

# **DARLINGTON BOROUGH COUNCIL**

## **Statement of Accounts**

**2011/2012**

## STATEMENT OF ACCOUNTS 2011/12

	Page
<b>Contents:</b>	
Explanatory Foreword	1
Statement of Responsibilities for the statement of accounts	7
Movement in Reserves Statement	8
Comprehensive Income and Expenditure Statement	9
Balance Sheet as at 31 March 2012	10
Cash Flow Statement	11
Notes to the Financial Statements:-	12
1 Statement of Accounting Policies	
2 Transfers to/from earmarked reserves	
3 Amounts Reported for Resource Allocation Decisions	
4 Inventories	
5 Property, Plant and Equipment	
6 Officers' Remuneration	
7 Adjustments between accounting basis and funding basis under regulations	
8 Financial Instruments	
9 Critical judgments in applying accounting policies	
10 Accounting Standards that have been issued but have not yet been adopted	
11 Material items of Income and Expense	
12 Events after the Balance Sheet Date	
13 Other Operating Expenditure	
14 Assumptions made about the future and other major sources of estimation uncertainty	
15 Financing and Investment Income and Expenditure	
16 Taxation and Non specific Grant Incomes	
17 Investment Properties	
18 Debtors	
19 Cash & Cash Equivalents	
20 Assets Held For Sale	
21 Creditors	
22 Provisions	
23 Usable Reserves	
24 Unusable Reserves	
25 Cash Flow Statement - Operating Activities	
26 Cash Flow Statement - Investing Activities	
27 Cash Flow Statement - Financing Activities	
28 Members' Allowances	
29 Trading Operations	
30 External Audit Costs	
31 Contingent Liabilities	
32 Dedicated Schools Grant	
33 Private Finance Initiatives	
34 Grant Income	
35 Trust Funds	
36 Related Parties	
37 Capital Expenditure and Capital Financing	
38 Leases	
39 Impairment Losses	
40 Pensions Schemes accounted for as Defined Benefit Contribution Schemes	
41 Defined Benefit Pension Schemes	
42 Nature and Extent of Risks Arising from Financial Instruments	
43 Heritage Assets	
Housing Revenue Account (HRA) Income and Expenditure Statement	60
Movement on the HRA Statement	61
Notes to the Housing Revenue Account	62
Collection Fund	65
Notes to the Collection Fund	66
Independent Auditors Report to Darlington Borough Council	68
Glossary	70

# EXPLANATORY FOREWORD OF DARLINGTON BOROUGH COUNCIL

## 1 Introduction

This Statement of Accounts has been prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (the code) which defines proper accounting practices for local authorities in England and also complies with the Accounts and Audit Regulations 2011. The code is based on International Financial Reporting Standards (IFRS).

Last year was the first year that the Council had to prepare its Statement of Accounts on the basis of a full adoption of IFRS and the accounts for 2010/11 were therefore presented in a substantially different format from previous years. As there is only one significant change to the accounts in 2011/12, which is the requirement to include information in relation to the Council's holding of heritage assets, this year's accounts will appear in essentially the same format as 2010/11.

The purpose of this Foreword is to provide a clear and concise guide to the most significant matters reported in the accounts. It explains the purpose of the financial statements that follow and provides a summary of the Council's financial activities during 2011/12 and its financial position as at 31 March 2012.

## 2 Information and Financial Statements

Darlington Borough Council's (the Council) Accounts for the year ended 31 March 2012 are set out in the following pages and a glossary of terms is provided on pages 70 to 79.

The information and financial statements are as follows:

### Statement of Responsibilities for the Statement of Accounts (page 7)

Sets out the responsibilities of the Authority and the Chief Financial Officer.

### Movement in Reserves Statement (page 8)

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### Comprehensive Income and Expenditure Statement (page 9)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

### Balance Sheet (page 10)

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

### Cash Flow Statement (page 11)

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

### Notes to the Financial Statements (page 12 - 59)

These notes provide further information on the more significant items in the Core Statements. The Core Statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet and the Cash Flow Statement.

### Housing Revenue Account (page 60)

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989 (England and Wales).

# EXPLANATORY FOREWORD OF DARLINGTON BOROUGH COUNCIL

## Collection Fund (page 65)

The Collection Fund Statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992). The Collection Fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

## Group Accounts

There are a number of criteria by which the Council must determine whether its interests in associates, joint ventures and joint arrangements are significant enough to be included in the Council's consolidated accounts. After consideration of these criteria the Council has determined that it does not have any material interests and consequently no group accounts have been prepared.

## Independent Auditors' Report (page 69)

The Auditors' opinion gives an independent view on the Council's accounts for the year ended 31 March 2012.

## 3 Comparison of Actual with Budget - Revenue

<b>Net Expenditure 2011/12</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Departmental Resources</b>			
People Group	48,685	47,350	(1,335)
Place Group	25,605	24,104	(1,501)
Resources Group	14,546	14,178	(368)
Council Wide	82	266	184
<b>Total Departmental Resources</b>	<b>88,918</b>	<b>85,898</b>	<b>(3,020)</b>
<b>Corporate Resources</b>			
Financing Costs	3,970	3,410	(560)
Contingencies Budget	400	296	(104)
Youth Offending Service Grant	321	0	(321)
Civic Theatre	(100)	0	100
Pathfinder Grant	21	0	(21)
Landfill Allowance Trading Scheme	0	(35)	(35)
Pay Award	575	0	(575)
Unused Adults Grant	100	0	(100)
Unused LSSG Grant	(369)	(454)	(85)
Adults Learning Disability Contingency	346	0	(346)
			0
<b>Net Expenditure</b>	<b>5,264</b>	<b>3,217</b>	<b>(2,047)</b>
<b>Reserves</b>			
Planned Use of General Reserve	(2,095)		2,095
Redundancy/Decommissioning Reserve			0
Change Fund			0
Departmental Balances c/fwd	(1,202)		1,202
Equal Pay Legal Costs			0
Balance to / (from) Reserves		1,770	1,770
<b>Total Reserves</b>	<b>(3,297)</b>	<b>1,770</b>	<b>5,067</b>
<b>Less Depreciation</b>	<b>(8,495)</b>	<b>(8,495)</b>	<b>0</b>
<b>Total Resources</b>	<b>82,390</b>	<b>82,390</b>	<b>0</b>

Departments are carrying forward resources of £1.033M which are earmarked for committed projects in 2012/13. Departmental underspends of £3.020M and Corporate underspends of £2.047M are being returned to general reserves. There is a planned use of reserves of £0.004M as set out in the 2012-16 Medium Term Financial Plan.

At 31 March 2012, the Council had general reserves of £13.666M available to fund general revenue expenditure.

# EXPLANATORY FOREWORD OF DARLINGTON BOROUGH COUNCIL

## 4 Where The Money Comes From and How It Was Spent

Where the money comes from:

2010/11 £000	Gross Income	2011/12 £000	%
(15,891)	Gross Council Rents	(17,094)	4.8
(13,920)	General Government Grants	(11,557)	3.3
(33,907)	Non Domestic Rate Grant	(31,527)	8.9
(60,909)	Dedicated Schools Grant	(52,731)	14.9
(39,707)	Demand on Collection Fund	(39,834)	11.2
(79,471)	Specific Government Grants	(57,165)	16.1
(20,619)	Capital Grants	(9,781)	2.8
(78,425)	Income from Fees & Charges	(134,678)	38.0
<b>(342,849)</b>		<b>(354,367)</b>	100.0

How it was spent:

2010/11 £000	Gross Expenditure	2011/12 £000	%
21,498	Central Services to the Public	53,921	13.7
25,687	Cultural and Related Services	19,320	4.9
13,447	Environmental and Regulatory Services	10,140	2.6
10,389	Planning Services	7,836	2.0
198,489	Education and Children's Services	153,891	39.1
15,059	Highways and Transport Services	15,073	3.8
106,929	Housing Services	95,693	24.3
41,805	Adult Social Care	41,037	10.4
(31,559)	Other Services	(3,620)	(0.8)
<b>401,744</b>	<b>Net Cost of Services</b>	<b>393,291</b>	100.0
155	Precepts & Levies	162	
3,825	Interest payable	3,906	
(475)	Interest receivable	(422)	
4,820	IAS19 Pension cost adjustment	2,960	
(27)	Losses on disposal of fixed assets	51,686	
(721)	Other	1,673	
<b>7,577</b>		<b>59,965</b>	
<b>409,321</b>	<b>Total Expenditure</b>	<b>453,256</b>	
<b>66,472</b>	<b>Deficit for year</b>	<b>98,889</b>	

### Note:

Central Services to the Public includes such services as Registrars, Customer Services, Local Taxation, Support Services, Democratic, Consultancy Services & Youth Training, Building Control, Economic Regeneration, Community Safety, Library, Railway Museum, Trading Standards, Central Arts & Community Partnerships. This list is not exhaustive.

What it was spent on:

2010/11 £000	Type of Expenditure	2011/12 £000	%
121,239	Employees	100,131	25.4%
151,822	Running Expenses	258,711	65.8%
128,683	Capital Financing	34,449	8.8%
<b>401,744</b>		<b>393,291</b>	100.0%

# EXPLANATORY FOREWORD OF DARLINGTON BOROUGH COUNCIL

## 5 Local Government Pension Scheme

Following the implementation of IAS 19 (formerly FRS 17), the accounts show the benefit entitlement earned by employees of the Local Government Pension Scheme in the relevant year rather than the charges to revenue based on employers' contributions payable and payments to pensioners in the year. The effect on the Balance Sheet is to reduce the net worth of the Council by the IAS 19 pension liability of £131.620M from £170.434M to £38.814M (in 2010/11 the IAS 19 pension liability of £110.130M reduced the net worth from £270.525M to £160.395M). However, from the last full actuarial valuation date of 31 March 2010 the deficit is to be recovered over a period of 19 years, as agreed by the Pension Fund Administering Authority with the Actuary. Further information is available in **Note 41 (page 51)** in the Notes to the Financial Statements.

## 6 Material and Unusual Charge or Credit in the Accounts

In the current economic climate the Council is continuing to face its most significant financial challenge since becoming a Unitary Council in 1997 due to significant reductions in Government funding. It is estimated that the Council will need to save in the region of £16M over the next four years. In light of this the Council had established a Redundancy and Decommissioning Reserve with an additional £1.797M of redundancy costs being charged to revenue in 2011/12 which will ultimately be funded from that Reserve.

There are a number of schools previously included in the Council's balance sheet that have converted to academy status over the accounting period, namely Hurworth School, Hummersknott Academy, West Park Academy, Reid Street Primary School Federation of Abbey Schools, BRandH Academy, Carmel College and Longfield Academy Trust. This has led to a subsequent reduction in the Other Land And Buildings line within Long Term Assets of £56.157M as the said Academies become responsible for their own buildings.

The number of Schools converting to Academy status has had an effect on the Council's pension liability as they each became a separate entity in the Local Government Pension Scheme (LGPS) and this was treated as a negative settlement cost of £7.05M in the Council's Comprehensive Income and Expenditure Account. There is also a negative settlement amount of £1.91M for the transfer of staff from the Council to Xentrall Shared Services in May 2008 who are now members of the Teesside Pension Fund. This has the effect of reducing the Council's liability on the balance sheet by £8.96M.

From April 2012, the system of Local Authority Housing Finance (known as the Housing Revenue Account, or HRA) will be devolved to local authorities to manage themselves. This is known as Self-Financing of Council Housing Services. The housing subsidy process will cease from 1 April 2012 following the national review of the HRA and will be substituted with a one-off debt settlement. The value of the debt settlement is based on the cash flow of the Council's housing business, i.e. 30 years of rent income versus 30 years of outgoings on management, maintenance and major repairs. A discount rate has been applied to give a net present value of the HRA, which for the Council equates to £33.3M of additional borrowing in 2011/12.

## 7 Changes in Accounting Policy

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council. For 2011/12 the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the Council were held at valuation as a proxy for historical cost. The Council's accounting policies for recognition and measurement of heritage assets are set out in **Note 1 on page 22**.

## 8 Current Borrowing Facilities and Capital Borrowing

Under the Prudential Code for Capital the Council sets two limits relating to the Prudential Code: the Authorised Limit (which the Council does not have power to borrow above), and the Operational Boundary (which is the Council's expected borrowing position). The limits for 2011/12 were as follows:

- Revised Authorised Limit for External Debt for 2011/12 of £150.368 M; and
- Revised Operational Boundary for External Debt for 2011/12 of £136.698M.

As part of the Council's Treasury Management function these two Prudential Indicators are monitored on a regular basis and neither of these limits were breached during 2011/12. The maximum gross borrowing position during 2011/12 was £136.250M with a closing gross borrowing position of £134.025M. This included £33.300M for Housing Self-financing and £21.865M for PFI and Finance Leases. (**see Note 42 in the Notes to the Financial Statements page 55**).

In order to ensure that borrowing levels are prudent, over the medium term the Council's external borrowing net of investments must only be for capital purposes. Net borrowing should therefore not exceed the Council's underlying need to borrow (Capital Financing Requirement). The Council has complied with this requirement.

# EXPLANATORY FOREWORD OF DARLINGTON BOROUGH COUNCIL

## 9 Changes to the Statement of Accounts

A number of changes have been made to the format and presentation of the 2011/12 Statement of Accounts.

The 2011/12 code amends the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities. There is also new definitions in relation to related parties and new guidance in the related party disclosure standard (IAS 24).

The Code has introduced new disclosure requirements for exit packages whereby you have to disclose the number and cost of the exit packages agreed.

The re-introduction to the Code of disclosure requirements in relation to the nature and amount of trust funds.

Additional disclosure requirements on financial instruments where the level of soft loans is material and minor changes to the disclosure of the nature and extent of risks rising from financial instruments.

The 2011/12 Code clarifies requirements in a number of areas where uncertainty was identified in the 2010/11 Code.

## 10 Sources of Funds to meet Capital Expenditure Plans

Capital expenditure 2011/12	Capital Spend Available £'000	Planned Spending 2011/12 £'000	Actual £'000	Approved Capital Spend C/Fwd £'000
People	31,859	28,259	24,059	7,800
Place	11,327	10,827	5,781	5,546
Resources	1,816	1,816	900	916
Leased Assets	157	157	157	0
HRA Self Financing	33,300	33,300	33,300	0
<b>Total</b>	<b>78,459</b>	<b>74,359</b>	<b>64,197</b>	<b>14,262</b>
Financed by				
*Supported Borrowing			1,002	
**Corporate Unsupported Borrowing			852	
Departmental Unsupported Borrowing			37,477	
Capital Grants			15,400	
Major Repairs Allowance- Housing Grant			3,796	
Capital Contributions			1,114	
Housing Revenue Account Capital Receipts			110	
General Fund Capital Receipts			251	
Revenue Contributions			4,195	
<b>Total</b>			<b>64,197</b>	

\* Supported Borrowing is supported through the Revenue Support Grant

\*\* Unsupported Borrowing has no support through the Revenue Support Grant

The total resources available for capital schemes during 2011/12 totalled £78.459M; however not all of the resources were planned to be expended during 2011/12. Some schemes have a build life of longer than one year so the actual planned spend for 2011/12 was £74.359M with an actual spend of £64.197M. The majority of the slippage relates to the 14-19 capital programmes. There is also slippage in respect of the general housing and to the transport capital programmes. The slippage into 2012/13 will be financed by supported and unsupported borrowing, grants carried forward, Usable Capital Receipts and Revenue and Capital Contributions.

The Council is also committed to make payments estimated at £82.428M over the remaining term of the 25 year contract in respect of it's PFI scheme (the Education Village and Harrowgate Hill Primary School). These became operational in March 2006 and August 2005 respectively. Both are part of the approved funding of £34.900M by the Department for Education. A recognition of the long-term contract entered into with partners Kajima Darlington Schools Limited can be found in **Note 33 (page 45)** in the Notes to the Financial Statements and the liability relating to this contract can be found on the Balance Sheet.

## 11 Material Assets Acquired or Liabilities Incurred

The Council has not made any major acquisitions of either land or property during 2011/12.

The following major items of capital expenditure were incurred during the year:

	£'000
Operational Buildings - Improvements	123
Children's Services Improvements to Schools	4,686
Housing Stock - Improvements	12,599
Highways & Transport Infrastructure	4,255
Community Assets Improvements	781
Investment Properties	275
Development Services	764
Vehicles, Plant & Equipment	3,231
Revenue Expenditure funded from Capital under Statute	4,183
Self Financing	33,300
<b>Total</b>	<b>64,197</b>

# EXPLANATORY FOREWORD OF DARLINGTON BOROUGH COUNCIL

## 12 Significant Provisions, Contingencies and Material Write-Off's

### Equal Pay

The Council has received, both prior to and during 2011/12, a number of equal pay claims from individuals seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Following the receipt of legal advice, offers have been made to achieve settlement of those claims where appropriate, and also made to other employees in a similar position who were potential claimants. Whilst the majority of claims have been settled, a number of other claims, where the legal advice is that offers of settlement should not be made, remain outstanding. These claims will be defended and periodically reviewed to ensure the Council takes appropriate and timely action where necessary. Under IAS 37 the Council is obliged to create a provision for the potential liability as it does meet all of the necessary criteria and consequently a provision has been included in the accounts but under Regulation 30A of the Capital Finance and Accounting Regulations 2003/3146 the council has elected to defer the charge to the General Fund pending actual payment of the claims. **(Note 22 on page 38 and Note 24 on page 39).**

### Impairments

Impairment charges occur where there is a material reduction in the value of a fixed asset during an accounting period. Impairment charges of £26.935M were incurred in 2011/12 of which £26.877M was charged to Income and Expenditure. This represents £4.265M of capital expenditure incurred in the year that did not add value to the current asset valuation and £22.612M following a re-valuation exercise carried out during the year, the other £0.058M was charged to the Revaluation Reserve.

