

# **DARLINGTON BOROUGH COUNCIL**

## **Statement of Accounts**

**2009/2010**

# **STATEMENT OF ACCOUNTS**

**2009/10**

**Page**

## **Contents:**

|   |           |
|---|-----------|
| <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>18</b> |
| <b>Income and Expenditure Account</b>                               | <b>19</b> |
| <b>Statement of the Movement on the General Fund Balance</b>        | <b>20</b> |
| <b>Statement of Total Recognised Gains and Losses</b>               | <b>22</b> |
| <b>Balance Sheet</b>  | <b>23</b> |
| <b>Cash Flow Statement</b>  | <b>24</b> |
| <b>Notes to the Core Financial Statements</b>                       | <b>25</b> |
| <b>Housing Revenue Account (HRA) Income and Expenditure Account</b> | <b>50</b> |
| <b>Statement of Movement on the HRA Balance</b>                     | <b>51</b> |
| <b>Notes to the Housing Revenue Account</b>                         | <b>52</b> |
| <b>Collection Fund</b>  | <b>55</b> |
| <b>Notes to the Collection Fund Account</b>                         | <b>56</b> |
| <b>Auditors' Report</b>   | <b>58</b> |
| <b>Annual Governance Statement</b>                                  | <b>61</b> |
| <b>Glossary</b>   | <b>72</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 2009/10 and its financial position as at 31<sup>st</sup> March 2010.

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2009 the ("SORP") introduced changes to the way some elements of the Statement of Accounts are reported. The substantive changes that affect Darlington Borough Council's Statement of Accounts for 2009/10 are:

- The accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on the UK accounting standard FRS 5 but on International Financial Reporting Standards (IFRS). The 'Education Village & Harrowgate Hill school' is the Council's only PFI and has subsequently come back 'on Balance Sheet' i.e. is included in the Council's assets with a liability for the financing provided by the PFI operator. The comparative figures for 2008/09 have been restated accordingly.
- Accounting for local taxes (including National Non-domestic Rates and Council Tax in England) has been amended to include a requirement to include appropriate shares of Council Tax debtors in the billing authorities Balance Sheet as the billing authority acts as an agent and consequently should only include its own share of the income and not the preceptors. The comparative figures for 2008/09 have been restated and shown as a prior period adjustment.
- Five note disclosures have been removed as requirements of the 2009 SORP, but the Council has decided to voluntarily disclose 4 of them, namely section 137 expenditure; expenditure on publicity; the building control account and income under the Local Authorities Goods and Services Act. The Business Improvement District Scheme does not apply to the Council.
- The note disclosing officers remuneration has been significantly enhanced to show bandings in groups of £5k and also to show more detail for senior employees. This is for the purpose of increasing transparency for the public in relation to remuneration for senior public sector workers.

## **2 Information and Financial Statements**

The Council's Accounts for the year ended 31<sup>st</sup> March 2010 are set out in the following pages and a glossary of terms used is provided on pages 72 to 82.

The information and financial statements are as follows:

### **Statement of Accounting Policies (pages 8 - 17)**

Shows the accounting policies adopted in compiling the Accounts.

### **Statement of Responsibilities for the Statement of Accounts (page 18)**

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

### **Income and Expenditure Account (page 19)**

This statement brings together the net cost of all Council services and shows how this cost is financed from government grants and income from local taxpayers.

### **Statement of Movement on the General Fund Balance (pages 20 - 21)**

This statement summarises the revenue costs that fund Council services and the movement in this fund represents items charged directly to the fund and any surplus or deficit generated from the income and expenditure account that is used in determining the Council's budget requirement and Council Tax demand.

### **Statement of Total Recognised Gains and Losses (STRGL) (page 22)**

This statement brings together all of the Council's gains and losses arising in the financial year.

### **Balance Sheet (page 23)**

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.

### **Cash Flow Statement (page 24)**

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

## **EXPLANATORY FOREWORD**

### **Notes to the Core Statements (pages 25 - 49)**

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 50 - 54)**

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 (pages 55 - 57)**

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 it does not have any material interests and consequently, no group accounts have been prepared (**see page 28 Note 12**).

### **Auditors' Report (page 58 - 60)**

The Auditors' opinion gives an independent view on the Council's accounts for the year ended 31<sup>st</sup> March 2010.

### **Annual Governance Statement (pages 61 - 71)**

This statement outlines the Council's responsibilities, explains the purpose of the governance framework, sets out the key elements of the governance framework, details the review of its effectiveness, highlights significant governance issues and includes a commitment by the Leader of the Council and Chief Executive to ensure the continuous improvement of the system in place.

## **3 Local Government Pension Scheme**

Following the 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 FRS17 pension liability of £156.950M from £278.175M to £121.225M (In 2008/09 the restated FRS17 pension liability of £113.040M reduced the net worth from £302.305M to £189.265M). However, from the last full actuarial valuation date of 31 March 2007 contributions were increased to recover the then deficit over a period of 20 years, as agreed by the Pension Fund Administering Authority with the Actuary. Further information is available in **Note 21 (page 36)** in the Notes to the Core Financial Statements.

## **4 Comprehensive Area Assessment (CAA)**

The Comprehensive Area Assessment (CAA) replaced the Comprehensive Performance Assessment (CPA) from April 2009. It consists of two elements, an Organisational Assessment and an Area Assessment. The Organisational Assessment includes two assessments; Managing Performance and Use of Resources. This assessment is scored from 1 to 4 and the Council was awarded a 3 which is 'Performing Well'.

## **5 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 1 (page 25)** in the Notes to the Core Financial Statements and the liability relating to this contract can now be found on the Balance Sheet.

## **6 Equal Pay**

The Council has received, both prior to and during 2009/10, 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, where the legal advice is that offers of settlement should not be made, remain outstanding. These claims will be defended and periodically reviewed to ensure the Council takes appropriate and timely action where necessary. Under FRS12 the Council is obliged to create a provision for the potential liability as it does meet all of the necessary criteria and consequently a provision has been included in the accounts but under Regulation 30A of the Capital Finance and Accounting Regulations 2003/3146 the council has elected to defer the charge to the General Fund pending actual payment of the claims. (**Note 19 on page 35 & Note 4 on page 8**).

## EXPLANATORY FOREWORD

### 7 Where the Money Comes From and How it was Spent

Where the money comes from:

| Gross Income               | 2008/09 |       | 2009/10 |       |
|----------------------------|---------|-------|---------|-------|
|                            | £000    | %     | £000    | %     |
| Gross Council Rents        | 15,477  | 5.6   | 15,609  | 5.5   |
| General Government Grants  | 10,854  | 3.9   | 13,829  | 4.9   |
| Non Domestic Rate Grant    | 32,140  | 11.7  | 30,698  | 10.8  |
| Dedicated Schools Grant    | 56,354  | 20.5  | 58,539  | 20.6  |
| Demand on Collection Fund  | 37,888  | 13.8  | 39,502  | 13.8  |
| Specific Government Grants | 55,720  | 20.2  | 65,093  | 22.9  |
| Charges for Services       | 30,620  | 11.1  | 30,365  | 10.7  |
| Other Income               | 36,460  | 13.2  | 30,897  | 10.9  |
|                            | 275,513 | 100.0 | 284,532 | 100.0 |
|                            |         |       |         |       |

How it was spent:

| Gross Expenditure                          | 2008/09 |       | 2009/10 |       |
|--|---------|-------|---------|-------|
|  | £000    | %     | £000    | %     |
| Central Services to the Public             | 10,736  | 3.9   | 6,262   | 2.2   |
| Court Services                             | 151     | 0.1   | 0       | 0.0   |
| Cultural Environmental & Planning Services | 39,092  | 14.2  | 32,534  | 11.4  |
| Children's and Education Services          | 103,700 | 37.6  | 105,964 | 37.2  |
| Highways, Roads & Transport Services       | 11,210  | 4.1   | 11,619  | 4.1   |
| Housing Services                           | 67,739  | 24.6  | 85,128  | 29.9  |
| Adult Social Care                          | 37,323  | 13.5  | 39,500  | 13.9  |
| Other Services                             | 5,562   | 2.0   | 3,525   | 1.2   |
|  | 275,513 | 100.0 | 284,532 | 100.0 |
|  |         |       |         |       |

**Note:**

- The increase in the Housing Services line is due to an impairment review and further details are given in **Note 3 page 52**.
- Central Services to the Public includes such services as Registrars, Customer Services, Local Taxation, Support Services, Democratic, Consultancy Services & Youth Training, Building Control, Economic Regeneration, Community Safety, Library, Railway Museum, Trading Standards, Central Arts & Community Partnerships. This list is not exhaustive.

What it was spent on:

| Type of Expenditure | 2008/09 |       | 2009/10 |       |
|---------------------|---------|-------|---------|-------|
|                     | £000    | %     | £000    | %     |
| Employees           | 110,145 | 39.98 | 111,113 | 39.05 |
| Running Expenses    | 157,507 | 57.17 | 163,311 | 57.40 |
| Capital Financing   | 7,861   | 2.85  | 10,108  | 3.55  |
|                     | 275,513 | 100.0 | 284,532 | 100.0 |
|                     |         |       |         |       |

## EXPLANATORY FOREWORD

### 8 Comparison of Actual with Budget - Revenue

| <b>Net Expenditure 2009/10</b>       | <b>Budget</b><br>£000 | <b>Actual</b><br>£000 | <b>Variance</b><br>£000 |
|--------------------------------------|-----------------------|-----------------------|-------------------------|
| <b><i>Departmental Resources</i></b> |                       |                       |                         |
| Children's Services                  | 77,169                | 78,300                | 1,131                   |
| Community Services                   | 48,720                | 46,881                | (1,839)                 |
| Chief Executive's Office             | 7,183                 | 7,037                 | (146)                   |
| Corporate Services                   | 11,052                | 11,238                | 186                     |
| <b>Total Departmental Resources</b>  | <b>144,124</b>        | <b>143,456</b>        | <b>(668)</b>            |
| <b><i>Corporate Resources</i></b>    |                       |                       |                         |
| Joint Bodies & Levies                | 641                   | 718                   | 77                      |
| Financing Costs                      | 3,954                 | 2,863                 | (1,091)                 |
| Leading Edge                         | (340)                 | 0                     | 340                     |
| Change Fund                          | 100                   | 0                     | (100)                   |
| Salary Savings                       | 642                   | 0                     | (642)                   |
| Vat Refund                           |                       | (3,286)               | (3,286)                 |
| Collection Fund Deficit              |                       | 210                   | 210                     |
| LABGI                                |                       | 56                    | 56                      |
| ABG                                  |                       | (55)                  | (55)                    |
| <b>Net Expenditure</b>               | <b>4,997</b>          | <b>506</b>            | <b>(4,491)</b>          |
| <b><i>Reserves</i></b>               |                       |                       |                         |
| Planned Use of General Fund Reserve  | (1,825)               | (1,825)               | 0                       |
| Departmental Balances c/fwd          | (1,131)               | (833)                 | 298                     |
| Corporate underspends                | 0                     | 4,491                 | 4,491                   |
| Departmental underspends             |                       | 370                   | 370                     |
| <b>Total Reserves</b>                | <b>(2,956)</b>        | <b>2,203</b>          | <b>5,159</b>            |
| <b>Less Depreciation</b>             | <b>10,108</b>         | <b>10,108</b>         | <b>0</b>                |
| <b>Total Resources</b>               | <b>136,057</b>        | <b>136,057</b>        | <b>0</b>                |

In February 2009 the Council set a net revenue budget of £135.501M and approved a contribution from reserves of £1.825M. Additional DSG income of £0.556M was received during 2009/10. Departments are carrying forward resources of £0.298M which are earmarked for committed projects in 2010-11. Departmental underspends of £0.370M and Corporate underspends of £4.491M are being returned to general reserves. There is a planned use of reserves of £0.321M in 2010-11 as set out in the 2010-14 MTFP.

At 31st March 2010, the Council had general reserves of £12.109M available to fund general revenue expenditure. The MTFP approved by Council in February 2010 includes the planned use of reserves of £1.122M over the next four financial years to 2013-14.

### 9 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

### 10 Analysis of Capital Spend

|  | Capital spend Available<br>£'000 | Planned spending 2009/10<br>£'000 | Actual<br>£'000 | Approved Capital Spend C/Fwd |
|--|----------------------------------|-----------------------------------|-----------------|------------------------------|
|  |                                  |                                   |                 | £'000                        |
| <b>Capital expenditure 2009/10</b>       |                                  |                                   |                 |                              |
| Children's Services                      | 44,899                           | 19,659                            | 19,108          | 25,791                       |
| Housing                                  | 20,001                           | 14,455                            | 11,305          | 8,696                        |
| Transport                                | 4,690                            | 4,351                             | 2,941           | 1,749                        |
| Community Services                       | 4,372                            | 2,245                             | 1,839           | 2,533                        |
| Corporate Services                       | 3,517                            | 2,449                             | 2,010           | 1,507                        |
| Chief Executives (Regeneration)          | 6,327                            | 1,271                             | 1,439           | 4,888                        |
| Adult Services                           | 229                              | 129                               | 54              | 175                          |
| Leased Assets                            | 0                                |                                   | 704             | 0                            |
| Total                                    | 84,035                           | 44,559                            | 39,400          | 45,339                       |
| Financed by                              |                                  |                                   |                 |                              |
| *Supported Borrowing                     |                                  |                                   |                 | 3,869                        |
| Corporate** Unsupported Borrowing        |                                  |                                   |                 | 2,646                        |
| Departmental Unsupported Borrowing       |                                  |                                   |                 | 3,870                        |
| Capital Grants                           |                                  |                                   |                 | 18,993                       |
| Major Repairs Allowance- Housing Grant   |                                  |                                   |                 | 5,263                        |
| Capital Contributions                    |                                  |                                   |                 | 791                          |
| Housing Revenue Account Capital Receipts |                                  |                                   |                 | 89                           |
| General Fund Capital Receipts            |                                  |                                   |                 | 541                          |
| Revenue Contributions                    |                                  |                                   |                 | 3,338                        |
| Total                                    |                                  |                                   | 39,400          |                              |

\* 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 2009/10 totalled £84.035M however not all of the resources were planned to be expended during 2009/10. Some schemes have a build life of longer than one year so the actual planned spend for 2009/10 was £44.559M with an actual spend of £39.400M. The majority of the slippage relates to Housing New Build and Transport schemes.. The slippage into 2010/11 will be financed by supported and unsupported borrowing, grants carried forward, Usable Capital Receipts, Revenue and Capital Contributions.

### 11 Material Assets Acquired, Capital Works and Disposals during 2009/10

The Council has not made any major acquisitions of either land or property during 2009/10

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

|   | £'000  |
|---|--------|
| Operational Building - Improvements                   | 1,738  |
| Children's Services Improvements to Schools           | 19,090 |
| Housing Stock - Improvements                          | 10,570 |
| Highways and Transport Infrastructure                 | 3,816  |
| Community assets Improvements                         | 340    |
| Development Services                                  | 1,402  |
| Vehicles Plant and Equipment                          | 1,497  |
| Revenue Expenditure funded from Capital under Statute | 947    |
| Total   | 39,400 |

## **EXPLANATORY FOREWORD**

### **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 2009/10 were as follows:

- Revised Authorised Limit for External Debt for 2009/10 of £125.772M; and
- Revised Operational Boundary for External Debt for 2009/10 of £114.339M.

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 2008/09. The maximum gross borrowing position during 2009/10 was £104.242m with a closing gross borrowing position of £80.860m a reduction of £23.382m on the previous year (see **Note 26** in the Notes to the Core Financial Statements page 45).

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.

### **12 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 Financial 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 2009: A Statement of Recommended Practice (SORP), issued 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 on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where 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 8 (page 28)** 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.

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

# 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 & European Grants and Contributions

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 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment 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 for Children, Schools and Families (DCSF).

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 Agency 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 21 (page 36)** in the Notes to the Core Financial Statements in accordance with FRS17.

### 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 5.5% (based on the indicative rate of return on high quality corporate bonds).

# STATEMENT OF ACCOUNTING POLICIES

- 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 - current bid price
- unquoted securities - professional estimate
- unitised securities - current bid price
- property - market value.

Under the 2008 SORP the council has adopted the amendment to the FRS17, Retirement benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-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.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. 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.

## 10 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 plus any profit reasonably attributable to the works.

## 11 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 20 (page 35)** in the Notes to the Core Financial Statements.

# STATEMENT OF ACCOUNTING POLICIES

## 12 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 2008 (BVACOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of :

- Corporate and Democratic Core - costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and 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 costs of management and administration are outlined below:

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

## 13 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". After consideration of all the criteria the Council has determined that the consolidation of all related companies would not have a material effect on the Council's financial position. Consequently, no group accounts have been prepared.

## 14 Investments

Investments are shown in the Consolidated Balance Sheet at cost (including accrued interest). 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.

## 15 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 Average 7-day LIBID rates.

## 16 External Interest Paid

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

## 17 FRS4 –Capital instruments- Lender Option Borrower Option Loans (LOBOs)

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.

## 18 External Interest Received

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

# STATEMENT OF ACCOUNTING POLICIES

## 19 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 off to the Income and Expenditure account. The de-minimis expenditure is financed using existing capital resources or by borrowing, a transfer to the Capital Adjustment 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.

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 Corporate Services. 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 Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

**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 any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

# STATEMENT OF ACCOUNTING POLICIES

**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. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. 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 Adjustment 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 assets 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 are depreciated over the anticipated useful life of the asset, generally between 3 and 12 years.
- infrastructure - straight-line allocation over 40 years.

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

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

**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.

## 20 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.

## 21 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 and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- 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, for capital expenditure expended before 1st April 2008 and for any subsequent spending supported through the Revenue Support Grant. For all unsupported borrowing from 1st April 2008 repayments will be made using the Asset Life Method either straight line or annuity). 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 Adjustment Account for the difference between the two.

# STATEMENT OF ACCOUNTING POLICIES

## 22 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 apportioned 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 SSAP 21 "Accounting for Leases and Hire Purchase Contracts" and FRS 5 "Reporting the Substance of Transactions".

### Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

## 23 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

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 that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

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

# STATEMENT OF ACCOUNTING POLICIES

## 24 Financial Assets

Financial assets are classified into two types:

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

### Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The council has the option to make loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year - the reconciliation of amounts debited and credited to the Income and Expenditure to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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

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

### Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

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

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred - these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

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

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

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

### Instruments Entered Into Before 1st April 2006

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

# **STATEMENT OF ACCOUNTING POLICIES**

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

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

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

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

- fair value of the services received during the year - debited to the relevant service in the Income and Expenditure Account.
- finance cost - an interest charge of 4.77% on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the Income and Expenditure Account.
- payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator.

## **26 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 Allowance permits are valued at the lower of cost or net realisable value. Permits held by the council at 31st March 2009 are included at nil value.

