

***DARLINGTON BOROUGH  
COUNCIL***

**Statement  
of  
Accounts**

**2004/2005**

# **Statement of Accounts**

**2004 / 2005**

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# **STATEMENT OF ACCOUNTS 2004/2005**

## **Introduction**

The Statement of Accounts reflects both revenue and capital expenditure and income and complies with the 2004 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice' as developed by the CIPFA/LASAAC Joint Committee, dealing with all issues relevant for financial statements for 2004/2005.

The Housing Revenue Account is ring fenced and therefore all expenditure is funded from housing rents and government subsidies. At 31<sup>st</sup> March 2005 a balance of £0.477m was carried forward into 2005/2006.

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

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

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

As Chair of the Council meeting held on 21<sup>st</sup> July, 2005, I hereby acknowledge receipt of the Statement of Accounts for 2004/2005 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 Council meeting of 21<sup>st</sup> July, 2005 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Mayor

Borough Solicitor

Dated:

## **EXPLANATORY FOREWORD**

**Introduction** - The purpose of this foreword is to explain briefly the Council's financial activities during 2004/2005 and its position at 31st March 2005.

**Information and Financial Statements** - The Council's revenue income and expenditure for the year ended 31st March 2005 is summarised on Pages 5 and 6.

**The Statement of Accounting Policies** on Pages 7 to 11 explains the policies adopted in compiling the Accounts.

**The Consolidated Revenue Account and Housing Revenue Account** on Pages 12 to 23 shows the revenue expenditure and income for each service provided including contributions to and from reserves. Following the appropriate revenue accounts are notes giving further information on the more significant items in the Revenue Accounts.

**The Collection Fund** on Pages 24 to 27 shows the income received by the Borough Council from council taxpayers, non-domestic ratepayers and government grants to meet the Borough Council's demand and precepts from the Police and parish councils.

**The Consolidated Balance Sheet** on Pages 28 to 45 summarises the financial position of the Council at 31st March 2005. Following the financial statement are notes giving further information on the more significant items in the Balance Sheet.

**Group Accounts** have not been prepared, as the Authority has chosen to use the transitional arrangements as per the 2004 SORP. The effect of this does not have a material impact on the Authorities accounts.

**The Statement of Total Movements in Reserves** on Pages 46 to 48 summarises the transactions on all capital and revenue reserves during the year.

**The Consolidated Cash Flow Statement** on Pages 49 to 52 summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

**The Statement on Internal Control** on Pages 53 to 55 sets out the main elements of the system of internal control within the Council and the results of a review of the effectiveness of the system.

**The Statement of Responsibilities for the Statement of Accounts** on Page 56 outlines the respective responsibilities of the Authority and the Director of Corporate Services.

**The Auditor's Opinion** on Pages 57 & 58 gives an independent opinion on the Council's accounts for the year ended 31st March 2005.

**2004/2005 Revenue Budget:** In March 2004 the Council set a net revenue budget for 2004/2005 of £105.564 million. During the year, an additional £0.314m of reserves was released to fund various projects. There is a surplus for the year on the Consolidated Revenue Account of £7.078m. This is mainly due to the fact that the Single Status and Pension Reserve provision have been returned to balances (as explained below). There is a planned use of reserves in 2005/06 of £1.236m as set out in the Medium Term Financial Plan.

**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.

**E-Government:** The Government has set targets requiring that all dealings with Government should be carried out electronically where feasible. This target is 100% by December 2005 and the principal vehicle for delivering this will be the Council's Website Project. In addition to this general target, the Government have now identified priority areas where specific outcomes must be delivered by either December 2005 or March 2006 depending on their classification.

**Prudential Code for Capital:** After a long consultation process the Code was approved and implemented from 1<sup>st</sup> April 2004. From this date the Council was given greater flexibility to borrow as long as the costs of borrowing could be funded through the revenue resources. A Prudential Report, that detailed the Council's use of the Code, including a range of indicators, was approved by Council on 10<sup>th</sup> March 2004 as part of the 2004/2005 budget process.

## **EXPLANATORY FOREWORD**

**Capital Expenditure:** During 2004/2005 the Council spent £29.864million (£23.422m in 2003/04) on works of a capital nature, principally on housing improvements and renovations (£6.607m), schools (£7.431m), leisure facilities (£2.320m), social services facilities (£0.739m), highways (£5.016m) and regeneration (£1.378m). This was funded by the use of borrowing (£11.896m), grants and contributions (£14.144m) and capital receipts (£3.824m). Total borrowing from outside the Council for capital spending amounts to £72.515m.

The Department of Education & Skills (DfES) approved funding of £34.9m for a Private Finance Initiative (PFI) scheme involving Beaumont Hill Special School, Haughton Community School, Springfield Primary School (The Education Village) and Harrowgate Hill Infants and Junior Schools. The preferred bidder has been chosen with financial close completed in March 2004. Building works commenced in April 2004, with the completion of Harrowgate Hill scheduled for September 2005 followed by the Education Village in October 2005.

**Local Government Pension Scheme:** Following the full implementation of FRS17 during 2003/04 the accounts now show the benefit entitlement earned by employees of the Local Government Scheme in the year rather than the charges to revenue based on employer's pension contributions payable and payments to pensioners in the year. The effect on the Consolidated Balance Sheet is to reduce the net worth of the Council by the pension liability of £85.810m from £191.106m to £105.296m (2003/04 the pension liability of £76.980m reduced the net worth from £198.685m to £121.705m). Further information is available in Consolidated Balance Sheet (**Note 23**) and Consolidated Revenue Account (**Note 8**).

**Durham Tees Valley Airport:** During 2002/03 the shareholder authorities and Durham Tees Valley Airport successfully concluded their search for a strategic partner to introduce further funding into the airport. The partnership with Peel Airports Limited became operational on 1<sup>st</sup> April 2003 and the shares and the retained investment in the company have been reflected in the Balance Sheet (see **Note 2** to the Consolidated Balance Sheet). The new partnership should secure the airport's future as an important element in the continuing economic development of Tees Valley and the region.

**Provisions:** The most significant amendment to the 2004/05 accounts was the finalisation of the financial impact of the Single Status pay dispute. The Council agreed the detailed settlement in May 2004 and established a provision of £4m. The provision was set to cover settlement payments to staff who signed a compromise agreement with the Council and a sum set aside to meet the potential costs of Employment Tribunal cases lodged plus national insurance and income tax costs in both cases should the Inland Revenue deem the payments to be taxable. Further to this in November 2004 the Office of the Deputy Prime Minister (ODPM) granted a request from the Council to capitalise its costs, therefore, allowing them to be spread over a number of years. The impact of this approval is to increase balances by £3.8m (£0.2m will still be required to fund costs).

**Current Borrowing and Capital Borrowing Position:** The Authority's Capital Programme Report and Prudential Indicators and Treasury Management Strategy was submitted to Council on 10<sup>th</sup> March 2004, detailing the 2004/05 borrowing limits for the Council.

The specific borrowing limits set related to two sets of the Prudential Indicators, which were required under the Prudential Code, which was to be introduced on 1<sup>st</sup> April 2004. The Authority was required to set borrowing limits for the following three financial years, however for 2004/05 these limits were as follows:

- Authorised Limit for External Debt for 2004/05 - £97.035m
- Operational Limit for External Debt for 2004/05 - £84.379m

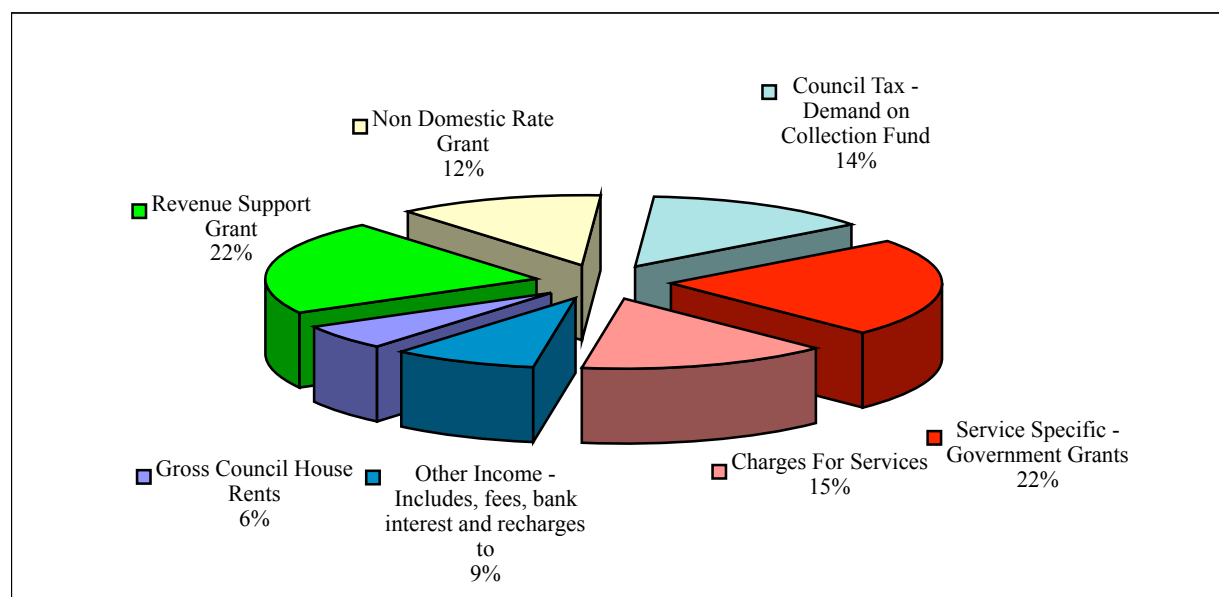
As part of the Authority's Treasury Management operation, these two Prudential Indicators have been monitored on a daily basis and neither limit was exceeded during 2004/05. The highest level of external debt incurred by the Council during 2004/05 was £72.515m.

**Comprehensive Performance Assessment (CPA):** The authority was rated "excellent" in April 2005 as planned through successful implementation of the *Striving for Excellence* strategy.

