

# **DARLINGTON BOROUGH COUNCIL**

## **Statement of Accounts**

**2006/2007**

# **STATEMENT OF ACCOUNTS**

**2006 / 2007**

	<b>Page</b>
<b>Contents:</b>	
<b>Explanatory Foreword</b>	<b>2</b>
<b>Statement of Accounting Policies</b>	<b>8</b>
<b>Statement of Responsibilities for the Statement of Accounts</b>	<b>16</b>
<b>Income and Expenditure Account</b>	<b>17</b>
<b>Statement of the Movement on the General Fund Balance</b>	<b>18</b>
<b>Statement of Total Recognised Gains and Losses</b>	<b>20</b>
<b>Balance Sheet</b>	<b>21</b>
<b>Cash Flow Statement</b>	<b>22</b>
<b>Notes to the Core Financial Statements</b>	<b>23</b>
<b>Housing Revenue Account Income and Expenditure Account</b>	<b>46</b>
<b>Statement of Movement on the Housing Revenue Account Balance</b>	<b>47</b>
<b>Notes to the Housing Revenue Account</b>	<b>48</b>
<b>Collection Fund Account</b>	<b>51</b>
<b>Notes to the Collection Fund Account</b>	<b>52</b>
<b>Auditors Report</b>	<b>54</b>
<b>Statement on Internal Control</b>	<b>58</b>
<b>Glossary</b>	<b>63</b>

# **EXPLANATORY FOREWORD**

## **1 Introduction**

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 2006/07 and its financial position as at 31<sup>st</sup> March 2007.

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2006 (SORP) introduced many new changes to the way the Statement of Accounts is reported. The substantive changes that affect Darlington Borough Council's Statement of Accounts for 2006/07 are:

- From 1st April 2006 the Council is no longer required to make a notional interest charge against service revenue accounts and as a consequence the requirement to maintain an Asset Management Revenue Account has been removed.
- Replacement of the Consolidated Revenue Account and Statement of Total Movement on Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses.
- A requirement to group the 'core' financial statements together followed by the notes to the core statements followed by supplementary statements (e.g. Collection Fund and Housing Revenue Account).

## **2 Information and Financial Statements**

The Council's Accounts for the year ended 31<sup>st</sup> March 2007 are set out in the following pages and a glossary of terms used is provided on pages 62 to 67.

The information and financial statements are as follows:

### **Statement of Accounting Policies (pages 8 - 15)**

Shows the policies adopted in compiling the Accounts.

### **Statement of Responsibilities for the Statement of Accounts (page 16)**

Sets out the responsibilities of the Authority and the Director of Corporate Services.

### **Income and Expenditure Account (page 17)**

The Income and Expenditure Account is fundamental to the understanding of a local authority's activities. It brings together all of the functions of the authority and summarises all of the revenue resources that the authority has generated, consumed or set aside in providing services during the year. As such, it is intended to show the financial position of the authority, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.

### **Statement of Movement on the General Fund Balance (pages 18 - 19)**

The Statement of Movement on the General Fund Balance provides the necessary reconciliation between the outturn on the Income and Expenditure Account and the balance established by the relevant statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes.

### **Statement of Total Recognised Gains and Losses (STRGL) (page 20)**

The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. However, an authority will be recognising other gains and losses in its Balance Sheet that are not debited or credited to the Income and Expenditure Account. The Statement of Recognised Gains and Losses is the statement that brings these other gains and losses together with the outturn on the Income and Expenditure Account to show the total movement in an authority's net worth for the year.

### **Balance Sheet (page 21)**

This shows the balances and reserves available to the Council; its long-term liabilities; the fixed and net current assets employed in its operations and summarised information on the fixed assets held.

## EXPLANATORY FOREWORD

### **Cash Flow Statement (page 22)**

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

### **Notes to the Core Statements (pages 23 - 45)**

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

### **Housing Revenue Account (pages 46 - 50)**

This deals with the provision and maintenance of Council housing. There is a statutory requirement to keep this account separate from other Council services, as defined in schedule 4 of the Local Government and Housing Act 1989.

### **Collection Fund Revenue Account (pages 51 - 53)**

This is a statutory fund, showing transactions in relation to Council Tax and National Non Domestic Rates and illustrates the way in which they have been distributed to both Precepting Authorities and the Council's General Fund.

### **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 although it has identified one associate i.e. Connexions, the consolidation into the accounts would not have a material effect on the Council's financial position. Consequently, no group accounts have been prepared (**see page 32 Note 15**).

### **Auditor's Report (page 54 - 56)**

The Auditor's opinion gives an independent view on the Council's accounts for the year ended 31<sup>st</sup> March 2007.

### **Statement on Internal Control (pages 57 - 61)**

This statement sets out the main elements of the system of internal control within the Council and the results of a review of the effectiveness of the system.

## **3 Where the Money Comes From and How it was Spent**

Where the money comes from:

<b>Gross Income</b>	<b>2005/06</b>		<b>2006/07</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Gross Council Rents	13,223	5.9	13,677	5.7
Revenue Support Grant	47,451	21.1	5,146	2.1
Non Domestic Rate Grant	32,571	14.4	26,657	11.1
Dedicated Schools Grant	0	0	53,941	22.4
Demand on Collection Fund	31,984	14.2	33,928	14.1
Specific Government Grants	52,197	23.2	59,590	24.8
Charges for Services	29,565	13.1	25,210	10.5
Other Income	18,176	8.1	22,286	9.3
	<b>225,167</b>	<b>100.0</b>	<b>240,435</b>	<b>100.0</b>

## EXPLANATORY FOREWORD

How it was spent:

<b>Gross Expenditure</b>	<b>2005/06</b>		<b>2006/07</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Central Services to the Public	4,544	2.0	3,052	1.3
Cultural Environmental & Planning Services	32,866	14.6	37,763	15.7
Education Services	88,913	39.5	93,532	38.9
Highways Roads & Transport Services	10,658	4.7	9,745	4.1
Housing Services	43,771	19.5	48,446	20.1
Social Services	39,644	17.6	42,838	17.8
Other Services	4,771	2.1	5,059	2.1
	<b>225,167</b>	<b>100.0</b>	<b>240,435</b>	<b>100.0</b>

**Note:**

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

What it was spent on:

<b>Type of Expenditure</b>	<b>2005/06</b>		<b>2006/07</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Employees	91,994	40.9	104,267	43.37
Running Expenses	118,166	52.4	124,865	51.93
Capital Financing	15,007	6.7	11,303	4.70
	<b>225,167</b>	<b>100.0</b>	<b>240,435</b>	<b>100.0</b>

## EXPLANATORY FOREWORD

### 4 Comparison of Actual with Budget - Revenue

<b>Net Expenditure 2006/07</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	£'000	£'000	£'000
<b><i>Departmental Resources</i></b>			
Children's Services	74,337	74,580	243
Community Services	34,762	34,557	(205)
Development & Environment	12,024	12,027	3
Chief Executives' Office	1,119	1,151	32
Corporate Services	8,908	8,716	(192)
<b>Total Departmental Resources</b>	<b>131,150</b>	<b>131,031</b>	<b>(119)</b>
<b><i>Corporate Resources</i></b>			
Joint Bodies & Levies	593	605	12
Financing Costs	2,745	2,458	(287)
Single Status	22	22	0
Leading Edge Efficiencies	(34)	(34)	0
<b>Net Expenditure</b>	<b>3,326</b>	<b>3,051</b>	<b>(275)</b>
<b><i>Reserves</i></b>			
Planned Use of General Fund Reserve	(2,389)	(2,389)	0
In-year approvals	(246)	(246)	0
Approved by Council 2007	287	287	0
Planned Use of Departmental Reserves	(838)	(838)	0
General Fund Reserves	0	394	394
<b>Total Reserves</b>	<b>(3,186)</b>	<b>(2,792)</b>	<b>394</b>
<b>Less Depreciation</b>	<b>(11,366)</b>	<b>(11,366)</b>	
<b>Total Resources</b>	<b>119,924</b>	<b>119,924</b>	<b>0</b>

In March 2006 the Council set a net revenue budget of £119.924M and approved a contribution from reserves of £2.389M. Additional approvals made in accordance with the Council's Constitution during the year increased the approved contribution by £0.246M to £2.635M. Changes approved in the MTFP by Council in March 2007 resulted in a planned net contribution to reserves of £0.702M. Variances in income and expenditure resulted in the actual contribution being £1.101M. There is a planned use of reserves in 2007/08 of £2.103M as set out in the Medium Term Financial Plan.

At 31st March 2007, the Council had reserves of £13.100M available to fund future general revenue expenditure. The MTFP approved by Council in March 2007 includes the planned use of £6.049M of reserves over the next four years to 2010/11.

### 5 Corporate Governance

The Council has adopted a local code of corporate governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework 'Corporate Governance in Local Government: A Keystone for Community Governance'. It endeavours to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

## EXPLANATORY FOREWORD

### 6 Comparison of Actual with Resources - Capital

	Approved budget £'000	Planned spending 2006/07 £'000	Actual £'000	Resources C/Fwd £'000
<b>Capital expenditure 2006/07</b>				
Children's Services	9,789	9,438	6,462	3,327
Housing	14,779	13,226	12,030	2,749
Transport	18,168	6,597	6,123	12,045
Community Services	9,028	7,024	6,706	2,322
Corporate Services	2,681	2,454	1,037	1,644
Development and Environment	11,888	8,889	7,590	4,298
Adult Services	513	398	39	474
Prudential borrowing for Leasable Assets	1,216	1,216	1,216	0
Total	<b>68,062</b>	<b>49,242</b>	<b>41,203</b>	<b>26,859</b>
Financed by				
*Supported Borrowing			4,174	
Corporate** Unsupported Borrowing			4,586	
Departmental Unsupported Borrowing			7,514	
Capital Grants			13,225	
Major Repairs Allowance- Housing Grant			3,450	
Capital Contributions			602	
Housing Revenue Account Capital Receipts			1,682	
General Fund Capital Receipts			2,695	
Revenue Contributions			3,275	
			<b>41,203</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 2006/07 totalled £68.062M however not all of the resources were planned to be expended during 2006/07. The total Capital expenditure planned to be incurred in 2006/07 was £49.242M against actual spend of £41.203M which equates to 83%. The slippage into 2007/08 will be financed by unsupported borrowing, grants carried forward, Usable Capital Receipts and Capital Contributions.

### 7 Local Government Pension Scheme

Following full implementation of FRS 17, the accounts show the benefit entitlement earned by employees of the Local Government 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 pension liability of £82.380M from £292.681M to £210.301M (In 2005/06 the pension liability of £80.330m reduced the net worth from £195.986M to £115.656M). However, statutory arrangements mean that the deficit on the Pension Fund will be made good by increased contributions over the working life of employees, as assessed by the Fund actuary. Further information is available in **Note 24** (page 36) in the Notes to the Core Financial Statements.

### 8 Comprehensive Performance Assessment (CPA)

The result of the Council's Comprehensive Performance Assessment (CPA), 'the harder test' was re-assessed in February 2007 and retained its 'four star' status (the highest possible rating) with an 'improving well' direction of travel. This was an outstanding achievement for the Council as the requirements of the revised CPA process were much more demanding than the previous regime. The Council is also developing an action plan 'Leading Edge' to make further improvements to the services provided to the people of Darlington.

### 9 Private Finance Initiative

The Education village was completed in March 2006 and the new Harrowgate Hill Primary School was completed in September 2005. Both are part of the approved funding of £34.900M by the Department for Children, Schools & Families (DCSF). A recognition of the long-term contract entered into with partners Kajima Darlington Schools Ltd can be found in **Note 14** (page 31) in the Notes to the Core Financial Statements.

## EXPLANATORY FOREWORD

### **10 Equal Pay**

The Council has received, both prior to and during 2006/07, a number of equal pay claims which are 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 remain outstanding, these claims will be periodically reviewed to ensure the Council takes appropriate and timely action where necessary.

### **11 Single Status**

The Council implemented a new Pay and Grading Structure for all staff as from 1st July 2005 in order to implement the Single Status Agreement 1997 and Implementation Agreement 2004 which is applicable to all green book employees. A £2.500M provision was created in 2005/06 for backdated increases which was utilised during 2006/07. The final total of backdated pay increase for 2005/06 was £2.037M with a further provision created in 2006/07 of £0.370M for Appeals against the Agreement.

