

# **DARLINGTON BOROUGH COUNCIL**

## **Statement of Accounts**

**2007/2008**

# STATEMENT OF ACCOUNTS

2007/2008

	<b>Page</b>
<b>Contents:</b>	
<b>Explanatory Foreword</b>	<b>2</b>
<b>Statement of Accounting Policies</b>	<b>8</b>
<b>Statement of Responsibilities for the Statement of Accounts</b>	<b>17</b>
<b>Income and Expenditure Account</b>	<b>18</b>
<b>Statement of the Movement on the General Fund Balance</b>	<b>19</b>
<b>Statement of Total Recognised Gains and Losses</b>	<b>21</b>
<b>Balance Sheet</b>	<b>22</b>
<b>Cash Flow Statement</b>	<b>23</b>
<b>Notes to the Core Financial Statements</b>	<b>24</b>
<b>Housing Revenue Account Income and Expenditure Account</b>	<b>45</b>
<b>Statement of Movement on the Housing Revenue Account Balance</b>	<b>46</b>
<b>Notes to the Housing Revenue Account</b>	<b>47</b>
<b>Collection Fund Account</b>	<b>50</b>
<b>Notes to the Collection Fund Account</b>	<b>51</b>
<b>Auditors Report</b>	<b>53</b>
<b>Annual Governance Statement</b>	<b>56</b>
<b>Glossary</b>	<b>62</b>

# EXPLANATORY FOREWORD

## 1 Introduction

The purpose of this foreword is to provide a clear and concise guide to the most significant matters reported in the accounts. It explains the purpose of the financial statements that follow and provides a summary of the Council's financial activities during 2007/08 and its financial position as at 31<sup>st</sup> March 2008.

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice 2007 (SORP) introduced new changes to the way the Statement of Accounts is reported. The substantive changes that affect Darlington Borough Council's Statement of Accounts for 2007/08 are:

- The replacement of the Fixed Asset Restatement Account and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account. The 2007 SORP requires the change to be made prospectively and consequently the opening Revaluation Reserve will be zero.
- The introduction of financial instruments based on Financial Reporting Standards (FRS) 25, 26 and 29. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

## 2 Information and Financial Statements

The Council's Accounts for the year ended 31<sup>st</sup> March 2008 are set out in the following pages and a glossary of terms used is provided on pages 63 to 67.

The information and financial statements are as follows:

### **Statement of Accounting Policies (pages 8 - 16)**

Shows the policies adopted in compiling the Accounts.

### **Statement of Responsibilities for the Statement of Accounts (page 17)**

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

### **Income and Expenditure Account (page 18)**

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

### **Statement of Movement on the General Fund Balance (pages 19 - 20)**

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

### **Statement of Total Recognised Gains and Losses (STRGL) (page 21)**

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

### **Balance Sheet (page 22)**

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

### **Cash Flow Statement (page 23)**

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

### **Notes to the Core Statements (pages 24 - 44)**

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

### **Housing Revenue Account (pages 45 - 49)**

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

# EXPLANATORY FOREWORD

## **Collection Fund Revenue Account (pages 50 - 52)**

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

## **Group Accounts**

There are a number of criteria by which the Council must determine whether its interests in Associates, joint ventures and joint arrangements are significant enough to be included in the Council's consolidated accounts. After consideration of these criteria the Council has determined that it does not have any material interests and consequently, no group accounts have been prepared (see page 27 Note 12).

## **Auditor's Report (page 53 - 55)**

The Auditor's opinion gives an independent view on the Council's accounts for the year ended 31<sup>st</sup> March 2008.

## **Annual Governance Statement (pages 56 - 61)**

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

## **3 Local Government Pension Scheme**

Following full implementation of FRS 17, the accounts show the benefit entitlement earned by employees of the Local Government Scheme in the relevant year rather than the charges to revenue based on employers' contributions payable and payments to pensioners in the year. The effect on the Balance Sheet is to reduce the net worth of the Council by the pension liability of £72.580M from £314.631M to £242.051M (In 2006/07 the pension liability of £82.380M reduced the net worth from £290.350M to £207.970M). However, statutory arrangements mean that the deficit on the Pension Fund will be made good by increased contributions over the working life of employees, as assessed by the Fund actuary. Further information is available in **Note 21 (page 34)** in the Notes to the Core Financial Statements.

## **4 Comprehensive Performance Assessment (CPA)**

The Council's Comprehensive Performance Assessment (CPA) star rating was refreshed in February 2008, where the authority once again retained its maximum 4-star status with the Audit Commission declaring that the authority was improving well in its direction of travel. Step change was achieved for Value for Money (VFM), a key element of the Use of Resources judgement, whereby the Council was successful in achieving the maximum score of 4 for VFM, one of only two unitary authorities to achieve this score. The Audit Commission in the Council's annual Direction of Travel statement commented that "Value for Money is excellent and improved.

## **5 Private Finance Initiative**

The Education village was completed in March 2006 and the new Harrowgate Hill Primary School was completed in September 2005. Both are part of the approved funding of £34.900M by the Department for Children, Schools & Families (DCSF). A recognition of the long-term contract entered into with partners Kajima Darlington Schools Ltd can be found in **Note 2 (page 24)** in the Notes to the Core Financial Statements.

## **6 Equal Pay**

The Council has received, both prior to and during 2007/08, a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Following the receipt of legal advice, offers have been made to achieve settlement of those claims where appropriate, and also made to other employees in a similar position who were potential claimants. Whilst the majority of claims have been settled, a number of other claims remain outstanding, these claims will be periodically reviewed to ensure the Council takes appropriate and timely action where necessary.

## **7 Single Status**

The Council implemented a new Pay and Grading Structure for all staff as from 1st July 2005 in order to implement the Single Status Agreement 1997 and Implementation Agreement 2004 which is applicable to all green book employees. A £0.370M provision was created in 2006/07 for Appeals against the Agreement. The final total of the Appeals in 2007/08 was £0.461M.

## EXPLANATORY FOREWORD

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

Where the money comes from:

Gross Income	2006/7		2007/8	
	£000	%	£000	%
Gross Council Rents	13,677	5.7	14,346	5.5
Revenue Support Grant	5,146	2.1	4,757	1.8
Non Domestic Rate Grant	26,657	11.1	28,348	10.9
Dedicated Schools Grant	53,941	22.4	55,815	21.5
Demand on Collection Fund	33,928	14.1	35,732	13.7
Specific Government Grants	59,590	24.8	57,213	22.0
Charges for Services	25,210	10.5	29,966	11.5
Other Income	22,286	9.3	34,104	13.1
	240,435	100.0	260,281	100.0

How it was spent:

Gross Expenditure	2006/07		2007/08	
	£000	%	£000	%
Central Services to the Public	3,052	1.3	7,918	3.0
Cultural Environmental & Planning Services	37,763	15.7	36,132	13.9
Education Services	93,532	38.9	96,040	36.9
Highways Roads & Transport Services	9,745	4.1	9,844	3.8
Housing Services	48,446	20.1	57,021	21.9
Social Services	42,838	17.8	46,233	17.8
Other Services	5,059	2.1	7,093	2.7
	240,435	100.0	260,281	100.0

**Note:**

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

What it was spent on:

Type of Expenditure	2006/07		2007/8	
	£000	%	£000	%
Employees	104,267	43.37	109,659	42.13
Running Expenses	124,865	51.93	145,906	56.06
Capital Financing	11,303	4.7	4,716	1.81
	240,435	100.0	260,281	100.0

## EXPLANATORY FOREWORD

### 9 Comparison of Actual with Budget - Revenue

<b>Net Expenditure 2007/08</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
<b>Departmental Resources</b>			
Children's Services	73,642	73,753	111
Community Services	44,116	44,336	220
Chief Executives' Office	7,035	6,753	(282)
Corporate Services	10,648	10,560	(88)
<b>Total Departmental Resources</b>	<b>135,441</b>	<b>135,402</b>	<b>(39)</b>
<b>Corporate Resources</b>			
Joint Bodies & Levies	615	622	7
Financing Costs	2,405	2,340	(65)
Leading Edge Efficiencies	(60)	(50)	10
Recharge to HRA		(122)	(122)
Local Authority Business Growth Incentive Grant		223	223
Additional Job Evaluation Appeals Cost		137	137
<b>Net Expenditure</b>	<b>2,960</b>	<b>3,150</b>	<b>190</b>
<b>Reserves</b>			
Planned Use of General Fund Reserve	(2,103)	(2,103)	0
In-year approvals	(673)	(673)	0
Approved by Council 28 February 2008	(1,267)	(1,267)	0
Planned Use of Departmental Reserves	(517)	(517)	0
Direct Schools Grant	1,253	1,192	(61)
Departmental Balances C/Fwd		207	207
Corporate Balances from Resources		(297)	(297)
<b>Total Reserves</b>	<b>(3,307)</b>	<b>(3,458)</b>	<b>(151)</b>
<b>Less Depreciation</b>	<b>(7,538)</b>	<b>(7,538)</b>	
<b>Total Resources</b>	<b>127,556</b>	<b>127,556</b>	<b>0</b>

In March 2007 the Council set a net revenue budget of £127.556M and approved a contribution from reserves of £2.103M. Additional approvals made in accordance with the Council's Constitution during the year increased the approved contribution by £0.673M to £2.776M. Changes approved in the MTFP by Council in March 2008 resulted in a planned net contribution from reserves of £1.098M. Variances in income and expenditure resulted in the actual contribution being £1.394M. There is a planned use of reserves in 2008/09 of £1.641M as set out in the Medium Term Financial Plan.

At 31st March 2008, the Council had reserves of £8.930M available to fund future general revenue expenditure. The MTFP approved by Council in March 2008 includes the planned use of £3.515M of reserves over the next four years to 2011/12.

### 10 Corporate Governance

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

## EXPLANATORY FOREWORD

### 11 Comparison of Actual with Resources - Capital

	Approved budget	Planned spending 2007/08	Actual	Resources C/Fwd
	£'000	£'000	£'000	£'000
<b>Capital expenditure 2007/08</b>				
Children's Services	23,815	12,661	11,794	12,021
Housing	13,842	13,092	11,449	2,393
Transport	4,453	4,238	3,251	1,202
Community Services	15,065	13,380	9,423	5,642
Corporate Services	2,729	1,997	1,273	1,456
Chief Executives (Regeneration)	5,021	5,021	3,190	1,831
Adult Services	1,388	1,388	677	711
Prudential borrowing for Leasable Assets	0	0	262	0
<b>Total</b>	<b>66,313</b>	<b>51,777</b>	<b>41,319</b>	<b>25,256</b>
Financed by				
*Supported Borrowing			3,161	
Corporate** Unsupported Borrowing			2,835	
Departmental Unsupported Borrowing			3,733	
Capital Grants			23,351	
Major Repairs Allowance- Housing Grant			3,508	
Capital Contributions			1,191	
Housing Revenue Account Capital Receipts			625	
General Fund Capital Receipts			132	
Revenue Contributions			2,783	
<b>Total</b>			<b>41,319</b>	

\* Supported Borrowing is supported through the Revenue Support Grant

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

The total resources available for Capital schemes during 2007/08 totalled £69.591M however not all of the resources were planned to be expended during 2007/08. The total Capital expenditure planned to be incurred in 2007/08 was £51.777M against actual spend of £41.319M which equates to 80%. The slippage into 2008/09 will be financed by unsupported borrowing, grants carried forward, Usable Capital Receipts and Capital Contributions.

### 12 Material Assets Acquired Capital Works and Disposals during 2007/08

The Council has not made any major acquisitions of either land or property during 2007/08

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

	£'000
Operational Building - Improvements	3,017
Childrens Services Improvements to Schools	11,431
Housing Stock - Improvements	10,209
Highways and Transport Infrastructure	12,732
Community assets Improvements	508
Development Services	147
Vehicles Plant and Equipment	1,446
Other expenditure not affecting assets	1,829
<b>Total</b>	<b>41,319</b>

There were a number major asset disposals made during the year, four sites related to sale of land for housing development. Land at Snipe House Farm was sold for right of access to Council Land.