# STATEMENT OF ACCOUNTING POLICIES

## 27 Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The fund key features relevant to accounting for council tax in the core financial statements are:

- In its capacity as a billing authority the council acts as agent; it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection fund to major preceptors.
- Up to 2008/09 the SORP required the Council Tax income included in the Income and Expenditure Account to be that under regulation was required to be transferred from the Collection fund to the General Fund of the billing authority.
- From the year commencing 1 April 2009 the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.
- Since the collection of Council Tax and NNDR Income is in substance an agency arrangement:

Cash collected by the billing authority from Council Tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council Taxpayers; and

Cash collected from NNDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor, similarly, if cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

## 28 Changes in Accounting Policies

Under the 2009 SORP there has been a change in Accounting Policy with regard Collection Fund whereby the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year.

There have been no other major changes in the Authority's accounting policies during 2009/10

# **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 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 2010 and the income and expenditure for 2009/2010.

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

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

Director of Corporate Services

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

As Chair of the Audit Committee meeting held on 25th June, 2010, I hereby acknowledge receipt of the Statement of Accounts for 2009/2010 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 25th June, 2010 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Chair \_\_\_\_\_

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.

| 2008/09                  |  | 2009/10           |                  |                 |       |
|--------------------------|--|-------------------|------------------|-----------------|-------|
| RESTATED NET EXPENDITURE | £000   | GROSS EXPENDITURE | INCOME           | NET EXPENDITURE | Notes |
|                          | £000   | £000              | £000             | £000            |       |
| 3,428                    | Central services to the public                                       | 6,262             | (10,953)         | (4,691)         |       |
| 25,758                   | Cultural, environmental, regulatory & planning services              | 32,534            | (12,755)         | 19,779          |       |
| 19,289                   | Children's and education services                                    | 105,964           | (86,344)         | 19,620          |       |
| 7,472                    | Highways & transport services  | 11,619            | (3,604)          | 8,015           |       |
| 11,187                   | Local authority housing (HRA)  | 33,830            | (13,402)         | 20,428          |       |
| 1,083                    | Housing Services   | 51,298            | (42,506)         | 8,792           |       |
| 27,215                   | Adult Social Care  | 39,500            | (11,422)         | 28,078          |       |
| 5,085                    | Corporate and Democratic Core  | 2,925             | 0                | 2,925           |       |
| 477                      | Non Distributed Costs  | 600               | 0                | 600             |       |
| <b>100,994</b>           | <b>Net Cost of Services</b>  | <b>284,532</b>    | <b>(180,986)</b> | <b>103,546</b>  |       |
| (176)                    | (Gain) / Loss on the disposal of fixed assets                        |                   |                  | 1,647           |       |
| 62                       | Parish council precepts  |                   |                  | 61              |       |
| (797)                    | Surplus on trading undertakings not included in Net Cost of Services |                   |                  | (1,329)         | 6     |
| 5,789                    | Interest payable and similar charges                                 |                   |                  | 4,170           |       |
| 344                      | Contribution of housing capital receipts to Government Pool          |                   |                  | 204             |       |
| (2,470)                  | Interest and investment income                                       |                   |                  | (939)           |       |
| 5,160                    | Expected return on assets  |                   |                  | 9,330           | 22    |
| <b>108,906</b>           | <b>Net operating expenditure</b>                                     |                   |                  | <b>116,692</b>  |       |
| (37,695)                 | Borough Council demand on Collection Fund                            |                   |                  | (39,502)        |       |
| (10,584)                 | General government grants  |                   |                  | (13,829)        |       |
| (32,140)                 | Contribution from non-domestic rates pool                            |                   |                  | (30,698)        |       |
| (463)                    | Local Authority Business Growth Incentive                            |                   |                  | (45)            |       |
| (388)                    | Local Public Service Agreement                                       |                   |                  | 0               |       |
| (274)                    | Other  |                   |                  | (55)            |       |
| <b>27,362</b>            | <b>Net General Fund deficit for the year</b>                         |                   |                  | <b>32,563</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 read alongside 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 as 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 change in 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>RESTATED<br/>AS AT<br/>31 MARCH<br/>2009</b> |   | <b>AS AT<br/>31 MARCH<br/>2010</b> |
|---|---|------------------------------------|
| <b>£000's</b>                                   |   | <b>£000's</b>                      |
| 27,362  | Deficit for the year on the Income and Expenditure Account  | 32,563                             |
| (193)   | Collection Fund Adjustment  | (193)                              |
| (28,848)  | 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) | (34,742)                           |
| (1,679)   | (Increase)/Decrease in General Fund Balance for the year  | (2,372)                            |
| (9,137)   | General Fund Balance brought forward  | (10,816)                           |
| <b>(10,816)</b>                                 | General Fund Balance carried forward  | <b>(13,188)</b>                    |
| (10,816)  | Amount of General Fund Balance generally available for new expenditure  | (13,188)                           |
| <b>(10,816)</b>                                 |   | <b>(13,188)</b>                    |

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

| RESTATED<br>AS AT<br>31 MARCH<br>2009 |  | FOR THE<br>YEAR TO<br>31 MARCH<br>2010 |
|---------------------------------------|--|--|
| £000's                                |  | £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>  |  |
| (33,897)                              | Depreciation and impairment of fixed assets  | (41,348)                               |
| 2,639                                 | Government Grants Deferred amortisation  | 6,324                                  |
| (183)                                 | Revenue Expenditure funded from Capital under Statute  | (168)                                  |
| 176                                   | Net gain / (loss) on sale of fixed assets  | (1,647)                                |
|                                       | Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt |  |
| (12,020)                              | Net charges made for retirement benefits in accordance with FRS17  | (17,020)                               |
| (97)                                  | Difference between UK GAAP and IFRS Accounting methods for PFI scheme  | 0                                      |
| (43,382)                              |  | (53,859)                               |
|                                       | <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>  |  |
| 2,629                                 | Minimum revenue provision for capital financing  | 4,636                                  |
| 3,220                                 | Capital expenditure charged in-year to the General Fund Balance  | 3,338                                  |
| (344)                                 | Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool  | (204)                                  |
| 10,260                                | Employer's contributions payable to the Durham County Pension Fund and retirement benefits payable direct to pensioners  | 10,546                                 |
| 15,765                                |  | 18,316                                 |
|                                       | <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>   |  |
| 125                                   | Housing Revenue Account Balance  | 65                                     |
| 0                                     | Voluntary revenue provision for capital financing  | 0                                      |
| (1,356)                               | Net transfer (to) or from earmarked reserves   | 737                                    |
| (1,231)                               |  | 802                                    |
| (28,848)                              | <b>Net additional amount required to be credited to the General Fund balance for the year</b>  | (34,742)                               |

## 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<br/>AS AT<br/>31 MARCH<br/>2009</b> |   | <b>AS AT<br/>31 MARCH<br/>2010</b> |
|---|---|------------------------------------|
| <b>£000</b>                                     |   | <b>£000</b>                        |
| 27,362  | Deficit for the year on the Income and Expenditure Account                      | 32,563                             |
| (15,265)  | (Surplus) arising on Revaluation of Fixed Assets                                | (2,547)                            |
| 1,055   | (Surplus)/Deficit arising on revaluation of available-for-sale Financial Assets | 588                                |
| 45,290  | Actuarial (gains)/losses on pension fund assets and liabilities                 | 37,436                             |
| <b>58,442</b>                                   | Total recognised (gains)/losses   | <b>68,040</b>                      |

The Statement of Total Recognised Gains and Losses for 2008/09 has been restated due to the changes in the method of accounting for the Collection Fund as well as the treatment for the PFI scheme.

## BALANCE SHEET AS AT 31st MARCH 2010

| RESTATED<br>AS AT<br>31 MARCH<br>2009 |  | AS AT 31 MARCH 2010 | NOTES |
|---------------------------------------|--|---------------------|-------|
| £000                                  |  | £000                | £000  |
|                                       | <b>Fixed Assets</b>  |                     |       |
|                                       | <b>Tangible Fixed Assets</b>                               |                     |       |
|                                       | <b>Operational Assets</b>                                  |                     |       |
| 173,862                               | Council Dwellings  | 153,745             |       |
| 230,110                               | Other Land and Buildings                                   | 235,949             |       |
| 5,954                                 | Vehicles, Plant and Equipment                              | 6,300               |       |
| 35,639                                | Infrastructure Assets                                      | 38,502              |       |
| 7,761                                 | Community Assets   | 7,826               |       |
|                                       | <b>Non Operational Assets</b>                              |                     |       |
| 14,936                                | Investment Properties                                      | 17,986              |       |
| 582                                   | Assets Under Construction                                  | 441                 |       |
| 4,472                                 | Surplus Assets held for Disposal                           | 4,448               |       |
| 473,316                               | <b>Total Fixed Assets</b>                                  | <u>465,197</u>      | 13a   |
| 2,982                                 | <b>Long Term Investments</b>                               | 2,393               | 8     |
|                                       | <b>Long Term Debtors</b>                                   |                     |       |
| 69                                    | Mortgages  | 59                  |       |
| 297                                   | Other  | 297                 |       |
| 476,664                               | <b>Total Long-Term Assets</b>                              | <u>467,946</u>      |       |
|                                       | <b>Current Assets</b>                                      |                     |       |
| 634                                   | Stocks and Work in Progress                                | 569                 |       |
| 13,366                                | Debtors  | 14,764              | 16    |
| 2,197                                 | Cash at Bank   | 0                   |       |
| 40,605                                | Investments (Short Term)                                   | 15,162              |       |
| 56,802                                |  | <u>30,495</u>       |       |
| 533,466                               | <b>Total Assets</b>  | <u>498,441</u>      |       |
|                                       | <b>Current Liabilities</b>                                 |                     |       |
| (39,826)                              | Creditors  | (41,423)            | 17    |
| 0                                     | Bank Overdraft   | (1,635)             |       |
| (13,764)                              | Temporary Borrowing  | (13,866)            |       |
| (53,590)                              |  | <u>(56,924)</u>     |       |
| 479,876                               | <b>Total Assets less Current Liabilities</b>               | <u>441,517</u>      |       |
| (92,088)                              | <b>Long Term Borrowing</b>                                 | (67,880)            | 26    |
| (25,630)                              | <b>Deferred Liabilities</b>                                | (24,163)            |       |
| (58,525)                              | <b>Government Grants Deferred</b>                          | (69,546)            |       |
| (113,040)                             | <b>Liability related to defined benefit pension scheme</b> | (156,950)           | 21    |
| (1,328)                               | <b>Provisions</b>  | (1,753)             | 19    |
| (290,611)                             |  | <u>(320,292)</u>    |       |
| 189,265                               | <b>Total Assets less Liabilities</b>                       | <u>121,225</u>      |       |
|                                       | <b>Financed By :</b>                                       |                     |       |
| 69                                    | <b>Deferred Capital Receipts</b>                           | 69                  | 20    |
| (468)                                 | <b>Collection Fund Adjustment Account</b>                  | (675)               |       |
| 16,208                                | <b>Revaluation Reserve</b>                                 | 18,367              | 20    |
| 267,983                               | <b>Capital Adjustment Account</b>                          | 239,704             | 20    |
| (787)                                 | <b>Financial Instruments Adjustment Account</b>            | (518)               | 20    |
| 2,982                                 | <b>Available-for-sale Financial Instruments Reserve</b>    | 2,393               |       |
| 1,029                                 | <b>Usable Capital Receipts Reserve</b>                     | 681                 | 20    |
| (113,040)                             | <b>Pensions Reserve</b>                                    | (156,950)           | 21    |
| 15,289                                | <b>Reserves</b>  | 18,154              | 20    |
| 189,265                               | <b>Total Net Worth</b>                                     | <u>121,225</u>      |       |

# CASH FLOW STATEMENT

| 2008/09  | DESCRIPTION  | 2009/10  |
|----------|--|----------|
| £000     |  | £000     |
| (5,191)  | <b>NET CASH FLOW FOR REVENUE ACTIVITIES</b>  | (13,593) |
|          | <b>DIVIDENDS RECEIVED FROM JOINT VENTURES &amp; ASSOCIATES</b>   |          |
| 0        | <b>Cash Outflows</b><br>Dividends received   | 0        |
| 0        | <b>Cash Inflows</b>  | 0        |
| 0        |  | 0        |
|          | <b>RETURN ON INVESTMENTS AND SERVICING OF FINANCE</b>  |          |
| 3,901    | <b>Cash Outflows</b><br>Interest Paid<br>Interest Element on finance lease rental payments   | 4,397    |
| 0        |  | 0        |
| (2,470)  | <b>Cash Inflows</b><br>Interest received   | (939)    |
|          |  | (939)    |
| 1,431    | <b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS &amp; SERVICING OF FINANCE</b>   | 3,458    |
|          | <b>CAPITAL ACTIVITIES</b>  |          |
| 48,238   | <b>Cash Outflows</b><br>Purchase of Fixed Assets<br>Purchase of Long Term Liabilities<br>Other Capital Cash Payments   | 36,791   |
| 0        |  | 0        |
| 0        |  | 0        |
| (796)    | <b>Cash Inflows</b><br>Sale of Fixed Assets<br>Proceeds from Long Term Investments matured in year<br>Other Capital Cash Receipts<br>Capital Grants received | (486)    |
| 0        |  | 0        |
| 0        |  | 0        |
| (35,395) |  | (22,242) |
|          |  | (22,728) |
| 12,047   | <b>NET CASH OUTFLOW FROM CAPITAL ACTIVITIES</b>  | 14,063   |
|          | <b>ACQUISITIONS AND DISPOSALS</b>  |          |
| 0        | <b>Cash Outflows</b><br>Investments in Associates or Joint Ventures<br>Investments in subsidiary undertakings  | 0        |
| 0        |  | 0        |
|          | <b>Cash Inflows</b><br>Sale of investments in associates or joint ventures<br>Sale in subsidiary undertakings  | 0        |
| 0        |  | 0        |
| 0        |  | 0        |
| 0        | <b>NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS</b>  | 0        |
|          | <b>MANAGEMENT OF LIQUID RESOURCES</b>  |          |
| (3,999)  | Net Increase/(Decrease) In Short Term Deposits   | (25,443) |
| 0        | Net Increase/(Decrease) In other liquid resources  | 0        |
|          |  |          |
| (3,999)  |  | (25,443) |
|          | <b>FINANCING</b>   |          |
| 29,974   | <b>Cash Outflows</b><br>Repayment of Loans<br>Capital Element Of Finance Lease rental & PFI Payments   | 43,882   |
| 40       |  | 1,467    |
|          |  | 45,349   |
| (32,974) | <b>Cash Inflows</b><br>New Long-Term Loans Raised<br>New short term loans raised   | (20,002) |
| 0        |  | 0        |
|          | <b>NET CASH FLOW FROM FINANCING</b>  | (20,002) |
|          | <b>NET (INCREASE)/DECREASE IN CASH</b>   | 3,832    |
| 1,328    |  |          |

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

The Council's PFI scheme, the Education Village and Harrowgate 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 Income and Expenditure Account.

Under International Financial Reporting Standards (IFRS) PFI contracts like this one should now be shown on the Council's Balance Sheet from 2009-10 as the contract reverts the assets back to the Council at the end of the contract period. For this reason the Balance Sheet produced for 2008/09 has been restated by the following amounts

| Balance Sheet Category                 | Original       |                     | Restated       |                   |
|--|----------------|---------------------|----------------|-------------------|
|  | 08/09<br>£000s | Adjustment<br>£000s | 08/09<br>£000s | Restated<br>£000s |
| Fixed Assets Other Land and Buildings  | 203,346        | 26,764              | 230,110        |                   |
| Debtor Residual interest in PFI scheme | 2,663          | (2,663)             | 0              |                   |
| Increase in Deferred Liabilities       | (115)          | (25,515)            | 25,630         |                   |
| Capital Adjustment Account             | 269,396        | 1,413               | 267,983        |                   |

The Council is also committed to make further payments estimated at £86.907M over the remaining term of the 25 year contract some of these costs will be used to repay the remaining liability on the balance sheet and the rest will be used to pay for financing costs (interest) and service charges. The impact of these charges is reduced by the grant received in the form of PFI credits which has been estimated as totalling £65.741M over the same contract period. This then leaves an estimated remaining cost of the PFI scheme for future years to the Council of £21.166M as at 31st March 2010. It is also important to note that the costs of the scheme will take into account budgets which previously covered the facilities now provided by both the Education Village and Harrowgate Hill Primary School.

| Period          | Repayment<br>£000s | Interest<br>£000s | Service Charge<br>£000s | Total Unitary<br>£000s | PFI Credits<br>£000s | Net Cost<br>£000s |
|-----------------|--------------------|-------------------|-------------------------|------------------------|----------------------|-------------------|
| 2010/11         | 1,390              | 1,150             | 1,945                   | 4,485                  | 3,200                | 1,285             |
| 2011/12-2014/15 | 5,230              | 3,952             | 8,279                   | 17,461                 | 12,800               | 4,661             |
| 2015/16-2019/20 | 5,968              | 3,590             | 11,567                  | 21,125                 | 16,002               | 5,123             |
| 2020/21-2024/25 | 5,587              | 2,206             | 13,087                  | 20,880                 | 16,002               | 4,878             |
| 2025/26-2029/30 | 5,465              | 889               | 14,807                  | 21,161                 | 16,002               | 5,159             |
| 2030/31         | 446                | 21                | 1,328                   | 1,795                  | 1,735                | 60                |
| <b>Totals</b>   | <b>24,086</b>      | <b>11,808</b>     | <b>51,013</b>           | <b>86,907</b>          | <b>65,741</b>        | <b>21,166</b>     |

### **2 Local Authority (Goods And Services) Act 1970**

In 2009/10 surplus bedding plants grown at the Council's plant nursery were sold to various public bodies, generating income of £265,486 (£233,331 in 2008/09).

The total income on the nursery account (including internal recharges) was £482,155 (£407,467 in 2008/09) compared with expenditure of £477,213 (£402,203 in 2008/09).

The authority provided Civil Engineering, Street Lighting, Building Maintenance and Construction Work for various other bodies generating income of £222,848 (£1,642,427 in 2008/09).

