

STATEMENT OF ACCOUNTS

1. EXPLANATORY FOREWORD

1.1 Introduction

The accounts of Chester-le-Street District Council for the year 2005/2006 are shown on pages 9 to 53. They consist of:-

Consolidated Revenue Account

This account summarises, in one consolidated statement, the income and expenditure relating to all of the Authority's functions. It is divided into four sections, designed to show:-

- the net cost of services;
- the net operating expenditure;
- the amount to be met from Government Grants and Local Taxation;
- the net General Fund Surplus or Deficit.

Housing Revenue Account

This account shows revenue income and expenditure specifically relating to Council Housing.

Collection Fund

A statutory account which records separately, on an accruals basis, income from residual Community Charge, Council Tax, Non-Domestic Rates and Government Grant, and payments in respect of precepts.

Consolidated Balance Sheet

A combination of the various service account Balance Sheets, setting out the overall financial position of the Authority at 31 March 2006.

Statement of Total Movement in Reserves

This statement brings together all the recognised gains and losses of the authority during the year and identifies those that have and have not been recognised in the Consolidated Revenue Account.

Cash Flow Statement

This summarises movements in the Council's cash position.

Statement of Internal Control

This summarises the responsibilities relating to the monitoring of an effective system of internal financial control.

1.2 GENERAL FUND REVENUE EXPENDITURE

General Fund expenditure for 2005/06 is summarised in the Consolidated Revenue Account. This shows the costs of the Council's services, other than Council housing and how the net expenditure has been funded.

The table below shows where our money came from and how we spent it.

WE SPENT MONEY ON

| Service | Net Actual Expenditure £'000s | Percentage of Total |
|---|----------------------------------|---------------------|
| Community Services | 566 | 7% |
| Leisure Services | 2,031 | 24% |
| Regeneration | 174 | 2% |
| Environmental Health | 538 | 6% |
| Planning | 178 | 2% |
| Environmental Services | 2,435 | 29% |
| Resources | 503 | 6% |
| Chief Executive's Department | 1,217 | 15% |
| Corporate Functions | 728 | 9% |
| | 8,370 | 100% |
| Less: Capital Accounting Adjustments (net) | (955) | |
| | 7,415 | |
| Less: investment interest | (256) | |
| | 7,159 | |

WHERE THE MONEY CAME FROM

| Service | £'000 | Percentage of Total |
|-------------------------|-------|---------------------|
| Council Tax | 2,702 | 38% |
| Revenue Support Grant | 2,662 | 37% |
| Business Rates | 1,540 | 22% |
| Collection Fund Surplus | 6 | - |
| Reserves | 249 | 3% |

The Council set a General Fund Revenue Budget of £6,910,020 for 2005/06. This included a budgeted contribution from the General Fund of £130,000. The table below shows the budgeted figures for 2005/06 as compared with the actual outturn for the year.

| Service | Original Net Budget £'000s | Probable Net Budget £'000s | Net Actual Outturn £'000s | Variance from Probable Budget £'000s |
|---|-------------------------------|-------------------------------|------------------------------|---|
| Community Services | 736 | 585 | 566 | (19) |
| Leisure Services | 1,826 | 1,925 | 2,031 | + 106 |
| Regeneration | 204 | 98 | 174 | + 76 |
| Environmental Health | 587 | 541 | 538 | (3) |
| Planning | 253 | 177 | 178 | + 1 |
| Environmental Services | 2,329 | 2,386 | 2,435 | + 49 |
| Resources | 548 | 457 | 503 | + 46 |
| Chief Executive's Department | 1,084 | 1,203 | 1,217 | + 14 |
| Corporate Functions | 295 | 700 | 728 | + 28 |
| | 7,862 | 8,072 | 8,370 | + 298 |
| Less: Capital Accounting Adjustments | (622) | (825) | (955) | (130) |
| | 7,240 | 7,247 | 7,415 | 168 |
| Less: Interest on Investments | (200) | (259) | (256) | 3 |
| | 7,040 | 6,988 | 7,159 | + 171 |
| Less: Contributions from Reserves | (130) | (78) | (249) | + 171 |
| | 6,910 | 6,910 | 6,910 | - |

The final position for 2005/06 shows an overspend as compared with the probable budget of £170,681.

Changes in capital charges - which, effectively, show the notional costs of assets used to provide the service - have resulted in the outturn for some services; leisure, environmental services and regeneration, the Civic Centre (included in corporate functions) are the main services affected by the changes. Capital charges do not, however, affect the real cost of the general fund services as they are reversed out in the capital accounting adjustments and are not taken into account in the net cost of services. The capital charges resulted in the following variances:-

| | £'000 |
|--------------------------------|-------|
| Leisure Services | + 69 |
| Regeneration | + 23 |
| Environmental Services | + 7 |
| Corporate Functions | + 26 |
| Capital accounting adjustments | (125) |

Excluding the effects of the changes in capital charges, the main reasons for the overspend were as follows:-

| | £'000 |
|------------------------|-------|
| Benefits | 83 |
| Concessionary Travel | 40 |
| Leisure Services | 37 |
| Environmental Services | 42 |
| Regeneration | 53 |

Offset, to an extent, by underspends in Community Services, Strategy, Legal Services and support services in the Resources' directorate.

The overspend on Benefits is entirely due to benefit subsidy income from the Department of Work and Pensions. This is likely to be an ongoing issue and will have to be addressed in 2006/07 and future years.

The overspend in respect of concessionary fares will not be a problem in 2006/07 as the Council's contribution to the free countywide bus scheme has been agreed at the budgeted level.

With regard to leisure services, approximately £10,000 of the overspend is due to energy costs which could be regarded as uncontrollable. £27,237 is, however, overspent on controllable budgets. This has to be found by leisure services and should not be treated as a 'corporate problem'. In the short term, CMT has agreed that this is funded from leisure's earmarked reserves.

CMT has further agreed that the reserves currently held as 'earmarked for leisure services' should be managed corporately so that leisure has to report to CMT on their proposals for using these reserves prior to their being allocated to specific projects.

The total overspend for Environmental Services amounts to £41,719, but approximately £13,000 is due to energy costs and, as with leisure, this could be regarded as uncontrollable. However, £28,719 of the overspend is on controllable expenditure. Environmental Services do not have any earmarked reserves and, therefore, it is proposed that this overspend of £28,719 should be funded by the service 'borrowing' the resources from the Venture Fund. The service will then be required to fund this from its 2006/07 budgets and repay this to the Venture Fund in 2006/07.

Finally, the total overspend on Regeneration's budgets amounts to £52,484. Approximately £25,000 is due to a shortfall in car park income as compared with budget - and there is a limit to what the service can do, in the short term, to address this. However, the remaining £27,484 is controllable expenditure and should, therefore, be managed in exactly the same way as that proposed for Environmental Services, as outlined above.

Given that a considerable amount of the £171,000 overspend is on controllable budgets, CMT has requested action plans from each of the Service Team Managers setting out how they intend to manage their 2006/07 budgets to ensure that their 2005/06 overspends are addressed, in addition to the savings they are already charged with delivering in 2006/07. The action plans will be considered by CMT in July to ensure that the 2006/07 budget does not overspend.

In summary, the 2005/06 overspend of £170,681 will be funded as follows:-

| | |
|---------------------------------------|---------|
| Leisure's earmarked reserves | £27,237 |
| Environmental Services - Venture Fund | £28,719 |
| Regeneration - Venture Fund | £27,484 |
| Insurance Fund | £87,241 |

1.3 HOUSING REVENUE ACCOUNT

The position at the end of the year showed a surplus of £852,000 as compared with a probable surplus of £264,000..

| Service | Budget | Actual | Variance |
|--|---------------|---------------|-----------------|
| | £ | £ | £ |
| Income | | | |
| Housing Rents (Net of Voids) | 10,114 | 10,171 | - 57 |
| Other Rents and Charges | 288 | 313 | - 25 |
| Major Repairs Allowance | 2,217 | 2,217 | 0 |
| Interest Receivable | 41 | 43 | - 2 |
| Total | 12,660 | 12,744 | - 84 |
| | | | |
| Expenditure | | | |
| Management | 2,637 | 2,624 | -13 |
| Maintenance | 3,092 | 2,605 | - 487 |
| Capital Financing | 2,987 | 2,991 | + 4 |
| Negative Subsidy Payable to Secretary of State | 3,680 | 3,672 | - 8 |
| Total | 12,396 | 11,892 | 504 |
| | | | |
| Use of/Contribution to Balances | 264 | 852 | - 588 |

The variance of £588,000 is due to increased income due to a reduction in house sales and an underspend of revenue budgets due to the capitalisation of planned works.

1.4 BUILDING & MAINTENANCE DIRECT LABOUR ORGANISATION (DLO)

Turnover in 2005/06 amounted to £2.587m and resulted in a surplus of £15,057 for the year. (2004/05 Turnover £2.57m and a deficit of £144,000).

1.5 CAPITAL PROGRAMME

Total Capital Programme expenditure amounted to £9.154 million, as compared with the agreed programme of £11.044 million.