	£'000
Harrowgate Hill	590
Sadberge Primary School	849
Albert Hill Nursery	214
Smithfield Road/Parkside	1,980
Snipe House Farm	714
	<b>4,347</b>

## EXPLANATORY FOREWORD

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

Under the Prudential Code for Capital the Council sets two limits relating to the Prudential Code: the Authorised Limit (which the Council does not have power to borrow above), and the Operational Boundary (which is the Council's expected borrowing position). The limits for 2007/08 were as follows:

Authorised Limit for External Debt for 2007/08 of £116.548m

Operational Boundary for External Debt for 2007/08 of £101.285m

As part of the Authority's Treasury Management function these two Prudential Indicators are monitored on a regular basis and neither of these limits were breached during 2007/08. The maximum gross borrowing position during 2007/08 was £101.242m an increase of £6.000m on the previous year (see **Note26** in the Notes to the Core Financial Statements page 41).

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

### 13 Further Information

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



# STATEMENT OF ACCOUNTING POLICIES

## 1 General

The accounts have been prepared in accordance with the principles of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP), issued in 2007 by the Chartered Institute of Public Finance and Accountancy (CIPFA) except where disclosed below. The analysis of service expenditure included in the Income and Expenditure Account also reflects the requirements of the Best Value Accounting Code of Practice (BVACOP) standard classification of expenditure at the mandatory level. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

## 2 Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

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

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

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

## 3 Long Term Investments

Long-term investments are shown in the Balance Sheet at cost. Further details are available in **Note 12 (page 27)** to the Core Statements.

## 4 Provisions

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

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

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

# STATEMENT OF ACCOUNTING POLICIES

## 5 Reserves

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

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

## 6 Government Grants and European Grants

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

## 7 Deferred Charges

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

## 8 VAT

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

## 9 Retirement Benefits

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

- The Local Government Pensions Scheme, administered by Durham County Council.
- The Teachers' Pension Scheme, administered by the Teachers' Pension Agency on behalf of the Department for Children, Schools and Families (DCSF).

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the Balance Sheet and the Children's Services service revenue account is charged with the employer's contributions payable to teachers' pensions in the year. The Council, however, is also responsible for the costs of any additional benefits awarded upon early retirement outside of the standard terms of the Teachers Scheme. These benefits are fully accrued in the pensions liability described in **Note 21 (page35)** in the Notes to the Core Financial Statements in accordance with FRS17.

### The Local Government Pension Scheme

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

- The liabilities of the Durham County Pension Fund Scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.8% (based on the indicative rate of return on high quality corporate bonds).

## STATEMENT OF ACCOUNTING POLICIES

- The assets of the Durham County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

- quoted securities - mid market value
- unquoted securities - professional estimate
- unitised securities - average of the bid and offer rates
- property - market value.

- The change in the net pensions liability is analysed into seven components:

- current service cost - the increase in liabilities as a result of years of service earned in this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account
- expected return on assets - the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return - credited to Net operating Expenditure in the Income and Expenditure Account
- gains/losses on settlements and curtailments - the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Total Recognised Gains and Losses
- contributions paid to the Durham County Council pension fund - cash paid as employer's contributions to the pension fund.

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

### Discretionary Benefits

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

## 10 Stocks and Work in Progress

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

## 11 Delegated Budgets

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

# STATEMENT OF ACCOUNTING POLICIES

## 12 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of :

- Corporate and Democratic Core - costs relating to the council's status as a multi-functional, democratic organisation
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early.

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

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

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

## 13 Interests in Companies and Other Entities

The Council has fully complied with the SORP and implemented the requirement to collate its interests in companies. The Council has identified those companies that are subsidiaries, associates or joint ventures in accordance with the guidance detailed in the Statement of Recommended Practice, the provisions of FRS2 "Accounting for Subsidiary Undertakings" and the provisions of FRS9 "Associates and joint ventures". After consideration of all the criteria the Council has determined that the consolidation of all related companies would not have a material effect on the Council's financial position. Consequently, no group accounts have been prepared.

## 14 Investments

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

## 15 Internal Interest

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

## 16 External Interest Paid

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

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

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

## 18 External Interest Received

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

# STATEMENT OF ACCOUNTING POLICIES

## 19 Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. Capital expenditure under £5,000 is classified as de-minimis and is written off to the Income and Expenditure account. The de-minimis expenditure is financed using existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund balance so there is no impact on the levels of Council Tax.

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

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

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

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

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

Net current replacement cost is assessed as:

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

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account

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

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

- where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account.
- otherwise - written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

## STATEMENT OF ACCOUNTING POLICIES

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal i.e. netted off against the carrying value of the asset at the time of disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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

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

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the life of the property as estimated by the valuer
- vehicles, plant and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- infrastructure - straight-line allocation over 40 years.

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

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

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

### 20 Intangible Assets

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

### 21 Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- amortisation of intangible fixed assets attributable to the service.

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

# STATEMENT OF ACCOUNTING POLICIES

## 22 Leases

### Finance Leases

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

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

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

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

### Operating Leases

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

## 23 Financial Liabilities

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

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

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

# STATEMENT OF ACCOUNTING POLICIES

## 24 Financial Assets

Financial assets are classified into two types:

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

### Loans and Receivables

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

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

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

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

### Available-for-sale Assets

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

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

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

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

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

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

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

### Instruments Entered Into Before 1st April 2006

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



# STATEMENT OF ACCOUNTING POLICIES

## 25 Private Finance Initiative (PFI)

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

### Prepayments

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

### Reversionary Interest

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

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

### Residual Interest

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

### PFI Credits

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

## 26 Landfill Allowance Trading Scheme (LATS)

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

Landfill Allowance permits are valued at the lower of cost or net realisable value. Permits held by the council at 31st March 2008 are included at nil value.

## 27 Changes in Accounting Policies

The implementation of the SORP 2007 on 1st April 2007 resulted in changes to the presentation of the Statement of Accounts. The substantial changes introduced are in respect of Financial Instruments and the replacement of the Fixed Asset Replacement Reserve and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account. As a result, the 2006/07 figures have been restated to comply with the new requirements, which are intended to bring local authority accounts more in line with UK GAAP.

There have been no other major changes in the Authority's accounting policies during 2007/08.

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## The Authority's Responsibilities

The authority is required to:

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

## The Director of Corporate Services's Responsibilities

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

In preparing this Statement of Accounts, the Director of Corporate Services has:

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

The Director of Corporate Services has also:

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

## Director's Statement

This Statement of Accounts has been prepared in accordance with the statutory requirements and proper accounting practices. It presents fairly the Council's financial position as at 31<sup>st</sup> March 2008 and the income and expenditure for 2007/2008.

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

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

Director of Corporate Services

## Certification of the Statement of Accounts

As Chair of the Audit Committee meeting held on 27th June, 2008, I hereby acknowledge receipt of the Statement of Accounts for 2007/2008 by this Committee, in accordance with the Accounts and Audit Regulations 2003 Regulation 7(1), and confirm that the Statement of Accounts was approved at the Audit Committee meeting of 27th June, 2008 in accordance with sub-paragraph 10 (3) (a) with regard to the aforementioned Regulations.

Chair \_\_\_\_\_

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

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

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

## INCOME AND EXPENDITURE ACCOUNT

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

2006/07		2007/08			
NET EXPENDITURE RESTATED £000		GROSS EXPENDITURE £000	INCOME £000	NET EXPENDITURE £000	Notes
43	Central services to the public	7,918	(6,549)	1,369	
21,648	Cultural, environmental & planning services	36,132	(15,206)	20,926	
13,765	Education services	96,040	(85,632)	10,408	
6,127	Highways, roads & transport services	9,844	(3,743)	6,101	
(3,048)	Housing services	57,021	(50,047)	6,974	
28,462	Social services	46,233	(13,769)	32,464	
4,989	Corporate and democratic core	4,864	-	4,864	
60	Non Distributed Costs	2,230	-	2,230	24
<b>72,046</b>	<b>Net Cost of Services</b>	<b>260,282</b>	<b>(174,946)</b>	<b>85,335</b>	
(159)	(Gain) / Loss on the disposal of fixed assets			684	
43	Parish council precepts			48	
(653)	Surplus on trading undertakings not included in Net Cost of Services			(586)	5
4,126	Interest payable and similar charges			4,298	
1,973	Contribution of housing capital receipts to Government Pool			1,512	
(3,979)	Interest and investment income			(2,599)	
11,250	Pensions interest			13,160	24
(10,240)	Expected return on assets			(12,050)	24
<b>74,408</b>	<b>Net operating expenditure</b>			<b>89,802</b>	
(33,828)	Borough Council demand on Collection Fund			(35,732)	
(100)	Transfer from the Collection Fund in respect of the previous year's (surplus)/deficit			-	
(5,169)	General government grants			(4,757)	
(26,659)	Contribution from non-domestic rates pool			(28,348)	
(1,908)	Local Authority Business Growth Incentive			(1,320)	
-	Local Public Service Agreement			(388)	
<b>6,744</b>	<b>Net General Fund deficit for the year</b>			<b>19,257</b>	

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

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

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

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

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

AS AT 31 MARCH 2007		AS AT 31 MARCH 2008
<b>£000's</b>		<b>£000's</b>
6,744	(Surplus)/Deficit for the year on the Income and Expenditure Account	19,257
(7,523)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (see note on page 20)	(14,778)
(779)	(Increase)/Decrease in General Fund Balance for the Year	4,479
(12,837)	General Fund Balance brought forward	(13,616)
<b>(13,616)</b>	General Fund Balance carried forward	<b>(9,137)</b>
(13,616)	Amount of General Fund Balance generally available for new expenditure	(9,137)
<b>(13,616)</b>		<b>(9,137)</b>

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

YEAR TO 31 MARCH 2007		For the Year To 31 MARCH 2008
£000's		£000's
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	
(12,662)	Depreciation and impairment of fixed assets	(22,534)
1,492	Government Grants Deferred amortisation	5,305
(350)	Write downs of deferred charges to be financed from capital resources	(204)
159	Net gain / (loss) on sale of fixed assets	(681)
-	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	128
(680)	Net charges made for retirement benefits in accordance with FRS17	(2,380)
(12,041)		(20,366)
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	
1,976	Minimum revenue provision for capital financing	2,540
3,275	Capital expenditure charged in-year to the General Fund Balance	2,783
(1,973)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,512)
3,278		3,811
	<b>Transfers (to) or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
(65)	Housing Revenue Account Balance	51
723	Voluntary revenue provision for capital financing	506
	Net transfer to or from earmarked reserves	
(440)	Schools Revenue Reserve	(94)
-	PFI Reserve	(432)
(23)	Major Repairs Reserve	-
-	Insurance Reserve	476
980	PFI Residual Interest Account	841
96	Other	-
16	Crematorium Refurbishment Fund	(34)
(47)	Building Control	(45)
-	BVACOP Superannuation Contributions	423
-	Faverdale Maintenance Fund	(5)
-	Development Fund	(19)
-	Revenue Contributions to Capital Outlay	109
1,240		1,777
<b>(7,523)</b>	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	<b>(14,778)</b>

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

RESTATED AS AT 31 MARCH 2007		AS AT 31 MARCH 2008
<b>£000</b>		<b>£000</b>
6,744	(Surplus) / Deficit for the year on the Income and Expenditure Account	19,257
(101,538)	(Surplus) / Deficit arising on Revaluation of Fixed Assets	(4,966)
-	(Surplus) / Deficit arising on revaluation of available-for-sale Financial Assets	(511)
1,370	Actuarial (gains)/losses on pension fund assets and liabilities	(12,180)
<b>(93,424)</b>	Total recognised (gains)/losses	<b>1,600</b>
	<u>Other Gains and Losses</u>	
-	Government Grants Deferred	(35,635)
1,110	Financial Instruments Adjustment Account	(46)
<b>(92,314)</b>	Total recognised (gains)/losses for the year	<b>(34,081)</b>

The balance of £35.635M represents a write off of Government Grants Deferred from the balance sheet for assets that have already been financed, the write off has no effect on Council Tax.