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 3 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.

|                                    | 2008/09            |                           |               | 2009/10            |                           |               |
|------------------------------------|--------------------|---------------------------|---------------|--------------------|---------------------------|---------------|
|                                    | Chargeable<br>£000 | Non<br>Chargeable<br>£000 | Total<br>£000 | Chargeable<br>£000 | Non<br>Chargeable<br>£000 | Total<br>£000 |
| Employee Expenses                  | 238                | 163                       | 401           | 210                | 172                       | 382           |
| Premises                           | 7                  | 5                         | 12            | 0                  | 0                         | 0             |
| Transport                          | 10                 | 6                         | 16            | 8                  | 6                         | 14            |
| Supplies & Services                | 20                 | 15                        | 35            | 14                 | 8                         | 22            |
| Central & Support Service Charges  | 77                 | 54                        | 131           | 65                 | 56                        | 121           |
| <b>Total Expenditure</b>           | <b>352</b>         | <b>243</b>                | <b>595</b>    | <b>297</b>         | <b>242</b>                | <b>539</b>    |
| <b>Building Regulations Income</b> | <b>(238)</b>       | <b>(8)</b>                | <b>(246)</b>  | <b>(192)</b>       | <b>(9)</b>                | <b>(201)</b>  |
| <b>Deficit</b>                     | <b>114</b>         | <b>235</b>                | <b>349</b>    | <b>105</b>         | <b>233</b>                | <b>338</b>    |
|                                    |                    |                           |               |                    |                           |               |

### 4 Trading Operations

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

|                             | 2008/09          |                                | 2009/10          |                                |
|-----------------------------|------------------|--------------------------------|------------------|--------------------------------|
|                             | Turnover<br>£000 | Surplus /<br>(Deficit)<br>£000 | Turnover<br>£000 | Surplus /<br>(Deficit)<br>£000 |
| Building Cleaning           | 1,666            | (25)                           | 1,552            | (4)                            |
| Construction                | 6,547            | 402                            | 10,306           | 630                            |
| Catering                    | 1,799            | (155)                          | 1,773            | (113)                          |
| Grounds Maintenance         | 303              | 5                              | 372              | 5                              |
| Housing Management Contract | 0                | 0                              | 0                | 0                              |
| Highways and Sewerage       | 3,673            | 288                            | 4,435            | 288                            |
| Leisure Management          | 0                | 0                              | 0                | 0                              |
| Maintenance                 | 9,582            | 119                            | 7,739            | (55)                           |
| Other Cleaning              | 0                | 0                              | 0                | 0                              |
| Refuse Collection           | 0                | 0                              | 0                | 0                              |
| School Meals-Best Value     | 1,665            | (312)                          | 1,665            | (257)                          |
|                             | 25,235           | 322                            | 27,842           | 494                            |
| Adjustments:-               |                  |                                |                  |                                |
| FRS 17                      |                  | 416                            |                  | 344                            |
| Other                       |                  | 15                             |                  | 410                            |
| Prudential Borrowing        |                  | 73                             |                  | 80                             |
| Surplus on Trading Accounts | 25,235           | 826                            | 27,842           | 1,328                          |
| Open & Covered Markets      | 643              | (7)                            | 633              | 15                             |
| Shops and Offices           | 197              | 145                            | 194              | 119                            |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 5 Officers' Emoluments

The number of employees whose remuneration was £50,000 or more (excluding employers pension contributions):-

| Remuneration band   | Number of employees | 2008/09 |  | 2009/10 |  |
|---------------------|---------------------|---------|--|---------|--|
|                     |                     | Total   |  | Total   |  |
| £50,000 - £54,999   | 18                  |         |  | 40      |  |
| £55,000 - £59,999   | 23                  |         |  | 17      |  |
| £60,000 - £64,999   | 13                  |         |  | 15      |  |
| £65,000 - £69,999   | 9                   |         |  | 13      |  |
| £70,000 - £74,999   | 6                   |         |  | 4       |  |
| £75,000 - £79,999   | 4                   |         |  | 10      |  |
| £80,000 - £84,999   | 1                   |         |  | 5       |  |
| £85,000 - £89,999   | 2                   |         |  | 0       |  |
| £90,000 - £94,999   | 3                   |         |  | 3       |  |
| £95,000 - £99,999   | 1                   |         |  | 2       |  |
| £100,000 - £104,999 | 1                   |         |  | 0       |  |
| £105,000 - £109,999 | 0                   |         |  | 0       |  |
| £110,000 - £114,999 | 3                   |         |  | 1       |  |
| £115,000 - £119,999 | 0                   |         |  | 3       |  |
| £120,000 - £124,999 | 0                   |         |  | 0       |  |
| £125,000 - £129,999 | 1                   |         |  | 1       |  |
| £130,000 - £134,999 | 0                   |         |  | 0       |  |
| £135,000 - £139,999 | 0                   |         |  | 0       |  |
| £140,000 - £144,999 | 0                   |         |  | 0       |  |
| £145,000 - £149,999 | 0                   |         |  | 0       |  |
| £150,000 +          | 1                   |         |  | 1       |  |

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

### Disclosure of Remuneration for Senior Employees 2009/10

| Post Title                                  | Note | Post Holder<br>(Required if<br>salary exceeds<br>£150,000) | Salary    | Expenses<br>Allowances | Total<br>Remuneration<br>(excl. pension<br>contributions) | Employer<br>pension<br>contributions | Total<br>Remuneration<br>(incl. pension<br>contributions) |
|---|------|--|-----------|------------------------|---|--------------------------------------|---|
| Chief Executive                             |      |  | £ 156,720 | £ 2,347                | £ 159,067   | £ 28,993                             | £ 188,060   |
| Director of Community Services              |      | Ms Ada Burns   | 128,313   | 2,425                  | 130,738   | 23,738                               | 154,476   |
| Director of Childrens Services              |      |  | 115,725   | 2,347                  | 118,072   | 21,409                               | 139,481   |
| Director of Corporate Services              |      |  | 115,725   | 2,710                  | 118,435   | 21,409                               | 139,844   |
| Assistant Chief Exec - Regeneration         |      |  | 92,607    | 906                    | 93,513  | 17,132                               | 110,645   |
| Assistant Chief Exec - Policy & Performance | 1    |  | 41,167    | 558                    | 41,725  | 7,616                                | 49,341  |

Note 1: The Assistant Chief Executive - Policy & Performance joined the authority on 21st September 2009 on an annualised salary of £78,000.

The post was vacant for the remainder of 2009/10.

### Disclosure of Remuneration for Senior Employees 2008/09

| Post Title                                  | Note | Post Holder<br>(Required if<br>salary exceeds<br>£150,000) | Salary    | Expenses<br>Allowances | Total<br>Remuneration<br>excl. pension<br>contributions | Employer<br>pension<br>contributions | Total<br>remuneration<br>incl. pension<br>contributions |
|---|------|--|-----------|------------------------|---|--------------------------------------|---|
| Chief Executive                             |      |  | £ 156,720 | £ 2,417                | £ 159,137   | £ 28,993                             | £ 188,130   |
| Director of Community Services              |      | Ms Ada Burns   | 127,724   | 2,708                  | 130,432   | 23,629                               | 154,061   |
| Director of Childrens Services              |      |  | 111,273   | 2,417                  | 113,690   | 20,586                               | 134,276   |
| Director of Corporate Services              |      |  | 110,902   | 2,690                  | 113,592   | 20,517                               | 134,109   |
| Assistant Chief Exec - Regeneration         |      |  | 91,845    | 911                    | 92,756  | 16,991                               | 109,747   |
| Assistant Chief Exec - Policy & Performance | 2    |  | 77,591    | 817                    | 78,408  | 14,354                               | 92,762  |

Note 2: The Assistant Chief Executive - Policy & Performance resigned from the authority on 18th January 2008 on an annualised salary of £97,185.

The post remained vacant until 21st September 2009.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 6 Audit Costs

The Audit Commission has appointed PricewaterhouseCoopers LLP (PwC) as the auditors of the Council. In 2009/10 Darlington Borough Council incurred the following fees relating to external audit and inspection.

|  | 2008/09<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| Fees payable to PwC with regard to external audit services carried out             | 226             | 189             |
| Fees payable to PwC for the certification of grant claims and returns              | 28              | 31              |
| Fees payable to PwC in respect of other services provided by the appointed auditor | 21              | 28              |
| Sub-Total  | <hr/> 275       | <hr/> 248       |
| Fees payable to the Audit Commission in respect of statutory inspection            | 22              | 17              |
| Total  | <hr/> 297       | <hr/> 265       |

### 7 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 2008/09. Details of transactions with government departments are set out on page 39.

#### Councillors

Members of the Council have direct control over the Council's financial and operating policies. During 2009/10 the Council had transactions totalling approximately £1,054,992 (£1,246,700 in 2008/09) 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 2009/10.

#### Pensions

Details of the Council's payment of employer's superannuation contribution to the Pension Fund are shown in Note 21 (page 36) of these Notes.

#### Other Organisations

The Council paid £1.735M to 18 other organisations (£1.367M to 24 in 2008/09) on which it has Member representation and which share educational, economic development, social and culture objectives, those being:

| <u>Organisation</u>                                     | £000           |
|---|----------------|
| Darlington College Corporation Board                    | 349.28         |
| Groundwork North East                                   | 308.97         |
| Darlington YMCA   | 203.91         |
| Evolution   | 185.62         |
| Darlington and District Youth and Community Association | 179.78         |
| Darlington Citizens Advice Bureau                       | 110.45         |
| Family Help Organisation                                | 98.29          |
| Firthmoor Community Centre                              | 68.93          |
| Durham Police Authority                                 | 67.73          |
| Local Government Association                            | 48.75          |
| Association of North East Councils                      | 42.58          |
| North East Regional Employers Organisation              | 21.38          |
| North East Purchasing Organisation (NEPO)               | 19.01          |
| Darlington Community Carnival Committee                 | 10.21          |
| Cruse Bereavement Care                                  | 7.54           |
| Northern Housing Consortium                             | 6.35           |
| Skerne Park Youth and Community Centre                  | 4.75           |
| Darlington & District Town Twinning                     | 1.62           |
| Total   | <hr/> 1,735.15 |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 8 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 do not fall within these requirements as the Authority holds a minority of the share values, the extent of control is not considered significant, and the Authority has therefore not prepared group accounts.

#### Investments:

The Council holds the following investments and they are included in the Balance Sheet as Long Term Investments.

The Council holds 16% of the shares in Premier Waste Management Ltd. 220,480 £1 shares are held with a balance sheet value of £1,112,073. The latest audited accounts are for the year ended 31st March 2009 and show net assets including pension liability of £6,950,457 (previous year £9,077,868), a loss before tax of (£265,756) (previous year profit before tax £1,808,600), and a loss after tax of (£204,291) (previous year profit after tax £1,369,923). 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 Limited. 1,766,667 B Ordinary Shares are held with a balance sheet value of £1,097,272, and 174,900,100 Deferred Shares. The latest audited accounts are for the year ended 31st March 2009 and show net assets of £16,475,555 (previous year £20,200,326), a loss before tax of £3,903,704 (previous year loss before tax £2,089,293) and a loss after tax of £2,653,411 (previous year loss after tax £1,418,349). 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 (NIAL), however these have not yet been transferred to the Council, the reason being that the current owners require various approvals to transfer under the Company's rules and regulations. Those approvals continue to be sought so that the shares can be transferred and registered in the Council's name. Due to current trading conditions the council has reduced the value of its shareholding in NIAL to £xxx,xxx (previously valued at £183,840). This is consistent with all of the other constituent authorities who have a shareholding in NIAL.

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

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, Tees Forest and the Local Government Information Unit.

### 9 Members Allowances

Details of the amounts paid to each Member of the Council are published annually and can be viewed on the Darlington Borough Council website. The total amount paid to Members in respect of basic, special responsibility, dependants' carers' allowance, travelling and subsistence and co-optees' allowance was £648,407 (2008/09 - £651,385).

### 10 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 £64,354 mainly on employment and community support grants (£67,539 in 2008/09).

### 11 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.

|                         | 2008/09<br>£000   | 2009/10<br>£000   |
|-------------------------|-------------------|-------------------|
| Recruitment Advertising | 238               | 244               |
| Other Advertising       | 1,278             | 1,057             |
| Other publicity         | 89                | 136               |
|                         | <hr/> <hr/> 1,605 | <hr/> <hr/> 1,437 |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 12 General Government Grants

This note separates the constituent parts of the General Government Grants entry shown in the Income & Expenditure Account. The entry comprises Area Based Grant, Revenue Support Grant and Housing & Planning Delivery Revenue Grant.

Area Based Grant - a general grant allocated directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of the non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.

Revenue Support Grant - a Government grant allocated to local authorities according to formulae.

Housing & Planning Delivery Grant - allocated to local planning authorities to provide support towards their planning functions.

| 2009/10 General Government Grants Received               |                   |
|--|-------------------|
|  | £                 |
| <b>Department for Environment Food and Rural Affairs</b> |                   |
| Environmental Damage Regulations                         | 311               |
| <b>Home Office</b>                                       |                   |
| Community call for Action/Overview Scrutiny Committee    | 1,833             |
| Stronger Safer Communities                               | 175,140           |
| Young People Substance Misuse Partnership                | 24,032            |
| <b>Department for Transport</b>                          |                   |
| Road Safety Grant  | 168,211           |
| Rural Bus Subsidy  | 108,516           |
| <b>Department for Children, Schools &amp; Families</b>   |                   |
| School Development Grant                                 | 323,000           |
| Extended Schools Start-Up Grants                         | 561,018           |
| Primary National Strategy - Central                      | 70,023            |
| Secondary National Strategy - Central Co-ordination      | 106,933           |
| Secondary National Strategy - Behaviour and Attendance   | 68,300            |
| School Improvement Partners                              | 41,000            |
| Education Health Partnerships                            | 59,060            |
| School Travel Advisers                                   | 15,000            |
| Choice Advisers  | 23,009            |
| School Intervention Grant                                | 27,300            |
| 14 - 19 Flexible Funding Pot                             | 30,138            |
| Sustainable Travel - General Duty                        | 7,468             |
| Extended Rights to Free Transport                        | 53,255            |
| Connexions   | 1,044,964         |
| Children's Fund  | 321,778           |
| Child Trust Fund   | 3,287             |
| Positive Activities for Young People                     | 76,571            |
| Teenage Pregnancy  | 96,000            |
| Children's Social Care Workforce                         | 34,419            |
| Care Matters White Paper                                 | 104,837           |
| Child Death Review Processes                             | 14,006            |
| Young Peoples Substance Misuse                           | 13,341            |
| Designated Teacher Funding                               | 5,866             |
| Social Care Checks Funding                               | 700               |
| <b>Department of Health</b>                              |                   |
| Adult Social Care Workforce                              | 277,379           |
| Carers   | 478,975           |
| Child & Adolescent Mental Health                         | 185,015           |
| Learning & Disability Development Fund                   | 96,224            |
| Local Involvement Networks                               | 95,947            |
| Mental Capacity Act & Independent Mental Capacity        | 62,339            |
| Mental Health  | 322,978           |
| Preserved Rights   | 797,869           |
| <b>Department of Communities and Local Government</b>    |                   |
| Stronger Safer Communities                               | 258,000           |
| Supporting People Administration                         | 133,112           |
| Climate Change   | 22,500            |
| <b>Total Area Based Grants</b>                           | <b>6,309,654</b>  |
| <b>Revenue Support Grant</b>                             | <b>7,085,570</b>  |
| <b>Housing &amp; Planning Delivery Grant</b>             | <b>433,676</b>    |
| <b>Total General Government Grants</b>                   | <b>13,828,900</b> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13 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 | TOTAL £000      |
|---|------------------------|-----------------------------|------------------------------------|----------------------------|-----------------------|---------------------------------|-----------------|
| <b>Cost or valuation</b>                  |                        |                             |                                    |                            |                       |                                 |                 |
| At 1st April 2009 (Restated)              | 190,118                | 252,755                     | 15,254                             | 42,563                     | 7,769                 | 19,858                          | <b>528,317</b>  |
| Additions                                 | 10,237                 | 18,342                      | 2,210                              | 3,992                      | 193                   | 1,817                           | <b>36,791</b>   |
| Disposals                                 | (349)                  | (1,914)                     | (993)                              | 0                          | 0                     | 0                               | <b>(3,256)</b>  |
| Reclassifications                         | 0                      | (48)                        | 0                                  | 57                         | 13                    | (22)                            | <b>0</b>        |
| Revaluations                              | (24,737)               | (2,501)                     | 0                                  | 0                          | 0                     | 1,437                           | <b>(25,801)</b> |
| At 31st March 2010                        | <b>175,269</b>         | <b>266,634</b>              | <b>16,471</b>                      | <b>46,612</b>              | <b>7,975</b>          | <b>23,090</b>                   | <b>536,051</b>  |
| <b>Depreciation and Impairments</b>       |                        |                             |                                    |                            |                       |                                 |                 |
| At 1st April 2009 (Restated)              | (16,255)               | (22,224)                    | (9,301)                            | (6,924)                    | (62)                  | (235)                           | <b>(55,001)</b> |
| Charge for 2009/10                        | (14,006)               | (9,757)                     | (1,862)                            | (1,187)                    | (70)                  | (133)                           | <b>(27,015)</b> |
| Reclassifications                         | 0                      | 18                          | 0                                  |                            | (17)                  | (1)                             | <b>0</b>        |
| Disposals                                 | 3                      | 204                         | 993                                |                            |                       |                                 | <b>1,200</b>    |
| Depreciation and Impairments written back | 25,796                 | 5,095                       | 0                                  | 0                          | 0                     | 302                             | <b>31,193</b>   |
| Revaluations                              | (17,062)               | (4,021)                     | 0                                  | 0                          | 0                     | (148)                           | <b>(21,231)</b> |
| At 31st March 2009                        | <b>(21,524)</b>        | <b>(30,685)</b>             | <b>(10,170)</b>                    | <b>(8,111)</b>             | <b>(149)</b>          | <b>(215)</b>                    | <b>(70,854)</b> |
| Balance Sheet amount at 31 March 2010     | <b>153,745</b>         | <b>235,949</b>              | <b>6,301</b>                       | <b>38,501</b>              | <b>7,826</b>          | <b>22,875</b>                   | <b>465,197</b>  |
| Balance sheet amount at 1 April 2009      | <b>173,863</b>         | <b>230,531</b>              | <b>5,953</b>                       | <b>35,639</b>              | <b>7,707</b>          | <b>19,623</b>                   | <b>473,316</b>  |
| <b>Nature of Asset holding</b>            |                        |                             |                                    |                            |                       |                                 |                 |
| Owned                                     | 153,745                | 209,908                     | 6,301                              | 38,501                     | 7,826                 | 22,875                          | 439,156         |
| Finance Lease                             | 0                      | 0                           | 0                                  | 0                          | 0                     | 0                               | 0               |
| PFI                                       |                        | 26,041                      |                                    |                            |                       |                                 | 26,041          |
|   | <b>153,745</b>         | <b>235,949</b>              | <b>6,301</b>                       | <b>38,501</b>              | <b>7,826</b>          | <b>22,875</b>                   | <b>465,197</b>  |

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

#### (b) Depreciation Policy

Depreciation is provided for on a straight-line method according to the following policies

##### Operational Land & Bulidings

- Depreciated over their useful life (generally 40 years), taking account of the estimated residual value of the property at the end of that life

##### Infrastructure & Community Assets

- Infrastructure assets are depreciated over their estimated useful economic life of 40 years

##### Vehicles, Plant and Equipment

- Depreciated over their useful life which is generally between 3 and 12 years

## NOTES TO THE CORE FINANCIAL STATEMENTS

### (c) Financing

The capital expenditure was financed as follows :

|                          | 2008/09<br>£000s | 2009/10<br>£000s |
|--------------------------|------------------|------------------|
| Revenue Contributions    | 3,220            | 3,338            |
| Grants and Contributions | 34,326           | 25,047           |
| Capital Receipts         | 895              | 630              |
| Loans                    | <u>10,793</u>    | <u>10,385</u>    |
|                          | 49,234           | 39,400           |

At the 31st March 2010 the Authority has no ongoing major capital commitments.

