has been excluded from the Balance Sheet.

The Council controls funds which may have been donated or are the result of fund-raising efforts and are to be used for named children or activities and are classed as Amenity Funds. At the end of 2009-2010 these funds totalled £0.11 million (£0.10 million at the end of 2008-2009) and have been excluded from the Council's Balance Sheet.

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

The Council holds Disability Living Allowance money of £0.01 million at the end of 2009-2010 (£0.01 million at the end of 2008-2009) paid to children in their care. This money is held until it is spent on the children and is not included in the Balance Sheet.

The Council acts as the Payroll provider for the Northumberland Church of England Academy (NCEA) which was established with effect from 1 September 2009. As part of this service the Council pays Teachers' Pension contributions to the Teachers' Pensions Agency on the Academy's behalf. During 2009-2010 £0.37 million employers' contributions (14.1% of pensionable pay) and £0.17 million employees contributions (6.4% of pensionable pay) were paid over to the Teachers' Pensions Agency for the period September 2009 to February 2010. Contributions for the March 2010 payroll totalling £0.06 million employers' contributions and £0.03 million employees' contributions remained payable at the year end. These amounts were paid over in April 2010 and have been excluded from the Balance Sheet.

The Council holds money on behalf of the Association of North East Councils (Regional Chamber Funding) amounting to £0.28 million (£0.37 million in 2008-2009).

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

Notes to the Financial Statements

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

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

Notes:

R. Bell Bequest

This money is for the future benefit of the clients residing in Tynedale House. The management committee of the home are currently deciding how it should be used. There has been £605 of expenditure in 2009-2010 and the balance should be fully utilised in 2010-2011.

The Northumberland Children's Fund

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

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.

North Stobswood Open Cast Coal Site

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

Corbridge Road Section 278 Agreement – Catalyst Healthcare

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

Notes to the Financial Statements

English Partnerships A189

This money is to be repaid in 2011 if it is not utilised. Northumberland County Council may be instructed to either provide more landscaping or extend the current cycleway.

Aldi Stores Limited

This is a Section 278 Agreement. Work has been completed and funds returned to the developer.

Society of IT Managers

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

New Ridley Road Stocksfield

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

Choppington Education Foundation

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

Cramlington Town Council

The Council holds money on behalf of Cramlington Town Council and carries out financial transactions on behalf of the Town Council. Periodic payments will be made into the Town Councils bank account on request of the Town Clerk.

Woodhorn Museum

Woodhorn became a Trust on 1 April 2009, they have yet to open a bank account so the Council is managing their funds until this time.

County Chief Auditors Network

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

Notes to the Financial Statements

39. Pensions – Defined Benefit Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments these need to be disclosed at the time that employees earn their future entitlement.

The Council participates in seven schemes. Six of these are treated as defined benefit schemes as outlined below, the other scheme, the Teachers' Pension Scheme, is included in note 40 below.

The Local Government Pension Scheme (LGPS) for employees other than teachers and firefighters is administered by Northumberland County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund, calculated by the scheme's actuary 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, and cash has to be generated to meet actual pension payments as they fall due. Under the Firefighters' Pension Scheme (Amendment) (England) Order 2006 the Council pays firefighters' pensions from a separate local firefighters' pension fund. The fund is topped up by Government grant if the contributions paid into it are insufficient to meet the cost of pension 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, and cash has to be generated to meet actual

Notes to the Financial Statements

pension payments as they fall due. The funding arrangements are as described above for the FPS.

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

Transactions Relating to Retirement Benefits

The cost of retirement benefits is recognised in the Net Cost of Services when the benefits are earned by employees, rather than when they are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	LGPS £m	Firefighters' Schemes ^① £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m
2009-2010					
Income and Expenditure Account					
Net Cost of Services:					
• Current service cost	(15.98)	(1.86)	-	-	(17.84)
• Past service cost	-	(0.09)	-	-	(0.09)
Net Operating Expenditure:					
• Interest cost	(52.89)	(7.10)	(2.25)	(2.43)	(64.67)
• Expected return on scheme assets	26.43	-	-	-	26.43
Net charge to the Income and Expenditure Account	(42.44)	(9.05)	(2.25)	(2.43)	(56.17)
Statement of Movement on the General Fund Balance:					
• Reversal of net charges for retirement benefits in accordance with FRS17	42.44	9.05	2.25	2.43	56.17
Actual amount charged against the General Fund Balance for pensions in the year:					
• Employer's contributions payable to the scheme	(25.21)	-	-	-	(25.21)
• Net retirement benefits payable to pensioners	-	(4.93)	(2.39)	(2.72)	(10.04)
2008-2009					
Income and Expenditure Account:					
Net Cost of Services:					
• Current service cost	(12.27)	(2.15)	-	-	(14.42)
• Past service cost	-	(0.04)	-	-	(0.04)
Net Operating Expenditure:					

Notes to the Financial Statements

	LGPS £m	Firefighters' Schemes ^① £m	LGPS unfunded Scheme £m	Teachers' unfunded Scheme £m	Total £m
• Interest cost	(33.09)	(6.66)	(1.49)	(2.43)	(43.67)
• Expected return on assets in the scheme	25.61	-	-	-	25.61
Net charge to the Income and Expenditure Account	(19.75)	(8.85)	(1.49)	(2.43)	(32.52)
Statement of Movement on the General Fund Balance:					
• Reversal of net charges for retirement benefits in accordance with FRS17	19.75	8.85	1.49	2.43	32.52
Actual amount charged against the General Fund Balance for pensions in the year:					
• Employer's contributions payable to the scheme	(19.30)	-	-	-	(19.30)
• Net retirement benefits payable to pensioners	-	(3.33)	(1.54)	(2.64)	(7.51)

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

	FPS £m	NFPS £m	Injury and non scheme Ill Health £m	Total £m
2009-2010				
Income and Expenditure Account:				
Net Cost of Services:				
• Current service cost	(1.71)	(0.15)	-	(1.86)
• Past service cost	-	-	(0.09)	(0.09)
Net Operating Expenditure:				
• Interest cost	(6.92)	(0.05)	(0.13)	(7.10)
Net charge to the Income and Expenditure Account	(8.63)	(0.20)	(0.22)	(9.05)
Statement of Movement on the General Fund Balance:				
• Reversal of net charges for retirement benefits in accordance with FRS17	8.63	0.20	0.22	9.05
Actual amount charged against the General Fund Balance for pensions in the year:				
• Net retirement benefits payable to pensioners	(4.88)	0.10	(0.15)	(4.93)
2008-2009				
Income and Expenditure Account:				
Net Cost of Services:				
• Current service cost	(2.03)	(0.12)	-	(2.15)
• Past service cost	-	(0.04)	-	(0.04)
Net Operating Expenditure:				
• Interest cost	(6.48)	(0.04)	(0.14)	(6.66)
Net charge to the Income and Expenditure Account	(8.51)	(0.20)	(0.14)	(8.85)
Statement of Movement on the General Fund Balance:				
• Reversal of net charges for retirement benefits in	8.51	0.20	0.14	8.85

Notes to the Financial Statements

	FPS	NFPS	Injury and non scheme Ill Health	Total
	£m	£m	£m	£m
accordance with FRS17				
Actual amount charged against the General Fund Balance for pensions in the year:				
• Net retirement benefits payable to pensioners	(3.25)	0.06	(0.14)	(3.33)

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £127.8 million (actuarial loss of £135.3 million 2008-2009) and an acquired net pension liability of £142.5 million from Local Government Reorganisation were included in the Statement of Total Recognised Gains and Losses.

Assets and liabilities in relation to retirement benefits

Reconciliation of the present value of the scheme liabilities:

	LGPS	Firefighters Schemes ^①	LGPS unfunded Scheme	Teachers' unfunded Scheme	Total
	£m	£m	£m	£m	£m
Present value of liabilities as at 1 April 2009	533.35	107.48	23.45	38.23	702.51
Increase from LGR acquisitions	269.61	-	11.87	-	281.48
	802.96	107.48	35.32	38.23	983.99
Movements in the year					
Current service cost	15.98	1.86	-	-	17.84
Interest cost	52.89	7.10	2.25	2.43	64.67
Contributions by participants	7.10	0.73	-	-	7.83
Actuarial (gains)/losses on liabilities	236.70	30.62	3.11	3.65	274.08
Net benefits paid out	(24.92)	(5.66)	(2.39)	(2.72)	(35.69)
Past service cost	-	0.09	-	-	0.09
Present value of liabilities as at 31 March 2010	1,090.71	142.22	38.29	41.59	1,312.81
Present value of liabilities as at 1 April 2008	485.43	98.55	22.60	36.98	643.56
Movements in the year					
Current service cost	12.27	2.15	-	-	14.42
Interest cost	33.09	6.66	1.49	2.43	43.67
Contributions by participants	5.68	0.76	-	-	6.44
Actuarial (gains)/losses on liabilities	12.31	3.41	0.90	1.46	18.08
Net benefits paid out	(15.43)	(4.09)	(1.54)	(2.64)	(23.70)
Past service cost	-	0.04	-	-	0.04
Present value of liabilities as at 31 March 2009	533.35	107.48	23.45	38.23	702.51

Notes to the Financial Statements

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

	FPS	NFPS	Injury and non scheme III Health	Total
	£m	£m	£m	£m
Present value of liabilities as at 1 April 2009	104.84	0.64	2.00	107.48
Movements in the year				
Current service cost	1.71	0.15	-	1.86
Interest cost	6.92	0.05	0.13	7.10
Contributions by participants	0.65	0.08	-	0.73
Actuarial (gains)/losses on liabilities	29.81	0.47	0.34	30.62
Net benefits paid out	(5.53)	0.02	(0.15)	(5.66)
Past service cost	-	-	0.09	0.09
Present value of liabilities as at 31 March 2010	138.40	1.41	2.41	142.22
Present value of liabilities as at 1 April 2008	95.95	0.42	2.18	98.55
Movements in the year				
Current service cost	2.03	0.12	-	2.15
Interest cost	6.48	0.04	0.14	6.66
Contributions by participants	0.70	0.06	-	0.76
Actuarial (gains)/losses on liabilities	3.63	(0.04)	(0.18)	3.41
Net benefits paid out	(3.95)	-	(0.14)	(4.09)
Past service cost	-	0.04	-	0.04
Present value of liabilities as at 31 March 2009	104.84	0.64	2.00	107.48

Reconciliation of the fair value of the scheme assets is shown below:

	Local Government Pension Scheme	
	2009-2010	2008-2009
	£m	£m
Fair value of assets as at 1 April	291.57	373.67
Increase from LGR acquisitions	138.95	-
	430.52	373.67
Movements in the year		
Expected return on assets	26.43	25.61
Actuarial gains/(losses) on assets	146.31	(117.26)
Contributions by the employer	25.21	19.30
Contributions by participants	7.10	5.68
Net benefits paid out	(24.92)	(15.43)
Present value of assets as at 31 March	610.65	291.57

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

Notes to the Financial Statements

The actual return on scheme assets is shown below:

	Local Government Pension Scheme	
	2009-2010	2008-2009
	£m	
Expected return on assets	26.43	25.61
Actuarial gain/(loss) on assets	146.31	(117.26)
Actual return on assets	172.74	(91.65)

Scheme history

	LGPS	Firefighters' Schemes ^①	LGPS unfunded	Teachers' unfunded	Total
	£m	£m	£m	£m	£m
As at 31 March 2010					
Fair value of assets	610.65	-	-	-	610.65
Present value of liabilities	(1,090.71)	(142.22)	(38.29)	(41.59)	(1,312.81)
Surplus/(deficit)	(480.06)	(142.22)	(38.29)	(41.59)	(702.16)
As at 31 March 2009					
Fair value of assets	291.57	-	-	-	291.57
Present value of liabilities	(533.35)	(107.48)	(23.45)	(38.23)	(702.51)
Surplus/(deficit)	(241.78)	(107.48)	(23.45)	(38.23)	(410.94)
As at 31 March 2008					
Fair value of assets	373.67	-	-	-	373.67
Present value of liabilities	(485.43)	(98.55)	(22.60)	(36.98)	(643.56)
Surplus/(deficit)	(111.76)	(98.55)	(22.60)	(36.98)	(269.89)
As at 31 March 2007					
Fair value of assets	388.23	-	-	-	388.23
Present value of liabilities	(529.20)	(107.69)	(24.21)	(46.41)	(707.51)
Surplus/(deficit)	(140.97)	(107.69)	(24.21)	(46.41)	(319.28)
As at 31 March 2006					
Fair value of assets	353.33	-	-	-	353.33
Present value of liabilities	(496.67)	(103.17)	(23.57)	(45.12)	(668.53)
Surplus/(deficit)	(143.34)	(103.17)	(23.57)	(45.12)	(315.20)

In accordance with Paragraph 77(o) of FRS17 (as revised), the assets for the current period and previous three periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2008 and 2007 have been restated for this purpose. The asset value for the period ending 31 March 2006 is shown at mid-market value and has not been restated as permitted by FRS17 (as revised).