This includes expenditure on Council housing, regeneration and other general fund schemes. The principal areas of expenditure included:-

| | £'000 |
|------------------------------------|-------|
| Housing Revenue Account schemes | 4,467 |
| Town Centre Renaissance | 373 |
| Capitalisation of leases | 1,240 |
| Private Sector Housing Schemes | 517 |
| Pelton Regeneration Programme | 556 |
| Implementing Electronic Government | 724 |

The total Capital Programme expenditure of £9.154 million was financed as follows:-

| | £'000 | Percentage of Total |
|--------------------------------|-------|---------------------|
| Major Repairs Allowance | 2,217 | 24% |
| Capital Receipts | 5,263 | 57% |
| Borrowing | 364 | 4% |
| Government Grants | 440 | 5% |
| Other Grants and Contributions | 792 | 9% |
| Revenue | 78 | 1% |
| | 9,154 | 100% |

1.6 REVENUE RECOVERY

The table below summarises the performance of the Council in recovering amounts due from local taxpayers and tenants.

| | Arrears 31 March 2005 £ | Arrears 31 March 2006 £ |
|--------------------|-------------------------------|-------------------------------|
| Council Tax | 719,399 | 807,611 |
| Non Domestic Rates | 448,011 | 498,979 |
| Rents | 530,592 | 465,168 |
| | 1,698,002 | 1,771,758 |

The total amount of Council Tax to be collected during 2005/06 amounted to £21.6million, and the total amount of non-domestic rates amounted to £6.3million.

The authority achieved a collection rate of 97.7% for Council Tax and 96.6% for non-domestic rates in 2005/06.

1.7 BORROWING

For 2005/06 the Council set its Authorised limit which is the 'Affordable Borrowing limit' required by s3 of the Local Government Act 2003 at £20.5million.

The Council did not exceed its Authorised limit.

The Operational Boundary, set at £17.4million for 2005/06, is a potential borrowing position that could be required in the event of cash flow problems that could arise during the year, and periods when the actual position is either below or over the boundary would be acceptable, subject to the Authorised limit not being breached.

The operational boundary is how we manage external debt to ensure we remain within the Authorised limit.

The maximum gross borrowing position during the year was £19.65 million, and the minimum gross borrowing position was just under £14 million.

The long-term debt at the end of 2005/06 stood at £14.641 million.

The average rate of interest paid on long term loans in 2005/06 was 5.63% compared with a rate of 5.68% in 2004/05.

1.8 INVESTMENTS

The Council's investments amounted to £8.075 million on 31 March 2006. An average rate of interest of 4.61% was earned on investments.

1.9 RESERVES AND BALANCES

At the end of 2005/06, the Council's total General Fund reserves amounted to £1.515 million. This total comprises:-

| | £'000 |
|------------------------------|--------------|
| General Fund Revenue Reserve | 394 |
| Earmarked for LSVT | 160 |
| Earmarked Revenue Reserves | 961 |
| | 1,515 |

The General Fund reserve is a reserve set aside for unforeseen events and is needed to help cash flow management. The Council is responsible for collecting the Council Tax for Durham County Council, Durham Police Authority and Darlington Fire Authority and the Parish Councils, as well as itself. Instead of paying their share of the Council Tax as it is collected, the Council has to pay a proportion of the total due to the different organisations at specific times during the year, irrespective of whether the amount due have been collected. It is important, therefore, to have the general reserve available to help meet these payments should this be required.

Finally, the earmarked revenue reserves are a variety of funds earmarked for specific revenue purposes. The total includes the insurance reserve, planning delivery grant, funding earmarked for leisure activities and the Venture Fund.

The Housing Revenue Account (HRA) has reserves of approximately £1,929,125; £456,690 of this has been earmarked to be used during 2006/07.

2. STATEMENT OF ACCOUNTING POLICIES

2.1 General Principles

The Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006.

The general principles conform with the requirements of the various Statements of Standard Accounting Practice issued by the Accounting Standards Committee, with the exception of the following:-

SSAP9 – Stocks and Work in Progress

The recommended practice of including stocks and work in progress in financial statements at cost or net realisable value, whichever is the lower, has not been adopted in the case of stocks. Stocks are included in this statement at latest price. In addition work in progress for Housing Maintenance is based on an estimate of the value of work completed as at 31 March rather than the actual cost of work.

2.2 Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised in the accounts on an accruals basis, with the exception of amounts of £5,000 or less which have been classed as de minimis and charged to revenue. Expenditure on fixed assets is capitalised when the fixed asset yields benefits to the authority and the services it provides for a period of more than one year. This excludes expenditure on the routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by CIPFA's 2004 Code of Practice on Local Authority Accounting. The values used for the Authority's non-housing assets have been based on the 2004/2005 values which were updated by the average increase in a comparable, neighbouring authority's asset base since this authority's last valuation.

Assets are included in the balance sheet on the following basis:-

- Land, operational properties and other operational assets are included at open market value in existing use or where this is not available, at depreciated replacement cost. In the case of Council housing more details are provided in section 6.6 on page 38.
- Non-operational assets, including investment properties and assets that are surplus to requirements, are included at the lower of net current replacement cost and net realisable value. In the case of investment properties, this is normally open market value.

- Infrastructure assets and community assets at historical cost.

The surpluses arising from the initial valuation of fixed assets effective from 1 April 1994 and the subsequent revaluation effective from 1 April 1999 were credited to the Fixed Asset Restatement Reserve. Future revaluations are planned at five yearly intervals, although material changes to asset valuations will be effected as they occur. All housing assets have been revalued during 2005/06. Non-housing assets are currently being revalued.

Housing assets were revalued based on inspections undertaken by S. Allsopp (FRICS) who is a Senior Associate within the Social Housing Division of Countrywide Surveyors. The valuations were undertaken in accordance with the guidance issued by the DETR (now DCLG).

Assets acquired under finance leases are also capitalised in the authority's accounts, together with the liability to pay future rentals. Other assets, previously acquired under deferred purchase schemes are also recognised and included in the balance sheet at their fair value.

2.3 Receipts Arising from the Sale of Capital Assets

Under the Local Government Act 2003, the previous 'set aside' requirements for housing capital receipts with pooling arrangements, whereby 75% of the receipts from the sale of Council houses and subject to some exceptions, such as 50% of the proceeds of other housing assets have to be paid over to central government.

2.4 Depreciation

Depreciation is required to be provided for on all fixed assets with finite and determinable useful lives. The bases on which depreciation is included in the accounts are as follows:

- Operational property valued on the basis of depreciated replacement cost has been depreciated in line with the requirements of FRS 15.
- Depreciation on Council dwellings has been included in the accounts at the same value as the Major Repairs Allowance. The Director of Resources believes this to be a fair assessment of the level of depreciation, and does not consider any variation is required.
- Newly acquired assets are depreciated from the mid-point of the year, although assets in the course of construction are not depreciated until they are brought into use.
- Depreciation is calculated using the straight line method.

2.5 Impairment

The value at which each category of assets is included in the balance sheet should be reviewed at the end of each reporting period, and where there is reason to believe that its value has changed materially in the period, the valuation should be adjusted accordingly. Impairment is reflected by:

- a significant decline in the fixed asset's market value during the period
- evidence of obsolescence or physical damage to the fixed asset
- a significant adverse change in the statutory or other regulatory environment in which the authority operates
- a commitment by the authority to undertake a significant reorganisation.

Currently there is no impairment adjustment reflected in the accounts for 2005/2006. However following discussions with the Valuation Office it was established that the valuation of certain assets is linked in part to income generated. Relevant turnover information has been forwarded to our valuers in order to ascertain if an impairment loss needs to be reflected in the accounts following the revaluation of assets.

2.6 Charges to Revenue

General Fund service accounts, central support services and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. The aggregate charge to individual services is determined on the basis of the capital employed in each service. The charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charge.

External interest payable and the provision for depreciation are charged to the Asset Management Revenue Account, which is credited with the value of capital charges, which have been charged to services. Capital charges therefore have a neutral impact on the amounts required to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately as appropriations, on the face of the Consolidated Revenue Account, below net operating expenditure.

2.7 Deferred Charges

Deferred Charges represent expenditure which may properly be capitalised, but which does not represent tangible fixed assets. Such expenditure must be charged to service revenue accounts on the basis of the benefit that service receives as a result of the expenditure. Amounts included in the balance sheet should be based on the continuing value to the authority.

2.8 Government Grants and Other Contributions

Revenue

Government grants in respect of revenue expenditure are accrued and credited to the appropriate service account in the year. The accrued element appears in the Balance Sheet as a debtor, or creditor if cash received exceeds the amount due.

Capital

Where the acquisition of a fixed asset is financed either wholly or in part by a Government grant or other contribution, the amount of the grant or contribution is credited initially to the Government Grants – Deferred Account. Amounts should be released to the Asset Management Revenue Account over the useful life of the asset to match the depreciation charged on the asset to which it relates. During 2005/2006 all such assets which were financed in whole or in part by Government Grants and/or other contributions have been identified and the grants and contributions written off over the useful lives of the assets concerned.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is a reasonable assurance that the grant or contribution will be received.