## REVENUE SPENDING

### WHERE DID THE MONEY COME FROM?

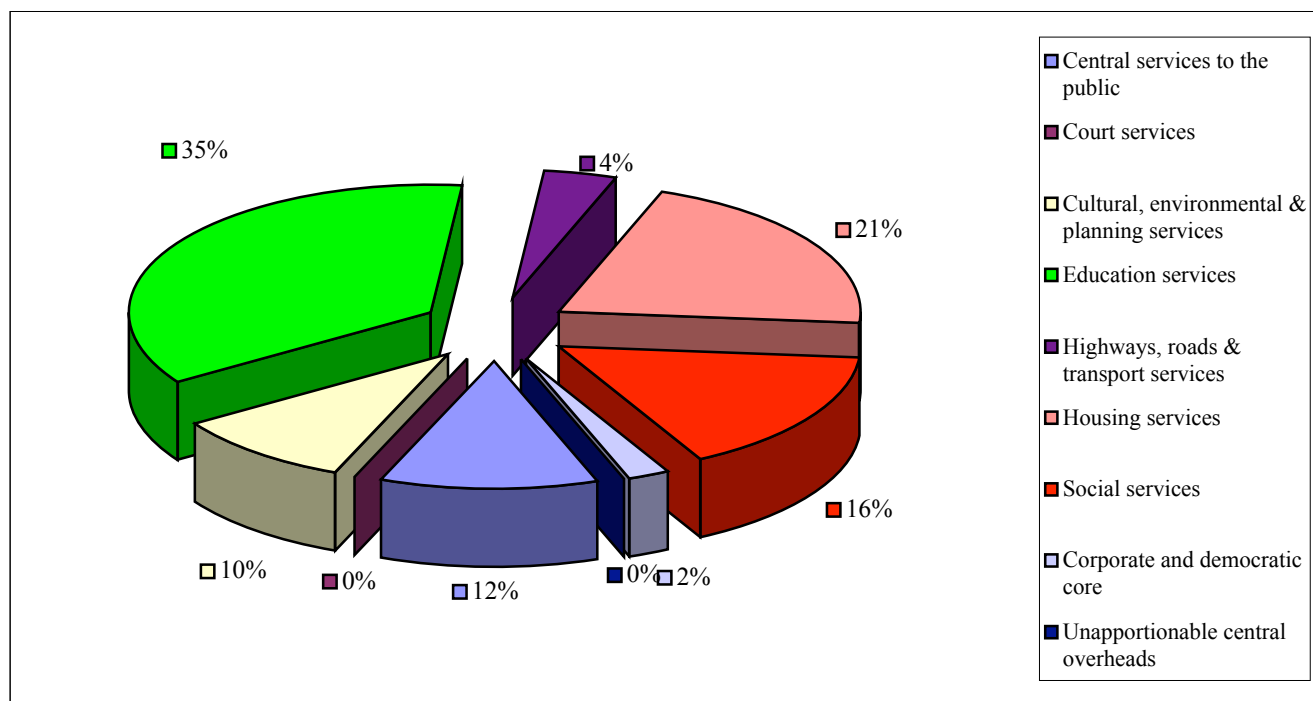
DESCRIPTION	£000
Gross Council House Rents	13,042
Revenue Support Grant	48,347
Non Domestic Rate Grant	27,345
Council Tax - Demand on Collection Fund	29,902
Service Specific - Government Grants	50,454
Charges For Services	33,341
Other Income - Includes, fees, bank interest and recharges to other services.	19,016
	221,447



## REVENUE SPENDING

### HOW WAS IT SPENT?

	EMPLOYEE COSTS	RUNNING COSTS	CAPITAL FINANCING COSTS	GROSS EXPENDITURE
	£000	£000	£000	£000
Central services to the public	12,369	12,039	1,265	25,673
Court services	0	164	0	164
Cultural, environmental & planning services	4,426	14,337	2,527	21,290
Education services	51,553	18,893	8,983	79,429
Highways, roads & transport services	827	6,206	1,772	8,805
Housing services	3,100	42,936	27	46,063
Social services	11,461	23,377	225	35,063
Corporate and democratic core	684	4,266	0	4,950
Unapportionable central overheads	10	0	0	10
<b>Total Expenditure</b>	<b>84,430</b>	<b>122,218</b>	<b>14,799</b>	<b>221,447</b>



# **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, issued in 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA). The analysis of service expenditure included in the Consolidated Revenue Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level.

## **2 Fixed Assets**

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. Capital expenditure under £5,000 is classified as de-minimus and is written down to the Fixed Asset Restatement Account and has no effect on fixed assets in the Balance Sheet.

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

Operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets have been included in the balance sheet at the lower of net current replacement cost or net realisable value. When assessing net current replacement cost non-specialised operational properties have been valued on the basis of existing use value, specialist operational properties on the basis of depreciated replacement cost and investment properties on the basis of open market value. Community Assets are included at a nominal value unless they have been enhanced and then they have been included in the Balance Sheet at historic cost. Infrastructure Assets are included in the Balance Sheet at historic cost.

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

## **3 Depreciation**

In accordance with FRS 15 depreciation is provided for on a straight line basis for all operational fixed assets with a finite life.

Operational buildings are depreciated over the anticipated useful life of the asset that can be any length of time between one and 40 years.

Vehicles, plant, furniture and equipment are depreciated over the anticipated useful life of the asset, generally between 3 and 10 years.

Infrastructure assets are depreciated over their anticipated useful lives, generally 40 years.

Community and Non-Operational assets (including Land) are not depreciated.

The exception to using the straight line method is the Housing stock, where the major repairs allowance has been used as a proxy for depreciation.

## **4 Leases**

Where substantially all risks and rewards of ownership of a leased asset are borne by the department, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the CRA over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to service revenue accounts on a straight-line basis over the term of the lease. Finance Leases have been capitalised on the balance sheet and depreciated over the length of the lease.

# **STATEMENT OF ACCOUNTING POLICIES**

## **5 Government Grants and European Grants**

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to a government grants-deferred account. Amounts are released from the government grants-deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate.

## **6 Deferred Charges and Intangible Assets**

Deferred charges represent expenditure, which may properly be capitalised, but does not result in the creation of a fixed asset to the Council. They include grants made to other bodies or individuals e.g. improvement grants. Expenditure and associated income is charged to service revenue accounts over a period of time appropriate to the benefit received, generally in the year in which the expenditure is incurred.

Intangible assets are defined in FRS10 – Goodwill & Intangible Assets as being non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. The Council currently has no intangible assets.

## **7 Capital Receipts**

Capital receipts from the disposal of assets are held in the Useable Capital Receipts Reserve and invested temporarily until such time as they are used to finance capital expenditure or to repay debt. Interest on capital receipts is credited to the Consolidated Revenue Account.

The Local Government Act 2003 requires that prescribed proportions of the income from the disposal of certain capital assets are pooled and repaid to the Office of the Deputy Prime Minister.

## **8 Debtors and Creditors**

Transactions are recorded in the accounts on an income and expenditure basis and include provision for all significant amounts known to be due to or from the Council prior to the closing of the accounts, including interest accrued on external loans. There are three exceptions to this principle where costs are not apportioned between years: -

- (a) wages are accounted for in whole weeks;
- (b) housing rents are shown in whole weeks;
- (c) 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.

## **9 Stocks and Work in Progress**

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

## **STATEMENT OF ACCOUNTING POLICIES**

### **10 Costs of Support Services**

All costs of management and administration have been fully allocated to services in accordance with Best Value Accounting Code of Practice (BVACOP). The bases of allocation used for the main cost of management and administration are outlined below.

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

### **11 Provisions**

The Council sets aside provisions for specific expenses, which are likely or certain to be incurred as a result of a past event, but for which the amount and/or timing are uncertain. A provision counts as expenditure in the year in which the earmarking takes place and charged to the relevant service revenue accounts. Details of these provisions are to be found in **Note 12** to the Balance Sheet.

### **12 Reserves**

A reserve is created by appropriation “below the line” in the Consolidated Revenue Account after net expenditure has been calculated. When expenditure is incurred for which the reserve was created, the expenditure is charged to the service revenue account and the reserve is credited below the line to finance the expenditure. The Council maintains certain reserves to meet future expenditure. Details of the Council's reserves are to be found in **Note 17** to the Balance Sheet.

### **13 Pensions**

The Council has fully implemented Financial Reporting Standard No.17 Retirement Benefits (FRS 17) with regard to the Local Government Pension Scheme, the objectives of which are to ensure that the financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding. The operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise. The financial statements also contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

This accounting policy was first applied in full in 2003/04. The previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which we were directly responsible. The new policy better reflects our commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

## **STATEMENT OF ACCOUNTING POLICIES**

The change has had the following effects on the results of the prior and current periods:

- the overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are marginally lower (0.6% lower in 2003/04) after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 3.4% higher (2.5% higher in 2003/04) than it would otherwise have been.
- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Authority by 45% (37% in 2003/04).

The Teachers fund is an unfunded scheme administered by the Department for Education and Skills (DfES). The pension costs charged in the accounts are based upon a contribution rate set by the DfES.

Any additional benefits awarded upon early retirement outside of the terms of the Teachers Pension Scheme are recognised as defined benefits and included in the pension liability of the Council.

### **14 Internal Interest**

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

### **15 Interest Charges**

Interest payable on sums borrowed by the Authority are included in the accounts on an accruals basis. Interest is charged to the Asset Management Revenue Account.

### **16 Provision for the Redemption of Debt**

The Local Government and Housing Act 1989 introduced a requirement that debt redemption should be based on a reducing balance method representing a percentage of the opening outstanding debt-set at 2% for the Housing Revenue and 4% for the other services. All amounts set aside for the repayment of external loans and to finance capital expenditure are disclosed separately in the Consolidated Revenue Account below net operating expenditure.

### **17 Investments**

Investments are shown in the Consolidated Balance Sheet at cost. The largest investments were in the form of deposits with banks and building societies using funds not currently required for operational purposes.

### **18 Capital Charges**

The capital charges made to service revenue accounts and central support services, equate to the sum of depreciation plus a notional interest charge based on the opening net book value of assets and adjusted for revaluations and depreciation. The notional rates of interest used are 3.5% for those fixed assets included in the Balance Sheet at current value and 4.8% for infrastructure assets and community assets which are included in the Balance Sheet at historical cost.

In order to disclose the Authority's corporate net operating expenditure, capital charges are reversed out and be replaced by depreciation and external interest payable. This is performed in the Asset Management Revenue Account.

## **STATEMENT OF ACCOUNTING POLICIES**

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to earmarked reserves are disclosed separately as appropriations in the Consolidated Revenue

Account, below net operating expenditure. Capital charges therefore, have a neutral impact on the amounts required to be raised from local taxation.

### **19 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 can be found in **Note 17** to the Balance Sheet.

### **20 Group Accounts**

Group Accounts have been prepared under the Transitional Arrangements for 2004/05 as set out in the 2004 SORP. Full implementation of Group Accounts will take place in 2005/06.

## CONSOLIDATED REVENUE ACCOUNT

NET EXPENDITURE		GROSS EXPENDITURE	INCOME	NET EXPENDITURE	Notes
2003/04		2004/05	2004/05	2004/05	
£000		£000	£000	£000	
4,925	Central services to the public	25,673	(20,786)	4,887	
183	Court services	164	0	164	
15,184	Cultural, environmental & planning services	21,290	(7,132)	14,158	
59,145	Education services	79,429	(18,705)	60,724	
4,177	Fire services	0	0	0	
5,213	Highways, roads & transport services	8,805	(3,234)	5,571	
4,107	Housing services	46,063	(43,368)	2,695	
25,039	Social services	35,063	(13,115)	21,948	
4,147	Corporate and democratic core	4,950	0	4,950	
190	Non Distributed Costs	10	0	10	8
<b>122,310</b>	<b>Net cost of services</b>	<b>221,447</b>	<b>(106,340)</b>	<b>115,107</b>	
28	Parish council precepts			30	
(1,774)	Surplus on trading undertakings			(1,563)	3
(10,912)	Asset management revenue account			(12,209)	1
0	Contribution of housing capital receipts to Government Pool			3,995	
142	Amortised premiums on the repurchase of borrowing			181	
(1,234)	Interest and investment income			(1,867)	
11,020	Pensions interest			12,490	8
(7,330)	Expected return on assets			(8,870)	8
<b>112,250</b>	<b>Net operating expenditure</b>			<b>107,294</b>	
(576)	Surplus transferred to HRA balances			(5)	
196	Transfer to schools revenue reserves			1,669	
386	Transfer to/(from) pensions contributions reserve			(1,756)	
(25)	Transfer from Major Repairs Reserve			(4)	
(400)	Contribution from capital reserves			(400)	
97	Net transfer to other earmarked reserves			101	
0	Transfer to PFI Reserve			1,000	
0	Transfer from Useable Capital Receipts Reserve			(3,995)	
(2,139)	Provision for repayment of external loans			(4,006)	10
131	LPSA Pump Priming			0	
0	Government Grants Deferred written off			2,228	
(2,720)	Movements on pensions reserve			(3,610)	8
<b>107,200</b>	<b>Amount to be met from government grants and local taxpayers.</b>			<b>98,516</b>	
(29,436)	Borough Council demand on Collection Fund			(29,902)	
(260)	Transfer from the Collection Fund in respect of the previous year's surplus			0	
(44,640)	General government grants			(48,347)	
(29,650)	Contribution from non-domestic rates pool			(27,345)	
<b>3,214</b>	<b>Net General Fund (surplus)/deficit for the year</b>			<b>(7,078)</b>	
5,801	Balance on General Fund brought forward			4,916	
(3,214)	General Fund surplus/(deficit) for the year			7,078	
1,517	Transfer from Durham County Council			0	
812	Rates Refund			0	
<b>4,916</b>	<b>Balance on General Fund carried forward</b>			<b>11,994</b>	

## **NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

### **1 Asset Management Revenue Account**

The Asset Management Revenue Account is credited with notional charges made to service revenue accounts for the capital employed in the delivery of services. It is the income from the rent charged to users of assets minus the interest paid on long-term debt, adjusted for the sum chargeable to the Housing Revenue Account. It is debited with actual capital financing costs incurred during the year and the balance on the account is then transferred back to the consolidated revenue account to ensure that the notional charges for capital made do not impact on the Council Tax.