Notes to the Financial Statements

Note ① the breakdown of Firefighters' schemes' liabilities are shown below:

	FPS	NFPS	Injury and non scheme ill health	Total
	£m	£m	£m	£m
As at 31 March 2010				
Present value of liabilities	(138.40)	(1.41)	(2.41)	(142.22)
As at 31 March 2009				
Present value of liabilities	(104.84)	(0.64)	(2.00)	(107.48)
As at 31 March 2008				
Present value of liabilities	(95.95)	(0.42)	(2.18)	(98.55)
As at 31 March 2007				
Present value of liabilities	(105.12)	(0.14)	(2.43)	(107.69)

Information to show the analysis of the total Firefighters' schemes' liabilities as at 31 March 2006 is not available.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total pensions liability of £702.2 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall net worth of only £243.6 million.

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

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

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2011 is £26.6 million, in addition to which strain on fund contributions may be required. For the LGPS unfunded and Teachers' unfunded schemes in the year to 31 March 2011 the Council expects to pay £2.4 million and £2.7 million respectively directly to beneficiaries. For the FPS in the year to 31 March 2011 the Council expects to pay £4.9 million directly to beneficiaries. For the NFPS the Council expects to pay £0.1 million directly to the beneficiaries in the year to 31 March 2011. For the Injury Pensions and non scheme Ill-Health Pensions in the year to 31 March 2011 the Council expects to pay £0.2 million directly to beneficiaries.

Notes to the Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hewitt Associates 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 2007. For the FPS and NFPS the latest full actuarial valuation took place as at 31 March 2008. For the Injury Pensions and non-scheme Ill-Health Pensions the latest full actuarial valuation took place as at 31 March 2009 and for the LGPS unfunded scheme and the Teachers' unfunded scheme, the latest full actuarial valuation took place as at 31 March 2008.

The principal assumptions used by the actuary have been:

	LGPS	Firefighters' Schemes	LGPS unfunded	Teachers' unfunded
As at 31 March 2010				
Long term expected rate of return on assets in the scheme:				
Total	7.2%	-	-	-
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	22.0	22.1	22.0	22.0
Women	24.0	24.2	24.0	24.0
Longevity at age 65 for future pensioners:				
Men	24.2	24.4	-	-
Women	26.1	26.4	-	-
Rate of inflation	3.9%	3.8%	3.8%	3.8%
Rate of general long term increase in salaries*	5.4%	5.3%	-	-
Rate of increase to pensions in payment	3.9%	3.8%	3.8%	3.8%
Rate of increase to deferred pensions	3.9%	3.8%	-	-
Discount rate	5.5%	5.5%	5.5%	5.5%
Commutation:				
% take up of the maximum amount permitted to convert annual pension into retirement lump sum				
Pre 1 April 2008 service	50%	-	-	-
Post 1 April 2008 service	75%	-	-	-
NFPS members that commute 25% of their pension	-	75%	-	-
FPS members that commute 25% of their pension	-	90%	-	-
As at 31 March 2009				
Long term expected rate of return on assets in the scheme:				
Total	6.3%	-	-	-
Mortality assumptions:				
Longevity at age 65 for current pensioners:				
Men	21.8	22.0	21.8	21.8
Women	23.9	24.1	23.9	23.9
Longevity at age 65 for future pensioners:				
Men	24.1	24.3	24.1	24.1
Women	26.0	26.4	26.0	26.0
Rate of inflation	3.5%	3.3%	3.5%	3.5%
Rate of general long term increase in salaries*	5.0%	4.8%	n/a	n/a
Rate of increase to pensions in payment	3.5%	3.3%	3.5%	3.5%

Notes to the Financial Statements

	LGPS	Firefighters' Schemes	LGPS unfunded	Teachers' unfunded
Rate of increase to deferred pensions	3.5%	3.3%	n/a	n/a
Discount rate	6.6%	6.7%	6.6%	6.6%
Commutation:				
% take up of the maximum amount permitted to convert annual pension into retirement lump sum				
Pre 1 April 2008 service	50%	-	-	-
Post 1 April 2008 service	75%	-	-	-
NFPS members that commute 25% of their pension	-	75%	-	-
FPS members that commute 25% of their pension	-	90%	-	-

Note * in addition, the actuary has allowed for the same age related promotional salary scales as used at the most recent full actuarial valuation of the scheme.

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 2010

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

	As at 31 March 2010 %	As at 31 March 2009 %
Equities	70.4	67.9
Property	5.3	7.0
Government bonds	15.0	18.3
Corporate bonds	7.7	5.7
Cash/other	1.6	1.1
Total	100.0	100.0

Notes to the Financial Statements

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2009-2010 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

	LGPS £m	Firefighters' Schemes ^① £m	LGPS unfunded £m	Teachers' unfunded £m	Total £m
2009-2010					
Experience gains/(losses) on assets	146.31	-	-	-	146.31
Experience gains/(losses) on liabilities*	9.82	1.73	1.19	1.28	14.02
	156.13	1.73	1.19	1.28	160.33
2008-2009					
Experience gains/(losses) on assets	(117.26)	-	-	-	(117.26)
Experience gains/(losses) on liabilities*	(2.09)	(7.60)	(0.28)	(0.46)	(10.43)
	(119.35)	(7.60)	(0.28)	(0.46)	(127.69)
2007-2008					
Experience gains/(losses) on assets	(49.17)	-	-	-	(49.17)
Experience gains/(losses) on liabilities*	6.19	(0.89)	(0.16)	6.64	11.78
	(42.98)	(0.89)	(0.16)	6.64	(37.39)
2006-2007					
Experience gains/(losses) on assets	4.05	-	-	-	4.05
Experience gains/(losses) on liabilities	(1.18)	(0.29)	(0.14)	(0.26)	(1.87)
	2.87	(0.29)	(0.14)	(0.26)	2.18
2005-2006					
Experience gains/(losses) on assets	53.72	-	-	-	53.72
Experience gains/(losses) on liabilities	0.21	1.55	0.05	0.08	1.89
	53.93	1.55	0.05	0.08	55.61

Note * This item consists of gains/(losses) in respect of liability experience only - and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

Note ^① the breakdown of experience gains and losses on the Firefighters' schemes' liabilities are shown below:

	Firefighters' Scheme £m	New Firefighters' Scheme £m	Injury and non scheme ill health £m	Total £m
2009-2010				
Experience gains/(losses) on liabilities	1.66	-	0.07	1.73
2008-2009				
Experience gains/(losses) on liabilities	(7.78)	-	0.18	(7.60)
2007-2008				
Experience gains/(losses) on liabilities	(0.86)	-	(0.03)	(0.89)

In accordance with Paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of

Notes to the Financial Statements

experience gain/(loss) on liabilities shown has not been restated for periods ending 31 March 2007 and 31 March 2006 and includes the experience relating to unfunded liabilities.

40. Teachers' Pensions Scheme

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

In 2009-2010 the County Council paid £13.70 million (£14.07 million in 2008-2009) to the Teachers' Pensions Agency in respect of teachers' retirement benefits representing 14.1% of teachers' pensionable pay (14.1% in 2008-2009).

Contributions for March 2010 payroll totalling £1.12 million remained payable at the year end for the Teachers' Pension Scheme. This amount was paid over early in 2010-2011.

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 FRS17 and does not form part of the pensions deficit described in note 39.

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 39.

Notes to the Financial Statements

41. Cash Flow Reconciliation

The reconciliation between net surplus or deficit on the Income and Expenditure Account to the revenue activities net cash flow in the Cash Flow Statement is shown below:

	2009-2010	2008-2009 Restated
	£'000	£'000
Deficit on the Income and Expenditure Account	99,368	124,139
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year.	(94,479)	(109,333)
Movement on Collection Fund	2,474	-
Deficit for the year	7,363	14,806
Non Cash Transactions		
Transfers to Reserves and Provisions	(20,452)	(23,922)
Contributions from Reserves and Provisions	9,226	23,054
Internal Capital Financing	(13,964)	(9,861)
	(25,190)	(10,729)
Items on an Accrual Basis		
Decrease in Stock and Work in Progress	(110)	(302)
Increase in Debtors & Prepayments	852	3,712
Increase in Creditors & Receipts in Advance	(607)	(12,114)
	135	(8,704)
Items Classified elsewhere in the Cash Flow Statement		
Investment Income	4,286	5,771
Interest Paid – County	(12,220)	(9,395)
Interest Paid – Finance Leases	(5,895)	(454)
Capital Element of Finance Lease Rental Payments	(1,140)	(4,506)
Financial Instruments Adjustment Account		
Amortisation	4,081	253
Element of PFI unitary charge included as a fixed asset addition in year	-	(108)
Consolidation adjustments	95	
Dividend Received	167	-
	(10,626)	(8,439)
Net Cash Inflow from Revenue Activities	(28,318)	(13,066)

42. Movement in Net Debt

The reconciliation of the movement in cash to the movement in net debt is shown below:

	Net Debt as at 1 April 2009	Transferred from Borough and District Councils	Net Debt Restated as at 1 April 2009	Net Debt as at 31 March 2010	Movement
	£'000	£'000	£'000	£'000	£'000
Net Cash Flow	(3,937)	15,169	11,232	(19,672)	(30,904)
Net Liquid Resources	(128,063)	(67,510)	(195,573)	(169,544)	26,029
	(132,000)	(52,341)	(184,341)	(189,216)	(4,875)

Notes to the Financial Statements

	Net Debt as at 1 April 2009 £'000	Transferred from Borough and District Councils £'000	Net Debt Restated as at 1 April 2009 £'000	Net Debt as at 31 March 2010 £'000	Movement £'000
Cash Flow from Revenue Activities					(28,318)
Interest on Investments and Servicing Finance					13,829
Dividend from Joint Ventures and Associates					(167)
Capital Activities					19,531
					4,875

43. Financing and Management of Liquid Resources

The reconciliation of the items shown within the financing and management of liquid resources sections of the cash flow statement to the related items in the opening and closing Balance Sheets for the year is shown below:

	Restated as at 1 April 2009 £'000	Transferred from Borough and District Councils £'000	Restated as at 1 April 2009 £'000	As at 31 March 2010 £'000	Movement £'000
Short term investments	65,757	45,814	111,571	51,913	(59,658)
Long term investments less available for sale assets	6,251	2,160	8,411	-	(8,411)
Adjustment for Icelandic Bank impairment	4,990	-	4,990	9,880	4,890
Short term borrowing	-	(18,269)	(18,269)	(14,825)	3,444
Long term borrowing	(210,235)	(97,686)	(307,921)	(234,441)	73,480
Capital element of finance lease rental payments	4,817	59	4,876	6,016	1,140
	(128,420)	(67,922)	(196,342)	(181,457)	14,885
Items on an accrual basis					
(Increase) in Council Tax debtor for major precepting authorities	-	-	-	2,190	2,190
(Increase)/Decrease in NNDR debtor	-	-	-	8,668	8,668
(Increase)/Decrease on Debtors – interest on investments	(1,378)	(993)	(2,371)	(1,188)	1,183
Increase/(Decrease) on Creditors – accrued interest on loans	1,735	1,404	3,139	2,242	(897)
	(128,063)	(67,510)	(195,573)	(169,544)	26,029
Financing					77,167
Management of liquid resources					(51,138)
					26,029

44. Liquid Resources

The County Council includes the items in the table above in its liquid resources; there has been no change in policy since the last financial year.