2.9 Leases

Rental payments under finance leases are apportioned between the finance charge and the principal element, i.e. the reduction of the liability to pay future rentals. The finance element of rentals is charged to the Asset Management Revenue Account. Rentals payable under operating leases are charged to revenue on an accruals basis.

2.10 The Basis of the Provision for the Redemption of Debt

The repayment (redemption) of debt by services is provided for in accordance with the requirements of the Local Government and Housing Act 1989. Service accounts must be charged with an amount known as the Minimum Revenue Provision (MRP).

Under the capital accounting system, the provision for depreciation equates to the MRP. Where the provision for depreciation which has been charged to service accounts is lower than the MRP, a charge is made to the Consolidated Revenue Account, below net operating expenditure. A credit is included where the provision for depreciation exceeds the MRP. This allows compliance with the statutory requirement concerning provision for the redemption of debt.

Where early redemption of debt takes place, premiums or discounts incurred are accounted for as follows:-

- Premiums and discounts incurred as a result of a debt restructuring exercise are charged to the Provision for Credit liabilities Account (PCL) for the General Fund, and over the life of the old loan or ten years, whichever is shorter, for the Housing Revenue Account. Following the introduction of the Prudential Code of Practice, with effect from 1 April 2005 the Council is now longer able to fund any premiums on debt redemption from the PCL.

2.11 Income and Expenditure and the basis on which Debtors and Creditors Outstanding at 31 March 2006 are included in the Accounts

The Revenue Accounts are maintained on an accruals basis, in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2006. Income and Expenditure are accounted for in the year in which they arise by the creation of debtors and creditors. The amounts outstanding at 31 March 2006 in respect of debtors and creditors have been included in the Consolidated Balance Sheet. The figures shown represent actual amounts due.

2.12 The Nature of Material Provisions and Reserves

Provisions

Provisions are amounts which have been set aside to meet future liabilities or losses. When these arise, the cost is charged to the provision and is not included in the gross expenditure on services.

The Council has created provisions to meet potential losses in income as a result of bad debts, and to meet anticipated insurance claims arising from certain risks.

Reserves

Revenue:

Earmarked amounts, which are set aside for specific policy purposes, which may be of a capital or revenue nature, and balances which represent resources set aside for purposes such as general contingencies and cash flow management. Details of the Council's reserves as at 31 March 2006 are given in Section 7 on page 46.

Capital:

The requirements of the capital accounting system for local authorities involve the maintenance of three significant capital reserves in the Consolidated Balance Sheet:-

- the Fixed Asset Restatement Account, which represents principally the balance of the surpluses or deficits arising from the periodic revaluation of fixed assets.
- the Capital Financing Account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.
- the Major Repairs Reserve, which represents the extent to which the Major Repairs Allowance has not been utilised to finance capital expenditure on housing assets.

2.13 Overheads

The costs of management and administration overheads have been fully allocated to services. The bases of allocation used for the main costs are outlined below:-

| Cost | Basis of Allocation |
|---|-------------------------------------|
| Central Departments (Legal and Administration etc.) | Estimate of time spent by staff |
| Administrative Buildings (Civic Centre) | Floor area occupied |
| Professional Services (Accountants, Personnel, Computer etc) | Service Level Agreements |
| Telephones | Actual usage / Number of extensions |

Other overhead costs are dealt with in accordance with CIPFA's Statement on Accounting for Overheads.

2.14 Pensions

The 2006 Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the SORP) repeats the requirement of the 2003 version but also formalises guidance on the treatment of the Financial Reporting Standard (FRS) 17 for the Housing Revenue Account (HRA).

As with the 2004/2005 Accounts, this represents a change in the accounting policies to those applied in 2003/04 to the extent that true economic cost of providing pension benefit earned by employees in 2005/06 based on information provided by the Actuary – Hewitt, Bacon and Woodrow – has been allocated to all of the individual service revenue accounts including the HRA, Direct Service Organisation and the Trading Activities. Unfunded Benefits granted to employees who retired in 2005/06 are charged to the "CRA – Unapportionable Central Overheads".

This change has no impact on the “Amount to be met from Government Grants and Local Taxation”.

Further information provided by the Actuary can be found in Note 3.7 to the Consolidated Revenue Account and Note 6.14 to the Consolidated Balance Sheet. Note 7.5 to the Statement of Total Movement in Reserves details the movement on the Pension Reserve.

A copy of the Annual Report of Durham County Council Superannuation Fund is available from the County Treasurer, Durham County Council, County Hall, Durham DH1 5UB.

2.15 Interest Charges

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

2.16 Investments

External investments to the value of £8.075 million were held at 31 March 2006. These represent surplus capital receipts and reserves and were in the form of deposits with a bank and building society. The Balance Sheet reflects the nominal value of these investments. The Council has no interests of any sort in associated or subsidiary companies.

2.17 Direct Labour/Service Organisations

The Local Government Act 1999 abolished, with effect from 2 January 2000, the requirement of the Local Government and Planning Act 1980 and the Local Government Act 1988 for local authorities to submit certain services to compulsory competition. As a consequence the publication of separate accounts for Chester-le-Street District Council’s DLO and DSOs is not required.

2.18 Group Accounts

The 2004 Local Authority SORP (Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice) introduces new requirements in respect of group accounts for Local Government. These requirements are based closely on the Financial Reporting Standards FRS 2 Accounting for Subsidiary Undertakings and FRS 9 Associates and Joint Ventures.

The intention is that authorities enhance their accounts through the consolidation (grouping) of the transactions and balances of subsidiaries and of interests in associated and joint ventures to provide a complete picture of the activities over which the Authority has control or significant influence.

It has not been necessary to produce group accounts.

3. CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

| 2004/2005 Net Expenditure £'000 | | 2005/2006 | | |
|--|---|-------------------------------|--------------------------|-----------------------------|
| | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
| 887 | Housing – General Fund | 861 | 147 | 714 |
| (625) | Housing – Housing Revenue Account | 17,730 | 18,620 | (890) |
| 2,119 | Cultural & Related Services | 4,321 | 2,062 | 2,259 |
| 442 | Highways, Roads & Transport Services | 760 | 456 | 304 |
| 1,443 | Planning and Development | 1,686 | 573 | 1,113 |
| 2,327 | Environmental Services | 3,089 | 533 | 2,556 |
| 591 | Miscellaneous | 2,015 | 1,305 | 710 |
| 661 | Central Services to the Public | 14,285 | 13,767 | 518 |
| 965 | Corporate & Democratic Core | 1,327 | 489 | 838 |
| 44 | Unapportionable Central Overheads | (31) | 0 | (31) |
| 8,854 | Net Cost of Services | 46,043 | 37,952 | 8,091 |
| 152 | Parish Council Precepts | | | 172 |
| 940 | Pension Interest Cost & Expected Return on Pension Assets | | | 780 |
| 124 | (Surpluses)/Deficits from DLO Activities | | | (49) |
| (95) | (Surpluses)/Deficits from Trading Operations | | | (35) |
| (2,173) | Asset Management Revenue Account | | | (1,411) |
| 4,207 | Contribution of Housing Capital Receipts to Government Pool | | | 2,907 |
| (299) | Interest and Investment Income | | | (256) |
| 11,710 | Net Operating Expenditure | | | 10,199 |
| 607 | Transfer to HRA Balances | | | 852 |
| 191 | Contribution to/(from) Earmarked Reserves | | | (84) |
| (145) | Contribution to/(from) DLO Reserves | | | 15 |
| (780) | Contribution to/(from) Pension Reserve | | | (410) |
| (4,207) | Transfer from Useable Capital Receipts | | | (2,907) |
| (1,721) | Deferred Charges | | | (738) |
| (306) | MRP Net of Depreciation | | | (575) |
| 0 | Premium on Debt Redemption | | | 0 |
| 1,843 | Government Grant Applied | | | 1,031 |
| 7,192 | Amount to be met from Government Grants and Local Taxation | | | 7,383 |
| (2,616) | Revenue Support Grant | | | (2,662) |
| (1,451) | Contribution from Non-Domestic Rates Pool | | | (1,540) |
| (2,734) | Precept on Collection Fund | | | (2,874) |
| 4 | Transfer to/(from) the Collection Fund | | | (6) |
| 395 | Net General Fund (Surplus)/Deficit | | | 301 |
| (951) | Balance on General Fund brought forward | | | (531) |
| 25 | Transfers to/from Reserves | | | (163) |
| (531) | Balance on General Fund carried forward | | | (393) |