### Capital Investment

The total capital investment was as follows:

|   | 2008/09<br>£000s | 2009/10<br>£000s |
|---|------------------|------------------|
| Operational Assets                                    | 45,827           | 35,518           |
| Non-Operational Assets                                | 1,679            | 1,426            |
| Revenue Expenditure funded from Capital under Statute | <u>1,728</u>     | <u>2,456</u>     |
|   | 49,234           | 39,400           |

### (d) Capital Expenditure and financing

|  | 2008/09<br>£000's | 2009/10<br>£000's |
|--|-------------------|-------------------|
| <b>Opening Capital Financing Requirement (CFR)</b> | 98,126            | 105,086           |
| <b>Opening CFR for PFI Scheme</b>                  |                   | 25,515            |
| <b>Total Opening CFR</b>                           |                   | 130,601           |

### Capital Investment

|   |        |        |
|---|--------|--------|
| Operational Assets                                    | 45,827 | 35,518 |
| Non-Operational Assets                                | 1,679  | 1,426  |
| Intangible Assets                                     | 0      | 0      |
| Revenue Expenditure funded from Capital under Statute | 1,728  | 2,456  |

### Sources of Finance

|  |                |                |
|--|----------------|----------------|
| Capital Receipts                             | (895)          | (630)          |
| Revenue                                      | (3,220)        | (3,338)        |
| Grants & Contributions                       | (34,327)       | (25,047)       |
| Revenue Provision                            | (2,632)        | (3,479)        |
| Set Aside                                    | (1,200)        | 0              |
| Deferred Liabilities Movement (PFI)          | 0              | (1,427)        |
| <b>Closing Capital Financing Requirement</b> | <u>105,086</u> | <u>136,080</u> |

### Explanation of movement in the year

|  |               |               |
|--|---------------|---------------|
| Increase in underlying need for borrowing (Supported by Government financial assistance)   | 4,113         | 3,870         |
| Increase in underlying need for borrowing (Unsupported by Government financial assistance) | 6,679         | 6,515         |
| <b>Increase / (Decrease) in Capital Financing Requirement</b>                              | <u>10,792</u> | <u>10,385</u> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### e) Analysis of Fixed Assets

|   | 31st March 2009 | 31st March 2010 |
|---|-----------------|-----------------|
| Schools - Nursery   | 1               | 1               |
| - Primary (excluding Aided schools)                       | 21              | 21              |
| - Secondary (excluding Aided schools)                     | 4               | 3               |
| - Pupil Referral Unit                                     | 2               | 2               |
| - PFI   | 2               | 2               |
| - Other   | 1               | 1               |
| Children's homes  | 1               | 1               |
| Adult Day Centres   | 1               | 2               |
| Other Social Services Properties                          | 3               | 3               |
| Council Dwellings   | 5,442           | 5,459           |
| Highways - Principal roads                                | 59.0km          | 59.0km          |
| - 'B' roads   | 30.65km         | 30.65km         |
| - 'C' roads   | 109.98km        | 109.98km        |
| - Unclassified roads                                      | 342.42km        | 342.75km        |
| Town Hall   | 1               | 1               |
| Other Administrative Buildings                            | 2               | 2               |
| 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 | 31              | 34              |
| Area  | 7,558 sq.m      | 9,209 sq.m      |
| Ground Leases   | 146             | 146             |
| Area  | 79.0h           | 79.0h           |
| Short Term Tenancies & Licences of Land                   | 74              | 74              |
| Agricultural Tenancies including Farm Business Tenancies  | 16              | 16              |
| Area  | 247.62h         | 247.62h         |

### 14 Analysis of Assets Employed

|                         | 31st March<br>£000's | 31st March<br>£000's |
|-------------------------|----------------------|----------------------|
| General Fund            | 106,383              | 75,625               |
| Housing Revenue Account | 127,127              | 93,661               |
| Trading Operations      | (44,245)             | (48,061)             |
|                         | <b>189,265</b>       | <b>121,225</b>       |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 15 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 2009/10 was £1.010M (£0.746M in 2008/09). The Authority has 21 leasing agreements for Land & Buildings. The amount paid under the leases for these items in 2009/10 was £0.354M (£0.345M in 2008/09).

The Council is committed to making payments of £0.882M under these leases in 2009/10, comprising the following elements:-

|                                     | 08/09<br>£000s | 09/10<br>£000s |
|-------------------------------------|----------------|----------------|
| Leases expiring 1 year              | 127            | 164            |
| Leases expiring between 2 - 5 years | 499            | 718            |
| Leases expiring after 5 years       | 0              | 0              |

No leases entered into during 2009/10, in accordance with SSAP 21, have qualified as finance leases. Plant and Equipment leased in this manner totalled £0.287M (£0.287M in 2008/09) and includes various vehicles. Accumulated depreciation on these vehicles totals £0.240M including £0.041M charged in 2009/10. The amount paid under finance leases for these items in 2009/10 was £0.045M (£0.045M in 2008/09), split between principal repayments of £0.040M (£0.040M in 2008/09) and interest of £0.005M (£0.005M in 2008/09). An outstanding liability of £0.0073M (£0.115M in 2008/09) existed relating to finance leases as at 31st March 2010.

The Council is committed to making payments of £0.045M under these leases in 2009/10, comprising the following elements:-

|                                     | 08/09<br>£000s | 09/10<br>£000s |
|-------------------------------------|----------------|----------------|
| Leases expiring 1 year              | 0              | 45             |
| Leases expiring between 2 - 5 years | 45             | 0              |
| Leases expiring after 5 years       | 0              | 0              |

The Authority acts as the Lessor and leases various Land & Buildings to third parties. During 2009/10 £0.952M (£0.849M in 2008/09) was received by the Authority in relation to these leases.

### 16 Debtors and Prepayments

|                                   | 31st March 2009<br>£000 | 31st March 2010<br>£000 |
|-----------------------------------|-------------------------|-------------------------|
| Government Departments            | 4,963                   | 6,522                   |
| Other Local Authorities           | 619                     | 405                     |
| Council Tax and NDR               | 2,257                   | 3,015                   |
| Housing Rents                     | 969                     | 1,078                   |
| Sundry Debtors                    | 5,661                   | 5,546                   |
| Prepayments                       | 1,381                   | 1,286                   |
|                                   | 15,850                  | 17,852                  |
| Less Provision for Doubtful Debts | (2,484)                 | (3,088)                 |
|                                   | 13,366                  | 14,764                  |

### 17 Creditors and Income In Advance

|                         | 31st March 2009<br>£000 | 31st March 2010<br>£000 |
|-------------------------|-------------------------|-------------------------|
| Income In Advance       | 13,621                  | 18,571                  |
| Government Departments  | 3,747                   | 7,397                   |
| Other Local Authorities | 2,432                   | 3,876                   |
| Sundry Creditors        | 20,026                  | 11,579                  |
|                         | 39,826                  | 41,423                  |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 18 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 (MMI) ceased accepting new business. At 31st March 2010, the Council had two outstanding claims with MMI amounting to £49,857 and arrangements are in place to try to ensure an orderly settlement of the sums due.

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

### 19 Provisions

|                          | Balance as at<br>1st April 2008 | Net<br>Movement in<br>Year | Balance as at<br>31st March<br>2009 |
|--------------------------|---------------------------------|----------------------------|-------------------------------------|
|                          | £000's                          | £000's                     | £000's                              |
| Land Reclamation         | 300                             | 0                          | 300                                 |
| Trading Operations       | 25                              | 36                         | 61                                  |
| Insurance Provision      | 513                             | 86                         | 599                                 |
| Frozen Holiday Pay       | 6                               | 0                          | 6                                   |
| Social Services s117     | 190                             | 3                          | 193                                 |
| Equal Pay                | 248                             | 326                        | 574                                 |
| Xentrall Shared Services | 46                              | (26)                       | 20                                  |
|                          | 1,328                           | 425                        | 1,753                               |

**Land Reclamation** - A provision for the repayment of reclamation grant has been made in the accounts in the sum of £300,000 at 31st March 2010. This is at variance with SSAP 4, part of the balance has been repaid and the remainder of the balance is under review.

**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 2010 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 started to make payments in 2008/09 and they are likely to continue to be made for a number of years.

**Equal Pay** - A provision has been created for potential costs related to equal pay payments due as a result of the job evaluation exercise that has a backdated start date of 1st July 2005.

**Xentrall Shared Services** - A provision has been created to record the Council's proportion of the saving generated by Xentrall Shared Services which is a public / public partnership between Darlington & Stockton Borough Council's.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 20 Reserves

The council has established 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<br>1st April 2008 | Net<br>Movement in<br>Year | Balance as at<br>31st March<br>2009 |
|--|---------------------------------|----------------------------|-------------------------------------|
|  | £000's                          | £000's                     | £000's                              |
| Capital Adjustment Account                       | 267,983                         | (28,279)                   | 239,704                             |
| Revaluation Reserve                              | 16,208                          | 2,159                      | 18,367                              |
| Usable Capital Receipts                          | 1,029                           | (348)                      | 681                                 |
| Capital Receipts Unapplied                       | 0                               | 0                          | 0                                   |
| Financial Instruments Adjustment Account         | (787)                           | 269                        | (518)                               |
| Pension Reserves                                 | (113,040)                       | (43,910)                   | (156,950)                           |
| Housing Revenue Account                          | 777                             | 65                         | 842                                 |
| Deferred Capital Receipts                        | 69                              | 0                          | 69                                  |
| General Fund                                     | 9,685                           | 3,205                      | 12,890                              |
| Earmarked Departmental Reserves                  | 1,131                           | (833)                      | 298                                 |
| Faverdale Maintenance Fund                       | 16                              | (5)                        | 11                                  |
| Revenue Contribution to Capital Outlay           | 267                             | 189                        | 456                                 |
| Schools Revenue Balances                         | 1,742                           | 390                        | 2,132                               |
| PFI Reserve                                      | 225                             | (265)                      | (40)                                |
| Absence Supply Insurance                         | 300                             | (300)                      | 0                                   |
| Available-for-sale Financial Instruments Reserve | 2,982                           | (588)                      | 2,394                               |
| Insurance Fund                                   | 1,259                           | 254                        | 1,513                               |
| Mercury Abatement Fund                           | 0                               | 79                         | 79                                  |
| Crematorium Refurbishment Fund                   | 57                              | 17                         | 74                                  |
| Building Control                                 | (28)                            | (105)                      | (133)                               |
| Equal Pay Back Pay Account                       | (248)                           | (326)                      | (574)                               |
| Collection Fund Adjustment Account               | (468)                           | (207)                      | (675)                               |
| LPSA Reserve                                     | 0                               | 362                        | 362                                 |
| Pensions Contribution Reserve                    | 106                             | 139                        | 245                                 |
| Total  | 189,265                         | (68,040)                   | 121,225                             |

Purpose of Reserve:

- a) **Capital Adjustment Account** - A store of capital resources set aside to meet past expenditure.
- b) **Revaluation Reserve** - A store of gains on revaluation of fixed assets.
- c) **Usable Capital Receipts** - Proceeds of fixed asset sales available to meet future capital investment.
- d) **Financial Instruments Adjustment Account** - The balance of Premiums on Rescheduled Debt still to be charged to Service Revenue Accounts.
- e) **Pensions Reserve** - Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.
- f) **Housing Revenue Account** - Resources available to meet future running costs for council houses.
- g) **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 .
- h) **General Fund** - Resources available to meet future running costs for non-housing services.
- i) **Earmarked Departmental Balances** - surpluses/(deficits) built up by departments, earmarked for forward planning.
- j) **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.
- k) **Revenue Contribution to Capital Outlay** -is the establishment of a reserve to meet future capital commitments.
- l) **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 2010 includes a deficit of £171,911 in respect of 1 school (£64,696 for 1 school in 2008/09).
- m) **PFI Reserve** - has been created to enable the Council to manage the cash flow over the life of the concession.
- n) **Absence Supply Insurance** -insured schools with delegated budgets against the risk of long term sickness and is no longer required.
- o) **Available-for-sale Financial Instruments Reserve** -This is the value of investments held by the authority in Durham Tees Valley International Airport, Premier Waste Management Ltd and Newcastle International Airport.
- p) **Insurance Fund** -is established under statutory powers to indemnify the Council against specified risks.
- q) **Mercury Abatement Fund** - is established under statutory powers to comply with the requirements ofCAMEO (Crematorium Abatement of Mercury Emissions Organisation).
- r) **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.
- s) **Building Control** - This Reserve has been created to enable any surpluses/deficits built up to be carried forward to offset against future costs.
- t) **Equal Pay Back Pay Account** -This reserve has been established under Regulation 30A of the Capital Finance and Accounting Regulations 2003/3146 to offset the equal pay provision pending potential settlement of the outstanding claims.
- u) **Collection Fund Adjustment Account** -This account has been established due to new regulations regarding agency arrangements involving the collection fund .
- v) **Local Public Service Agreement - Performance Reward Grant Reserve (LPSA PRG)** -This reserve has been created to hold the reward grant until the LAA body allocates it to services.
- w) **Pensions Contribution Reserve** - This reserve has been established in response to the latest actuarial valuation from the Council's Actuary and to offset any additional increases in future years.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21 Retirement Benefits

#### Participation in pension schemes

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

Darlington participates in the Local Government Pension Scheme, administered locally by Durham County Council. This is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level to balance the pensions liability with investment assets.

#### 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<br>2009<br>£000's    | 31st March<br>2010<br>£000's |
| <b>Income and Expenditure Account</b>                     |                                 |                              |
| <i>Net Cost of Services:</i>                              |                                 |                              |
| Current service cost                                      | (6,380)                         | (7,090)                      |
| Past service costs  | (480)                           | (600)                        |
| <i>Net Operating Expenditure</i>                          |                                 |                              |
| - interest cost   | (15,900)                        | (17,230)                     |
| - expected return on assets in the scheme                 | 10,740                          | 7,900                        |
| <i>Net Charge to the Income &amp; Expenditure Account</i> | <hr/> <hr/> (12,020)            | <hr/> <hr/> (17,020)         |

#### Statement of Movement in the General Fund Balance

|  |          |          |
|--|----------|----------|
| - reversal of net charges made for retirement benefits in accordance with FRS 17 | 12,020   | 17,020   |
| Actual amount charged against the General Fund Balance for pensions in the year  |          |          |
| - Employers' contributions payable to scheme                                     | (10,290) | (10,546) |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

|  | Period<br>ending<br>31March<br>2009 | Period ending<br>31March 2009 | Period ending<br>31March 2009 | Period ending<br>31March 2010 | Period ending<br>31March 2010 | Period ending<br>31March 2010 |
|--|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | Pension<br>£M's                     | Teachers<br>£M's              | Total<br>£M's                 | Pension<br>£M's               | Teachers<br>£M's              | Total<br>£M's                 |
| Opening present value of liabilities                       | (219,010)                           | (13,650)                      | (232,660)                     | (247,340)                     | (12,550)                      | (259,890)                     |
| Current service cost                                       | (6,380)                             | 0                             | (6,380)                       | (7,090)                       | 0                             | (7,090)                       |
| Interest Cost  | (15,000)                            | (900)                         | (15,900)                      | (16,440)                      | (790)                         | (17,230)                      |
| Contributions by participants                              | (3,210)                             | 0                             | (3,210)                       | (3,350)                       | 0                             | (3,350)                       |
| Actuarial (gains) / losses on liabilities                  | (10,190)                            | 1,000                         | (9,190)                       | (77,780)                      | (800)                         | (78,580)                      |
| Net Benefits paid out                                      | 6,930                               | 1,000                         | 7,930                         | 7,470                         | 1,040                         | 8,510                         |
| Past Service cost  | (480)                               | 0                             | (480)                         | (600)                         | 0                             | (600)                         |
| Net increase in liabilities from disposal and acquisitions | 0                                   | 0                             | 0                             | 0                             | 0                             | 0                             |
| Curtailments   | 0                                   | 0                             | 0                             | 0                             | 0                             | 0                             |
| Settlements  | 0                                   | 0                             | 0                             | 0                             | 0                             | 0                             |
| <b>Closing present value of liabilities</b>                | <b>(247,340)</b>                    | <b>(12,550)</b>               | <b>(259,890)</b>              | <b>(345,130)</b>              | <b>(13,100)</b>               | <b>(358,230)</b>              |

Reconciliation of fair value of the scheme assets:

|   | Period<br>ending<br>31March<br>2009 | Period ending<br>31March 2009 | Period ending<br>31March 2009 | Period ending<br>31March 2010 | Period ending<br>31March 2010 | Period ending<br>31March 2010 |
|---|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | Pension<br>£M's                     | Unfunded<br>£M's              | Total<br>£M's                 | Pension<br>£M's               | Unfunded<br>£M's              | Total<br>£M's                 |
| Opening present value of assets                       | 166,670                             | 0                             | 166,670                       | 146,850                       | 0                             | 146,850                       |
| Expected Return on assets                             | 10,740                              | 0                             | 10,740                        | 7,900                         | 0                             | 7,900                         |
| Actuarial gains / (losses) on assets                  | (36,100)                            | 0                             | (36,100)                      | 41,110                        | 0                             | 41,110                        |
| Contributions by the employer                         | 9,260                               | 0                             | 9,260                         | 9,540                         | 0                             | 9,540                         |
| Contributions by participants                         | 3,210                               | 0                             | 3,210                         | 3,350                         | 0                             | 3,350                         |
| Net Benefits paid out                                 | (6,930)                             | 0                             | (6,930)                       | (7,470)                       | 0                             | (7,470)                       |
| Net increase in assets from disposal and acquisitions | 0                                   | 0                             | 0                             | 0                             | 0                             | 0                             |
| Settlements   | 0                                   | 0                             | 0                             | 0                             | 0                             | 0                             |
| <b>Closing present value of assets</b>                | <b>146,850</b>                      | <b>0</b>                      | <b>146,850</b>                | <b>201,280</b>                | <b>0</b>                      | <b>201,280</b>                |

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

The actual return on scheme assets in the year was £49.01M (2008/09: £24.98M).

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Scheme History

|                                   | For the year<br>ended 31st<br>March 2006 | For the year<br>ended 31st<br>March 2007 | For the year<br>ended 31st<br>March 2008 | For the year<br>ended 31st<br>March 2009 | For the year<br>ended 31st<br>March 2010 |
|-----------------------------------|--|--|--|--|--|
| As restated                       |  |  |  |  |  |
| Present value of liabilities:     |  |  |  |  |  |
| - LGPS funded benefits            | (227,240)                                | (231,520)                                | (219,010)                                | (247,340)                                | (345,130)                                |
| - LGPS Unfunded benefits          | (8,950)                                  | (8,510)                                  | (8,530)                                  | (9,020)                                  |  |
| - Teachers' unfunded benefits     | (5,420)                                  | (5,140)                                  | (4,020)                                  | (4,080)                                  |  |
| Sub - total liabilities           | <u>(227,240)</u>                         | <u>(245,890)</u>                         | <u>(232,660)</u>                         | <u>(259,890)</u>                         | <u>(358,230)</u>                         |
| Fair value of assets in the LGPS  | 146,910                                  | 163,070                                  | 166,670                                  | 146,850                                  | 201,280                                  |
| Surplus / (Deficit) in the scheme | <u>(80,330)</u>                          | <u>(82,820)</u>                          | <u>(65,990)</u>                          | <u>(113,040)</u>                         | <u>(156,950)</u>                         |

The council has elected not to restate fair value of scheme assets for 2004/05 & 2005/06 as permitted by FRS17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £156.950M has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a reduction in the net worth from £278.175M to £121.225M.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contribution expected to be made to the LGPS by the council in the year to 31 March 2011 is £11.07M

### Basis of Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by Hewitt Associates Ltd, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 31 March 2007.