Notes to the Financial Statements

45. Cash Flow Analysis

Movement in cash during the year is shown below:

	As at 1 April 2009	Transferred from Borough and District Councils	Restated as at 1 April 2009	As at 31 March 2010	Movement
	£'000	£'000	£'000	£'000	£'000
Cash with Accounting Officers	2,435	19,465	21,900	2,555	(19,345)
Cash Overdrawn	(6,372)	(4,296)	(10,668)	(22,227)	(11,559)
Net Cash Flow	(3,937)	15,169	11,232	(19,672)	(30,904)

46. Government Grants

Analysis of government grants shown in the cash flow statement:

	2009-2010 £'000	2008-2009 £'000
Revenue Grants		
Area Based Grant	24,956	16,116
Asylum Seekers Grant	74	-
Big Lottery – New Opportunities in Sport for Looked After Children	187	19
Child Development Grant	193	-
Communities for Health	789	-
Concessionary Fares Grant	1,088	-
Contactpoint	166	166
Countryside Commission Grant Projects	327	275
Criminal Justice	501	300
Dedicated Schools	161,619	164,015
Department for Communities and Local Government (DCLG)	-	100
Department of Children, Schools and Families - Access to Northumberland		
History	-	113
English Partnerships	-	168
European Commission	-	155
European Regional Development Fund	255	179
Family Intervention Projects	438	-
Firefighter Pension Top Up	1,998	727
Grant in Support of ISB	11,619	12,013
Growth Fund	188	-
HE Funding Council for England	-	257
Homelessness Grant	304	-
Housing Subsidy	2,252	-
LD Campus Closure Programme	71	32
Learning and Skills Council	26,859	26,337
Local Authority Business Growth Initiative	82	610
Local Enterprise Growth Initiative	1,843	1,185
Migration Impacts Grant	381	-
Ministry of Justice	443	-
Momenta - Tynedale Schools Sports Project	-	318
Natural England - ANOB Core Costs	-	106
Neighbourhood Renewal Fund	-	54
Newcastle and Gateshead Initiative	-	390
Other	8,619	2,620
Planning Delivery Grant	868	-
Playbuilder	-	310
Single Programme	7,140	1,942

Notes to the Financial Statements

	2009-2010 £'000	2008-2009 £'000
Single Regeneration Budget	1,191	104
Social Care Reform	1,239	528
Sport England	405	900
Standards Fund	21,125	18,533
Stroke After Care Grant	99	99
Substance Misuse	127	147
Supporting People	7,569	7,054
Sure Start	9,091	8,488
Targeted Mental Health in Schools	273	325
Targeted School Meals	-	401
Teacher Development Agency	728	-
Transport Supplementary	-	57
Wansbeck Working Neighbourhoods	-	132
Waste Private Finance Initiative	3,141	3,141
Youth Opportunity Fund	351	335
Total Revenue	298,599	268,751
Capital Grants		
Big Lottery	1,475	994
Department for Children, Schools and Families (Playbuilder)	396	-
Department for Children, Schools and Families (Secure Units Grant)	454	43
DCLG	916	165
DCLG (Disabled Facilities)	758	-
DCLG (Fire Brigade Modernisation Fund)	570	-
DCLG (Growth Fund)	968	-
DCLG (Local Enterprise Growth Initiative)	46	-
DCLG (Performance Reward)	1,480	-
DCLG (Planning Delivery)	304	-
DCLG (Single Housing Investment Programme)	1,796	-
Department for Environment, Food and Rural Affairs (Waste Infrastructure)	541	543
Department for Environment, Food and Rural Affairs (Waste Performance and Efficiency)	40	160
Department of Health	308	308
Department of Transport	4,428	2,102
English Heritage	84	-
Environment Agency	350	-
Football Foundation	205	-
Gateshead NHS Primary Care Trust	230	-
Heritage Lottery Fund	-	250
Home Office (Safer Stronger Communities)	115	-
Homes and Communities Agency	3,354	-
Other	364	71
Single Programme	963	2,718
Standards Fund	25,831	9,285
Sure Start	2,547	521
Wansbeck Enterprise and Education Network	-	70
Total Capital	48,523	17,230
Total Grants	347,122	285,981

Notes to the Financial Statements

47. Reconciliation of Movement in Cash Flow

The movement in assets and liabilities is analysed between the elements of cash flow below:

	As at 1 April 2009	Transferred from Borough and District Councils	Restated as at 1 April 2009	As at 31 March 2010	Movement
	£'000	£'000	£'000	£'000	£'000
Stock	700	403	1,103	993	(110)
Debtors - General	35,539	8,146	43,685	49,960	6,275
Long Term Debtors	1,993	2,936	4,929	3,071	(1,858)
Deferred Capital Receipts	(1,577)	(42)	(1,619)	(1,215)	404
Prepayments	4,390	142	4,532	3,372	(1,160)
Creditors	(65,736)	6,044	(59,692)	(65,747)	(6,055)
Receipts in Advance	(21,482)	(2,621)	(24,103)	(16,588)	7,515
	(46,173)	15,008	(31,165)	(26,154)	5,011
Revenue Activities					
Decrease in Stock and Work in Progress					(110)
Increase in Debtors and Prepayments					852
Increase in Creditors and Receipts in Advance					(607)
Capital Activities					
Decrease in Debtors					2,472
Decrease in Creditors and Receipts in Advance					2,118
Management of Liquid Resources					
Increase in Debtors					(897)
Increase in Creditors					1,183
					5,011

48. Disclosure of the Deployment of Dedicated Schools Grant

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

Notes to the Financial Statements

Details of the deployment of DSG receivable for 2009-2010 are as follows:

	Schools Budget Funded by DSG		
	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2009-2010	15,746	145,873	161,619
Brought forward from 2008-2009	1,845	-	1,845
Agreed budgeted distribution in 2009-2010	17,591	145,873	163,464
Actual Central Expenditure	(16,689)	-	(16,689)
Actual ISB deployed to Schools	-	(146,085)	(146,085)
Carried forward to 2010-2011	902	(212)	690

49. Landfill Allowance Trading Scheme (LATS)

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

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

The County Council may use these allowances to meet its liability for its actual BMW landfill usage, sell any available allowances to another WDA or purchase additional allowances from a WDA. Under the Landfill Allowance Trading Scheme rules any surplus allowance available at the end of 2008-2009 could not be carried forward to 2009-2010.

The Council's allocation for 2009-2010 was 72,823 tonnes. The estimated usage for 2009-2010 was 16,444 tonnes, leaving a surplus of 56,379 tonnes. The Council has sold 23,500 tonnes of surplus 2009-2010 allowances at a rate of £1.95 per tonne and a further 8,700 tonnes at a rate of £0.95 per tonne which generated total income of £54,090. Attempts to trade the remaining 2009-2010 surplus of 24,179 tonnes have not been successful and there is no interest to date.

In 2008-2009 a prudent approach was adopted in that the net realisable value of the LATS was considered to be zero and thus not included on the Balance Sheet. This was because there was a significant oversupply in the market.

The trend of LATS supply grossly exceeding demand has continued in 2009-2010. There is now a significant over-supply in the market place, with a total of 138,629 tonnes of 2009-2010 LATS being purchased in 2009-2010 with 911,187 tonnes of 2009-2010 LATS currently being offered for sale. The latest published sale price being achieved is £0.25 per tonne.

Notes to the Financial Statements

The 2009-2010 SORP guidance states that only assets whose fair value can reliably be measured should be recognised on the Balance Sheet. Due to the lack of demand and insufficient sales to allow a reliable fair value to be attributed, the County Council has again adopted a prudent approach and again valued the LATS with a net realisable value of zero.

50. Post Balance Sheet Events

Additional Borrowing

Subsequent to the Balance Sheet date, the Council secured additional borrowing to the value of £60 million. This was to enable the authority to take advantage of favourable interest rates, in order to fund future planned capital expenditure.

Loan to Northumberland College

The Council has agreed in principle to provide a loan of £7 million to Northumberland College, repayable over a period of up to 15 years. This decision has been subject to the Council's normal risk appraisal procedures prior to any agreement being reached.

Senior Management Restructure

The structure of the senior management team within the Council has been subject to a review and subsequent restructure. This has resulted in the removal of a significant number of senior posts from the organisation. Most of the costs of this restructure were borne in 2009-2010. The restructure will generate salary savings in the longer term, although severance costs have been incurred in the process.

Indexation of Local Government Pensions

In the 22 June 2010 Budget the Chancellor of the Exchequer announced that with effect from April 2011 the Government will adopt the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) for public service pension increases. Historically, RPI increases have been higher than CPI increases with a difference of around 0.7% per annum on average over the last twenty years. Though there is no detail available at this stage as to how the change to CPI will be implemented in the pension schemes the Council participates in, and in particular whether the change will be applied to both past and future pension accruals, the change would be expected to reduce the Council's future pension liabilities. This change has not been reflected in the Net Pensions Liability and Pensions Reserve shown on the Balance Sheet.

Northumberland Foods Limited

During August 2010 Northumberland Foods Limited and its parent company Amble Assets LLP went into administration. The group owes the Council in the region of £0.32 million in respect of a loan and unpaid rent and rates for which an appropriate provision has been made.