Notes to the Consolidated Revenue Account

3.1 Asset Management Revenue Account

| | 2004/2005 | | 2005/2006 | |
|--|-----------|--------|-----------|--------|
| | £'000 | £'000 | £'000 | £'000 |
| Income | | | | |
| Capital Charges:- | | | | |
| - General Fund | 781 | | 979 | |
| - Housing Revenue Account | 10,456 | | 11,223 | |
| - Other | 180 | | 311 | |
| | | 11,417 | | 12,513 |
| Transfer from Government Grants - Deferred Account | | 1,843 | | 1,031 |
| | | 13,260 | | 13,544 |
| Expenditure | | | | |
| Provision for Depreciation | 5,025 | | 5,726 | |
| HRA Notional Interest | 5,265 | | 5,579 | |
| External Interest Charges | 797 | | 828 | |
| Premium on Debt Redemption | 0 | | 0 | |
| | | 11,087 | | 12,133 |
| Balance Transferred to Consolidated Revenue Account | | 2,173 | | 1,411 |

3.2 Trading Undertakings

a) Trading Activities

The Council operates a number of Trading Activities as follows:-

| | | £'000 | £'000 |
|--|-------------|-------|-------|
| The Council owns and manages an outdoor market , in the Town Centre, generating rental income from the letting of market stalls. The trading objective is to maximise the surplus. (The trading surplus for 2004/2005 was £10,468) | Turnover | 175 | |
| | Expenditure | 223 | |
| | Deficit | | (48) |
| The Council lets 57 units in Industrial Estates located in various parts of the District. The trading objective is to maximise rental income. (The trading surplus for 2004/2005 was £78,252) | Turnover | 234 | |
| | Expenditure | 124 | |
| | Surplus | | 110 |
| The Council owns and manages the Selby Cottage Child Care Facility located in South Pelaw. The trading objective is to break-even before asset charges are applied. The deficit for 2004/2005 before asset charges was £16,597 (The trading surplus for 2004/2005 was £39,930) | Turnover | 357 | |
| | Expenditure | 394 | |
| | Deficit | | (37) |
| Net Surplus on Trading Activities before FRS 17 Adjustment | | | 25 |
| FRS 17 Adjustment – see Note 2.14 | | | 10 |
| Net Surpluses on Trading Activities after FRS 17 Adjustment | | | 35 |

b) Direct Service Trading Activities

Following the abolition of Compulsory Competitive Tendering the Council now operates a Public Works trading activity which was previously subject to the competition rules under the Local Government Planning and Land Act 1980.

| | | £'000 | £'000 |
|---|-------------|-------|-----------|
| Public Works (Building Maintenance and Major Works) The trading objective is to break-even (The trading deficit for 2004/2005 was £144,914) | Turnover | 2,587 | |
| | Expenditure | 2,572 | |
| | Surplus | | 15 |
| Net Surplus on Direct Service Trading Activities before FRS 17 Adjustment | | | 15 |
| FRS 17 Adjustment – see Note 2.14 | | | 34 |
| Net Surplus on Direct Services Trading Activities after FRS 17 Adjustment | | | 49 |

The net surplus shown above is a result of a £15,057 surplus on Building Maintenance Works.

3.3 Section 137 Expenditure

The Local Government Act 2000 granted new powers to authorities in England and Wales to provide well being in their area. As a consequence, the majority of the provisions of Section 137 (Local Government Act 1972) were repealed with effect from October 2000, however it is still a requirement to disclose any expenditure incurred under Section 137. The Council incurred expenditure amounting to £84,071 in 2005/2006.

3.4 Agency Services

The Council carries out certain work as agent for other Authorities, the costs of which are fully reimbursed. The main activities are as follows:-

The District Council carries out street cleansing and gully emptying under its Other Cleaning contract, on behalf of Durham County Council. Total costs incurred, which are reimbursable from the County, amounted to £92,187 (2004/05 - £85,864).

The Council also manages a Gypsy Site in the area on behalf of Durham County Council, and after income of £23,788 (2004/05 - £26,796) was recovered the net costs amounted to £18,372 (2004/05 - £1,232). This amount is reimbursed by the County Council.

3.5 Publicity

Section 5 of the Local Government Act 1986 requires local authorities, with effect from 1 April 1988, to keep a separate account of expenditure on publicity. The definition of publicity is very wide, and as a result certain descriptions of publicity and expenditure have been exempted. However, local authorities may choose to include in the account all expenditure on publicity under the wider definition, and this choice has been exercised in the figures shown below.

| | 2004/2005 £'000 | 2005/2006 £'000 |
|--------------------------------|--------------------|--------------------|
| Total Expenditure on Publicity | 214 | 157 |
| Comprising:- | | |
| Staff Recruitment | 124 | 56 |
| Housing Matters | 7 | 5 |
| Leisure Matters | 15 | 22 |
| Public Notices | 18 | 16 |
| Environmental Matters | 7 | 9 |
| Regeneration | | 2 |
| Economic Development | 9 | 1 |
| District News | 21 | 24 |
| Corporate Plan | | 9 |
| General Survey | | 8 |
| Other | 5 | 5 |
| Regional Government Review | 8 | |
| | 214 | 157 |

3.6 Finance and Operating Leases

Leasing is a means of financing capital expenditure where a rental charge is paid for an asset for a specified period of time. There are two forms of lease:-

- a) A Finance Lease involves the payment by a Lessee (the user) to the Lessor (the owner) of the full cost of an asset, plus a return on the finance provided by the Lessor. The risk and rewards of ownership, other than legal title, are transferred to the Lessee.
- b) An Operating Lease involves the Lessee paying a rental for the hire of an asset for a period of time which is substantially less than its useful economic life. The Lessor retains most of the risks and rewards of ownership.

The Council uses computers, vehicles and other items of plant and equipment which have been financed by operating leases. During 2005/06 all operating leases in their primary period were redeemed and the assets purchased by the Council.

The amount of rentals paid in 2005/2006 under the operating lease agreements was £245,063 (2004/2005 - £213,605). However, the amount charged to revenue accounts in the year amounted to Nil (2004/2005 - £207,453), the difference has been accounted for within the Asset Register and associated accounts.

The total undischarged rentals as at 31 March 2006 in respect of operating leases is now Nil (2004/05 - £558,460).

3.7 Pensions

The accounts for 2005/2006 have been charged with an amount of £1,634,043 in respect of the Council's contribution to the Durham County Council Superannuation Fund (2004/2005 - £1,390,886). This represents 365% of the employees' contributions of 6% of reckonable pay for staff and 5% for manual employees. Under superannuation regulations contribution rates are set to meet 100% of the overall liabilities of the fund.

The Fund's Actuary has advised that if the scheme was fully funded, the pension costs which it would have been necessary to provide for in the year, in accordance with SSAP24 'Accounting for Pension Costs', are £1,633,992 representing 21.35% of pensionable pay.

In addition, the Council funded an amount of £360,537 in respect of pension increases and enhanced pensions paid out of the Fund to former employees (2004/2005 - £348,493). This represents 4.71% of total pensionable pay (2004/2005 - 5.03%).

Further to Note 2.14 in the Statement of Accounting Policies the Council recognises 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 in accordance with Financial Reporting Standard 17 the charge the Council is required to make against "Amount to be met from Government Grants and Local Taxation" is the amount payable in the year so the real cost of retirement benefits is adjusted in the Consolidated Revenue Account as follows:-

| 2004/05 £'000 | | 2005/06 £'000 |
|------------------|---|------------------|
| (133) | Net cost of services | (326) |
| 2,880 | Pension Interest Cost | 2,850 |
| (1,940) | Expected Return on Pension Assets | (2,070) |
| (21) | (Surpluses) /Deficit from DLO Activities | (34) |
| (6) | (Surpluses) /Deficit from Trading Activities | (10) |
| 780 | Net Operating Expenditure | 410 |
| (780) | Contribution to/(from) Pension Reserve | (410) |
| 0 | Amount to be met from Government Grants and Local Taxation | 0 |

Note 6.14 to the Consolidated Balance Sheet contains details of the assumption made in estimating the figures included in this Note.

Note 7.5 in the Statement of Total Movements in Reserves details the movement on the Pension Reserves.

3.8 Minimum Revenue Provision

Under the terms of the Local Government and Housing Act 1989 the Council is required to charge its revenue accounts with an amount to provide for the repayment of external debt. The amounts, known as the Minimum Revenue Provision (MRP) included in the accounts are detailed below:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|---|--------------------|--------------------|
| Provision for Depreciation-General Fund | (453) | (716) |
| General Fund MRP | 147 | 141 |
| Commutation Adjustment | (306) | (575) |
| Net MRP | 0 | 0 |
| | (306) | (575) |

3.9 Acquired and Discontinued Operations

The information contained in the Consolidated Revenue Account relates to continuing services. There have been no acquired or discontinued operations during 2005/2006.