The principal assumptions used by the actuary have been:

|  | Local Government Pension Scheme |                    |
|--|---------------------------------|--------------------|
|  | 31st March<br>2009              | 31st March<br>2010 |
| Long-term expected rate of return on assets in the scheme:                               |                                 |                    |
| Equity investments   | 7.00%                           | 8.00%              |
| Property   | 6.00%                           | 8.50%              |
| Government Bonds   | 4.00%                           | 4.50%              |
| Corporate Bonds  | 5.80%                           | 5.50%              |
| Cash   | 1.60%                           | 0.70%              |
| Other  | 1.60%                           | 8.00%              |
| Mortality assumptions:   |                                 |                    |
| Longevity at 65 for current pensioners:  |                                 |                    |
| Men  | 21.1                            | 21.2               |
| Women  | 23.2                            | 23.3               |
| Longevity at 65 for future pensioners:   |                                 |                    |
| Men  | 23.4                            | 23.5               |
| Women  | 25.3                            | 25.4               |
| Rate of Inflation  | 3.60%                           | 3.90%              |
| Rate of general long-term increase in salaries   | 5.10%                           | 5.40%              |
| Rate of increase to pensions in payment  | 3.60%                           | 3.90%              |
| Rate for discounting scheme liabilities  | 6.60%                           | 5.50%              |
| Rate of increase to deferred pensions  | 3.60%                           | 3.90%              |
| Take-up of option to convert annual pension into retirement lump sum - Pre 1 April 2008  | 50%                             | 50%                |
| Take-up of option to convert annual pension into retirement lump sum - Post 1 April 2008 | 75%                             | 75%                |

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

|                  | 31st March<br>2009 | 31st March<br>2010 |
|------------------|--------------------|--------------------|
| Equities         | 45.2               | 57.1               |
| Property         | 3.9                | 4.9                |
| Government Bonds | 30.0               | 25.4               |
| Corporate Bonds  | 11.0               | 9.6                |
| Cash             | 9.9                | 3.0                |
| Other            | 0.0                | 0.0                |
| Total            | 100                | 100                |

### Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as absolute and as a percentage of assets or liabilities at 31st March 2010.

|  | For the year<br>ended 31st<br>March 2006 | For the year<br>ended 31st<br>March 2007 | For the year<br>ended 31st<br>March 2008 | For the year<br>ended 31st<br>March 2009 | For the year<br>ended 31st March<br>2010 |
|--|--|--|--|--|--|
| Differences between the expected and actual return on scheme assets: |  |  |  |  |  |
| - Amount (£M)  | 22.18                                    | 1.26                                     | (14.28)                                  | (35.72)                                  | 41.11                                    |
| - % of scheme assets   | 1.68%                                    | 0.80%                                    | (8.57%)                                  | (24.32)%                                 | 20.42%                                   |
| Experience gains (losses) on scheme liabilities:                     |  |  |  |  |  |
| - LGPS amount (£M)   | 2.85                                     | (3.86)                                   | (2.88)                                   | (0.71)                                   | 2.21                                     |
| - LGPS Unfunded benefits amount (£M)                                 |  |  | (0.06)                                   | 0.16                                     | 0.29                                     |
| - Teachers Unfunded benefits amount (£M)                             |  | (0.04)                                   | 1.20                                     | 0.13                                     |  |
| - % of the present value of the scheme liabilities                   | 2.85                                     | (3.86)                                   | (2.98)                                   | 0.65                                     | 2.63                                     |
|  |  |  |  |  |  |
|  | 1.25%                                    | (1.60%)                                  | (1.30%)                                  | 0.25%                                    | 0.76%                                    |

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 2009/10 the Council paid £3.900M to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2008/09 were £3.793M and 14.1%. 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

### 22 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 although these funds do not represent assets of the Council and they have not been included in the Council's Balance Sheet.

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

|                             | Balance at<br>1st April<br>£000's | Receipts<br>£000's | Payments<br>£000's | Balance at<br>31st March<br>£000's | Assets<br>£000's | Liabilities<br>£000's |
|-----------------------------|-----------------------------------|--------------------|--------------------|------------------------------------|------------------|-----------------------|
| James Barningham Fellowship | 24                                | 2                  | 0                  | 26                                 | 71               | 0                     |
| Lady Dale Scholarship       | 14                                | 1                  | (2)                | 13                                 | 38               | 0                     |
| Darlington Education Fund   | 107                               | 22                 | (18)               | 111                                | 583              | 0                     |
| W.Draffon Scholarship       | 6                                 | 1                  | 0                  | 7                                  | 29               | 0                     |
| Others                      | 23                                | 2                  | (1)                | 24                                 | 75               | 0                     |
|                             | <b>174</b>                        | <b>28</b>          | <b>(21)</b>        | <b>181</b>                         | <b>796</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 £615,495.82 as per valuation date 31/03/10 (£483,784.55 as per valuation date 31/03/09).

#### Purpose of the Trust Funds:

##### **James Barningham Fellowship**

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

##### **Lady Dale Scholarship**

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

##### **Darlington Education Fund**

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

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

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

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

|                                | Balance at<br>1st April<br>£000's | Receipts<br>£000's | Payments<br>£000's | Balance at<br>31st March<br>£000's |
|--------------------------------|-----------------------------------|--------------------|--------------------|------------------------------------|
| Stainsby Murray Fund           | 85                                | 1                  | (1)                | 85                                 |
| E.M.Corner Bequest             | 66                                | 1                  | (1)                | 66                                 |
| Criminal Injuries Compensation | 48                                | 1                  | (15)               | 34                                 |
| BAT Legacy                     | 327                               | 0                  | (55)               | 272                                |
| Other                          | 75                                | 0                  | 0                  | 75                                 |
|                                | <b>601</b>                        | <b>3</b>           | <b>(72)</b>        | <b>532</b>                         |

#### Purpose of the Trust Funds:

##### **Stainsby Murray Fund**

Provision of Christmas comforts for aged persons in Darlington.

##### **E.M.Corner Bequest**

Provision of the Arts by Darlington Library

##### **Criminal Injuries Compensation**

Provision of funds for compensation to minors.

##### **BAT Legacy**

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **23 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<br>2009<br>000's | 31st March<br>2010<br>000's |
|----------------------------|-----------------------------|-----------------------------|
| Schools unspent balances   | (2,125)                     | (2,490)                     |
| Schools overspent balances | 65                          | 172                         |
| Schools IT Loans           | 318                         | 186                         |
|                            | <hr/> <hr/> (1,742)         | <hr/> <hr/> (2,132)         |

### **24 Dedicated Schools Grant**

The Council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the schools budget. 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 or 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 2009/10 are as follows:**

| <b>Schools Budget Funded by Dedicated Schools Grant</b> |                                  |   |                 |
|---|----------------------------------|---|-----------------|
|   | Central<br>Expenditure<br>£000's | Individual<br>Schools<br>Budget<br>£000's | Total<br>£000's |
| Final DSG for 2009/10                                   | 58,539                           | 0   | 58,539          |
| Brought forward from 2008/09                            | 0                                | 0   | 0               |
| Carry forward to 2010/11 agreed in advance              | <hr/> 0                          | <hr/> 0                                   | <hr/> 0         |
| Agreed budgeted distribution in 2009/10                 | 7,011                            | 51,528                                    | 58,539          |
| Actual Central expenditure for the year                 | 7,078                            | 0   | 7,078           |
| Actual ISB deployed to Schools                          |                                  | 51,528                                    | 51,528          |
| Local Authority contribution for 2009/10                | 0                                | 0   | 0               |
| Underspend carried forward to 2010/11                   | <hr/> (67)                       | <hr/> 0                                   | <hr/> (67)      |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 25 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

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

| <b><u>RECONCILIATION OF (SURPLUS)/DEFICIT TO NET CASH (INFLOW)/OUTFLOW FROM OPERATING ACTIVITIES</u></b> |          |                        |
|--|----------|------------------------|
|  | £000     | £000                   |
| (Surplus)/Deficit for the year   |          | 32,563                 |
| <b>Non Cash Transactions</b>   |          |                        |
| Depreciation & impairment of assets  | (41,348) |                        |
| Deferred grants amortised in year  | 3,235    |                        |
| Capital under statute amortised/written off during the year  | 2,440    |                        |
| Deferred capital grants written off in year  | 3,089    |                        |
| Pension fund adjustments   | (6,474)  |                        |
| Other non cash adjustments   | (1,521)  |                        |
| Contributions from provisons   | (425)    | <u>(41,004)</u>        |
| <b>Adjustment for items reported separately on Cashflow</b>  |          |                        |
| Interest & investment income   | 939      |                        |
| Interest payable and similar charges   | (4,170)  |                        |
| Gain on the disposal of fixed assets   | (1,647)  | <u>(4,878)</u>         |
| Accrual adjustment   |          | (274)                  |
| <b>Net Cash Outflow From Revenue Activities</b>  |          | <u><u>(13,593)</u></u> |

#### **Reconciliation of changes in cash to movement in net debt**

|  | £000                   |
|--|------------------------|
| Decrease in Cash   | (3,832)                |
| Cash inflow from management of liquid resources            | (25,443)               |
| <br>Cash inflow from                                       |                        |
| New loans raised   | (20,500)               |
| Discounts received on debt restructuring                   | 0                      |
|  | <u>(20,500)</u>        |
| <br>Cash outflows from                                     |                        |
| Loans repaid   | 43,882                 |
| Premiums paid on debt restructuring                        | 498                    |
| Payment of interest accrued at the last balance sheet      | 941                    |
| Deferred liabilities repaid                                | 1,467                  |
|  | <u>46,788</u>          |
|  | 26,288                 |
| <br>Change in net debt resulting from cash flows           | <u><u>(2,987)</u></u>  |
| <br>Other non cash changes                                 |                        |
| Effective interest rate and actual interest payable        | 0                      |
| Interest accrued at the year end on loans & finance leases | (715)                  |
|  | <u>(715)</u>           |
| <br><b>Change in Net Debt</b>                              | <b><u>(3,702)</u></b>  |
| <b>Net debt b/f</b>  | <b><u>(88,680)</u></b> |
| <b>Net debt c/f</b>  | <b><u>(92,382)</u></b> |

#### **Analysis of Debt**

|                           | Balance 1st<br>April 2009<br>£000 | Balance 31st<br>March 2010<br>£000 | Movement<br>£000      |
|---------------------------|-----------------------------------|------------------------------------|-----------------------|
| Cash                      | 2,197                             | (1,635)                            | (3,832)               |
| Short term deposits       | 40,605                            | 15,162                             | (25,443)              |
| Short term investments    | 0                                 | 0                                  | 0                     |
| Loans due within one year | (13,764)                          | (13,866)                           | (102)                 |
| Loans due after one year  | (92,088)                          | (67,880)                           | 24,208                |
| Deferred liabilities      | (25,630)                          | (24,163)                           | 1,467                 |
|                           | <u><u>(88,680)</u></u>            | <u><u>(92,382)</u></u>             | <u><u>(3,702)</u></u> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Change in cash and liquid resources during the year

|                        | Balance 1st<br>April 2009<br>£000 | Balance 31st<br>March 2010<br>£000 | Movement<br>£000       |
|------------------------|-----------------------------------|------------------------------------|------------------------|
| Short term investments | 0                                 | 0                                  | 0                      |
| Short term deposits    | 40,605                            | 15,162                             | (25,443)               |
| Cash                   | 2,197                             | 0                                  | (2,197)                |
| Bank overdraft         | 0                                 | (1,635)                            | (1,635)                |
|                        | <b><u>42,802</u></b>              | <b><u>13,527</u></b>               | <b><u>(29,275)</u></b> |

### Analysis of Government Grants

£000

#### Revenue

|                             |                      |
|-----------------------------|----------------------|
| Childrens Services          |                      |
| Department of Health        |                      |
| DCFS Grant                  | 7,493                |
| Learning and Skills Council | 2,748                |
| Standards Fund              | 6,934                |
| Teachers Development Grant  | 202                  |
| Home Office                 | 955                  |
| PFI                         | 3,200                |
| Other education grants      | 298                  |
| Adult Services              |                      |
| Housing Admin               | 1,123                |
| Housing Subsidy             | 225                  |
| Asylum Seekers              | 624                  |
| Housing & Homeless          | 90                   |
| Supporting People           | 3,737                |
| HIV                         | 14                   |
| Social Care                 | 554                  |
| Corporate Services          |                      |
| Local Taxation              | 29                   |
| DEFRA                       | 47                   |
| Community Services          |                      |
| Waste Management            | 175                  |
| Anti Social                 | 44                   |
| Transport Management        | 50                   |
| Horitcultural               | 8                    |
| Chief Executives            |                      |
| Future Jobs Fund            | 134                  |
| ERDF - Interreg             | 102                  |
| Empty Shop                  | 53                   |
| Concessionary Fares         | 494                  |
| Cycle England               | 119                  |
| Housing & Planning Delivery | 434                  |
| Anti Social Behaviour       | 15                   |
| Corporate Grants            |                      |
| Area Based                  | 6,461                |
| LPSA                        | 362                  |
| LABGI                       | 44                   |
| Total Revenue               | <b><u>36,768</u></b> |

#### Capital Grants

|                             | £000                 |
|-----------------------------|----------------------|
| Single Programme            | 101                  |
| Darlington Eastern Corridor | 1,379                |
| Childrens Services          | 16,974               |
| Department of Health        | 450                  |
| SHIP Grant                  | 533                  |
| Home office                 | 42                   |
| DfT                         | 893                  |
| ERDF                        | -338                 |
| HCA                         | 249                  |
| Cycling for England Grant   | 56                   |
| National Lottery            | 70                   |
| Arts Council                | 46                   |
| DEFRA                       | -63                  |
| SSCF                        | 0                    |
| English Heritage            | 4                    |
| DCLG                        | 443                  |
| LPSA                        | 362                  |
| Other                       | 51                   |
| Capital Contributions       | 21,252               |
| Total Capital               | <b><u>22,242</u></b> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 26 Financial Instruments

#### Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

**Credit risk-** the possibility that other parties might fail to pay amounts due to the Council;

**Liquidity risk-** the possibility that the Council might not have funds available to meet its commitments to make payments;

**Re-financing risk-** the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms; and  
**Market risk-** the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

#### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of the financial markets, and implementing procedures to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with CIPFA Prudential Code, The CIPFA Treasury Management in Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risks in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a treasury Policy statement and treasury management clauses within its constitution;
- by approving annually in advance prudential indicators for the following three years limiting:
  - The Council's overall borrowing;
  - its maximum and minimum exposures to fixed and variable rates;
  - its maximum and minimum exposures of the maturity structure of its debt; and
  - its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with Government Guidance.

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

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 26/02/2009 and is available on the Councils website. This was subsequently reviewed and revised by Council on the 14/01/2010 and 25/02/2010, also available on the Councils website. The key issues within the strategy were:

The Authorised Limit for 2009/10 was set at £125.772M. This is the maximum amount of external borrowings or other long term liabilities.

The Operational Boundary was expected to be £114.339M this is the expected level of debt and other long term liabilities during the year.

The maximum amounts of fixed and variable interest rate exposure were set at 100% and 40% based on the Councils net Debt.

The maximum and minimum exposures to the maturity structure of debt are shown in the note relating to refinancing and maturity risk.

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

#### Credit Risk

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

This risk is minimised through the Annual investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. Full details of the Investment Strategy can be found on the Council's website. The key areas of the Investment Strategy are the minimum criteria for investment counterparties include:

UK Institutions only

Credit ratings of Short Term F1, Long Term A , Support C and Individual 3( Fitch or equivalent rating), with the lowest available rating being applied to the criteria

UK institutions provided with support from the UK Government

## NOTES TO THE CORE FINANCIAL STATEMENTS

The full Investment Strategy for 2009/10 was approved by full Council on 26/02/2009

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

|  | Amount at<br>31st March<br>2010<br>£000's | Historical<br>experience of<br>default<br>% | Adjustment for<br>market<br>conditions at<br>31st March<br>2010<br>% | Estimated<br>maximum<br>exposure to<br>default<br>£000's |
|--|---|---|--|--|
| Deposits with banks and financial institutions                 |   |   |  |  |
| AAA rated counterparties                                       | 6,290                                     | 0.000 *                                     | 0.000 *  | 0  |
| AA rated counterparties  |   |   |  |  |
| Less than 1 Year   | 5,000                                     | 0.060 *                                     | 0.060 *  | 3  |
| 1 to 2 years   | 2,000                                     | 0.06 *                                      | 0.06 *   | 1  |
| A rated counterparties   | 2,000                                     | 0.65 *                                      | 0.65 *   | 13   |
| Unrated UK Building Societies with<br>assets of more than £1BN | 0   | 0.650                                       | 0.650  | 0  |
| Trade Debtors  | 4,776                                     | 12.5  | 12.5   | 597  |

\* The historical experience of default has been taken from Fitch, a credit rating organisation used by the Council, and applies to the period 1990-2007 on investments out to 5 years.

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of this high credit criteria, we have maintained historical default rates as a good indicator under these conditions and not made any adjustment to them. The Council's counterparty list and currently only invests in UK based Banks and Building Societies.

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

The Council does not generally allow credit for its trade debtors, such that £3.652M of the £4.776M balance is past its due date for payment. The past due amount can be analysed by age as follows:

|                        | £000's                     |
|------------------------|----------------------------|
| Debts on Payment plans | 2,083                      |
| Less than three months | 507                        |
| Three to six months    | 259                        |
| Six months to one year | 233                        |
| More than one year     | <u>570</u><br><u>3,652</u> |

Collateral - During the reporting period the council held no collateral as security.

### Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitment under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approving of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required through the Code of Practice.