## 13 Material Events after the Reporting Date

There are no material events that have happened after the reporting date that need to be reflected in the Statement of Accounts.

## 14 Current Economic Climate

The Council has a business model that has an agreed approach to delivering a sustainable Council. The business model sets out the key objectives for the Council:

- a) Championing the interests of citizens and business;
- b) Supporting strong partnership to set a vision and direction for the Borough and its services;
- c) Promoting the Borough to secure investment and support; and
- d) Ensuring the provision of good quality services.

In agreeing this the future Council was described as:

- a) Strongly focussed on ensuring good overall outcomes for the public and the place rather than managing day to day service issued;
- b) Providing clear and acknowledged leadership of 'Place' and facilitator of partnerships concerned with delivering the Sustainable Community Strategy - One Darlington: Perfectly Placed;
- c) Significantly smaller in terms of directly employed staff; and
- d) Many of its big budgets linked to contracts, or service level agreements or partnership delivery vehicles.

Whilst embracing the Business Model the following principles were applied in the development of the proposals to ensure the Council had a sustainable 4 year Medium Term Financial Plan:

- a) Support the vulnerable as far as possible;
- b) Continue to promote Darlington as a good place to invest and live as far as possible;
- c) Look to deliver the same outcomes by different means;
- d) Look at ways to save money quickly - this is key to match the level and speed of grant reductions; and
- e) Be fair.

In terms of implementing the new business model, the authority will need to operate in different ways to enable the transformation to happen. Strategically the Council is moving to expand the commissioning of services. This will mean that services will be provided by a variety of providers as well as the Council including the voluntary sector, the private sector and partnerships with other Councils. The required savings over the next 4 years amount to approximately £16M.

## 15 Further Information

The Statement of Accounts is intended to provide readers with useful detail on the Council's affairs. If you require further information please contact Peter Carrick of the Finance Division on (01325) 388326.



# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS OF DARLINGTON BOROUGH COUNCIL

## The Authority's Responsibilities

The authority is required to:

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

## The Director of Resources Responsibilities

The Director of Resources is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Director of Resources has:

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

The Director of Resources has also:

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

## Director's Statement

I certify that this Statement of Accounts has been prepared in accordance with the statutory requirements and proper accounting practices. It presents a true and fair view of the Council's financial position as at 31 March 2012 and the income and expenditure for the year ended 31 March 2012



Dated

27/9/12


Paul Wildsmith  
Director of Resources

Signed 29 June 2012

Recertified 28 September 2012

## Certification of the Statement of Accounts

As Chair of the Audit Committee meeting held on 28 September 2012, I hereby acknowledge that the Statement of Accounts for 2011/12 has been considered and approved by this Committee, in accordance with the Accounts and Audit (England) Regulations 2011, Regulation 8(3).



Dated:

28/9/12

Councillor Paul Baldwin - Chair of Audit Committee

# MOVEMENT IN RESERVES STATEMENT OF DARLINGTON BOROUGH COUNCIL

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2010</b>	(12,890)	(8,541)	(842)	0	(681)	0	(12,488)	(35,442)	(174,196)	(209,638)
<b>Movement in reserves during 2010/11</b>										
Deficit on the Provision of Services	25,790	0	40,682	0	0	0	0	66,472	0	66,472
Other Comprehensive Income and Expenditure (page 9)	0	0	0	0	0	0	0	0	(20,547)	(20,547)
<b>Total Comprehensive Income and Expenditure</b>	25,790	0	40,682	0	0	0	0	66,472	(20,547)	45,925
Adjustments between accounting basis and funding basis under regulations ( <b>Note 7</b> )	(26,219)	0	(44,423)	0	587	0	(4,837)	(74,892)	74,892	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	(429)	0	(3,741)	0	587	0	(4,837)	(8,420)	54,345	45,925
Transfers to/from Earmarked Reserves ( <b>Note 2</b> )	2,641	(1,800)	0	0	0	0	0	841	(841)	0
<b>Increase/(Decrease) in 2010/11</b>	2,212	(1,800)	(3,741)	0	587	0	(4,837)	(7,579)	53,504	45,925
<b>Balance at 31 March 2011 carried forward</b>	(10,678)	(10,341)	(4,583)	0	(94)	0	(17,325)	(43,021)	(120,692)	(163,713)
<b>Movement in reserves during 2011/12</b>										
Deficit on the Provision of Services	47,293	0	51,596	0	0	0	0	98,889	0	98,889
Other Comprehensive Income and Expenditure (page 9)	0	0	0	0	0	0	0	0	25,564	25,564
<b>Total Comprehensive Income and Expenditure</b>	47,293	0	51,596	0	0	0	0	98,889	25,564	124,453
Adjustments between accounting basis and funding basis under regulations ( <b>Note 7</b> )	(47,023)	0	(51,907)	0	(124)	0	6,731	(92,323)	92,323	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	270	0	(311)	0	(124)	0	6,731	6,566	117,887	124,453
Transfers to/from Earmarked Reserves ( <b>Note 2</b> )	(3,258)	2,656	600	0	0	0	0	(2)	2	0
<b>Increase/(Decrease) in 2011/12</b>	(2,988)	2,656	289	0	(124)	0	6,731	6,564	117,889	124,453
<b>Balance at 31 March 2012 carried forward</b>	(13,666)	(7,685)	(4,294)	0	(218)	0	(10,594)	(36,457)	(2,803)	(39,260)

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT OF DARLINGTON BOROUGH COUNCIL

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11				2011/12			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
21,498	(14,941)	6,557	Central services to the public	53,921	(50,561)	3,360	
25,661	(14,754)	10,907	Cultural and Related Services	19,320	(9,180)	10,140	
13,461	(7,509)	5,952	Environmental and Regulatory Services	10,140	(4,672)	5,468	
10,401	(5,520)	4,881	Planning Services	7,836	(3,435)	4,401	
198,489	(107,350)	91,139	Education and children's services	153,891	(130,549)	23,342	
15,059	(8,731)	6,328	Highways and transport services	15,073	(7,475)	7,598	
58,485	(18,674)	39,811	Local authority housing (HRA)	38,233	(19,938)	18,295	
0	0	0	Local authority housing - settlement payment to the Government for HRA self-financing	33,300	0	33,300	
48,444	(43,763)	4,681	Other housing services	24,160	(21,026)	3,134	
41,805	(13,449)	28,356	Adult social care	41,037	(14,713)	26,324	
4,449	(4)	4,445	Corporate and democratic core	4,900	(119)	4,781	
(37,000)	0	(37,000)	Past service cost (Note 41)	0	0	0	
0	0	0	Settlements and curtailments (Note 41)	(8,960)	0	(8,960)	
992	0	992	Non distributed costs	440	0	440	
<b>401,744</b>	<b>(234,695)</b>	<b>167,049</b>	<b>Cost of Services</b>	<b>393,291</b>	<b>(261,668)</b>	<b>131,623</b>	
428	(26)	402	Other operating expenditure (Note 13)	564	0	564	
			(Gains)/losses on the disposal of non-current assets (Note 13)	52,137	(452)	51,685	
22,055	(14,881)	7,174	Financing and investment income and expenditure (Note 15)	8,411	(695)	7,716	
0	(108,153)	(108,153)	Taxation and non-specific grant income (Note 16)	0	(92,699)	(92,699)	
<b>424,227</b>	<b>(357,755)</b>	<b>66,472</b>	<b>Deficit on Provision of Services</b>	<b>454,403</b>	<b>(355,514)</b>	<b>98,889</b>	
		(10,024)	Surplus on revaluation of Property, Plant and Equipment assets (Note 5)			(5,103)	
		719	Deficit on revaluation of available-for-sale financial assets (Note 8)			1,490	
		(13,900)	Actuarial gains/losses on pensions assets/liabilities (Note 41)			29,120	
		2,658	Impairment losses on non-current assets charged to the revaluation reserve (Note 5)			57	
		<b>(20,547)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>25,564</b>	
<b>424,227</b>	<b>(357,755)</b>	<b>45,925</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>454,403</b>	<b>(355,514)</b>	<b>124,453</b>	

# BALANCE SHEET OF DARLINGTON BOROUGH COUNCIL AS AT 31 MARCH 2012

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

As at 31 March 2011 £000		As at 31 March 2012		Notes
		£000	£000	
109,841	Property, Plant & Equipment			
182,538	Council Dwellings	99,092		
6,634	Other Land and Buildings	108,366		
41,730	Vehicles, Plant, Furniture & Equipment	31,138		
8,005	Infrastructure Assets	44,555		
3,931	Community Assets	8,776		
	Assets under Construction	0		
<u>352,679</u>	Total Property, Plant & Equipment		291,927	5
18,134	Investment Properties		18,289	17
3,318	Heritage Assets		3,318	43
1,587	Long Term Investments		97	8
299	Long Term Debtors		286	8
<u>376,017</u>	<b>Total Long Term Assets</b>		<u>313,917</u>	
9,612	Short Term Investments		7,641	8
0	Assets Held for Sale		0	20
408	Inventories		662	4
14,338	Short Term Debtors		12,422	18
8,825	Cash and Cash Equivalents		1,303	19
<u>33,183</u>	<b>Total Current Assets</b>		<u>22,028</u>	
(7,513)	Short Term Borrowing		(6,249)	8
(28,541)	Short Term Creditors		(27,149)	21
4	Short Term Provisions		(208)	
<u>(36,050)</u>	<b>Total Current Liabilities</b>		<u>(33,606)</u>	
(22,262)	Long Term Creditors		(20,298)	8
(1,887)	Long Term Provisions		(3,635)	22
(74,059)	Long Term Borrowing		(106,611)	8
(110,130)	Other Long Term Liabilities		(131,620)	41
(1,099)	Capital Grants Receipts In Advance		(915)	34
<u>(209,437)</u>	<b>Total Long Term Liabilities</b>		<u>(263,079)</u>	
<u>163,713</u>	<b>Net Assets</b>		<u>39,260</u>	
43,021	Usable Reserves		36,456	23
120,692	Unusable Reserves		2,804	24
<u>163,713</u>	<b>Total Reserves</b>		<u>39,260</u>	

## **CASH FLOW STATEMENT**

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

<b>2010/11</b> £000	<b>2011/12</b> £000
(66,472) Deficit on the provision of services	(98,889)
Adjustments to net surplus or deficit on the provision of services for non-cash 100,093 movements	83,541
Adjustments for items included in the net surplus or deficit on the provision of (22,751) services that are investing and financing activities	(10,481)
<hr/> 10,870 Net cash flows from Operating Activities (Note 25)	<hr/> (25,829)
(7,371) Investing Activities (Note 26)	(14,280)
(2,286) Financing Activities (Note 27)	32,587
<hr/> 1,213 Net increase or decrease in cash and cash equivalents	<hr/> (7,522)
7,612 Cash and cash equivalents at the beginning of the reporting period	8,825
<hr/> <b>8,825 Cash and cash equivalents at the end of the reporting period (Note 19)</b>	<hr/> <b>1,303</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 1 STATEMENT OF ACCOUNTING POLICIES

### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

### b) Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the Balance of debtors is written down and a charge made to Revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

The only exceptions to these principles where costs are not apportioned between years are:

- housing rents are shown in whole weeks
- quarterly accounts e.g. electricity are reflected on the basis of four payments per year

This policy is consistently applied each year and does not materially affect the accounts.

### c) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions, including 'on-call accounts and deposits with Money Market Funds, repayable without penalty on notice of not more than 24 hours held to meet short-term cash commitments. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Bank overdrafts that form an integral part of daily cash management are classified as cash and cash equivalents.

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

### d) Prior Period Adjustments, Changes In Accounting Policies and Estimates and Errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

For 2011-12, the Council has changed its accounting policy for heritage assets and now recognises its heritage assets in the Balance Sheet. The 31 March 2011 Balance Sheet and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

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

## e) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service,
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off,
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## f) Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end.

They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements (or any form of leave, eg flexi time or time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

### Post Employment Benefits

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The Local Government Pensions Scheme, administered by Durham County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees of the Council.

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

### The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Durham County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.4% (based on the indicative rate of return on high quality corporate bond).
- The assets of Durham County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.

## NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

- The change in the net pensions liability is analysed into seven components:
  - Current service cost - the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
  - Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
  - Gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve; and
  - Contributions paid to the Durham County Council pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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 cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

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

### g) Events After the Balance Sheet Date

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

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### h) Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.



## NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market,
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

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

### Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price,
- Other instruments with fixed and determinable payments – discounted cash flow analysis,
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

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

### Instruments entered into before 1st April 2006

The Council has one financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts to the extent that there is a contingent liability note on page 44.

## NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

### i) Government Grants and Contributions

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement.

Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### j) Interests in Companies and Other Entities

In accordance with the Code of Practice on Local Authority Accounting 2011/12, the Council is required to identify interests in subsidiaries, associates and joint ventures and, if that interest is considered material, prepare consolidated Group Accounts. The Council does not have any interests that are classed as material. The Council holds a minority of the share values in the following companies but does not have the ability to exert control over those companies and therefore no Group accounts have been prepared.

The Council holds investments and they are included in the Balance Sheet as Long Term Investments (see Note 8 page 33).

The Council has a number of minority interests in other entities:

Northern Arts

Darlington Business Venture

Darlington Partnership

Business Link Tees Valley

Tees Valley Unlimited

Shopmobility

Age Concern Darlington

Safe in Tees Valley

North East Museums, Libraries and Archives Council

Northern Grid for Learning

### k) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value, with the exception of stores held at Hundens Depot, which are valued at last price paid. This is a departure from the Code of Practice but the effect of the different treatment is not material. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## l) Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## m) Leases

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

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

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

### The Authority as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease).

### The Authority as Lessor

#### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term Debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property - applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

## NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

### Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### n) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SeRCOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

### o) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Capital expenditure under £5,000 is classified as de-minimis and is charged to the Comprehensive Income and Expenditure Statement. The de-minimis expenditure is financed using existing capital resources or by borrowing, this is posted out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement so there is no impact on the levels of Council Tax.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but that does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price,
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management,
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

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

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings - fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets - fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialised nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical use basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains),
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

## Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains),
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer,
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer,
- infrastructure - straight-line allocation over 30 years.

The 2011/12 IFRS based Code requires that component accounting principles are followed from 01/04/2010. The Codes prospective requirements are applicable to all items of PPE acquired, enhanced or revalued with effect from 01/04/2010. Authorities are not required to apply these principles retrospectively. Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Assets valued higher than £1M that are made up from different components and whose cost is significant in relation to the total cost of the item are depreciated on a component by component basis. The components used are structure & externals, internal fixtures & fittings and services. Once separated, depreciation is charged across each components useful life as appropriate.

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

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Disposals and Non-current Assets Held for Sale

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

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

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

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

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

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

## p) Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

- fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement,
- finance cost - an interest charge of 4.77% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement,
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

## q) Provisions, Contingent Liabilities and Contingent Assets

### Provisions

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

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

### **Provision for Back Pay Arising from Unequal Pay Claims**

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

### **Landfill Allowance Schemes**

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

### **Contingent Liabilities**

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

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

### **Contingent Assets**

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

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

## **r) Reserves**

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

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

## **s) 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 a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **t) Value Added Tax (VAT)**

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

### u) Carbon Reduction Commitment Allowances

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

### v) Heritage Assets

A heritage asset is defined as an asset with 'historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.'

Heritage assets are accounted for in accordance with the Council's accounting policies on property, plant and equipment except 'where it is not practical to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historic cost.' Valuations may also be made by any method that is appropriate and relevant.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment. Any impairment is recognised and measured in accordance with the Council's general policies on impairment (see note 1 on page 19). If any heritage assets are disposed of then the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.



# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 2 TRANSFERS TO / FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back to earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

	Balance at 31 March 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
General Fund	12,890	(89,929)	87,717	10,678	(1,033)	4,021	13,666
	<b>12,890</b>	<b>(89,929)</b>	<b>87,717</b>	<b>10,678</b>	<b>(1,033)</b>	<b>4,021</b>	<b>13,666</b>
Earmarked Reserves							
Earmarked Departmental Reserves	298	(298)	1,202	1,202	(1,202)	1033	1,033
Balances held by schools under a scheme of delegation	2,132	(2,317)	2,790	2,605	(2,603)	2310	2,312
Faverdale Maintenance Fund	11	(5)	0	6	(6)	0	0
Revenue Contribution to Capital Outlay	483	(483)	501	501	(501)	577	577
PFI Reserve	(41)	0	(181)	(222)	(101)	0	(323)
Insurance Fund	1,513	(1,000)	265	778	0	84	862
Mercury Abatement Fund	79	(21)	95	153	0	82	235
Crematorium Refurbishment Fund	74	0	3	77	(36)	11	52
Building Control	(133)	0	(26)	(159)	(121)	0	(280)
LPSA Reserve	362	0	142	504	0	0	504
Redundancy & Decommissioning Reserve	245	(2,374)	4,240	2,111	(1,797)	76	390
Land Charges Reserve	0	0	105	105	0	0	105
LDF Public Enquiry	0	0	0	0	0	80	80
Revenue Grants Unapplied	3,518	(3,518)	2,680	2,680	(2,680)	2,137	2,137
	<b>8,541</b>	<b>(10,016)</b>	<b>11,816</b>	<b>10,341</b>	<b>(9,047)</b>	<b>6,390</b>	<b>7,684</b>
Housing Revenue Account	842	0	3,741	4,583	(289)	0	4,294
	<b>842</b>	<b>0</b>	<b>3,741</b>	<b>4,583</b>	<b>(289)</b>	<b>0</b>	<b>4,294</b>

## 3 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice 2011-12 (SeRCOP). However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement); and
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2011/12	People Group £000	Place Group £000	Resources Group £000	Council Wide £000	Total £000
Fees, charges and other service income	(29,433)	(63,902)	(4,307)	(184)	(97,826)
Government Grants	(106,701)	(889)	(192)	0	(107,782)
<b>Total Income</b>	<b>(136,134)</b>	<b>(64,791)</b>	<b>(4,499)</b>	<b>(184)</b>	<b>(205,608)</b>
Employee Expenses	64,792	26,853	7,671	311	99,627
Other service expenses	111,136	52,746	8,285	196	172,363
Support service recharges	2,575	4,679	281	0	7,535
<b>Total Expenditure</b>	<b>178,503</b>	<b>84,278</b>	<b>16,237</b>	<b>507</b>	<b>279,525</b>
<b>Net expenditure</b>	<b>42,369</b>	<b>19,487</b>	<b>11,738</b>	<b>323</b>	<b>73,917</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

Directorate Income and Expenditure 2010/11 Comparative Figures	Children's Services	Community Services	Corporate Services	Chief Exec's Office	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(6,640)	(73,677)	(8,336)	(1,703)	(90,356)
Government Grants	(37,857)	(46,852)	(258)	(2,861)	(87,828)
<b>Total Income</b>	<b>(44,497)</b>	<b>(120,529)</b>	<b>(8,594)</b>	<b>(4,564)</b>	<b>(178,184)</b>
Employee Expenses	70,711	34,635	9,054	4,581	118,981
Other service expenses	43,780	123,802	10,091	5,867	183,540
Support service recharges	3,220	5,056	237	55	8,568
<b>Total Expenditure</b>	<b>117,711</b>	<b>163,493</b>	<b>19,382</b>	<b>10,503</b>	<b>311,089</b>
<b>Net expenditure</b>	<b>73,214</b>	<b>42,964</b>	<b>10,788</b>	<b>5,939</b>	<b>132,905</b>

## Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	2010/11 £000	2011/12 £000
Net expenditure in the Directorate Analysis	132,905	73,917
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	81,578	55,516
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(47,434)	2,190
<b>Cost of Services in the Comprehensive Income and Expenditure Statement</b>	<b>167,049</b>	<b>131,623</b>

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2011/12	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(97,826)	0	(13,988)	0	(111,814)	0	(111,814)
Interest and investment income	0	0	0	0	0	(422)	(422)
Income from Council Tax	0	0	0	0	0	(39,834)	(39,834)
Government grants and contributions	(107,782)	0	(10)	0	(107,792)	(52,865)	(160,657)
<b>Total Income</b>	<b>(205,608)</b>	<b>0</b>	<b>(13,998)</b>	<b>0</b>	<b>(219,606)</b>	<b>(93,121)</b>	<b>(312,727)</b>
Employee Expenses	99,627	0	(8,470)	986	92,143	2,960	95,103
Other service expenses	172,363	0	62,316	1,204	235,883	1,405	237,288
Support service recharges	7,535	0	876	0	8,411	0	8,411
Depreciation, amortisation and impairment	0	0	14,792	0	14,792	0	14,792
Interest Payments	0	0	0	0	0	3,906	3,906
Precepts and Levies	0	0	0	0	0	162	162
Payments to Housing Capital Receipts Pool	0	0	0	0	0	269	269
Gain or loss on disposal of Non-Current Assets	0	0	0	0	0	51,685	51,685
<b>Total Expenditure</b>	<b>279,525</b>	<b>0</b>	<b>69,514</b>	<b>2,190</b>	<b>351,229</b>	<b>60,387</b>	<b>411,616</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>73,917</b>	<b>0</b>	<b>55,516</b>	<b>2,190</b>	<b>131,623</b>	<b>(32,734)</b>	<b>98,889</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

2010/11 Comparative Figures	Directorate Analysis £000	Services and Support Services not in Analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges and other service income	(90,356)	0	(13,691)	0	(104,047)	(689)	<b>(104,736)</b>
Interest and investment income	0	0	0	321	321	(796)	<b>(475)</b>
Income from Council Tax	0	0	0	0	0	(39,707)	<b>(39,707)</b>
Government grants and contributions	(87,828)	0	0	(52,185)	(140,013)	(68,446)	<b>(208,459)</b>
<b>Total Income</b>	<b>(178,184)</b>	<b>0</b>	<b>(13,691)</b>	<b>(51,864)</b>	<b>(243,739)</b>	<b>(109,638)</b>	<b>(353,377)</b>
Employee Expenses	118,981	0	(35,713)	0	83,268	4,820	<b>88,088</b>
Other service expenses	183,540	0	793	4,470	188,803	13	<b>188,816</b>
Support service recharges	8,568	0	943	0	9,511	0	<b>9,511</b>
Depreciation, amortisation and impairment	0	0	129,246	0	129,246	0	<b>129,246</b>
Interest Payments	0	0	0	(40)	(40)	3,825	<b>3,785</b>
Precepts and Levies	0	0	0	0	0	155	<b>155</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	0	274	<b>274</b>
Gain or loss on disposal of Non-Current Assets	0	0	0	0	0	(26)	<b>(26)</b>
<b>Total Expenditure</b>	<b>311,089</b>	<b>0</b>	<b>95,269</b>	<b>4,430</b>	<b>410,788</b>	<b>9,061</b>	<b>419,849</b>
<b>Surplus or Deficit on the Provision of Services</b>	<b>132,905</b>	<b>0</b>	<b>81,578</b>	<b>(47,434)</b>	<b>167,049</b>	<b>(100,577)</b>	<b>66,472</b>

## 4 INVENTORIES

	Consumable Stores		Maintenance Materials		Client Services Work In Progress		Total	
	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000
Balance outstanding at start of year	130	112	267	250	11	207	408	569
Purchases	1,072	1,176	1,068	1,043	269	0	2,409	2,219
Recognised as an expense in the year	(1,054)	(1,158)	(1,094)	(1,026)	(23)	(196)	(2,171)	(2,380)
Written off balances		0	15	0		0	15	0
<b>Balance outstanding at year-end</b>	<b>148</b>	<b>130</b>	<b>256</b>	<b>267</b>	<b>257</b>	<b>11</b>	<b>661</b>	<b>408</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 5 PROPERTY, PLANT AND EQUIPMENT

### Movement on Balances

### Movements in 2011/12:

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
<b>At 1 April 2011</b>	127,100	191,213	19,151	51,123	8,211	3,931	<b>400,729</b>	24,253
Additions	12,593	5,552	3,225	4,217	771	0	<b>26,358</b>	825
Revaluation increases recognised in the Revaluation Reserve	71	5,032	0	0	0	0	<b>5,103</b>	458
	(25,278)	(5,057)	0	0	0	0	<b>(30,335)</b>	0
Revaluation decreases recognised in the Deficit on the Provision of Services								
Derecognition - disposals	(383)	(56,382)	(1,924)	0	0	0	<b>(58,689)</b>	0
Assets reclassified to Investment Properties	0	(1,700)	0	0	0	0	<b>(1,700)</b>	0
Other movements in cost or valuation	3,931	(23,966)	23,966	0	0	(3,931)	<b>0</b>	0
<b>At 31 March 2012</b>	<b>118,034</b>	<b>114,692</b>	<b>44,418</b>	<b>55,340</b>	<b>8,982</b>	<b>0</b>	<b>341,466</b>	<b>25,536</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2011</b>	17,259	8,675	12,517	9,393	206	0	<b>48,050</b>	39
Depreciation charge	3,802	2,493	2,561	1,392	0	0	<b>10,248</b>	525
Depreciation written out to the Deficit on the Provision of Services	(5)	(462)	0	0	0	0	<b>(467)</b>	0
Impairment losses recognised in the Revaluation Reserve	0	58	0	0	0	0	<b>58</b>	0
Impairment losses/(reversals) recognised in the Deficit on the Provision of Services	(2,098)	250	0	0	0	0	<b>(1,848)</b>	78
Derecognition - disposals	(16)	(4,684)	(1,802)	0	0	0	<b>(6,502)</b>	0
Derecognition - other	0	0	0	0	0	0	<b>0</b>	0
Other movements in depreciation and impairment	0	(4)	4	0	0	0	<b>0</b>	0
<b>At 31 March 2012</b>	<b>18,942</b>	<b>6,326</b>	<b>13,280</b>	<b>10,785</b>	<b>206</b>	<b>0</b>	<b>49,539</b>	<b>642</b>
<b>Net book value</b>								
<b>at 31 March 2012</b>	<b>99,092</b>	<b>108,366</b>	<b>31,138</b>	<b>44,555</b>	<b>8,776</b>	<b>0</b>	<b>291,927</b>	<b>24,894</b>
<b>at 31 March 2011</b>	<b>109,841</b>	<b>182,538</b>	<b>6,634</b>	<b>41,730</b>	<b>8,005</b>	<b>3,931</b>	<b>352,679</b>	<b>24,214</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Comparative Movements in 2010/11

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
<b>At 1 April 2010</b>	175,270	270,797	20,730	46,671	7,971	441	<b>521,880</b>	29,142
Additions	6,096	10,192	1,460	4,395	298	3,490	<b>25,931</b>	307
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,631)	10,107	0	0	0	0	<b>7,476</b>	0
Revaluation decreases recognised in the Deficit on the Provision of Services	(51,273)	(99,584)	0	0	0	0	<b>(150,857)</b>	(5,196)
Derecognition - disposals	(362)	(211)	(3,039)	0	0	0	<b>(3,612)</b>	0
Assets reclassified (to)/from Investment Properties	0	0	0	0	0	0	<b>0</b>	0
Other movements in cost or valuation	0	(88)	0	57	(58)	0	<b>(89)</b>	0
<b>At 31 March 2011</b>	<b>127,100</b>	<b>191,213</b>	<b>19,151</b>	<b>51,123</b>	<b>8,211</b>	<b>3,931</b>	<b>400,729</b>	<b>24,253</b>

## Accumulated Depreciation and Impairment

<b>At 1 April 2010</b>	21,525	30,746	13,335	8,111	148	0	<b>73,865</b>	3,101
Depreciation charge	3,857	8,067	2,221	1,282	10	0	<b>15,437</b>	651
Depreciation written out to the Deficit on the Provision of Services	(2)	(23,255)	(3,039)	0	(1)	0	<b>(26,297)</b>	(3,544)
Impairment losses/(reversals) recognised in the Deficit on the Provision of Services	(8,121)	(6,883)	0	0	49	0	<b>(14,955)</b>	(169)
Derecognition - disposals	0	0	0	0	0	0	<b>0</b>	0
Derecognition - other	0	0	0	0	0	0	<b>0</b>	0
Other movements in depreciation and impairment	0	0	0	0	0	0	<b>0</b>	0
<b>At 31 March 2011</b>	<b>17,259</b>	<b>8,675</b>	<b>12,517</b>	<b>9,393</b>	<b>206</b>	<b>0</b>	<b>48,050</b>	<b>39</b>

## Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings - the Major Repairs Allowance is used as a proxy for depreciation
- Other Land and Buildings - over the life of the property as estimated by the valuer
- Vehicles, Plant, Furniture & Equipment - between 3 and 12 years
- Infrastructure - 30 years

There are no major capital commitments in future years.

## Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally with input from external valuers as and when required. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the fair values are:

- The estimated amount for which a property should exchange on the date of valuation;
- Completion is not unduly delayed with vacant possession;
- The transaction is between a willing buyer and a willing seller;
- The transaction is at arms length with the parties acting knowledgeably, prudently and without compulsion;
- Prior to exchange the property was the subject of proper marketing; and
- The potential for an increase in value as a result of an alternative use is recognised (not applicable for assets valued by Existing Use).

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	PFI Assets Included in Property, Plant & Equipment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	0	652	31,138	44,555	8,776	0	0	85,121	0
valued at fair value as at:									
31 March 2012	99,092	67,916	0	0	0	0	0	167,008	15,186
31 March 2011	0	10,569	0	0	0	0	0	10,569	9,708
31 March 2010	0	4,416	0	0	0	0	0	4,416	0
31 March 2009	0	24,039	0	0	0	0	0	24,039	0
31 March 2008	0	774	0	0	0	0	0	774	0
<b>Total Cost or Valuation</b>	<b>99,092</b>	<b>108,366</b>	<b>31,138</b>	<b>44,555</b>	<b>8,776</b>	<b>0</b>	<b>0</b>	<b>291,927</b>	<b>24,894</b>

## 6 OFFICERS' REMUNERATION

### 6 a) Officer Remuneration in Bands

The number of employees in each salary band whose remuneration was £50,000 or more are set out below. Calculations are based on all sums paid to or receivable by an employee and sums due by way of taxable expenses, allowances and the monetary value of any other benefits received other than in cash. Pension contributions payable by either employee or employer are excluded.

Remuneration band	2010/11			No. of redundancie s included in total	2011/12			No. of redundancies included in total
	Number of employees				Number of employees			
	Schools	Non-schools	Total		Schools	Non-schools	Total	
£50,000 - £54,999	42	8	50	1	28	6	34	3
£55,000 - £59,999	7	6	13	4	10	3	13	2
£60,000 - £64,999	15	6	21	6	3	2	5	1
£65,000 - £69,999	13	10	23	4	10	7	17	2
£70,000 - £74,999	3	5	8	1	4	4	8	1
£75,000 - £79,999	0	3	3	2	1	2	3	3
£80,000 - £84,999	1	8	9	2	0	5	5	0
£85,000 - £89,999	0	0	0	0	0	1	1	1
£90,000 - £94,999	1	3	4	5	0	2	2	1
£95,000 - £99,999	4	2	6	1	1	0	1	0
£100,000 - £104,999	1	0	1	0	0	0	0	0
£105,000 - £109,999	0	0	0	0	0	0	0	0
£110,000 - £114,999	0	0	0	0	1	0	1	1
£115,000 - £119,999	0	3	3	1	0	2	2	0
£120,000 - £124,999	1	0	1	0	0	0	0	0
£125,000 - £129,999	0	0	0	0	0	0	0	0
£130,000 - £134,999	0	0	0	0	0	0	0	0
£135,000 - £139,999	0	0	0	0	0	0	0	0
£140,000 - £144,999	0	0	0	0	0	0	0	0
£145,000 - £149,999	0	0	0	0	0	0	0	0
£150,000 +	0	2	2	1	0	1	1	0
	88	56	144	28	58	35	93	15

Senior employees are included above and have been shown in detail below.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 6 b) Disclosure of Remuneration for Senior Employees 2011/12

Post Title	Post Holder (Required if salary exceeds £150,000)	Salary	Expenses Allowances	Redundancy Pay	Total Remuneration (excl. pension contributions)	Employer pension contributions	Total Remuneration (incl. pension contributions)
		£	£		£	£	£
Chief Executive	Ada Burns	156,720	227	0	156,947	28,993	185,940
Director of People (formerly Children's Services)		115,725	227	0	115,952	21,409	137,361
Director of Place (formerly Assistant Chief Exec - Regeneration)		92,607	0	0	92,607	17,132	109,739
Director of Resources (formerly Corporate Services)		115,725	227	0	115,952	21,409	137,361

## Disclosure of Remuneration for Senior Employees 2010/11

Post Title	Post Holder (Required if salary exceeds £150,000)	Salary	Expenses Allowances	Redundancy Pay	Total Remuneration (excl. pension contributions)	Employer pension contributions	Total Remuneration (incl. pension contributions)
		£	£		£	£	£
Chief Executive	Ada Burns	156,720	1,860	0	158,580	28,993	187,573
Director of Community Services (1)	Cliff Brown	96,014	1,356	156,639	254,009	17,762	271,771
Director of Children's Services		115,725	1,159	0	116,884	21,409	138,293
Director of Corporate Services		115,725	1,465	0	117,190	21,409	138,599
Assistant Chief Exec - Regeneration		97,369	0	0	97,369	18,013	115,382
Assistant Chief Exec - Policy & Performance		80,000	1,396	0	81,396	14,800	96,196

(1) The Director of Community Services left the Authority on 31 December 2010. As part of the Council's senior management restructure this post was deleted from the establishment from 1 January 2011.