Housing Revenue Account Income and Expenditure Account

for the year ended 31 March 2010

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

	Note	2009-2010
		£'000
Income		
Dwelling rents (gross)		(22,136)
Non dwelling rents (gross)	4	(324)
Charges for services and facilities		(1,013)
HRA Subsidy receivable	10	(3,016)
Contributions towards expenditure		-
Decrease in the provision for bad debts	13	(75)
		(26,564)
Expenditure		
Repairs and maintenance		4,803
Supervision and management		8,037
Rents, rates, taxes and other charges		2,009
Depreciation and impairment of Fixed Assets		46,483
Debt management expenses		15
Bad debt expense		194
		34,977
Net cost of HRA services as included in the whole authority Income and Expenditure Account		34,977
HRA services' share of the Corporate and Democratic Core		361
		35,338
Net cost of HRA Services		35,338
Interest payable and similar charges		3,178
Amortised premiums		444
Amortised discounts		(220)
Interest and investment income		(163)
Pensions interest cost and expected return on pensions assets		87
		38,664
Deficit for the year		38,664

Statement of the Movement on the Housing Revenue Account Balance for the year ended 31 March 2010

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

	Note	2009-2010 £'000
Deficit for the year on the HRA Income and Expenditure Account		38,664
Net additional amount required by statute and non statutory proper practices to be debited or credited to the Housing Revenue Account Balance for the year	1	(38,255)
Movement for the year		409
Balance brought forward 1 April		-
Transferred from the Borough and District Councils		(9,388)
Restated balance brought forward 1 April		(9,388)
Balance carried forward 31 March		(8,979)

Notes to the Housing Revenue Account Income and Expenditure Account

1. Note to the Statement of Movement on the HRA Balance

	Note	2009-2010 £'000
Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements		
Depreciation and impairment		(42,588)
Deferred charges		(155)
Amortisation of Government Grants Deferred		1,652
		(41,091)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
Transfer to Major Repairs Reserve	7	1,000
Transfer to General Fund		541
HRA share of contributions to the Pensions Reserve		(56)
Capital expenditure funded by the HRA	8	1,351
		2,836
Net additional amount required by statute to be credited to the HRA Balance for the year		(38,255)

2. Capital Charges (Item 8 Debit and Credit)

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

3. Gross Rent Income

Gross rent income is the total rent income due for the year after allowance is made for voids and irrecoverables. Average rents were £51.66 a week, an increase of £1.55 or 3.1% compared with 2008-2009 on a 52 week basis.

4. Other Rent Income

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

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

Notes to the Housing Revenue Account Income and Expenditure Account

5. Housing Stock

	2009-2010 No.
Houses and Bungalows	7,172
Flats	1,338
Total	8,510

Council stock reduced by two dwellings in 2009-2010. There were seven sales under the "Right to Buy Scheme", two repurchases of former right to buy properties acquired under the right of first refusal and three new build properties on the former Blyth Newsham Library site.

6. Housing Revenue Account Fixed Assets

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Non Operational (Investment) Assets £'000	Assets under Construction £'000	Total £'000
Gross book value 1 April 2009	-	-	-	-	-	-
Transferred from the Borough and District Councils	387,792	9,561	558	15,737	2,674	416,322
Restated balance brought forward 1 April	387,792	9,561	558	15,737	2,674	416,322
Adjustment: 2008-2009 restatement	44	-	-	-	-	44
Recategorisation	-	2,009	-	(2,009)	-	-
Restatement	-	-	24	-	-	24
Additions	9,536	-	-	-	-	9,536
Disposals	(471)	-	-	-	-	(471)
Movement in Work in Progress	2,674	-	-	-	(2,674)	-
Revaluations	-	840	-	349	-	1,189
Impairment	(30,861)	(183)	-	(4,935)	-	(35,979)
Gross book value 31 March 2010	368,714	12,227	582	9,142	-	390,665
Depreciation at 1 April 2009	-	-	-	-	-	-
Transferred from the Borough and District Councils	29,649	611	520	-	-	30,780
Restated balance brought forward 1 April	29,649	611	520	-	-	30,780
Charged in year	5,392	186	11	-	-	5,589
Recategorisation	-	(2)	-	2	-	-
Restatement	-	-	24	-	-	24
Impairment	6,414	-	-	(2)	-	6,412
Depreciation at 31 March 2010	41,455	795	555	-	-	42,805
Net book value at 1 April 2009	-	-	-	-	-	-
Transferred from the Borough and District Councils	358,143	8,950	38	15,737	2,674	385,542
Restated net book value at 1 April	358,143	8,950	38	15,737	2,674	385,542
Net book value at 31 March 2010	327,259	11,432	27	9,142	-	347,860

The value of council dwellings at 31 March 2010 of £327.26 million shown in the Balance Sheet is valued on the basis of existing use for social housing. The vacant possession value would be £641.68 million. This shows that the economic cost to

Notes to the Housing Revenue Account Income and Expenditure Account

government of providing council housing at less than open market value is £314.42 million.

The value of land has not been valued separately from the buildings and has only been split on subsequent revaluations. Therefore the value of the land within 'other land and buildings' is £1,800. Land is also included within 'non-operational assets' at a value of £5.69 million.

Impairment during the year valued at £42.39 million is due to a downward revaluation of assets of which £30.86 million related to a reduction in value due to the economic downturn in housing valuations.

7. Major Repairs Reserve

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

	2009-2010 £'000
Income	
Depreciation on Fixed Assets Council dwellings	(5,392)
	(5,392)
Appropriations transfer from the HRA	(1,000)
	(6,392)
Expenditure	
Capital expenditure funded from the Reserve Houses	7,301
	7,301
Deficit for the year	909
Balance brought forward 1 April 2009	-
Transferred from the Borough and District Councils	(2,309)
Restated balance brought forward 1 April 2009	(2,309)
Balance carried forward 31 March 2010	(1,400)

Notes to the Housing Revenue Account Income and Expenditure Account

8. HRA Capital Expenditure and Financing

	2009-2010 £'000
Capital Expenditure	
Houses	9,536
	9,536
Financing	
Borrowing	662
Government Grants	222
Direct Revenue Financing	1,351
Major Repairs Reserve	7,301
Total	9,536

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
Land	-	-	-
Houses	470	125	345
Total	470	125	345

10. Housing Revenue Account Subsidy

The breakdown of the HRA Subsidy in 2009-2010 is shown below:

	2009-2010 £'000
Management and maintenance	(12,474)
Charges for capital	(2,359)
Notional rent income	22,286
ALMO allowance	(3,869)
Major repairs allowance	(6,392)
Prior year adjustments	(208)
Total	(3,016)

The prior year adjustment relates to the variance between the audited Housing Subsidy figures for 2008-2009 and those that were included within the Statement of Accounts, due to audit adjustments made to subsidy claims post year end.

11. Accounting for Pensions (FRS17)

The net impact on the HRA as a result of FRS17 was a credit of £0.03 million representing the excess of current service cost over pension contributions, the expected return on pension assets and the interest cost on pension liabilities.

The net charge resulting from implementing FRS17 is reversed within the HRA meaning there is no effect on the amount to be met from Government Grants and Rents.

Notes to the Housing Revenue Account Income and Expenditure Account

12. Tenant Arrears

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

	As at 31 March 2010	
	£'000	%
Rents		
Current tenants	733	3.31
Former tenants	260	1.18
Balance at 31 March	993	4.49

13. Provision for Bad Debts

The provision for bad debts at 31 March 2010 is shown below:

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

14. Homes for Northumberland

Homes for Northumberland is an Arms Length Management Organisation (ALMO) that is paid a management fee by the Council to carry out many of the activities previously performed by HRA employees in the former Alwick, and Blyth authorities. In 2009-2010 the Management Fee payable to Homes for Northumberland was £11.61 million (£8.92 million in 2008-2009)

Collection Fund Account

for the year ended 31 March 2010

On 1 April 2009 the County Council acquired services from the former Borough and District Councils in the County under Local Government Reorganisation; this included the responsibility to collect Council Tax and National Non Domestic Rates. This statement summarises the transactions of the Collection Fund, a statutory fund distinct from the General Fund of the County Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the County Council) for whom the income has been raised. There are only 2009-2010 figures shown because the County Council did not have a Collection Fund in 2008-2009.

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

	Note	2009-2010 £'000
Income		
Income from Council Tax		(135,915)
Transfers from General Fund – Council Tax Benefits		(21,983)
Income collectable from non domestic ratepayers		(64,269)
		(222,167)
Expenditure		
Precepts and demands		
Northumberland County Council	3	144,406
Parish and Town Councils	3	3,075
Northumbria Police Authority	3	8,795
Non domestic rates		
Payments to National Pool		63,166
Costs of collection		461
Interest payment		122
Other contributions and payments		
Increased provision for bad debts: Council Tax	4	4,248
National Non Domestic rates	4	520
Deficit for the year		
Balance brought forward 1 April		-
Transferred from the Borough and District Councils		887
Restated balance brought forward 1 April		887
Balance carried forward 31 March	3	3,513

Notes to the Collection Fund Account

1. Council Tax

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

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

		2009-2010		
Council tax base		108,143		
Council tax (Band D property)		£1,416.65		

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

2. National Non-Domestic Rates

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

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

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

Notes to the Collection Fund Account

3. Precepts and Demands on the Collection Fund

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

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

4. Council Tax Bad Debt Provision

A detailed analysis of the collection rates for council tax has resulted in an increase in the annual provision against debts that the council considers will ultimately be non-collectable. The increase in provision in 2009-2010 is £4.25 million and brings the total provision to £9.27 million.

Pension Fund

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 firefighters for whom separate arrangements exist. A full list of employers participating in the Fund is shown in note 17 to these accounts.

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

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

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

The total market value of the Fund, net of liabilities, has increased from £519 million to £719 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 £198 million experienced during 2009-2010, reflecting the positive return on investments experienced by funds generally over that period.

The overall annual return on the Fund was 40.8% for the year (-24.0% in 2008-2009), which compares favourably with the Fund specific benchmark annual return of 36.7%.

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 2010 was 4.0%, which compares with the benchmark annualised return of 4.4%. Real returns for the ten-year period were higher than the growth in average earnings and RPI increases.

The structure of the management of the Pension Fund investments was reviewed during 2009-2010. No change in fund structure was implemented following this review, though the Pension Fund Panel will give further consideration to making an allocation to infrastructure in 2010-2011. The structure will next be reviewed in 2011-2012.

Pension Fund

Membership of the Fund at 31 March 2010 is summarised below:

	31 March 2010	31 March 2009
Active members	8,628	9,031
Pensioner members	6,713	6,303
Deferred members	6,522	5,933
	21,863	21,267

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 2010.

Basis of Preparation

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom, and comply with the provisions of Chapter 2 of the Statement of Recommended Practice, *Financial Reports of Pension Schemes (Revised May 2007)* ("the Pensions SORP"), except if reference to the contrary is made. Following the Pensions SORP for these accounts means the Pension Fund accounts show the amount and disposition of the fund's assets and liabilities as at 31 March 2010, excluding liabilities to pay pensions and other benefits after the end of the scheme year. The remainder of the Council accounts comply with FRS 17 'Retirement Benefits' and therefore include the liabilities to pay pensions and other benefits after the Council year end.

Accounting Policies

Investments

- **Valuation of Investments**

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

- (1) Quoted securities are valued at the bid price quotations at close of business on 31 March 2010;
- (2) Pooled investment vehicles are stated at the bid prices quoted by their respective managers on 31 March 2010;
- (3) Other unlisted securities are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers;
- (4) Overseas securities and cash are translated into sterling at the rate ruling at the net assets statement date;
- (5) Futures are valued at fair value which is determined using the exchange prices at the net assets statement date.

- **Investment Income**

Dividends and interest on stocks are credited to the Fund in the year in which they become ex-dividend. Interest receivable on loans and deposits is accounted for on an accruals basis. Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31 March 2010 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 2010 are credited to the Fund.

Pension Fund

- **Investment Transactions**

Investment transactions arising up to 31 March 2010 but not settled until later are accrued in the accounts.