Transactions on the account were :	2003/04 £000	2004/05 £000
Reversal Of Capital Charges For The Use Of Fixed Assets	(18,221)	(18,437)
External Interest Payable	3,448	3,276
Depreciation	3,861	5,180
Deferred Government Grants Written Off	0	(2,228)
Balance Credited To Consolidated Revenue Account	<u>(10,912)</u>	<u>(12,209)</u>

### **2 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 2004/2005 was £0.981million (£0.980million in 2003/04). Additionally the Authority has entered into 11 operating leases for Land & Buildings. The amount paid under operating leases for these items in 2004/2005 was £0.159million.

The Council is committed to making payments of £0.805m under these leases in 2005/06, comprising the following elements:-

	£000s
Leases expiring 1 year	326
Leases expiring between 2 -5 years	421
Leases expiring after 5 years	58

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

Three new leases secured in 2004/05, in accordance with SSAP 21, have qualified as finance leases. Equipment leased in this manner totalled £0.326m and includes various vehicles and gym equipment. The amount paid under finance leases for these items in 2004/05 was £0.058m split between principal repayments of £0.040m and interest of £0.018m.

The Council is committed to making payments of £0.058m under these leases in 2005/06, comprising the following elements:-

	£000s
Leases expiring 1 year	0
Leases expiring between 2 -5 years	58
Leases expiring after 5 years	0

The Authority acts as the Lessor and leases various Land & Buildings to third parties. During 2004/05 £0.762m was received by the Authority in relation to these leases.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 3 Trading Operations

The Council operates a number of trading type operations, details of which for 2004/05 are :

	2003/04		2004/05	
	Income £000	Surplus £000	Income £000	Surplus £000
Works of New Construction	7,884	561	8,401	605
General Highways and Sewerage	3,321	89	4,115	214
Works of Maintenance	7,932	197	8,305	279
Other Cleaning	1,895	145	1,913	57
Ground Maintenance	2,602	221	2,704	163
Other Catering	1,297	20	1,332	5
Refuse Collection	1,985	122	2,130	88
Building Cleaning	1,309	84	1,468	140
Leisure Management	1,816	97	1,838	26
Housing Management	1,152	5	1,252	6
School Meals	1,239	14	1,176	(57)
	32,432	1,555	34,634	1,526
Adjustment for FRS 17 purposes		219		37
Surplus on trading undertakings		1,774		1,563
Open & Covered Markets	646	(2)	598	24
Shops And Offices	175	67	172	41
Car Parks	1,691	616	1,969	827

### 4 Section 137 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 s137 were repealed with effect from October 2000, but principal authorities in England & Wales will continue to disclose any expenditure incurred under s137(3) e.g. donations to charities.

Unitary authorities are allowed to spend up to £3.80 per head of population.

For Darlington Borough Council this was £373,198 (£3.80 x 98,210) in 2004/05.

Expenditure amounted to £14,387 in 2004/2005 (£25,954 in 2003/04). The expenditure is reflected in the appropriate departments' accounts and is grouped as follows :-

	2003/04 £	2004/05 £
Grants in support of disadvantaged groups	8,060	490
Employment and community support grants	17,894	13,897
	<u>25,954</u>	<u>14,387</u>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 5 Publicity

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

	2003/04 £000	2004/05 £000
Recruitment Advertising	431	450
Other Advertising	422	318
Other publicity	31	54
	<u>884</u>	<u>822</u>

### 6 Building Control Trading 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.

	Chargeable £000	2003/04 Non Chargeable £000	Total £000	Chargeable £000	2004/05 Non Chargeable £000	Total £000
Employee Expenses	161	93	254	185	90	275
Premises	9	5	14	8	4	12
Transport	9	5	14	10	5	15
Supplies & Services	29	15	44	29	13	42
Central & Support Service Charges	76	45	121	95	48	143
<b>Total Expenditure</b>	<u>284</u>	<u>163</u>	<u>447</u>	<u>327</u>	<u>160</u>	<u>487</u>
Building Regulations Income	(369)	(1)	(370)	(397)	(1)	(398)
<b>(Surplus)/Deficit</b>	<u>(85)</u>	<u>162</u>	<u>77</u>	<u>(70)</u>	<u>159</u>	<u>89</u>

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

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

In 2004/05 surplus bedding plants grown at the Council's plant nursery were sold to various public bodies, generating income of £263,074 (£325,773 in 2003/04).

The total income on the nursery account (including internal recharges) was £397,949 (£454,791 in 2003/04) compared with expenditure of £394,935 (£439,324 in 2003/04).

The authority provided Civil Engineering, Street Lighting, Building Maintenance and Construction Work for various other bodies generating income of £1,950,004 (£302,070 in 2003/04).

## **NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

### **8 Local Government Pension Scheme**

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 the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in one scheme:

The Local Government Pension scheme administered by Durham County Council - this is a funded defined benefit scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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 of the CRA after Net Operating Expenditure. The following transactions have been made in the CRA during the year.

	2003/04 £000	2004/05 £000
<i>Net Cost of Service:</i>		
current service costs	(4,690)	(6,850)
past service costs	(190)	(10)
<i>Net Operating Expenditure:</i>		
interest cost	(11,020)	(12,490)
expected return on assets in the scheme	7,330	8,870
<i>Amounts to be met from Government Grants and Local Taxation</i>		
movements on pensions reserve	<u>2,720</u>	<u>3,610</u>
<i>Actual amount charged against council tax for pensions in the year</i>		
employers contributions payable to the scheme	<u>(5,850)</u>	<u>(6,870)</u>

Further information is available under **Note 23** to the Consolidated Balance Sheet (page 43) and the Statement of Total Movement in Reserves (page 49).

### **9 Teachers Pension Scheme**

In 2004/2005 the Council paid £3.569m (£3.467m in 2003/04) to the Department for Education and Skills in respect of teachers' pension costs which represents 13.5% (13.5% in 2003/04) of teachers pensionable pay.

In addition, the Council is responsible for all payments relating to added years which it has awarded (including liability transferred from Durham County Council) together with the related increases. In 2004/2005 these amounted to £0.346m (£0.367m in 2003/04), representing 1.31% (1.35% in 2003/04) of pensionable pay.)

This gives rise to a potential liability of £3.5m in future years using an approximate method of calculating the discretionary element of the pensions payable to the recipients.

Further details on pension liabilities are provided in **Note 23** to the Balance Sheet.

## **NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

### **10 Minimum Revenue Provision**

The authority is required by statute to set aside a minimum revenue provision for the repayment of external loans.

The method of calculating the provision is defined by statute.

For 2004/2005 the amount is £1.174m (2003/04 £1.722m). Details are given below :

	2003/04 £000	2004/05 £000
Amount Charged To Service Accounts As Depreciation	3,861	5,180
Additional Charge To Revenue	(2,139)	(4,006)
Minimum Revenue Provision	<u>1,722</u>	<u>1,174</u>

### **11 Members' Allowances**

Details of the amounts paid to each Member of the Council are published annually in the local newspaper. The total amount paid to Members in respect of basic, special responsibility and attendance allowances was £578,293 (2003/04 - £551,606)

### **12 Employees' Remuneration**

Remuneration band	2003/04 Number of employees Total	2004/05 Number of employees Total
£50,000 - £59,999	6	19
£60,000 - £69,999	5	5
£70,000 - £79,999	1	0
£80,000 - £89,999	4	5
£90,000 - £99,999	0	2
£100,000 - £109,999	0	0
£110,000 - £119,999	0	0
£120,000 - £129,999	0	1
£130,000 - £139,999	1	0

### **13 Disclosure of Audit Costs**

In 2004/05 Darlington Borough Council incurred the following fees relating to external audit and inspection:

	2003/04 £000	2004/05 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	160	157
Fees payable to the Audit Commission in respect of statutory inspection	69	35
Fees payable to the Audit Commission for the certification of grant claims and returns	64	77
Fees payable in respect of other services provided by the appointed auditor	0	31
Total	<u>293</u>	<u>300</u>

## **NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**

### **14 Related Party Transactions**

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 Consolidated Revenue Account and Cash Flow Statement contain details of grants paid by Central Government to the Council in 2004/05.

#### **Councillors**

Members of the Council have direct control over the the Council's financial and operating policies. During 2004/05 the Council had transactions totalling approximately £61,000 (£55,000 in 2003/04) with charitable bodies and companies in which Members had interests. Councillors are subject to the Council's Member Code of Conduct. Registers of Members interested 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 it's senior managers that require disclosure in 2004/05.

#### **Pensions**

Details of the Council's payment of employer's superannuation contribution to the Pension Fund are shown in the appropriate sections of the Statement i.e.Consolidated Revenue Account **Note 8** (page 16) and Consolidated Balance Sheet **Note 23** (pages 43 - 45).

#### **Other Organisations**

The Council paid £2.248m to 39 other organisations on which it has Member representation and which share educational, economic development, social and culture objectives

In addition to the above transactions, the Council granted a 5 year capital loan of £60,000 to Darlington and District Youth and Community Association (DDYCA) in 2001/02 to help in the purchase of an outdoor education centre. The first instalment of repayment of the loan was made in January 2003, therefore the balance outstanding at 31st March 2005, is £24,000. The Council is represented on the management board of DDYCA.