## 6 c) Exit Packages

The costs included within the exit packages table below include termination benefits, all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

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

Exit package cost band	Number of compulsory		Number of other		Total number of exit		Total cost of exit packages	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
							£	£
£0 - £20,000	29	78	55	31	84	109	910,107	638,772
£20,001 - £40,000	5	12	35	13	40	25	1,184,214	732,516
£40,001 - £60,000	3	2	13	7	16	9	771,489	446,057
£60,001 - £80,000	3	1	4	3	7	4	464,005	276,661
£80,001 - £100,000	0	0	3	4	3	4	264,924	359,685
£100,000 - £150,000	1	0	4	0	5	0	622,215	0
Total	41	93	114	58	155	151	4,216,954	2,453,691

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 7 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2011/12

### Adjustments primarily involving the Capital Adjustment Account:

#### Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:

	General Fund £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Charges for depreciation of non-current assets	(6,431)	(3,817)	0	0	0	10,248
Charges for impairment of non-current assets	(321)	(3,904)	0	0	0	4,225
Revaluation losses on Property, Plant and Equipment	(4,498)	(19,271)	0	0	0	23,769
Movements in the market value of Investment Properties	(1,595)	0	0	0	0	1,595
Capital Grants and Contributions Applied	3,954	333	0	0	0	(4,287)
Revenue expenditure funded from capital under statute	(3,850)	(333)	0	0	0	4,183
HRA Self Financing	0	(33,300)	0	0	0	33,300
De-minimis Capital Expenditure	(76)	(5)	0	0	0	81
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(52,069)	(368)	0	0	0	52,437

#### Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory provision for the financing of capital investment	5,638	491	0	0	0	(6,129)
Capital expenditure charged against the General Fund and HRA balances	207	3,988	0	0	0	(4,195)

### Adjustments primarily involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	5,496	0	0	0	(5,496)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	12,227	(12,227)

### Adjustments primarily involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	382	368	(750)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	361	0	0	(361)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital	0	(275)	275	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	10	0	(10)	0	0	0
Other adjustments involving the Capital Receipts Reserve	0	0	0	0	0	0

### Adjustments primarily involving the Deferred Capital Receipts Reserve:

Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	(10)	0	0	0	10
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### Adjustments primarily involving the Major Repairs Reserve:

Reversal of Major Repairs Allowance credited to the HRA	0	3,796	0	(3,796)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	3,796	0	(3,796)

### Adjustments primarily involving the Financial Instruments Adjustment Account:

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	17	104	0	0	0	(121)
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### Adjustments primarily involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (See Note 41)	(1,750)	0	0	0	0	1,750
Employer's pension contributions and direct payments to pensioners payable in the year	9,084	296	0	0	0	(9,380)

### Adjustments primarily involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(90)	0	0	0	0	90
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### Adjustments primarily involving the Unequal Pay Back Pay Adjustment Account:

Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(1,615)	0	0	0	0	1,615
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### Adjustments primarily involving the Accumulated Absences Account:

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	484	0	0	0	0	(484)
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<b>Total Adjustments</b>	<b>(47,023)</b>	<b>(51,907)</b>	<b>(124)</b>	<b>0</b>	<b>6,731</b>	<b>92,323</b>
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# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 2010/11 Comparative Figures

### Adjustments primarily involving the Capital Adjustment Account:

#### Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:

	General Fund £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movement in Unusable Reserves £000
Charges for depreciation of non-current assets	(11,565)	(3,872)	0	0	0	15,437
Charges for impairment of non-current assets	(481)	(2,098)	0	0	0	2,579
Revaluation losses on Property, Plant and Equipment	(69,224)	(40,971)	0	0	0	110,195
Movements in the market value of Investment Properties	715	0	0	0	0	(715)
Capital Grants and Contributions Applied	1,945	611	0	0	0	(2,556)
Revenue expenditure funded from capital under statute	(2,806)	(604)	0	0	0	3,410
De-minimis Capital Expenditure	(45)	0	0	0	0	45
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,848)	(525)	0	0	0	2,373

#### Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory provision for the financing of capital investment	6,041	333		0	0	(6,374)
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### Adjustments primarily involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	18,063	0	0	0	(18,063)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	13,226	(13,226)

### Adjustments primarily involving the Capital Receipts Reserve:

Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,917	378	(2,295)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	1,241	0	0	(1,241)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	0	(280)	280	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	12	0	(12)	0	0	0
Other adjustments involving the Capital Receipts Reserve	(1,373)	0	1,373	0	0	0

### Adjustments primarily involving the Deferred Capital Receipts Reserve:

Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(36)	0	0	0	0	36
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### Adjustments primarily involving the Major Repairs Reserve:

Reversal of Major Repairs Allowance credited to the HRA	0	2,336	0	(2,336)	0	0
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	2,336	0	(2,336)

### Adjustments primarily involving the Financial Instruments Adjustment Account:

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year in accordance with statutory requirements	120	0	0	0	0	(120)
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### Adjustments primarily involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (See Note 41)	22,310	0	0	0	0	(22,310)
Employer's pension contributions and direct payments to pensioners payable in the year	10,341	269	0	0	0	(10,610)

### Adjustments primarily involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(118)	0	0	0	0	118
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### Adjustments primarily involving the Unequal Pay Back Pay Adjustment Account:

Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(140)	0	0	0	0	140
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### Adjustments primarily involving the Accumulated Absences Account:

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(47)	0	0	0	0	47
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<b>Total Adjustments</b>	<b>(26,219)</b>	<b>(44,423)</b>	<b>587</b>	<b>0</b>	<b>(4,837)</b>	<b>74,892</b>
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# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 8 FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Cash Equivalents Short Term Deposits (See Note 19)	0	0	3,095	9,390
Short Term Investments (Per Balance Sheet)	0	0	7,641	9,612
Loans and Receivables at amortised costs	0	0	10,736	19,002
Available for Sale assets	97	1,587	0	0
<b>Total Investments</b>	<b>97</b>	<b>1,587</b>	<b>10,736</b>	<b>19,002</b>
<b>Debtors</b>				
Loans and Receivables	286	299	0	0
Financial assets carried at contract amounts (Debtors)	0	0	6,862	6,368
<b>Total Debtors</b>	<b>286</b>	<b>299</b>	<b>6,862</b>	<b>6,368</b>
<b>Borrowing</b>				
Financial liabilities(principal amount)	106,661	74,111	5,500	6,750
+ Accrued Interest	0	0	749	716
+/- Other accounting adjustments	(50)	(52)	0	47
Financial Liabilities at amortised cost	106,611	74,059	6,249	7,513
Financial Liabilities at fair value through profit and loss	0	0	0	0
<b>Total Borrowings (Per Balance Sheet)</b>	<b>106,611</b>	<b>74,059</b>	<b>6,249</b>	<b>7,513</b>
PFI and finance lease liabilities	20,298	22,262	1,567	1,827
<b>Total other long term creditors Per Balance Sheet)</b>	<b>20,298</b>	<b>22,262</b>	<b>1,567</b>	<b>1,827</b>
Financial liabilities carried at contract amount	0	0	889	1,553
<b>Total Creditors</b>	<b>0</b>	<b>0</b>	<b>889</b>	<b>1,553</b>

### Income, Expense, Gains and Losses

	2011/12				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available-for-sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	3,906	0	0	0	3,906
<b>Total expense in Deficit on the Provision of Services</b>	<b>3,906</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,906</b>
Interest income	0	(422)	0	0	(422)
<b>Total income in Deficit on the Provision of Services</b>	<b>0</b>	<b>(422)</b>	<b>0</b>	<b>0</b>	<b>(422)</b>
Losses on revaluation	0	0	(1,490)	0	(1,490)
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>(1,490)</b>	<b>0</b>	<b>(1,490)</b>
<b>Net gain/(loss) for the year</b>	<b>3,906</b>	<b>(422)</b>	<b>(1,490)</b>	<b>0</b>	<b>1,994</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

	2010/11				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	3,825	0	0	0	3,825
<b>Total expense in Deficit on the Provision of Services</b>	3,825	0	0	0	3,825
Interest income	0	(475)	0	0	(475)
<b>Total income in Deficit on the Provision of Services</b>	0	(475)	0	0	(475)
Losses on revaluation	0	0	(720)	0	(720)
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	0	0	(720)	0	(720)
<b>Net gain/(loss) for the year</b>	3,825	(475)	(720)	0	2,630

	2009/10				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	4,231	0	0	0	4,231
<b>Total expense in Deficit on the Provision of Services</b>	4,231	0	0	0	4,231
Interest income	0	(1,136)	0	0	(1,136)
<b>Total income in Deficit on the Provision of Services</b>	0	(1,136)	0	0	(1,136)
Losses on revaluation	0	0	(675)	0	(675)
<b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b>	0	0	(675)	0	(675)
<b>Net gain/(loss) for the year</b>	4,231	(1,136)	(675)	0	2,420

- Available for Sale Assets - The Council holds the following investments, during the year the following adjustments were made:

	Balance Sheet Value 2011/12 £	Balance Sheet Value 2010/11 £	Reduction in Value £
Premier Waste Management	0	894,350	894,350
Durham Tees Valley Airport	0	595,458	595,458
Newcastle International Airport	97,000	97,000	0
	<u>97,000</u>	<u>1,586,808</u>	<u>1,489,808</u>

The Council previously held 16% of the shares in Premier Waste Management Limited. Due to the subsequent relinquishing of our shareholding the shares have been written out of the Council's accounts as they had a £Nil value.

Following a restructuring of Durham Tees Valley Airport Limited the Council now holds 2.91% of the shares in DTVA (previously 6.66%). 1,766,667 B Ordinary Shares are held with a balance sheet value of £Nil and 174,900,100 Deferred Shares. The latest audited accounts are for the year ended 31 March 2011 and show net assets of (£22,060,060) (previous year after restatement of (£20,966,306)) a loss before tax of £957,334 (previous year restated loss before tax of £37,910,296) and a loss after tax of £1,648,014 (previous year restated loss after tax of £36,372,661). Further information regarding the company's accounts can be obtained from the Registered Office, Durham Tees Valley Airport Limited, Darlington County Durham, DL2 1LU.

The Council has been awarded a proportion of the shares in Newcastle International Airport Limited (NIAL), however these have not yet been transferred to the Council, the reason being that the current owners require various approvals to transfer under the Company's rules and regulations. Those approvals continue to be sought so that the shares can be transferred and registered in the Council's name. Due to current trading conditions the Council's value of its shareholding in NIAL is £97,000 (previously valued at £97,000).

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the

- For loans from PWLB and other loans payable, borrowing rates from PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2011		31 March 2012	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial Liabilities				
PWLB Debt	41,489	43,665	72,778	81,874
Non PWLB debt	40,083	42,220	40,082	40,104
Total Debt	81,572	85,885	112,860	121,978
Creditors	1,553	1,553	889	889

The fair value of the liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

	31 March 2011		31 March 2012	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Money Market Loans less than 1 year	19,390	19,390	11,095	11,095
Money market loans more than 1 year	0	0	0	0
Debtors	6,368	6,368	6,862	6,862

The fair value of the assets is equal to the carrying amount. The fair value assumes no difference in interest rates to comparable market rates.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

## 9 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events:

- In the current economic climate that there is a high degree of uncertainty about the future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Council continues to assess the degree of componentisation within its non-current asset portfolio, as part of the five year rolling programme of non-current asset valuations. On an annual basis the Council will review capital expenditure to assess if any new material components have been added to the Council's non-current asset portfolio.
- Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution income received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this has happened. Equally where conditions specify that a grant or contribution must be re-paid in the event of non-expenditure, the income is not recognised until the conditions of the grant have been met.
- A number of schools transferred to academy status in 2011/12 and more will convert in 2012/13. It is the Council's policy to exclude academy schools from its Balance Sheet as it does not retain sufficient control over the schools service provision to warrant recognition of the school as an asset. As at 31 March 2012, the land and building assets relating to the schools that transferred in 2011/12 have been removed from the Council's Balance Sheet.
- The Council is deemed to control the education services provided under the agreement in the schools and also to control the residual value of the schools at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the Education Village and Harrowgate Hill Primary School which became operational in March 2006 and August 2005 respectively. They are valued at £24.894M and are recognised as Property, Plant and Equipment on the Council's Balance Sheet.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 10 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to IFRS 7 Financial Instruments: Disclosures (transfer of financial assets).

The Council is required to disclose information intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the Council's financial position. It is applicable to accounting periods commencing on or after 1 July 2011 and will, therefore, require full adoption within the 2012/13 financial statements. It is likely that the adoption of this amendment will not have a material impact on the financial statements.

## 11 MATERIAL ITEMS OF INCOME AND EXPENSE

The only material items of expense which are not disclosed on the face of the Comprehensive Income and Expenditure Statement are as follows:

- In the current economic climate the Council is facing its most significant financial challenge since becoming a Unitary Council due to significant reductions in Government funding. It is estimated that the Council will need to save in the region of £16M over the next four years and in light of this a Redundancy and Decommissioning Reserve was established in 2010/11 as total redundancy costs were estimated to be in the region of £5M. £1.797M has been charged to revenue in 2011/12 which will be funded from the Redundancy and Decommissioning Reserve.
- With effect from 1 April 2011, increases to local government pensions in payment and deferred pensions were be linked to annual increases in the Consumer Prices index (CPI), rather than the Retail Prices Index (RPI). Since, over the long term CPI increases are expected to be lower than RPI increases, this gave rise to a reduction in the defined benefit obligation on the Balance Sheet. The reduction of £37M in 2010/11 has been recognised as a negative past service cost in the Comprehensive Income and Expenditure Statement and is also shown as an adjustment in the Movement in Reserves Statement.
- From April 2012, the system of Local Authority Housing Finance (known as the Housing Revenue Account, or HRA) will be devolved to local authorities to manage themselves, this is known as Self-Financing of Council Housing Services. The Housing subsidy process will cease from 1 April 2012 following the national review of the HRA and will be substituted with a one-off debt settlement. The value of the debt settlement is based on the cash flow of the Council's housing business, i.e. 30 years of rent income versus 30 years of outgoings on management, maintenance and major repairs. A discount rate has been applied to give a net present value of the HRA, which for the Council equates to £33.3M of additional borrowing in 2011/12.

## 12 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Director of Resources on 29 06 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no significant post balance sheet events to be disclosed.

## 13 OTHER OPERATING EXPENDITURE

	2010/11 £000	2011/12 £000
Parish Council precepts	73	77
Levies	82	85
Payments to the Government Housing Capital Receipts Pool	274	269
(Gains)/losses on the disposal of non-current assets	(27)	51,685
(Surplus)/deficit on trading activities	0	133
<b>Total</b>	<b>402</b>	<b>52,249</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 14 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.145M for every year that useful lives had to be reduced.
Provisions	The Council has made a provision of £2.329M for the settlement of claims for back pay arising from the Equal Pay initiative, based on the number of claims received and an average settlement amount. It is not certain that all valid claims have yet been received by the Council or that precedents set by other authorities in the settlement of claims will be applicable.	An increase over the forthcoming year of 10% in either the total number of claims or the estimated average settlement would each have the effect of adding £0.233M to the provision needed.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £29.610M for funded LGPS benefits. However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pensions liability had increased by £1.78M as a result of estimates being corrected as a result of experience and increased by £24.0M attributable to updating of these assumptions.
Arrears	At 31 March 2012, the Council had a balance of sundry debtors for £6.862M. A review of significant balances suggested that an impairment of doubtful debts of 11.5% (£0.792M) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts wouldn't require a substantial additional amount to be set aside as an allowance due to the current policy in place.

## 15 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2010/11 £000	2011/12 £000
Interest payable and similar charges	3,825	3,906
Pensions interest cost and expected return on pensions assets (Note 42)	4,820	2,960
Interest receivable and similar income	(475)	(422)
Income and expenditure in relation to investment properties and changes in their fair value (Note 17)	(996)	1,272
<b>Total</b>	<b>7,174</b>	<b>7,716</b>

## 16 TAXATION AND NON SPECIFIC GRANT INCOMES

	2010/11 £000	2011/12 £000
Council tax income	(39,707)	(39,834)
Non domestic rates	(33,907)	(31,527)
Non-ringfenced government grants	(13,920)	(11,557)
Capital grants and contributions	(20,619)	(9,781)
<b>Total</b>	<b>(108,153)</b>	<b>(92,699)</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 17 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2010/11 £000	2011/12 £000
Rental income from investment property	321	336
Direct operating expenses arising from investment property	(40)	(39)
<b>Net gain / (loss)</b>	<b>281</b>	<b>297</b>

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

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

	2010/11 £000	2011/12 £000
<b>Balance at start of the year</b>	17,097	18,134
Additions:		
Purchases	0	0
Subsequent Expenditure	270	275
Disposals	(8)	(250)
Net gains/(losses) from fair value adjustments	715	(1,595)
Transfers:		
(to)/from Property, Plant and Equipment	0	1,700
Other changes	60	25
<b>Balance at end of the year</b>	<b>18,134</b>	<b>18,289</b>

## 18 DEBTORS

	As at 31 March 2011 £000	As at 31 March 2012 £000
Central government bodies	6,074	3,485
Other local authorities	1,329	294
NHS bodies	46	372
General Debtors	5,676	7,024
Payments in Advance	1,213	1,247
	<b>14,338</b>	<b>12,422</b>

## 19 CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	As at 31 March 2011 £000	As at 31 March 2012 £000
Cash held by the Authority	212	157
Bank current accounts	(777)	(1,949)
Short-term deposits	9,390	3,095
<b>Total cash and cash equivalents</b>	<b>8,825</b>	<b>1,303</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 20 ASSETS HELD FOR SALE

	Current		Non-Current	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Balance outstanding at start of year	1,837	0	0	0
Assets sold	(1,837)	0	0	0
Balance outstanding at year-end	0	0	0	0

## 21 CREDITORS

	As at 31 March 2011 £000	As at 31 March 2012 £000
Central government bodies	(2,599)	(1,924)
Other local authorities	(3,683)	(2,480)
NHS bodies	(5)	(222)
Other entities and individuals	(22,254)	(22,523)
<b>Total</b>	<b>(28,541)</b>	<b>(27,149)</b>

## 22 PROVISIONS

	Other Provisions £000	Total £000
<b>Balance at 1 April 2011</b>	(1,887)	<b>(1,887)</b>
Additional provisions made in 2011/12	(1,748)	<b>(1,748)</b>
Amounts used in 2011/12	0	<b>0</b>
Unused amounts reversed in 2011/12	0	<b>0</b>
<b>Balance at 31 March 2012</b>	<b>(3,635)</b>	<b>(3,635)</b>

Equal Pay - A provision of £2,329,000 has been created for potential costs related to payments due as a result of the job evaluation exercise that had a start date of 1 July 2005.