## BALANCE SHEET AS AT 31st MARCH 2008

RESTATED AS AT 31 MARCH 2007		AS AT 31 MARCH 2008		NOTES
£000		£000	£000	
0	<b>Fixed Assets</b>			
	<b>Intangible Fixed Assets</b>		0	
	<b>Tangible Fixed Assets</b>			
	<b>Operational Assets</b>			
186,050	Council Dwellings	180,402		
178,276	Other Land and Buildings	183,224		
5,984	Vehicles, Plant and Equipment	5,830		
16,228	Infrastructure Assets	28,417		
6,692	Community Assets	7,200		
	<b>Non Operational Assets</b>			
11,198	Investment Properties	12,127		
803	Assets Under Construction	695		
6,185	Surplus Assets held for Disposal	4,670		
411,416	<b>Total Fixed Assets</b>		422,565	11a
2,842	<b>Long Term Investments</b>		3,352	15
	<b>Long Term Debtors</b>			
99	Mortgages	81		
980	Residual Interest in PFI Schemes	1,822		14
251	Other	272	2,175	
415,588	<b>Total Long-Term Assets</b>		428,092	
	<b>Current Assets</b>			
688	Stocks and Work in Progress	689		
12,084	Debtors	14,481		17
0	Cash at Bank	3,525		
612	Landfill Allowance Trading Scheme	621		
43,072	Investments (Short Term)	44,604		
56,456			63,920	
472,044	<b>Total Assets</b>		492,012	
	<b>Current Liabilities</b>			
(32,374)	Creditors	(40,742)		18
(365)	Landfill Allowance Trading Scheme	(621)		
(1,384)	Bank Overdraft	0		
(34,123)			(41,363)	
437,921	<b>Total Assets less Current Liabilities</b>		450,649	
(95,242)	<b>Long Term Borrowing</b>	(102,253)		16
(197)	<b>Deferred Liabilities</b>	(155)		
(50,373)	<b>Government Grants Deferred</b>	(32,350)		
(82,380)	<b>Liability related to defined benefit pension scheme</b>	(72,580)		24
(1,759)	<b>Provisions</b>	(1,260)		19
(229,951)			(208,598)	
207,970	<b>Total Assets less Liabilities</b>		242,051	
	<b>Financed By :</b>			
81	<b>Deferred Capital Receipts</b>		69	20
-	<b>Revaluation Reserve</b>		4,964	20
268,572	<b>Capital Adjustment Account</b>		288,937	20
(1,110)	<b>Financial Instruments Adjustment Account</b>		(924)	20
2,842	<b>Available-for-sale Financial Instruments Reserve</b>		3,352	
163	<b>Usable Capital Receipts Reserve</b>		2,480	20
(82,380)	<b>Pensions Reserve</b>		(72,580)	24
19,802	<b>Reserves</b>		15,753	20
207,970	<b>Total Net Worth</b>		242,051	

## CASH FLOW STATEMENT

2006/07	DESCRIPTION	2007/08		
£000		£000	£000	£000
	<b>Revenue Activities</b>			
	<b>Cash Outflows</b>			
108,765	Cash Paid To Employees	112,205		
118,429	Other Operating Cash Payments	118,361		
13,989	Housing Benefit Paid Out	15,307		
27,616	Payment To Non-Domestic Rates Pool	28,965		
3,348	Precept Paid To Durham Police Authority	4,568		
2,558	Precept Paid To Durham Fire and Rescue Authority	2,702		
2,378	Payments to the Capital Receipts Pool	2,469	284,577	
277,083				
	<b>Cash Inflows</b>			
(5,410)	Rents (After Rebates)	(5,651)		
(34,007)	Council Tax Collected	(36,824)		
(28,701)	Non-Domestic Rates Collected	(29,684)		
(26,696)	Share Of Non-Domestic Rates Pool	(28,348)		
(5,169)	Revenue Support Grant	(4,757)		
(53,941)	Dedicated Schools Grant	(58,108)		
(29,996)	DWP Grants For Rebates	(31,907)		
(27,959)	Other Government Grants	(27,910)		
(62,921)	Cash Received For Goods And Services	(56,580)		
0	Other Cash Receipts	0		
(274,800)			(279,769)	
2,283				4,808
	<b>Returns On Investments And Servicing Of Finance</b>			
	<b>Cash Outflows</b>			
4,178	Interest Paid	4,292		
11	Interest Element of Finance Leasing Payments	8	4,300	
	<b>Cash Inflows</b>			
(77)	Dividends received	0		
(2,025)	Interest Received	(3,498)		
(1,870)	Receipt from Newcastle International Airport	0	(3,498)	802
217				
	<b>Capital Activities</b>			
	<b>Cash Outflows</b>			
30,688	Payments For Capital Schemes	27,360	27,360	
	<b>Cash Inflows</b>			
(5,064)	Sale Of Fixed Assets	(4,568)		
(19,728)	Capital Grants Received	(21,119)	(25,687)	1,673
5,896				
8,396	<b>Net Cash Outflow/(Inflow) Before Financing</b>			7,283
	<b>Management of Liquid Resources</b>			
525	Net Increase/(Decrease) In Short Term Deposits	(6,290)	(6,290)	
	<b>Financing</b>			
	<b>Cash Outflows</b>			
35,769	Repayment of Loans	15,445		
47	Capital Element Of Finance Leasing Payments	42	15,487	
	<b>Cash Inflows</b>			
(44,408)	New Long-Term Loans Raised	(21,389)		
0	New Short-Term Loans Raised	0	(21,389)	
(8,592)				
(8,067)	<b>Total Financing</b>			(12,192)
329	<b>Net (Increase) Decrease in Cash</b>			(4,909)



# NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

The Council is also committed to make further payments estimated at £96.765M over the remaining term of the 25 year contract but this figure is reduced by the impact of the PFI credits which has been estimated as totalling £72.142M worth of central government grant support over the same contract period. This then leaves an estimated remaining cost of the PFI scheme for future years to the Council of £24.623M as at 31st March 2008. It is also important to note that the costs of the scheme will also take into account budgets which previously covered the facilities now provided by both the Education Village and Harrowgate Hill Primary School.

Period	Unitary Payments £000's	PFI Credits £000's	Net Cost £000's
2008/09	4,607	3,200	1,407
2009/20010 - 2013/2014	22,185	16,002	6,183
2014/2015 - 2018/2019	21,241	16,002	5,239
2019/2020 - 2023/2024	20,886	16,002	4,884
2024/2025 - 2028/2029	21,065	16,002	5,063
2029/2030 - 2030/2031	6,781	4,934	1,847
<b>Totals</b>	<b>96,765</b>	<b>72,142</b>	<b>24,623</b>

## 2 Long Term Debtor - Residual Interest in PFI Scheme

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

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

	B/Fwd	New Provision	Less Repayments	Amounts as at 31/03/08
	£'000	£'000	£'000	£'000
PFI Scheme residual interest				
Education Village	702	702	0	1,404
Harrowgate Hill Primary	278	139	0	417
<b>Total</b>	<b>980</b>	<b>841</b>	<b>0</b>	<b>1,821</b>

## 3 Discretionary Expenditure

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

The council's expenditure under this power was £47,751 mainly on employment and community support grants (£36,806 in 2006/07).

## 4 Expenditure on Publicity

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

	2006/07 £000	2007/08 £000
Recruitment Advertising	451	363
Other Advertising	256	400
Other publicity	222	83
	<b>929</b>	<b>846</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 5 The Building Control Account

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

	2006/07			2007/08		
	Chargeable £000	Non Chargeable £000	Total £000	Chargeable £000	Non Chargeable £000	Total £000
Employee Expenses	207	106	313	225	138	363
Premises	9	5	14	10	6	16
Transport	10	5	15	11	7	18
Supplies & Services	46	10	56	37	17	54
Central & Support Service Charges	129	53	182	93	78	171
<b>Total Expenditure</b>	<b>401</b>	<b>179</b>	<b>580</b>	<b>376</b>	<b>246</b>	<b>622</b>
Building Regulations Income	(354)	(8)	(362)	(331)	(9)	(340)
(Surplus)/Deficit	47	171	218	45	237	282

### 6 Trading Operations

The Council operates a number of trading operations, details of which for 2007/08 are

	2006/07		2007/08	
	Turnover £	Surplus £	Turnover £	Surplus £
Building Cleaning	1,653	(19)	1,591	(75)
Construction	10,333	673	8,964	361
Catering	1,008	(338)	1,584	(140)
Grounds Maintenance	301	4	255	2
Housing Management Contract	0	0	0	0
Highways and Sewerage	3,283	323	3,358	171
Leisure Management	51	(1)	0	0
Maintenance	7,948	(78)	9,058	354
Other Cleaning	0	0	0	0
Refuse Collection	0	0	0	0
School Meals-Best Value	1,479	(146)	1,579	(223)
	<b>26,056</b>	<b>418</b>	<b>26,389</b>	<b>450</b>
Adjustments:-				
FRS 17		34		58
Pension Increase Act		68		35
Prudential Borrowing		133		43
<b>Surplus on Trading Accounts</b>	<b>26,056</b>	<b>653</b>	<b>26,389</b>	<b>586</b>
Open & Covered Markets	583	25	620	(54)
Shops and Offices	197	138	194	152
Car Parks	2,309	1,048	2,337	1,080

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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 2007/08 surplus bedding plants grown at the Council's plant nursery were sold to various public bodies, generating income of £221,836 (£244,470 in 2006/07).

The total income on the nursery account (including internal recharges) was £370,003 (£431,184 in 2006/07) compared with expenditure of £368,237 (£427,017 in 2006/07).

The authority provided Civil Engineering, Street Lighting, Building Maintenance and Construction Work for various other bodies generating income of £1,563,138 (£1,148,263 in 2006/07).

### 8 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, dependants' carers' allowance, travelling and subsistence and co-optees' allowance was £626,184 (2006/07 - £618,357).

### 9 Officers' Emoluments

Remuneration band	2006/07	2007/08
	Number of employees Total	Number of employees Total
£50,000 - £59,999	34	31
£60,000 - £69,999	5	15
£70,000 - £79,999	4	4
£80,000 - £89,999	2	5
£90,000 - £99,999	2	3
£100,000 - £109,999	2	2
£110,000 - £119,999	0	0
£120,000 - £129,999	1	0
£130,000 - £139,999	0	1

### 10 Audit Costs

The Audit Commission has appointed PricewaterhouseCoopers LLP (PwC) as the auditors of the Council. In 2007/08 Darlington Borough Council incurred the following fees relating to external audit and inspection.

	2006/07 £000	2007/08 £000
Fees payable to PwC with regard to external audit services carried out.	172	213
Fees payable to PwC for the certification of grant claims and returns	77	61
Fees payable to PwC in respect of other services provided by the appointed auditor	3	8
Sub-Total	<u>252</u>	<u>282</u>
Fees payable to the Audit Commission in respect of statutory inspection	16	130
Total	<u>268</u>	<u>412</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 11 Related Parties

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

### Central Government

Central Government controls the statutory framework within which the Council operates and provides the majority of the Council's funding. The Income and Expenditure Account and Cash Flow Statement contain details of grants paid by Central Government to the Council in 2007/08. Details of transactions with government departments are set out on page 39.

### Councillors

Members of the Council have direct control over the the Council's financial and operating policies. During 2007/08 the Council had transactions totalling approximately £1,120,700 (£126,400 in 2006/07) with charitable bodies and companies in which Members had interests. Councillors are subject to the Council's Member Code of Conduct. The Register of Members' interests and declarations of interests relating to specific items of discussion at meetings are available for public inspection.