### **15 Local Management of Schools & Delegated Budgets**

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

	2003/04 £000	2004/05 £000
Schools balances	(1,115)	(2,784)
Schools IT loans	30	165
Total (as shown in <b>note 17 to the balance sheet</b> )	<u>(1,085)</u>	<u>(2,619)</u>

## HOUSING REVENUE ACCOUNT

2003/04		2004/05	Notes
£000		£000	
	<b><u>Income</u></b>		
(13,205)	Dwelling rents (gross)	(13,042)	
(296)	Non-dwelling rents (gross)	(315)	
(979)	Charges for services & facilities	(1,051)	
(122)	Contribution towards Expenditure	(115)	
(7,478)	HRA subsidy receivable (including MRA)	0	
(34)	Housing benefit transfers from general fund	0	
<b>(22,114)</b>	<b>Total Income</b>	<b>(14,523)</b>	
	<b><u>Expenditure</u></b>		
5,096	Repairs and maintenance	4,507	
3,515	Supervision and management	3,792	
20	Rent, rates, taxes and other charges	31	
0	Rent rebate subsidy limitation	251	
8,722	Rent rebates	0	
0	HRA Subsidy Payable (including MRA)	1,200	7
121	Increased provision for bad and doubtful debts	123	8
3,651	Cost of Capital Charge	3,177	5
	Depreciation of fixed assets		
3,380	On dwellings (= MRA)	3,355	6
25	On other assets	4	6
14	Debt management costs	6	
<b>24,544</b>	<b>Total Expenditure</b>	<b>16,446</b>	
<b>2,430</b>	<b>Net Cost of Services</b>	<b>1,923</b>	
(2,417)	Net HRA expenditure/(income) on asset management revenue account	(1,996)	5
114	Amortised premiums	153	
	HRA investment income		
(8)	Mortgage interest	(6)	
(75)	Interest on notional cash balances	(65)	
<b>44</b>	<b>Net Operating Expenditure</b>	<b>9</b>	
557	HRA contribution to Minimum Repayment Provision	0	
(25)	Transfer from Major Repairs Reserve	(4)	
<b>576</b>	<b>Deficit for the year</b>	<b>5</b>	
(1,058)	HRA balance brought forward	(482)	
576	Deficit for the year	5	
<b>(482)</b>	<b>HRA balance carried forward</b>	<b>(477)</b>	

# NOTES TO THE HOUSING REVENUE ACCOUNT

## 1 Housing Stock

1st April 2004

31st March 2005

### Number and types of dwellings

Houses	3,140	2,980
Flats	2,371	2,359
Bungalows	339	340
Non HRA	9	7
Total dwellings	5,859	5,686

### Balance Sheet values

	£000	£000
Land	202	204
Houses	90,109	81,063
Other property	274	531
Total net Balance Sheet value	90,585	81,798
Operational Assets		
Dwellings	90,109	81,064
Other land & buildings	46	76
	90,155	81,140
Non-operational assets	430	658
Total net Balance Sheet value	90,585	81,798

## 2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is **£156.341m** (**£164.905m** in 2003/04).

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 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 rented sector reflect capital values quite well since they are market rents. Rents set by local authorities are unlikely to reflect the market position as they have been arrived at through a combination of historic practice and current policy.

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

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 3 Major Repairs Reserve

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

	2003/04 £000	2004/05 £000
Balance as at 1 April 2004	0	0
Transfer to MRR during the financial year		
Depreciation on HRA dwellings	(3,380)	(3,355)
Depreciation on other HRA assets	(25)	(4)
Transfer to HRA during the financial year		
Depreciation on other HRA assets	25	4
Transfer from MRR during the financial year in respect of capital expenditure on		
Land	45	287
Houses	3,335	3,068
Other property	0	0
Balance as at 31 March 2005	0	0

### 4 Capital Expenditure

Capital expenditure within the HRA during 2004/05 was as follows :-

	2003/04 £000	2004/05 £000
Land	426	292
Houses	5,213	4,956
Other property	1,557	1,359
Total capital expenditure	7,196	6,607

Total capital expenditure on land, houses and other property within the HRA during 2004/05 was funded via the following sources :-

	2003/04 £000	2004/05 £000
Borrowing	1,627	1,437
Usable capital receipts	2,027	1,640
Major Repairs Reserve	3,380	3,355
Disabled facilities grant (DFG)	162	162
Other Grant Funding	0	13
Total capital expenditure	7,196	6,607

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

	2003/04 £000	2004/05 £000
Land	0	0
Houses	6,510	6,084
Other property	0	0
Total capital receipts	6,510	6,084

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 5 Capital Asset Charges

A key feature of the introduction of resource accounting as part of the New Financial Framework is the inclusion of capital asset charges within the HRA. These comprise :-

	2003/04 £000	2004/05 £000
Cost of Capital Charge	<u>3,651</u>	<u>3,177</u>
Capital Asset Charges accounting adjustment	(3,651)	(3,177)
HRA contribution towards debt financing and management costs	<u>1,234</u>	<u>1,181</u>
Net HRA income on asset management revenue account	<u>(2,417)</u>	<u>(1,996)</u>

The Cost of Capital Charge is calculated as 3.5% of the value of HRA operational assets, carried out in accordance with the *Guidance on Stock Valuation* published by DETR in May 2000. It is included in the net cost of services in the HRA and acts as an important signal in the new style HRA, showing the cost of capital tied up in housing assets.

However, it does not impact on the amount of income generated to achieve a balanced budget, i.e in rents from council tenants. The cost of capital is reversed out of the HRA through the Asset Management Revenue Account (AMRA) below the net cost of services and the HRA's share of the authority's debt financing and management continues, as in previous years, to be borne by the HRA.

### 6 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 :-

	2003/04 £000	2004/05 £000
Land	0	0
Houses (= Major Repairs Allowance)	3,380	3,355
Other property	25	4
Total charge for depreciation	<u>3,405</u>	<u>3,359</u>
Operational Assets		
Dwellings	3,380	3,355
Other land & buildings	<u>25</u>	<u>4</u>
	3,405	3,359
Non-operational assets	0	0
Total charge for depreciation	<u>3,405</u>	<u>3,359</u>

## **NOTES TO THE HOUSING REVENUE ACCOUNT**

### **7 HRA Subsidy**

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

	2003/04 £000	2004/05 £000
Management allowance	2,121	2,102
Maintenance allowance	3,310	4,154
Major Repairs Allowance (MRA)	3,376	3,355
Charges for capital	2,173	1,688
Admissable Allowance	0	9
Rent rebates	8,808	0
	19,788	11,308
<i>less</i>		
Rent	(12,301)	(12,502)
Interest on receipts	(9)	(6)
	7,478	(1,200)
Total HRA subsidy receivable / (Transfer to ODPM)		

### **8 Rent Arrears**

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

	2004 £000	2005 £000
Gross rent arrears as at 31st March	819	682

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

	2003/04 £000	2004/05 £000
Opening provision for uncollectable debts	192	200
Amounts written off in the year	(113)	(144)
Increase in provision for the year	121	123
Closing provision for uncollectable debts	200	179

## **COLLECTION FUND**

2003/04		2004/05	NOTES
£000		£000	
	<b><u>Income</u></b>		
(27,087)	Income from Council Tax	(30,227)	3
(5,051)	Transfers from General Fund	(5,694)	3
1	Council Tax benefits	2	3
	Transitional relief		
(23,273)	Income collectable from business ratepayers	(24,392)	2
<b>(55,410)</b>	<b>Total Income</b>	<b>(60,311)</b>	
	<b><u>Expenditure</u></b>		
31,973	Precepts and demands	35,211	4
	Business rate		
23,124	Payment to national pool	24,241	
149	Costs of collection	150	
	Bad and doubtful debts		
802	Write offs	177	
(709)	Movement in net provision	376	
	Contributions		
278	Towards previous year's Collection Fund surplus	0	5
<b>55,617</b>	<b>Total Expenditure</b>	<b>60,155</b>	
<b>(207)</b>	<b>Collection Fund surplus/(deficit) for the year</b>	<b>156</b>	
45	Collection Fund balance brought forward	(162)	
(207)	Collection Fund surplus/(deficit) for the year	156	
<b>(162)</b>	<b>Collection Fund balance carried forward</b>	<b>(6)</b>	

## **NOTES TO 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 Finance 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 and Police 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 Consolidated 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 local adult population.

These transactions make up the figure in the accounts as follows :

	2003/04 £000	2004/05 £000
Non-Domestic Rate Value (£62.2m) x Uniform Business Rate (45.6p per £)	27,173	28,363
Less Adjustments For Previous Years	(2,040)	(885)
Less Transitional Arrangements	(259)	153
Less Allowances And Adjustments	(1,601)	(3,239)
Net Income To Collection Fund	23,273	24,392

## **NOTES TO COLLECTION FUND**

### **3 Income From Council Tax**

The Council Tax replaced the Community Charge on 1st April 1993 and is a tax based on property bandings (A to H).

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

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

Band	A	B	C	D	E	F	G	H
Chargeable Dwellings	12,251	6,065	4,811	4,192	2,857	1,402	689	52
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 **£932.73** (**£922.23 in 2003/04**), 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 **£91.53** (**£79.56 in 2003/04**) for their services.

County Durham and Darlington Fire & Rescue Authority set a Band D council tax of **£74.25** for their services.

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

Council Tax income is therefore :

	2003/04 £000	2004/05 £000
Council Tax levied	35,784	39,598
Less allowances	(3,647)	(3,679)
	32,137	35,919
Payable from the following sources :		
Billed to Council Tax payers	27,087	(30,227)
Council Tax benefits	5,051	(5,694)
Transitional relief	(1)	2
Council Tax benefit subsidy limitation	0	0
	32,137	(35,919)

## **NOTES TO COLLECTION FUND**

### **4 Precepts And Demands**

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

	2003/04 £000	2004/05 £000
Darlington Borough Council	29,436	29,902
Durham Police Authority	2,537	2,931
County Durham and Darlington Fire & Rescue Authority	0	2,378
	31,973	35,211

### **5 Contribution In Respect Of Previous Year's Surplus**

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

	2003/04 £000	2004/05 £000
Darlington Borough Council	260	0
Durham Police Authority	18	0
	278	0

## CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2004		AS AT 31 MARCH 2005			NOTES
£000		£000	£000	£000	
	<b>Fixed Assets</b>				
90,585	Council Dwellings		81,798		
120,460	Other Land and Buildings		118,327		
4,081	Vehicles, Plant and Equipment		5,222		
17,859	Infrastructure Assets		17,315		
3,839	Community Assets		5,989		
	<b>Non Operational Assets</b>				
7,343	Investment Properties		8,057		
938	Assets Under Construction		1,003		
2,736	Surplus Assets held for Disposal		<u>2,896</u>		
247,841	<b>Total Fixed Assets</b>			240,607	1a
1,987	<b>Long Term Investments</b>		3,527		2
	<b>Long Term Debtors</b>				4
170	Mortgages	143			
304	Other	264	407	3,934	
250,302	<b>Total Long-Term Assets</b>			244,541	
	<b>Current Assets</b>				
677	Stocks and Work in Progress	546			3
14,349	Debtors and Prepayments	13,863			5
29,242	Investments (Short Term)	<u>34,949</u>			
44,268			49,358		
	<b>Less : Current Liabilities</b>				
(28,006)	Creditors & Income in Advance	(27,820)			6
(213)	Short-term Loans	(1,125)			
(1,383)	Bank Overdraft	<u>(1,133)</u>			
(29,602)			(30,078)		
14,666	<b>Net Current Assets</b>			19,280	
(62,230)	<b>Long Term Borrowing</b>		(71,103)		7
0	<b>Deferred Liabilities</b>		(287)		9
1,600	<b>Deferred Assets</b>		1,419		8
(76,980)	<b>Liability related to defined benefit pension scheme</b>		(85,810)		23
(5,653)	<b>Provisions</b>		<u>(1,994)</u>		12
				(157,775)	
121,705	<b>Total Assets less Liabilities</b>			<u>106,046</u>	
	<b>Financed By :</b>				
137	<b>Deferred Capital Receipts</b>			115	11
129,413	<b>Fixed Asset Restatement Account</b>			109,358	13
34,577	<b>Capital Financing Account</b>			29,506	14
24,024	<b>Government Grants Deferred</b>			31,130	10
261	<b>Usable Capital Receipts Reserve</b>			787	15
(76,980)	<b>Pensions Reserve</b>			(85,810)	23
10,273	<b>Reserves</b>			20,960	17
121,705	<b>Total Net Worth</b>			<u>106,046</u>	