Land Reclamation - A provision of £300,000 has been made in the accounts as at 31 March 2012 for the repayment of reclamation grant.

Section 117 - A provision of £178,000 is held for the potential repayment of charges made under s117 of the Mental Health Act 1983. The Council are likely to be making payments for a number of years.

Insurance Provision - The Council insures against the risk of claims in respect of personal injury and property loss. These risks are insured externally, however there is a £5,000 excess in respect of each and every claim on the liability policy. The balance of £821,000 on this account represents claims made and still outstanding as at 31 March 2012 which are within these excesses.

## 23 USABLE RESERVES

	2010/11 £000	2011/12 £000
General Fund (Note 2)	10,678	13,666
Earmarked Reserves (Note 2)	5,056	3,235
Housing Revenue Account (Note 2)	4,583	4,294
Schools Revenue Balances (Note 2)	2,605	2,312
Revenue Grant Unapplied (Note 2)	2,680	2,137
Capital Receipts Reserve	94	218
Capital Grants Unapplied	17,325	10,594
<b>Total Usable Reserves</b>	<b>43,021</b>	<b>36,456</b>



# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 24 UNUSABLE RESERVES

	2010/11 £000	2011/12 £000
Revaluation Reserve	26,509	28,599
Capital Adjustment Account	206,076	110,188
Available-for-Sale Financial Instruments Reserve	1,587	97
Financial Instruments Adjustment Account	(398)	(277)
Deferred Capital Receipts Reserve	33	23
Pensions Reserve	(110,130)	(131,620)
Collection Fund Adjustment Account	(118)	(208)
Unequal Pay Back Pay Account	(714)	(2,329)
Accumulated Absences Account	(2,153)	(1,669)
<b>Total Unusable Reserves</b>	<b>120,692</b>	<b>2,804</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>19,636</b>	<b>26,509</b>
Upward revaluation of assets	10,134	5,103
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,658)	(58)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	7,476	5,045
Difference between fair value depreciation and historical cost depreciation	(440)	(331)
Accumulated gains on assets sold or scrapped	(163)	(2,624)
Amount written off to the CAA	(603)	(2,955)
<b>Balance at 31st March</b>	<b>26,509</b>	<b>28,599</b>

### Capital Adjustment Account (CAA)

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets for financing and acquisition, construction or enhancement of those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The CAA is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The CAA contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The CAA also contains revaluation gains on accumulated Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all transactions posted to the CAA, apart from those involving the Revaluation Reserve.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>313,009</b>	<b>206,076</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
Charges for depreciation and impairment of non-current assets	(18,016)	(14,473)
Revaluation losses on Property, Plant and Equipment	(110,141)	(23,769)
Revenue expenditure funded from capital under statute	(3,410)	(4,183)
HRA Settlement Determination	0	(33,300)
Capital Expenditure classed as De-minimis	(45)	(81)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement.	(2,373)	(52,437)
	<hr/> (133,985)	<hr/> (128,243)
Adjusting amount written out of the Revaluation Reserve	603	2,955
Net written out amount of the cost of non-current assets consumed in the year.	<hr/> (133,382)	<hr/> (125,288)
<b>Capital financing applied in the year:</b>		
Use of the Capital Receipts Reserve to finance new capital expenditure	1,241	361
Use of the Major Repairs Reserve to finance new capital expenditure	2,336	3,796
Capital grants and contributions credited to the Comprehensive Income and Expenditure that have been applied to capital financing	2,556	4,287
Application of grants to capital financing from the Capital Grants Unapplied Account	13,226	12,227
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	6,375	6,129
Capital expenditure charged against the General Fund and HRA balances	0	4,195
	<hr/> 25,734	<hr/> 30,995
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure	715	(1,595)
<b>Balance at 31st March</b>	<b>206,076</b>	<b>110,188</b>

## Available-for-Sale Financial Instruments Reserve

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

- revalued downwards or impaired and the gains are lost,
- disposed of and the gains are realised.

	2010/11 £001	2011/12 £000
<b>Balance at 1st April</b>	<b>2,307</b>	<b>1,587</b>
Downward revaluation of investments not charged to the surplus/deficit on the Provision of Services	(720)	(1,490)
<b>Balance at 31st March</b>	<b>1,587</b>	<b>97</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that is outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 12 years.

	2010/11 £001	2011/12 £000
<b>Balance at 1st April</b>	<b>(518)</b>	<b>(398)</b>
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0	0
Proportion of premiums incurred in previous financial years to be charged against the General Fund in accordance with statutory requirements	120	121
<b>Balance at 31st March</b>	<b>(398)</b>	<b>(277)</b>

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>(156,950)</b>	<b>(110,130)</b>
Actuarial gains or (losses) on pensions assets and liabilities	13,900	(29,120)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	22,310	(1,750)
Employer's pension contributions and direct payments to pensioners payable in the year	10,610	9,380
<b>Balance at 31st March</b>	<b>(110,130)</b>	<b>(131,620)</b>

## Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>69</b>	<b>33</b>
Transfer to the Capital Receipts Reserve upon receipt of cash	(36)	(10)
<b>Balance at 31st March</b>	<b>33</b>	<b>23</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across to the General Fund from the Collection Fund.

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>(675)</b>	<b>(118)</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	557	(90)
<b>Balance at 31st March</b>	<b>(118)</b>	<b>(208)</b>

## Unequal Pay Back Pay Account

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

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>(574)</b>	<b>(714)</b>
Increase in provision for back pay in relation to Equal Pay cases	(140)	(1,615)
Amount by which amounts charged for Equal Pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	(714)	(2,329)
<b>Balance at 31st March</b>	<b>(714)</b>	<b>(2,329)</b>

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2010/11 £000	2011/12 £000
<b>Balance at 1st April</b>	<b>(2,106)</b>	<b>(2,153)</b>
Settlement or cancellation of accrual made at the end of the preceding year	2,106	2,153
Amounts accrued at the end of the current year	(2,153)	(1,669)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,153)	(1,669)
<b>Balance at 31st March</b>	<b>(2,153)</b>	<b>(1,669)</b>

## 25 CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2010/11 £000	2011/12 £000
Interest received	475	397
Interest paid	(3,825)	(3,871)
Dividends received	0	0

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 26 CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2010/11 £000	2011/12 £000
Purchase of property, plant and equipment and investment property	(26,201)	(26,633)
Purchase of short term and long term investments	(213,446)	0
Other payments for investing activities	0	0
Proceeds from the sale of property, plant and equipment and investment property.	2,331	760
Proceeds from short term and long term investments	209,440	1,996
Other receipts from investing activities	20,505	9,597
<b>Net cash flows from investing activities</b>	<b>(7,371)</b>	<b>(14,280)</b>

## 27 CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2010/11 £000	2011/12 £000
Cash receipts of short and long term borrowing	13,575	38,004
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts	(1,837)	(1,979)
Repayments of short and long term borrowing	(13,750)	(6,750)
Other payments for financing activities	(274)	3,312
<b>Net cash flows from financing activities</b>	<b>(2,286)</b>	<b>32,587</b>

## 28 MEMBERS' ALLOWANCES

Details of the amounts paid to each Member of the Council are published annually and can be viewed on the Darlington Borough Council website. The total amount paid to Members in respect of basic, special responsibility and travel and subsistence allowance was £634,400 (2010/11 £645,998)

## 29 TRADING OPERATIONS

The Council operates a number of trading operations, details of which are:

	2010/11			2011/12	
	Turnover £000	Surplus / (Deficit) £000		Turnover £000	Surplus / (Deficit) £000
Building Cleaning	1,500	96		1,484	145
Construction	10,261	249		16,783	760
Catering	1,611	(64)		1,466	(49)
Grounds Maintenance	383	6		352	9
Highways and Sewerage	4,276	197		3,484	446
Maintenance	6,692	489		4,555	452
School Meals-Best Value	1,522	(125)		1,329	(43)
	26,245	848		29,453	1,720
Adjustments:-					
IAS 19		(25)			126
Other		(112)			329
Prudential Borrowing		15			3
<b>Surplus on Trading Accounts</b>		<b>726</b>			<b>2,178</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 30 EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2010/11 £000	2011/12 £000
Fees payable to Pricewaterhouse Coopers LLP (PWC) with regard to external audit services carried out by the appointed auditor for the year	210	202
Fees payable to PWC for the certification of grant claims and returns for the year	35	31
Fees payable in respect of other services provided by PWC during the year.	34	6
<b>Total</b>	<b>279</b>	<b>239</b>
Fees payable to the Audit Commission in respect of statutory inspection	0	0
<b>Total</b>	<b>279</b>	<b>239</b>

## 31 CONTINGENT LIABILITIES

At 31 March 2012, the Authority had two material contingent liabilities:

During 1992/93 Municipal Mutual Insurance (MMI) 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 all of 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 clawback from the major policy holders part of the claims paid from October 1993. As at the 31 March 2012, the total amount of the Council's claims to date subject to clawback is £0.804M.

The Association of North East Councils (ANEC), of which Darlington Borough Council is a constituent member, has agreed to guarantee the liabilities relating to the admission of employees of the North East Assembly to the Tyne and Wear Pension Fund. The total potential liability of the 12 constituent authorities is £1.580M of which Darlington has stood guarantor for £0.061M

## 32 DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2011/12 are as follows:

Notes	Central Expenditure £000's	ISB £000's	Total £000's
A Final DSG for 2011/12			52,822
B Plus Brought Forward from 2010/11			53
C Less Carry Forward to 2012/13 agreed in advance			0
D Agreed budgeted distribution in 2011/12	8,462	44,413	52,875
E Less Actual Central Expenditure	8,318	0	8,318
F Less Actual ISB deployed to Schools	0	44,413	44,413
G Plus Local Authority contribution for 2011/12	0	0	0
H Carry Forward to 2012/13	144	0	144

### 33 PRIVATE FINANCE INITIATIVES

#### Education PFI Scheme

2011/12 was the seventh year of the Council's 25 year PFI scheme for the construction, maintenance and operation of five schools, the Education Village (a federation of schools comprising Springfield, Beaumont Hill and Haughton Schools) and Harrowgate Hill Primary School, which became operational in March 2006 and August 2005 respectively. The Education Village Schools converted to Academy status on 1st April 2012 under the provisions of the Academies Act 2010

##### (1) Harrowgate Hill

The Council has certain exclusive use rights for the use of the school during specific times during school terms. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the centres and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the centres. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council only has rights to terminate the contract if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract.

##### (2) Education Village

The Education Village Academy trust has certain exclusive use rights for the use of the centres by schools during specific times during school terms. The contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. The contractor took on the obligation to construct the centres and maintain them in a minimum acceptable condition and to procure and maintain the plant and equipment needed to operate the centres. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the academy Trust for nil consideration. The Council continues to be the primary contracting party with the contractor but the Academy trust has taken over a large part of the monitoring responsibilities for the three schools it serves. The payment arrangements are that the Council makes the payment to the contractor and receives the PFI credits and contributions from the schools involved to cover the majority of the costs with the remainder being topsliced from the Direct Schools Grant.

#### Property, Plant and Equipment

The assets used to provide services at the schools are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 5.

#### Payments

The Council makes an agreed payment each year part of which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2012 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2012/13	2,204	1,322	1,019	4,545
Payable within two to five years	8,698	5,004	3,459	17,161
Payable within six to ten years	12,153	5,785	3,024	20,962
Payable within eleven to fifteen years	13,750	5,507	1,675	20,932
Payable within sixteen to twenty years	10,430	3,726	399	14,555
<b>Total</b>	<b>47,235</b>	<b>21,344</b>	<b>9,576</b>	<b>78,155</b>

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2010/11 £000	2011/12 £000
Balance outstanding at year end	24,088	22,698
Payments during the year	(1,390)	(1,355)
<b>Balance Outstanding at year end</b>	<b>22,698</b>	<b>21,343</b>

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 34 GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and expenditure Statement in 2011/12:

	2010/11 £000	2011/12 £000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	4,924	9,745
Area Based Grant	8,854	0
Non Domestic Rates	33,908	31,527
LAA Reward Grant	142	0
Council Tax Freeze Grant	0	1,001
New Homes Bonus	0	321
Local Services Support Grant	0	454
Capital Grants and Contributions	20,619	9,781
Other	0	36
<b>Sub-total</b>	<b>68,447</b>	<b>52,865</b>
<b>Credited to Services</b>		
Dedicated Schools Grant (DSG)	60,909	52,731
Rent Allowance	22,695	23,832
Rent Rebates	11,613	12,380
Sixth forms funding from Learning and Skills Council	9,306	0
Council tax benefit	8,724	8,774
Standards Fund (excluding elements now in ABG)	8,127	0
Early Intervention Grant	0	5,390
Sure Start, Early Years and Childcare Grant	4,276	0
The Private Finance Initiative (PFI)	3,200	3,200
School Standards Grant (including Personalisation)	2,985	0
Concessionary Fares	1,354	0
Pupil Premium	0	1,159
Housing Benefit Admin	1,088	1,015
YPLA 16-19 Funding	0	1,006
Skills Funding Agency	0	777
Further Education funding from Learning and Skills Council - 16-18 funding	577	0
Local Sustainable Transport Fund (DfT)	0	516
Adult and Community Learning from Learning and Skills Council (LSC)	443	0
NEETS Skills for Me funding from Learning and Skills Council (LSC)	409	0
Tackling Youth Crime Action Plan	392	0
Exceptional Funding for Highways Maintenance - Winter Damage 2010/11	376	376
Youth Justice Board	363	371
Future Jobs Fund	294	100
Consortia Support Grant / LDSG	270	20
Social Reform Grant	240	0
TAMHS Targeted Mental Health in Schools	223	0
Housing & Planning Delivery	206	110
Music Grant	0	202
Cycle England	180	0
Alternative Provision Programme	150	0
Stroke Grant	142	0
Core Funding Grant	131	124
Social Work Improvement Fund	29	128
Parenting Early Intervention Programme	120	0
Training Schools funding from Training & Development Agency	120	0
LD Campus Grant	117	0
Other	1,321	653
<b>Sub-total</b>	<b>140,380</b>	<b>112,864</b>
<b>Total</b>	<b>208,827</b>	<b>165,729</b>

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2010/11 £000	2011/12 £000
<b>Capital Grants Receipts in Advance</b>		
Arts Council	23	0
Developer Contribution	791	716
ERDF	86	0
Fair Share Trust	50	50
Friends of North Park	7	7
Safer & Stronger Communities Fund	42	42
Tees Valley Regeneration	100	100
	<b>1,099</b>	<b>915</b>



# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 35 TRUST FUNDS

The Council acts as custodian trustee for a number of Trusts which operate for the benefit of Students attending or who have attended Secondary Schools in Darlington Borough (including Queen Elizabeth 6th Form College). It also acts as trustee for a further 18 funds and as in neither case do they represent assets of the Council, they have not been included in the Balance Sheet.

Funds for which Darlington Borough Council are sole or custodian trustee.

	Balance at 1st April 2011 £000's	Receipts £000's	Payments £000's	Balance at 31st March 2012 £000's	Assets £000's	Liabilities £000's
James Barningham Fellowship	28	1	0	29	47	0
Lady Dale Scholarship	12	2	0	14	26	0
Darlington Education Fund	118	22	(30)	110	481	0
W.Draffon Scholarship	7	1	0	8	22	0
Others	27	2	(1)	28	52	0
	192	28	(31)	189	628	0

All of the above investments are held by the Charities Official Investment Fund (COIF) and the latest COIF Charity Fund shares are valued at £628,170.89 as per valuation date 31/03/12 (£633,793.19 as per valuation date 31/03/11).

### Purpose of the Trust Funds:

#### James Barningham Fellowship

Scholarships to pupils proceeding from any of the schools to institutions of further education, such scholarships to be awarded to the best essay on the subject " The rise and downfall of nations".

#### Lady Dale Scholarship

Scholarships to female pupils proceeding from any of the secondary schools to institutions of further education.

#### Darlington Education Fund

Promoting the education, including social and physical training, of persons under the age of 25 years who attend or have attended any of the secondary schools in Darlington.

#### W.Draffan Scholarship

Scholarships to pupils from any of the secondary schools proceeding to the University of Edinburgh.

### Other Trust Funds administered by Darlington Borough Council are as follows :

	Balance at 1st April 2011 £000's	Receipts £000's	Payments £000's	Balance at 31st March 2012 £000's
Stainsby Murray Fund	85	0	0	85
E.M.Corner Bequest	66	0	0	66
Criminal Injuries Compensation	29	0	0	29
BAT Legacy	242	0	(59)	183
Other	74	0	0	74
	496	0	(59)	437

### Purpose of the Trust Funds:

#### Stainsby Murray Fund

Provision of christmas comforts for aged persons in Darlington.

#### E.M.Corner Bequest

Provision of the Arts by Darlington Library.

#### Criminal Injuries Compensation

Provision of funds for compensation to minors.

#### BAT Legacy

British American Tobacco (BAT) closed its Darlington plant in 2004. A legacy was left to the town to support business growth and economic development.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 36 RELATED PARTIES

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### 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 (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 3 on amounts reported for resources allocation decisions. Grant receipts outstanding at 31 March 2012 are shown in Note 34.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in Note 28. During 2011/12, the Council had transactions totalling approximately £701,695 (£1,297,585 in 2010/11) with charitable bodies and companies in which Members or close members of the families of Members had interests. Councillors are subject to the Council's Member Code of Conduct. The Register of Members Interests and declarations of interests relating to specific items of discussion at meetings are available for inspection.