### **12 Material Assets Acquired Capital Works and Disposals during 2006/07**

The Council has not made any major acquisitions of either land or property during 2006/07

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

	£'000
Operational Building-improvements	6,523
Childrens Services Improvements to Schools	5,530
Housing Stock - improvements	8,366
Highways and Transport Infrastructure	12,062
Community assets Improvements	772
Development Services	669
Vehicles Plant and Equipment	2,387
Other expenditure not affecting assets	4,894
<b>Total</b>	<b>41,203</b>

There were two major asset disposals made during the year, both of which related to sale of land for regeneration purposes

	£'000
Part sale of Morton Palms site	632
Part sale of Faverdale site	680
	<b>1,312</b>

### **Authority's Borrowing Position and the Prudential Code**

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 2006/07 were as follows:

Authorised Limit for External Debt for 2006/07 of £112.380m

Operational Boundary for External Debt for 2006/07 of £97.722m

As part of the Authority's Treasury Management function these two Prudential Indicators are monitored on a regular basis and neither of these limits were breached during 2006/07. The maximum gross borrowing position during 2006/07 was £95.242m an increase of £8.639m on the previous year (see **Note16** in the Notes to the Core Financial Statements page 33).

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.

### **13 Further Information**

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

# **STATEMENT OF ACCOUNTING POLICIES**

## **1 General**

The accounts have been prepared in accordance with the principles of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP), issued in 2006 by the Chartered Institute of Public Finance and Accountancy (CIPFA) except where disclosed below. The analysis of service expenditure included in the Income and Expenditure Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

## **2 Accruals of Income and Expenditure**

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

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- 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 stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income 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 it is doubtful that debts will 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.

## **3 Long Term Investments**

Long-term investments are shown in the Balance Sheet at cost. Further details are available in **Note 15** (page 32) to the Core Statements.

## **4 Provisions**

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

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

# **STATEMENT OF ACCOUNTING POLICIES**

## **5 Reserves**

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the council - these reserves are explained in the relevant policies below.

## **6 Government Grants and European Grants**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

## **7 Deferred Charges**

Deferred charges represent expenditure, which may properly be capitalised under statutory provisions but does not result in the creation of tangible assets. They include grants made to other bodies or individuals e.g. improvement grants. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the levels of council tax.

## **8 VAT**

Income and Expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

## **9 Retirement Benefits**

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

- The Local Government Pensions Scheme, administered by Durham County Council.
- The Teachers' Pension Scheme, administered by the Teachers' Pension Agency on behalf of the Department of Education and Skills (DfES).

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the balance sheet and the Children's Services service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year. The Council, however, is also responsible for the costs of any additional benefits awarded upon early retirement outside of the standard terms of the Teachers Scheme. These benefits are fully accrued in the pensions liability described in Note 24 (page37) in the Notes to the Core Financial Statements in accordance with FRS17.

# STATEMENT OF ACCOUNTING POLICIES

## The Local Government Pension Scheme

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

- The liabilities of the Durham County Pension Fund Scheme 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 earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.3 % (based on the indicative rate of return on high quality corporate bonds).
- The assets of the Durham County Council Pension Fund attributable to the council are included in the balance sheet at their fair value:
  - quoted securities - mid market value
  - unquoted securities - professional estimate
  - unitised securities - average of the bid and offer rates
  - property - market value.
- 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 in this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
  - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
  - interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account
  - expected return on assets - the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return - credited to Net operating Expenditure in the Income and Expenditure Account
  - gains/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 to the Net cost of Services in the Income and Expenditure Account 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 Statement of Total Recognised Gains and Losses
  - contributions paid to the Durham County Council Pension Fund - cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

## 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.

# STATEMENT OF ACCOUNTING POLICIES

## 10 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 Best Value Accounting Code of Practice 2006. 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.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

The bases of allocation used for the main cost of management and administration are outlined below:

<u>Cost</u>	<u>Basis Of Allocation</u>
Corporate Departments (Finance, Human Resources, ICT, Legal)	Time Recording
Administrative Buildings	Area Occupied
Professional Services (e.g. Engineers)	Time Recording

## 11 Stocks and Work in Progress

All work in progress, stocks and stores at the year end are valued 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 SORP 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.

## 12 Interests in Companies and Other Entities

The Council has fully complied with the SORP and implemented the requirement to collate its interests in companies. The Council has identified those companies that are subsidiaries, associates or joint ventures in accordance with the guidance detailed in the Statement of Recommended Practice, the provisions of FRS2 "Accounting for Subsidiary Undertakings" and the provisions of FRS9 "Associates and joint ventures". The exercise identified that the Council has one associate company but it is not deemed to be material in respect to the Accounts and therefore no Group Accounts have been prepared.

## 13 Delegated Budgets

Schools with delegated budgets may carry forward any under spending or over spending (as long as it is backed up with an approved recovery plan) to the following financial year as an earmarked reserve. Details of these reserves can be found in **Note 26** (page 41) in the Notes to the Core Financial Statements.

## 14 Investments

Investments are shown in the Consolidated Balance Sheet at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall. The largest investments were in the form of deposits with banks and building societies using funds not currently required for operational purposes.

# STATEMENT OF ACCOUNTING POLICIES

## 15 Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Capital expenditure under £5,000 is classified as de-minimis and is written down to the Fixed Asset Restatement Account and has no effect on fixed assets in the balance sheet.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Practice and Guidance notes issued by the Royal Institute of Chartered Surveyors. Different categories of fixed assets have been valued on different bases.

The asset values used in the accounts are based upon a certificate issued by the Council's Director of Development & Environment. Recent additions are included in the accounts at their cost of acquisition.

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset e.g. repairs and maintenance, is charged to revenue as it is incurred.

**Measurement:** Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- investment properties and assets surplus to requirements - lower of net current replacement cost or net realisable value.
- dwellings, other land and buildings, vehicles, plant and equipment - lower of net current replacement or net realisable value in existing use.
- infrastructure assets and community assets - depreciated historical cost

Net current replacement cost is assessed as:

- non-specialised operational properties - existing use value
- specialised operational properties - depreciated replacement cost
- investment properties and surplus assets - market value

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

**Impairment:** the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account.
- otherwise - written off against the Fixed Asset Restatement Account.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the income and expenditure account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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.

# STATEMENT OF ACCOUNTING POLICIES

Amounts 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 Usable 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 Statement of Movement on the General Fund Balance.

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

**Depreciation:** depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the life of the property as estimated by the valuer
- vehicles, plant 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 25 years.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

**Grants and contributions:** where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

## 16 Intangible Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

## 17 Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down on a straight-line basis over the term of the replacement loans.

## 18 Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- amortisation of intangible fixed assets attributable to the service.

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

# **STATEMENT OF ACCOUNTING POLICIES**

## **19 Leases**

### **Finance Leases**

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council. Rentals payable are appropriated between:

- a charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset - the liability is written down as the rental becomes payable) and
- a finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Where the authority acts as a lessor, annual rentals are included as revenue income within the accounts of the relevant service and all appropriate disclosures are made within the accounts in full compliance with SSAP21 "Accounting for Leases and Hire Purchase Contracts" and FRS35 "Reporting the Substance of Transactions".

## **20 Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets to provide the services passes to the PFI contractor. Payments made by the council under a contract are generally charged to revenue to reflect the value of services received in each financial year.

### **Prepayments**

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement on the General Fund Balance to remove any impact on council tax or rents.

### **Reversionary Interest**

The asset belonging to the PFI contractor will revert to the council at the end of the scheme (reversionary interest). An assessment has been made of the net present value that this asset will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the council's balance sheet.

As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the council.

### **Residual Interest**

Where assets created or enhanced under the PFI scheme are to pass to the council at the end of the scheme at a cost less than fair value, an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long term debtor over the contract life by reducing the amount of the unitary payment charged to revenue.

### **PFI Credits**

Government Grants received for PFI schemes, in excess of current levels of expenditure, are carried forward as an earmarked reserve to fund future contract expenditure.

# **STATEMENT OF ACCOUNTING POLICIES**

## **21 Internal Interest**

Interest is credited to the General Fund and the Housing Revenue Account based on the level of their Fund Balances. The amounts are calculated using 7-day money market rates.

## **22 External Interest Paid**

Interest payable on sums borrowed by the Authority are included in the accounts on an accruals basis.

## **23 FRS4 –Capital instruments- Lender Option Borrower Option Loans (LOBO's)**

The common feature of these loans is a reduced interest rate for an initial period and then a stepped increase fixed to the end of the term. With regard to interest charged to the Revenue Account for this type of loan, it comprises part of the total debt of the Council. The interest charged reflects the average interest payable over the expected life of the loan, which is anticipated to be ten years, rather than the interest payable in any one year.

## **24 External Interest Received**

Interest receivable is also accrued and accounted for in the accounts of the period to which it relates.

## **25 Landfill Allowance Trading Scheme (LATS)**

The above scheme was introduced by the government to encourage councils to reach certain recycling targets over a period from 2005/06 up to the year 2011/12. Under the scheme, if Councils fail to meet their targets, by improving waste collection and recycling and using or trading their allowances, then heavy fines are incurred. The targets are progressively tougher in each year up to 2011/12. The scheme is therefore essentially a 'cap and trade' scheme whereby local authorities can trade the allowances allocated to them each year by the government, or they can elect to retain these to use in future years in order to meet the more challenging targets. The amount that they can use from future years allocations is also capped by the regulations in order to control the proper use of allowances.

Landfill Allowances are valued at the lower of cost or net realisable value.

## **26 Changes in Accounting Policies**

The implementation of the SORP 2006 on 1st April 2006 resulted in significant changes to the presentation of the Statement of Accounts. As a result, the 2005/06 figures have been restated to comply with the new requirements, which are intended to bring local authority accounts more in line with UK GAAP. The new SORP resulted in prior year adjustments to remove notional interest, amortise government grants within Net Cost of Services, and include gains or losses in the Income and Expenditure Account.

There have been no other major changes in the Authority's accounting policies during 2006/07.

# **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

## **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 Corporate Services.
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- approve the Statement of Accounts.

## **The Director of Corporate Services's Responsibilities**

The Director of Corporate Services 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 Corporate Services has:

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

The Director of Corporate Services has also:

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

## **Director's Statement**

This Statement of Accounts has been prepared in accordance with the statutory requirements and proper accounting practices. It presents fairly the Council's financial position as at 31<sup>st</sup> March 2007 and the income and expenditure for 2006/2007.

Paul Wildsmith \_\_\_\_\_

Dated: \_\_\_\_\_

Director of Corporate Services

## **Certification of the Statement of Accounts**

As Chair of the Audit Committee meeting held on 28th June, 2007, I hereby acknowledge receipt of the Statement of Accounts for 2006/2007 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit Committee meeting of 28th June, 2007 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Chair \_\_\_\_\_

Dated: \_\_\_\_\_

Borough Solicitor \_\_\_\_\_

Dated: \_\_\_\_\_

## INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed, and the real projected value of retirement benefits earned by employees in the year.

2005/06		2006/07			Notes
		GROSS EXPENDITURE £000	INCOME £000	NET EXPENDITURE £000	
NET EXPENDITURE RESTATED £000					
1,476	Central services to the public	2,936	(2,893)	43	
19,055	Cultural, environmental & planning services	37,481	(15,833)	21,648	
63,847	Education services	93,592	(79,827)	13,766	
5,750	Highways, roads & transport services	9,529	(3,402)	6,127	
(2,293)	Housing services	48,383	(51,431)	(3,048)	
26,826	Social services	42,834	(14,372)	28,462	
5,977	Corporate and democratic core	4,989	(0)	4,989	
100	Non Distributed Costs	60	-	60	
<b>120,738</b>	<b>Net Cost of Services</b>	<b>239,804</b>	<b>(167,758)</b>	<b>72,046</b>	
7,517	(Gain) / Loss on the disposal of fixed assets			(159)	
38	Parish council precepts			43	
(1,655)	Surplus on trading undertakings not included in Net Cost of Services			(653)	5
3,992	Interest payable and similar charges			4,126	
2,379	Contribution of housing capital receipts to Government Pool			1,973	
(1,723)	Interest and investment income			(3,979)	
10,580	Pensions interest			11,250	24
(8,220)	Expected return on assets			(10,240)	24
<b>133,646</b>	<b>Net operating expenditure</b>			<b>74,408</b>	
(31,984)	Borough Council demand on Collection Fund			(33,828)	
100	Transfer from the Collection Fund in respect of the previous year's (surplus)/deficit			(100)	
(47,451)	General government grants			(5,169)	
(32,571)	Contribution from non-domestic rates pool			(26,659)	
(653)	Local Authority Business Growth Incentive			(1,908)	
<b>21,087</b>	<b>Net General Fund deficit for the year</b>			<b>6,744</b>	

The outturn on the Income and Expenditure Account is different from the movement on the General Fund Balance for the year, particularly where there are substantial differences between capital accounting entries and charges for financing capital expenditure and employer's contributions to the pension fund include a substantial element for the recovery of underfunding in the fund.

Any substantial surplus on the I&E Account does not necessarily mean that the authority has resources available to increase spending or reduce council tax and conversely any substantial deficit on the account does not necessarily mean that immediate action is needed to cut expenditure or raise council tax.