Contributions

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

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

Benefits and Refunds

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

Transfer Values

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

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

Pension Fund – Fund Account
for the year ended 31 March 2010

	Note	2009-2010 £'000	2008-2009 £'000
Contributions and benefits			
Contributions	1	47,730	46,529
Transfers in	2	2,724	2,443
		50,454	48,972
Benefits	3	(46,791)	(32,927)
Leavers	4	(4,108)	(2,473)
Administrative expenses	5	(1,050)	(887)
		(51,949)	(36,287)
Net (withdrawals)/additions from dealings with members		(1,495)	12,685
Returns on investments			
Investment income	6	5,844	6,821
Irrecoverable withholding tax		(55)	(79)
Change in market value of investments	7	197,715	(160,054)
Investment management expenses	8	(1,696)	(1,695)
Net returns on investments		201,808	(155,007)
Net increase/(decrease) in the Fund during the year		200,313	(142,322)
Net assets of the Fund at 1 April		518,914	661,236
At 31 March		719,227	518,914

Pension Fund – Net Assets Statement

as at 31 March 2010

	Note	As at 31 March 2010 £'000	As at 31 March 2009 £'000
UK Investments			
Quoted			
Equities		90,427	62,020
Pooled Investment Vehicles			
Property		37,306	34,806
Equity		184,514	123,254
Index Linked		107,066	95,365
Ventures and Partnerships		49	57
Overseas Investments			
Quoted			
Equities		40,260	27,382
Futures		7	2
Other Fixed Interest		54,311	29,855
Pooled Investment Vehicles			
Equity		146,696	105,317
Ventures and Partnerships		47,103	33,965
		707,739	512,023
Other Investment Balances	7	3,425	2,661
	7	711,164	514,684
Cash Deposits		5,059	1,167
Current Assets	9	4,105	6,254
Current Liabilities	10	(1,101)	(3,191)
Net Assets of the Fund at 31 March	11	719,227	518,914

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 on page 125 and these financial statements should be read in conjunction with that.

Pension Fund – Notes to the Financial Statements

1. Contributions

	2009-2010 £'000	2008-2009 £'000
Employers' normal contributions		
Administering authority	25,218	19,298
Scheduled bodies	2,612	9,194
Admitted bodies	2,211	2,139
Employers' other contributions		
Additional contributions for deficit attributable to staff transferring to newly established housing company	-	784
Strain on the Fund following early retirement	9,100	6,055
Augmentation of service	15	15
Members		
Normal	8,574	9,044
	47,730	46,529

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

2. Transfers in

	2009-2010 £'000	2008-2009 £'000
Individual transfers in from other schemes	2,724	2,443

3. Benefits

	2009-2010 £'000	2008-2009 £'000
Pensions		
Administering authority	28,214	17,384
Scheduled bodies	1,040	8,121
Admitted bodies	954	866
Commutation of pensions and lump sum retirement benefits	15,864	6,263
Lump sum death benefits	719	293
	46,791	32,927

4. Payments to and on account of leavers

	2009-2010 £'000	2008-2009 £'000
Refunds to members leaving service	2	4
Individual transfers to other schemes	3,530	2,463
Group transfers to other schemes	576	5
Payments for members joining state scheme	-	1
	4,108	2,473

Pension Fund – Notes to the Financial Statements

5. Administrative Expenses

	2009-2010 £'000	2008-2009 £'000
Administration and processing	672	627
Actuarial and advisory fees	224	161
Audit fee	36	41
Other	118	58
	1,050	887

6. Investment Income

	2009-2010 £'000	2008-2009 £'000
Dividends from equities	3,724	4,525
Income from pooled investment vehicles	2,138	2,283
Net interest on cash deposits	(18)	13
	5,844	6,821

7. Investments

	Value at 1 April 2009 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 31 March 2010 £'000
Actively managed investments	217,534	102,624	(93,707)	87,911	314,362
Derivative contracts	2	241	(287)	51	7
Passively managed investments	294,487	14,017	(25,006)	109,872	393,370
	512,023	116,882	(119,000)	197,834	707,739
Other investment balances	2,661			(119)	3,425
Total	514,684			197,715	711,164

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, and stamp duty. Transaction costs incurred in the year amounted to £0.42 million (£0.44 million in 2008-2009). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

Pension Fund – Notes to the Financial Statements

Derivative Contracts

Type of future	Expiration	Economic exposure value £'000	Market value £'000
Dow Jones Euro STOXX exchange traded	Less than one year	229	3
E-mini S&P exchange traded	Less than one year	269	4
		498	7

Derivative receipts and payments represent the realised gains and losses on futures contracts. The Fund's objective is to equitise a small proportion of cash in the global equity portfolio, to ensure that the portfolio maintains a high exposure to equity markets and to use currency forward contracts for defensive hedging.

Other Investment Balances

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Amounts due to broker	(7)	(2)
Outstanding trades	60	(607)
Outstanding dividends, tax and other investment income	564	613
Cash deposits	2,772	2,636
Cash margin	36	21
	3,425	2,661

8. Investment Management Expenses

Investment management fees are calculated as a percentage of the market value of the portfolio managed with an adjustment for under or over performance compared to the appropriate index for two fund managers. Custody is charged for separately.

9. Current Assets

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Due from Northumberland County Council	844	-
Contributions due from employers in respect of		
Employers	2,392	2,057
Members	671	609
Strain on the Fund contributions due from employers	132	3,582
Retirement grants prepaid	66	-
Other	-	6
	4,105	6,254

Pension Fund – Notes to the Financial Statements

10. Current Liabilities

	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Due to Northumberland County Council	-	2,526
Retirement/death grants due	628	178
Investment management and custodial fees due	269	288
Other	204	199
	1,101	3,191

11. Analysis of Investments

The total market value of the Fund as at 31 March 2010 was £719.2 million compared with a value of £518.9 million as at 31 March 2009, which can be analysed as follows:

	As at 31 March 2010 £m	%	As at 31 March 2009 £m
UK and overseas equities	461.9	64.2	318.0
Fixed interest and index linked	161.4	22.4	125.2
Property unit trusts	37.3	5.2	34.8
Ventures and partnerships	47.1	6.6	34.0
Other investment balances	3.4	0.5	2.7
Cash deposits and net current assets	8.1	1.1	4.2
	719.2	100.0	518.9

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

	As at 31 March 2010 £m	%	As at 31 March 2009 £m
United Kingdom	274.9	59.5	185.3
Europe	57.3	12.4	39.9
North America	64.3	13.9	46.8
Japan	32.0	6.9	21.8
Pacific	17.5	3.8	12.5
Other	15.9	3.5	11.7
	461.9	100.0	318.0

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

	As at 31 March 2010 £m	%	As at 31 March 2009 £m
Basic materials	7.9	2.9	2.2
Consumer goods	8.9	3.2	5.3
Consumer services	15.0	5.4	10.8
Financials	17.2	6.3	10.0
Health care	6.0	2.2	5.9

Pension Fund – Notes to the Financial Statements

	As at 31 March 2010 £m	%	As at 31 March 2009 £m
Industrials	11.2	4.1	7.0
Oil and gas	14.3	5.2	13.2
Technology	1.2	0.4	-
Telecommunications	6.2	2.3	5.4
Utilities	1.9	0.7	2.2
Other (including managed funds)	185.1	67.3	123.3
	274.9	100.0	185.3

Fund Value and Proportions

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

	As at 31 March 2010 £m	%	As at 31 March 2009 £m
Legal & General Investment Management	393.4	55.3	294.5
AllianceBernstein (UK equities)	93.7	13.2	64.0
European Credit Management	54.3	7.6	29.9
Schroder Investment Management	18.1	2.6	17.6
BlackRock	19.4	2.7	17.4
AllianceBernstein (global equities)	40.3	5.7	27.8
M&G Investments	44.8	6.3	29.4
Morgan Stanley (private equity)	35.8	5.0	24.5
NB Alternatives (private equity)	11.3	1.6	9.5
Capital North East (private equity)	-	-	0.1
	711.1	100.0	514.7

Cash deposits and net current assets of £8.1 million are not externally managed and not shown in the analysis above.

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

12. 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 2009-2010 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.

Pension Fund – Notes to the Financial Statements

Aggregate contributions paid by members during 2009-2010 to AVC investments were £0.54 million (£1.08 million in 2008-2009) to Prudential, £198 (£512 in 2008-2009) to Equitable Life, and £16,666 (£7,655 in 2008-2009) to Phoenix Life Limited.

As at 31 March 2010, the aggregate value of the AVC investments with Prudential was £1.97 million (£2.07 million as at 31 March 2009), with Equitable Life was £0.06 million (£0.06 million as at 31 March 2009), and with Phoenix Life Limited was £0.13 million (£0.12 million as at 31 March 2009).

13. Related Party Transactions

Northumberland County Council administers the Pension Fund. During 2009-2010 the Pension Fund had an average balance of £3.9 million borrowed from the Council for which it paid 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 2009-2010 these costs amounted to £0.58 million (2008-2009 £0.55 million). £0.84 million was due to the Council at 31 March 2010.

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. The terms and conditions which apply to Panel members and senior managers are the same as those which apply to all other Scheme members. Five voting Panel members were members of the Scheme as at 31 March 2010 (two as at 31 March 2009).

14. Fund's Operations and Membership

Northumberland County Council Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory, funded pension scheme. The benefits of the scheme are defined and guaranteed in law. The LGPS is contracted out of the State Second Pension (S2P) and must provide benefits that are broadly equivalent to, or better than members would have received had they been members of S2P. Benefits provided include a tax-free lump sum and a guaranteed pension based on final salary upon retirement.

Northumberland County Council Pension Fund collects contributions from members of the LGPS and from their employers. It pays pensions and related expenses, and it reimburses Northumberland County Council for the costs incurred in administering the LGPS. Surplus funds are invested with external fund managers for long-term growth.

Local authority employees other than teachers and firefighters are automatically admitted to the LGPS, unless they opt out. The list of all participating employers in the Northumberland County Council Pension Fund as at 31 March 2010 is shown in Note 17.

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

Following the amalgamation of the former Borough and District Councils in Northumberland with Northumberland County Council which took place with effect from 1 April 2009 the Pension Fund Panel has comprised six County Council representatives, one non-voting employer representative, one non-voting Scheme

Pension Fund – Notes to the Financial Statements

member representative and two non-voting Trade Union representatives. Prior to 1 April 2009 the Panel included three District Council representatives.

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

As at 31 March 2010 there were six external fund managers, namely Legal & General Investment Management, M&G Investments, AllianceBernstein, European Credit Management, BlackRock, and Schroder Investment Management.

As at 31 March 2010 the Fund also had private equity investments with Morgan Stanley, NB Alternatives and Capital North East.

The Northern Trust Company provides custodial services for the Fund.

15. Statement of Investment Principles (SIP)

The Northumberland County Council Pension Fund's SIP is maintained as a separate document. A copy can be obtained from the Corporate Director of Finance, Northumberland County Council, Finance Department, County Hall, Morpeth, Northumberland NE61 2EF.

16. Outstanding Commitments

As at 31 March 2010 the Fund had outstanding commitments to four private equity investments.