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1 Fixed Assets

#### (a) Movement of Fixed Assets

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Non-Operational Properties	TOTAL
	£000	£000	£000	£000	£000	£000	£000
<b>Gross Value</b>							
Gross book value as at 31st March 2004	103,255	143,092	9,001	21,671	3,839	11,017	291,875
Adjustment to Balance b/f	0	0	0	0	0	0	0
Accumulated Depreciation as at 31st March 2004	(12,670)	(22,632)	(4,920)	(3,812)	0	0	(44,034)
Net Book Value as at 1 April 2004	90,585	120,460	4,081	17,859	3,839	11,017	247,841
Revaluations & restatements	199	788	0	0	0	169	1,156
Additions	0	0	1,831	0	0	964	2,795
Enhancements	5,280	8,338	603	4,597	2,150	1,887	22,855
Disposals	(5,627)	(2,890)	(1,301)	0	0	(1)	(9,819)
Transfers	0	1,356	0	0	0	(1,356)	0
Expenditure not increasing Gross Book Value	(5,280)	(3,555)	0	(4,597)	0	(724)	(14,156)
Depreciation for year	(3,359)	(7,983)	(1,292)	(544)	0	0	(13,178)
Depreciation on assets sold	0	1,813	1,300	0	0	0	3,113
<b>Net book value as at 31st March 2005</b>	<b>81,798</b>	<b>118,327</b>	<b>5,222</b>	<b>17,315</b>	<b>5,989</b>	<b>11,956</b>	<b>240,607</b>

#### (b) Valuation disclosure for Fixed Assets

The effective date for valuations of 20% of the Authority's assets was 1st April 2000. Revaluation of the Authority's assets was completed during 2001/02, 2002/03, 2003/04 and 2004/05 as part of the 5 yearly revaluation programme. An impairment review has been undertaken in accordance with FRS 11.

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

## **NOTES TO THE CONSOLIDATED BALANCE SHEET**

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

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

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

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

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

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

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

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

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

### **(c) Financing**

The capital expenditure was financed as follows :

	31st March 2004	31st March 2005
	£000s	£000s
Revenue Contributions	16	12
Grants and Contributions	11,863	14,132
Capital Receipts	3,327	3,824
Loans	8,216	11,896
	23,422	29,864

At the 31st March 2005 the Authority has ongoing major capital commitments in relation to the redevelopment of South Park (£1.817m), the construction of Skerne Park Primary (£4.094m) and Alderman Leach Primary Schools.(£0.419m).

### **Capital Investment**

The total capital investment was as follows:

	31st March 2004	31st March 2005
	£000s	£000s
Operational Assets	18,028	22,330
Non-Operational Assets	2,640	3,770
Intangible Assets	2,754	3,764
	23,422	29,864

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### (d) Analysis of Fixed Assets

	31st March 2004	31st March 2005
Schools - Nursery	6	3
- Primary (excluding Aided schools)	29	27
- Secondary (excluding Aided schools)	6	6
- Special	1	1
- Pupil Referral Unit	1	1
Children's homes	1	1
Homes for Older People	2	0
Adult Residential Homes	1	0
Adult Day Centres	1	2
Other Social Services Properties	3	3
Council Dwellings	5,860	5,686
Highways - Principal roads	50.9km	50.4km
- 'B' roads	27.8km	28.4km
- 'C' roads	105.9km	105.9km
- Unclassified roads	335.7km	329.3km
Town Hall	1	1
Other Administrative Buildings	1	1
Depots and Workshops	4	4
Off-Street Car Parks/Lorry Park	25	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 Course	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 etc.	45	44
	74,500 sq.ft	74,200 sq ft
Ground Leases	148	147
	79.5 hectares	79.1 hectares
Short Term Tenancies & Licences of Land	77	76
Agricultural Tenancies including Farm Business Tenancies	18	17
	332.13 hectares	296.68 hectares

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### (e) Capital Expenditure and financing

	31st March 2004 £000's	31st March 2005 £000's
Opening Capital Financing Requirement	54,279	59,860
<b>Capital Investment</b>		
Operational Assets	16,936	22,899
Non-Operational Assets	3,400	2,851
Deferred Charges	2,754	3,764
Debtor Adjustments	100	447
De-minimus Expenditure	233	351
<b>Sources of Finances</b>		
Capital Receipts	(3,327)	(3,824)
Revenue	(16)	(202)
Grants & Contributions	(11,863)	(14,132)
Revenue Provision	(1,722)	(1,174)
Set Aside	(978)	(190)
Deferred Liabilities Movement	64	(9)
	59,860	70,641
Increase in underlying need to borrowing (Supported by Government financial assistance)	5,581	6,850
Increase in underlying need to borrowing (Unsupported by Government financial assistance)	0	3,931
	5,581	10,781

## 2 Long Term Investments

As a result of the Local Government Re-organisation Appeal Judgement the council were awarded the following investments, both of which are included in the balance sheet.

	31st March 2004 £000's	31st March 2005 £000's
Durham Tees Valley Airport	1,767	1,767
Premier Waste Management Ltd	220	220
Newcastle International Airport	0	1,540
Total	1,987	3,527

## **NOTES TO THE CONSOLIDATED BALANCE SHEET**

### **Durham Tees Valley Airport**

The Council holds 6.66% of the shares in Durham Tees Valley Airport. 1,766,667 B Ordinary Shares are held, with a balance sheet value of £1,766,667, and 174,900,100 Deferred Shares. The latest audited accounts are for the year ended 31st March 2004 and shows net assets of £26,075,648 (previous year £19,402,692), a loss before tax of £1,050,280 (previous year loss before tax £816,189) and a loss after tax of £827,044 (previous year loss after tax £700,542). Further information regarding the company's accounts are available from the Registered Office, Durham Tees Valley Airport Ltd, Darlington, County Durham, DL2 1LU.

### **Premier Waste Management Ltd**

The Council holds 16% of the shares in Premier Waste Management Ltd. 220,480 £1 shares are held. The latest audited accounts are for the year ended 31st March 2004 and show net assets of £3,602,053 (previous year £2,410,915), a profit before tax of £1,422,250 (previous year profit before tax £1,024,649), and a profit after tax of £1,191,138 (previous year profit after tax £455,831). 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

### **Newcastle International Airport**

The council has been awarded a proportion of the shares in Newcastle International Airport, however, these have not yet been transferred to the Council, the reason being that the current owners require various approvals to transfer under the Company's rules and regulations. Those approvals continue to be sought so that the shares can be transferred and registered in the Council's name but in the meantime an asset has been shown on the balance sheet equivalent to the face value of the shares currently held by Durham County Council on our behalf.

## **3 Stocks And Work In Progress**

	31st March 2004	31st March 2005
	£000	£000
Work in Progress	10	56
Stocks		
DLO	109	52
Other	558	438
	677	546

## **4 Long term Debtors**

	31st March 2004	31st March 2005
	£000	£000
Car loans to employees	129	79
Council House Mortgages	109	88
Housing Act Advances	61	55
Other	175	185
	474	407

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 5 Debtors And Prepayments

	31st March 2004	31st March 2005
	£000	£000
Government Departments	4,024	3,520
Other Local Authorities	1,363	700
Council Tax and NDR	2,120	2,356
Housing Rents	653	502
Sundry Debtors	5,988	7,471
Collection Fund Balance	162	6
Prepayments	1,275	985
	15,585	15,540
Less Provision for Doubtful Debts	(1,236)	(1,677)
	14,349	13,863

### 6 Creditors And Income In Advance

	31st March 2004	31st March 2005
	£000	£000
Income in Advance	8,986	8,092
Government Departments	3,485	5,680
Other Local Authorities	2,044	1,525
Sundry Creditors	13,491	12,523
	28,006	27,820

### 7 Long Term Borrowing And Creditors

Source Of Loan	Range Of Interest Rates Payable	Total Outstanding at 31st March	
		2004	2005
	%	£000	£000
Public Works Loans Board	4.250 - 4.875	52,630	61,503
Money Market	3.250 - 3.990	9,600	9,600
		62,230	71,103
Analysis of Loans by Maturity			
Maturing in 1-2 years		1,126	0
Maturing in 2-5 years		0	0
Maturing in 5-10 years		4,836	5,835
Maturing in more than 10 years		56,268	65,268
		62,230	71,103

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 8 Deferred Assets

	31st March 2004	31st March 2005
	£000	£000
Balance as at 1 April 2004	660	1,600
Debt Rescheduling Equalisation	940	(181)
Balance as at 31 March 2005	1,600	1,419

### 9 Deferred Liabilities

The Authority uses operating and finance leases to finance various plant and equipment, including refuse collection vehicles, computer equipment and other miscellaneous items. The amount paid under operating leases for these items in 2004/2005 was £0.981 million (£0.980m in 2003/04).

The Council is committed to making payments of £0.661m under these leases in 2005/06, comprising the following elements:-

	£000s
Leases expiring 1 year	225
Leases expiring between 2 -5 years	420
Leases expiring after 5 years	16

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

Three new leases entered into during 2004/05, in accordance with SSAP 21, have qualified as finance leases. Plant and Equipment leased in this manner totalled £0.326m and includes various vehicles and gym equipment. The amount paid under finance leases for these items in 2004/05 was £0.058m, split between principal repayments of £0.040m and interest of £0.018m. An outstanding liability of £0.287m existed relating to finance leases as at 31st March 2005.

The Council is committed to making payments of £0.058m under these leases in 2005/06, comprising the following elements:-

	£000s
Leases expiring 1 year	0
Leases expiring between 2 -5 years	58
Leases expiring after 5 years	0

### 10 Deferred Government Grants

Government grants in respect of capital are credited to a Government Grants Deferred account when they are received and are released to off-set depreciation charged to revenue accounts. The balance of £31.130m (£24.024m in 2003/04) relates principally to European Regional Development Fund, Single Regeneration Budget/Single Programme, Sure Start Standards Fund and National Lottery.

### 11 Deferred Capital Receipts

Deferred Capital Receipts are amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise principally from mortgages on sales of council houses, which form the main part of mortgages under long term debtors.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 12 Provisions (General Fund)

	1st April 2004	Receipts In Year	Payments In Year	31st March 2005
	£000	£000	£000	£000
Land Reclamation	296	85	0	381
Trading Operations	242	55	(242)	55
Insurance Provision	1,328	0	(274)	1,054
Frozen Holiday Pay	40	0	(33)	7
Social Services s117	547	0	(286)	261
Single Status	3,200	200	(3,284)	116
Constant Rate Debt Provision	0	120	0	120
	5,653	460	(4,119)	1,994

#### Land Reclamation

- A provision for the repayment of reclamation grant has been made in the accounts in the sum of £381,000 at 31st March 2005. This is at variance with SSAP 4. Repayment of the full balance is expected to be made during 2005-06. Future receipts are dependent on the timing of future disposals, the exact timing of which cannot be predicted.

#### 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 actual 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 at the 31st March 2005 which are within these excesses. The Council expects to commence payments during 2005-06 and payments will continue over the next 5 to 10 years.