### Senior Officers

The Council's senior managers may influence financial and operating policies through the professional advice to elected Members and through the management decisions they make under delegated powers. Such officers are subject to the Council's Employees Code of Conduct and professional bodies' standards. There are no related party transactions between the Council and its senior managers that require disclosure in 2007/08

### Pensions

Details of the Council's payment of employer's superannuation contribution to the Pension Fund are shown in **Note 21 (page 34)** of these Notes.

### Other Organisations

The Council paid £1.709M to 26 other organisations on which it has Member representation and which share educational, economic development, social and culture objectives.

## 12 Interests in Companies

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

### Controlled Companies:

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

### Investments:

The Council also holds 16% of the shares in Premier Waste Management Ltd. 220,480 £1 shares are held with a balance sheet value of £1,084,804. The latest audited accounts are for the year ended 31st March 2007 and show net assets including pension liability of £6,780,025 (previous year £3,597,857), a profit before tax of £2,265,442 (previous year profit before tax £1,783,915), and a profit after tax of £1,950,868 (previous year profit after tax £1,274,771). Further information regarding the company's accounts can be obtained from the Registered Office, Premier Waste Management Ltd, Prospect Houses, Aykley Heads Business Centre, Aykley Heads, Durham DH1 5TS.

The Council holds 6.66% of the shares in Durham Tees Valley Airport. 1,766,667 B Ordinary Shares are held with a balance sheet value of £1,412,179, and 174,900,100 Deferred Shares. The latest audited accounts are for the year ended 31st March 2007 and shows net assets of £21,203,895 (previous year £21,981,787), a loss before tax of £1,915,616 (previous year loss before tax £2,661,323) and a loss after tax of £1,430,992 (previous year loss after tax £2,012,699). Further information regarding the company's accounts are available from the Registered Office, Durham Tees Valley Airport Ltd, Darlington, County Durham DL2 1LU.

The Council has been awarded a proportion of the shares in Newcastle International Airport, however these have not yet been transferred to the Council, the reason being that the current owners require various approvals to transfer under the Company's rules and regulations. Those approvals continue to be sought so that the shares can be transferred and registered in the Council's name but in the meantime an asset has been shown on the balance sheet equivalent to the face value of the shares held by Durham County Council on our behalf (currently valued at £855,000).

### Authorised Unregulated:

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

### Authorised Exempt:

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 13 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 2007	186,078	188,858	13,645	21,671	6,692	18,186	<b>435,130</b>
Accumulated Depreciation as at 31st March 2007	(28)	(10,582)	(7,661)	(5,443)	0	0	<b>(23,714)</b>
Net Book Value as at 1 April 2007	186,050	178,276	5,984	16,228	6,692	18,186	<b>411,416</b>
Revaluations & restatements	720	(5,422)	0	0	27	3,231	<b>(1,444)</b>
Depreciation written back	0	6,408	0	0	0	0	<b>6,408</b>
Enhancements & Additions	10,209	13,596	1,446	12,732	508	1,000	<b>39,491</b>
Disposals	(2,850)	(710)	0	0	(27)	(3,678)	<b>(7,265)</b>
Transfers	0	732	0	0	0	(732)	<b>0</b>
Depreciation for year	(3,518)	(5,543)	(1,600)	(543)	0	0	<b>(11,204)</b>
Impairment	(10,209)	(4,113)	0	0	0	(515)	<b>(14,837)</b>
<b>Net book value as at 31st March 2008</b>	<b>180,402</b>	<b>183,224</b>	<b>5,830</b>	<b>28,417</b>	<b>7,200</b>	<b>17,492</b>	<b>422,565</b>

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

The effective date for valuations of 20% of the Authority's assets was 1st April 2000. Revaluation of the Authority's assets has been completed as part of a 5 yearly revaluation programme. An impairment review has been undertaken in accordance with FRS11.

Operational land and buildings are being depreciated over their estimated useful economic lives, having been assessed by the Valuer in the Corporate Services 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 FRS15.

#### 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 Council's valuers who is a Member of the Royal Institute of Chartered Surveyors. Valuations were prepared in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors, except that not all 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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 they 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 :

	2006/07 £000s	2007/08 £000s
Revenue Contributions	3,275	2,783
Grants and Contributions	17,277	28,050
Capital Receipts	4,377	3,592
Loans	16,274	6,894
	41,203	41,319

At the 31st March 2008 the Authority has ongoing major capital commitments in relation to the Darlington Eastern Transport Corridor (£5.302M) and to the redevelopment of Hummersknott school (£10.747M)

#### **Capital Investment**

The total capital investment was as follows:

	2006/07 £000s	2007/08 £000s
Operational Assets	35,677	38,958
Non-Operational Assets	679	415
Intangible Assets	4,847	1,946
	41,203	41,319

#### **(d) Capital Expenditure and financing**

	2006/07 £000's	2007/08 £000's
<b>Opening Capital Financing Requirement</b>	79,912	93,469
<b>Capital Investment</b>		
Operational Assets	35,677	38,958
Non-Operational Assets	679	415
Intangible Assets	0	117
Deferred Charges	4,847	1,829
<b>Sources of Finance</b>		
Capital Receipts	(4,377)	(758)
Revenue	(3,275)	(2,783)
Grants & Contributions	(17,277)	(28,050)
Revenue Provision	(1,976)	(2,540)
Set Aside	(723)	(2,503)
Deferred Liabilities Movement	(18)	(11)
	93,469	98,143
<b>Explanation of movement in the year</b>		
Increase in underlying need for borrowing (Supported by Government financial assistance)	4,174	3,212
Increase in underlying need for borrowing (Unsupported by Government financial assistance)	9,383	1,462
<b>Increase / (Decrease) in Capital Financing Requirement</b>	13,557	4,674

## NOTES TO THE CORE FINANCIAL STATEMENTS

### e) Analysis of Fixed Assets

	31st March 2007	31st March 2008
Schools - Nursery	1	1
- Primary (excluding Aided schools)	21	21
- Secondary (excluding Aided schools)	5	4
- Pupil Referral Unit	2	2
- PFI	2	2
-Other	1	1
Children's homes	1	1
Adult Day Centres	2	2
Other Social Services Properties	3	3
Council Dwellings	5,527	5,454
Highways - Principal roads	59.0km	59.0km
- 'B' roads	29.5km	29.3km
- 'C' roads	108.7km	108.1km
- Unclassified roads	342.6km	338.3km
Town Hall	1	1
Other Administrative Buildings	1	2
Depots and Workshops	3	4
Off-Street Car Parks/Lorry Park	21	21
Arts Centre	1	1
Leisure Centre	1	1
Eastbourne Sports Complex	1	1
Libraries	2	2
Museum	1	1
Parks and Recreation Grounds	39	39
Golf Courses	1	1
Theatre	1	1
Covered Market	1	1
Cattle Market	1	1
Open Market	1	1
Cemeteries	3	3
Crematorium	1	1
Commercial Property Rented Out : shops, Offices Workshops	32	33
Area	7,600 sq.m.	7,824 sq.m
Ground Leases	147	147
Area	79.1h	79.1h
Short Term Tenancies & Licences of Land	75	74
Agricultural Tenancies including Farm Business Tenancies	17	15
Area	256.00 h	247.62 h

### 14 Analysis of Assets Employed

	31st March 2007	31st March 2008
	£000's	£000's
General Fund	101,652	118,968
Housing Revenue Account	105,523	122,163
Trading Operations	795	920
	<b>207,970</b>	<b>242,051</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 15 Finance And Operating Leases

The Authority uses leased refuse collection vehicles and also enters into a leasing arrangement for computer equipment and other miscellaneous items. The amount paid under operating leases for these items in 2007/08 was £0.746M (£0.695M in 2006/07). The Authority has 21 leasing agreements for Land & Buildings. The amount paid under the leases for these items in 2007/08 was £0.341M (£0.181M in 2006/07).

The Council is committed to making payments of £0.541M under these leases in 2008/09, comprising the following elements:-

	£000s
Leases expiring 1 year	119
Leases expiring between 2 -5 years	419
Leases expiring after 5 years	3

No leases entered into during 2007/08, in accordance with SSAP 21, have qualified as finance leases. Plant and Equipment leased in this manner totalled £0.287M and includes various vehicles. The amount paid under finance leases for these items in 2007/08 was £0.045M, split between principal repayments of £0.037M and interest of £0.008M. An outstanding liability of £0.155M existed relating to finance leases as at 31st March 2008.

The Council is committed to making payments of £0.045M under these leases in 2008/09, comprising the following elements:-

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

The Authority acts as the Lessor and leases various Land & Buildings to third parties. During 2007/08 £0.778M was received by the Authority in relation to these leases.

### 16 Debtors and Prepayments

	31st March 2007	31st March 2008
	£000	£000
Government Departments	1,731	2,701
Other Local Authorities	359	191
Council Tax and NDR	2,271	3,234
Housing Rents	721	873
Sundry Debtors	7,747	5,886
Collection Fund Balance	33	330
Prepayments	852	3,210
	13,714	16,425
Less Provision for Doubtful Debts	(1,630)	(1,944)
	12,084	14,481

### 17 Creditors and Income In Advance

	31st March 2007	31st March 2008
	£000	£000
Income In Advance	12,912	12,962
Government Departments	4,315	3,982
Other Local Authorities	1,518	1,443
Collection Fund Balance	0	0
Sundry Creditors	13,629	22,355
	32,374	40,742



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 18 Contingent Liabilities

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

- During 1992/93 Municipal Mutual Insurance ceased accepting new business. At 31st March 2008, the Council only had one outstanding claims with MMI amounting to £4,000 and arrangements are in place to try to ensure an orderly settlement of the sums due.

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

- The Council has received, both prior to and during 2007/08, a number of equal pay claims which are seeking financial redress in respect of periods when unequal pay is alleged to have been paid by the Council. Following the receipt of legal advice, offers have been made to achieve settlement of those claims where appropriate, and also made to other employees in a similar position who were potential claimants. Whilst the majority of claims have been settled, a number of other claims remain outstanding, these claims will be periodically reviewed to ensure the Council takes appropriate and timely action where necessary. It remains difficult to determine the Council's potential future liability, and no provision has been made for potential future claims.

### 19 Provisions

	Balance as at 1st April 2007	Net Movement in Year	Balance as at 31st March 2008
	£000's	£000's	£000's
Land Reclamation	381	(81)	300
Trading Operations	94	(27)	67
Insurance Provision	647	(21)	626
Frozen Holiday Pay	6	0	6
Social Services s117	261	0	261
Single Status	370	(370)	0
	1,759	(499)	1,260

**Land Reclamation** - A provision for the repayment of reclamation grant has been made in the accounts in the sum of £300,000 at 31st March 2008. This is at variance with SSAP 4, part of the balance has been repaid during 2007/08 and the remainder of the balance is expected to be repaid during 2008-09.

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

**Insurance Provision** - The Council insures against the risk of claims in respect of personal injury and property loss. These risks are insured externally, however there is a £5,000 excess in respect of each and every claim on the liability policy. The balance on this account represents claims made and still outstanding as at 31st March 2008 which are within these excesses. The Council commenced payments during 2006-07 and payments will continue over the next 5 to 10 years.

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

**Social Services s117** - Provision for potential repayment of charges made under s117 of the Mental Health Act 1983. The Council expects to start to make payments in 2008-09 and they are likely to continue to be made for a number of years.