The outturn on the Income and Expenditure Account needs to be taken along side the Movement on the General Fund Balance to give the definitive measure of the authority's financial performance for the year.

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance shows whether the Council has over or under-spent against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the income and Expenditure Account and the General Fund Balance.

<b>AS AT 31 MARCH 2006</b>		<b>AS AT 31 MARCH 2007</b>
<b>£000's</b>		<b>£000's</b>
21,087	(Surplus)/Deficit for the year on the Income and Expenditure Account	6,744
(21,930)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (see note on page 20)	(7,523)
(843)	Increase in General Fund Balance for the Year	(779)
(11,994)	General Fund Balance brought forward	(12,837)
<b>(12,837)</b>	General Fund Balance carried forward	<b>(13,616)</b>
(12,837)	Amount of General Fund Balance generally available for new expenditure	(13,616)
<b>(12,837)</b>		<b>(13,616)</b>

**NOTE OF RECONCILING ITEMS FOR THE STATEMENT ON THE  
GENERAL FUND BALANCE**

YEAR TO 31 MARCH 2006		For the Year To 31 MARCH 2007
£000's	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	£000's
(10,818)	Depreciation and impairment of fixed assets	(12,662)
1,204	Government Grants Deferred amortisation	1,492
(4,243)	Write downs of deferred charges to be financed from capital resources	(350)
(7,517)	Net gain / (loss) on sale of fixed assets	159
(1,730)	Net charges made for retirement benefits in accordance with FRS17	(680)
(23,104)	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	(12,041)
1,607	Minimum revenue provision for capital financing	1,976
3,100	Capital expenditure charged in-year to the General Fund Balance	3,275
(2,379)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,973)
2,328	<b>Transfers (to) or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	3,278
188	Housing Revenue Account Balance	(65)
321	Voluntary revenue provision for capital financing	723
110	Net transfer to or from earmarked reserves	(440)
(800)	Schools Revenue Reserve	0
(8)	PFI Reserve	(23)
(1,000)	Major Repairs Reserve	0
(139)	Insurance Reserve	980
174	PFI Residual Interest Account	65
(1,154)	Other	
(21,930)	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	1,240
		(7,523)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

<b>RESTATED AS AT 31 MARCH 2006</b>		<b>AS AT 31 MARCH 2007</b>
<b>£000</b>		<b>£000</b>
21,087	(Surplus) / Deficit for the year on the Income and Expenditure Account	6,744
(54,636)	(Surplus) / Deficit arising on revaluation of fixed assets and other Gains and Losses	(101,538)
(8,240)	Actuarial (gains)/losses on pension fund assets and liabilities	1,370
<b>(41,789)</b>	Total recognised (gains)/losses for the year	<b>(93,424)</b>

## BALANCE SHEET AS AT 31st MARCH 2007

RESTATED AS AT 31 MARCH 2006		AS AT 31 MARCH 2007	NOTES
£000		£000	
0	<b>Fixed Assets</b>	0	
	<b>Intangible Fixed Assets</b>		
73,430		186,050	
177,623		178,276	
5,012		5,984	
16,771		16,228	
5,998		6,692	
8,057	<b>Operational Assets</b>	11,198	
262	Council Dwellings		
7,290	Other Land and Buildings	803	
	Vehicles, Plant and Equipment	6,185	
	Infrastructure Assets		
	Community Assets		
	<b>Non Operational Assets</b>		
	Investment Properties		
	Assets Under Construction		
	Surplus Assets held for Disposal		
294,443	<b>Total Fixed Assets</b>	411,416	11a
3,527		2,842	15
122	<b>Long Term Investments</b>		
139			
249	<b>Long Term Debtors</b>		
	Mortgages	99	
	Residual Interest in PFI Schemes	980	
	Other	251	14
298,480	<b>Total Long-Term Assets</b>	415,588	
	<b>Current Assets</b>		
771	Stocks and Work in Progress	688	
14,398	Debtors	12,084	17
923	Landfill Allowance Trading Scheme	612	
46,023	Investments (Short Term)	43,072	
62,115		56,456	
360,595	<b>Total Assets</b>	472,044	
(30,363)	<b>Current Liabilities</b>		
(795)	Creditors	(32,374)	18
(1,055)	Landfill Allowance Trading Scheme	(365)	
(32,213)	Bank Overdraft	(1,384)	
328,382		(34,123)	
	<b>Total Assets less Current Liabilities</b>	437,921	
(86,603)	<b>Long Term Borrowing</b>	(95,242)	16
(244)		(197)	
1,253		1,110	
(42,534)	<b>Deferred Liabilities</b>	(50,373)	
(80,330)		(82,380)	24
(4,268)	<b>Deferred Assets</b>	(1,759)	
(212,726)	<b>Government Grants Deferred</b>		
115,656	<b>Liability related to defined benefit pension scheme</b>		
	<b>Provisions</b>		19
		(228,841)	
	<b>Total Assets less Liabilities</b>	209,080	
	<b>Financed By :</b>		
98	<b>Deferred Capital Receipts</b>	81	20
144,424	<b>Fixed Asset Restatement Account</b>	241,090	20
27,734	<b>Capital Financing Account</b>	27,482	20
1,414	<b>Usable Capital Receipts Reserve</b>	163	20
(80,330)	<b>Pensions Reserve</b>	(82,380)	24
22,316	<b>Reserves</b>	22,644	20
115,656	<b>Total Net Worth</b>	209,080	

# CASH FLOW STATEMENT

2005/06	DESCRIPTION	2006/07		
£000		£000	£000	£000
100,105	<b>Revenue Activities</b>			
122,427	<b>Cash Outflows</b>			
12,877	Cash Paid To Employees	108,765		
24,914	Other Operating Cash Payments	118,429		
3,129	Housing Benefit Paid Out	13,989		
2,392	Payment To Non-Domestic Rates Pool	27,616		
2,612	Precept Paid To Durham Police Authority	3,348		
268,456	Precept Paid To Durham Fire and Rescue Authority	2,558		
(5,543)	Payments to the Capital Receipts Pool	2,378	277,083	
(32,399)				
(26,711)				
(32,571)				
(47,451)				
0				
(27,648)				
(35,184)				
(57,485)				
0				
(264,992)				
3,464				2,283
	<b>Returns On Investments And Servicing Of Finance</b>			
3,853	<b>Cash Outflows</b>			
14	Interest Paid	4,178		
	Interest Element of Finance Leasing Payments	11	4,189	
(41)				
(2,242)	<b>Cash Inflows</b>			
0	Dividends received	(77)		
1,584	Interest Received	(2,025)		
	Receipt from Newcastle International Airport	(1,870)	(3,972)	217
	<b>Capital Activities</b>			
26,290	<b>Cash Outflows</b>			
	Payments For Capital Schemes	30,688	30,688	
(7,983)	<b>Cash Inflows</b>			
(17,052)	Sale Of Fixed Assets	(5,064)		
1,255	Capital Grants Received	(19,728)	(24,792)	5,896
6,303	<b>Net Cash Outflow/(Inflow) Before Financing</b>			8,396
7,951	<b>Management of Liquid Resources</b>			
	Net Increase/(Decrease) In Short Term Deposits	525	525	
	<b>Financing</b>			
7,099	<b>Cash Outflows</b>			
43	Repayment of Loans	35,769		
	Capital Element Of Finance Leasing Payments	47	35,816	
(21,474)	<b>Cash Inflows</b>			
0	New Long-Term Loans Raised	(44,408)		
(14,332)	New Short-Term Loans Raised	0	(44,408)	
(6,381)	<b>Total Financing</b>			(8,067)
(78)	<b>Net (Increase) Decrease in Cash</b>			329

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1 Long Term Contracts- Private Finance Initiative (PFI)

The Council's first PFI scheme, the Education Village and Harrogate Hill Primary School became operational in March 2006 and August 2005 respectively. The SORP requires the Council to provide details about the contract and committed revenue resources for future financial years. The Authority accounts for the net amount of the unitary charge for the PFI contract but reduced by the effect of the PFI Credit Government Grant support received in the financial year to which it relates and is included on the Children's Services Line within the Consolidated Revenue Account.

The Council is also committed to make further payments estimated at £101.443M over the remaining term of the 25 year contract but this figure is reduced by the impact of the PFI credits which has been estimated as totalling £75.343M worth of central government grant support over the same contract period. This then leaves an estimated remaining cost of the PFI scheme for future years to the Council of £26.100M as at 31st March 2007. It is also important to note that the costs of the scheme will also take into account budgets which previously covered the facilities now provided by both the Education Village and Harrogate Hill Primary School.

Period	Unitary Payments £000's	PFI Credits £000's	Net Cost £000's
2007/08	4,677	3,200	1,477
2008/2009 - 2012/2013	22,450	16,002	6,448
2013/2014 - 2017/2018	21,381	16,002	5,379
2018/2019 - 2022/2023	20,913	16,002	4,911
2023/2024 - 2027/2028	20,989	16,002	4,987
2028/2029 - 2030/2031	11,033	8,135	2,898
Totals	<b>101,443</b>	<b>75,343</b>	<b>26,100</b>

## 2 Discretionary Expenditure

The Local Government Act 2000 granted powers to authorities in England & Wales to promote well being in their area. As a consequence, the majority of the provisions of section 137 were repealed with effect from October 2000. Principal authorities in England and Wales will continue to disclose any expenditure incurred under section 137(3), eg donations to charities, not-for-profit bodies and mayoral appeals, but there is no specified limit on such expenditure.

The council's expenditure under this power was £36,806 mainly on employment and community support grants (£37,880 in 2005/06).

## 3 Expenditure on Publicity

Set out below, under the requirement of s5(1) of the Local Government Act 1986, is the council's spending on publicity.

	2005/06 £000	2006/07 £000
Recruitment Advertising	316	451
Other Advertising	324	256
Other publicity	63	222
	<b>703</b>	<b>929</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 4 The Building Control Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function - 'details of scheme for setting charges'. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities

	2005/06			2006/07		
	Chargeable £000	Non Chargeable £000	Total £000	Chargeable £000	Non Chargeable £000	Total £000
Employee Expenses	196	109	305	207	106	313
Premises	9	5	14	9	5	14
Transport	10	6	16	10	5	15
Supplies & Services	37	11	48	46	10	56
Central & Support Service Charges	113	51	164	129	53	182
<b>Total Expenditure</b>	<b>365</b>	<b>182</b>	<b>547</b>	<b>401</b>	<b>179</b>	<b>580</b>
Building Regulations Income	(349)	(2)	(351)	(354)	(8)	(362)
<b>(Surplus)/Deficit</b>	<b>16</b>	<b>180</b>	<b>196</b>	<b>47</b>	<b>171</b>	<b>218</b>

### 5 Trading Operations

The Council operates a number of trading operations, details of which for 2006/07 are:

	2005/06		2006/07	
	Turnover £	Surplus £	Turnover £	Surplus £
Building Cleaning	1,585	143	1,653	(19)
Construction	8,959	596	10,333	673
Catering	1,262	(85)	1,008	(338)
Grounds Maintenance	2,725	228	301	4
Housing Management Contract	1,265	5	0	0
Highways and Sewerage	3,771	235	3,283	323
Leisure Management	1,890	108	51	(1)
Maintenance	8,459	97	7,948	(78)
Other Cleaning	2,057	138	0	0
Refuse Collection	2,229	143	0	0
School Meals-Best Value	1,336	(29)	1,479	(146)
	35,538	1,579	26,056	418
Adjustments:-				
FRS 17		(15)		34
Pension Increase Act		33		68
Prudential Borrowing		(16)		78
Surplus on Trading Accounts	35,538	1,581	26,056	598
Open & Covered Markets	614	(38)	583	25
Shops and Offices	177	66	197	138
Car Parks	2,460	1,054	2,097	993

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 6 Local Authority (Goods And Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies.

In 2006/07 surplus bedding plants grown at the Council's plant nursery were sold to various public bodies, generating income of £244,470 (£306,760 in 2005/06).

The total income on the nursery account (including internal recharges) was £431,184 (£451,763 in 2005/06) compared with expenditure of £427,017 (£426,665 in 2005/06).

The authority provided Civil Engineering, Street Lighting, Building Maintenance and Construction Work for various other bodies generating income of £1,148,263 (£575,632 in 2005/06).

## 7 Members' Allowances

Details of the amounts paid to each Member of the Council are published annually in the local newspaper. The total amount paid to Members in respect of basic, special responsibility and attendance allowances was £618,357 (2005/06 - £587,934).