3.10 Officers' Emoluments

The number of employees whose remuneration excluding pension contributions, was £50,000 or more, in bands of £10,000 was:-

| Remuneration Band | 2004/2005 Number of Employees | 2005/2006 Number of Employees |
|--------------------------|--|--|
| £50,000 - £59,999 | 0 | 0 |
| £60,000 - £69,999 | 1 | 1 |
| £70,000 - £79,999 | 1 | 3 |
| £110,000 - £119,999 | 0 | 1 |

3.11 Members Allowances

During 2005/2006 the total sum paid to Members in respect of basic allowance and special responsibility allowance was as follows:-

| Type of Allowance | 2004/2005 £'000 | 2005/2006 £'000 |
|----------------------------------|----------------------------|----------------------------|
| Basic Allowance | 135 | 139 |
| Special Responsibility Allowance | 39 | 39 |
| Total | 174 | 178 |

3.12 Interest Receivable

| Interest | 2004/2005 £'000 | 2005/2006 £'000 |
|---|----------------------------|----------------------------|
| Interest Received on External Investments | (324) | (308) |
| Interest Received on Employee Car Loans | (1) | (1) |
| Interest Received on Housing Advances | (1) | 0 |
| Interest Payable to Inland Revenue | 0 | 0 |
| Total Interest Received | (326) | (309) |
| Less Recharged to Other Accounts | 27 | 53 |
| Net Credit to Consolidated Revenue Account | (299) | (256) |

3.13 Related Party Transactions

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

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in a note to the Cash Flow Statement.

During the year all Members, Chief Officers and Service Team Managers completed a specific declaration in respect of Related Party Transactions. In 2005/2006 no Chief Officer, Service Team Manager nor their close relations have undertaken any declarable transactions with the Council. A number of Members declared that either they or their spouse had positions with voluntary organisations funded by the Council. All payments were made with proper consideration of declarations of interest. Details of all these transactions are recorded in the Register of Members' Interest.

An e-government partnership has been formally established as a joint committee, comprising Durham County Council and the seven District Councils in the county. Wear Valley District Council has been identified as the lead authority for the partnership, and has prepared the following financial summary:-

Income and expenditure account for the year ended 31 March 2006

| | 2005/2006 £'000 |
|---------------------------------------|----------------------------|
| Income | |
| Transfer from Durham County Council | 702 |
| Authority Contributions | 1,084 |
| Interest Earned | 29 |
| | 1,815 |
| Expenditure | |
| Expenditure in Year | 874 |
| Appropriation to Retained Income Fund | 941 |

During 2005/2006, this Council contributed £109,064 towards the income of the partnership.

The balance sheet shows retained income brought forward of £174,000, which together with the appropriation of £941,000 above, gives a balance carried forward of £1,115,000.

3.14 Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 (SI 1998 No. 3129) require an authority to disclose information regarding the nature, turnover and profits/losses of the Building Control Account. The statement below shows the total cost of operating the Building Control service divided between the chargeable and non-chargeable activities for 2005/2006, the seventh year of the scheme. The Government requires the Building Control Trading Account to break-even over a three year period, subject to local authorities recovering at least 90% of their operating costs.

| | Chargeable 2005/2006 £ | Non Chargeable 2005/2006 £ | Total Building Control 2005/2006 £ |
|--------------------------------|---------------------------------------|---|---|
| Expenditure: | | | |
| Employees | 39,978 | 30,056 | 70,034 |
| Supplies and Services | 3,882 | 2,796 | 6,678 |
| Third Party Payments | 32,180 | 0 | 32,180 |
| Direct Support Services | 12,006 | 8,644 | 20,650 |
| Indirect Support Services | 12,733 | 9,167 | 21,900 |
| | 100,779 | 50,663 | 151,442 |
| Income | | | |
| Building Control Fees | 114,952 | 0 | 114,952 |
| Building Control Notice | 13,418 | 0 | 13,418 |
| | 128,370 | 0 | 128,370 |
| Surplus/(Deficit) for the Year | 27,591 | (50,663) | (23,072) |

3.15 Local Authority (Goods and Services) Act 1970

The Council is empowered by this Act to provide Goods and Services to other public bodies. During 2005/2006 the following services were provided:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|---|----------------------------|----------------------------|
| Housing Maintenance Works for Housing Associations | 1 | 1 |
| Emergency Alarm Monitoring for Housing Associations | 29 | 32 |
| Vehicle Safety Checks and Servicing | 2 | 2 |
| Grounds Maintenance Works | 4 | 3 |
| | 36 | 38 |

3.16 External Audit Costs

The Council has paid the following amounts to the Audit Commission in respect of external audit services:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|--------------------|----------------------------|----------------------------|
| Audit Fee | 94 | 98 |
| Inspection Fee | 20 | 15 |
| Grant Claims Audit | 23 | 15 |
| Other | 1 | 3 |
| | 138 | 131 |

4. HOUSING REVENUE ACCOUNT

| | Note | 2004/2005 £'000 | 2005/2006 £'000 |
|--|------------------|----------------------------|----------------------------|
| <u>INCOME</u> | | | |
| Gross Rent Income: | | | |
| Dwelling Rents (Gross) | 4.3/4.4 | 10,212 | 10,211 |
| Non Dwellings Rents (Gross) | | 269 | 270 |
| Charges for Services and Facilities | | 159 | 190 |
| Contributions towards Expenditure | | 120 | 110 |
| HRA Subsidy Receivable | | 2,279 | 2,217 |
| Total Income | | 13,039 | 12,998 |
| <u>EXPENDITURE</u> | | | |
| Repairs and Maintenance | | 2,370 | 2,605 |
| Supervision and Management-General | 4.15 | 2,449 | 2,606 |
| Supervision and Management-Special | | 223 | 221 |
| Rents, Rates, Taxes and other Charges | | 8 | 17 |
| Rent Rebates | 4.5 | 0 | 0 |
| Transfer to Housing Repairs Account | 4.2 | 71 | 0 |
| Increased Provision for Bad and Doubtful Debts | 4.4 | 78 | 40 |
| Cost of Capital Charge | 4.7 | 5,884 | 6,213 |
| Depreciation on Fixed Assets | 4.7/4.8 /4.10 | 4,572 | 5,010 |
| Debt Management Costs | 4.7 | 41 | 43 |
| Negative Subsidy Payable to Secretary of State | 4.5/4.6 | 4,136 | 3,672 |
| Total Expenditure | | 19,832 | 20,427 |
| Net Cost of Services | | 6,793 | 7,429 |
| Adjusting transfer from AMRA | 3.1/4.7 | (5,265) | (5,579) |
| HRA Investment Income | | | |
| Mortgage Interest | | 0 | 0 |
| Notional Interest | | (17) | (43) |
| Premium on Debt Redemption | | 157 | 97 |
| Net Operating Expenditure | | 1,668 | 1,904 |
| <u>APPROPRIATIONS</u> | | | |
| Contribution to/(from) Pension Reserve | 4.15 | 18 | 37 |
| Expenditure for Capital Purposes | | 0 | 0 |
| HRA Set Aside (MRP) | 4.7 | 0 | 0 |
| Transfer to/(from) Major Repairs Reserve | 4.10 | (2,293) | (2,793) |
| (Surplus) / Deficit for the Year | | (607) | (852) |
| Balance Brought Forward | | (470) | (1,077) |
| Balance Carried Forward | | (1,077) | (1,929) |

Notes to the Housing Revenue Account

4.1 Housing Stock

The Council owned 4,383 dwellings at 31 March 2006 (4,513 at 31 March 2005). The stock was made up as follows:-

| | Houses | Flats | Bungalows | Total |
|----------------------------------|--------------|------------|--------------|--------------|
| Stock as at 1 April 2005 | 2,704 | 652 | 1,157 | 4,513 |
| Sales | 97 | 2 | 0 | 99 |
| Reclassification | 1 | 0 | 0 | 1 |
| Demolitions | 26 | 0 | 4 | 30 |
| Disposals | 0 | 0 | 0 | 0 |
| Stock as at 31 March 2006 | 2,580 | 650 | 1,153 | 4,383 |

4.2 Housing Repairs

The Housing Repairs Account was incorporated into the HRA in 2004/05 as the HRA is now charged directly with all repair work. The account is therefore now closed.

| HOUSING REPAIRS ACCOUNT – MEMORANDUM | 2004/2005 £'000 | 2005/2006 £'000 |
|---|--------------------|--------------------|
| Opening Balance | 74 | 0 |
| Income – Contribution from HRA | 71 | 0 |
| | 145 | 0 |
| Expenditure | 0 | 0 |
| Contribution to Housing Maintenance Deficit | 145 | 0 |
| Closing Balance | 0 | 0 |

4.3 Rent Income

The sum represents the gross rental income due for the year after allowance is made for empty properties (voids). During the year 1.18% of properties were classed as void, compared with 1.29% in 2004/2005. The average rent in 2005/06 was £44.88 a week, compared with £42.28 in 2004/05. It incorporates an average increase of 6.15% applied on 1 April 2005.

4.4 Rent Arrears

Rent arrears at 31 March 2006 amounted to £391k (£394k at 31 March 2005), which represents 3.8% (3.9%) of the gross rent debit after deducting voids.

An increased provision of £40k was made in 2005/2006 for uncollectable rent arrears, compared to an increase of £74k in 2004/2005. Bad debts amounting to £63k (£70k) were written off against this provision during 2005/2006. The net provision for uncollectable rent arrears at 31 March 2006 stands at £295k (£318k at 31 March 2005).

4.5 HRA – Rent Rebates

As a result of legislation that came into effect on 1st April 2004 Rent Rebates were transferred from the HRA to the General Fund.