**Single Status** - A provision has been created for costs related to single status settlement payments due in 2006/07 as a result of the job evaluation exercise that has a backdated start date of 1st July 2005. As at the 31st March 2008 the provision has been fully utilised.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 20 Reserves

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

	Balance as at 1st April 2007	Net Movement in Year	Balance as at 31st March 2008
	£000's	£000's	£000's
Capital Adjustment Account	268,572	20,365	288,937
Revaluation Reserve	0	4,964	4,964
Usable Capital Receipts	163	2,317	2,480
Financial Instruments Adjustment Account	(1,110)	186	(924)
Pension Reserves	(82,380)	9,800	(72,580)
Housing Revenue Account	601	51	652
Deferred Capital Receipts	81	(12)	69
General Fund	13,099	(4,169)	8,930
Earmarked Departmental Reserves	517	(310)	207
Faverdale Maintenance Fund	26	(5)	21
Revenue Contribution to Capital Outlay	504	109	613
Schools Revenue Balances	2,094	(94)	2,000
PFI Reserve	1,013	(432)	581
Absence Supply Insurance	100	0	100
Available-for-sale Financial Instruments Reserve	2,842	510	3,352
Insurance Fund	1,331	476	1,807
Crematorium Refurbishment Fund	80	(34)	46
Building Control	131	(45)	86
Development Fund	19	(19)	0
Pensions Contribution Reserve	287	423	710
<b>Total</b>	<b>207,970</b>	<b>34,081</b>	<b>242,051</b>

Purpose of Reserve:

- a) Capital Adjustment Account** - A store of capital resources set aside to meet past expenditure
- b) Revaluation Reserve** - A store of gains on revaluation of fixed assets
- c) Usable Capital Receipts** - Proceeds of fixed asset sales available to meet future capital investment.
- d) Financial Instruments Adjustment Account** - The balance of Premiums on Rescheduled Debt still to be charged to Service Revenue Accounts
- e) Pensions Reserve** - Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.
- f) Housing Revenue Account** - Resources available to meet future running costs for council houses.
- g) Deferred Capital Receipts** - are amounts derived from sales of assets that will be received in instalments over agreed periods of time. They arise from the repayment of loans granted to individuals for the purchase of council houses .
- h) General Fund** - Resources available to meet future running costs for non-housing services.
- i) Earmarked Departmental Balances** - surpluses/(deficits) built up by departments, earmarked for forward planning.
- j) Faverdale Maintenance Fund** - is for maintenance of land at Faverdale in accordance with an agreement entered into when the council sold land it previously owned.
- k) Revenue Contribution to Capital Outlay** - is the establishment of a reserve to meet future capital commitments.
- l) Schools Revenue Balances** - are balances held by locally managed schools and are not available to the Council for general use. The net balance at 31st March 2008 includes a deficit of £101 in respect of 1 school (£41,628 for 3 schools in 2006/07).
- m) PFI Reserve** - has been created to enable the Council to manage the cash flow over the life of the concession.
- n) Absence Supply Insurance** - insures schools with delegated budgets against the risk of long term sickness.
- p) Available-for-sale Financial Instruments Reserve** - This is the value of investments held by the authority in Durham Tees Valley International Airport, Premier Waste Management Ltd and Newcastle International Airport.
- o) Insurance Fund** - is established under statutory powers to indemnify the Council against specified risks.
- q) 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.
- r) Building Control** - This Reserve has been created to enable any surpluses built up to be carried forward to offset against future costs.
- s) Development Fund** - This fund was established to enable the change programme to be delivered including a strategic review of services
- t) Pensions Contribution Reserve** - This reserve has been established in response to the latest actuarial valuation from the Council's Actuary.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21 Retirement Benefits

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

#### Transactions Relating to Retirement Benefits

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

	Local Government Pension Scheme	
	31st March 2007 £000's	31st March 2008 £000's
<b>Income and Expenditure Account</b>		
<i>Net Cost of Services:</i>		
Current service cost	(9,230)	(9,940)
Past service costs	(60)	(2,230)
<i>Net Operating Expenditure</i>		
- interest cost	(11,250)	(13,160)
- expected return on assets in the scheme	10,240	12,050
<i>Net Charge to the Income &amp; Expenditure Account</i>	(10,300)	(13,280)
<i>Statement of Movement in the General Fund Balance</i>		
- reversal of net charges made for retirement benefits in accordance with FRS 17	10,300	13,280
Actual amount charged against the General Fund Balance for pensions in the year		
- Employers' contributions payable to scheme	(9,620)	(10,900)

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

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

	Local Government Pension Scheme	
	31st March 2007 £000's	31st March 2008 £000's
Estimated liabilities in scheme	(245,890)	(232,660)
Estimated assets in scheme	163,510	160,080
Net asset / (liability)	(82,380)	(72,580)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £72.580M has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a positive net overall balance of £242.049M. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Basis of Estimating Assets and Liabilities

An independent actuary revalues the fund every three years and the amounts included in the Council's 2007-08 accounts have been derived by suitable approximate methods from the full actuarial valuation carried out by the actuary as at 31st March 2007.

The main assumptions used in their calculations have been:

	Local Government Pension Scheme	
	31st March 2007	31st March 2008
Rate of Inflation	3.20%	3.70%
Rate of general long-term increase in salaries	4.70%	5.20%
Rate of increase to pensions in payment	3.20%	3.70%
Rate of increase to deferred pensions	3.20%	3.70%
Rate for discounting scheme liabilities	5.30%	6.80%
Take-up of option to convert annual pension into retirement grant	50%	50%

Assets in the Durham County Council Pension Fund are valued at fair value, totaling £1,377.70M for the Fund as a whole at 31st March 2008 (£1,447.97M as at 31st March 2007). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term rate of return at 31/03/08 (% p.a.)	As at 31st March 2007 (%)	As at 31st March 2008 (%)
Equities	7.6%	85.1	47.9
Property	6.6%	2.4	4.8
Government Bonds	4.6%	7.5	32.2
Corporate Bonds	6.8%	0.0	7.9
Other	6.0%	5.0	7.2
<b>Total</b>	6.4%	100.0	100.0

### Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories, measured as absolute and as a percentage of assets or liabilities at 31st March 2008.

	For the year ended 31st March 2004	For the year ended 31st March 2005	For the year ended 31st March 2006	For the year ended 31st March 2007	For the year ended 31st March 2008
Differences between the expected and actual return on scheme assets:					
- Amount (£M)	16.02	2.22	22.18	1.26	(21.31)
- % of scheme assets	13.30%	0.22%	1.68%	0.80%	(13.30%)
Experience gains (losses) on scheme liabilities:					
- Amount (£M)	2.07	22.24	2.85	(3.86)	(2.98)
- % of the present value of the scheme liabilities	1.10%	11.60%	1.25%	(1.60%)	(1.30%)
Change in assumptions					
- Amount (£M)	(2.85)	(29.58)	(16.79)	1.23	36.47
- % of the present value of the scheme liabilities	1.50%	15.40%	7.39%	0.50%	15.70%
Total amount recognised in Movement in Reserve:					
- Amount (£M)	15.24	(5.12)	8.24	(1.37)	12.18
- % of the present value of the scheme liabilities	7.90%	2.70%	3.63%	(0.60%)	5.20%

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

In 2007/08 the Council paid £3.935 to Teachers' Pensions in respect of teachers retirement benefits, representing 13.5% of pensionable pay. The figures for 2006/07 were £3.785M and 13.5%. There were no contributions remaining payable at the year end.

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 22 Trust Funds

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

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

	Balance at 1st April £000's	Receipts £000's	Payments £000's	Balance at 31st March £000's	Assets £000's	Liabilities £000's
James Barningham Fellowship	19	3	0	21	71	0
Lady Dale Scholarship	10	2	0	12	39	0
Darlington Education Fund	83	23	(11)	96	607	0
W.Draffan Scholarship	4	1	0	5	29	0
Others	18	3	0	21	76	0
	134	32	(11)	155	822	0

All of the above investments are held by the Charities Official Investment Fund (COIF) and the latest COIF Charity Fund shares are valued at £667,014.61 as per valuation date 31/03/08 (£691,721.04 as per valuation date 31/03/07).

#### Purpose of the Trust Funds:

##### James Barningham Fellowship

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

##### Lady Dale Scholarship

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

##### Darlington Education Fund

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

##### W.Draffan Scholarship

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

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

	Balance at 1st April £000's	Receipts £000's	Payments £000's	Balance at 31st March £000's
Stainsby Murray Fund	86	5	(5)	86
E.M.Corner Bequest	64	3	(2)	65
Criminal Injuries Compensation	41	11	(6)	46
BAT Legacy	145	117	(104)	158
Other	69	70	(79)	60
	405	206	(196)	415

#### Purpose of the Trust Funds:

##### Stainsby Murray Fund

Provision of Christmas comforts for aged persons in Darlington.

##### E.M.Corner Bequest

Provision of the Arts by Darlington Library

##### Criminal Injuries Compensation

Provision of funds for compensation to minors.

##### BAT Legacy

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 23 Reserves and Balances held by Schools under Delegated Schemes

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

	31st March 2007 000's	31st March 2008 000's
Schools unspent balances	(2,496)	(2,219)
Schools overspent balances	42	0
Schools IT Loans	360	219
	(2,094)	(2,000)

### 24 Dedicated Schools Grant

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

**Details of the deployment of DSG receivable for 2007/08 are as follows:**

Schools Budget Funded by Dedicated Schools Grant			
	Central Expenditure £000's	Individual Schools Budget £000's	Total £000's
Original grant allocation to Schools Budget for the current year in the Authority's budget	4,806	50,948	55,754
Adjustment to finalised grant allocation	61		61
DSG receivable for the year	4,867	50,948	55,815
Actual expenditure for the year	(4,806)	(51,042)	(55,848)
(Over)/underspend for the year	61	(94)	(33)
Planned top-up funding of ISB from Council resources	0	0	0
Use of schools balances brought forward	0	94	94
(Over)/underspend from prior year	0	0	0
(Over)/underspend carried forward to 2007/08	61	0	61

### 25 Authorisation of the Accounts for Issue

The date that the financial statements are authorised for issue is 19th June 2008. This establishes the date after which events will not have been recognised in the Statement of Accounts.

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

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

Director of Corporate Services

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 26 Notes relating to the Cash Flow Statement

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

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

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

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

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

CASH FLOW STATEMENT 'REVENUE ACTIVITIES' RECONCILIATION TO INCOME AND EXPENDITURE ACCOUNT	£000	£000
Income & Expenditure Account Deficit/(Surplus)		19,397
Accrual adjustment		836
Items Included in CFS Revenue Activities, Not Included in I & E :-		
Precept Paid To Durham Police/Fire & Rescue Authorities	7,270	
Payment To Non Domestic Rates Pool	28,965	
Council Tax Collected	(36,824)	
Non Domestic Rates Collected	(29,684)	
Payments to the Capital Receipts Pool	<u>2,469</u>	
		(27,804)
Items Excluded from CFS Revenue Activities, Included in CRA :-		
Borough Council Demand On Collection Fund	35,732	
Gain on the disposal of fixed assets	(684)	
FRS17 and PIA element of trading undertakings	93	
Interest paid or received	(1,839)	
Depreciation & Impairment of Assets	(22,534)	
Government grants deferred amortisation	5,305	
Pensions interest	(13,160)	
Expected return on assets	12,050	
Write down of deferred charges to be financed from capital resources	(204)	
Net charges made for retirement benefits in accordance with FRS17	(2,380)	
Transfer from the Collection Fund re last years surplus/deficit	<u>0</u>	
		12,379
<b>Net Cash Outflow From Revenue Activities</b>		<u><u>4,808</u></u>

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

	2007/08
	£000
Decrease in Cash	4,909
Cash flow from increase in borrowing	<u>(570)</u>
Change in Net Debt	<u><u>4,339</u></u>

#### Analysis of Debt

	Balance 1st April 2007 £000	Balance 31st March 2008 £000	Movement £000
Decrease in cash	(1,384)	3,525	4,909
Long Term borrowing	(95,242)	(102,253)	(7,011)
Investments (short term)	<u>43,072</u>	<u>44,604</u>	<u>1,532</u>
	<u><u>(53,554)</u></u>	<u><u>(54,124)</u></u>	<u><u>(570)</u></u>