#### Frozen Holiday Pay

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

#### Social Services s117

- Provision for potential repayment of charges made under s117 of the Mental Health Act 1983. The Council expects to start to make payments in 2005-06 and they are likely to continue to be made for a number of years.

#### Single Status

- A provision has been created for costs related to single status settlement payments applicable to eligible former manual workers. The majority of the payments were paid out in 2004/05 with the remainder being the subject of Industrial Tribunals due to be heard in 2005/06.

#### Constant Rate Debt Provision

- This provision has been created to smooth out the increase in interest rates in future years for money market debt. It relates to Lenders option/Borrowers option loans which were taken out during 2002/03. New accounting treatment of such loans requires the revenue account to include a constant rate of interest over the life of the loan which the Council has estimated at 10 years.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 13 Fixed Asset Restatement Account

Capital accounting requires the establishment of a Fixed Asset Restatement Account. The balance represents the difference between the valuation of assets under the previous system of capital accounting and the revaluation at 1st April 1995.

The account is written down by the net book value of assets as they are disposed of and debited or credited with the deficits or surpluses arising on future revaluations.

	31st March 2004	31st March 2005
	£000	£000
Balance brought forward	150,183	129,413
Disposal of fixed assets	(9,795)	(6,705)
Capital Expenditure not increasing gross book value	(14,576)	(14,156)
Revaluation of Fixed Assets	3,834	1,322
Impairment of Fixed Assets	0	(165)
Write Down of De-minimus capital expenditure	(233)	(351)
	129,413	109,358

### 14 Capital Financing Account

The capital financing account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

	31st March 2004	31st March 2005
	£000	£000
Balance as at 1 April 2004	25,264	34,577
2004/2005 capital receipts set aside	14,227	0
Voluntary Set Aside	0	190
2004/2005 capital financing		
capital receipts - 2004/2005	3,327	3,824
capital grants	850	1,812
revenue	16	12
2004/2005 MRP (less depreciation provision)	(5,519)	(7,361)
Less		
write down of deferred charges	(2,592)	0
write down of Intangible Assets	0	(3,542)
redemptions by borrowers	(6)	(6)
Premiums Charged to PCL	(990)	0
	34,577	29,506

## **NOTES TO THE CONSOLIDATED BALANCE SHEET**

### **15 Usable Capital Receipts Reserve**

The usable capital receipts reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

	31st March 2004	31st March 2005
	£000	£000
Opening balance	100	261
Capital receipts 2004/2005	17,715	4,350
Less		
2004/2005 capital receipts set aside	(14,227)	0
2004/2005 capital receipts used for financing	(3,327)	(3,824)
	261	787

### **16 Related Companies**

Under Part V of the Local Government and Housing Act 1989, the Council has to maintain a register of interests in companies. Accordingly the following companies have been identified as being under some form of control by the Council.

A) Controlled Companies are companies that are jointly controlled by a group of entities rather than individual entities. The interests in the following companies have been reviewed as required by FRS9 and are not considered material, as the degree of control/ownership or the sums involved are minimal apart from Tees Valley Connexions.

The Tees Valley Development Company is jointly controlled by 5 Local Authorities with Darlington having a minority standing.

The Local Government Information Unit as well as Durham Tees Valley Airport are authorised exempted companies and do not therefore fall under the controls established under Part V of the Local Government and Housing Act 1989 or the Local Authorities (Companies) Order 1995.

Tees Forest is jointly controlled by the 5 Tees Valley Local Authorities as well as being match funded by the Countryside Commission.

The Tees Valley Connexions Partnership Ltd is jointly run by the 5 Local Authorities. There are five Local Management Committees, one in each of the five boroughs which own the Connexions Company.

The Council also holds 16% of the shares in Premier Waste Management Ltd. 220,480 £1 shares are held. The latest audited accounts are for the year ended 31st March 2004 and show net assets of £3,602,053 (previous year £2,410,915), a profit before tax of £1,402,250 (previous year profit before tax £1,024,649), and a profit after tax of £1,191,138 (previous year profit after tax £455,831). 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.

#### **B) Minority Interest Companies**

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

In accordance with the Accounting Code of Practice 1996, the Council is required to identify interests in subsidiary companies and where appropriate prepare consolidated accounts. The above companies do not fall within these requirements as the Authority holds a minority of the share values, and the investments are below the required threshold. Therefore the Authority has not prepared group accounts in relation to the above companies.

## **NOTES TO THE CONSOLIDATED BALANCE SHEET**

### **17 Reserves (General)**

	1st April 2004	Receipts In Year	Payments In Year	31st March 2005
	£000	£000	£000	£000
General Fund	4,524	6,530	0	11,054
Earmarked Departmental Balances	392	548	0	940
Faverdale Maintenance Fund	41	0	(5)	36
Housing Revenue Account	482	0	(5)	477
Revenue Contribution to Capital Outlay	579	0	(557)	22
Schools Revenue Balances	1,085	1,534	0	2,619
PFI Reserve	0	1,000	0	1,000
Absence Supply Insurance	96	57	0	153
Investments	1,987	1,540	0	3,527
Insurance Fund	343	517	0	860
Crematorium Refurbishment Fund	46	27	(8)	65
Building Control	137	70	0	207
Pensions Contribution Reserve	561	444	(1,005)	0
	10,273	12,267	(1,580)	20,960

#### **General Fund**

- The council regards the General Fund Reserve as being available to support the Council's overall service.

#### **Earmarked Departmental Balances**

- These surpluses/deficits have been built up by the departments and are earmarked for their use in forming part of the forward planning process.

#### **Faverdale Maintenance Fund**

- Provision has been made for the cost of maintenance of land at Faverdale in accordance with an agreement entered into when the Council sold land it previously owned.

#### **Housing Revenue Account**

- The Housing Revenue Account reflects the annual surplus or deficit on council housing activity.

#### **Revenue Contribution to Capital Outlay**

- The Council has established this reserve to meet future capital commitments. The balance includes £0.022m to finance future capital expenditure.

#### **Absence Supply Insurance**

- The Council insures schools with delegated budgets against the risk of long term sickness.

#### **Schools Revenue Balances**

- Balances held by locally managed schools are not available to the Council for general use. The net surplus balance at 31st March 2005 includes a deficit totalling £11,415 in respect of 1 school (£391,087 for 5 schools in 2003/04).

#### **PFI Reserve**

- This reserve has been created to enable the Council to manage the cash flow over the life of the concession.

#### **Investments**

- This covers the value of investments held by the authority in Durham Tees Valley International Airport, Premier Waste Management Ltd and Newcastle International Airport (see **note 2** Long Term Investments for further details).

#### **Insurance Fund**

- The Council maintains an Insurance Fund established under statutory powers to indemnify the Council against specified risks.

#### **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.

#### **Building Control Reserve**

- This reserve has been created to enable any surpluses built up to be carried forward to offset against future costs.

#### **Pensions Contribution Reserve**

- This reserve has been returned to general fund balances as the latest actuarial valuation shows it is no longer required over the life of the Medium Term Financial Plan.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 18 Contingent Liabilities

These refer to amounts that may fall due in the future but are uncertain over what amount might be due and whether in fact they might arise. In 2004-05 the contingent liabilities were as follows:-

The Council had guaranteed the leasing payments on the Imperial Centre for Darlington Enterprise Association for three years. The annual payments were £29,000. The lease expired in December 2004 and the Council's liability is no longer needed.

During 1992/93 Municipal Mutual Insurance ceased accepting new business. At 31st March 2005, the Council only had four outstanding claims with MMI amounting to £47,500 and arrangements are in place to try to ensure an orderly settlement of the sums due.

Due to the recent decision by HM Revenue & Customs with regard to equal pay arrears being classified as earnings and therefore subject to PAYE & NIC's, the Council has quantified the potential impact as £560k. This will be reviewed as and when further guidance becomes available in 2005/06.

### 19 Assets And Liabilities Transferred From Durham County Council

Following Local Government Re-organisation and the creation of the new unitary authority in Darlington, Durham County Council's balance sheet has been divided between this Council and the residual County authority. There are still some outstanding issues yet to be resolved with regard to Newcastle Airport Shares (see **Note 2** to the Balance Sheet for further information).

### 20 Euro

The adaptation of operation and information systems will be required as the Euro becomes established as a major currency and the possible date for British participation in EMU draws closer.

The Council is a member of the CIPFA Euro Forum and uses a BASDA accredited accounting system which has been upgraded to ensure compatability with the introduction of the Euro.

At this stage the Authority has not incurred any other expenditure nor is it committed to any significant expenditure.

### 21 Analysis Of Net Assets Employed

	31st March 2004	31st March 2005
	£000	£000
General Fund	59,818	52,122
Housing Revenue Account	61,425	53,521
Trading Operations	462	403
	121,705	106,046

## **NOTES TO THE CONSOLIDATED BALANCE SHEET**

### **22 Trust Fund Memorandum Account**

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

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

	Balance at 1st April £000's	Receipts £000's	Payments £000's	Balance at 31st March £000's	Assets £000's	Liabilities £000's
James Barningham Fellowship	16	2	(4)	14	57	0
Lady Dale Scholarship	7	1	0	8	31	0
Darlington Education Fund	9	15	(7)	17	428	0
W.Draffon Scholarship	3	1	(1)	3	23	0
Others	11	2	0	13	59	0
	<u>46</u>	<u>21</u>	<u>(12)</u>	<u>55</u>	<u>598</u>	<u>0</u>

All of the above investments are held by the Charities Commission and the latest Charities Official Investment Fund (COIF) shares are valued at £543,719 as per valuation date 31/03/05 (£495,279 as per valuation date 31/03/04).

#### **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 for the best essays 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.

## **NOTES TO THE CONSOLIDATED BALANCE SHEET**

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

	Balance at 1st April £000's	Receipts £000's	Payments £000's	Balance at 31st March £000's
Stainsby Murray Fund	41	1	(1)	41
Middleton Greathead SP	42	2	0	44
Stainsby Murray Trust	43	2	0	45
E.M.Corner Bequest	79	0	(10)	69
Criminal Injuries Compensation	33	2	0	35
BAT Legacy	0	249	0	249
Other	44	33	(15)	62
	<u>282</u>	<u>289</u>	<u>(26)</u>	<u>545</u>

### **Purpose of the Trust Funds:**

#### **Stainsby Murray Fund**

Provision of christmas comforts for aged persons in Darlington.

#### **Middleton Greathead Printers Scholarship**

This fund has not been used for many years as its purpose in its original form has been considered incapable of being carried out. "The scholarship to be open to and set apart for the education of the sons of Journeymen Printers only and who are natives of or residents in Darlington".

#### **Stainsby Murray Trust**

Provision of christmas comforts for aged persons in Darlington.

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

Provision for the purchase of books on the Arts and Music at Edward Pease Library, Crown Street, Darlington.

#### **Criminal Injuries Compensation**

Provision of funds for compensation to minors.

#### **BAT Legacy**

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

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 23 Pensions

#### Local Government Pension Scheme

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

An independent actuary revalues the fund every three years and the amounts included in the Council's 2004-05 accounts have been derived by suitable approximate methods from the full actuarial valuation carried out by the actuary as at 31st March 2004.

Financial Reporting Standard No.17 (FRS 17) requires certain information to be published about employers' liabilities for future pension costs. The purpose of this note is to provide information about the Council's obligations to fund future benefits and the impact on the underlying economic position of the Council.