The maturity analysis of Financial assets is as follows:

|                             | £000s         | %          |
|-----------------------------|---------------|------------|
| Less than one year          | 13,290        | 87         |
| Between one and two years   | 2,000         | 13         |
| Between two and three years | 0             | 0          |
| More than three years       | <u>0</u>      | <u>0</u>   |
|                             | <u>15,290</u> | <u>100</u> |

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Refinancing and Maturity Risk**

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

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

monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of existing debt; and

monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs

The maturity analysis of financial liabilities is as follows:

|                             | Approved<br>Maximum limits | Actual %<br>31/03/2010 | Actual<br>31/03/2010<br>£000s | Actual<br>31/03/2009<br>£000s |
|-----------------------------|----------------------------|------------------------|-------------------------------|-------------------------------|
| Less than one year          | 25%                        | 17%                    | 13,750                        | 13,474                        |
| Between one and two years   | 40%                        | 8%                     | 6,750                         | 13,750                        |
| Between two and seven years | 60%                        | 11%                    | 9,000                         | 8,750                         |
| Between seven and 15 years  | 80%                        | 0%                     |                               |                               |
| More than 15 years          | 100%                       | 64%                    | 51,361                        | 68,268                        |
|                             |                            |                        | <hr/> <hr/> 80,861            | <hr/> <hr/> 104,242           |

### **Market Risk**

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

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and interest rates within the year to adjust exposures appropriately. changes in the yield curve relating to shorter term debt, because of the general economic circumstances, made these more favourable, the Council took advantage of these in order to make savings to the Medium Term Financial Plan and so change the profile of maturing debt. For Darlington Borough Council as a housing authority the risk of interest rate loss is partially mitigated by government grant payable on financing costs.

If all interest rates had been higher by 1% with all other variables held constant the financial effect would be:

|  | £000s            |
|--|------------------|
| Increase in interest payable on variable borrowings          | 6                |
| Increase in interest receivable on variable rate investments | (92)             |
| Impact on Income and Expenditure Account                     | <hr/> <hr/> (86) |
| Increase in Government grant receivable for financing costs  | 0                |
| Share of overall impact debited to the HRA                   | <hr/> <hr/> 0    |

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

**Price Risk** - The Council excluding the pension fund, does not generally invest in equity shares but has shareholdings to the value of £2.393M in two airports and a local waste management company. Whilst these holdings are generally not liquid the Council is exposed to losses arising from movements in prices of the shares.

As the share holdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholding in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the STRGL. A loss of £0.588M has been recognised in the STRGL for 2009/10 relating to shares for Durham Tees Valley Airport, Newcastle International Airport and Premier Waste Management.

**Foreign Exchange Risk-** The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

### Financial Instruments Balances

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

|  | Long Term       |               | Current         |               |
|--|-----------------|---------------|-----------------|---------------|
|  | 31st March 2009 |               | 31st March 2010 |               |
|  | £000s           | £000s         | £000s           | £000s         |
| Financial Liabilities (principal amount) | 90,768          | 67,111        | 13,474          | 13,750        |
| Financial Liabilities at Amortised Cost  | 91,147          | 67,166        | 13,764          | 13,866        |
| Accrued interest                         | 941             | 714           | 30              | 66            |
| Total Borrowing                          | <u>92,088</u>   | <u>67,880</u> | <u>0</u>        | <u>13,932</u> |
|  |                 |               |                 |               |
| Loans and receivables (principal amount) | 2,982           | 2,392         | 39,453          | 14,851        |
| Accrued Interest                         | 0               | 0             | 1,152           | 311           |
| Total Investments                        | <u>2,982</u>    | <u>2,392</u>  | <u>40,605</u>   | <u>15,162</u> |

### Financial Instruments Gains/Losses

| 2009/10  | Financial Liabilities                  |       | Financial Assets      |                           | Total                        |              |
|--|--|-------|-----------------------|---------------------------|------------------------------|--------------|
|  | Liabilities measured at amortised cost | £000s | Loans and Receivables | Available-for-Sale assets | Fair value through the I & E |              |
|  | £000s                                  | £000s | £000's                | £000's                    | £000's                       | £000's       |
| Interest payable and similar charges               | 4,170                                  | 0     | 0                     | 0                         | 0                            | 4,170        |
| Interest and investment income                     |  | (939) | 0                     | 0                         | 0                            | (939)        |
| Total Net Interest                                 |  |       |                       |                           |                              | <u>3,231</u> |
| Gains on revaluation                               |  |       | 0                     |                           |                              |              |
| Losses on revaluation                              |  |       | (588)                 |                           |                              |              |
| Deficit arising on revaluation of financial assets |  |       | <u>(588)</u>          |                           |                              |              |

| 2008/09  | Financial Liabilities                  |         | Financial Assets      |                           | Total                        |              |
|--|--|---------|-----------------------|---------------------------|------------------------------|--------------|
|  | Liabilities measured at amortised cost | £000s   | Loans and Receivables | Available-for-Sale assets | Fair value through the I & E |              |
|  | £000s                                  | £000s   | £000's                | £000's                    | £000's                       | £000's       |
| Interest payable and similar charges               | 5,789                                  | 0       | 0                     | 0                         | 0                            | 5,789        |
| Interest and investment income                     |  | (2,470) | 0                     | 0                         | 0                            | (2,470)      |
| Total Net Interest                                 |  |         |                       |                           |                              | <u>3,319</u> |
| Gains on revaluation                               |  |         | 368                   |                           |                              |              |
| Losses on revaluation                              |  |         | (1,423)               |                           |                              |              |
| Deficit arising on revaluation of financial assets |  |         | <u>(1,055)</u>        |                           |                              |              |

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **Fair value of Assets and Liabilities carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable, prevailing benchmark market rates have been used to provide the fair value; and
- No early repayment or impairment is recognised.

Where an instrument has a maturity of less than 12 months, or is a trade or other receivable, the fair value is taken to be the principal outstanding or the billed amount.

#### **Liabilities**

The Fair values are calculated as follows

|                                    | 31st March 2009          |                     | 31st March 2010             |                     |
|------------------------------------|--------------------------|---------------------|-----------------------------|---------------------|
|                                    | Carrying Amount<br>£000s | Fair Value<br>£000s | Carrying<br>Amount<br>£000s | Fair Value<br>£000s |
| PWLB Debt                          | 93,102                   | 96,472              | 55,480                      | 56,889              |
| Non PWLB Debt                      | 12,780                   | 14,623              | 26,332                      | 21,502              |
| Total Debt                         | 105,882                  | 111,095             | 81,812                      | 78,391              |
| Trade Creditors                    | 1,260                    | 1,260               | 2,014                       | 2,014               |
| <b>Total Financial Liabilities</b> | <b>107,142</b>           | <b>112,355</b>      | <b>83,826</b>               | <b>80,405</b>       |

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

The fair values for financial liabilities have been determined by reference to the Public Works Loan Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.

#### **Assets**

|                                     | 31st March 2009          |                     | 31st March 2010             |                     |
|-------------------------------------|--------------------------|---------------------|-----------------------------|---------------------|
|                                     | Carrying Amount<br>£000s | Fair Value<br>£000s | Carrying<br>Amount<br>£000s | Fair Value<br>£000s |
| Money market loan less than 1 year  | 34,228                   | 34,228              | 13,290                      | 13,290              |
| Money market loans more than 1 year | 6,378                    | 6,598               | 2,000                       | 2,000               |
| Trade Debtors                       | 6,366                    | 6,366               | 4,776                       | 4,776               |
| <b>Total Loans and receivables</b>  | <b>46,972</b>            | <b>47,192</b>       | <b>20,066</b>               | <b>20,066</b>       |

The differences are attributable to fixed interest instruments being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

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

**27** The date that the financial statements are authorised for issue is 24th June 2010. 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

| AS AT<br>31 MARCH<br>2009 |   | AS AT<br>31 MARCH<br>2010 | Notes |
|---------------------------|---|---------------------------|-------|
| £000                      |   | £000                      |       |
|                           | <b><u>Income</u></b>  |                           |       |
| (15,247)                  | Dwelling rents (gross)  | (15,389)                  |       |
| (373)                     | Non-dwelling rents (gross)  | (371)                     |       |
| (1,908)                   | Charges for services & facilities   | (1,991)                   |       |
| (542)                     | Contribution towards Expenditure  | (531)                     |       |
| <b>(18,070)</b>           | <b>Total Income</b>   | <b>(18,281)</b>           |       |
|                           | <b><u>Expenditure</u></b>   |                           |       |
| 3,464                     | Repairs and maintenance   | 3,525                     |       |
| 5,029                     | Supervision and management  | 4,996                     |       |
| 10                        | Rent, rates, taxes and other charges  | 6                         |       |
| 670                       | HRA Subsidy Payable (including MRA)   | 1,366                     | 8     |
| 152                       | Increased provision for bad and doubtful debts  | 141                       | 9     |
|                           | Depreciation of fixed assets  |                           |       |
| 3,860                     | On dwellings (= MRA)  | 3,763                     | 7     |
| 25                        | On other assets   | 37                        | 7     |
| 16,136                    | Impairment of Fixed Assets  | 24,818                    | 3     |
| 0                         | Government Grants Deferred Written off  |                           |       |
| 11                        | Debt management costs   | 23                        |       |
| <b>29,357</b>             | <b>Total Expenditure</b>  | <b>38,675</b>             |       |
| <b>11,287</b>             | <b>Net Cost of HRA Services per Authority Income &amp; Expenditure</b>  | <b>20,394</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>11,287</b>             | <b>Net Cost of Services</b>   | <b>20,394</b>             |       |
| 0                         | Gain on Sale of HRA Fixed Assets  | 0                         |       |
| 1,283                     | Interest Payable and Similar Charges  | 892                       |       |
| (35)                      | Interest and Investment Income  | (24)                      |       |
| 0                         | Pension Interest Cost and Expected Return on Pension Assets   | 0                         |       |
| <b>12,535</b>             | <b>(Surplus)/deficit for the Year on HRA Services</b>   | <b>21,262</b>             |       |

# HOUSING REVENUE ACCOUNT

## STATEMENT OF MOVEMENT ON THE HRA BALANCE

| <b>AS AT<br/>31 MARCH<br/>2009</b> |   | <b>AS AT<br/>31 MARCH<br/>2010</b> |
|------------------------------------|---|------------------------------------|
| <b>£000</b>                        |   | <b>£000</b>                        |
| 12,535                             | (Surplus) or deficit for the year on the HRA Income and Expenditure Account   | 21,262                             |
| (12,660)                           | Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year   | (21,327)                           |
| (125)                              | (Increase) or decrease in the Housing Revenue Account Balance   | (65)                               |
| (652)                              | Housing Revenue Account surplus brought forward   | (777)                              |
| <b>(777)</b>                       | <b>Housing Revenue Account surplus carried forward</b>  | <b>(842)</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>  |                                    |
| 79                                 | 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. | (43)                               |
| (16,136)                           | 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).   | (24,818)                           |
| 0                                  | Gain or (loss) on sale of HRA fixed assets  | 0                                  |
| <b>(16,057)</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>(24,861)</b>                    |
| (25)                               | Transfer from Major Repairs Reserve   | (37)                               |
| 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                                  |
| 202                                | Voluntary set aside for debt repayment  | 271                                |
| 3,220                              | Capital expenditure funded by the HRA   | 3,300                              |
| <b>(12,660)</b>                    | <b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year.</b>   | <b>(21,327)</b>                    |

# NOTES TO THE HOUSING REVENUE ACCOUNT

## 1 Housing Stock

|                                      | 1st April 2009 | 31st March<br>2010 |
|--------------------------------------|----------------|--------------------|
| <u>Number and types of dwellings</u> |                |                    |
| Houses                               | 2,814          | 2,809              |
| Flats                                | 2,279          | 2,301              |
| Bungalows                            | 343            | 343                |
| Non HRA                              | 6              | 6                  |
| Total dwellings                      | <u>5,442</u>   | <u>5,459</u>       |
| <u>Balance Sheet values</u>          |                |                    |
| Land                                 | £000           | £000               |
| Houses                               | 101            | 132                |
| Other property                       | 173,050        | 152,991            |
|                                      | 711            | 666                |
| Total net Balance Sheet value        | <u>173,862</u> | <u>153,789</u>     |
| Operational Assets                   |                |                    |
| Dwellings                            | 173,050        | 152,991            |
| Other land & buildings               | 0              | 0                  |
|                                      | 173,050        | 152,991            |
| Non-operational assets               | 812            | 798                |
| Total net Balance Sheet value        | <u>173,862</u> | <u>153,789</u>     |

## 2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is £320M (£349M in 2008/09)

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

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

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

## 3 Impairment Charges

These charges occur where there is a material reduction in the value of a fixed asset during an accounting period. Impairment charges of £24.818M were charged to the HRA Income and Expenditure in 2009-10. This represents £10.169M of capital expenditure incurred in the year that did not add value to the current housing stock valuation and £14.649M following a re-evaluation exercise carried out during the year.

## 4 Revenue Expenditure funded from Capital under Statute

Capital expenditure in 2009/10 included expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets and has been charged as expenditure to the HRA Income and Expenditure Account. Grants received towards the cost of this expenditure can be regarded as revenue grants despite their classification as capital. In 2009/10 Revenue Expenditure funded from Capital under Statute totalled £0.727M, capital grants treated as revenue totalled £0.727M.

## NOTES TO THE HOUSING REVENUE ACCOUNT

### **5 Major Repairs Reserve**

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

|   | 2008/09<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| Balance as at 1 April   | 0               | 0               |
| Transfer to MRR during the financial year   |                 |                 |
| Depreciation on HRA dwellings   | (3,860)         | (3,763)         |
| Depreciation on other HRA assets  | (25)            | (37)            |
| Transfer to HRA during the financial year   |                 |                 |
| Depreciation on other HRA assets  | 25              | 37              |
| Transfer from MRR during the financial year<br>in respect of capital expenditure on |                 |                 |
| Land  | 771             | 0               |
| Houses  | 3,089           | 3,763           |
| Balance as at 31 March  | <hr/> <hr/> 0   | <hr/> <hr/> 0   |

### **6 Capital Expenditure**

Capital expenditure within the HRA during 2009/10 was as follows :-

|                           | 2008/09<br>£000   | 2009/10<br>£000    |
|---------------------------|-------------------|--------------------|
| Land                      | 771               | 554                |
| Houses                    | 8,079             | 9,610              |
| Other property            | 868               | 1,141              |
| Total capital expenditure | <hr/> <hr/> 9,718 | <hr/> <hr/> 11,305 |

Total capital expenditure on land, houses and other property within the HRA during 2008/09 was funded via the following sources :-

|                           | 2008/09<br>£000   | 2009/10<br>£000    |
|---------------------------|-------------------|--------------------|
| Borrowing                 | 1,711             | 1,626              |
| Usable capital receipts   | 172               | 89                 |
| Major Repairs Reserve     | 3,860             | 5,263              |
| Revenue                   | 3,220             | 3,300              |
| Other Grant Funding       | 755               | 1,027              |
| Total capital expenditure | <hr/> <hr/> 9,718 | <hr/> <hr/> 11,305 |

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

|                        | 2008/09<br>£000 | 2009/10<br>£000 |
|------------------------|-----------------|-----------------|
| Land                   | 0               | 0               |
| Houses                 | 433             | 263             |
| Total capital receipts | <hr/> <hr/> 433 | <hr/> <hr/> 263 |

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 7 Depreciation of Fixed Assets

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

|                                    | 2008/09<br>£000  | 2009/10<br>£000  |
|------------------------------------|------------------|------------------|
| Land                               | 0                | 0                |
| Houses (= Major Repairs Allowance) | 3,860            | 3,763            |
| Other property                     | 25               | 37               |
| <br>Total charge for depreciation  | <br><u>3,885</u> | <br><u>3,800</u> |
| <br>Operational Assets             |                  |                  |
| Dwellings                          | 3,860            | 3,763            |
| Other land & buildings             | <u>25</u>        | <u>37</u>        |
|                                    | <u>3,885</u>     | <u>3,800</u>     |
| <br>Non-operational assets         | 0                | 0                |
| <br>Total charge for depreciation  | <br><u>3,885</u> | <br><u>3,800</u> |

### 8 HRA Subsidy

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

|  | 2008/09<br>£000  | 2009/10<br>£000    |
|--|------------------|--------------------|
| Management allowance   | 2,782            | 2,965              |
| Maintenance allowance  | 5,866            | 5,789              |
| Major Repairs Allowance (MRA)                                | 3,860            | 3,763              |
| Charges for capital  | 1,527            | 936                |
| 5% Rental Constraint   | 0                | 0                  |
|  | <u>14,035</u>    | <u>13,453</u>      |
| <i>less</i>  |                  |                    |
| Rent   | (14,677)         | (14,816)           |
| Interest on receipts   | (3)              | (2)                |
| <br>Adjustment to prior year HRA Subsidy                     | <br>(25)         | <br>0              |
| <br>Total HRA subsidy receivable / (Transfer to Communities) | <br><u>(670)</u> | <br><u>(1,366)</u> |

### 9 Rent Arrears

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

|                                     | 2008/09<br>£000 | 2009/10<br>£000 |
|-------------------------------------|-----------------|-----------------|
| Gross rent arrears as at 31st March | 969             | 1,077           |

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

|   | Year Ended<br>31st March 2009<br>£000 | Year Ended<br>31st March 2010<br>£000 |
|---|---------------------------------------|---------------------------------------|
| Opening provision for uncollectable debts     | 210                                   | 324                                   |
| Amounts written off in the year               | (38)                                  | (156)                                 |
| Increase in provision for the year            | 152                                   | 141                                   |
| <br>Closing provision for uncollectable debts | <br><u>324</u>                        | <br><u>309</u>                        |

## COLLECTION FUND

| 2008/09         |  | 2009/10         | NOTES |
|-----------------|--|-----------------|-------|
| £000            |  | £000            |       |
| (38,279)        | <b>Income</b>  | (39,388)        | 3     |
| (7,360)         | Income from Council Tax                                    | (8,308)         | 3     |
| 4               | Transfers from General Fund                                | 1               | 3     |
| (30,016)        | Council Tax benefits                                       |                 |       |
|                 | Transitional relief  |                 |       |
|                 | Income collectable from business ratepayers                | (30,603)        | 2     |
| <b>(75,651)</b> | <b>Total Income</b>  | <b>(78,298)</b> |       |
|                 | <b>Expenditure</b>   |                 |       |
| 45,544          | Precepts and demands                                       | 47,716          | 4     |
| 29,866          | Business rate  | 30,453          |       |
| 150             | Payment to national pool                                   | 149             |       |
|                 | Costs of collection  |                 |       |
| 172             | Bad and doubtful debts                                     | 33              |       |
| 151             | Write offs   | 200             |       |
|                 | Movement in net provision                                  |                 |       |
| <b>75,883</b>   | <b>Total Expenditure</b>                                   | <b>78,551</b>   |       |
| <b>232</b>      | <b>Collection Fund (surplus)/deficit for the year</b>      | <b>253</b>      |       |
| 330             | Collection Fund balance brought forward                    | 562             |       |
| 232             | Collection Fund (surplus)/deficit for the year             | 253             |       |
| <b>562</b>      | <b>Collection Fund (surplus)/deficit balance c/forward</b> | <b>815</b>      | 5     |

# 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 2010 was £74.874M (£74.0M in 2008/09). The non-domestic rating multiplier for 2009/10 was 48.5p per £ (46.2p per £ in 2008/09) and the small business non-domestic rating multiplier for 2009/10 was 48.1p per £ (45.8p per £ in 2008/09).