#### Increase in Liquid Resources

	Balance 31/3/07 £000	Balance 31/3/08 £000	Movement £000
Movement in Short Term Deposits			
Short Term Deposits - Cash Inflow	<u>43,072</u>	<u>44,604</u>	1,532
Add Accruals			<u>4,758</u>
Cash Movement			<u><u>6,290</u></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Analysis of Government Grants

	£000
Department of Health	156
DFES Grant	4,627
Learning Skills Council	1,192
Standards Fund	10,054
Teachers Development Grant	122
Other education grants	157
Housing Admin	1,014
Housing Subsidy	(900)
Other housing	53
Asylum Seekers	228
Supporting People Admin	152
Supporting People	3,826
Carers Grant	364
Mental Health Grant	289
Access & Systems Capacity	1,052
Preserved Right	906
Delayed Discharge Grant	195
Preventative & Technology Grant	98
Training support	228
Other Social care	150
Road Safety	182
Smoke Free	46
Safer Stronger Communities	217
Local Area Agreement	795
Single Programme	118
Planning delivery grant	156
Concessionary Fares	89
Flood recovery	23
Cycle England	56
Waste Management & WEE	287
Rural bus services	103
DfT - mainly TOTM	794
Childrens Fund	322
YPSMG	135
LABGI	142
Youth Justice Board	274
PPA	15
Respect	38
YOF	155
	27,910

### Capital Grants

	£000
Single Programme	1,671
Darlington Eastern Corridor	3,966
Standards Fund	8,677
DOH	288
SHIP Grant	997
Local Area Agreement	980
LPSA	388
Sure Start	464
DFT - LTP	1,102
DFT - Road Safety	41
Disabled Facilities Grant	298
Cycling for England Grant	264
ERDF	135
ODPM	260
DEFRA	191
NOF	218
Lottery - Railway	41
NLCD	37
Railway Trust	50
Norther Rock - Railway	400
English Heritage	46
	20,514
Add capital contribution	605
	21,119
Per CFS	21,119



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 27 Financial Instruments

### Disclosure Notes for Financial Assets and Liabilities from 1st April 2007

#### Key Risks

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

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

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

**Re-financing risk**- the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest

**Market risk**- the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements

#### Overall Procedures for Managing Risk

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

by formally adopting the requirements of the Code of Practice

by approving annually in advance prudential indicators for the following three years limiting:

The Council's overall borrowing;

its maximum and minimum exposures to fixed and variable rates;

its maximum and minimum exposures of the maturity structure of its debt;

its maximum annual exposures to investments maturing beyond a year.

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

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

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

#### Credit Risk

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

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

	Amount at 31st March 2008 £000,s	Historical experience of default %	Adjustment for market conditions at 31st March 2008 %	Estimated maximum exposure to default £000,s
Deposits with banks and financial instruments				
AAA rated counterparties	0	0.000	0.000	0
AA rated counterparties				
Less than 1 Year	13,090	0.000	0.000	0
1 to 2 years	2,000	0.001	0.001	0
A rated counterparties	16,930	0.007	0.007	1
Unrated Counterparties	11,500	0.007	0.007	1
Trade Debtors	3,777	6.000	6.000	227

The historical experience of default has been taken from Moody's a credit rating organisation used by the Council and applies to the period 1982-2005

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of this high credit criteria, we have maintained historical default rates as a good indicator under these conditions and not made any adjustment to them.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council does not generally allow credit for its trade debtors, such that £1.826m of the £3.777M balance is past its due date for payment. The past due amount can be analysed by age as follows

	£000s
Less than three months	970
Three to six months	480
Six months to one year	195
More than one year	181
	1,826
	1,826

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

### Liquidity risk

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

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

### Refinancing and Maturity Risk

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

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

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

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

The maturity analysis of financial liabilities is as follows:

	£000s
Less than one year	0
Between one and two years	0
Between two and seven years	6,000
Between seven and 15 years	0
More than 15 years	95,242
	101,242
	101,242

The maturity analysis of Financial assets is as follows:

	£000s
Less than one year	41,460
Between one and two years	2,000
Between two and three years	0
More than three years	0
	43,460
	43,460

All trade and other payables are due to be paid in less than one year and trade debtors of £3.777m are not shown above.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Market Risk

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

borrowings at variable rates - the interest expense charged to the Income and Expenditure Account will rise;

borrowings at fixed rates - the fair value of borrowing liability will fall

investments at fixed rates - the interest income credited to the Income and Expenditure Account will rise; and

investments at fixed rates - the fair value of assets will fall

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns. For Darlington borough Council as a housing authority the risk of interest rate loss is partially mitigated by government grant payable on financing costs

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

	£000s
Increase in interest payable on variable borrowings	0
Increase in interest receivable on variable rate investments	(18)
Impact on Income and Expenditure Account	<u>(18)</u>
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	<u>0</u>

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

**Price Risk** - The Council excluding the pension fund, does not generally invest in equity shares but have shareholdings to the value of £3.352M in two airports and a local waste management company. Whilst these holdings are generally not liquid the Council is exposed to losses arising from movements in prices of the shares.

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

The shares are all classified as Available -for- Sale, meaning that all movements in price will impact on gains and losses recognised in the STRGL. A gain of £0.511M has been recognised in the STRGL for 2007/08 relating to shares for Durham Tees Valley Airport and Premier Waste Management

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Financial Instruments Balances

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

	Long Term		Current	
	31st March 2007 £000s	31st March 2008 £000s	31st March 2007 £000s	31st March 2008 £000s
Financial Liabilities (principal amount)	95,242	101,242	0	0
Financial Liabilities at Amortised Cost		101,186	0	0
Accrued interest	0	1,067	0	0
<b>Total Borrowing</b>	<u>95,242</u>	<u>102,253</u>	<u>0</u>	<u>0</u>
Loans and receivables ( principal amount)	2,842	3,352	43,072	43,047
Accrued Interest	0	0		1,557
<b>Total Investments</b>	<u>2,842</u>	<u>3,352</u>	<u>43,072</u>	<u>44,604</u>

### Financial Instruments Gains/Losses

	Financial Liabilities	Financial Assets		Total		
	Liabilities measured at amortised cost	Loans and Receivables	Available-for- Sale assets	Fair value through the I and E		
	£000s	£000s	£000's	£000's	£000's	
Interest payable and similar charges	4,250	0	0	0	4,250	
Interest and investment income		(1,557)	0	0	(1,557)	
<b>Total Net Interest</b>					<u>2,693</u>	
Gains on revaluation			865			
Losses on revaluation			(354)			
<b>Surplus arising on revaluation of financial assets</b>			<u>511</u>			

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

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

For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures

For loans receivable prevailing benchmark market rates have been used to provide the fair value

No early repayment or impairment is recognised

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Liabilities

The Fair values are calculated as follows

	31st March 2007		31st March 2008	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
PWLB Debt	85,642	83,585	91,642	96,412
Non PWLB Debt	9,600	10,863	9,600	12,079
Total Debt	95,242	94,448	101,242	108,491
Trade Creditors	12,313	12,313	13,979	13,979
<b>Total Financial Liabilities</b>	<b>107,555</b>	<b>106,761</b>	<b>115,221</b>	<b>122,470</b>

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

The fair values for financial liabilities have been determined by reference to the Public Works Loan Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1st November 2008, and are less favourable than the previous procedures. As a result the fair value figures for 31st March 2008 are relatively higher (more costly to redeem) than the 31st March comparators.

### Assets

	31st March 2007		31st March 2008	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Money market loan less than 1 year	35,466	35,466	41,460	41,460
Money market loans more than 1 year	8,000	8,330	2,000	2,160
Trade Debtors	4,972	4,972	3,777	3,777
<b>Total Loans and receivables</b>	<b>48,438</b>	<b>48,768</b>	<b>47,237</b>	<b>47,397</b>

## 28 Local Area Agreement

The Council is a participant in a Local Area Agreement (LAA) - A partnership with other public and voluntary bodies working towards jointly agreed objectives for local public services. In 2007/08 the LAA has completed the second year of a three year agreement.

The delivery of the LAA will:

- strengthen social cohesion in Darlington;
- improve educational outcomes and life chances for children and young people;
- reduce anti-social behaviour and the fear of crime;
- reduce health inequalities for children and young people;
- enable all sectors within the LSP to focus better on the needs of individuals, families and communities;
- provide a model of service improvement which we can roll out to other themes in the future.

The LAA partners are Darlington Borough Council, Durham Constabulary, Darlington Primary Care Trust, Job Centre Plus, Darlington Local Strategic Partnership (LSP), Council for Voluntary Services (CVS), Darlington College, Fire and Rescue Services, Learning & Skills Council.

Darlington Borough Council acts as the accountable body for the LAA which means that we are responsible for the managing and distribution of grant paid by the Government Office to the partners involved. The total amount of LAA grant received in 2007/08 is £2.122M revenue and £1.125M capital.

As accountable body, the council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems are in place to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provision has been made for any such eventuality.

## HOUSING REVENUE ACCOUNT

### INCOME AND EXPENDITURE ACCOUNT

2006/07 (Restated)		2007/08	Notes
<b>£000</b>		<b>£000</b>	
	<b><u>Income</u></b>		
(13,669)	Dwelling rents (gross)	(14,293)	
(305)	Non-dwelling rents (gross)	(353)	
(1,346)	Charges for services & facilities	(1,423)	
(548)	Contribution towards Expenditure	(501)	
<b>(15,868)</b>	<b>Total Income</b>	<b>(16,570)</b>	
	<b><u>Expenditure</u></b>		
2,866	Repairs and maintenance	2,981	
4,540	Supervision and management	4,939	
1	Rent, rates, taxes and other charges	9	
(6)	Rent rebate subsidy limitation	0	
490	HRA Subsidy Payable (including MRA)	897	6
96	Increased provision for bad and doubtful debts	94	7
	Depreciation of fixed assets		
3,450	On dwellings (= MRA)	3,507	5
22	On other assets	25	5
0	Impairment of Fixed Assets	10,209	3
0	Government Grants Deferred Written off	(403)	
10	Debt management costs	8	
<b>11,469</b>	<b>Total Expenditure</b>	<b>22,266</b>	
<b>(4,399)</b>	<b>Net Cost of HRA Services per Authority Income &amp; Expenditure</b>	<b>5,696</b>	
0	HRA Services Share of Corporate and Democratic Core	0	
0	HRA Share of other amounts included in the whole Authority net costs of services but not allocated to specific services	0	
<b>(4,399)</b>	<b>Net Cost of Services</b>	<b>5,696</b>	
(94)	(Gain) or Loss on Sale of HRA Fixed Assets	(35)	
1,162	Interest Payable and Similar Charges	1,233	
113	Amortisation of Premiums and Discounts	0	
(65)	Interest and Investment Income	(44)	
0	Pension Interest Cost and Expected Return on Pension Assets	0	
<b>(3,283)</b>	<b>(Surplus)/deficit for the Year on HRA Services</b>	<b>6,849</b>	

# HOUSING REVENUE ACCOUNT

## STATEMENT OF MOVEMENT ON THE HRA BALANCE

2006/07 (Restated)		2007/08
<b>£000</b>		<b>£000</b>
(3,283)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	6,849
3,347	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(6,900)
64	(Increase) or decrease in the Housing Revenue Account Balance	(51)
(665)	Housing Revenue Account surplus brought forward	(601)
<b>(601)</b>	<b>Housing Revenue Account surplus carried forward</b>	<b>(652)</b>
	<b>Note to the Statement of Movement on HRA Balance</b>	
	<b>Items included in HRA Income and Expenditure Account but excluded from Movement on HRA Balance for the Year</b>	
0	Difference between amounts charged to Income and Expenditure for amortisations of premiums and discounts and the charge for the year determined in accordance with statute.	113
0	Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements (if any).	(9,806)
94	Gain or (loss) on sale of HRA fixed assets	35
0	Net charges made for retirement benefits in accordance with FRS17.	0
0	Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP	0
<b>94</b>	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>	<b>(9,658)</b>
(22)	Transfer to /(from) Major Repairs Reserve	(25)
0	Transfers to/(from) Housing Repairs Account	0
0	Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to pensioners.	0
0	Voluntary set aside for debt repayment	0
3,275	Capital expenditure funded by the HRA	2,783
<b>3,347</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year.</b>	<b>(6,900)</b>