	Year of commitment	Initial commitment	Drawdowns made	Outstanding commitment as at 31 March 2010	
Morgan Stanley Private Markets III	2006	\$50.0m	\$35.8m	\$14.2m	£9.4m
Morgan Stanley GDO Fund	2006	\$10.0m	\$6.3m	\$3.7m	£2.5m
NB Crossroads Fund XVIII	2007	\$27.0m	\$18.9m	\$8.1m	£5.3m
Morgan Stanley Private Markets IV	2007	\$30.0m	\$8.3m	\$21.7m	£14.3m
Total Outstanding Commitments					£31.5m

The sterling amounts shown above for the commitments outstanding as at 31 March 2010 are based on the exchange rates at the close of business on that date.

17. Fund Membership as at 31 March 2010

	Active members	Pensioner members	Deferred members
Northumberland County Council	7,216	6,268	5,871
Northumberland County Council Councillors	29	2	8
Local Government Pension Scheme Employers (known as "Scheduled Bodies")			
Amble Joint Burial Committee	-	1	-
Ashington Education Achievement Zone	-	-	4
Bede Academy	65	-	3
Blyth Valley & Wansbeck Joint Crematorium Committee	-	9	1
Corbridge Parish Council	2	-	-
Hexham Town Council	6	3	1
Homes for Northumberland	200	31	64
Morpeth Town Council	4	1	-
Northumberland College	158	96	163

Pension Fund – Notes to the Financial Statements

	Active members	Pensioner members	Deferred members
Northumberland Church of England Academy	255	1	10
Northumberland National Park	76	14	59
Northumberland Valuation Tribunal	1	7	1
Northumbria Magistrates Courts Committee	-	67	78
Ponteland Parish Council	-	1	-
Admitted Bodies			
Age Concern Northumberland	15	8	11
Bell View Day Centre	-	-	1
Berwick Borough Housing	18	3	2
Berwick Bridges Trust	-	1	6
Blyth Valley Arts and Leisure Trust	98	8	29
Blyth Resource and Initiative Centre	1	-	-
Bullough Cleaning Services Ltd	16	1	2
Castle Morpeth Housing	25	3	5
Community Action Northumberland	10	16	22
Creative Management Services Ltd	6	-	4
CSB Contract Services	6	-	4
Feversham School	-	22	22
Groundwork Northumberland	-	-	4
Helping Hands Community Care	1	-	-
Haltwhistle Regeneration	-	-	1
Milecastle Housing Limited	19	32	15
North Country Leisure	71	9	41
Northumberland Aged Mineworkers Homes Association	8	6	-
Northumberland Care Trust	104	33	47
Northumberland County Blind Association	7	2	6
Northumberland Guidance Company	-	12	16
Northumberland Sea Fisheries Committee	7	5	1
Northumbrian Leisure Resorts Ltd	-	-	2
Northumbrian Water (Ex Coquet Water Board)	-	2	-
Queens Hall Arts Centre	4	2	1
Superclean Services	3	-	1
The Disabilities Trust	2	3	3
The Maltings (Berwick) Trust	1	1	3
Tweed Bridges Trust	-	1	-
Wansbeck Homes	157	12	9
Woodhorn Charitable Trust	37	-	1
Other Bodies pre 1974	-	30	-
	8,628	6,713	6,522

18. Post Balance Sheet Events

Change to the LGPS

In the 22 June 2010 Budget the Chancellor of the Exchequer announced that with effect from April 2011 the Government will adopt the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) for public service pension increases. This change will apply to the LGPS. Historically, RPI increases have been higher than CPI increases with a difference of around 0.7% per annum on average over the last twenty years. Though there is no detail available at this stage as to how the change

Pension Fund – Notes to the Financial Statements

to CPI will be implemented in the LGPS, the change would be expected to reduce the future liabilities of the Fund.

Bulk transfer relating to Magistrates Courts

Payment will be made out of the Fund during 2010-2011, or later, for the bulk transfer of pension rights relating to the employees of the Northumbria Magistrates Courts Committee who transferred out of the Local Government Pension Scheme on 1 April 2005 into the Civil Service Pension Scheme as a result of a change imposed nationally by the Government. The Fund's actuary estimated the payment to be approximately £4 million to £5 million as at 28 February 2007. The final transfer payment is dependent on market conditions and may be materially different on the final payment date.

Pension Fund Performance

Annual Returns

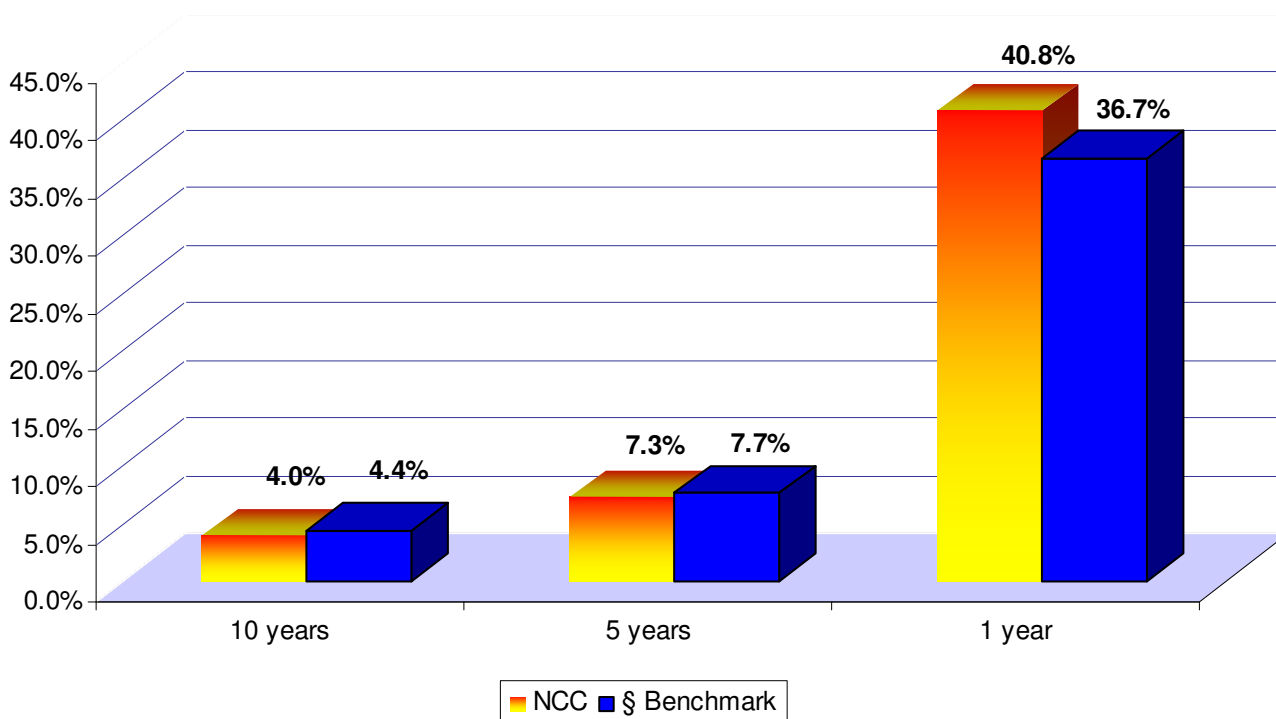
Over the year, the Fund outperformed its benchmark by 3.0%*.

Year Ending 31 March	2006	2007	2008	2009	2010
NCC Combined Portfolio	26.5%	7.7%	-2.4%	-24.0%	40.8%
Benchmark	26.0%	7.2%	-2.0%	-20.0%	36.7%

Annualised Returns

The following shows the Northumberland Fund's longer term returns compared with a combination of the WM Local Authority Universe, and the Fund specific benchmark.

Comparison of Annualised Returns



* Relative performance is shown as the geometric difference between the Fund return and its benchmark rather than the arithmetic difference. This is in line with industry standard and to allow for accurate linking of relative returns over time.

§ The Fund's performance has been analysed relative to the WM Local Authority Universe to the end of March 2002. Thereafter, a customised benchmark has been used.

Pension Fund Performance

Analysis of Returns

Investment Category	Returns for year ended 31 March 2010	
	Combined Fund %	Benchmark %
Legal & General (Index tracker)	37.4	38.3
AllianceBernstein (UK equities)	46.2	52.3
European Credit Management (Corporate bonds)	84.2	20.9
AllianceBernstein (Global equities)	44.8	44.0
M&G Investments (Global equities)	52.0	47.1
BlackRock (Property)	12.9	11.6
Schroder (Property)	9.2	11.6
Combined Fund	40.8	36.7

Performance Commentary

The Northumberland County Council Pension Fund produced a positive return in 2009-2010 which was well above the growth in average earnings of 5.5% for the same period.

The Fund returned 40.8%, which gave a relative return of 3.0% above benchmark. The main drivers for the outperformance in order of impact were outperformance by European Credit Management followed by outperformance by M&G Investments. The AllianceBernstein UK equity fund and the Schroder property fund provided negative contributions for the year. The remaining managers were largely flat in terms of relative returns.

The WM Local Authority Pension Fund Universe for 2009-2010 gave an average return of 35.2%; the range of returns was 44.2% for the 5th ranked fund to 28.2% for the 95th ranked fund.

Over five years the Fund return of 7.3% p.a. underperformed the benchmark return of 7.7% p.a.

Over ten years the Fund achieved a return of 4.0% p.a., which compares well with the increase in the Retail Prices Index (2.7% p.a.) and the growth in average earnings (3.8% p.a.). The Fund underperformed the combined benchmark of 4.4% p.a. over this period.

Statement of the Actuary for the year ended 31 March 2010

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Northumberland County Council Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating employers during 2009-2010 were based on the actuarial valuation carried out as at 31 March 2007.
2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £669.0M) covering 71% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets, along with additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used, including changes to reflect higher price inflation expectations and longevity improvements.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating employers (in aggregate) with effect from 1 April 2008 was as set out below:
 - 18.1% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 8.8% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years from 1 April 2008.

Less

- 5.1% of pensionable pay in respect of assumed additional investment returns over the period to 1 April 2011.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
 - Changes were made consistent with the Finance Act 2004.
 - A new scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.
4. The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the administering authority.

Statement of the Actuary for the year ended 31 March 2010

The rates of contributions payable by each participating employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 28 March 2008 which is appended to our report of the same date on the actuarial valuation.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase as at 1 April 2011 due to the cessation of the allowance for assumed additional short term investment returns. It would then continue at the resultant level for the balance of the recovery period used for that employer, before reverting to the relevant long term rate. In practice contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010 with contribution rates changing with effect from 1 April 2011 (see point 7 below).

5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of employers, using the projected unit actuarial method.
6. The main actuarial assumptions were as follows:

Discount rate for periods	
In service	6.2% per annum
Left service	5.2% per annum
Short term investment returns until 1 April 2011	
Equities/property assets	7.0% per annum
Other investments	5.2% per annum
Rate of general pay increases	4.7% per annum
Rate of increases to pensions in payment	3.2% per annum
Valuation of assets	market value

7. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010 which is currently being carried out. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed off by 31 March 2011.
8. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited, for inclusion in the accounts of Northumberland County Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, Northumberland County Council, in respect of this statement.