## 8 Officers' Emoluments

Remuneration band	2005/06	2006/07
	Number of employees	Number of employees
	Total	Total
£50,000 - £59,999	24	34
£60,000 - £69,999	8	5
£70,000 - £79,999	1	4
£80,000 - £89,999	3	2
£90,000 - £99,999	4	2
£100,000 - £109,999	0	2
£110,000 - £119,999	1	0
£120,000 - £129,999	0	1

## 9 Audit Costs

The Audit Commission has appointed PricewaterhouseCoopers LLP (PwC) as the auditors of the Council. In 2006/07 Darlington Borough Council incurred the following fees relating to external audit and inspection:

	2005/06 £000	2006/07 £000
Fees payable to PwC with regard to external audit services carried out.	175	172
Fees payable to PwC for the certification of grant claims and returns	67	77
Fees payable to PwC in respect of other services provided by the appointed auditor	3	3
Sub-Total	245	252
Fees payable to the Audit Commission in respect of statutory inspection	14	16
Total	259	268

# **NOTES TO THE CORE FINANCIAL STATEMENTS**

## **10 Related Parties**

The Code of Practice on Local Authority Accounting requires disclosure of material transactions between the Council and related parties. Related parties are organisations or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. The following organizations and individuals are related parties for these purposes:-

### **Central Government**

Central Government controls the statutory framework within which the Council operates and provides the majority of the Council's funding. The Income and Expenditure Account and Cash Flow Statement contain details of grants paid by Central Government to the Council in 2006/07. Details of transactions with government departments are set out on page 43.

### **Councillors**

Members of the Council have direct control over the the Council's financial and operating policies. During 2006/07 the Council had transactions totalling approximately £126,400 (£77,500 in 2005/06) with charitable bodies and companies in which 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 public 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 Employees Code of Conduct and professional bodies' standards. There are no related party transactions between the Council and its senior managers that require disclosure in 2006/07

### **Pensions**

Details of the Council's payment of employer's superannuation contribution to the Pension Fund are shown in Note 24 (page 37) of these Notes.

### **Other Organisations**

The Council paid £3.097M to 37 other organisations on which it has Member representation and which share educational, economic development, social and culture objectives.

In addition to the above transactions, the Council granted a 5 year capital loan of £60,000 to Darlington and District Youth and Community Association (DDYCA) in 2001/02 to help in the purchase of an outdoor education centre. The first instalment of repayment of the loan was made in January 2003, therefore the loan was fully repaid at 31st March 2007. The Council is represented on the management board of DDYCA.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 11 Fixed Assets

### (a) Movement of Fixed Assets

	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant and Equipment £000	Infrastructure Assets £000	Community Assets £000	Non-Operational Properties £000	<b>TOTAL £000</b>
<b>Gross Value</b>							
Gross book value as at 31st March 2006	92,881	182,891	11,258	21,671	5,998	15,609	<b>330,308</b>
Accumulated Depreciation as at 31st March 2006	(19,451)	(5,268)	(6,246)	(4,900)	0	0	<b>(35,865)</b>
Net Book Value as at 1 April 2006	73,430	177,623	5,012	16,771	5,998	15,609	<b>294,443</b>
Revaluations & restatements	96,437	934	0	0	1	6,137	<b>103,509</b>
Enhancements & Additions	8,377	11,348	2,387	12,068	694	1,483	<b>36,357</b>
Disposals	(3,240)	0	0	0	(1)	(1,664)	<b>(4,905)</b>
Transfers	0	262	0	0	0	(262)	<b>0</b>
Expenditure not increasing Gross Book Value	(8,377)	(4,258)	0	(12,068)	0	(423)	<b>(25,126)</b>
Depreciation for year	(3,474)	(5,627)	(1,415)	(543)	0	0	<b>(11,059)</b>
Impairment		(2,319)	0	0	0	(2,694)	<b>(5,013)</b>
Depreciation written back	22,897	313	0	0	0	0	<b>23,210</b>
<b>Net book value as at 31st March 2007</b>	<b>186,050</b>	<b>178,276</b>	<b>5,984</b>	<b>16,228</b>	<b>6,692</b>	<b>18,186</b>	<b>411,416</b>

### (b) Valuation disclosure for Fixed Assets

The effective date for valuations of 20% of the Authority's assets was 1st April 2000. Revaluation of the Authority's assets has been completed as part of a 5 yearly revaluation programme. An impairment review has been undertaken in accordance with FRS 11.

Operational land and buildings are being depreciated over their estimated useful economic lives, having been assessed by the Development & Environment Department, on a straight line basis. Infrastructure assets are also depreciated over their estimated useful economic life of 40 years. The major repairs allowance is being used as a proxy for depreciation on the Housing Stock. Plant and vehicles are depreciated on a straight line basis with computer equipment being depreciated over 5 years and Close Circuit Television ( CCTV ) over 12 years. Depreciating assets have all had their asset lives, land values and residual values assessed in order to fully comply with FRS 15.

#### Council Dwellings, Other Land and Buildings and Non-Operational Assets

Operational land and buildings of a non-specialised nature were valued on the basis of their open market value assuming they would continue in their existing use. Operational properties of a specialised nature were valued by reference to what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect age, wear and tear and obsolescence.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Non-Operational land and buildings were valued using their open market value for their best use, taking account of planning consents etc.

The freehold and leasehold properties which comprise the Council's property portfolio (except community and infrastructure assets) were valued by one of the Council's valuers who is a Member of the Royal Institute of Chartered Surveyors.

Valuations were prepared in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors, except that not all the properties were inspected; this was considered neither practicable (particularly in the case of Council Dwellings), nor necessary for valuation purposes.

Where plant and equipment are an integral part of a property asset (e.g. lifts and boilers) the value of such plant has been included in the property value. Where fittings are not integral to the functioning of the property (e.g. computers, lathes, etc.), these have been treated separately within the vehicle, plant furniture and equipment category of fixed assets.

The sources of information and assumptions made in producing the various valuations are set out in the valuation certificate and report.

### Community, Infrastructure and Vehicle, Plant, Furniture and Equipment Assets

The Code of Practice on Local Authority Accounting requires community and infrastructure assets to be valued at historical cost. In line with the Code, vehicle, plant, furniture and equipment being short lived assets have mainly been valued at historical cost less accumulated depreciation as a proxy for current cost.

#### **(c) Financing**

The capital expenditure was financed as follows :

	2005/06 £000s	2006/07 £000s
Revenue Contributions	3,108	3,275
Grants and Contributions	17,853	17,277
Capital Receipts	5,212	4,377
Loans	<u>11,103</u>	<u>16,274</u>
	37,276	41,203

At the 31st March 2007 the Authority has ongoing major capital commitments in relation to the redevelopment of the Darlington Town Centre Pedestrian Heart (£1.696M) and the Darlington Eastern Transport Corridor (£10.399M)

#### **Capital Investment**

The total capital investment was as follows:

	2005/06 £000s	2006/07 £000s
Operational Assets	31,788	35,677
Non-Operational Assets	1,056	679
Intangible Assets	<u>4,432</u>	<u>4,847</u>
	37,276	41,203

## NOTES TO THE CORE FINANCIAL STATEMENTS

**(d) Capital Expenditure and financing**

	2005/06 £000's	2006/07 £000's
<b>Opening Capital Financing Requirement</b>	70,641	79,852
<b>Capital Investment</b>		
Operational Assets	31,788	35,677
Non-Operational Assets	1,056	679
Deferred Charges	4,244	4,847
De-minimis Expenditure	188	0
<b>Sources of Finance</b>		
Capital Receipts	(5,212)	(4,377)
Revenue	(3,108)	(3,275)
Grants & Contributions	(17,853)	(17,277)
Revenue Provision	(1,607)	(1,976)
Set Aside	(302)	(723)
Deferred Liabilities Movement	17	18
<b>Closing Capital Financing Requirement</b>	<hr/> <u>79,852</u>	<hr/> <u>93,445</u>
<b>Explanation of movement in the year</b>		
Increase in underlying need for borrowing (Supported by Government financial assistance)	6,974	4,174
Increase in underlying need for borrowing (Unsupported by Government financial assistance)	2,237	9,419
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<hr/> <u>9,211</u>	<hr/> <u>13,593</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### e) Analysis of Fixed Assets

	31st March 2006	31st March 2007
Schools - Nursery	1	1
- Primary (excluding Aided schools)	22	21
- Secondary (excluding Aided schools)	5	5
- Special	0	0
- Pupil Referral Unit	2	2
- PFI	2	2
- Other	0	1
Children's homes	1	1
Homes for Older People	0	0
Adult Residential Homes	0	0
Adult Day Centres	2	2
Other Social Services Properties	3	3
Council Dwellings	5,603	5,527
Highways - Principal roads	59.0km	59.0km
- 'B' roads	29.5km	29.5km
- 'C' roads	108.7km	108.7km
- Unclassified roads	335.3km	342.6km
Town Hall	1	1
Other Administrative Buildings	1	1
Depots and Workshops	3	3
Off-Street Car Parks/Lorry Park	21	21
Arts Centre	1	1
Leisure Centre	1	1
Eastbourne Sports Complex	1	1
Libraries	2	2
Museum	1	1
Parks and Recreation Grounds	39	39
Golf Courses	1	1
Theatre	1	1
Covered Market	1	1
Cattle Market	1	1
Open Market	1	1
Cemeteries	3	3
Crematorium	1	1
Commercial Property Rented Out : shops, Offices Workshops	44	32
Area	6,893 sq.m.	7,600 sq.m.
Ground Leases	147	147
Area	79.1h	79.1h
Short Term Tenancies & Licences of Land	75	75
Agricultural Tenancies including Farm Business Tenancies	17	17
Area	268.38 h	256.00 h

### 12 Analysis of Assets Employed

	31st March 2006	31st March 2007
	£000's	£000's
General Fund	56,845	102,763
Housing Revenue Account	58,372	105,523
Trading Operations	439	795
	<b>115,656</b>	<b>209,080</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **13 Finance And Operating Leases**

The Authority uses leased refuse collection vehicles and also enters into a leasing arrangement for computer equipment and other miscellaneous items. The amount paid under operating leases for these items in 2006/07 was £0.695M (£0.774M in 2005/06). The Authority has 21 leasing agreements for Land & Buildings. The amount paid under the leases for these items in 2006/07 was £0.181M (£0.150M in 2005/06).

The Council is committed to making payments of £0.626M under these leases in 2007/08, comprising the following elements:-

	£000s
Leases expiring 1 year	205
Leases expiring between 2 -5 years	418
Leases expiring after 5 years	3

The Authority has entered into one finance lease, that is classified as a de-minimis finance lease and as the cost of this lease does not exceed £0.012M it is excluded from the definition of a credit arrangement and is therefore classified as an operating lease.

No leases entered into during 2006/07, in accordance with SSAP 21, have qualified as finance leases. Plant and Equipment leased in this manner totalled £0.326M and includes various vehicles and gym equipment. The amount paid under finance leases for these items in 2006/07 was £0.058M, split between principal repayments of £0.040M and interest of £0.018M. An outstanding liability of £0.196M existed relating to finance leases as at 31st March 2007.

The Council is committed to making payments of £0.045M under these leases in 2007/08, comprising the following elements:-

	£000s
Leases expiring 1 year	0
Leases expiring between 2 -5 years	45
Leases expiring after 5 years	0

The Authority acts as the Lessor and leases various Land & Buildings to third parties. During 2006/07 £0.771M was received by the Authority in relation to these leases.

### **14 Long Term Debtor - Residual Interest in PFI Scheme**

The Council entered into a PFI scheme for the provision of the Education Village and Harrowgate Hill Primary School  
The contract expires in September 2030

A long term debtor has been established which will be used to build up the residual interest in the facilities at the Education Village and Harrowgate Hill Primary so that by the end of the contract term the residual interest is recorded as an asset at its expected fair value.

	B/Fwd	New Provision	Less Repayments	Amounts as at 31/03/07
PFI Scheme residual interest	£'000	£'000	£'000	£'000
Education Village		702	0	702
Harrowgate Hill Primary	139	139	0	278
Total	139	841	0	980

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 15 Interests in Companies

In accordance with the Accounting Code of Practice 1996, the Council is required to identify interests in subsidiary companies and where appropriate prepare consolidated Group Accounts. The following companies, with the exception of Connexions, do not fall within these requirements as the Authority holds a minority of the share values, and the investments are below the required threshold. In the case of Connexions the amount involved is not deemed to be material and the Authority has therefore not prepared group accounts in relation to the following companies.

### **Controlled Companies:**

Controlled Companies are companies for which a majority of the shares are held by another company. The interests in the following companies have been reviewed as required by FRS 9 and are not considered material, as the degree of control/ownership or the sums involved are minimal.

The Tees Valley Connexions Partnership Ltd is an associate that deals with the provision of advice and guidance to young people. The organisation is equally controlled by the 5 Tees Valley Authorities (Darlington, Stockton, Hartlepool, Middlesbrough and Redcar and Cleveland). The company is limited by guarantee, therefore in accordance with the Memorandum and Articles of Association, no dividends are payable. The Council is limited to the contribution of £1 towards deficits or liquidation.