# NOTES TO THE HOUSING REVENUE ACCOUNT

## 1 Housing Stock

	1st April 2007	31st March 2008
<u>Number and types of dwellings</u>		
Houses	2,851	2,819
Flats	2,327	2,284
Bungalows	341	343
Non HRA	8	8
Total dwellings	<u>5,527</u>	<u>5,454</u>
<u>Balance Sheet values</u>		
	£000	£000
Land	210	210
Houses	185,262	179,620
Other property	578	572
Total net Balance Sheet value	<u>186,050</u>	<u>180,402</u>
Operational Assets		
Dwellings	185,262	179,620
Other land & buildings	<u>0</u>	<u>0</u>
	185,262	179,620
Non-operational assets		
	788	782
Total net Balance Sheet value	<u>186,050</u>	<u>180,402</u>

## 2 Vacant Possession Values

The vacant possession value of dwellings as at 1 April in the financial year is £385.000M (£368.415M in 2006/07)

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

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

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

## 3 Impairment Charges

These charges occur where there is a material reduction in the value of a fixed asset during an accounting period. Impairment charges of £10.209M were charged to the HRA Income and Expenditure in 2007-08. This represents Capital expenditure incurred in the year that did not add value to the current Housing stock valuation.

## 4 Deferred Charges

Capital expenditure in 2007/08 included deferred charges where no tangible asset was enhanced. The balance on the deferred charge was written down and is charged to cost of services in the HRA Income and Expenditure Account. Grants received towards the cost of deferred charges can be regarded as revenue grants despite their classification as capital. In 2007/08 deferred charges totalled £1.252M, capital grants treated as revenue totalled £1.252M.



## NOTES TO THE HOUSING REVENUE ACCOUNT

### 5 Major Repairs Reserve

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

	2006/07 £000	2007/08 £000
Balance as at 1 April	0	0
Transfer to MRR during the financial year		
Depreciation on HRA dwellings	(3,450)	(3,508)
Depreciation on other HRA assets	(22)	(25)
Transfer to HRA during the financial year		
Depreciation on other HRA assets	22	25
Transfer from MRR during the financial year in respect of capital expenditure on		
Land	274	229
Houses	3,176	3,279
Other property	0	0
Balance as at 31 March	0	0

### 6 Capital Expenditure

Capital expenditure within the HRA during 2007/08 was as follows :-

	2006/07 £000	2007/08 £000
Land	274	229
Houses	10,206	9,943
Other property	1,551	1,277
Total capital expenditure	12,031	11,449

Total capital expenditure on land, houses and other property within the HRA during 2007/08 was funded via the following sources :-

	2006/07 £000	2007/08 £000
Borrowing	0	2,891
Usable capital receipts	1,853	625
Major Repairs Reserve	3,450	3,508
Revenue	3,275	2,783
Other Grant Funding	3,453	1,642
Total capital expenditure	12,031	11,449

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

	2006/07 £000	2007/08 £000
Land	0	714
Houses	3,334	2,136
Other property	0	0
Total capital receipts	3,334	2,850

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 7 Depreciation of Fixed Assets

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

	2006/07 £000	2007/08 £000
Land	0	
Houses (= Major Repairs Allowance)	3,450	3,508
Other property	22	25
<b>Total charge for depreciation</b>	<b>3,472</b>	<b>3,533</b>
<b>Operational Assets</b>		
Dwellings	3,450	3,508
Other land & buildings	22	25
	3,472	3,533
<b>Non-operational assets</b>	0	0
<b>Total charge for depreciation</b>	<b>3,472</b>	<b>3,533</b>

### 8 HRA Subsidy

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

	2006/07 £000	2007/08 £000
Management allowance	2,584	2,653
Maintenance allowance	5,153	5,294
Major Repairs Allowance (MRA)	3,453	3,508
Charges for capital	1,603	1,611
Admissable Allowance	3	0
5% Rental Constraint	0	125
	12,796	13,191
<i>less</i>		
Rent	(13,295)	(14,088)
Interest on receipts	(4)	(3)
Adjustment to 2006/07 HRA Subsidy	13	3
<b>Total HRA subsidy receivable / (Transfer to Communities)</b>	<b>(490)</b>	<b>(897)</b>

### 9 Rent Arrears

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

	2007 £000	2008 £000
Gross rent arrears as at 31st March	721	873

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

	Year Ended 31st March 2007 £000	Year Ended 31st March 2008 £000
Opening provision for uncollectable debts	186	206
Amounts written off in the year	(56)	(90)
Increase in provision for the year	76	94
<b>Closing provision for uncollectable debts</b>	<b>206</b>	<b>210</b>

## COLLECTION FUND

2006/07		2007/08	NOTES
£000		£000	
	<b><u>Income</u></b>		
(33,617)	Income from Council Tax	(36,164)	3
(6,450)	Transfers from General Fund	(6,830)	3
1	Council Tax benefits	1	3
	Transitional relief		
(27,766)	Income collectable from business ratepayers	(27,733)	2
0	Contributions		
	Towards previous year's Collection Fund deficit	0	5
<b>(67,832)</b>	<b>Total Income</b>	<b>(70,726)</b>	
	<b><u>Expenditure</u></b>		
39,717	Precepts and demands	43,002	4
	Business rate		
27,616	Payment to national pool	27,626	
150	Costs of collection	150	
	Bad and doubtful debts		
305	Write offs	170	
80	Movement in net provision	75	
	Contributions		
117	Towards previous year's estimated Collection Fund Surplus	0	
<b>67,985</b>	<b>Total Expenditure</b>	<b>71,023</b>	
<b>153</b>	<b>Collection Fund (surplus)/deficit for the year</b>	<b>297</b>	
(120)	Collection Fund balance brought forward	33	
153	Collection Fund (surplus)/deficit for the year	297	
<b>33</b>	<b>Collection Fund (surplus)/deficit balance c/forward</b>	<b>330</b>	

# NOTES TO THE COLLECTION FUND

## 1 Collection Fund

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

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

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

## 2 Income From Business Rates

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

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

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

The total national non-domestic rateable value at 31st March 2008 was £75.3m (£75.2m in 2006/07). The non-domestic rating multiplier for 2007/08 was 44.4p per £ (43.3p per £ in 2006/07) and the small business non-domestic rating multiplier for 2007/08 was 44.4p per £ (42.6p per £ in 2006/07).

## 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	12,663	6,304	5,211	4,476	3,083	1,486	746	53
Ratio	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

The Council set a basic council tax of £1,060.14 (£1,020.36 in 2006/07), 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 £135.72 (£100.80 in 2006/07) for their services.

County Durham and Darlington Fire & Rescue Authority set a Band D council tax of £80.28 (£77.04 in 2006/07) for their services.

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

## NOTES TO THE COLLECTION FUND

Council Tax income is therefore :

	2006/07 £000	2007/08 £000
Council Tax levied	44,260	47,485
Less allowances	(4,193)	(4,450)
	<b>40,067</b>	<b>43,035</b>
Payable from the following sources :		
Billed to Council Tax payers	(33,617)	(36,205)
Council Tax benefits	(6,450)	(6,830)
Transitional relief	0	0
Council Tax benefit subsidy limitation	0	0
	<b>(40,067)</b>	<b>(43,035)</b>

### 4 Precepts And Demands

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

	2006/07 £000	2007/08 £000
Darlington Borough Council	33,828	35,732
Durham Police Authority	3,338	4,568
County Durham and Darlington Fire & Rescue Authority	2,551	2,702
	<b>39,717</b>	<b>43,002</b>

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

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

	2006/07 £000	2007/08 £000
Darlington Borough Council	100	0
Durham Police Authority	10	0
County Durham and Darlington Fire & Rescue Authority	7	0
	<b>117</b>	<b>0</b>

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

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

We have audited the financial statements of Darlington Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund and the related notes. The financial statements have been prepared under the accounting policies set out within them.

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

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

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

This report, including the opinion, has been prepared for and only for Darlington Borough Council's Members as a

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

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

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

### **Basis of audit opinion**

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

## AUDITOR'S REPORT TO DARLINGTON BOROUGH COUNCIL

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

### Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Darlington Borough Council as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP  
89 Sandyford Road  
Newcastle upon Tyne  
NE1 8HW

Date:  
30 September 2008

### Notes:

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

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

#### Council's Responsibilities

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

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

# AUDITOR'S REPORT TO DARLINGTON BOROUGH COUNCIL

## Auditor's Responsibilities

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

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

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

## Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Darlington Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008

## Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2007/08 in **XXXXXXX**. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

## Certificate

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

PricewaterhouseCoopers LLP  
89 Sandyford Road  
Newcastle upon Tyne  
NE1 8HW

Date:  
30th September 2008



# ANNUAL GOVERNANCE STATEMENT

## Scope of Responsibility

1. Darlington Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
3. The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at [www.darlington.gov.uk](http://www.darlington.gov.uk) or can be obtained from:-

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

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

## The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically
7. The governance framework has been in place at the Council for the year ended 31st March 2008 and up to the date of approval of the Statement of Accounts.

## The Governance Framework

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

# ANNUAL GOVERNANCE STATEMENT

## Review of Effectiveness

### Background

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

### Local Code of Corporate Governance

14. The Audit Committee received a six-monthly monitoring report in June 2008 to ensure that Members were satisfied that the management processes defined in the Council's Local Code were actually being adhered to throughout the organisation
15. The report concluded that overall, positive progress was being made on the application of Corporate Governance within the Authority.

### Managers' Assurance Statements

16. Annual Managers' Assurance Statements are an integral part of the framework that supports production of the Annual Governance Statement.
17. The Statements cover key aspects of the internal control environment on which assurance is required and were completed in Spring 2008 by representatives on Departmental Senior Management Teams. The output from the exercise was reported to the Audit Committee in June 2008.
18. The overall position was positive. Required improvements identified through the Assurance Statements largely focus on the expansion of learning management software to better record acceptance and understanding by employees and members of a range of corporate policies/processes. In addition, Statements have been rolled out to secondary schools for completion and are to be endorsed by Governing Bodies during the Summer of 2008.

### Performance Management/Data Quality

19. The Council's Performance Management Framework (PMF) is a formal process whereby performance is monitored against both national and local indicators across key strategies. This process, operated by all departments to defined quality standards, is underpinned by a series of rules and procedures codified in a Data Quality Strategy (DQS).
20. Reporting of performance involves regular reports to Departmental Management Teams, Corporate Management Team, Cabinet and Scrutiny Committees. In addition, Members and Officers are able to look at more detailed performance information by using the Council's computerised performance management system, PerformancePlus.
21. The PMF is reviewed at least annually and any improvements identified as a result of internal or external audit work are incorporated as appropriate.
22. The 2007/08 performance data, to be published in the BVPP by the end of June 2008, shows overall improvement against the basket of non-financial BVPIs of 7%. Performance against targets for the community strategy themes and corporate objectives is generally positive, although targets have not been achieved for a limited number of indicators where under performance has impacted upon the headline picture for a number of themes and objectives
23. The Council was reassessed in 2007 by external audit on its management arrangements to secure data quality and the assessment concluded that the Council was performing well.