## 3 Income From Council Tax

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

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

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

| Band                 | A      | B     | C     | D     | E     | F     | G    | H    |
|----------------------|--------|-------|-------|-------|-------|-------|------|------|
| Chargeable Dwellings | 12,718 | 6,689 | 5,296 | 4,536 | 3,126 | 1,509 | 750  | 55   |
| 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 £1,151.03 (£1,112.09 in 2008/09), 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 £147.51 (£142.47 in 2008/09) for their services.

County Durham and Darlington Fire & Rescue Authority set a Band D council tax of £85.41 (£82.62 in 2008/09) 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:

|  | 2008/09<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| Council Tax levied                     | 50,393          | 52,608          |
| Less allowances                        | (4,758)         | (4,913)         |
|  | <b>45,635</b>   | <b>47,695</b>   |
| Payable from the following sources:    |                 |                 |
| Billed to Council Tax payers           | (38,279)        | (39,388)        |
| Council Tax benefits                   | (7,360)         | (8,308)         |
| Transitional relief                    | 4               | 1               |
| Council Tax benefit subsidy limitation | 0               | 0               |
|  | <b>(45,635)</b> | <b>(47,695)</b> |

### 4 Precepts And Demands

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

|  | 2008/09<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| Darlington Borough Council                           | 37,888          | 39,695          |
| Durham Police Authority                              | 4,846           | 5,080           |
| County Durham and Darlington Fire & Rescue Authority | 2,810           | 2,941           |
|  | <b>45,544</b>   | <b>47,716</b>   |

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

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

|  | 2008/09<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| Darlington Borough Council                           | 467             | 675             |
| Durham Police Authority                              | 60              | 89              |
| County Durham and Darlington Fire & Rescue Authority | 35              | 51              |
|  | <b>562</b>      | <b>815</b>      |

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

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

#### **Opinion on the financial statements**

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2010 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 Income and Expenditure Account, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

#### **Respective responsibilities of the Director of Corporate Services and auditor**

The Director of Corporate Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 49 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 relevant legal and regulatory requirements and the Code Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council and its income and expenditure and cashflows for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read 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 and 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 and related notes. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the financial statements and related notes, and of whether the accounting policies are appropriate to the Authority'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 and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of the information in the financial statements and related notes.

### **Opinion**

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2010 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP

89 Sandyford Road  
Newcastle upon Tyne  
NE1 8HW

Date:  
xx/xxx/yyyy

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

#### **Authority's Responsibilities**

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

#### **Auditor's Responsibilities**

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

## AUDITOR'S REPORT TO DARLINGTON BOROUGH COUNCIL

### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, 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 2010.

### Certificate

We certify that we have completed the audit of the 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:  
xxth Month 2010

### 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.

# ANNUAL GOVERNANCE STATEMENT

## 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. 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.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
3. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at [www.darlington.gov.uk](http://www.darlington.gov.uk) or can be obtained from:

Democratic Services  
Corporate Services Department  
Town Hall  
Feethams  
Darlington  
DL1 5QT  
Tel. (01325) 388351

4. This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically
7. The governance framework has been in place at the Council for the year ended 31st March 2010 and up to the date of approval of the Statement of Accounts.

## The Governance Framework

8. The key elements of the Council's governance framework are tabulated in Appendix A to this statement which also indicates their relevance to the following six core principles that underpin good governance:
  - (a) Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
  - (b) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
  - (c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
  - (d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
  - (e) Developing the capacity and capability of members and officers to be effective; and
  - (f) Engaging with local people and other stakeholders to ensure robust public accountability.
9. Each key element, as detailed in the Council's Local Code, has a nominated lead officer, outlines the duty to which it relates and includes three discrete types of action:-
  - (a) Awareness - making sure that everyone who needs to know about the element does know;
  - (b) Monitoring - ensuring that the duty is carried out; and
  - (c) Review - actions to ensure that the element is reviewed in the light of effectiveness and emerging good practice.
10. The governance framework encompasses the Council's financial management arrangements that conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

# ANNUAL GOVERNANCE STATEMENT

## Review of Effectiveness

### ***Background***

11. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by an Assurance Framework, documented in Appendix B, that includes the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Corporate Assurance's Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.
12. This Statement has been prepared by a management group that has responsibility for evaluating assurances and the supporting evidence. The group comprises the:
  - (a) Director of Corporate Services (S151 Officer);
  - (b) Borough Solicitor (Monitoring Officer);
  - (c) Policy Manager;
  - (d) Head of Human Resource Management; and
  - (e) Head of Corporate Assurance.
13. The Audit Committee is responsible for the independent review and approval of the Annual Governance Statement following examination of the supporting evidence.
14. Assurance on adequacy and effectiveness is outlined under the following categories identified in the Council's Annual Governance Statement Framework.

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

15. The Audit Committee received six-monthly monitoring reports in December 2009 and June 2010 to ensure that Members were satisfied that the management processes defined in the Council's Local Code were actually being adhered to throughout the organisation.
16. The reports concluded that overall, positive progress was being made on the application of Corporate Governance within the Authority.

### **Managers' Assurance Statements**

17. Annual Managers' Assurance Statements are an integral part of the framework that supports production of the Annual Governance Statement.
18. The Statements cover key aspects of the internal control environment on which assurance is required and were completed in Spring 2010 by representatives on Departmental Senior Management Teams. The output from the exercise was reported to the Audit Committee in June 2010.
19. The overall position was positive. Required improvements identified through the Assurance Statements largely focus on the implementation of learning management software in 2010/11 to raise employees' awareness of a range of corporate policies/processes, together with the need to update departmental procedures and access training in specific areas ie equalities, complaints and project management. In addition, Statements have been completed by the majority of schools and endorsed by Governing Bodies following a phased roll out. All schools are scheduled to complete Statement for the 2010/11 year.

### **Performance Management/Data Quality**

20. The Council's Performance Management Framework (PMF) is a formal process whereby performance is monitored against both national and local indicators across key strategies. This process, operated by all departments to defined quality standards, is underpinned by a series of rules and procedures codified in a Data Quality Strategy (DQS). Increased partnership working including with the National Indicator Set (NIS) is explicitly recognised within the PMF. Partners are discussing their singular and joint needs at a number of forums including through a multi-agency data group.
21. Reporting of performance involves regular reports to Departmental Management Teams, Corporate Management Team, Cabinet and Scrutiny Committees. Scrutiny Committees also undertake detailed consideration of performance against specific indicators periodically. The Chief Executive meets with each director in a performance clinic to challenge performance in their department. Members and Officers are able to look at more detailed performance information by using the Council's computerised performance management system, PerformancePlus.
22. The PMF is reviewed at least annually and any improvements identified as a result of internal or external audit work are incorporated as appropriate. The documentation has recently been improved to incorporate the risk assessment and self audit of performance information.

## ANNUAL GOVERNANCE STATEMENT

23. The NIS has made the reporting of timely quarterly and year-end data more complex, although data to hand, that includes for most of the indicators, suggests that overall service plan targets are being achieved. Performance against targets for the community strategy themes and corporate objectives is generally positive, although targets have not been achieved for a limited number of indicators where under performance has impacted upon the headline picture for a number of themes and objectives. The Local Area Agreement is on target overall although a number of targets for economic indicators have been reviewed with Government Office North East due to the recession.
24. The Comprehensive Area Assessment 2009 results issued by the Audit Commission were reported to Cabinet in January 2010 and, in terms of Managing Performance, the Council was rated as 'performing well'. The Audit Commission stated that people who live in Darlington were generally happy with the local area and in particular its parks and open spaces; crime levels were reducing and anti-social behaviour was being successfully tackled through joint work with the police; educational standards were improving and the standard of council housing was very high; and the Council had been successful in bringing new employers and jobs into the Borough despite the recession. To underpin this overall assessment the Care Quality Commission and Ofsted respectively had assessed the Council's Adult Social Care and Children's Services as 'performing well'.

### **Financial Management**

25. The Council's Medium Term Corporate Plan incorporates four-year financial plans. The Council sets its annual revenue budget, capital programme and Council Tax within this wider planning framework. The Medium Term plans, annual budgets and Council Tax are developed in consultation with partner organisations in all sectors, residents and employees, and are approved by full Council.
26. The Medium Term Financial Plan (MTFP) for 2010 to 2014 includes detailed plans to achieve savings of £11million. In November 2010 the Council's Cabinet agreed a new business model to position the Council to respond to future challenges, including expected significant reductions in future funding levels. The business model includes –
  - (a) Continuing to make efficiency savings, as has been done for many years;
  - (b) Reviewing priorities, to ensure they remain in line with residents' and customers' needs;
  - (c) Reviewing who delivers services, to provide the best available value-for-money.
27. Consequently, the MTFP includes a target for further savings, estimated to be around £10.4million. The Plan is continually monitored and reviewed and is revised at least annually when an updated rolling 4 year plan is produced.
28. Responsibility for controlling and managing budgets is delegated to Directors and devolved to service managers. Financial management is closely integrated with service management. Cabinet and Resources Scrutiny Committee receive regular reports to enable them to monitor and scrutinise financial performance and service delivery.
29. The Council must comply with external financial reporting requirements, including publishing an annual Statement of Accounts ('the Accounts') and reporting to Central Government and other funding providers. The Accounts, which are prepared in accordance with Accounting Codes of Practice, are approved by the Council's Audit Committee and are independently audited under arrangements made by the Audit Commission. The auditors gave an unqualified opinion on the Council's 2008/09 financial statements by the target date of 30 September 2009 and commented that the accounts presented for audit were substantially free from error and were supported by comprehensive and clear working papers. The auditors also commented that good progress was being made to meet the requirement to implement International Financial Reporting Standards, which is a substantial development in accounting and reporting across the UK public sector
30. The Council's cash-flow and borrowing to finance capital expenditure and investments are managed through the Treasury Management Strategy, approved by full Council, and in accordance with legislation and codes of practice. The strategy and associated policies and procedures were reviewed and further strengthened in 2009. The Council manages its investments to minimise risk of losses, ensure funds are available when needed and achieve interest income. Through its controls and procedures the Council avoided any losses of investments or interest during the global banking crisis..
31. Specific arrangements exist for schools, to which responsibility for management of finance and other resources has been devolved under various legislation. All Darlington schools are accredited under the Financial Management Standard in Schools.

### **Risk Management**

32. Risk is one of the elements of information incorporated into the development of departmental service plans and the Corporate Plan. Risk management is, therefore an essential element in establishing policy, developing plans and enhancing operational management.
33. 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.

## **ANNUAL GOVERNANCE STATEMENT**

34. The approach to, and the outcomes from, the Council's risk management processes for 2009/10 were reported to the Audit Committee in March 2010. The report detailed generally positive progress upon delivery of action plans to mitigate key risks including those relating to expected significant reductions in future funding levels, information governance and project management that are mentioned elsewhere in this Statement. The report also outlined advances in the management of operational risks through the Council's Corporate Risk Management Group and mentioned that proactive risk management work within the Council had been recognised through awards at national and European level during the year

### **ICT**

35. In April 2009, Cabinet approved an ICT Strategy that focused on five key programmes, namely the delivery of a robust core architecture on which to deliver ICT services; the provision of flexible and efficient mobile and office based technologies; the implementation of robust and secure information management processes and systems; the management of a robust governance framework for ICT projects and investments; and the advancement of standards and procedures within ICT with the aim of delivering excellent services.
36. Implementation of the Strategy is led by the cross-departmental ICT Strategy Group, chaired by the Director of Corporate Services. This Group was tasked to produce six-monthly reports on implementation progress to the Audit Committee.
37. The progress report to the Audit Committee in March 2010 documented positive developments on each of the five key programmes. This included reference to Xentral ICT Services having retained its certificate of compliance with the International Standard 27001 for Information Security Management in February 2010 and that, following a review of the Council's information governance practices, Cabinet had approved, in December 2009, a revised management framework together with information governance and information security management policies, strategies and work programme. Delivery of the information governance work programme is the responsibility of the cross-departmental Corporate Information Governance Group chaired by the Head of Corporate Assurance and associated detailed action plans are currently under development.

### **Internal Audit**

38. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government. 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.
39. The Audit Committee approves the Annual Internal 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.
40. Internal Audit concluded in their Annual Report for 2009/10 that, overall, the Council continues to operate within a control environment that is generally sound.

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

41. A review of the effectiveness of the Council's system of internal audit was carried out by a team of senior officers that comprised a Policy Adviser, the Assistant Director – Housing and the Assistant Director – Public Protection based upon guidance issued by the Finance Advisor Network (FAN) of CIPFA. The findings of the review were considered by the Audit Committee in June 2010.
42. The review team concluded that the Council has an effective system of internal audit.

### **Xentral Shared Service Partnership**

43. A shared service partnership was established in May 2008 with Stockton BC for the provision of ICT, Transactional Finance and HR and Design and Print.
44. The internal audit of the partnership was undertaken by Stockton BC and the outcome from the audit work carried out was reported quarterly to the Darlington Audit Committee. The overall position on assurance opinions was positive.

### **Partnership Working**

45. In March 2007, Cabinet adopted a partnership working toolkit to provide a means to ensure that the Council's resources are effectively employed, the performance of each partnership is monitored and adequate governance arrangements are in place. As part of the toolkit, a clear definition of a partnership and those classed as significant are documented. The toolkit, that consists of an on-line questionnaire, is completed by the lead officer for each partnership.

## **ANNUAL GOVERNANCE STATEMENT**

46. There are annual reviews of significant partnerships led by the Chief Executive of Darlington Partnership based upon completed questionnaires. The outcomes from the latest review were reported to Cabinet in September 2009.
47. The report summarised the range of partnership working undertaken by the Council and although an overall positive position on outcomes and governance arrangements was depicted use of the partnership toolkit had highlighted specific outstanding governance issues in certain partnerships. As a result, action plans have been developed and responsible officers identified to address the outstanding matters.
48. Partnership Lead Officers recognise and accept that ensuring governance arrangements remain relevant is an ongoing process. For example, Terms of Reference are reviewed periodically to ensure that they remain fit for purpose and risk registers are regularly updated to reflect emerging risks and changes in circumstances

### **Standards Committee**

49. The Standards Committee continues to monitor a set of Ethical Health Indicators designed to provide an indication of any peaks in activity which indicate dissatisfaction with the Council across a range of areas of the Council's activities. The Committee has a work programme and oversees the Council's Confidential Reporting Policy, the Protocol for Member Officer Relations, Member Training and other key documents. The Committee has undertaken a range of publicity and produced new web pages during the last year to promote its new role in local assessment. The Committee has links with other Committees across the Tees Valley providing joint training for members and parish councils and has a joint work plan with Tees Valley authorities. The Committee has prepared its second annual return to the Standards Board for England and its Annual Report to the Leader of the Council with recommendations about areas for improvement and the future work programme.
50. During the last year the Committee carried out its first public trust survey to test awareness levels of the work of the Committee and trust levels of Members and senior officers. Following the survey, the Committee developed a programme of work based on the results. This included a meeting of the Committee in the community that took place on 7<sup>th</sup> June 2010 at Darlington College. The Committee is also to receive a presentation from the Council's Web Manager about the use of social network sites and web based tools, including myDarlington+ to provide opportunities to communicate with young people in Darlington about the work of the Committee.
51. The Committee also established liaison meetings with group leaders and the Chief Executive with a view to integrating the work of the Committee more widely into the authority. The Committee agreed a process for hearing appeals in relation to political restrictions which was agreed by the Council's Corporate Management Team and reviewed the Member-Officer Protocol with a new process for resolving disputes between Members and Officers and Members and Members informally. The changes were approved by full Council and incorporated into the Council's Constitution. The Committee continued its awareness raising campaign about its work by adding to the website and by introducing text onto the agenda of Planning and Licensing Committee which help to raise public awareness at the time decisions are being made of the role of Standards Committee.
52. The Committee has reduced the number of complaints from fifteen during its first municipal year to nine in its second. There have been no complaints upheld against a Member of Darlington Borough Council since introduction of the ethical framework. The Committee has a key role in monitoring all Member training and ensuring a training programme designed to meet the needs identified by Performance Development Reviews. The Committee has been given new responsibility for designating courses across the Council as mandatory for Members and for monitoring compliance. Compliance rates have seen a marked improvement against the previous year in relation to both the mandatory and the compulsory five courses per year. The Committee has achieved 100% of mandatory training for Members on the Code of Conduct within a two year period. The Committee monitors attendance at training and reports non-compliance publicly.
53. The Committee has an ongoing work programme and an ambitious programme of work for the coming year.

### **Resources Scrutiny committee**

54. Scrutiny forms an important part of the Council's governance arrangements by providing independent examination of executive roles. Resources Scrutiny Committee has responsibilities for examining the Council's arrangements for financial planning, management and reporting and for efficiency and value-for-money. The Committee develops and implements an annual work programme to manage its continuing oversight role and undertake specific pieces of work.
55. During 2009/10 the Committee again scrutinised and contributed to the development and embedding of improved project management. The Committee set up a Budget Management and Efficiency Review Group and conducted monthly monitoring of the revenue budget during 2009/10. The Committee and Review Group also had early involvement in the annual review of the Medium Term Financial Plan and again held a number of special meetings to challenge Corporate Management Team on the draft plan and made recommendations to Cabinet in February 2010 to inform their deliberations

## **ANNUAL GOVERNANCE STATEMENT**

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

56. The Annual Audit Letter, produced by the Council's external auditors PricewaterhouseCoopers LLP (PwC) to provide a high level summary of the results of their audit work undertaken for the benefit of Members and other interested stakeholders, was presented to the Audit Committee in December 2009. The Letter was positive.
57. In terms of Use of Resources under the Comprehensive Area Assessment framework, comprising assessments of strategic financial management, strategic commissioning and good governance, and the management of natural resources, assets and people the Council was assessed overall as performing well.
58. The external auditors concluded that the Council's processes for managing finance were robust, comprehensive arrangements were in place to govern the organisation, including arrangements to secure data quality and systems of governance and internal control were sound, and the approach to managing natural resources and public assets was adequate.
59. PwC also commented with regard to value for money that they were satisfied in all significant respects the Council had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Significant Internal Control Issues**

60. In response to significant overspends on two major capital schemes mentioned in previous Annual Governance Statements, the Pedestrian Heart and Darlington Eastern Transport Corridor, the Council has implemented appropriate improvement actions in order to provide greater levels of assurance around delivery of capital projects.
61. A new Capital Project Management approach has been adopted and rolled out on a phased basis across the Council. Relevant staff have been trained in the methodology and related procedures and received a copy of the Council's Project Management Handbook. The Council's intranet has also been developed to provide useful reference and supporting material.
62. An Asset Management and Capital Programme Review Board, a cross-departmental group chaired by the Director of Corporate Services, has been established to oversee the strategic position of the Council on capital projects
63. A Projects Office has also been created and has taken responsibility for the production and monitoring of a Project Position Statement (PPS). The PPS provides a single source of key information relating to the Council's commitments on capital projects and programmes and enables challenge to be made on projects that are starting to deviate from time, cost or quality and the resources assigned to key roles within the project environment. The PPS is reported monthly to the Asset Management and Capital Programme Review Board and regularly through Resources Scrutiny.
64. The Capital Project methodology is expected to continue to be developed with use and over time by the Projects Office in conjunction with interested parties.