The estimated fair value of the fund's assets and liabilities attributable to Darlington are :-

	31st March 2004 £m	31st March 2005 £m
Funded benefits under the LGPS regulations	(187.90)	(183.08)
Unfunded discretionary benefits awarded by means of additional benefits under the LGPS regulations	(6.12)	(8.71)
Actuarial value of Fund Liabilities	<u>(194.02)</u>	<u>(191.79)</u>
Market value of Fund assets	120.44	109.48
Deficit in the Fund	<u>(73.58)</u>	<u>(82.31)</u>

The main financial assumptions used are as follows :-

	2003/04	2004/05
Rate of Price Inflation	2.90%	2.90%
Future escalation of pensionable pay	4.70%	4.40%
Future increases in pensions	2.90%	2.90%
Rates used to discount scheme liabilities	6.40%	5.30%
Expected return on assets	7.30%	7.30%

## NOTES TO THE CONSOLIDATED BALANCE SHEET

The fair value of Darlington's attributable assets held by the Durham County Council Pension Fund as at 31st March 2005 is estimated to be £109.48m (£120.44m as at 31st March 2004), in the following classes of investment :-

	31st March 2004			31st March 2005		
	£m	Proportion %	Expected Rate of Return	£m	Proportion %	Expected Rate of Return
Equities	746.22	83.1%	7.70%	848.04	83.7%	7.70%
Government Bonds	94.57	10.5%	4.70%	90.17	8.9%	4.70%
Corporate Bonds	0.00	0.0%	5.50%	4.56	0.4%	5.30%
Other :-						
Cash & Net Current Assets	27.65	3.1%	4.20%	41.63	4.1%	4.80%
Property	29.90	3.3%	6.70%	29.11	2.9%	6.70%
	<u>898.34</u>			<u>1013.51</u>		

An analysis of the movement in deficit in the Fund during the period is as follows:-

	2004/05 £m
Deficit in the Fund at beginning of period	(73.58)
Contributions paid	6.87
Current service cost	(6.85)
Past service cost	(0.01)
Settlement cost	0.00
Curtailement cost	0.00
Expected return on pension fund assets	8.87
Interest on pension liabilities	(12.49)
Actuarial gain	(5.12)
Deficit in the Fund at end of the period	<u>(82.31)</u>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

The components of the Defined Benefit Cost are as follows :

<i>Analysis of amounts charged to Service Accounts:</i>	£m
a Current service cost	6.85
b Past service costs	0.01
c Total charged to operating profit	<u>6.86</u>

*Analysis of other amounts charged to Consolidated Revenue Account*

d Gain (loss) due to settlements	0.00
e (Gain) loss due to curtailments	0.00
f Net (gain) loss charged to profit and loss account	<u>0.00</u>

*Analysis of amount credited to other income :*

g Interest on pension scheme liabilities	12.49
h Expected return on assets in the pension scheme	(8.87)
i Net charge to other income	<u>3.62</u>
j Total profit and loss charge before deduction for tax (c + f + i)	10.48

*Analysis of amounts recognised in Statement of Total Movement in Reserves*

k (Gain) loss on assets	(2.22)
l Experience (gain) loss on liabilities	(22.24)
m (Gain) loss on change of assumptions (financial and demographic)	29.58
n Total Loss recognised in Statement of Total Movement of Reserves	<u>5.12</u>

The deficit calculated in accordance with FRS 17 is a snapshot at a point in time, based on opinions of the actuary. It is, therefore, liable to major change each year and does not represent the long-term position of the fund, which is an accurate indicator of the financial implications for employing organisations.

### Teachers Pension Scheme

With regard to the Teachers' Pension Scheme, there were no contributions remaining payable at the year end. The scheme is a defined benefit scheme, administered by the Teachers Pensions Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contributions rate paid by local education authorities (LEAS's). 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 purposes 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. This gives rise to an estimated future liability of £3.5m using an approximate method of calculating the discretionary element of the pensions payable to the recipients, based on the assumption that Darlington accrued as part of the pensions liability in the balance sheet.

## STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	2003/04		2004/05	
	£000	£000	£000	£000
Surplus/(deficit) for the year:				
-General Fund	(885)		7,078	
-Housing Revenue Account	(576)		(5)	
<i>Add back</i> Movements on earmarked revenue reserves	2,716		2,074	
Appropriation from pensions reserve	(2,720)		(3,610)	
Actuarial gains & losses relating to pensions - note 1	15,240		(5,120)	
<b>Total increase/(decrease) in revenue resources (note 2 )</b>		13,775		417
Increase in useable capital receipts	161		526	
<b>Total increase in realised capital resources (note 3 )</b>		161		526
Gains on revaluation of fixed assets	3,834		1,157	
<b>Total increase in unrealised value of fixed assets (note 4 )</b>		3,834		1,157
Amounts written off fixed asset balances for disposals	(9,795)		(6,705)	
Expenditure not increasing Gross Book Value	(14,809)		(14,507)	
<b>Total Value of assets sold, disposed of or decommissioned (note 4 )</b>		(24,604)		(21,212)
Capital receipts set aside	17,554		3,824	
Revenue resources set aside	(8,432)		(8,895)	
Movement on Government Grant Deferred	6,441		7,106	
Movement on Deferred Capital Receipt	(64)		(22)	
<b>Total increase/(decrease) in amounts set aside to finance capital investment (note 5 )</b>		15,499		2,013
<b>Increase/(decrease) on the pension reserve</b>		(12,520)		8,730
<b>Total recognised gains and losses</b>		<b>(3,855)</b>		<b>(8,369)</b>

## **NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES**

The actuarial losses identified as movement in the pensions reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as at 31st March 2005.

### ***Note 1 - Actuarial Gains and Losses***

	2002/2003		2003/2004		2004/2005	
	£000's	%	£000's	%	£000's	%
Actual return less expected return on assets	35.80	38.33	16.02	13.30	2.22	0.22
Expected gain/losses on pension liabilities	0.00	0.00	2.07	1.10	22.24	11.60
Changes in assumptions underlying the present value of pension liabilities	0.00	0.00	(2.85)	1.50	(29.58)	15.40
<b>Total actuarial gain/(loss) recognised in STMR</b>	<b>35.80</b>	<b>19.94</b>	<b>15.24</b>	<b>7.90</b>	<b>(5.12)</b>	<b>2.70</b>

### ***Note 2 - Movements in Revenue Resources***

	General Fund Balances £000's	HRA Balances £000's	Earmarked Revenue Reserves £000's	Pensions Reserve £000's
Surplus/(deficit) for 2004/05	7,078	(5)		
Appropriations to/from revenue			2,074	(3,610)
Actuarial gains and losses relating to pensions				(5,120)
	7,078	(5)	2,074	(8,730)
Balance b/fwd at 1st April 2004	4,916	482	4,875	(73,580)
Balance c/fwd at 31st March 2005	11,994	477	6,949	(82,310)

### ***Note 3 - Useable capital receipts***

<b>Movements in realised capital resources</b>	
Amounts receivable in 2004/05	4,350
Amounts applied to finance new capital investment in 2004/05	(3,824)
Total increase in realised capital resources in 2004/05	526
Balance brought forward at 1st April 2004	261
Balance carried forward at 31st March 2005	787

These are the movements in reserves that represent an increase or decrease in the Authority's ability to finance capital investment in future years. The usable capital receipts represent capital receipts which the Authority could use to finance new capital expenditure, but which it has chosen not to yet do so.

## NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES

### *Note 4 - Fixed Asset Restatement Account*

<b>Movements in unrealised value of fixed assets</b>	
Gains on revaluation of fixed assets in 2004/05	1,322
Impairment losses on fixed assets due to general changes in prices in 2004/05	(165)
<b>Total increase in unrealised capital resources in 2004/05</b>	<b>1,157</b>
<b>Value of assets sold, disposed of or decommissioned</b>	
Amounts written off fixed asset balances for disposals in 2004/05	(6,705)
De-minimus Capital Expenditure written off	(351)
Expenditure not increasing Gross Book Value	(14,156)
<b>Total movement on reserve in 2004/05</b>	<b>(20,055)</b>
Balance brought forward at 1st April 2004	129,413
Balance carried forward at 31st March 2005	<u>109,358</u>

### *Note 5 - Capital Financing Account / Government Grants Deferred*

	Capital Financing Account £000's	Government Grants Deferred £000's	Deferred Capital Receipts £000's
<b>Movements in amounts set aside to finance capital investment</b>			
Capital receipts set aside in 2004/05			
-reserved receipts	0		
-useable receipts applied	3,824		
<b>Total capital receipts set aside in 2004/05</b>	<b>3,824</b>		
Revenue resources set aside in 2004/05			
-capital expenditure financed from revenue	12		
-capital expenditure financed from grant	1,812		
-reconciling amount for provision for loan repayments	(10,719)		
<b>Total revenue resources set aside in 2004/05</b>	<b>(8,895)</b>		
Grants applied to Capital investment in 2004/05		14,100	
Amounts credited to the asset management revenue account in 2004/05		(6,994)	
<b>Movement of Government Grants Deferred/Deferred Capital Receipts</b>		<b>7,106</b>	<b>(22)</b>
<b>Total increase/(decrease) in amounts set aside to finance capital investment</b>			
Total movement on reserve in 2004/05	(5,071)	7,106	(22)
Balance brought forward at 1st April 2004	34,577	24,024	137
Balance carried forward at 31st March 2005	<u>29,506</u>	<u>31,130</u>	<u>115</u>

## CONSOLIDATED CASH FLOW STATEMENT

2003/04	DESCRIPTION	2004/05		
£000		£000	£000	£000
	<b><u>Revenue Activities</u></b>			
	<b><u>Cash Outflows</u></b>			
87,211	Cash Paid To Employees	93,173		
108,496	Other Operating Cash Payments	109,323		
11,286	Housing Benefit Paid Out	12,142		
22,750	Payment To Non-Domestic Rates Pool	23,798		
2,555	Precept Paid To Durham Police Authority	2,931		
0	Precept Paid To Durham Fire and Rescue Authority	2,378		
0	Payments to the Capital Receipts Pool	3,040	246,785	
232,298				
	<b><u>Cash Inflows</u></b>			
(5,319)	Rents (After Rebates)	(5,143)		
(27,399)	Council Tax Collected	(30,414)		
(25,189)	Non-Domestic Rates Collected	(24,785)		
(29,650)	Share Of Non-Domestic Rates Pool	(27,345)		
(44,640)	Revenue Support Grant	(48,347)		
(15,398)	DWP Grants For Rebates	(26,408)		
(31,915)	Other Government Grants	(28,850)		
(55,385)	Cash Received For Goods And Services	(55,097)		
(1,517)	Other Cash Receipts	0	(246,389)	396
(236,412)				
(4,114)	<b><u>Returns On Investments And Servicing Of Finance</u></b>			
	<b><u>Cash Outflows</u></b>			
3,557	Interest Paid	3,341		
0	Interest Element of Finance Leasing Payments	18	3,359	
	<b><u>Cash Inflows</u></b>			
(956)	Interest Received	(1,696)	(1,696)	1,663
2,601				
	<b><u>Capital Activities</u></b>			
	<b><u>Cash Outflows</u></b>			
14,330	Payments For Capital Schemes	18,961	18,961	
	<b><u>Cash Inflows</u></b>			
(17,889)	Sale Of Fixed Assets	(7,965)		
(10,729)	Capital Grants Received	(13,379)	(21,344)	(2,383)
(14,288)				
(15,801)	<b>Net Cash Outflow/(Inflow) Before Financing</b>			(324)
	<b><u>Management of Liquid Resources</u></b>			
(2,856)	Net Increase/(Decrease) In Short Term Deposits	9,819	9,819	
	<b><u>Financing</u></b>			
	<b><u>Cash Outflows</u></b>			
20,076	Repayment of Loans	215		
0	Capital Element Of Finance Leasing Payments	40	255	
	<b><u>Cash Inflows</u></b>			
(1,125)	New Long-Term Loans Raised	(10,000)		
0	New Short-Term Loans Raised	0	(10,000)	
18,951				
	<b>Total Financing</b>			74
294	<b>Net Decrease in Cash</b>			(250)

## **NOTES TO CONSOLIDATED CASH FLOW STATEMENT**

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

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

- (i) it excludes internal transactions (recharges between accounts, contributions to and from reserves, provisions etc.) as these do not result in cash movements.
- (ii) cash-flow refers only to receipts and payments of cash during the year whereas the Council's revenue accounts are prepared on the basis of income and expenditure, i.e. taking into account debtors, creditors, accruals and prepayments.