### Senior Officers

The Council's senior managers may influence financial and operating policies through the professional advice to elected Members and through the management decisions they make under delegated powers. Such officers are subject to the Council's Employee Code of Conduct and professional bodies' standards. There are no related party transactions between the Council and its senior managers that require disclosure in 2011/12.

### Other Organisations

The Council paid £0.921M to 22 other organisations (£2.103M to 21 in 2010/11) on which it has Member representation and which share educational, economic development, social and culture objectives, those being:

Organisation	2010/11 £000's	2011/12 £000's
Groundwork North East Board	657.07	303.60
Evolution	249.54	138.15
Darlington & District Youth and Community Association	159.68	114.72
Darlington Citizens Advice Bureau	104.98	91.70
Durham Police Authority	55.04	66.97
Firthmoor & District Community Association	48.77	35.38
Association of North East Councils (ANEC)	0.00	33.99
Local Government Association	39.66	25.70
Darlington College Board	519.85	25.04
YMCA Darlington	189.02	24.34
North East Regional Employers Organisation	21.82	23.21
Parking and Traffic Regulations Outside London (PATROL)	0.00	13.93
Cruse Bereavement	7.54	6.78
Skerne Park Youth & Community Centre	4.75	5.36
Northern Housing Consortium	3.53	4.21
Darlington Community Carnival Committee	13.59	3.14
North East Highways Training Centre - Management Committee	0.00	2.00
Darlington Town Twinning Association	2.26	1.00
Association of Councillors	0.00	0.83
Willow Road Community Centre	14.05	0.50
Maidendale Nature and Fishing Reserve	0.00	0.42
Sadberge Village Hall Association	0.18	0.14
Family Help Organisation	6.32	0.00
Maidendale House	5.00	0.00
National Society for Clean Air	0.57	0.00
Museum Libraries Archives North East	0.25	0.00
	<b>2,103.47</b>	<b>921.11</b>

### Other Public Bodies

The Council received £592,616 from the NHS and £3,935,490 from the PCT. The Council paid £612,860 to the NHS and £337,111 to the PCT.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 37 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2010/11 £000	2011/12 £000
<b>Opening Capital Financing Requirement</b>	137,613	141,561
<b>Capital Investment</b>		
Property, Plant and Equipment	25,960	26,440
Investment Properties	270	275
Revenue Expenditure Funded from Capital Under Statute	3,410	4,183
HRA Self Financing	0	33,300
<b>Sources of Finance</b>		
Capital receipts	(1,241)	(361)
Government grants and other contributions	(18,120)	(20,310)
Sums set aside from revenue:		
Direct revenue contributions	0	(4,195)
MRP/loans fund principal	(4,584)	(3,905)
Deferred liabilities movement	(1,747)	(2,224)
<b>Closing Capital Financing Requirement</b>	141,561	174,764
<b>Explanation of movements in year</b>		
Minimum Revenue Provision (MRP)	(6,331)	(6,129)
Increase in underlying need to borrowing (supported by government financial assistance)	2,843	1,002
Increase in underlying need to borrowing (unsupported by government financial assistance)	7,218	38,330
Assets acquired under finance leases	218	0
<b>Increase in Capital Financing Requirement</b>	3,948	33,203

## 38 LEASES

### Authority as Lessee

#### Finance Leases

The Council has acquired vehicles, furniture and equipment under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2011 £000	31 March 2012 £000
Vehicles, Plant and Equipment	947	506

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011 £000	31 March 2012 £000
Finance lease		
• current	472	245
• non-current	919	276
Finance costs payable in future years	71	6
<b>Minimum lease payments</b>	1,462	527

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012	31 March 2011	31 March 2012	31 March 2011
	£000	£000	£000	£000
Not later than one year	250	520	245	472
Later than one year and not later than five years	277	942	276	919
	<u>527</u>	<u>1,462</u>	<u>521</u>	<u>1,391</u>

There are no contingent rents payable in respect of the leases.

The Council has not sub-let any of the vehicles, furniture and equipment under these finance leases.

## Operating Leases

The Council has also acquired vehicles, furniture and equipment under operating leases. Payments made during the year in respect of these leases amount to £0.627M (£0.846M in 2010/11).

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

	31 March 2011 £000	31 March 2012 £000
Not later than one year	696	496
Later than one year and not later than five years	929	468
Later than five years	2	0
	<u>1,627</u>	<u>964</u>

There are no contingent rents payable in respect of the leases.

The Council has not sub-let any of the vehicles, furniture and equipment under these operating leases.

## Authority as Lessor

### Finance Leases

The Council does not have any leases categorised as Finance Leases in its capacity as Lessor.

### Operating Leases

The Council leases various Land and Buildings to third parties under operating leases. The leases are primarily to provide suitable affordable accommodation for local businesses but also includes the lease of buildings that enable the delivery of community services such as Community Centres. During 2011/12 £0.718M (0.783M in 2010/11) was received by the Council in relation to these leases.

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

	31 March 2011 £000	31 March 2012 £000
Not later than one year	604	754
Later than one year and not later than five years	972	800
Later than five years	6,489	5,221
	<u>8,065</u>	<u>6,775</u>

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

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## 39 IMPAIRMENT LOSSES

During 2011/12, the Council has recognised revaluation and impairment losses of £29.672M in relation to its land and buildings, mainly due to a reduction in value following the revaluation of the Council's Housing Dwellings.

Where impairment losses are identified, they are initially set against any accumulated gains for each assets held in the Revaluation Reserve. Losses arising from impairments that can't be absorbed by accumulated revaluation gains are charged to service lines in the Comprehensive Income and Expenditure Statement.

Impairments have been charged as follows:

	31 March 2011 £000	31 March 2012 £000
Comprehensive Income and Expenditure Statement		
- Central Services to the public	67	0
- Planning Services	856	1,603
- Environmental and Regulatory Services	0	56
- Education and children's services	68,701	3,185
- Local authority housing	43,069	23,175
- Adult Social Care	0	0
- Financing and investment income and expenditure (for investment properties)	26	1,595
Revaluation Reserve	2,822	58
	<hr/> 115,541	<hr/> 29,672

## 40 PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2011/12, the Council paid £2.886M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2010/11 were £3.968M and 14.1%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 41 on page 51.

## 41 DEFINED BENEFIT PENSION SCHEMES

### Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by Durham County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Transactions Relating to Post-Employment Benefits

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
<b>Comprehensive Income and Expenditure Statement</b>				
Cost of Services:				
• current service cost	(9,870)	(7,750)	0	0
• past service costs	36,110	0	890	0
• settlements and curtailments	0	8,960	0	0
<b>Financing and Investment Income and Expenditure</b>				
• interest cost	(17,540)	(17,050)	(650)	(620)
• expected return on scheme assets	13,370	14,710	0	0
<b>Total Post Employment Benefit Charged to the Deficit on the Provision of Services</b>	<b>22,070</b>	<b>(1,130)</b>	<b>240</b>	<b>(620)</b>
<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>				
• actuarial gains and losses	13,860	(28,140)	40	(980)
<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>35,930</b>	<b>(29,270)</b>	<b>280</b>	<b>(1,600)</b>
<b>Movement in Reserves Statement</b>				
• reversal of net charges made to the Deficit on the Provision of Services for post employment benefits in accordance with the Code	(22,070)	1,130	(240)	620
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
• employers' contributions payable to the scheme	9,600	8,390		
• retirement benefits payable to pensioners			1,010	990

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £29.120M (2010/11 a gain of £13.900M).

## Assets and Liabilities in Relation to Post Employment Benefits

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Opening balance at 1 April	(345,130)	(315,310)	(13,100)	(11,810)
Current service cost	(9,870)	(7,750)	0	0
Interest cost	(17,540)	(17,050)	(650)	(620)
Contributions by scheme participants	(3,400)	(2,840)	0	0
Actuarial (gains) and losses	14,740	(25,780)	40	(980)
Benefits paid	9,780	9,830	1,010	990
Past service costs	36,110	0	890	0
Settlements	0	22,010	0	0
Closing balance at 31 March	(315,310)	(336,890)	(11,810)	(12,420)

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

With effect from 1 April 2011, increases to local government pensions in payment and deferred pensions were linked to annual increases in the Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI). Since, over the long term CPI increases are expected to be lower than RPI increases, this gave rise to a reduction in the defined benefit obligation on the Balance Sheet.

The impact of the change to CPI indexation of pension increases as a benefit change and is therefore recognised as a (negative) past service cost reflecting the reduction in the constructive obligation. The past service cost appears in the cost of services in the Comprehensive Income and Expenditure Statement.

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

Local Government Pension Scheme	Local Government Pension Scheme	Unfunded Liabilities
2010/11 £000	2011/12 £000	2011/12 £000
201,280 Opening balance at 1 April	216,990	0
13,370 Expected rate of return	14,710	0
(880) Actuarial losses	(2,360)	0
9,600 Employer contributions	8,390	990
3,400 Contributions by scheme participants	2,840	0
(9,780) Benefits paid	(9,830)	(990)
0 Settlements	(13,050)	0
<b>216,990 Closing balance at 31 March</b>	<b>217,690</b>	<b>0</b>

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.

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.

The actual return on scheme assets in the year was £12.350M (2010/11: £12.490M).

## Scheme History

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	(219,010)	(247,340)	(345,130)	(315,310)	(336,890)
Discretionary Benefits	(13,650)	(12,550)	(13,100)	(11,810)	(12,420)
Sub-total Liabilities	<b>(232,660)</b>	<b>(259,890)</b>	<b>(358,230)</b>	<b>(327,120)</b>	<b>(349,310)</b>
<b>Fair value of assets in the Local Government Pension Scheme</b>	<b>166,670</b>	<b>146,850</b>	<b>201,280</b>	<b>216,990</b>	<b>217,690</b>
<b>Deficit in the scheme</b>	<b>(65,990)</b>	<b>(113,040)</b>	<b>(156,950)</b>	<b>(110,130)</b>	<b>(131,620)</b>
<b>Split of Surplus/(deficit) in the scheme:</b>					
Local Government Pension Scheme	(52,340)	(100,490)	(143,850)	(98,320)	(119,200)
Discretionary Benefits	(13,650)	(12,550)	(13,100)	(11,810)	(12,420)
<b>Total</b>	<b>(65,990)</b>	<b>(113,040)</b>	<b>(156,950)</b>	<b>(110,130)</b>	<b>(131,620)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £131.620M has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a reduction in the net worth from £170.434M to £38.814M. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (ie before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2013 is £9.470M. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2013 are £1.040M.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by AonHewitt Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Discretionary Benefits	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Long term expected rate of return on assets in the scheme:				
Equity Investments	8.40%	8.10%	0%	0%
Government Bonds	4.40%	3.10%	0%	0%
Corporate Bonds	5.10%	3.70%	0%	0%
Property	7.90%	7.60%	0%	0%
Cash	1.50%	1.80%	0%	0%
Other	8.40%	8.10%	0%	0%
Mortality assumptions:				
Longevity at 65 for current pensioners:				
• Men	21.9	22.0	21.9	22.0
• Women	24.0	24.1	24.0	24.1
Longevity at 65 for future pensioners:				
• Men	23.7	23.8	23.7	23.8
• Women	26.0	26.1	26.0	26.1
Rate of inflation (RPI)	3.7%	3.6%	3.6%	3.4%
Rate of Inflation (CPI)	2.8%	2.6%	2.7%	2.4%
Rate of increase in salaries	5.2%	5.1%	0%	0%
Rate of increase in pensions	2.8%	2.6%	2.7%	2.4%
Rate for discounting scheme liabilities	5.4%	4.8%	5.5%	4.6%
Take up of option to convert annual pension into retirement lump sum - Pre 1 April 2008	60%	60%	0%	0%
Take up of option to convert annual pension into retirement lump sum - Post 1 April 2008	80%	80%	0%	0%

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2011 %	31 March 2012 %
Equity investments	55.9	45.8
Debt Instruments	35.6	45.5
Other assets	8.5	8.7
	<b>100.0</b>	<b>100.0</b>

## History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

	2007/08 %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Differences between the expected and actual return on assets	(8.57)	(24.32)	20.42	(0.40)	(1.10)
Experience (gains) / losses on liabilities	(1.30)	0.25	0.76	3.41	4.30



## 42 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Key Risks

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 commitment 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.

### Overall Procedures for Managing Risk

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The procedures for risk management are set out in a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code. The CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall these procedures require the Council to manage risks in the following ways.

by formally adopting the requirements of the code of Practice;

by the adoption of a treasury policy statement and treasury management clauses within the Constitution;

by approving annually in advance prudential indicators for the following three years limiting the Council's overall borrowing including:

- it's maximum and minimum exposures to fixed and variable rates;
- it's maximum annual exposure to investments maturing beyond 1 year

by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risks in relation to the Council's financial instrument exposure. Actual performance is also reported half-yearly to Members.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 03/03/2011 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £150.368M. This was the maximum amount of external borrowings and other long term liabilities allowed
- The operational Boundary was expected to be £136.698M. This is the expected level of borrowing and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% based on the council's net debt.
- The maximum and minimum exposure to the maturity structure of debt are shown in the note relating to refinancing and maturity risk.

These written policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk credit risk, and the investment of surplus cash through Treasury Management Practices (TMP's). These TMP's are a requirement of the Code of practice and are reviewed regularly.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and institutions unless they meet the minimum requirements of investment criteria outlined below.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Credit Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category. Additional selection criteria are also applied after these initial criteria are applied. Full details of the Investment Strategy can be found on the Council's website. The key areas of the investment Strategy are the minimum criteria for investment counterparties which include:

- UK Institutions only
- Credit ratings of Short term F1, Long Term A, Support C and Individual 3 (Fitch or equivalent rating), with the lowest rating being applied to the criteria.
- UK institutions provided with support from the UK Government

The full Investment Strategy for 2011/12 was approved by full Council on 03/03/2011 and is available on the Council's website.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

	Amount at 31 March 2012	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2012	Estimated maximum exposure to default and uncollectability at 31 March 2011	Estimated maximum exposure at 31 March 2012
	£000	%	%	£000	£000
Deposits with banks and Financial Institutions					
AAA rated counterparties	3,095	0.000	0.000	0	0
AA Rated Counterparties					
Less than 1 year	5,000	0.012	0.006	3	1
1 to 2 years				1	
A rated counterparties	3,000	0.05		13	2
Trade debtors	6,248		12.5	599	781

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers, such that £5.122M of the £6.248M balance shown in the balance sheet as part of short term debtors is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2011 £000	31 March 2012 £000
Debts on Payment plans	3,330	3,686
Less than three months	393	358
Three to six months	193	247
Six months to one year	196	167
More than one year	640	664
	<b>4,752</b>	<b>5,122</b>

## Liquidity Risk

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

The maturity analysis of financial assets is as follows:

	31 March 2011 £000	31 March 2012 £000
Less than one year	19,390	11,095
Between one and two years	0	0
	<b>19,390</b>	<b>11,095</b>

All trade and other payables are due to be paid in less than one year and are not shown in the table above.

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

## Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicators limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are key parameter used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cashflow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy)

	Approved Maximum Limits	Actual 31/03/12	Actual 31/03/12 £'000	Actual 31/03/11 £'000	Actual 31/03/10 £'000
Less than 1 year	25%	5%	5,500	6,750	13,750
Between 1 and 2 years	40%	3%	3,500	5,500	6,750
Between 2 and 5 years	60%	0%	0	3,500	9,000
Between 5 and 10 years	80%	4%	4,750	0	0
More than 10 years	100%	88%	98,411	65,111	51,361
<b>Total</b>		<b>100</b>	<b>112,161</b>	<b>80,861</b>	<b>80,861</b>

## Market Risk

### Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall (no impact on revenue balances);
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance subject to influences from Government grants (HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together with the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides limits for fixed and variable rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs for the Housing Revenue Account.

According to this assessment strategy, at 31 March 2012, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	70
Increase in interest receivable on variable rate investments	(125)
Impact on Surplus or Deficit on the Provision of Services	(55)
Share of overall impact debited to the HRA	34
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	14,021

# NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the note Fair value of Assets and Liabilities carried at Amortised Cost.

## Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £97,000 in two airports. These holdings are not liquid and the Council is exposed to losses arising from movements in prices of the shares.

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. Instead it only acquires shareholdings in return for 'open book' arrangements with the company concerned so that the authority can monitor factors that might cause a fall in the value of specific shareholdings.

The £97,000 shares are all classified as 'available-for-sale', meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £4,850 gain or loss being recognised in the Other Comprehensive Income and Expenditure for 2011/12.

## Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## 43 HERITAGE ASSETS

### Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Art Collection £000	Civic Regalia £000	Railway Museum £000	Total Assets £000
<b>Cost or Valuation</b>				
<b>1 April 2010</b>	<b>743</b>	<b>565</b>	<b>2,010</b>	<b>3,318</b>
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	0	0	0	0
<b>31 March 2011</b>	<b>743</b>	<b>565</b>	<b>2,010</b>	<b>3,318</b>
<b>Cost or Valuation</b>				
<b>1 April 2011</b>	<b>743</b>	<b>565</b>	<b>2,010</b>	<b>3,318</b>
Additions	0	0	0	0
Disposals	0	0	0	0
Revaluations	0	0	0	0
Impairment Losses/(reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment Losses/(reversals) recognised in Surplus or Deficit on the Provision of Services	0	0	0	0
<b>31 March 2012</b>	<b>743</b>	<b>565</b>	<b>2,010</b>	<b>3,318</b>

The Council holds a range of heritage assets comprising the Borough Art Collection, the Railway Museum Collection and various pieces of Civic Regalia. The Art Collection has been valued by an external valuer (the majority being valued in 2008) at £0.743M. The Civic Regalia was valued by an external valuer in 2011 at £0.565M. External valuations are reviewed periodically. The Museum Collection is reported in the balance sheet at insurance valuation (based on market values) at £2.010M and is updated annually. In addition, the Council loans certain items from the National Railway Museum with an insurance valuation of £1.500M. Because of the nature of the loan agreement these assets are not included within the Council's Balance Sheet. The Council's heritage asset holdings are substantially static with low numbers of acquisitions or donations and no recent disposals.

### Heritage Assets: Five Year Summary of Transactions

Paragraph 4.10.4.5 of the Accounting Code of Practice requires a five year summary of transactions in respect of heritage assets but states that information need not be given for any period before 1 April 2010 where it is not practicable to do so. Because there have been no changes in the period before 01 April 2010 the Council do not believe it practicable to repeat the information shown above for the preceding years.

### Further information

Darlington Borough Art Collection is a collection of artworks with a large variety of subject matter, medium and style. The collection spans over 150 years and features work by local, national and international artists and it has been acquired over many years through donation, bequest and purchase. More details can be found on the Council's website.

The Council owns over 140 items of Civic Regalia ranging from dinner and silverware to the Chains of Office.

## NOTES TO THE FINANCIAL STATEMENTS OF DARLINGTON BOROUGH COUNCIL

The Railway Museum's existing collections are mostly limited to material illustrating the development and operation of railways in North East England. Although regional in scope, in some areas they are of national importance because of their association with the Stockton & Darlington Railway. Exhibits include a locomotive, wagons, archives, maps, photographs and models/toys. Further information about the collection can be obtained from the Council's website.

### Heritage Assets: Change in Accounting Policy

For 2011-12, the Council is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were not recognised in the Balance Sheet. The Council's accounting policies for recognition and measurement of heritage assets are set out in the Council's accounting policies. In applying the new accounting policy, the Council has recognised £3.318M of heritage assets (with a corresponding increase in the Revaluation Reserve) for assets that were not previously recognised in the Balance Sheet. The 31 March 2011 Balance Sheet and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy and the impact on balances as at 1 April 2010 is shown below. The effects of the restatement are as follows:

Effect on the opening balance at 1 April 2010:

	Opening Balance as at 1 April 2010 £000	Restatement £000	Restatement required to Opening Balance as at 1 April 2010 £000
PPE - Heritage Assets	0	3,318	3,318
Long Term Assets	467,774	3,318	471,092
<b>Total Net Assets</b>	<b>206,320</b>	<b>3,318</b>	<b>209,638</b>
Unusable Reserves	170,878	3,318	174,196
<b>Total Reserves</b>	<b>206,320</b>	<b>3,318</b>	<b>209,638</b>

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

	As previously stated 31 March 2011 £000	As restated 31 March 2011 £000	Restatement 2011 £000
<b>Balance as at 31 March 2010</b>	<b>206,320</b>	<b>209,638</b>	<b>3,318</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>160,395</b>	<b>163,713</b>	<b>3,318</b>

The resulting restated Balance Sheet for 31 March 2011 is provided on page 10. The adjustments that have been made to that Balance Sheet compared to the published 2010/11 Statement of Accounts are as follows:

	As previously stated 31 March 2011 £000	Restatement £000	Restatement 31 March 2011 £000
PPE - Heritage Assets	0	3,318	3,318
<b>Long Term Assets</b>	<b>372,699</b>	<b>3,318</b>	<b>376,017</b>
<b>Total Net Assets</b>	<b>160,395</b>	<b>3,318</b>	<b>163,713</b>
Unusable Reserves	117,374	3,318	120,692
<b>Total Reserves</b>	<b>160,395</b>	<b>3,318</b>	<b>163,713</b>

# HOUSING REVENUE ACCOUNT OF DARLINGTON BOROUGH COUNCIL

## INCOME AND EXPENDITURE STATEMENT

AS AT 31 MARCH 2011		AS AT 31 MARCH 2012	Notes
<b>£000</b>		<b>£000</b>	
	<b><u>Expenditure</u></b>		
(3,223)	Repairs and maintenance	(3,497)	
(4,998)	Supervision and management	(4,945)	
(19)	Rent, rates, taxes and other charges	(14)	
(3,046)	HRA Subsidy Payable (including MRA)	(2,388)	8
(107)	Increased provision for bad and doubtful debts	(98)	9
	Depreciation of fixed assets		
(3,836)	On dwellings (= MRA)	(3,796)	7
(36)	On other assets	(21)	7
0	Self financing settlement payment made to Secretary of State	(33,300)	
(43,240)	Impairment of Fixed Assets	(23,508)	3
(4)	Debt management costs	(18)	
<b>(58,509)</b>	<b>Total Expenditure</b>	<b>(71,585)</b>	
	<b><u>Income</u></b>		
15,672	Dwelling rents	16,726	
372	Non-dwelling rents	368	
2,077	Charges for services & facilities	2,261	
553	Contribution towards Expenditure	583	
<b>18,674</b>	<b>Total Income</b>	<b>19,938</b>	
<b>(39,835)</b>	<b>Net Cost of HRA Services as included in the Comprehensive Income &amp; Expenditure Statement</b>	<b>(51,647)</b>	
0	HRA Services Share of Corporate and Democratic Core		
24	HRA Share of other amounts included in the whole Authority net costs of services but not allocated to specific services	52	
<b>(39,811)</b>	<b>Net cost for HRA Services</b>	<b>(51,595)</b>	
	<b>HRA Share of Operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b>		
10	(Gain) / Loss on Sale of HRA Fixed Assets	0	
(800)	Interest Payable and Similar Charges	(948)	
36	Interest and Investment Income	53	
(117)	Pension Interest Cost and Expected Return on Pension Assets	(93)	
<b>(40,682)</b>	<b>Deficit for the Year on HRA Services</b>	<b>(52,583)</b>	

# HOUSING REVENUE ACCOUNT OF DARLINGTON BOROUGH COUNCIL

## MOVEMENT ON THE HRA STATEMENT

AS AT 31 MARCH 2011		AS AT 31 MARCH 2012	AS AT 31 MARCH 2012
£000		£000	£000
842	Balance on the HRA at the end of the previous year		4,583
(40,682)	Deficit for the year on the HRA Income and Expenditure Statement	(52,583)	
	<b>Adjustments between accounting basis and funding basis under statute:</b>		
(103)	Difference between amounts charged to Income and Expenditure for amortisations of premiums and discounts and the charge for the year determined in accordance with statute.	(104)	
43,239	Difference between any other item of income and expenditure determined in accordance with the CODE and determined in accordance with statutory HRA requirements.	23,514	
0	Self financing settlement payment made to Secretary of State	33,300	
(333)	Voluntary set aside for debt repayment	(491)	
0	Capital expenditure funded by the HRA	(3,988)	
2,121	<b>Net Increase before transfers to or from reserves</b>	(352)	
	<b>Transfers (to) or from reserves:</b>		
356	Net charges made for retirement benefits in accordance with IAS 19	338	
(10)	(Gain) or loss on sale of HRA fixed assets	0	
1,537	Transfer from Major Repairs Reserve	21	
(263)	Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct	(296)	
1,620	<b>Transfers (to) / from reserves</b>	63	
3,741	<b>Increase / (Decrease) in year on the HRA</b>		(289)
4,583	<b>Balance on the HRA at the end of the current year</b>		4,294

# NOTES TO THE HOUSING REVENUE ACCOUNT OF DARLINGTON BOROUGH COUNCIL

## 1 Housing Stock

1 April 2011		31 March 2012
<u>Number and types of dwellings</u>		
2,797	Houses	2,828
2,329	Flats	2,283
343	Bungalows	344
6	Non HRA	3
<u>5,475</u>	Total dwellings	<u>5,458</u>
<u>Balance Sheet values</u>		
£000		£000
132	Land	87
108,332	Houses	98,327
1,377	Other property	678
<u>109,841</u>	Total net Balance Sheet value	<u>99,092</u>
<u>Operational Assets</u>		
108,332	Dwellings	98,327
0	Other land & buildings	0
<u>108,332</u>		<u>98,327</u>
1,509	Non-operational assets	765
<u>109,841</u>	Total net Balance Sheet value	<u>99,092</u>

## 2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is £310M (£323M in 2010/11)

The vacant possession value of a property is defined as an opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of the valuation.

The vacant possession value most naturally relates to sale of a single owner-occupied dwelling. Therefore it must be adjusted to obtain the balance sheet or social housing value. The social value housing value reflects a valuation for a property if it were disposed of with sitting tenants enjoying sub-market rents and tenants' rights. Rents in the private sector reflect capital values quite well since they are market rents. Rents set by local authorities are unlikely to reflect the market position as they have been arrived at through a combination of historic practice and current policy.

The difference between the vacant possession value and the balance sheet value therefore shows the economic cost to the Government of providing council housing at less than open market value.

## 3 Impairment of fixed assets

These charges occur where there is a material reduction in the value of a fixed asset during an accounting period. Impairment charges of £23.508M (£43.240M in 2010/11) were charged to the HRA Income and Expenditure in 2011-12. This represents £4.237M (£2.103M in 2010/11) of capital expenditure incurred in the year that did not add value to the current housing stock valuation and £19.271M (£41.137M in 2010/11) following a re-valuation exercise carried out during the year.

## 4 Revenue Expenditure funded from Capital under Statute

Capital expenditure in 2011/12 included expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets and has been charged as expenditure to the HRA Income and Expenditure Account. Grants received towards the cost of this expenditure can be regarded as revenue grants despite their classification as capital. In 2011/12 Revenue Expenditure funded from Capital under Statute totalled £0.333M (£0.604M in 2010/11), capital grants treated as revenue totalled £0.333M (£0.604M in 2010/11).



# NOTES TO THE HOUSING REVENUE ACCOUNT OF DARLINGTON BOROUGH COUNCIL

## 5 Major Repairs Reserve

An analysis of the movement on the Major Repairs Reserve (MRR) is as follows :-

2010/11 £000		2011/12 £000
0	Balance as at 1 April	
	Transfer to MRR during the financial year	
(3,836)	Depreciation on HRA dwellings	(3,796)
(36)	Depreciation on other HRA assets	(21)
1,500	2010/2011 MRA b/fwd	0
	Transfer to HRA during the financial year	
36	Depreciation on other HRA assets	21
	Transfer from MRR during the financial year in respect of capital expenditure on	
228	Land	0
2,108	Houses	3,796
<u>0</u>	Balance as at 31 March	<u>0</u>

## 6 Capital Expenditure

Capital expenditure within the HRA during 2011/12 was as follows :-

2010/11 £000		2011/12 £000
0	Self Financing	33,300
252	Land	301
6,792	Houses	9,484
3,159	Other property	3,147
<u>10,203</u>	Total capital expenditure	<u>46,232</u>

Total capital expenditure on land, houses and other property within the HRA during 2011/12 was funded via the following sources:

2010/11 £000		2011/12 £000
5,419	Borrowing	37,083
102	Usable capital receipts	110
2,336	Major Repairs Reserve	3,796
0	Revenue	3,988
2,346	Other Grant Funding	1,255
<u>10,203</u>	Total capital expenditure	<u>46,232</u>

A summary of total capital receipts from disposals is as follows :-

2010/11 £000		2011/12 £000
0	Land	0
362	Houses	360
<u>362</u>	Total capital receipts	<u>360</u>

# NOTES TO THE HOUSING REVENUE ACCOUNT OF DARLINGTON BOROUGH COUNCIL

## 7 Depreciation of Fixed Assets

Depreciation charges also form part of the New Financial Framework. They reflect the consumption of HRA assets over their useful life and are as follows:

2010/11 £000		2011/12 £000
0	Land	0
3,836	Houses (= Major Repairs Allowance)	3,796
36	Other property	21
<u>3,872</u>	Total charge for depreciation	<u>3,817</u>
Operational Assets		
3,836	Dwellings	3,796
<u>36</u>	Other land & buildings	<u>21</u>
3,872		3,817
0	Non-operational assets	0
<u>3,872</u>	Total charge for depreciation	<u>3,817</u>

## 8 HRA Subsidy

The amount of HRA subsidy payable to the authority for the financial year is as follows:

2010/11 £000		2011/12 £000
3,049	Management allowance	3,252
5,894	Maintenance allowance	5,912
3,836	Major Repairs Allowance (MRA)	3,796
909	Charges for capital	955
(1,500)	MRA b/fwd	0
<u>12,188</u>		<u>13,915</u>
	less	
(15,233)	Rent	(16,315)
(1)	Interest on receipts	(1)
0	Adjustment to prior year HRA Subsidy	13
<u>(3,046)</u>	Total HRA subsidy receivable / (Transfer to Communities)	<u>(2,388)</u>

## 9 Rent Arrears

Details of gross rent arrears, which include garages, heating and water charges are:

2010/11 £000		2011/12 £000
1,090	Gross rent arrears as at 31 March	1,099

A provision in respect of uncollectable rent debts is included in the consolidated balance sheet.

Year Ended 31 March 2011 £000		Year Ended 31 March 2012 £000
309	Opening provision for uncollectable debts	315
(101)	Amounts written off in the year	(61)
107	Increase in provision for the year	98
<u>315</u>	Closing provision for uncollectable debts	<u>352</u>

# COLLECTION FUND OF DARLINGTON BOROUGH COUNCIL

2010/11		2011/12	NOTES
£000		£000	
	<b><u>Income</u></b>		
(39,611)	Income from Council Tax	(39,629)	3
	Transfers from General Fund		
(8,659)	Council Tax benefits	(8,667)	3
0	Transitional relief	1	3
(29,140)	Income collectable from business ratepayers	(31,634)	2
	Contributions		
(770)	Towards previous year's Collection Fund deficit	(242)	5
<b>(78,180)</b>	<b>Total Income</b>	<b>(80,171)</b>	
	<b><u>Expenditure</u></b>		
48,156	Precepts and demands	48,518	4
	Business rate		
28,991	Payment to national pool	31,485	
149	Costs of collection	148	
	Bad and doubtful debts		
91	Write offs	192	
165	Movement in net provision	(63)	
<b>77,552</b>	<b>Total Expenditure</b>	<b>80,280</b>	
<b>(628)</b>	<b>Collection Fund (surplus)/deficit for the year</b>	<b>109</b>	
815	Collection Fund balance brought forward	187	
(628)	Collection Fund (surplus)/deficit for the year	109	
<b>187</b>	<b>Collection Fund deficit balance c/forward</b>	<b>296</b>	5

# NOTES TO THE COLLECTION FUND OF DARLINGTON BOROUGH COUNCIL

## 1 Collection Fund

In order to comply with the terms of the Local Government and Housing Act 1989 (as amended by the Local Government and Housing Act 1992), local authorities must maintain a separate Collection Fund.

Transactions relating to income from Council Tax payers, non-domestic ratepayers and government grants are shown together with the Borough Council's demand, Police Authority precept and Fire & Rescue Authority precept on the Collection Fund Income and Expenditure Account.

Balances relating to debtors or creditors on this account are included in the Authority's Balance sheet

## 2 Income Collectable From Business Rate payers

Under the national system for non-domestic rates, the Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government.

This money is paid into a national pool, after making reductions for the relief for charities and transitional arrangements.

The Council receives in return a contribution from the pool based on a standard amount per head of adult local population

The total national non-domestic rateable value at 31st March 2012 was £86.310M (£87.280M in 2010/11). The non-domestic rating multiplier for 2011/12 was 43.3p per £ (41.4p per £ in 2010/11) and the small business non-domestic rating multiplier for 2011/12 was 42.6p per £ (40.7p per £ in 2010/11).

## 3 Income From Council Tax

The Council Tax is a tax based on property bandings (A to H).

There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands.

The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts) and converted to an equivalent number of Band D dwellings was calculated as follows:

Band	A	B	C	D	E	F	G	H
Chargeable Dwellings	12,670	6,673	5,338	4,549	3,124	1,524	765	47
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

The Council set a basic council tax in 2011/12 of £1,151.03 (£1,151.03 in 2010/11), being the amount payable in respect of properties in Band D for services provided by Darlington Borough Council.

Durham Police Authority set a Band D council tax in 2011/12 of £153.41 (£153.41 in 2010/11) for their services.

County Durham and Darlington Fire & Rescue Authority set a Band D council tax in 2011/12 of £90.45 (£87.84 in 2010/11) for their services.

A small additional charge is also payable in respect of parish council services in certain areas of the borough.