The net cost of Rent Rebates i.e. the incentive areas (backdated claims and errors) that fell on the HRA is in effect transferred to the General Fund. However, the ODPM introduced a transitional measure to help the General Fund absorb this cost based on the maximum net cost of benefits that fell on the HRA in 2001/02 (the last year in which the Housing Subsidy Claim was audited before the new legislation came into force).

This is referred to as the new Item 10 that allows the Council to transfer up to 100% of the 2001/02 net cost of Rent Rebates in 2004/05 and 50% in 2005/06. The aim was to give the General Fund two years to adjust to the transfer before the Council Tax Payer instead of the Council Tenant met the full cost of rent rebates.

The DCLG formerly known as the ODPM have accepted the Council's Item 10 request amounting to £45,030.

The effect is a 'Negative Subsidy' for 2005/06 i.e. surplus notional rental income is payable to the Secretary of State.

4.6 Negative Subsidy Payable to Secretary of State

| | 2005/06 £'000 |
|---|--------------------------|
| Management and Maintenance Allowance | 4,882 |
| Charges for Capital | 1,199 |
| | 6,081 |
| Less: | |
| Rent Income | (9,753) |
| Negative Subsidy Payable to Secretary of State | 3,672 |

There is no longer a requirement under the HRA Subsidy Determinations to set aside 2% of the opening HRA credit ceiling and as a consequence no Housing Subsidy entitlement is receivable from the DCLG – see Note 4.7 below. However as the Council has a Mid-Year Subsidy Credit Ceiling higher than the HRA Opening Credit Ceiling it incurs a loss under the new arrangements. To allow the Council time to adjust to this loss, the DCLG has introduced the following transitional measures.

In 2005/06 the Council is entitled to receive 50% of the difference between 2% of the HRA Opening Credit Ceiling for 2002/03 and the Admissible Set Aside entitlement. This amounts to £9k which is included in the £1,199k 'Charges for Capital' shown above.

In 2006/07 the Council will be entitled to 25% of the difference after which the transitional arrangements will cease.

4.7 Cost of Capital Charge / Capital Financing Costs

The cost of capital charge and the capital asset charges accounting adjustment, calculated in accordance with the Item 8 Debit (General) Determination is shown below:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|---|----------------------------|----------------------------|
| Cost of Capital Charge (Notional Interest @ 3.5%) | 5,884 | 6,212 |
| Capital Charges Accounting Adjustment | (5,265) | (5,579) |
| Depreciation on Fixed Assets | 4,572 | 5,010 |
| Debt Management Costs | 41 | 43 |
| HRA Set Aside (MRP) | 0 | 0 |
| Expenditure for Capital Purposes | 0 | 0 |
| | 5,232 | 5,686 |

From 2004/05 the obligation to set aside 2% of the opening HRA credit ceiling (HRA Set Aside), as the HRA contribution to the Council's Minimum Revenue Provision (MRP) is abolished. At the same time the corresponding Housing Subsidy element has been removed. See Note 4.6 above.

4.8 Depreciation Charge

The depreciation charge into the Housing Revenue Account for 2005/2006 amounted to £5,010k compared with £4,572k in 2004/05. An analysis is shown overleaf:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|----------------------------------|--------------------|--------------------|
| Operation Property | 16 | 45 |
| Council Dwellings | 4,542 | 4,942 |
| Vehicles, Plant and Equipment | 0 | 9 |
| Infrastructure | 14 | 14 |
| Total Depreciation Charge | 4,572 | 5,010 |

4.9 Capital Expenditure and Financing

The Council spent £5,144k of Capital Expenditure during 2005/2006 on its Housing Revenue Account Assets, compared with £4,424k in 2004/2005. An analysis is shown below:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|-----------------------------------|--------------------|--------------------|
| Improvements to Council Dwellings | 4,424 | 5,144 |
| Other | 0 | 0 |
| Total Capital Expenditure | 4,424 | 5,144 |

The above Capital Expenditure was financed as follows:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|-------------------------------------|--------------------|--------------------|
| Major Repairs Allowance | 3,076 | 2,217 |
| Supported Capital Expenditure | 290 | 298 |
| Basic/Supplementary Credit Approval | 0 | 0 |
| Usable Capital Receipts | 438 | 0 |
| Regeneration Capital Receipts | 577 | 2,535 |
| Capital Grant | 15 | 0 |
| Other Contributions | 28 | 94 |
| | 4,424 | 5,144 |

The Local Government Act 2003 introduced the Prudential Capital Regime which removed the controls previously placed on the Council's borrowing which was through the calculation of Basic/Supplementary Credit Approvals (controlling the amount of borrowing in any year). In its place the Central Government has allocated an amount (similar to the Basic/Supplementary Credit Approvals) called Supported Capital Expenditure which will attract Housing Subsidy support.

In 2005/2006 the Council received:-

| | 2004/2005 £000 | 2005/2006 £'000 |
|--|-------------------|--------------------|
| Council House Sales (Right to Buy Legislation) | 5,842 | 4,185 |
| Discount Recovered | 82 | 33 |
| Operational Property | 15 | 80 |
| Council Mortgage Repayments | 6 | 4 |
| | 5,945 | 4,302 |

4.10 Movement on the Major Repairs Reserve

The movement on the Major Repairs Reserve during 2005/2006 was as follows:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|--|--------------------|--------------------|
| Opening Balance | (797) | 0 |
| Amount transferred to Major Repairs Reserve (Depreciation) | (4,572) | (5,010) |
| Amount transferred from Major Repairs Reserve to HRA | 2,293 | 2,793 |
| Debits in respect of Capital Expenditure on HRA Assets | 3,076 | 2,217 |
| Closing Balance | 0 | 0 |

4.11 Housing Assets Valuation

The Balance Sheet valuations of the Housing Revenue Account Assets is shown below:-

| | Valuation at 31 March 2005 £'000 | Valuation at 31 March 2006 £'000 |
|--------------------------------------|--|--|
| Operational Assets | 333 | 1,299 |
| Council Dwellings | 152,745 | 168,674 |
| Infrastructure | 522 | 508 |
| Investment Property | 139 | 203 |
| Vehicles, Plant & Equipment | 0 | 9 |
| Total Balance Sheet Valuation | 153,739 | 170,693 |

The vacant possession value of the dwellings held in the Housing Revenue Account as at 1st April 2005 was £347,252,000. The vacant possession value and balance sheet value of dwellings within the HRA show the true economic cost to the Government of providing Council housing at less than open market rents.

4.12 Impairment

There were no charges in 2005/2006 in respect of Impairment Charges on Housing Revenue Account assets.

4.13 Deferred Charges

There were no charges in 2005/2006 in respect of Deferred Charges attributable to the Housing Revenue Account.

4.14 Exceptional Items and Prior Year Adjustments

There were no Exceptional Items or Prior Year Adjustments in respect of the Housing Revenue Account for 2005/2006.

4.15 Pensions – FRS 17

In 2003/04 FRS 17 was not applied to the HRA on the basis that it was deemed inconsistent with legislative requirements at that time to show items not specifically specified as statutory debits and credits.

This has now been clarified and, from 2004/05 onwards, an adjustment has been made to the HRA in respect of current service cost only. This has had the effect of reducing 'Supervision and Management' - General by £37k in 2005/06 and by £18k in 2004/05. An equivalent appropriation to the Pensions Reserves has been made so that there is no impact on the (surplus)/deficit for the year.

5. COLLECTION FUND ACCOUNTS

5.1 Collection Fund Income and Expenditure Account

| | 2004/2005 £'000 | 2004/2005 £'000 | 2005/2006 £'000 | 2005/2006 £'000 |
|---|--------------------|--------------------|--------------------|--------------------|
| INCOME | | | | |
| Income due from | | | | |
| Business Ratepayers | | 6,011 | | 6,132 |
| Council Tax | 20,619 | | 21,583 | |
| Less | | | | |
| Benefit | 3,170 | | 3,268 | |
| Transitional Relief | 0 | 17,449 | 0 | 18,315 |
| Benefit | | | | |
| Council Tax | | 3,170 | | 3,268 |
| Discounts | | 0 | | 0 |
| Government Grants | | 0 | | 0 |
| | | 26,630 | | 27,715 |
| EXPENDITURE | | | | |
| Precepts | | | | |
| Durham County Council | 14,846 | | 15,633 | |
| Durham Police Authority | 1,537 | | 1,623 | |
| Durham and Darlington Fire Authority | 1,249 | | 1,242 | |
| Chester-le-Street District Council | 2,729 | 20,361 | 2,881 | 21,379 |
| Business Rates | | | | |
| Payment to National Pool | | 5,963 | | 6,083 |
| Costs of Collection | | 48 | | 48 |
| Provision for Uncollectable Amounts | | 0 | | 0 |
| Contribution | | | | |
| Previous Years' Community Charge | | 0 | | 0 |
| Previous Years' Collection Fund Surplus | | 0 | | 0 |
| | | 26,372 | | 27,510 |
| MOVEMENT ON FUND BALANCE | | 258 | | 205 |
| Surplus/(Deficit) on Fund brought forward | | 48 | | 306 |
| FUND BALANCE CARRIED FORWARD | | 306 | | 511 |

Notes to the Collection Fund Accounts

5.2 General

The Council Tax was introduced by the Government to replace the Community Charge with effect from 1 April 1993. It is a tax based on property values, which are grouped into eight bands. There is, however, a personal element to the tax in that adults living alone are entitled to a 25% discount.