Hewitt Associates Limited

7 June 2010

Firefighters' Pension Fund

Fund Account for the year ended 31 March 2010	2009-2010 £'000	2008-2009 £'000
Contributions		
From employer	1,355	1,462
From members	729	757
	2,084	2,219
Transfers in		
Individual transfers from other schemes	90	25
	2,174	2,244
Benefits		
Pensions	(3,441)	(3,031)
Commutations and lump sum retirement benefits	(2,157)	(942)
	(5,598)	(3,973)
Payments to and on account of leavers		
Individual transfers to other schemes	(8)	-
Net amount payable before top-up grant	3,432	1,729
Top-up grant payable by the Government	(3,432)	(1,729)
	-	-

Net Assets Statement as at 31 March 2010	As at 31 March 2010 £'000	As at 31 March 2009 £'000
Current assets		
Commutation lump sums paid in advance	-	492
Top-up grant receivable from the Government	2,162	728
Current liabilities		
Amount payable to the General Fund	(2,162)	(1,220)
	-	-

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 39 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 FRS17 *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 for the Statement of Accounts Issue Date and Approval Date

The County Council's responsibilities

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and,
- approve the statement of accounts.

Chair of the Audit Committee Certificate

I certify that the Statement of Accounts has received the full approval of Members.

Anne Dale
Chair, Audit Committee
29 September 2010

The Corporate Director of Finance's responsibilities

The Corporate Director of Finance is responsible for the preparation of the County Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this statement of accounts the Corporate Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice.

The Corporate Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Issue Date

The date that these financial statements are authorised for issue is 30 June 2010. All known material events that have occurred up to and including 30 June which relate to 2009-2010 or before have been reflected in the accounts.

Corporate Director of Finance Certificate

I certify that the Statement of Accounts presents fairly the financial position of the County Council and the Northumberland Pension Fund as at 31 March 2010 and their income and expenditure for the year ended 31 March 2010.

Steven Mason
Corporate Director of Finance
29 September 2010

Annual Governance Statement

1. Scope of responsibility

Northumberland County Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the ways in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”. The statement explains how the Council has complied with the code, and also how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control. It is planned to review and update this document in 2010-2011, using a cross-functional team.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework for the new Council was in place from 1 April 2009, and has been further developed throughout the year ended 31 March 2010 and up to the date of approval of the statement of accounts. Development will continue through the coming year.

3. The governance framework

The key elements of systems and processes which comprise the Council’s governance arrangements include the areas set out below, stating the linkages to the six dimensions of governance, as stated by the Audit Commission.

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

Following its inception on 1 April 2009, the Council has worked during the year to establish its vision and future direction. The overarching aims are provided by the

Annual Governance Statement

Community Strategy, which has a planning horizon to 2021, and formalises the organisation's "Vision and Values".

The draft Medium Term Strategy outlines the Council's vision and overarching policy drivers for the next three to five years. This document provides the context and framework for the Corporate Plan which is more operational and focussed on the next one to three years. The Corporate Plan is structured around five strategic priorities; these broadly align to the Northumberland Partnership's Thematic Partnerships which drive the Community Strategy and Local Area Agreement and therefore ensure a clear line of sight from the place based strategy through to the council's own planning framework.

By developing a clear consistency of purpose between the Council and wider sector led partnerships, services can more readily align resources to key priorities and ensure services to customers are joined up and user friendly. Much has changed already and more changes are ahead, particularly for public sector organisations. The Council, along with its strategic partners, will need to be more flexible and agile in their response to issues such the economic downturn and safeguarding of children and more creative in the way services are funded, designed and commissioned.

The Council engages and consults with its stakeholders to ensure that their needs are better reflected in any plans for service development and appropriate governance arrangements ensure that the Council's commitments are met.

A suite of performance measures are used by the Council as a review mechanism to ensure that services are delivered at an appropriate standard. These are monitored through quarterly performance reports, which are published on the internet, and considered at regular Performance Improvement Board meetings. Performance is monitored through a Member-led Performance Management Group. This process is supported by formal budget monitoring through the Executive and Scrutiny. Each area of the business also produces a service plan incorporating further local performance measures. These plans link into corporate aims and objectives, whilst also providing targets at an operational level.

The Use of Resources assessment published by the Audit Commission relating to 2009 shows that the Council is performing adequately in terms of managing its finances, governing the business, and managing its resources.

The principal objective in dealing with the current budget preparation has been to achieve a balanced budget for 2010-2011, ensuring that the required level of savings is delivered. This has required the new Council to review its priorities, and ensure that they are sustainable in light of resources.

Operating effectively in clearly defined roles

Roles and responsibilities of executive, non-executive, scrutiny and officer functions are clearly defined through terms of reference and job descriptions, ensuring effective leadership. Regular appraisals for staff ensure an awareness of the requirements and expectations of each role.

Terms of reference for all Committees can be found on the website. Clear delegation arrangements are set out in the Finance & Contract Rules, which form part of the Council's Constitution. This is formally approved annually, with any necessary amendments being approved on an ad hoc basis.

Annual Governance Statement

A constructive working relationship exists between officers and elected members, which ensures that both are able to operate to optimal effect.

Promoting and demonstrating values of good governance through behaviour

A framework of policy and procedure is in place, as set out in the Finance & Contract rules. This framework is supported by codes of conduct for members and officers, along with a Code of Corporate Governance. The role of the Standards Committee includes monitoring compliance with codes of conduct for members, and investigating any complaints of breaches.

The Council's Monitoring Officer has responsibility for ensuring that the Council acts within its legal powers at all times, and the Section 151 Officer is responsible for ensuring the proper administration of the Council's financial affairs. Within their respective roles, both have a duty to report formally any adverse matters, a requirement which is set out in the Constitution.

The Council operates a whistleblowing policy, and has a robust complaints process, designed to ensure that all issues are properly investigated. Both processes are handled corporately by the Corporate Services Department, maintaining consistency across the organisation.

A dedicated resource is employed within Internal Audit to lead investigations into breaches of policy and suspected irregularities, with an element of the role being dedicated to pro-active work, and developing an anti-fraud culture.

Taking proper decisions and managing risk

All strategic decisions being presented to the Executive must be supported by the relevant level of risk analysis, determined by the degree of risk inherent within the proposal. This risk assessment is recorded within the standard report template, to ensure that the responsible officer's view is formally recorded. Schemes involving a significant level of risk must be subject to a detailed review by the Risk Appraisal Panel. This panel comprises a number of key elected members and officers. The process is set out in the Council's constitution, and in greater detail in the Council's risk management framework, a document which is reviewed and approved annually by officers and members, and which is available to the public via the internet.

The Council's Constitution describes how decisions are to be made, and the processes which must be followed to ensure efficiency, transparency and accountability. Decisions are made by the Executive, working within the agreed budget and policy framework. The Executive is held to account by four Overview & Scrutiny Committees. Minutes and papers for Executive and Scrutiny meetings are published on the website, to ensure transparency of process. Notice of forthcoming decisions to be taken by the Executive is published via the forward plan. Meetings are generally held in the public domain, although of necessity a small number of items may be considered in private. Regulatory matters are normally dealt with by specific committees established for the purpose.

To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior officers, in line with powers set out in the Constitution.

Developing the capacity and capability of senior officers and Councillors

Development needs of senior officers are identified through the appraisal process, which is carried out at least once per year. A skills framework has been developed, applicable to all managers, which sets out the key skills and attributes which senior

Annual Governance Statement

officers must display. Through a process of self-assessment, validated by managers, any training needs are identified. A training programme is also in place for members. New staff and members are enrolled onto an induction programme to ensure a common understanding.

Engaging with stakeholders

An engagement strategy has been developed for the new authority, to ensure that services are developed and delivered in an appropriate manner. This strategy will be built into the new corporate planning process, to give a consistent approach. To provide guidance for staff, a comprehensive toolkit resource has also been produced.

A new engagement tool is being developed for the new authority. An interactive website is being set up, which will be used to manage future consultation exercises. Any feedback received through this route is made available on the website.

4. Review of effectiveness of the governance framework

Northumberland County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. It discharges this responsibility through the Audit Committee, which is tasked with considering the framework. During the year, the Head of Audit has fully documented the complete assurance framework, to ensure that all components are properly considered. This document has formed the basis of the Audit Committee's review.

The review of effectiveness is informed by the work of the senior managers within the authority, who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

There are a number of bodies involved in the process to maintain and review the effectiveness of the governance framework, as follows:

Full Council

The Authority as a whole is responsible for agreeing the Constitution, which underpins the governance arrangements. A new Constitution is currently being developed, to reflect the governance of the new Council. This work is being led by a working group comprising officers and members. Through appropriate appointments to its sub-committees, the Council can ensure that governance is in place throughout the organisation, and is operating effectively. The setting of high standards of self-governance provides a clear and demonstrable lead to partners and the public.

The Executive

The Executive has responsibility for making decisions within the policy and budget framework as agreed by the Council. They monitor and scrutinise progress against targets and performance. Executive members are actively involved in the risk management process, reviewing the methodology and the risk register every 6 months.

The Audit Committee

The Audit Committee plays a key role in the assurance process, receiving regular reports throughout the year from both internal and external audit. It is able to assess the effectiveness of internal audit on an ongoing basis, and to review

Annual Governance Statement

management's response to audit recommendations. This enables it to consider the adequacy and effectiveness of the system of internal control.

The Committee is also actively involved in the risk management process, receiving a quarterly update and a formal annual report from the Risk Manager. One of the Committee has been designated as risk champion amongst elected members. The Committee meets at least six times per annum, with additional ad hoc meetings as required. The terms of reference of the Committee have been reviewed during the year, to ensure compliance with CIPFA guidelines.

Scrutiny Committees

The Council operates four Scrutiny Committees – Strategic Services; Community Services; Family & Children's Services, and Health. These committees have responsibility for monitoring the provision of services, and recommending changes to policy. Issues of public concern are considered, and the Committees provide challenge to the Executive's decision making process.

Risk Appraisal Panel

This body is responsible for ensuring that risks relating to key projects are appropriately identified and managed. Recommendation to proceed will only be given where all relevant risks have been considered, and the outcome is considered acceptable.

Standards Committee

Standards Committee reviews the governance framework, and also has responsibility for ensuring adherence to the Code of Conduct for members. The Committee comprises 6 councillors and 6 independent members, one of whom chairs the meeting.

Internal Audit

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

The service operates in accordance with CIPFA's Code of Practice for Internal Audit in Local Government. Work is focussed around areas of high risk to which the Council is or may be exposed. An annual work plan, forming part of a 3 year strategy, is presented to the Audit Committee for approval, following consultation with key stakeholders, including external audit, and endorsement by the Corporate Director of Finance. The scope of work extends to include other entities and partners with whom the Council works, such as the Northumberland Care Trust, Homes for Northumberland and Blyth Valley Arts & Leisure.

Audits where either limited or no assurance can be offered are reported to Audit Committee. Members review the management responses to recommendations, and subsequently receive confirmation that these recommendations have been implemented. During 2009-2010, only limited assurance was offered in six areas. No reports were presented with a conclusion of no assurance. Action plans have been agreed in respect of all recommendations made, and key issues have been discussed during Audit Committee meetings.

The Head of Audit provides an annual summary of the results and conclusions of the year's work, which includes an opinion on the internal control environment for the whole Council. This summary is presented to the Audit Committee at its June meeting, prior to the sign off of the financial statements.

Annual Governance Statement

External review by other agencies and inspectorates

The main element of the Audit Commission's assessment framework has changed in the current year. An overall "organisational assessment" is now produced, comprising the former use of resources element, plus a review of managing performance. Due to the impact of Local Government Reorganisation, the Council has not received an overall score for this assessment in the current year, although the report includes a number of positive comments. As noted above, the assessment for Use of Resources concluded that minimum requirements were met, with an adequate performance.