# ANNUAL GOVERNANCE STATEMENT

## Financial Management

24. The Council's Medium Term Corporate Plan incorporates four-year financial plans. The Council sets its annual revenue budget, capital programme and Council Tax within this wider planning framework. The Medium Term plans, annual budgets and Council Tax are developed in consultation with partner organisations in all sectors, residents and employees, and are approved by full Council.
25. Responsibility for controlling and managing budgets is delegated to Directors and devolved to service managers. Financial management is closely integrated with service management. Cabinet and Resources Scrutiny Committee receive regular reports to enable them to monitor and scrutinise financial performance and service delivery.
26. The Council must comply with external financial reporting requirements, including publishing an annual Statement of Accounts ('the Accounts') and reporting to Central Government and other funding providers. The Accounts, which are prepared in accordance with Accounting Codes of Practice, are approved by the Council's Audit Committee and are independently audited under arrangements made by the Audit Commission. The auditors gave an unqualified opinion on the council's 2006/07 financial statements by the statutory deadline of 31 September 2007, stated that no significant issues were noted during the course of the audit and commented that the accounts presented for audit were timely and of good quality.
27. The Council's cash-flow and borrowing to finance capital expenditure is managed through the Treasury Management Strategy, approved by full Council, and in accordance with legislation and codes of practice.
28. Specific arrangements exist for schools, to which responsibility for management of finance and other resources has been devolved under various legislation. A system of accreditation under the Financial Management Standard in Schools (FMSiS) is being rolled out to all Darlington schools in a phased three-year programme.

## Risk Management

29. Risk is one of the elements of information incorporated into the development of departmental service plans and the Corporate Plan. Risk management is, therefore an essential element in establishing policy, developing plans and enhancing operational management.
30. 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.
31. The approach to, and outcomes from, the Council's risk management processes for 2007/08 was reported to the Audit Committee in June 2008. The report detailed positive progress upon delivery of action plans to mitigate key risks and outlined advances in the management of operational risks through the Council's Corporate Risk Management Group. Indeed, proactive risk management work within the Council was recognised at national and European level this year.

## Information Governance

32. In February 2008, Cabinet approved a Corporate Information Governance Policy in order to formally establish a strategic framework addressing the requirements that the law, ethics and policy place upon information and records management. The Policy is designed to ensure the systematic adoption of information management principles to underpin the Council's operations and service delivery.
33. Implementation of the Policy is led and monitored by the cross-departmental Corporate Information Governance Group, chaired by the Head of Corporate Assurance. This Group was mandated to approve information governance related policies and tasked to produce six monthly progress reports to the Audit Committee.
34. The initial progress report to the June 2008 Audit Committee concluded that significant progress had been made in all areas of information governance across the Council. The Information Governance Team was targeting those services and business areas that required urgent assistance with their information as well as delivering a strategic framework for the whole Council and developing approaches to managing information requests.

## Internal Audit

35. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council.

## ANNUAL GOVERNANCE STATEMENT

36. The Audit Committee approves the Annual Internal Audit Plan and receives progress reports against the Plan during the year including any significant matters arising or other issues of concern and Internal Audit's Annual Report.
37. Internal Audit concluded in their Annual Report for 2007/08 that, overall, the Council continues to operate within a control environment that is generally sound.

### Review of Internal Audit Effectiveness

38. A review of the effectiveness of the Council's system of internal audit was carried out by a team of senior officers that comprised a Policy Adviser, the Assistant Director – Housing and the Assistant Director – Public Protection based upon guidance issued by the Finance Advisor Network (FAN) of CIPFA. The findings of the review were considered by the Audit Committee in June 2008.
39. The review team concluded that the Council has an effective system of internal audit.

### Partnership Working

40. In March 2007, Cabinet adopted a partnership working toolkit to provide a means to ensure that the Council's resources were effectively employed, the performance of each partnership was monitored and adequate governance arrangements were in place. As part of the toolkit, a clear definition of a partnership and those classed as significant was documented. The toolkit that comprises an on-line questionnaire was to be completed by the lead officer for each partnership.
41. There was to be an annual review of significant partnerships led by the Chief Executive of Darlington Partnership based upon completed questionnaires and the outcomes from the first such review was reported to Cabinet in September 2007. The summary of the report commented that the key partnerships in Darlington make a significant contribution to ensuring the Council enjoys and maintains positive relationships and develops joint projects with its external partners. The development of these partnerships becoming more responsible for resource deployment through the Local Area Agreement had meant that the considerations of governance must be formally applied at very stage and introduction of the toolkit had ensured a clear analysis of these partnerships could be applied to ensure they were delivering against their objectives and fulfilling the expectations of the Council.

### Standards Committee

42. The Standards Committee continues to monitor a set of Ethical Health Indicators designed to provide an indication of an increase in dissatisfaction with the Council across a range of areas of the Council's activities. The Committee oversees the Council's Confidential Reporting Policy, the Protocol for Member Officer relations, Member Training and other key documents. The Committee produced its first Annual Report about the work of the committee, which was presented to Council in March.
43. The Committee has also implemented the new Local Assessment Framework receiving the first complaint and holding an initial assessment hearing on 2nd June 2008. The Council continues to have a record of no complaints upheld against a Member of this Council, and only 17 complaints across the Borough and the Parishes from inception to date.
44. The Committee has an ongoing work programme and an ambitious programme of work for the coming year.

### Annual Audit and Inspection Letter

45. The Annual Audit and Inspection Letter, produced jointly by the Council's external auditors PricewaterhouseCoopers LLP (PwC) and the Audit Commission, was presented to the Audit Committee in March 2008. The Letter was extremely positive and highlighted that the Council retained the highest Comprehensive Performance Assessment (CPA) rating of 'four star' and under 'direction of travel', to describe improvement progress, was 'improving well'.
46. In terms of Use of Resources, comprising financial reporting, management and standing as well as internal control and value for money, the Council maintained its score of 3 out of 4. This equates to 'consistently above minimum requirements – performing well'. This represented good progress against a background in which the Audit Commission has consistently 'raised the bar' to support continuous improvement with a more stringent set of assessment criteria in 2007. Notable features of the Council's assessment were an improved overall theme score of 4 out of 4 for Value for Money and an improved score of 4 out of 4 for the procedures in place to manage significant business risks.
47. The Letter also commented that the Council has made good progress in promoting inclusive communities. It has raised the profile of the issue through agreeing a new community engagement strategy, 'A Bigger Say and a Better Deal for Communities', and appointing a portfolio holder with specific responsibility for communities and engagement.

# ANNUAL GOVERNANCE STATEMENT

## Significant Internal Control Issues

48. In November 2007, Cabinet requested an independent investigation into a major capital project, the Darlington Eastern Transport Corridor, following a significant projected increase in costs. Consultants EC Harris were commissioned to examine the factors contributing to the projected overspend and the decision to agree a change to the road level.
49. A Task and Finish Review Group, comprising all Members of Resources Scrutiny Committee, was established to give detailed consideration to the report made by EC Harris and its findings. Resources Scrutiny Committee endorsed the recommendations of the Review Group, which were forwarded to Cabinet in June 2008. They were that :-
- (a) the report from EC Harris be noted
  - (b) Cabinet be advised of Resources Scrutiny Committee's view that :-
    - (i) the actions taken to improve project management within the Authority, including the restructure of departments implemented in 2007/08, be monitored and reviewed by this Scrutiny Committee and that the definition of strategic procurement, project management and the use of external consultants in delivering capital projects be included as part of this review and that this review should commence immediately;
    - (ii) the lessons learnt from the EC Harris report and discussions at this meeting be incorporated into the Capital Project review Action Plan;
    - (iii) following completion of the Capital Project Review, the Action Plan be monitored by this Scrutiny Committee forthwith; and
    - (iv) in the light of the EC Harris report, Cabinet be requested to review its level of involvement in capital projects taking account of its duty of care and due diligence
50. Key lessons from the scheme and the recommendations from the Scrutiny Committee support the work that is ongoing to give greater levels of confidence and assurance around capital projects. The three key strands of activity that will strengthen programme and project management and strengthen Scrutiny and Cabinet oversight of major capital schemes, are :-
- (a) the reorganisation of the Council in the autumn of 2007;
  - (b) the Capital Project Review, now nearing completion of its development phase (implementation to be complete by the end of October 2008)
  - (c) changes to the Contract Procedure Rules, agreed by Council in February 2008.

## Significant Internal Control Developments Since 31 March 2008

51. Since the Balance Sheet date of 31 March 2008 and the date on which the Statement of Accounts was signed by the responsible officer the Council entered into a shared services partnership with Stockton Borough Council for the provision of ICT, Transactional Finance and HR and Print and Design.
52. Discussions are ongoing between the Internal and External Auditors of both Councils to establish an appropriate audit assurance framework for the partnership.

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

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

Signed .....

Leader of the Council

Date .....

Signed .....

Chief Executive

Date .....

**CORE PRINCIPLES OF CORPORATE GOVERNANCE**

**APPENDIX A**

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

# 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.

## ACTUARIAL GAINS AND LOSSES

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

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

## AGENCY

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

## ASSET

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

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

## ASSOCIATE

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

## AUDIT

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

## BALANCE SHEET

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

## BALANCES

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

## BUDGET

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

## 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.

# GLOSSARY

## **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.

## **CIPFA**

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

## **COLLECTION FUND**

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

## **COMMUNITY ASSETS**

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

## **CONSISTENCY**

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

## **CONTINGENCY**

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

## **CONTINGENT ASSET**

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

## **CONTINGENT LIABILITY**

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

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

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

## **COUNCIL TAX**

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



# GLOSSARY

## **CREDITOR**

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

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

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

## **DEBTOR**

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

## **DEFERRED CHARGES**

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

## **DEFINED BENEFIT PENSION SCHEME**

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

## **DEPRECIATION**

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

## **DISCRETIONARY BENEFITS (PENSIONS)**

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

## **ENTITY**

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

## **EXCEPTIONAL ITEMS**

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

## **EXPECTED RETURN ON PENSION ASSETS**

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

## **EXTRAORDINARY ITEMS**

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

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

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

## **FAIR VALUE**

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

## **FINANCE LEASE**

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

# GLOSSARY

## **FIXED ASSETS**

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

## **GOING CONCERN**

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

## **GOVERNMENT GRANTS**

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

## **HOUSING ACT ADVANCES**

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

## **HOUSING BENEFITS**

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

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

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

## **IMPAIRMENT**

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

## **INCOME**

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

## **INCOME AND EXPENDITURE ACCOUNT**

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

## **INFRASTRUCTURE ASSETS**

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

## **INTANGIBLE ASSETS**

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

## **INTEREST COST (PENSIONS)**

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

## **INVESTMENTS (PENSION FUND)**

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

## **JOINT VENTURE**

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

# GLOSSARY

## 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.

## NET WORTH

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

## NON-DISTRIBUTED COSTS

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

## NON-OPERATIONAL ASSETS

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

## OPERATING LEASE

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

## OPERATIONAL ASSETS

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

## PAST SERVICE COST (PENSIONS)

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

## PENSION SCHEME LIABILITIES

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

# GLOSSARY

## PRECEPT

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

## PRIOR YEAR ADJUSTMENT

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

## PROJECTED UNIT METHOD

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

## PROVISION

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

## PROVISION FOR CREDIT LIABILITIES

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

## PRUDENCE

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

## PUBLIC WORKS LOAN BOARD (PWLB)

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

## RATEABLE VALUE

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

## RELATED PARTIES

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

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

## RELATED PARTY TRANSACTIONS

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

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

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

# GLOSSARY

## REMUNERATION

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

## RESERVES

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

## RESIDUAL VALUE

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

## RETIREMENT BENEFITS

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

## REVENUE BALANCES

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

## REVENUE CONTRIBUTIONS

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

## REVENUE EXPENDITURE

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

## REVENUE SUPPORT GRANT

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

## SCHEME LIABILITIES

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

## 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.

## GLOSSARY

### 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.

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

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