Council Tax income is therefore:

2010/11 £000		2011/12 £000
53,263	Council Tax levied	53,342
(4,993)	Less allowances	(5,047)
<u>48,270</u>		<u>48,295</u>
Payable from the following sources:		
(39,611)	Billed to Council Tax payers	(39,629)
(8,659)	Council Tax benefits	(8,667)
0	Transitional relief	1
0	Council Tax benefit subsidy limitation	
<u>(48,270)</u>		<u>(48,295)</u>

# NOTES TO THE COLLECTION FUND OF DARLINGTON BOROUGH COUNCIL

## 4 Precepts And Demands

The following precepts and demands were made on the Collection Fund:

2010/11 £000		2011/12 £000
39,825	Darlington Borough Council	40,124
5,298	Durham Police Authority	5,338
3,033	County Durham and Darlington Fire & Rescue Authority	3,056
<u>48,156</u>		<u>48,518</u>

## 5 Contribution In Respect Of Previous Year's Deficit

The estimated previous year's deficit was redistributed in proportion to the precepts and demands of the billing and precepting authorities as follows:

2010/11 £000		2011/12 £000
118	Darlington Borough Council	208
44	Durham Police Authority	56
25	County Durham and Darlington Fire & Rescue Authority	32
<u>187</u>		<u>296</u>

## **Independent auditors' report to the Members of Darlington Borough Council**

We have audited the statement of accounts of Darlington Borough Council for the year ended 31 March 2012 which comprises the Authority Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves Statement, the Authority Balance Sheet as at the end of the period, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 supported by the CIPFA Service Reporting Code of Practice 2011/12.

### ***Respective responsibilities of the Director of Resources and auditors***

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 7, the Responsible Financial Officer is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### ***Scope of the audit of the statement of accounts***

An audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the statement of accounts. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited statement of accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### ***Opinion on statement of accounts***

In our opinion the statement of accounts:

- gives a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2011/12, of the state of the Authority's affairs as at 31 March 2012 and of the Authority's income and expenditure and cash flows for the year then ended; and
- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12.

### ***Opinion on other matter***

In our opinion, the information given in the explanatory foreword for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

### ***Matters on which we are required to report by exception***

We have nothing to report in respect of the Annual Governance Statement on which the Code of Audit Practice issued by the Audit Commission requires us to report to you if, in our opinion, the Statement does not comply with 'Delivering Good Governance in Local Government: a Framework published by CIPFA/SOLACE in June 2007.

### **Conclusion on the Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

#### ***Auditors' responsibilities***

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the [Authority] has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

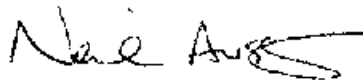
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Darlington Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

### **Certificate**

The audit cannot be concluded and an audit certificate issued in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission because we have not yet completed our assurance work on the Council's Whole of Government Accounts return for the financial year. We are satisfied that this work does not have a material effect on the financial statements.



Neil Austin

For and on behalf of PricewaterhouseCoopers LLP  
Appointed auditors  
Newcastle upon Tyne

28 September 2012

### **Notes:**

- a) The maintenance and integrity of the Darlington Borough Council website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.



# GLOSSARY OF DARLINGTON BOROUGH COUNCIL

## ACCOUNTING PERIOD

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April and ending as at the balance sheet date, 31 March.

## ACCRUALS

The concept that income and expenditure is accounted for as it is earned or incurred, not as money is received or paid.

## ACCOUNTING POLICIES

Those principles, bases conventions, rules and practice applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- recognising
- selecting measurement bases for, and
- presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements.

## ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses)
- the actuarial assumptions have changed.

## AGENCY

The provision of a service by an authority on behalf of another authority, which is legally responsible for providing that service. The responsible authority reimburses the authority providing the service in the first instance.

## ASSET

An item owned by the authority, which has a monetary value. Assets are defined as current or fixed.

- Current assets will be consumed or cease to have value within the next financial year, e.g. stocks and debtors;
- Fixed assets provide benefits to the authority and to services it provides for a period of more than one year, for example, land, buildings, vehicles and equipment;
- Intangible assets are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled through custody or legal rights.

## ASSOCIATE

An entity other than a subsidiary or joint venture in which the reporting authority has a participating interest and over whose operating and financial policies the reporting authority is able to exercise significant influence.

## AUDIT

An independent examination of the Authority's activities, either by internal audit or the Authority's external auditor, who are PricewaterhouseCoopers, LLP.

## BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

## BALANCES

The capital or revenue reserves of the Authority made up of the accumulated surplus of income over expenditure on the General fund or any other fund.

## BUDGET

The forecast of the net revenue and capital expenditure over the accounting period. Members approve budgets, based on policies, linked to the corporate plan.

## CAPITAL CHARGES

A charge to services for the use of fixed assets, which comprises:

- a capital financing charge equivalent to notional interest on the net value of the assets; and
- a depreciation charge based on the remaining finite life of the asset.

## CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period or, expenditure which adds to an existing fixed asset.

# GLOSSARY OF DARLINGTON BOROUGH COUNCIL

## **CAPITAL FINANCING**

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contribution, revenue reserves and earmarked reserves.

## **CAPITAL FINANCING REQUIREMENT**

The capital financing requirement is one of the indicators that must be produced as part of the CIPFA prudential code. This measures the authority's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimate of any additional capital financing requirement for the current and the next two financial years.

## **CAPITAL GRANTS**

Grants received toward capital expenditure on a particular service or project.

## **CAPITAL RECEIPTS**

The proceeds from the disposal of land or other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government, but they cannot be used for revenue purposes.

## **CARRY-FORWARDS**

Unspent revenue budgets which, upon approval, services can use in future years.

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

## **COLLECTION FUND**

The Collection Fund records transactions in respect of council tax and non-domestic rates and illustrates the way in which these have been distributed.

## **COMMUNITY ASSETS**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

## **CONSISTENCY**

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

## **CONTINGENCY**

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain events.

## **CONTINGENT ASSET**

A contingent asset is a possible asset arising from past events 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 condition which exists at the balance sheet date, which may arise in the future but where the outcome will be confirmed only on the occurrence or non-occurrence of one or more future events.

## **CORPORATE AND DEMOCRATIC CORE (CDC)**

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 which 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.

## **COUNCIL TAX**

This is a banded property tax which is levied on domestic properties throughout the Borough. The banding is based on estimated property values as at 1 April 1991.

## **CREDITOR**

Amounts owed by the Authority for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.

# GLOSSARY OF DARLINGTON BOROUGH COUNCIL

## **CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a defined benefit scheme's liabilities expected to rise from employee service in the current period.

## **DEBT OUTSTANDING**

Amounts borrowed to finance capital expenditure that are still to be repaid.

## **DEBTOR**

Amounts due to the Authority for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.

## **DEFERRED CHARGES**

Expenditure of a capital nature, met from borrowing, but where there is no tangible asset, e.g. improvement grants. This includes loans outstanding on assets sold in cases where the sale proceeds were used for new capital investment.

## **DEFINED BENEFIT PENSION SCHEME**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investment of the scheme.

## **DEPRECIATION**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

## **DISCRETIONARY BENEFITS (PENSIONS)**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers such as The Local Government (Discretionary Payments) Regulations 1996.

## **ENTITY**

A body that is delivering a service, or carrying on a trade or business, with or without a view to profit.

## **ESTIMATION TECHNIQUES**

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. An accountancy policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. Estimation techniques include, for example:

- methods of depreciation, such as straight line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a tangible fixed asset consumed in a period.
- Different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

## **EXCEPTIONAL ITEMS**

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

## **EXPECTED RETURN ON PENSION 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 held by the scheme.

## **EXPENDITURE**

Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment, as expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for.

## **EXTRAORDINARY ITEMS**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

## **GLOSSARY OF DARLINGTON BOROUGH COUNCIL**

### **EVENTS AFTER THE BALANCE SHEET DATE**

Events after the balance sheet date are those events, favourable or unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.

### **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 LEASE**

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

### **FIXED ASSETS**

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

### **GOING CONCERN**

The concept that the statement of accounts are prepared on the assumption that the authority will continue in operational existence for the foreseeable future.

### **GOVERNMENT GRANTS**

Grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of the Authority's services. These grants may be specifically towards the cost of particular schemes or to support the revenue spend of the Authority.

### **HERITAGE ASSETS**

An asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### **HOUSING ACT ADVANCES**

Loans made by an authority to individuals or Housing Associations towards the cost of constructing, acquiring or improving dwellings. Loans to individuals are termed mortgages.

### **HOUSING BENEFITS**

A system of financial assistance to individuals toward certain housing costs administered by authorities and subsidised by Central Government.

### **HOUSING REVENUE ACCOUNT (HRA)**

A statutory account maintained separately to the General Fund. It includes all revenue expenditure and income relating to the provision, maintenance and administration of council housing and associated areas.

### **IFRS**

International Financial Reporting Standards. Guidelines and rules set by the International Accounting Standards Board (IASB) that companies and organisations can follow when financial statements.

### **IMPAIRMENT**

A reduction in the value of a fixed asset, below its carrying amount on the balance sheet.

### **INCOME**

Amounts which the Authority receives or expects to receive from any source, including fees, charges, sales and grants.

### **INCOME AND EXPENDITURE ACCOUNT**

The revenue account of the Authority that reports the net cost for the year of the functions for which it is responsible, and demonstrates how that cost has been financed from precepts, grants and other income.

### **INFRASTRUCTURE ASSETS**

A class of fixed assets belonging to the Authority whose life is of indefinite length and which are not usually capable of being sold. Examples include roads and highway works.

### **INTANGIBLE ASSETS**

These are non-financial fixed assets, such as software licences, that do not have physical substance but are identifiable and are controlled custody or legal rights.

### **INTEREST COST (PENSIONS)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to the settlement.

## **IAS 1 - Presentation of Financial Statements**

The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the Council's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

## **IAS 7 - Cash Flow Statements**

The objective of this standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities.

## **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**

The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in IAS 1 Presentation of Financial Statements.

## **IAS 16 - Property, Plant and Equipment**

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

## **IAS 17 - Leases**

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

## **IAS 19 - EMPLOYEE BENEFITS**

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognise:

- (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

## **IAS 24 - RELATED PARTY DISCLOSURES**

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit and loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

## **IAS 32 Financial instruments: Presentation**

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities should be offset.

## **IAS 36 - IMPAIRMENT OF ASSETS**

The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

# GLOSSARY OF DARLINGTON BOROUGH COUNCIL

## IAS 37 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

## INVESTMENTS (PENSION FUND)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

## INVESTMENTS - LONG TERM

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can be clearly demonstrated or where there are restrictions as to the investors ability to dispose of the investment.

## INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed, and which is held for its investment potential.

## JOINT VENTURE

An entity in which the reporting authority has an interest on a long-term basis and is jointly controlled by the reporting authority and one or more other entities under a contractual or other binding arrangement.

## LIABILITY

A liability is where an authority owes payment to an individual or another organisation:

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which, by arrangement is payable beyond the next year at some point in the future, or to be paid off by an annual sum over a period of time.

## LENDER OPTION BORROWER OPTION LOANS (LOBO)

The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase to the end of the term. The lender can opt to increase the interest rate payable at the end of the initial period. If the lender opts to increase the interest rate payable above the fixed rate then the borrower can either agree to this increase and continue to repay the loan up to the maturity date or can reject the new terms and repay the loan in full (without penalty). The inclusion of options within LOBO's means the loans effectively become variable rate instruments and under FRS 4 accounting standard interest should be averaged over the period to the earliest date at which the instrument would be redeemed or cancelled on exercise of such an option rather than the original term of the instrument where there is uncertainty over the term of the instrument.

## LOANS OUTSTANDING

The total amounts borrowed from external lenders for capital and temporary revenue purposes but not repaid at the balance sheet date.

## MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to distortion of the financial statements to a reader of the statements.

## MINIMUM REVENUE PROVISION (MRP)

Represents the minimum amount that must be charged to a revenue account in each financial year to repay external borrowings.

## 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 amount provided for depreciation.

## NET CURRENT REPLACEMENT COST

The cost of replacing an asset in its existing condition and use.

## NET REALISABLE VALUE

The open market value of the asset in its existing use, less the expenses to be incurred in realising the asset.

## **GLOSSARY OF DARLINGTON BOROUGH COUNCIL**

### **NATIONAL NON-DOMESTIC RATE (NNDR)**

NNDR Poundage is set annually by Central Government based on the assessed value of properties used for business purposes and is collected by charging authorities. The proceeds are redistributed by the Government between local authorities based on population.

### **NET WORTH**

The Council's value of total assets less total liabilities.

### **NON-DISTRIBUTED COSTS**

These are overheads for which no user now benefits and as such are not apportioned to services.

### **NON-OPERATIONAL ASSETS**

Fixed assets held by an Council but not directly occupied, used or consumed in the delivery of services. Examples of Non-Operational Assets are investment properties and assets that are surplus to requirements pending sale or development.

### **OPERATING LEASE**

An agreement in which the Council derives the use of an asset in exchange for rental payments, but where the risks and rewards of ownership are not transferred.

### **OPERATIONAL ASSETS**

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

### **PAST SERVICE COST (PENSIONS)**

For a defined benefit pension 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 the improvement to, retirement benefits.

### **PENSION SCHEME LIABILITIES**

The liabilities of a defined benefit 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.

### **POST BALANCE SHEET EVENTS**

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

### **PRECEPT**

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf e.g. Police Authority and Parish Councils.

### **PRIOR YEAR ADJUSTMENT**

Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

### **PRIVATE FINANCE INITIATIVES (PFI)**

PFI's are a method of funding/acquiring assets such as schools, but the supplier of the building is usually an agreed contractor or bidder, usually over a 25 year term. The authority pays for the use of the asset by means of a unitary charge and can acquire the asset after the term if included in the terms of the contract. Up until this point the Council does not own the asset and simply pays for the use of the asset. Government grant is available to assist authorities who enter into these agreements, however, known as PFI credits. These have a direct impact upon the level of government grant paid each year to help pay for the schemes.

### **PROJECTED UNIT METHOD**

An accrued benefits valuation method in which the pension scheme liabilities make allowance for projected earnings. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

### **PROVISION**

An amount put aside in the accounts for liabilities or losses which have occurred but uncertainty surrounds the exact amounts involved or the dates on which they will arise.

# GLOSSARY OF DARLINGTON BOROUGH COUNCIL

## PROVISION FOR CREDIT LIABILITIES

This represents the sum set aside for the repayment of debt. This provision is subsumed within the capital financing reserve.

## PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

## PRUDENTIAL FRAMEWORK

One of the principal features of the Local Government Act 2003 was to provide the primary legislative requirements to introduce a new prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code which has been published by CIPFA.

Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process.

## PUBLIC WORKS LOAN BOARD (PWLb)

This is a Central Government Agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the Government itself can borrow.

## RATEABLE VALUE

The annual assumed rental value of a hereditament, (inheritable property), which is used for NDR purposes.

## RELATED PARTIES

Two or more parties are related, when at any one time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

## RELATED PARTY TRANSACTIONS

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- the provision of services to a related party, including the provision of pension fund administration services;
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

The materiality of related party transactions is judged not only in terms of their significance to the Council, but also in relation to its related party.

## REMUNERATION

Includes taxable salary payments to employees less employees' pensions contributions, together with non-taxable payments when employment ends, taxable expense allowances and any other taxable benefits.

## RESERVES - USABLE

The accumulation of surpluses, deficits and appropriations over past years. Useable Reserves of a revenue nature can be released to spend on services or added to for future spending on services.

## RESERVES - UNUSABLE

Unuseable reserves are reserves that in simple terms balance the Council's Balance Sheet and cannot be released to spend on services e.g. the Revaluation Reserve records the effect of revaluing fixed assets and is not available for general use in the financing of capital expenditure.



# GLOSSARY OF DARLINGTON BOROUGH COUNCIL

## RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

## 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.

## REVENUE BALANCES

These are accumulated surpluses on the General Fund. They can be applied to reduce borrowing, reduce council tax, or held to be applied in future years.

## REVENUE CONTRIBUTIONS

The method of financing capital expenditure directly from revenue. The Council may determine that certain capital schemes should be financed in this way or alternatively may include a prescribed sum in the revenue budget for this purpose.

## REVENUE EXPENDITURE

The day-to-day expenses of providing services. It is usually of a constantly recurring nature and produces no permanent asset, e.g. salaries, wages, supplies and services, and debt charges.

## REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE

Items of capital expenditure, which do not result in, or remain matched by, tangible fixed assets. Revenue Expenditure funded by Capital under Statute is charged to revenue in the year in which the expenditure is incurred.

## REVENUE SUPPORT GRANT

This is a Central Government grant to authorities, contributing towards the cost of their services. It is based on the Government's assessment of how much an authority needs to spend to provide a standard level of service.

## SeRCOP

CIPFA's Service Reporting Code of Practice which was developed from the key principles established from the

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of
- b) Facilitate accurate comparison between both services and authorities;
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line
- d) Represent best practice.

## SCHEME LIABILITIES

The liabilities of a defined benefit 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.

## SPECIFIC GRANTS

Government grants to Local Authorities in aid of particular services.

## SORP – A STATEMENT OF RECOMMENDED PRACTICE

The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority.

## STOCKS

Items of raw materials and stores an authority has produced to use on a continuing basis and which it has not yet used. Examples are consumable stores, raw materials and components purchased for incorporation into products for sale.

## TEMPORARY BORROWING/INVESTMENT

Money borrowed or invested for an initial period of less than one year.

## 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 overheads, which need to be apportioned.

## TRUST FUNDS

## GLOSSARY OF DARLINGTON BOROUGH COUNCIL

Funds administered by the Council for such purposes as prizes, charities, specific projects and on behalf of minors.

### UNAPPORTIONABLE CENTRAL OVERHEADS (UCO)

These are overheads for which no user now benefits and should not be apportioned to services.

### USEFUL LIFE

The period over which the Local Authority will derive benefits from the use of a fixed asset.

### WORK IN PROGRESS

The cost of work done on an uncompleted project at the balance sheet date, which should be accounted for.

**A copy of the Statement of Accounts is available on the Council's website on [www.darlington.gov.uk](http://www.darlington.gov.uk)**

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