The company ceased to provide services on 31st March 2007, when all remaining services were transferred to the five local authorities. An assessment has been made of any outstanding obligations and estimates and these have been included in the accounts at 31st March 2007. It is anticipated, given the information currently available, that these obligations will be funded from reserves and transitional grant. Copies of their accounts are available from the Finance Director, Tees Valley Connexions, Calvert's Lane, Stockton-on-Tees. TS18 1SW.

### **Investments:**

The Council also holds 16% of the shares in Premier Waste Management Ltd. 220,480 £1 shares are held. The latest audited accounts are for the year ended 31st March 2006 and show net assets including pension liability of £3,597,857 (previous year £2,568,486), a profit before tax of £1,783,915 (previous year profit before tax £1,714,998), and a profit after tax of £1,274,771 (previous year profit after tax £1,315,433). Further information regarding the company's accounts can be obtained from the Registered Office, Premier Waste Management Ltd, Prospect Houses, Aykley Heads Business Centre, Aykley Heads, Durham DH1 5TS.

The Council holds 6.66% of the shares in Durham Tees Valley Airport. 1,766,667 B Ordinary Shares are held with a balance sheet value of £1,766,667, and 174,900,100 Deferred Shares. The latest audited accounts are for the year ended 31st March 2006 and shows net assets of £21,981,787 (previous year £23,223,486), a loss before tax of £ 2,661,323 (previous year loss before tax £1,050,955) and a loss after tax of £2,012,699 (previous year loss after tax £801,962). Further information regarding the company's accounts are available from the Registered Office, Durham Tees Valley Airport Ltd, Darlington, County Durham DL2 1LU.

The Council has been awarded a proportion of the shares in Newcastle International Airport, 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 but in the meantime an asset has been shown on the balance sheet equivalent to the face value of the shares currently held by Durham County Council on our behalf.

### **Authorised Unregulated:**

Companies that fall into this heading are Northern Arts, Darlington Business Venture, Darlington Partnership, Business Link Tees Valley, Tees Valley Urban Regeneration Company, Shopmobility, Age Concern, Safe in Tees Valley, Tomorrow Tees Valley, North East Museums, Libraries and Archives Council, North East Transport Information Service, Northern Grid for Learning and Tees Forest.

### **Authorised Exempt:**

Durham Tees Valley Airport Limited and the Local Government Information Unit.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 16 Long Term Borrowing

Source Of Loan	Average Rates Payable %	Total Outstanding at 31st March	
		2006	2007
		£000	£000
Public Works Loans Board	4.417	77,003	85,642
Money Market	5.010	9,600	9,600
		<b>86,603</b>	<b>95,242</b>
Analysis of Loans by Maturity			
Maturing in 1-2 years		0	0
Maturing in 2-5 years		0	0
Maturing in 5-10 years		5,000	0
Maturing in more than 10 years		81,603	95,242
		<b>86,603</b>	<b>95,242</b>

### 17 Debtors and Prepayments

	31st March 2006	31st March 2007
	£000	£000
Government Departments	3,036	1,731
Other Local Authorities	182	359
Council Tax and NDR	2,652	2,271
Housing Rents	538	721
Sundry Debtors	9,493	7,747
Collection Fund Balance	0	33
Prepayments	376	852
	<b>16,277</b>	<b>13,714</b>
Less Provision for Doubtful Debts	(1,879)	(1,630)
	<b>14,398</b>	<b>12,084</b>

### 18 Creditors and Income In Advance

	31st March 2006	31st March 2007
	£000	£000
Income In Advance	9,925	12,912
Government Departments	4,900	4,315
Other Local Authorities	1,922	1,518
Collection Fund Balance	120	0
Sundry Creditors	13,496	13,629
	<b>30,363</b>	<b>32,374</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 19 Provisions

	Balance as at 1st April 2006	Net Movement in Year	Balance as at 31st March 2007
	£000's	£000's	£000's
Land Reclamation	381	0	381
Trading Operations	39	55	94
Insurance Provision	912	(265)	647
Frozen Holiday Pay	6	0	6
Social Services s117	261	0	261
Single Status	2,500	(2,130)	370
Constant Rate Debt Provision	169	(169)	0
	4,268	(2,509)	1,759

**Land Reclamation** - A provision for the repayment of reclamation grant has been made in the accounts in the sum of £381,000 at 31st March 2007. This is at variance with SSAP 4 but the repayment of the full balance is expected to be made during 2007-08.

**Trading Operations** - For all work carried out where interim valuations have been made and which are incomplete at the end of each financial year, forecasts are made of the final values and costs. These forecasts are then used to determine the likely profit or loss for each job with the resultant losses being provided for in the accounts. The provision is reversed at the beginning of the next financial year and the accounting position resumes to reflect the actual results.

**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 on this account represents claims made and still outstanding as at 31st March 2007 which are within these excesses. The Council commenced payments during 2006-07 and payments will continue over the next 5 to 10 years.

**Frozen Holiday Pay** - To meet the cost of accrued holiday entitlement in respect of certain groups of employees transferred from Durham County Council. The entitlement is paid when employees leave, the timing of which cannot be known in advance.

**Social Services s117** - Provision for potential repayment of charges made under s117 of the Mental Health Act 1983. The Council expects to start to make payments in 2007-08 and they are likely to continue to be made for a number of years.

**Single Status** - A provision has been created for costs related to single status settlement payments due in 2006/07 as a result of the job evaluation exercise that has a backdated start date of 1st July 2005. The remaining payments will be paid in 2007/08.

**Constant Rate Debt Provision** - This provision was created to smooth out the increase in interest rates in future years for money market debt. It related to Lenders option / Borrowers option loans which were taken out during 2002/03. The rate has now been equalised and the provision is therefore no longer needed and subsequently has been reversed.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 20 Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

	Balance as at 1st April 2006	Net Movement in Year	Balance as at 31st March 2007
	£000's	£000's	£000's
Fixed Asset Restatement Account	144,424	96,666	241,090
Capital Financing Account	27,734	(252)	27,482
Usable Capital Receipts	1,414	(1,251)	163
Pension Reserves	(80,330)	(2,050)	(82,380)
Housing Revenue Account	665	(64)	601
Deferred Capital Receipts	98	(17)	81
General Fund	11,999	1,100	13,099
Earmarked Departmental Reserves	838	(321)	517
Faverdale Maintenance Fund	31	(5)	26
Revenue Contribution to Capital Outlay	22	482	504
Schools Revenue Balances	2,620	(526)	2,094
PFI Reserve	1,406	(393)	1,013
Absence Supply Insurance	100	0	100
Investments	3,527	(685)	2,842
Insurance Fund	544	787	1,331
Crematorium Refurbishment Fund	71	9	80
Building Control	179	(48)	131
Development Fund	187	(168)	19
Pensions Contribution Reserve	127	160	287
<b>Total</b>	<b>115,656</b>	<b>93,424</b>	<b>209,080</b>

Purpose of Reserve:

- a) **Fixed Asset Restatement Account** - A store of gains on revaluation of fixed assets
- b) **Capital Financing Account** - A store of capital resources set aside to meet past expenditure
- c) **Usable Capital Receipts** - Proceeds of fixed asset sales available to meet future capital investment.
- d) **Pensions Reserve** - Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.
- e) **Housing Revenue Account** - Resources available to meet future running costs for council houses.
- f) **Deferred Capital Receipts** - are amounts derived from sales of assets that will be received in instalments over agreed periods of time. They arise from the repayment of loans granted to individuals for the purchase of council houses
- g) **General Fund** - Resources available to meet future running costs for non-housing services.
- h) **Earmarked Departmental Balances** - surpluses/(deficits) built up by departments, earmarked for forward planning.
- i) **Faverdale Maintenance Fund** - is for maintenance of land at Faverdale in accordance with an agreement entered into when the council sold land it previously owned.
- j) **Revenue Contribution to Capital Outlay** - is the establishment of a reserve to meet future capital commitments.
- k) **Schools Revenue Balances** - are balances held by locally managed schools and are not available to the Council for general use. The net balance at 31st March 2007 includes a deficit of £41,628 in respect of 3 schools (£25,281 for 1 school in 2005/06).
- l) **PFI Reserve** - has been created to enable the Council to manage the cash flow over the life of the concession.
- m) **Absence Supply Insurance** - insures schools with delegated budgets against the risk of long term sickness.
- n) **Investments** - This is the value of investments held by the authority in Durham Tees Valley International Airport, Premier Waste Management Ltd and Newcastle International Airport.
- o) **Insurance Fund** - is established under statutory powers to indemnify the Council against specified risks.
- p) **Crematorium Refurbishment Fund** - The Council has established this fund to meet future expenditure which will be incurred in complying with the requirements of the Environmental Protection Act 1990.
- q) **Building Control** - This Reserve has been created to enable any surpluses built up to be carried forward to offset against future costs.
- r) **Development Fund** - This fund was established to enable the change programme to be delivered including a strategic review of services
- s) **Pensions Contribution Reserve** - This reserve has been established in response to the latest actuarial valuation from the Council's Actuary.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 21 Contingent Liabilities

Contingent liabilities are not accrued in the accounting statements, but are disclosed by way of notes if there is a possible obligation, which may require a payment or transfer of economic benefits. For each class of contingent liability, the authority will disclose the nature of the contingency, a brief description, an estimate of its financial effect (if possible), an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

- During 1992/93 Municipal Mutual Insurance ceased accepting new business. At 31st March 2007, the Council only had two outstanding claims with MMI amounting to £4,005 and arrangements are in place to try to ensure an orderly settlement of the sums due.

- All Association of North East Councils (ANEC), of which Darlington Borough Council is a constituent member, have agreed to guarantee the liabilities relating to the admission of employees of the North East Assembly to the Tyne & Wear Pension Fund. The total potential liability of the 25 constituent authorities is £1.580M of which Darlington has stood guarantor for £0.061M.

- The Council has received, both prior to and during 2006/07, a number of equal pay claims which are 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 remain outstanding, these claims will be periodically reviewed to ensure the Council takes appropriate and timely action where necessary. It remains difficult to determine the Council's potential future liability, and no provision has been made for potential future claims.

## 24 Retirement Benefits

The Local Government Pension Scheme is a multi-employer scheme which provides members with defined benefits related to their pay and length of service. It is a funded scheme, i.e. the contributions of scheme members and employers fund the future liability to pay pensions and other benefits to members. Durham County Council administer the Durham Pension Fund on behalf of Darlington Borough council and other employers in the area.

### Transactions Relating to Retirement Benefits

We recognise the cost of retirement benefits in the Net 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 retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

Local Government Pension Scheme		
	31st March 2006 £000's	31st March 2007 £000's
<b>Income and Expenditure Account</b>		
<i>Net Cost of Services:</i>		
Current service cost	(7,340)	(9,230)
Past service costs	(100)	(60)
<i>Net Operating Expenditure</i>		
- interest cost	(10,580)	(11,250)
- expected return on assets in the scheme	8,220	10,240
<i>Net Charge to the Income &amp; Expenditure Account</i>	<u>(9,800)</u>	<u>(10,300)</u>
<i>Statement of Movement in the General Fund Balance</i>		
- reversal of net charges made for retirement benefits in accordance with FRS 17	9,800	10,300
Actual amount charged against the General Fund Balance for pensions in the year		
- Employers' contributions payable to scheme	<u>(8,070)</u>	<u>(9,620)</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **Assets and Liabilities in Relation to Retirement Benefits**

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	Local Government Pension Scheme	
	31st March 2006 £000's	31st March 2007 £000's
Estimated liabilities in scheme	(227,240)	(245,890)
Estimated assets in scheme	146,910	163,510
Net asset / (liability)	<u>(80,330)</u>	<u>(82,380)</u>

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £82.380M has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a positive net overall balance of £210.301M. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

## **Basis of Estimating Assets and Liabilities**

An independent actuary revalues the fund every three years and the amounts included in the Council's 2006-07 accounts have been derived by suitable approximate methods from the full actuarial valuation carried out by the actuary as at 31st March 2004.

The main assumptions used in their calculations have been:

	Local Government Pension Scheme	
	31st March 2006	31st March 2007
Rate of Inflation	3.00%	3.20%
Rate of general long-term increase in salaries	4.50%	4.70%
Rate of increase to pensions in payment	3.00%	3.20%
Rate of increase to deferred pensions	3.00%	3.20%
Rate for discounting scheme liabilities	4.90%	5.30%
Take-up of option to convert annual pension into retirement grant	50%	50%

Assets in the Durham County Council Pension Fund are valued at fair value, totaling £1,447.97M for the Fund as a whole at 31st March 2007 (£1,321.85M as at 31st March 2006). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term rate of return at 31/03/07 (% p.a.)	As at 31st March 2006 (%)	As at 31st March 2007 (%)
Equities	7.7%	86.6	85.1
Property	6.7%	2.4	2.4
Government Bonds	4.7%	7.4	7.5
Corporate Bonds	5.3%	0.4	0.0
Other	5.6%	3.2	5.0
Total	<u>7.3%</u>	<u>100.0</u>	<u>100.0</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Actuarial Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute and as a percentage of assets or liabilities at 31st March 2007.