A wider ranging area assessment has also been introduced for 2009-2010. This considers the overall service provision across the County, and combines the views of six inspectorates across the public sector. Red and green flags are used to denote areas of concern or examples of exceptional performance. Northumberland did not receive a flag in either category.

- Ofsted's rating for Children's Services in the Council concludes that it performs well. Where there are poor outcomes or inequalities, actions are being taken to address these.
- The Care Quality Commission judges Adult Social Services (through Northumberland Care Trust) to be performing well. The Care Trust is performing either excellently or well on each of the seven aspects in its assessment.

The Audit Commission assessed the Council's Strategic housing services during the previous year, in conjunction with those provided by District Councils. The output from this assessment is assisting in establishing priorities for the new housing strategy.

The Audit Commission has also reviewed the Council's "Supporting People" programme, and concluded that it was "poor" with "uncertain" prospects for improvement. A detailed action plan has been produced in response to this, progress against which is being monitored closely by the Senior Management Team and the Care & Wellbeing Scrutiny Group.

A report is presented to the Audit Committee on a quarterly basis, listing any external inspections which have taken place, and any actions in progress as a result. This provides a central overview of the inspection regime.

Management review

Individual managers are responsible for reviewing their aspects of the control environment periodically throughout the year. This process is supported through a risk assessment of service plans across the organisation – significant risks identified through this process are escalated as appropriate.

The review of effectiveness of the governance framework is informed by the Strategic Risk Management Group. Through a consultation process, all senior management are given the opportunity to contribute to the review and the statement, ensuring that any areas of weakness are identified.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Annual Governance Statement

5. Significant governance issues

Issues identified in 2008-2009

- Local government reorganisation (LGR) within Northumberland had a significant impact on resources across the Council. A considerable amount of work was undertaken to prepare for the transfer, largely within existing resources. This led to increased workloads throughout the Authority, with a greater potential for the control environment to be undermined due to these pressures. To mitigate this, detailed risk assessments were undertaken to identify issues associated with LGR, and appropriate actions were taken.
- A number of Icelandic banks were put into administration during the financial year. At the time, the Council had a sum of £23m invested across 4 affected institutions. A significant element of this sum is now expected to be recovered, although it is likely that some proportion will be lost. An external audit of the investment process concluded that all actions were in line with policy. Some actions were recommended as a result of this, all of which have now been implemented.
- The Audit Commission's inspection of Strategic Housing identified some areas of weakness. Actions required to address these have been identified, and a timetable agreed for their implementation.
- Internal Audit reports concluding only limited assurance were presented in 7 areas. In all cases, reports were made to Audit Committee. Follow up audits have reviewed action plans to ensure implementation.

Issues arising in 2009-2010

- The effects of local government reorganisation (LGR) within Northumberland continue to pose challenges across the Council. Problems have been identified in a number of areas, particularly in relation to the former Blyth Valley Borough Council (BVBC) and Wansbeck District Council (WDC). A considerable amount of resource has been expended in an attempt to resolve these difficulties, and some progress has been made.
- With regard to BVBC, the financial statements for 2008-2009 were qualified by the external auditors, as was the Value for Money conclusion, due to a range of factors, including poor project management, revenue and benefit income streams and reporting to members. These issues result in there being uncertainty with regard to some of the closing balances in the BVBC accounts. Such balances form a component of the opening position for the Council in 2009-2010, and hence there is a risk that the Council's accounts may also be qualified in the current year, since the components of opening balances attributable to BVBC cannot be verified.
- Difficulties with WDC accounts relate to the potential need to produce group accounts in relation to Wansbeck Life. Due to poor record keeping, it is proving difficult to determine the precise situation with regard to share ownership, and hence to confirm whether group accounts are required. At the present time, the audit opinion on WDC accounts for 2008-2009 remains outstanding. As with the BVBC position, this may have implications for the Council's accounts for 2009-2010, since the opening position cannot be confirmed to be accurate. There is also an ongoing investigation into chief officer salaries at the authority.
- The management structure in place during 2009-2010 was such that the Section 151 Officer was not formally part of the Senior Management Team.

Annual Governance Statement

This potentially weakens the organisation's governance arrangements, and is not in line with CIPFA recommendations.

- During the year, Internal Audit has been able to offer only limited assurance in respect of six audits. In line with normal procedures, these were reported to Audit Committee, and action plans to address failings will be reviewed during follow up work.

Actions to address issues

In response to the issues identified above, the Council will undertake a range of actions, including the following priority areas:

LGR

- Continued monitoring of issues through regular meetings;
- Focus of internal audit work on high risk areas.

Senior Management Team

The ongoing senior management review proposes a structure which is line with CIPFA recommendations, in that the Corporate Director of Finance forms part of the Senior Management Team, with appropriate input into the decision making processes.

Internal Audit reports

Robust follow up of recommendations, to ensure proper and timely implementation.

6. Conclusion

We propose over the coming year to take steps to address the above matters, and ensure the robustness of governance arrangements within the authority. Through the Audit Committee, the actions taken in response to identified weaknesses will be actively monitored. We are satisfied that these actions will address the need for improvements which were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review. The planned review of our Code of Corporate Governance will give further assurance that the control framework is appropriate.

As noted above, concerns raised during 2008-2009 with regard to the financial statements of Blyth Valley Borough Council and Wansbeck District Council may result in the qualification of this Statement of Accounts. The Council is not able to influence this, since it results from factors occurring prior to LGR.

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

Signed:

Jeff Reid
Leader of the County Council

Steve Stewart
Chief Executive

Steven Mason
Corporate Director of Finance

Independent Auditors' Report to the Members of Northumberland County Council

Opinion on the Authority accounting statements

We have audited the Authority accounting statements, the firefighters' pension fund accounting statements and related notes of Northumberland County Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes 1 to 50, the Housing Revenue Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance and the related notes 1 to 14 and the Collection fund and related notes 1 to 4. The firefighters' pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 3. The accounting statements and the firefighters' pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Northumberland County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

The Corporate Director of Finance's responsibilities for preparing the accounting statements, including the firefighters' pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority accounting statements and the firefighters' pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority accounting statements and the firefighters' pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of:

- the financial position of the Authority and its income and expenditure for the year;
- the financial transactions of the firefighters' pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounting statements. We are not required to consider, nor have we

Independent Auditors' Report to the Members of Northumberland County Council

considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read other information published with the Authority accounting statements, firefighters' pension fund accounting statements and related notes and consider whether it is consistent with the audited Authority accounting statements, firefighters' pension fund accounting statements and related notes as described in the contents. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements, firefighters' pension fund accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements, firefighters' pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements, firefighters' pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority accounting statements, firefighters' pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority accounting statements, firefighters' pension fund accounting statements and related notes.

Adverse opinion on financial statements

As explained in note 26, the financial statements of the Authority do not include consolidated financial statements for its group as required by the statement of recommended practice. As a consequence, the financial statements do not give the information required by the statement of recommended practice about the economic activities of the group of which the Authority is the parent. It is not practicable to quantify the effects of this departure.

In view of the effect of the failure to prepare consolidated financial statements referred to above, in our opinion the financial statements do not give a true and fair view of the state of the group's affairs as at 31 March 2010 and of the group's income and expenditure for the year then ended.

Except for the failure to prepare consolidated financial statements referred to above, in our opinion

- The Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of

Independent Auditors' Report to the Members of Northumberland County Council

the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended; and

- The firefighters' pension fund accounting statements give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the firefighters' pension fund during the year ended 31 March 2010 and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Opinion on the pension fund accounting statements

We have audited the pension fund accounting statements for the year ended 31 March 2010 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Northumberland County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Corporate Director of Finance and auditor

The Corporate Director of Finance's responsibilities for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We read other information published with the pension fund accounting statements and related notes 1 to 18 and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund

Independent Auditors' Report to the Members of Northumberland County Council

accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In our opinion the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Authority's Responsibilities

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

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities and fire and rescue authorities published in May 2008 and updated in October 2009. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. 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.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities and fire and rescue authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, we are satisfied that, in all significant respects, Northumberland County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Independent Auditors' Report to the Members of Northumberland County Council

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

David Wilkinson, FCA, CF (Engagement Lead)
For and on behalf of Deloitte LLP
Appointed Auditor
Newcastle-upon-Tyne, UK
30 September 2010

Glossary of Terms

Accrual

The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary

An expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary determines the rate of employer contributions due to the Pension Fund every three years.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses. They arise because events have not coincided with actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

Amortised

Written off over a suitable period of time.

Appropriations

Amounts transferred between the service and revenue or capital reserves.

Available-for-sale Asset

A category of financial instrument which includes investments traded in an active market and equity instruments other than those for which a reliable value cannot be determined.

Audit of Accounts

An independent examination of the Council's financial affairs.

Balance Sheet

A summary of an Authority's financial position at the year end. It shows the balances and reserves at an Authority's disposal and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on fixed assets held.

Best Value Accounting Code of Practice (BVACOP)

The Code of Practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

Budget

A statement of the Council's expected level of service and spending over a set period, usually one year.

Budget Requirement

Planned spending to be met from council tax, general government grant and national non domestic rates.

Capital Adjustment Account

The balance represents the timing differences between the amount of historical cost that has been consumed and the amount that has been financed in accordance with statutory purposes.

Capital Asset

An item bought to improve, build, prepare or replace plant, machinery, buildings, land and other structures.

Capital Charge

A charge for depreciation to service accounts to reflect the cost of fixed assets used in the provision of services.

Glossary of Terms

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 Income and Expenditure Account 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

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 only 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.

Glossary of Terms

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 (FRS17 term)

Employer pension contributions charged during the year have been removed from the Income and Expenditure Account 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 on the year of account.

Debtors

Amounts owed to the Council at the year end where services have been delivered but payment has not been received.

Dedicated Schools Grant (DSG)

Ring fenced grant monies provided by the Department for Children, Schools and Families 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.

Glossary of Terms

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, etc.

Earmarked Reserves

These reserves represent monies set aside that can only be used for a specific usage or purpose.

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.

Extraordinary Items

Material items possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

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 Income and Expenditure Account and the recharge against the General Fund balance in respect of financial assets and liabilities.

Fixed Assets

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

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.

Glossary of Terms

Government Grants and Contributions Deferred Account

This represents the difference between expenditure financed by government grant or contributions and the amount released to the Income and Expenditure Account to match depreciation of the asset.

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.

Income & Expenditure Account

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.

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 Fixed 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.

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

Local Area Agreement

A partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local services.

Glossary of Terms

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 Income and Expenditure Account in each financial year to repay external debt.

National Non-Domestic Rates

The government now levies a standard rate on all properties used for commercial purposes. The rates are collected on behalf of the government by District 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.

Glossary of Terms

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.

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 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.

Glossary of Terms

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 reflect the benefits that the employer is committed to provide for service up to the valuation date.

Section 151 Officer

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

Settlements and Curtailments (Pensions)

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

Soft loan

Loans, normally to voluntary sector organisations, below the market rate of interest.

Statement of Standard Accounting Practice

Accounting practice recommended by the Accounting Standards Committee of the joint accountancy bodies for adoption in the preparation of accounts.

Statement of Movement on the General Fund Balance

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.

Statement of Total Recognised Gains and Losses (STRGL)

The statement showing all of the gains and losses of the County Council over the year and shows the aggregate increase in its net worth.

Stocks

The amount of unused or unconsumed stocks 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.

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.