5.3 Income from Business Rates

All business premises in the District have a rateable value. In order to calculate the Business rates payable for a particular business premises, its rateable value is multiplied by the National Non-Domestic Rate multiplier for the year. At 31 March 2006 the rateable value of all business premises in Chester-le-Street was £16,689,352 (£14,365,882 in 2004/05).

The National Non-Domestic Rate multiplier for the year was 42.2p and the new Small Business Non-Domestic Rate multiplier was 41.5p. The total rates charges were £6,131,768 (£6,011,247 in 2004/05).

All of the Business Rates collected from Chester-le-Street businesses are paid into a National Pool. The pool is then redistributed (based on a standard amount per head of population) and Chester-le-Street's share is paid directly into the Council's General Fund. The Council received £1,539,568 in 2005/06 (£1,450,627 in 2004/05) and this is shown in the Consolidated Revenue Account.

5.4 Calculation of Tax Base

The Council Tax Base is calculated by taking the total number of domestic properties in the area and then adjusting this figure to take account of properties where no Council Tax or a reduced level of Council Tax is payable. This produces an equivalent number of properties in Band D, which can then be used to work out how much money can be collected from local tax payers. From the table set out below, it can be seen that every time the Council Tax is increased by £1 an extra £17,122 would be collected assuming a 100% collection rate and £16,845 would be collected assuming a 98.5% collection rate.

| Band | Net Properties | Ratio to Band D | Band D Equivalent |
|--------------------------------|-----------------------|------------------------|--------------------------|
| A – Relief | 24.25 | 5/9 | 13.49 |
| A | 11,270.50 | 6/9 | 7,513.68 |
| B | 2,480.25 | 7/9 | 1,929.07 |
| C | 4,102.50 | 8/9 | 3,646.67 |
| D | 1,918.75 | 9/9 | 1,918.75 |
| E | 1,066.75 | 11/9 | 1,303.81 |
| F | 287.25 | 13/9 | 414.93 |
| G | 220.75 | 15/9 | 367.90 |
| H | 7.00 | 18/9 | 14.00 |
| | 21,378.00 | | 17,122.30 |
| Adjustment for Collection Rate | | (98.5%) | 16,865.45 |

5.5 Precepting Authorities

The following authorities made precepts on the Collection Fund:

| | 2004/2005 £'000 | 2005/2006 £'000 |
|--------------------------------------|----------------------------|----------------------------|
| Durham County Council | 14,846 | 15,633 |
| Durham Police Authority | 1,537 | 1,623 |
| Durham and Darlington Fire Authority | 1,249 | 1,242 |
| Chester-le-Street District Council | 2,729 | 2,881 |
| | 20,361 | 21,379 |

6. CONSOLIDATED BALANCE SHEET

| | Note | 31.03.2005 | | 31.03.2006 | |
|--|------|------------|----------|------------|----------|
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed Assets (Notes 6.1-6.6) | | | | | |
| <i>Operational Assets</i> | | | | | |
| Council Dwellings | | | 152,745 | | 168,674 |
| Other Land & Buildings | | | 10,969 | | 11,586 |
| Vehicles, Plant & Equipment | | | 469 | | 1,320 |
| Infrastructure Assets | | | 799 | | 776 |
| Community Assets | | | 1,403 | | 1,403 |
| <i>Non-Operational Assets</i> | | | | | |
| Investment Properties | | | 2,136 | | 2,199 |
| Assets Under Construction | | | 2,790 | | 2,677 |
| Total Fixed Assets | | | 171,311 | | 188,635 |
| Long Term Debtors | | | 10 | | 8 |
| Total Long Term Assets | | | 171,321 | | 188,643 |
| Current Assets | | | | | |
| Stocks & Work in Progress | 6.9 | 142 | | 126 | |
| Debtors | 6.10 | 3,137 | | 2,650 | |
| Short Term Investments | | 5,475 | | 8,075 | |
| Cash-in-Hand and at Bank | | 2 | | 4 | |
| Payments in Advance | | 294 | 9,050 | 307 | 11,162 |
| Total Assets | | | 180,371 | | 199,805 |
| Current Liabilities | | | | | |
| Short-term Borrowing | | 1,100 | | 2,960 | |
| Creditors | 6.10 | 3,297 | | 1,994 | |
| Cash Overdrawn | | 18 | | 394 | |
| Receipts in Advance | | 692 | 5,107 | 545 | 5,893 |
| Total Assets Less Current Liabilities | | | 175,264 | | 193,912 |
| Long Term Borrowing | 6.7 | 13,960 | | 14,641 | |
| Deferred Liabilities | | 39 | | 35 | |
| Pension Scheme | | 25,400 | 39,399 | 24,590 | 39,266 |
| Total Assets Less Liabilities | | | 135,865 | | 154,646 |
| Fixed Asset Restatement Account | 7.3 | | 116,037 | | 131,273 |
| Capital Financing Account | 7.4 | | 38,588 | | 40,252 |
| Usable Capital Receipts Reserve | 7.2 | | 1,750 | | 1,564 |
| Major Repairs Reserve | 7.4 | | 0 | | 0 |
| Pension Reserve | | | (25,400) | | (24,590) |
| Government Grants Deferred | 7.4 | | 1,791 | | 1,991 |
| Deferred Premiums | | | (642) | | (545) |
| Capital Grants/Contributions | 7.2 | | 848 | | 746 |
| Earmarked Reserves | 7.1 | | 979 | | 1,121 |
| General Fund Reserves | 7.1 | | 531 | | 394 |
| Housing Revenue Account Balance | 4.0 | | 1,077 | | 1,929 |
| Collection Fund Balance | 5.1 | | 306 | | 511 |
| Total Net Worth | 6.8 | | 135,865 | | 154,646 |

6.1 Movements on Fixed Assets 2005/2006

| | Council Dwellings | Other land & buildings | Vehicles, Plant & Equipment | Infra-structure Assets | Community Assets | Investment Properties | Other Non-Op. Assets | TOTAL FIXED ASSETS |
|-----------------------------------|-------------------|------------------------|-----------------------------|------------------------|------------------|-----------------------|----------------------|--------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Net Book Value at 31 March 2005 | 152,745 | 10,969 | 470 | 798 | 1,403 | 2,136 | 2,791 | 171,312 |
| Restatements | 0 | 110 | 0 | 0 | 0 | 0 | (110) | 0 |
| Additions | 1,338 | 39 | 1,128 | 0 | 0 | 0 | 0 | 2,505 |
| Work in Progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | (4,948) | (1) | 0 | 0 | 0 | 0 | 0 | (4,949) |
| Revaluations | 24,481 | 950 | 0 | 0 | 0 | 63 | 0 | 25,494 |
| Gross Book Value at 31 March 2006 | 173,616 | 12,067 | 1,598 | 798 | 1,403 | 2,199 | 2,681 | 194,362 |
| Depreciation for year | (4,942) | (481) | (278) | (22) | 0 | 0 | (4) | (5,727) |
| Net Value at 31 March 2006 | 168,674 | 11,586 | 1,320 | 776 | 1,403 | 2,199 | 2,677 | 188,635 |

6.2 Deferred Charges

The treatment of Deferred Charges is explained in the Statement of Accounting Policies in 2.7 on page 11. Any balance outstanding at the year end is now classified as an intangible asset. Details for the year are as follows:-

| | 2004/2005 £'000 | 2005/2006 £'000 |
|--|--------------------|--------------------|
| Balance at start of year | 0 | 0 |
| Expenditure | 2,261 | 1,339 |
| Less amounts written off to:- Capital Financing Account | (2,261) | (1,339) |
| Balance at end of year | 0 | 0 |

6.3 Capital Expenditure and Financing 2005/2006

Expenditure on the acquisition of fixed assets and deferred charges was financed from the following sources:-

| Capital Financing | £'000 | Capital Expenditure | £'000 |
|-------------------------------|--------------|----------------------------|--------------|
| Supported Capital Expenditure | 364 | Fixed Assets | 7,815 |
| Major Repairs Allowance | 2,217 | Deferred Charges | 1,339 |
| Capital Receipts | 5,263 | | |
| Government Grants | 440 | | |
| Other Grants/Contributions | 792 | | |
| Revenue | 78 | | |
| | 9,154 | | 9,154 |

6.4 Capital Commitments

Future capital commitments as at 31 March 2006 total £2,941,000 and can be analysed as follows:-

| | Expenditure Approved at 31 March 2006 £'000 |
|------------------------|--|
| Housing-Council Assets | 0 |
| Housing-Private Sector | 521 |
| Non Housing Assets | 2,420 |
| | 2,941 |