	For the year ended 31st March 2003	For the year ended 31st March 2004	For the year ended 31st March 2005	For the year ended 31st March 2006	For the year ended 31st March 2007
Differences between the expected and actual return on scheme assets:					
- Amount (£M)	35.80	16.02	2.22	22.18	1.26
- % of scheme assets	38.33%	13.30%	0.22%	1.68%	0.80%
Experience gains (losses) on scheme liabilities:					
- Amount (£M)	0.00	2.07	22.24	2.85	(3.86)
- % of the present value of the scheme liabilities	0.00%	1.10%	11.60%	1.25%	(1.60%)
Change in assumptions					
- Amount (£M)	0.00	(2.85)	(29.58)	(16.79)	1.23
- % of the present value of the scheme liabilities	0.00%	1.50%	15.40%	7.39%	0.50%
Total amount recognised in Movement in Reserve:					
- Amount (£M)	35.80	15.24	(5.12)	8.24	(1.37)
- % of the present value of the scheme liabilities	19.94%	7.90%	2.70%	3.63%	(0.60%)

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

In 2006/07 the Council paid £3.785M to Teachers' Pensions in respect of teachers' retirement benefits, representing 13.5% of pensionable pay. The figures for 2005/06 were £3.690M and 13.5%. There were no contributions remaining payable at the year end.

The scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 25 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 is sole or custodian trustee.

	Balance at 1st April £000's	Receipts £000's	Payments £000's	Balance at 31st March £000's	Assets £000's	Liabilities £000's
James Barningham Fellowship	16	3	0	19	73	0
Lady Dale Scholarship	9	1	0	10	40	0
Darlington Education Fund *	23	67	(7)	83	606	0
W.Draffon Scholarship	3	1	(0)	4	29	0
Others	16	2	0	18	78	0
	<b>67</b>	<b>74</b>	<b>(7)</b>	<b>134</b>	<b>826</b>	<b>0</b>

All of the above investments are held by the Charities Official Investment Fund (COIF) and the latest COIF Charity Fund shares are valued at £691,721.04 as per valuation date 31/03/07 (£657,945.00 as per valuation date 31/03/06).

#### 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. The receipts have been boosted as a result of the disbanding of the Middleton Greathead Trust in November 2006 amounting to £48,121.22

##### **W.Draffan Scholarship**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	Balance at 1st April £000's	Receipts £000's	Payments £000's	Balance at 31st March £000's
Stainsby Murray Fund	86	4	(4)	86
Middleton Greathead PS *	47	1	(48)	0
E.M.Corner Bequest	64	3	(3)	64
Criminal Injuries Compensation	36	5	0	41
BAT Legacy	303	107	(265)	145
Other	66	65	(62)	69
	<hr/> 602	<hr/> 185	<hr/> (382)	<hr/> 405

**Purpose of the Trust Funds:**

**Stainsby Murray Fund**

Provision of Christmas comforts for aged persons in Darlington.

\* **Middleton Greathead Printers Scholarship - Discontinued**

This fund has not been used for many years as its purpose in its original form has been considered incapable of being carried out, namely "The scholarship to be open to and set apart for the education of the sons of Journeymen Printers only and are natives of or residents in Darlington". The Middleton Greathead Printers Scholarship shares as at 30/11/06 were sold and the amount together with fund balances were incorporated into the Darlington Education Fund at the end of November 2006.

**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 CORE FINANCIAL STATEMENTS

### **26 Reserves and Balances held by Schools under Delegated Schemes**

Under the Education Reform Act 1988, any underspending of budgets delegated to schools can be carried forward by the school and does not accrue to the council's balances. The value of schools balances are shown below:-

	31st March 2006 000's	31st March 2007 000's
Schools unspent balances	(2,919)	(2,496)
Schools overspent balances	25	42
Schools IT Loans	274	360
	<hr/> <u>(2,620)</u>	<hr/> <u>(2,094)</u>

### **27 Dedicated Schools Grant**

The Council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the individual school budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately. The Council is able to supplement the Schools Budget from its own resources and this year no additional funding was programmed for spending by schools.

**Details of the deployment of DSG receivable for 2006/07 are as follows:**

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
Original grant allocation to Schools Budget for the current year in the Authority's budget	3,614	50,388	54,002
Adjustment to finalised grant allocation	<u>(61)</u>	0	<u>(61)</u>
DSG receivable for the year	3,553	50,388	53,941
Actual expenditure for the year	<u>(3,614)</u>	<u>(50,914)</u>	<u>(54,528)</u>
(Over)/underspend for the year	(61)	(526)	(587)
Planned top-up funding of ISB from Council resources	0	0	0
Use of schools balances brought forward	0	526	526
(Over)/underspend from prior year	<u>0</u>	<u>0</u>	<u>0</u>
(Over)/underspend carried forward to 2007/08	(61)	0	(61)

For 2006/07, the arrangements for government support for the funding of schools changed. Previously funds were provided as part of the Council's overall Revenue Support Grant. In 2006/07, the Council has received a specific grant - the Dedicated Schools Grant. £54.002M has therefore been credited against the Education service outturn in the Income and Expenditure Account that would previously have been treated as part of the Revenue Support Grant in corporate income. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is substantially explained by this change.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 28 Notes relating to the Cash Flow Statement

The Cash Flow Statement summarises all movements of cash resulting from transactions with third parties.

The statement differs from the financial information elsewhere in the Statement of Accounts in that :-

(i) it excludes internal transactions (recharges between accounts, contributions to and from reserves, provisions etc.) as these do not result in cash movements.

(ii) cash-flow refers only to receipts and payments of cash during the year whereas the Council's revenue accounts are prepared on the basis of income and expenditure, i.e. taking into account debtors, creditors, accruals and prepayments.

The net Cash Flow can be reconciled to the Income & Expenditure Account as follows:-

<b>CASH FLOW STATEMENT 'REVENUE ACTIVITIES' RECONCILIATION TO INCOME AND EXPENDITURE ACCOUNT</b>		
	£000	£000
Income & Expenditure Account Deficit/(Surplus)		6,744
Accrual adjustment		1,515
Items Included in CFS Revenue Activities, Not Included in I & E :-		
Precept Paid To Durham Police/Fire & Rescue Authorities	5,906	
Payment To Non Domestic Rates Pool	27,616	
Council Tax Collected	(34,007)	
Non Domestic Rates Collected	(28,701)	
Payments to the Capital Receipts Pool	<u>2,378</u>	
		(26,808)
Items Excluded from CFS Revenue Activities, Included in CRA :-		
Borough Council Demand On Collection Fund	33,828	
Gain on the disposal of fixed assets	159	
FRS17 and PIA element of trading undertakings	103	
Interest paid or received	(148)	
Depreciation & Impairment of Assets	(12,662)	
Government grants deferred amortisation	1,492	
Pensions interest	(11,250)	
Expected return on assets	10,240	
Write down of deferred charges to be financed from capital resources	(350)	
Net charges made for retirement benefits in accordance with FRS17	(680)	
Transfer from the Collection Fund re last years surplus/deficit	<u>100</u>	20,832
<b>Net Cash Outflow From Revenue Activities</b>		<u><u>2,283</u></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### The movement in cash reconciled to the movement in net debt

	2006/07 £000
Decrease in Cash	(329)
Cash flow from increase in borrowing	(11,590)
Change in Net Debt	<u>(11,919)</u>

### Analysis of Debt

	Balance 1st April 2006 £000	Balance 31st March 2007 £000	Movement £000
Decrease in cash	(1,054)	(1,384)	(329)
Long Term borrowing	(86,603)	(95,242)	(8,639)
Investments (short term)	<u>46,023</u>	<u>43,072</u>	<u>(2,951)</u>
	<u>(41,635)</u>	<u>(53,554)</u>	<u>(11,919)</u>

### Increase in Liquid Resources

	Balance 31/3/06 £000	Balance 31/3/07 £000	Movement £000
Short Term Deposits - Cash Inflow	<u>46,023</u>	<u>43,072</u>	<u>(2,951)</u>
Add Accruals			0
Cash Movement			<u>(2,951)</u>

### Analysis of Government Grants

	£000
Children's Services	
- Children's Services Grant	(349)
- Department of Health	(361)
- DFES Grant	(3,691)
- Learning Skills Council	(1,025)
- Primary Care Trust	(152)
- Standards Fund	(13,559)
- Teacher's Development Grant	(199)
- Teenage Pregnancy Grant	(100)
- Other education grants	(295)
Housing Admin	(970)
Housing Subsidy	490
Asylum Seekers	(119)
Supporting People	(152)
Carers Grant	(358)
Mental Health Grant	(220)
Preserved Right	(993)
Delayed Discharge Grant	(193)
Preventative & Technology Grant	(59)
Training support	(283)
DEFRA (Waste Disposal Grant)	(220)
ERDF Grant	(205)
Local Area Agreement	(620)
Single Programme	(230)
Planning delivery grant	(293)
Rural bus services	(101)
DfT - mainly TOTM	(844)
Childrens Fund	(328)
YPSMG	(177)
LABGI	(1,908)
YJB Prevention Funding	(85)
YJB - YOT Support	(190)
YOF	(170)
	<u>(27,959)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Capital Grants**

	£000
Single Programme	(3,396)
Darlington Eastern Corridor	(3,000)
Standards Fund	(5,316)
Haughton Road Footbridge	(1,546)
SHIP Grant	(1,060)
Local Area Agreement	(970)
Sure Start	(776)
Arts centre	(433)
Heritage National Lottery Grant	(293)
Disabled Facilities Grant	(261)
Cycling for England Grant	(249)
SRB	(228)
ERDF	(205)
ODPM - Firthmoor	(199)
New opportunities Fund	(128)
Railway Trust	(100)
Other Capital Grants	(267)
	<hr/>
	<hr/> <u>(18,427)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **29 Prior Year Adjustments to the Previous Years Accounts 2005-06**

Because of the changes to the SORP in 2006, the previous years accounts have had to be amended to reflect the new format of the financial statements. Accordingly the previously reported 2005/2006 Consolidated Revenue Account are shown below detailing the adjustments made to help highlight the different accounting treatments effected before the re-formatted accounts have been prepared.

	Consolidated Revenue Account in 2005/06 Statement of Accounts £000	Removal of Capital Financing Charges £000	Relocation of government grants deferred credits £000	Recognition of gains and losses on fixed asset disposals £000	Other SORP Changes £000	2005-06 Comparatives in Income and Expenditure Account £000
Central services to the public	1,727	(194)	-	-	(57)	1,476
Court services	-	-	-	-	-	-
Cultural, environmental & planning services	20,579	(1,619)	133	-	(38)	19,055
Education services	66,692	(2,492)	(213)	-	(140)	63,847
Highways, roads & transport services	6,562	(1,074)	297	-	(35)	5,750
Housing services	(717)	(2,896)	1,331	-	(11)	(2,293)
Social services	26,721	(74)	179	-	-	26,826
Corporate and democratic core	4,671	-	1,311	-	(5)	5,977
NDC	100	-	-	-	-	100
<b>Impact on Net Cost of Services</b>	<b>126,335</b>	<b>(8,349)</b>	<b>3,038</b>	<b>-</b>	<b>(286)</b>	<b>120,738</b>
Loss on the disposal of fixed assets	-	-	-	7,517	-	7,517
Parish council precepts	38	-	-	-	-	38
Surplus on trading undertakings not included in Net Cost of Services	(1,581)	(39)	-	-	(35)	(1,655)
Contribution of housing capital receipts to Government Pool	2,379	-	-	-	-	2,379
Amortised Premiums on the repurchase of borrowing	166	-	-	-	(166)	-
Interest and investment income	(1,723)	-	-	-	-	(1,723)
Pensions interest	10,580	-	-	-	-	10,580
Expected return on assets	(8,220)	-	-	-	-	(8,220)
Asset management revenue account (interest payable and similar charges in 2006-07)	(9,203)	8,412	4,617	-	166	3,992
<b>Impact on Net Operating Expenditure</b>	<b>118,771</b>	<b>24</b>	<b>7,655</b>	<b>7,517</b>	<b>(321)</b>	<b>133,646</b>

### **30 Authorisation of the Accounts for Issue**

The date that the financial statements are authorised for issue is 20th June 2007. This establishes the date after which events will not have been recognised in the Statement of Accounts.