### **Statement by the Leader of the Council and Chief Executive**

65. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and are committed to ensure the continuous improvement of the system in place.

Signed .....

Date .....

Leader of the Council

Signed .....

Date .....

Chief Executive

**CORE PRINCIPLES OF CORPORATE GOVERNANCE**

**APPENDIX A**

|  | Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area | Members and officers working together to achieve a common purpose with clearly defined functions and roles | Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour | Taking informed and transparent decisions which are subject to effective scrutiny and managing risk | Developing the capacity and capability of members and officers to be effective | Engaging with local people and other stakeholders to ensure robust public accountability |
|--|--|--|--|---|--|--|
| Sustainable Community Strategy           | ✓  |  |  |   |  | ✓  |
| Local Area Agreement                     | ✓  |  |  |   |  | ✓  |
| Constitution                             |  | ✓  |  | ✓   |  | ✓  |
| Service Planning Framework               | ✓  | ✓  |  |   | ✓  | ✓  |
| Business Transformation Projects         | ✓  | ✓  |  | ✓   | ✓  |  |
| Community Engagement Strategy            | ✓  |  |  |   | ✓  | ✓  |
| Communication Strategy                   | ✓  | ✓  | ✓  | ✓   |  | ✓  |
| ICT Strategy                             | ✓  |  | ✓  |   | ✓  | ✓  |
| Human Resources Strategy                 | ✓  | ✓  | ✓  |   | ✓  |  |
| Performance Management Framework         | ✓  | ✓  | ✓  |   | ✓  |  |
| Schedule of Council Meetings             |  |  |  | ✓   |  | ✓  |
| Council Procedure Rules                  |  |  | ✓  |   |  |  |
| Record of Decisions                      |  | ✓  |  | ✓   |  | ✓  |
| Partnership Working Toolkit              | ✓  | ✓  | ✓  | ✓   | ✓  | ✓  |
| Code of Conduct for Members              |  |  |  | ✓   | ✓  |  |
| Members Induction and Training Programme |  |  |  | ✓   | ✓  |  |
| Code of Conduct for Employees            |  |  |  | ✓   | ✓  |  |
| Officer and Member Protocols             |  | ✓  | ✓  |   |  |  |
| Confidential Reporting Policy            |  |  |  | ✓   | ✓  |  |
| Code of Corporate Governance             | ✓  | ✓  | ✓  | ✓   | ✓  | ✓  |
| Risk Management Strategy                 |  |  |  | ✓   |  |  |
| Anti-fraud and Corruption Policy         |  |  |  | ✓   |  |  |
| Capital Programme Methodology            |  | ✓  |  | ✓   |  |  |
| Information Governance Policy            | ✓  |  | ✓  | ✓   | ✓  | ✓  |
| Procurement Strategy                     | ✓  | ✓  | ✓  | ✓   |  | ✓  |
| Contract Procedure Rules                 | ✓  | ✓  | ✓  | ✓   |  | ✓  |
| Medium Term Financial Plan/Budgets       | ✓  | ✓  |  | ✓   |  | ✓  |
| Treasury Management Framework            |  | ✓  |  | ✓   |  | ✓  |
| Annual Statement of Accounts             | ✓  |  |  |   |  | ✓  |
| Financial Procedure Rules                | ✓  | ✓  | ✓  | ✓   |  |  |
| Scheme of Delegation                     |  | ✓  |  | ✓   | ✓  |  |
| Complaints Process                       | ✓  |  | ✓  | ✓   |  | ✓  |
| Social Inclusion Strategy                | ✓  |  | ✓  |   |  | ✓  |
| Equalities Plan                          | ✓  |  | ✓  |   |  | ✓  |

## Assurance Framework

| Risk  | Assurance Provider   | Sources of Assurance   | Links to Internal Audit Work Plan  | Reporting to Members  |
|---|--|--|--|---|
| Internal Control environment inadequate/ineffective.  | Internal Audit   | Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit Reports/opinions and outcomes from consultancy work undertaken. | Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken. | Internal Audit's Strategy, Role and Terms of reference and Annual Audit Plan approved by the Audit Committee. Quarterly/Annual Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan. Annual Report includes an overall opinion on the Council's control environment. |
| The financial position of the Council not presented fairly in the Financial Statements; the Annual Governance Statement not presented in accordance with relevant requirements; and proper arrangements are not in place to secure economy, efficiency and effectiveness in the use of resources. | External Audit   | Risk based External Audit Plan. External Audit Reports/opinions.   | Internal Audit's Annual Audit Plan discussed with External Audit to facilitate External audit planning and minimise the duplication of audit effort wherever possible.                       | External Audit Plan and External Audit Reports, including the Annual Audit and Inspection Letter, considered by the Audit Committee. Annual Audit and Inspection Letter considered by Cabinet.  |
| Inadequate provision of services to the people of Darlington  | Audit Commission/other External Inspection Agencies under the Comprehensive Area Assessment (CAA) regime | CAA Report on the Council/other Inspection Agencies' reports   | CAA and other reports reflected upon in the Internal Audit planning process.   |   |

|   |   |  |  |   |
|---|---|--|--|---|
| Business risk processes inadequate/ineffective              | Risk Management and Insurance Section   | Risk Management Strategy. Corporate/Departmental Risk Registers. Corporate Risk Management Group and Sub-Group Agendas and Minutes. Officer/Member Training.   | Annual Audit Plan developed with reference to Corporate/Departmental Risk Registers. Risk Management function subject to periodic Internal Audit review as part of the cyclical audit process.   | Risk Management Strategy endorsed by the Audit Committee and approved by Cabinet. Six-monthly/Annual Reports to the Audit Committee on the outcomes from the Council's risk management processes.   |
| Fraud and corruption arrangements inadequate/ineffective.   | Internal Audit and Benefits Enquiry Unit.                                       | Anti-Fraud and Corruption Strategy, Policy, Fraud Response Plan and Money Laundering Policy. Housing Benefit/Council Tax Anti-Fraud Strategy, Policy and Sanctions Policy. Confidential Reporting Policy. Internal Audit reviews of arrangements. Outcomes from bi-annual National Fraud Initiative exercises co-ordinated by the Audit Commission. Internal Audit/Benefits Enquiry Unit case files. | Anti-Fraud and Corruption arrangements, including National Fraud Initiative exercises, administered by Internal Audit. The potential for a service to be susceptible to fraud reflected within Internal Audit's risk assessment model that underpins the annual audit planning process. Internal Audit review of Housing Benefits conducted on an annual basis | Fraud related Policies and Strategies approved by the Audit Committee and Confidential Reporting policy approved by Council. Annual Reports to the Audit Committee on the outcomes from the Council's anti-fraud and corruption arrangements.   |
| Information governance arrangements inadequate/ineffective. | Information Security Section within Xentrall, Legal Services and External Audit | Corporate information Governance Policy, Information Governance Strategy, Information Security policy and associated delivery framework. Corporate Information Governance Group Agendas and Minutes. Officer/Member Training. External Audit Assessment of Date Quality within the overall Use of Resources assessment.  | Information Governance/Sensitivity of data is reflected within Internal Audit's risk assessment that underpins the annual audit planning process. Information Governance subject to periodic Internal Audit review as part of the cyclical audit process.  | Corporate Information Governance policy, Information Governance Strategy and Information Security Policy approved by Cabinet. Six monthly reports to the Audit Committee on progress with implementation of the Policies. External Audit assessment on Data Quality, within the overall Use of Resources assessment, considered by the Audit Committee. |

|  |   |  |  |   |
|--|---|--|--|---|
| Internal control environment of relevant areas of Xentrall inadequate/ineffective. | Stockton BC Internal Audit  | Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.  | Joint working protocol agreed between the Internal Audit Services of Stockton and Darlington to cover Xentrall audits. Copies of all relevant Stockton BC Internal Audit Reports on Xentrall forwarded to Darlington Internal Audit for information. | Stockton BC's Annual Audit Plan related to Xentrall considered by the Audit Committee. Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan. |
| Local Code of Corporate Governance not implemented.                                | Corporate Group responsible for drafting the Annual Governance Statement. | Local Code of Corporate Governance. Local Code individual key documents/functions matrices, completed by relevant Lead Officers, posted on the intranet covering awareness, monitoring and review. Six Monthly update reports to the Audit Committee in respect of the application of Corporate Governance within the Authority. | Internal Audit direct effort annually to validate evidence quoted in the individual key documents/functions matrices posted on the intranet.   | Local Code endorsed by the Audit Committee and approved by Council. Six-monthly reports to the Audit Committee on progress with implementation of the Code.                         |
| Grant processes inadequate.  | External Audit  | External Audit Report on audited Grant Claims and Returns.   | Grant process arrangements subject to annual review by Internal audit.   | External Audit Report on Grant Claims and Returns considered by the Audit Committee.  |
| Health and Safety practices and processes inadequate/ineffective                   | Health and Safety Unit  | Corporate Health and Safety Policy Risk Assessments. Reportable Accident Statistics. Outcomes from audits undertaken by the Health and Safety Unit. Officer/Member Training.   | Health and Safety function subject to periodic Internal Audit review as part of the cyclical audit process.  | Corporate Health and Safety Policy approved by Cabinet. Council's performance on health and safety reported annually to Resources Scrutiny and Audit Committee.                     |
| Property management arrangements inadequate  | Corporate Premises Risk Group   | Corporate Premises Database System and supporting documentation.   | Corporate Premises Database System subject to periodic Internal audit review as part of the cyclical audit process.  | Property management arrangements included in Council Risk Registers and, as such, included within member reporting arrangements for business risk processes.                        |

|  |  |   |  |   |
|--|--|---|--|---|
| Management control in respect of operational aspects of the business inadequate. | Managers/Schools Assurance Statements. | Annual signed Statements from Assistant Directors and schools.  | Arrangements administered and outputs scrutinised by Internal Audit.   | Annual report to the Audit Committee on the outcomes from the Assurance Statement process.  |
| Partnership governance arrangements inadequate.                                  | Partnership Lead Officers              | Annual Partnership Toolkit Questionnaires completed by relevant Council Partnership Lead Officers and supporting documentation.             | Partnership Governance Arrangements subject to periodic Internal Audit review as part of the cyclical audit process. | Partnership Toolkit approved by Cabinet. Annual report to Cabinet on the operations of significant partnerships.  |
| Treasury management arrangements inadequate.                                     | Accounting Services                    | Treasury Management Policy Statement, Strategy, Prudential Indicators and Procedures.   | Treasury Management function subject to periodic Internal Audit review as part of the cyclical audit process.        | Treasury Management Policy Statement, Strategy and Prudential Indicators considered by the Audit Committee and approved by Council. Treasury Management Procedures approved by the Audit Committee. Six-monthly/Annual Reports to the Audit Committee and Cabinet on the performance of the Treasury Management function. |
| Financial management arrangements inadequate/ineffective.                        | Accounting Services                    | Medium Term Financial Plan. Corporate Budget Setting/Monitoring processes and supporting documentation. Officer/Member Training.            | Financial management arrangements subject to periodic Internal Audit review as part of the cyclical audit process.   | Medium Term Financial Plan approved by Council. Quarterly Reports to Cabinet/Resources Scrutiny on Finance/Performance.   |
| Ethical health arrangements inadequate.  | Legal Services                         | Member Code of Conduct. Officer Code of Conduct. Ombudsmen complaints and outcomes. Member/Officer Training.                                | Legal Services Reports reflected upon in the audit planning process.   | Members and Officers Codes of Conduct endorsed by Standards Committee and approved by Council. Standards Committee meet regularly to consider a range of relevant reports. Regular report to cabinet on Ombudsmen complaints and outcomes.  |
| Ineffective system of internal audit   | Senior Group of Officers               | Annual Review of the system of internal audit and supporting documentation conducted in accordance with the Accounts and Audit Regulations. | Internal Audit direct effort annually to support the review process.   | Annual Review of the system of internal audit considered by the Audit Committee.  |

# **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.

## **ACCRAUALS**

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

## **ACCOUNTING POLICIES**

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

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

Accounting policies do not include estimation techniques.

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

## **ACTUARIAL GAINS AND LOSSES**

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

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

## **AGENCY**

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

## **ASSET**

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

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

## **ASSOCIATE**

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

## **AUDIT**

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

## **BALANCE SHEET**

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

## **BALANCES**

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

# **GLOSSARY**

## **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 which was developed from the key principles established from the Local Government Act 1999 (sections 5 & 6). It aims to:

- a) Modernise the system of local authority accounting and reporting to meet the changed and changing needs of local government, particularly the duty of to secure and demonstrate Best Value in the provision of services to the community
- b) Facilitate accurate comparison between both services and authorities.
- c) Strengthen the arrangements for recharging all support costs which may be reasonably charged to front-line services and in so doing bringing efficiency pressures to support services comparable to those of service providers to the community
- d) Represent best 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 FINANCING REQUIREMENT**

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

## **CAPITAL GRANTS**

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

## **CAPITAL RECEIPTS**

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

## **CARRY-FORWARDS**

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

## **CIPFA**

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

## **COLLECTION FUND**

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

# **GLOSSARY**

## **COMMUNITY ASSETS**

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

## **CONSISTENCY**

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

## **CONTINGENCY**

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

## **CONTINGENT ASSET**

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

## **CONTINGENT LIABILITY**

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

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

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

## **COUNCIL TAX**

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

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

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

## **DEBT OUTSTANDING**

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

## **DEBTOR**

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

## **DEFERRED CHARGES**

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

## **DEFINED BENEFIT PENSION SCHEME**

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

## **DEPRECIATION**

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

# **GLOSSARY**

## **DISCRETIONARY BENEFITS (PENSIONS)**

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

## **ENTITY**

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

## **ESTIMATION TECHNIQUES**

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

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

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

## **EXCEPTIONAL ITEMS**

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

## **EXPECTED RETURN ON PENSION ASSETS**

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

## **EXPENDITURE**

does not necessarily involve a cash payment, as expenditure is deemed to have been incurred once the goods or services have been received, even if they have not yet been paid for.

## **EXTRAORDINARY ITEMS**

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

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

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

## **FAIR VALUE**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

## **FINANCE LEASE**

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

## **FIXED ASSETS**

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

# **GLOSSARY**

## **FRS 1 - Cash Flow Statements**

Requires the Authority to prepare a cash flow statement in a manner prescribed by the Financial Reporting Standard (FRS). Cash flows are increases or decreases of cash, cash being cash in hand and deposits repayable on demand less overdrafts repayable on demand.

## **FRS 3 - REPORTING FINANCIAL PERFORMANCE**

The objective of FRS 3 is to highlight a range of components of financial performance to aid users in understanding financial performance. The aspect of FRS 3 affecting the authority's accounts for 2009/10 is the requirement to restate opening balances for the effects of prior year adjustments to the accounts, where these adjustments are as a result of changes in accounting policies.

## **FRS 4 - CAPITAL INSTRUMENTS**

This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the council's sources of finance associated costs, commitments and potential commitments.

## **FRS 8 - RELATED PARTY DISCLOSURES**

FRS 8 exists to ensure that accounting statements contain the disclosures necessary to draw attention to the fact that reported performance and results may have been affected by the existence of related parties and by material transactions with them.

## **FRS 11 - IMPAIRMENT OF FIXED ASSETS**

FRS 11 seeks to ensure that fixed assets are recorded in the financial statements at no more than their recoverable amount, that impairment losses are measured and recognised on a consistent basis and that sufficient information is disclosed in the statements to enable users to understand the impact of impairments on the financial position of the Authority.

## **FRS 12 - PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The objective of this standard is to ensure that provisions (liabilities of uncertain timing or amount) are recognised only when they actually exist at the balance sheet date. A provision may only be recognised in the Authority's accounts when there is an obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle this obligation and a reliable estimate can be made of the amount of this obligation. A contingent liability or asset is not recognised on the balance sheet, although where these are material they are disclosed in the core Notes to the Accounts.

## **FRS 15 - TANGIBLE FIXED ASSETS**

This standard sets out the principles of accounting for tangible assets. The objective is to ensure that these assets are accounted for on a consistent basis in terms of their carrying amount and depreciation policies.

## **FRS 17 - RETIREMENT BENEFITS**

FRS 17 sets out the accounting treatment for retirement benefits such as pensions during retirement. The standard aims to show the value of benefits accrued and the value of assets set aside to meet these costs.

## **FRS 18 - ACCOUNTING POLICIES**

This standard deals with the selection, application and disclosure of accounting policies. Mainly, that for all material items the reporting body adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view, that accounting policies are reviewed regularly to ensure that they remain appropriate and that sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

## **GOING CONCERN**

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

# **GLOSSARY**

## **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.

## **INCOME AND EXPENDITURE ACCOUNT**

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

## **INFRASTRUCTURE ASSETS**

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

## **INTANGIBLE ASSETS**

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

## **INTEREST COST (PENSIONS)**

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

## **INVESTMENTS (PENSION FUND)**

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

## **INVESTMENTS - LONG TERM**

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

## **INVESTMENT PROPERTIES**

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

# **GLOSSARY**

## **JOINT VENTURE**

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

## **LIABILITY**

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

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

## **LENDER OPTION BORROWER OPTION LOANS (LOBO)**

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

## **LOANS OUTSTANDING**

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

## **MATERIALITY**

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

## **MINIMUM REVENUE PROVISION (MRP)**

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

## **NET BOOK VALUE**

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

## **NET CURRENT REPLACEMENT COST**

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

## **NET REALISABLE VALUE**

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

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

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

## **NET WORTH**

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

## **NON-DISTRIBUTED COSTS**

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

## **NON-OPERATIONAL ASSETS**

Fixed assets held by an 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.

# **GLOSSARY**

## **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.

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

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

## **PENSION SCHEME LIABILITIES**

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

## **POST BALANCE SHEET EVENTS**

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

## **PRECEPT**

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

## **PRIOR YEAR ADJUSTMENT**

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

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

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

## **PROJECTED UNIT METHOD**

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

## **PROVISION**

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

## **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.

# **GLOSSARY**

## **PRUDENTIAL FRAMEWORK**

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

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

## **PUBLIC WORKS LOAN BOARD (PWLB)**

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

## **RATEABLE VALUE**

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

## **RELATED PARTIES**

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

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

## **RELATED PARTY TRANSACTIONS**

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

- 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.

## **RESIDUAL VALUE**

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

# **GLOSSARY**

## **RETIREMENT BENEFITS**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

## **REVENUE BALANCES**

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

## **REVENUE CONTRIBUTIONS**

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

## **REVENUE EXPENDITURE**

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

## **REVENUE EXPENDITURE FUNDED BY CAPITAL UNDER STATUTE**

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

## **REVENUE SUPPORT GRANT**

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

## **SCHEME LIABILITIES**

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

## **SPECIFIC GRANTS**

Government grants to Local Authorities in aid of particular services.

## **SORP – A STATEMENT OF RECOMMENDED PRACTICE**

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

## **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)

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