### **1 Revenue Activities**

The net Cash Flow can be reconciled to the Consolidated Revenue Account as follows:-

<b><u>CASH FLOW STATEMENT 'REVENUE ACTIVITIES' RECONCILIATION TO CONSOLIDATED REVENUE ACCOUNT DEFICIT</u></b>		
	£000	£000
Consolidated Revenue Account Deficit/(Surplus)		(7,078)
Accrual adjustment		1,220
Items Included in CFS Revenue Activities, Not Included in CRA :-		
Precept Paid To Durham Police/Fire & Rescue Authorities	5,309	
Payment To Non Domestic Rates Pool	23,798	
Council Tax Collected	(30,414)	
Non Domestic Rates Collected	(24,785)	
Payments to the Capital Receipts Pool	3,056	
		<u>(23,036)</u>
Items Excluded from CFS Revenue Activities, Included in CRA :-		
Borough Council Demand On Collection Fund	29,902	
Transfer from pension reserve	1,756	
Transfer from Equal Pay Provision	3,200	
Capital charges depreciation	(3,355)	
Net transfer to other earmarked reserves	33	
Transfer to PFI Reserve	(1,000)	
Contribution from capital reserves	400	
Interest paid/received	(1,646)	
		<u>29,290</u>
<b>Net Cash Inflow From Revenue Activities</b>		<u><u>396</u></u>

## NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### 2 Increase/(Decrease) in Cash

	Balance 31/3/04 £000	Balance 31/3/05 £000	Movement £000
Net Increase in Cash	<u>(1,383)</u>	<u>(1,133)</u>	<u>250</u>

### 3 Reconciliation of Movement in Cash to Movement in Net Debt

	2004/05 £000
Increase in Cash	250
Cash flow from increase in borrowing	(4,078)
Change in Net Debt	<u>(3,828)</u>

### Analysis of Debt

	Balance 1st April 2004 £000	Balance 31st March 2005 £000	Movement £000
Increase in cash	(1,383)	(1,133)	250
Increase in Short term loans	(213)	(1,125)	(912)
Long Term borrowing	(62,230)	(71,103)	(8,873)
Investments (short term)	29,242	34,949	5,707
	<u>(34,584)</u>	<u>(38,412)</u>	<u>(3,828)</u>

### 5 Increase in Liquid Resources

	Balance 31/3/04 £000	Balance 31/3/05 £000	Movement £000
Movement in Short Term Deposits			
Short Term Deposits	<u>29,242</u>	<u>34,949</u>	5,707
Add Accruals			<u>4,112</u>
Movement			<u>9,819</u>

### 6 Movement in Long Term Borrowing

	Balance 31/3/04 £000	Balance 31/3/05 £000	Movement £000
Long Term Borrowing & Creditors	<u>62,230</u>	<u>71,103</u>	<u>8,873</u>

## **NOTES TO CONSOLIDATED CASH FLOW STATEMENT**

### **7 Other Government Grants**

"Other Government Grants" shown under Revenue Activities Cash Inflows (page 48) are comprised of :-

	£000
Education	
DFeSGrant	2,944
Mandatory Awards	16
GEST	5,720
Standards Fund	4,096
DFEE Threshold/Performance Grant	3,417
Learning Skills Council	1,431
Other education grants	110
Sure Start	1,917
Social Services	5,900
Single Regeneration	937
Transport	1,211
Planning delivery grant	202
Other	949
	<hr/> 28,850 <hr/>

### **8 Capital Grants**

"Capital Grants Received" in the Capital Activities section of the statement (page 48) are :-

	£000
Home Zone	238
Schools Standard Fund	3,980
SRB	95
Single Programme	1,549
Housing MRA	3,355
Disabled Facility Grant	162
Sure Start	311
E-Government	514
Recycling	462
Gypsy Site Development	1,045
English Heritage	73
Improving Information Management	77
ERDF	306
Sus-Tran	42
Firthmoor Community Centre	440
National Lottery	293
Neighbourhood Nursery Initiative	136
Learning Skills Council	114
Other	187
	<hr/> 13,379 <hr/>

## **STATEMENT ON INTERNAL CONTROL**

### **Scope of Responsibility**

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

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

4. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
5. The system of internal control has been in place in the Council for the year ended 31st March 2005 and up to the date of approval of the annual report and accounts and accords with proper practice.

### **The Internal Control Environment**

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

### **Review of Effectiveness**

7. The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of the internal auditors and the executive managers within the Council who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their Annual Audit Letter and other reports.
8. Risk is one of the pieces of information incorporated into the development of departmental service plans and Best Value Performance Plan. Risk management is, therefore, an essential element in establishing policy, developing plans and enhancing operational management. Risk management is also integrated into the Council's Best Value guidance where it can help narrow down the options for future service delivery.

9. 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. Key elements of the action plans are formulated as relevant performance indicators which are incorporated into the Council's departmental service plans and Best Value Performance Plan. The relevant performance indicators identified are monitored through the performance management framework which involves regular reports to Corporate Management Team, Cabinet and Scrutiny Committees.
10. Our review of effectiveness of the action plans put in place to mitigate key risks is achieved, in part, through the performance management framework which is a formal process that monitors outturn against the underpinning performance indicators. That outcomes from this process were positive in 2004/05 is evidenced by the fact that all corporate objectives were on target or better as published in the 2005/06 Best Value Performance Plan.
11. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government issued in 2003. 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.
12. Internal Audit report to Cabinet to approve its Annual Audit Plan, to report progress against the Plan during the year including any significant matters arising or other issues of concern and to receive Internal Audit's Annual Report.
13. Internal Audit concluded in their Annual Report for 2004/05 that, overall, the Council continues to operate within a control environment that is generally sound and that the environment had been enhanced as risk management was now embedded into the Council's planning process.
14. The Annual Audit and Inspection Letter, produced jointly by the Council's external auditors PricewaterhouseCoopers LLP (PwC) and the Audit Commission, was presented to Cabinet in January 2005. The Letter presented a positive view of the Council's performance and governance arrangements.
15. The Annual Audit and Inspection Letter was produced prior to publication of the outcome from the corporate assessment of the Council conducted by the Audit Commission. This assessment categorised Darlington as an EXCELLENT Council.
16. The Leader of the Council and Chief Executive are aware of the result of the review of the effectiveness of the system of internal control by the Council and are committed to ensure continuous improvement of the system in place.

### **Significant Internal Control Issues**

17. No significant internal control issues have been highlighted by the annual review of the system.

Signed ..... Date .....  
 Leader of the Council

Signed ..... Date .....  
 Acting Chief Executive

## THE COUNCIL'S INTERNAL CONTROL ENVIRONMENT

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

# **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').

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.

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 2005 and the income and expenditure for 2004/2005.

Paul Wildsmith  
Director of Corporate Services

Dated

# **AUDITORS' REPORT TO DARLINGTON BOROUGH COUNCIL**

We have audited the Statement of Accounts which comprises the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves and the Cash Flow Statement and the notes to those statements and which has been prepared in accordance with the accounting policies applicable to local authorities as set out in the Statement of Accounting Policies.

This report is made solely to Darlington Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

## **Respective Responsibilities of the Director of Corporate Services and Auditors**

As described in the Statement of Responsibilities for the Statement of Accounts, the Director of Corporate Services is responsible for the preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Council

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2<sup>nd</sup> April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the Statement of Accounts. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts. The other information comprises only the Introduction, the Explanatory Foreword and the section on Revenue Spending

## **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgments made by the council in the preparation of the Statement of Accounts, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

# **AUDITORS' REPORT TO DARLINGTON BOROUGH COUNCIL**

## **Opinion**

In our opinion the statement of accounts presents fairly the financial position of Darlington Borough Council as at 31 March 2005 and its income and expenditure for the year then ended.

## **Certificate**

We have carried out the audit of accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The audit cannot be formally concluded and an audit certificate issued until an investigation into how the Council accounts for taxi licensing costs arising from an objection by an elector to the 2003/04 Statement of Accounts has been formally completed. We are satisfied that the amount which is the subject of the objection will not have a material effect on the 2004/05 Statement of Accounts.

Signature: .....

Date: .....

## **GLOSSARY**

### **ACCOUNTING PERIOD**

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

### **ACCRUALS**

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

### **AGENCY**

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

### **ASSET**

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

- Current assets will be consumed or cease to have value within the next financial year, e.g. stocks and debtors
- Fixed assets provide benefits to the authority and to services it provides for a period of more than one year, for example, land, buildings, vehicles and equipment.

### **AUDIT**

An independent examination of the Authority's activities, either by internal audit or the Authority's external auditor, which is PricewaterhouseCoopers.

### **BALANCE SHEET**

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

### **BUDGET**

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

### **BVACOP**

CIPFA's Best Value Accounting Code of Practice

### **CAPITAL CHARGES**

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

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

### **CAPITAL EXPENDITURE**

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

### **CAPITAL FINANCING**

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

### **CAPITAL RECEIPTS**

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

### **CARRY-FORWARDS**

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

## **GLOSSARY**

### **CIPFA**

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

### **COLLECTION FUND**

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

### **COMMUNITY ASSETS**

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

### **CONSISTENCY**

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

### **CONTINGENCY**

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

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

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

### **COUNCIL TAX**

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

### **CREDITOR**

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

### **DEBTOR**

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

### **DEFERRED CHARGES**

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

### **DEPRECIATION**

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

### **FIXED ASSETS**

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

### **FIXED ASSET RESTATEMENT RESERVE**

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

## **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.

### **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.

### **LIABILITY**

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

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

### **MATERIALITY**

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

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

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

### **NET BOOK VALUE**

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

### **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.

## **GLOSSARY**

### **NON-OPERATIONAL ASSETS**

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

### **OPERATING LEASE**

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

### **OPERATIONAL ASSETS**

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

### **PRECEPT**

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

### **PROVISION**

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

### **PROVISION FOR CREDIT LIABILITIES**

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

### **PRUDENCE**

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

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

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

### **RATEABLE VALUE**

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

### **RELATED PARTIES**

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

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

### **RELATED PARTY TRANSACTIONS**

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

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

## **GLOSSARY**

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

### **REMUNERATION**

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

### **RESERVES**

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

### **REVENUE EXPENDITURE**

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

### **REVENUE SUPPORT GRANT**

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

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

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

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

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

### **STOCKS**

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

### **TEMPORARY BORROWING/INVESTMENT**

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

### **TOTAL COST**

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and overheads, which need to be apportioned.

### **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.