Paul Wildsmith\_\_\_\_\_

Dated : \_\_\_\_\_

Director of Corporate Services

# HOUSING REVENUE ACCOUNT

## INCOME AND EXPENDITURE ACCOUNT

2005/06 (Restated)		2006/07	Notes
£000		£000	
	<b><u>Income</u></b>		
(13,223)	Dwelling rents (gross)	(13,669)	
(297)	Non-dwelling rents (gross)	(305)	
(1,207)	Charges for services & facilities	(1,346)	
(481)	Contribution towards Expenditure	(548)	
<b>(15,208)</b>	<b>Total Income</b>	<b>(15,868)</b>	
	<b><u>Expenditure</u></b>		
2,665	Repairs and maintenance	2,866	
4,372	Supervision and management	4,540	
14	Rent, rates, taxes and other charges	1	
(161)	Rent rebate subsidy limitation	(6)	
223	HRA Subsidy Payable (including MRA)	490	6
96	Increased provision for bad and doubtful debts	96	7
	Depreciation of fixed assets		
3,414	On dwellings (= MRA)	3,450	5
8	On other assets	22	5
13	Debt management costs	10	
<b>10,644</b>	<b>Total Expenditure</b>	<b>11,469</b>	
<b>(4,564)</b>	<b>Net Cost of HRA Services per Authority Income &amp; Expenditure</b>	<b>(4,399)</b>	
0	HRA Services Share of Corporate and Democratic Core	0	
0	HRA Share of other amounts included in the whole Authority net costs of services but not allocated to specific services	0	
<b>(4,564)</b>	<b>Net Cost of Services</b>	<b>(4,399)</b>	
1,405	(Gain) or Loss on Sale of HRA Fixed Assets	(94)	
1,212	Interest Payable and Similar Charges	1,162	
137	Amortisation of Premiums and Discounts	113	
(65)	Interest and Investment Income	(65)	
0	Pension Interest Cost and Expected Return on Pension Assets	0	
<b>(1,875)</b>	<b>Surplus for the Year on HRA Services</b>	<b>(3,283)</b>	

## HOUSING REVENUE ACCOUNT

### STATEMENT OF MOVEMENT ON THE HRA BALANCE

<b>2005/06</b> (Restated)		<b>2006/07</b>
<b>£000</b>		<b>£000</b>
(1,875)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(3,283)
1,687	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	3,347
(188)	(Increase) or decrease in the Housing Revenue Account Balance	64
(477)	Housing Revenue Account surplus brought forward	(665)
<b>(665)</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>(601)</b>
	<b>Note to the Statement of Movement on HRA Balance</b>	
	<b>Items included in HRA Income and Expenditure Account but excluded from Movement on HRA Balance for the Year</b>	
0	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.	0
0	Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements (if any).	0
(1,405)	Gain or (loss) on sale of HRA fixed assets	94
0	Net charges made for retirement benefits in accordance with FRS17.	0
0	Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	0
<b>(1,405)</b>	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>	<b>94</b>
(8)	Transfer to /(from) Major Repairs Reserve	(22)
0	Transfers to/(from) Housing Repairs Account	0
0	Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to pensioners.	0
0	Voluntary set aside for debt repayment	0
3,100	Capital expenditure funded by the HRA	3,275
<b>1,687</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year.</b>	<b>3,347</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1 Housing Stock

	1st April 2006	31st March 2007
<u>Number and types of dwellings</u>		
Houses	2,907	2,851
Flats	2,349	2,327
Bungalows	340	341
Non HRA	7	8
Total dwellings	<u>5,603</u>	<u>5,527</u>
<u>Balance Sheet values</u>		
	£000	£000
Land	197	210
Houses	72,710	185,262
Other property	523	578
Total net Balance Sheet value	<u>73,430</u>	<u>186,050</u>
<u>Operational Assets</u>		
Dwellings	72,710	185,262
Other land & buildings	0	0
	<u>72,710</u>	<u>185,262</u>
Non-operational assets	720	788
Total net Balance Sheet value	<u>73,430</u>	<u>186,050</u>

### 2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is £368.415m (£378.000m in 2005/06)

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.

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 3 Major Repairs Reserve

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

	2005/06 £000	2006/07 £000
Balance as at 1 April	0	0
Transfer to MRR during the financial year		
Depreciation on HRA dwellings	(3,414)	(3,450)
Depreciation on other HRA assets	(8)	(22)
Transfer to HRA during the financial year		
Depreciation on other HRA assets	8	22
Transfer from MRR during the financial year in respect of capital expenditure on		
Land	113	274
Houses	3,301	3,176
Other property	0	
Balance as at 31 March	<hr/> <hr/> 0	<hr/> <hr/> 0

### 4 Capital Expenditure

Capital expenditure within the HRA during 2006/07 was as follows :-

	2005/06 £000	2006/07 £000
Land	113	274
Houses	8,810	10,206
Other property	1,331	1,551
Total capital expenditure	<hr/> 10,254	<hr/> 12,031

Total capital expenditure on land, houses and other property within the HRA during 2006/07 was funded via the following sources :-

	2005/06 £000	2006/07 £000
Borrowing	1,213	0
Usable capital receipts	1,723	1,853
Major Repairs Reserve	3,414	3,450
Revenue	3,100	3,275
Other Grant Funding	804	3,453
Total capital expenditure	<hr/> 10,254	<hr/> 12,031

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

	2005/06 £000	2006/07 £000
Land	0	0
Houses	3,541	3,334
Other property	0	0
Total capital receipts	<hr/> 3,541	<hr/> 3,334

# NOTES TO THE HOUSING REVENUE ACCOUNT

## 5 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 :-

	2005/06 £000	2006/07 £000
Land	0	
Houses (= Major Repairs Allowance)	3,414	3,450
Other property	8	22
Total charge for depreciation	<u>3,422</u>	<u>3,472</u>
Operational Assets		
Dwellings	3,414	3,450
Other land & buildings	8	22
	<u>3,422</u>	<u>3,472</u>
Non-operational assets	0	0
Total charge for depreciation	<u>3,422</u>	<u>3,472</u>

## 6 HRA Subsidy

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

	2005/06 £000	2006/07 £000
Management allowance	2,495	2,584
Maintenance allowance	4,668	5,153
Major Repairs Allowance (MRA)	3,414	3,453
Charges for capital	1,695	1,603
Admissible Allowance	6	3
Rent rebates	0	0
	<u>12,278</u>	<u>12,796</u>
<i>less</i>		
Rent	(12,497)	(13,295)
Interest on receipts	(4)	(4)
Adjustment to 2005/06 HRA Subsidy	0	13
Total HRA subsidy receivable / (Transfer to ODPM)	<u>(223)</u>	<u>(490)</u>

## 7 Rent Arrears

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

	2006 £000	2007 £000
Gross rent arrears as at 31st March	677	721

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

	Year Ended 31st March 2006 £000	Year Ended 31st March 2007 £000
Opening provision for uncollectable debts	179	186
Amounts written off in the year	(52)	(56)
Increase in provision for the year	59	76
Closing provision for uncollectable debts	<u>186</u>	<u>206</u>

## COLLECTION FUND

2005/06		2006/07	NOTES
£000		£000	
(31,885)	<b>Income</b>	(33,617)	3
	Income from Council Tax		
(5,991)	Transfers from General Fund	(6,450)	3
1	Council Tax benefits	1	3
	Transitional relief		
(24,683)	Income collectable from business ratepayers	(27,766)	2
(118)	Contributions	0	5
	Towards previous year's Collection Fund deficit		
<b>(62,676)</b>	<b>Total Income</b>	<b>(67,832)</b>	
	<b>Expenditure</b>		
37,522	Precepts and demands	39,717	4
	Business rate		
24,536	Payment to national pool	27,616	
147	Costs of collection	150	
	Bad and doubtful debts		
308	Write offs	305	
37	Movement in net provision	80	
	Contributions		
0	Towards previous year's estimated Collection Fund Surplus	117	
<b>62,550</b>	<b>Total Expenditure</b>	<b>67,985</b>	
<b>(126)</b>	<b>Collection Fund (surplus)/deficit for the year</b>	<b>153</b>	
	Collection Fund balance brought forward	(120)	
6	Collection Fund surplus/(deficit) for the year	153	
(126)	<b>Collection Fund (surplus)/deficit balance c/forward</b>	<b>33</b>	

# NOTES TO THE COLLECTION FUND

## 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 From Business Rates

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 2007 was £75.2m (£73.3m in 2005/06). The non-domestic rating multiplier for 2006/07 was 43.3p per £ (42.2p per £ in 2005/06) and the small business non-domestic rating multiplier for 2006/07 was 42.6p per £ (41.5p per £ in 2005/06).

## 3 Income From Council Tax

The Council Tax replaced the Community Charge on 1st April 1993 and 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	12,519	6,304	4,949	4,341	3,076	1,461	703	56
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

The Council set a basic council tax of £1020.36 (£977.50 in 2005/06), 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 of £100.80 (£96.03 in 2005/06) for their services.

County Durham and Darlington Fire & Rescue Authority set a Band D council tax of £77.04 (£73.44 in 2005/06) for their services.

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

## NOTES TO THE COLLECTION FUND

Council Tax income is therefore :

	2005/06 £000	2006/07 £000
Council Tax levied	41,836	44,260
Less allowances	(3,961)	(4,193)
	<b>37,875</b>	<b>40,067</b>
Payable from the following sources :		
Billed to Council Tax payers	(31,885)	(33,617)
Council Tax benefits	(5,991)	(6,450)
Transitional relief	1	0
Council Tax benefit subsidy limitation	0	0
	<b>(37,875)</b>	<b>(40,067)</b>

### 4 Precepts And Demands

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

	2005/06 £000	2006/07 £000
Darlington Borough Council	31,984	33,828
Durham Police Authority	3,138	3,338
County Durham and Darlington Fire & Rescue Authority	2,400	2,551
	<b>37,522</b>	<b>39,717</b>

### 5 Contribution In Respect Of Previous Year's Surplus/(Deficit)

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

	2005/06 £000	2006/07 £000
Darlington Borough Council	(100)	100
Durham Police Authority	(10)	10
County Durham and Darlington Fire & Rescue Authority	(8)	7
	<b>(118)</b>	<b>117</b>

## **AUDITOR'S REPORT TO DARLINGTON BOROUGH COUNCIL**

### **Independent Auditors' Report to the Members of Darlington Borough Council**

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.

### **Respective responsibilities of the Chief Financial Officer and Auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

This report, including the opinion, has been prepared for and only for Darlington Borough Council's Members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Council and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the Council's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the explanatory foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

## **AUDITOR'S REPORT TO DARLINGTON BOROUGH COUNCIL**

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

### **Opinion**

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Darlington Borough Council as at 31 March 2007 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP  
89 Sandyford Road  
Newcastle upon Tyne  
NE1 8HW

Date:  
28 September 2007

### **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.

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

#### **Council's Responsibilities**

The Council 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

## **AUDITOR'S REPORT TO DARLINGTON BOROUGH COUNCIL**

### **Auditor's Responsibilities**

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Darlington Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007

### **Best Value Performance Plan**

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 in November 2006. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

### **Certificate**

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

PricewaterhouseCoopers LLP  
89 Sandyford Road  
Newcastle upon Tyne  
NE1 8HW

Date:  
28th September 2007

# **STATEMENT ON INTERNAL CONTROL**

## **Scope of Responsibility**

1. Darlington Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
2. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
3. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

## **The Purpose of the System of Internal Control**

4. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
5. The system of internal control has been in place in the Council for the year ended 31st March 2007 and up to the date of approval of the annual report and accounts and accords with proper practice.

## **The Internal Control Environment**

6. The key elements of the Council's internal control environment are tabulated in Appendix A to this statement which also indicates their relevance to the following areas:-
  - (a) Establishing and monitoring the achievement of the Council's objectives.
  - (b) Facilitation of policy and decision-making.
  - (c) Compliance with established policies, procedures, laws and regulations.
  - (d) Economical, effective and efficient use of resources and continuous improvement.
  - (e) Financial Management.
  - (f) Performance Management.

## **Review of Effectiveness**

### ***Background***

7. The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of the internal auditors and the executive managers within the Council who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their Annual Audit Letter and other reports.
8. The Statement has been drafted by a management group who have responsibility for evaluating assurances and the supporting evidence. The group comprises:-
  - (a) Director of Corporate Services (S151 Officer)
  - (b) Borough Solicitor (Monitoring Officer)
  - (c) Assistant Chief Executive
  - (d) Assistant Director – Accounting Services and Local Taxation
  - (e) Assistant Director – Financial Services
  - (f) Chief Internal Auditor

### ***Risk Management***

9. Risk is one of the pieces of information incorporated into the development of departmental service plans and Corporate and Best Value Performance Plan. Risk management is, therefore, an essential element in establishing policy, developing plans and enhancing operational management.
10. The risk management process involves identifying, analysing, managing and monitoring risks. The identification of risks is derived from a 'top down' (corporate) and a 'bottom up' (departmental) process of risk assessment and analysis resulting in coverage of the whole Council. The process prioritises the risks resulting in a focus upon the key risks and priorities. The risks are managed through the development of appropriate action plans, allocated to responsible officers.

## **STATEMENT ON INTERNAL CONTROL**

11. The approach to and outcomes from the Council's risk management processes for 2006/07 was reported to Cabinet in June 2007. The report detailed positive progress upon delivery of action plans to mitigate key risks and outlined advances in the management of operational risks through the Council's Corporate Risk Management Group. Indeed, proactive risk management work within the Council was recognised on a national level on two occasions this year.

### ***Performance Management***

12. The Council's performance management framework (PMF) is a formal process that monitors outturn against the underpinning performance indicators and involves regular reports to Departmental Management Teams, Corporate Management Team, Cabinet and Scrutiny Committees.
13. The Performance Management Framework is reviewed on a regular basis and improvements are made as necessary.
14. That outcomes from this process were positive in 2006/07 is evidenced by the fact that all corporate objectives were on target or better as published in the 2007/08 Corporate and Best Value Performance Plan.
15. The Council was assessed by external audit on its corporate arrangements to secure data quality for the first time during 2006. The assessment covered the five themes of governance and leadership, policies and procedures, systems and processes, people and skills and data use. Overall the Council was considered to be operating 'consistently above minimum requirements-performing'

### ***Internal Audit***

16. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government issued. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council.
17. The Audit Committee approves the Internal Audit Annual Audit Plan and receives progress reports against the Plan during the year including any significant matters arising or other issues of concern and Internal Audit's Annual Report.
18. Internal Audit concluded in their Annual Report for 2006/07 that, overall, the Council continues to operate within a control environment that is generally sound.

### ***Review of Internal Audit Effectiveness***

19. A review of the effectiveness of the Council's system of internal audit was carried out by a team of senior officers that comprised the Policy Manager, the Assistant Director - Housing and the Assistant Director - Public Protection based upon guidance issued by the Finance Advisory Network (FAN) of CIPFA. The findings of the review were considered by the Audit Committee in June 2007.
20. The review team concluded that the Council has an effective system of internal audit.

### ***Managers' Assurance Statements***

21. Annual Managers' Assurance Statements are an integral part of the framework that supports production of the SIC.
22. The Statements cover key aspects of the internal control environment on which assurance is required and were completed formally for the first time in 2007 by representatives on Departmental Senior Management Teams. The output from the exercise was reported to the Audit Committee in June 2007.
23. Generally overall the position was positive. Improvements required largely focus upon the implementation of learning management software that is referred to in paragraph 36.

### ***Local Code of Corporate Governance***

24. In 2002 the Council adopted a Local Code of Corporate Governance in accordance with the CIPFA/SOLACE framework document and supplementary guidance note entitled Corporate Governance in Local Government – a keystone for Community Governance.
25. The Audit Committee received six-monthly monitoring reports in October 2006 and March 2007 to ensure that Members are satisfied that the management processes defined in the Local Code are actually being adhered to throughout the organisation.

## **STATEMENT ON INTERNAL CONTROL**

### ***Annual Audit and Inspection Letter***

26. The Annual Audit and Inspection Letter, produced jointly by the Council's external auditors PricewaterhouseCoopers LLP (PwC) and the Audit Commission, was presented to the Audit committee in June 2007. The Letter highlighted that the Council retained the highest Comprehensive Performance Assessment (CPA) rating of 'four-star' council and under 'direction of travel', to describe improvement progress, was 'improving well'. In terms of Use of Resources, comprising financial reporting, management and standing as well as internal control and value for money, the Council was considered to be delivering 'consistently above minimum
27. The Letter commented specifically that 'strong corporate governance arrangements provide a sound basis for continued improvement', 'effective performance and financial management systems are well established and are continually being honed to improve their effectiveness' and 'risk management is well embedded'. In addition, the annual performance assessment for adult social care conducted by the Commission for Social Care Improvement (CSCI) stated that 'budgetary and performance

### **Improvements Implemented to the Control Environment**

28. The previous SIC referred to specific future improvements to the internal control environment and these have been introduced. The Audit Committee was established to help raise the profile of internal control, risk management and financial reporting issues and provide a forum for discussion of issues raised by internal and external auditors; senior managers have completed assurance statements to support the SIC; and the Council has adopted a partnership toolkit to address the issue of partnership governance arrangements that is currently being rolled out across departments.

### **Significant Internal Control Issues**

29. An issue occurred late in the financial year concerning a major capital scheme, the Pedestrian Heart, and the fact that a Review Group of members from Resources and Environment Scrutiny Committees was to scrutinise the circumstances of an element of the scheme whereby an unexpectedly shallow gas main was required to be diverted which significantly increased costs as a result of both gas main diversion itself and consequential scheme reprogramming.
30. The Review Group reported to Resources Scrutiny Committee in June 2006 and recommended that the Council explore the possible legal implications arising from the gas main incident, discuss with the Utility Company a greater contribution towards the costs and a strategy be produced for strengthening project management arrangements with external agencies. These recommendations were accepted by Cabinet in July 2006.
31. Subsequently, following a report to Council in September 2006 seeking additional funding approval for the scheme, Resources Scrutiny Committee were asked to review the project to date and give an oversight to a review of future capital project management.
32. Resources Scrutiny Committee established a Review Group for this purpose that met during November 2006. the Group examined relevant documentation and received presentations from Clarus Consulting appointed by the Director of Development and Environment to review management arrangements on the contract; the Borough Solicitor and Chief Internal Auditor on the award of the contract and the Programme Manager on the review being undertaken within the Council of capital processes.
33. The Review Group reported to Resources Scrutiny Committee in December 2006 where recommendations were agreed that were later approved by Cabinet in January 2007. The recommendations related to the implementation of the Clarus recommendations to improve management on the scheme, a robust review of the Council's tendering process including member involvement, each contract award over the Contracts Procedure Rules threshold to be based upon a clear and robust procurement/contract strategy, the requirement that all contracts be in place and approved by Legal Services before payments are made and that Resources Scrutiny Committee endorse the establishment of a project to review the capital project management role and that it be involved in developing the system and overseeing implementation. The Review Group also recommended a general review of all payments to ensure they were appropriate.
34. Implementation of recommendations is progressing. Legal Services are exploring the gas main incident and other payments made under the contract; the Utility Company has refused to contribute more towards the costs; the recommendations of Clarus have been implemented; the review of the tendering process aligned to a review of Contract Procedure Rules is underway and will result in recommended changes to the Council's Constitution in 2007; within limits of practicality to meet deadlines, contracts are in place and approved by Legal Services before payments are made; and the project team to review the capital project management role has been established and the review is to be concluded by the end of August 2007.

## **STATEMENT ON INTERNAL CONTROL**

### **Future Improvements**

35. The Leader of the Council and Chief Executive are aware of the result of the review of the effectiveness of the system of internal control by the Audit Committee and are committed to ensure continuous improvement of the system in place.
36. Specific future improvements include the expansion of managers' assurance statements to cover individual schools and the implementation of learning management software to better record acceptance and understanding by employees and members of a range of corporate policies/processes.

Signed .....  
Leader of the Council

Date .....

Signed .....  
Chief Executive

Date .....

## THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

## APPENDIX A

Key Elements of Internal Control Environment	Establishing and Monitoring Achievement of the Council's Objectives	Facilitation of Policy and Decision-Making	Compliance with established policies, procedures, laws and regulations	Economical, effective and efficient use of resources and continuous improvement	Financial Management	Performance Management
Community Strategy	✓					
Corporate and Best Value Performance Plans	✓	✓		✓		✓
Service Planning Framework	✓	✓		✓		
Code of Conduct for Members			✓			
Code of Conduct for Employees			✓			
Financial Procedure Rules	✓		✓		✓	
Performance Management Framework	✓			✓		✓
Consultation Framework	✓	✓				
Partnership Framework	✓	✓		✓		
Constitution		✓				
Council Procedure Rules		✓				
Scheme of Delegation to Officers		✓				
Risk Management Strategy	✓	✓	✓	✓	✓	✓
Local Code of Corporate Governance Reporting Framework	✓	✓	✓	✓	✓	✓
Internal Audit	✓	✓	✓	✓	✓	✓
Confidential Reporting Policy			✓			
Communications Framework	✓	✓	✓	✓	✓	✓
Complaints Procedure			✓			
Standards Committee			✓			
Audit Committee		✓	✓	✓	✓	✓
Managers Assurance Statements			✓			
Protocol for Councillors and Officers dealing with planning matters			✓			
Standard Committee Report format		✓	✓			
Fundamental Service Reviews				✓		
Financial Management and Reporting Framework			✓	✓	✓	✓
Procurement Framework			✓	✓		
Contract Procedure Rules			✓	✓	✓	✓
Medium Term Financial Plan/Budgets		✓		✓	✓	
Annual Statement of Accounts	✓		✓		✓	
Treasury Management Framework			✓		✓	
People Management Framework	✓	✓	✓	✓	✓	✓
Scrutiny/Review Groups	✓	✓	✓	✓	✓	✓

# **GLOSSARY**

## **ACCOUNTING PERIOD**

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

## **ACCRUALS**

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

## **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.

## **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, which is PricewaterhouseCoopers.

## **BALANCE SHEET**

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

## **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.

## **BVACOP**

CIPFA's Best Value Accounting Code of Practice

## **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.

## **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 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.

# **GLOSSARY**

## **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, community charge, non-domestic rates and illustrates the way in which these have been distributed.

## **COMMUNITY ASSETS**

Assets that the Authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions in 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 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<sup>st</sup> 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.

## **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.

## **DEPRECIATION**

The amount charged to revenue accounts to represent the reducing value of fixed assets.

## **ENTITY**

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

# **GLOSSARY**

## **FIXED ASSETS**

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

## **FIXED ASSET RESTATEMENT RESERVE**

A reserve showing the surpluses and deficits achieved when revaluing fixed assets. This reserve is not available for general use in the financing of capital expenditure.

## **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.

## **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.

## **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.

## **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.

## **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.

## **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.

# GLOSSARY

## **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.

## **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.

## **NON-OPERATIONAL ASSETS**

Fixed assets held by an Authority 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 Authority in the direct delivery of those services for which it has a statutory or discretionary responsibility.

## **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.

## **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.

## **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.

## **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.

# **GLOSSARY**

## **RELATED PARTY TRANSACTIONS**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a

- 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 Authority, 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**

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement reserve cannot be used to meet current expenditure.

## **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 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.

## **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.

## **STATEMENT OF STANDARD ACCOUNTING PRACTICES (S.S.A.P.'s)**

Statement of Standard Accounting Practice, with which local authorities should comply when preparing their accounts so that the accounts are presented fairly.

## **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.

## GLOSSARY

### TRUST FUNDS

Funds administered by the Authority 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)

If English is not your first language and you would like more information about this document, or if you require information in large print or braille or tape, please contact (01325) 388351.

اگر آپ کو یہ سماں پر اگر بڑی کے علاوہ کسی دوسری زبان میں درکار ہو تو ماہے میری انگلیش نمبر ۰۱۳۲۵ ۳۸۸۳۵۱ پر فون کر کے حوالہ  
نمبر بتائیں۔

ਜੇ ਇਹ ਪਰਚਾ ਤੁਹਾਨੂੰ ਅੰਗਰੇਜ਼ੀ ਤੋਂ ਬਿਨਾਂ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਚਾਹੀਦਾ ਹੈ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ  
ਮਾਨੂੰ ਨੰਬਰ 01325 388351' ਤੇ ਫੋਨ ਕਰੋ ਅਤੇ ਰੈਫਰੈਂਸ (ਹਵਾਲਾ) ਨੰਬਰ ਦੱਸੋ।

यदि आप यह प्रकाशन अंग्रेजी के अलावा अन्य भाषा में चाहते हैं तो कृपया संदर्भ नम्बर (फ्रेनस नम्बर)  
बताकर निम्नलिखित 01325 388351 पर संपर्क करें।

如果你需要其它語言的版本，請與以下電話聯繫並報出參考號碼：01325 388351

اگر آپناں ایکریوں کی شاڈا آنے کو انگلیش میں دیکھنا پڑے تو اسی میں دیکھنے کا لئے، ڈالنے 01325 388351  
نمبر پر ٹکਾਨ کر کر اسے ۰۱۳۲۵ ۳۸۸۳۵۱ میں اپنے نمبر کر کر جاؤ ।

إذا رغبتم الحصول على هذه النشرة بلغة أخرى غير اللغة الإنجليزية فرجو  
الاتصال بنا على رقم الهاتف التالي : 01325 388351 . مع ذكر رقم الاشارة.