6.5 Details of Assets Held

Fixed assets owned by the Council include the following:-

| | 31 March 2005 | 31 March 2006 |
|---------------------------------|----------------------|----------------------|
| Council Dwellings | 4,513 | 4,383 |
| Operational Buildings | | |
| Civic Centre | 1 | 1 |
| Depots | 2 | 2 |
| Maintenance Stores/Depots | 5 | 5 |
| Recreational and Communal Rooms | 15 | 15 |
| Car Parks | 15 | 15 |
| Golf Club | 1 | 1 |
| Former Careline Control Room | 1 | 1 |
| Market | 1 | 1 |
| Greenhouses | 1 | 1 |
| Public Halls | 2 | 2 |
| Public Conveniences | 2 | 2 |
| Leisure Centres (inc. pools) | 1 | 1 |
| Riverside Sports Pavilion | 1 | 1 |
| Childcare Nursery | 1 | 1 |
| Avenues Resource Centre | 1 | 1 |
| Garages | 1,015 | 1,013 |

| | 31 March 2005 | 31 March 2006 |
|-------------------------------|---------------|---------------|
| Operational Equipment | | |
| Vehicles | 2 | 16 |
| Heavy Plant | 11 | 21 |
| Infrastructure Asset | | |
| Roads and Sewers | 5km | 5km |
| Community Assets | | |
| Parks and Open Spaces (acres) | 56.6 | 56.6 |
| Allotments | 104 | 104 |
| Cemetery Land (acres) | 18.7 | 18.7 |
| Investment Properties | | |
| Industrial Units | 57 | 57 |
| Council Owned Shops | 19 | 19 |
| Community Centres | 2 | 2 |
| Mechanics Institute | 1 | 1 |
| Cricket Ground (Kimblesworth) | 1 | 1 |
| Donald Owen Clark Centre | 1 | 1 |
| Riverside Park Centre | 1 | 1 |

6.6 Valuation of Fixed Assets

All housing assets were revalued during 2005/2006 based on inspections undertaken by S Allsopp (FRICS). The valuations were undertaken in accordance with guidance issued by DETR (now DCLG).

The values used for the Authority's non-housing assets have been based on the 2004/05 values which were updated by the average increase in a comparable neighbouring authority's asset base since this authority's last valuation.

Operational Assets

Council Dwellings

Council dwellings have been valued in accordance with the DCLG document 'Guidance on Stock Valuation for Resource Accounting'. The stock was divided into 14 asset groups, based largely on location in the Council's area. Each asset group was sub-divided into a number of archetype groups based on housing of similar age, character and accommodation.

Beacon properties were then identified as being representative of the stock as a whole, and these were fully inspected for the purposes of valuation. Variations to these beacon valuations were provided where the characteristics of a location or type of property were different enough to affect the valuation.

The beacon properties have been valued using Existing Use Value on the additional assumptions that there is no potential residential development of the site or intensification of use. The valuations are then adjusted by the North East Regional Adjustment factor (51%) to arrive at the Existing Use Value for Social Housing. This reflects the fact that sitting tenants enjoy rents lower than open market rents and that tenants have rights, including right to buy.

Other Land and Buildings

Other properties regarded by the authority as operational were valued on the basis of open market value in existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

Vehicles, Plant and Equipment

These assets have been valued in the balance sheet by a combination of three methods:

- a) On a historic cost basis for those assets acquired during the financial year,
- b) An estimate by the relevant Service Manager for those assets acquired in previous years,
- c) The written down value (i.e. after depreciation charge) of vehicles acquired in previous years.

Infrastructure

These assets have been included in the balance sheet on the basis of historical cost.

Community Assets

This classification of assets has been included in the balance sheet at historic cost (where known) or at nil value.

Non-Operational Assets

Properties regarded by the authority as non-operational have been valued on the basis of open market value.

6.7 Long Term Borrowing

At 31 March 2006 there were loans to the value of £14,640,985 (£13,960,045) which are repayable over a period of more than 12 months. These were raised from the following lenders:

| | 31 March 2005 £'000 | 31 March 2006 £'000 |
|------------------------------|------------------------|------------------------|
| Public Works Loan Board | 10,910 | 11,610 |
| European Investment Bank | 50 | 31 |
| Other Financial Institutions | 3,000 | 3,000 |
| | 13,960 | 14,641 |

Of the above (£14,609,647) are maturity loans and are scheduled to be repaid as follows:

| | 31 March 2005 £'000 | 31 March 2006 £'000 |
|------------------------|--------------------------------------|--------------------------------------|
| Between 1 and 2 years | 0 | 0 |
| Between 2 and 5 years | 0 | 0 |
| Between 5 and 10 years | 3,000 | 3,000 |
| Over 10 years | 10,910 | 11,610 |
| | 13,910 | 14,610 |

The remaining loans are repaid on an annuity basis, with elements of principal and interest repaid half yearly over the life of the loan.

6.8 Net Assets Employed

The net assets of the Council are represented by its total assets less total liabilities. It is matched in the Consolidated Balance Sheet by the 'total equity'. An analysis of net assets employed is as follows:-

| | 31 March 2005 £'000 | 31 March 2006 £'000 |
|------------------------------------|--------------------------------------|--------------------------------------|
| General Fund | (4,236) | (6,127) |
| Housing Revenue Account | 139,789 | 160,157 |
| Direct Labour/Service Organisation | 6 | 105 |
| Collection Fund | 306 | 511 |
| | 135,865 | 154,646 |

6.9 Stocks

| | 31 March 2005 £'000 | 31 March 2006 £'000 |
|--------------------------|--------------------------------------|--------------------------------------|
| STOCKS | | |
| Sacriston Depot | 18 | 16 |
| DLO – Joiners Shop | 0 | 0 |
| DLO – Bullion Lane Depot | 112 | 105 |
| Leisure Centre | 12 | 5 |
| | 142 | 126 |

6.10 Debtors and Creditors

Debtors

The Debtors figure of £2,650,112 (£3,136,891) included in the Balance Sheet net of provisions for bad debts is analysed as follows:

| | 31 March 2005 £'000 | 31 March 2006 £'000 |
|------------------------------------|------------------------|------------------------|
| Government Departments | 377 | 663 |
| Other Local Authorities | 594 | 251 |
| Housing Rents | 531 | 465 |
| Sundry Debtors | 1,074 | 702 |
| Non Domestic Rate Payers | 448 | 503 |
| Council Tax Payers | 774 | 865 |
| Former Rate Payers | 151 | 151 |
| Third Party Debtors | 449 | 281 |
| | 4,398 | 3,881 |
| Less: Provision for Doubtful Debts | (1,261) | (1,231) |
| | 3,137 | 2,650 |

Creditors

The Creditors figure of £1,993,659 (£3,296,587) included in the Balance Sheet is analysed as follows:

| | 31 March 2005 £'000 | 31 March 2006 £'000 |
|-----------------|------------------------|------------------------|
| Rates | 17 | 17 |
| General Fund | 2,234 | 1,456 |
| Housing | 959 | 320 |
| DLO | 86 | 201 |
| Collection Fund | 1 | 0 |
| | 3,297 | 1,994 |

6.11 Insurance Arrangements

The Council self insures its housing properties in respect of fire and storm damage and associated risks. However, there is a limit of £50,000 on the total value of claims which can be met internally in any year. Claims above this figure are met by external insurers. An amount of £108,586 is included in the Council's reserves at 31 March 2006 for insurances. £50,000 is earmarked to cover the maximum cost of claims chargeable under the fire policy. The balance of £58,586 is available to meet the cost of certain events which may not result in claims to the Council's insurers, and to contribute to the cost of insurance cover charged to the HRA. Movements on this reserve are shown on page 47.

6.12 Investments in Related Companies

The Council has no investments in, or financial association with, any related businesses or companies.

6.13 Contingent Liabilities

On 30 September 1992 the Council's Insurers Municipal Mutual Ltd ceased accepting new business. The Council's accounts show no amounts due from MMI at 31 March 2006. However, there are a number of outstanding claims in respect of third parties, and it is possible that these will not be met fully. Claims amounting to £427,563 have been paid by MMI up to 31 March 2006 and estimated outstanding claims as at that date amount to £10,280. There is a possibility that not all outstanding claims will be fully met and if the scheme of arrangements is triggered, a clawback may occur which could amount to the total value of claims paid less £50,000.

The Council is currently subject to two claims for costs against the authority in respect of planning cases. Lawyers are engaged in the process and the potential liability is, at this stage, unknown.

Compensation payments have been agreed to settle potential equal pay claims. These were approved by Council in December 2005 but were not paid until 2006/07; the total amount is just over £80,000.

6.14 Retirement Benefits

In accordance with the requirements of Financial Reporting Standard (FRS) 17, the Council has to disclose its share of assets and liabilities related to pension schemes for its employees. Employees of the Council may participate in the Local Government Pension Scheme, which is a defined benefit scheme based on final pensionable salary and is administered by Durham County Council. In addition, the Council has made arrangements for the payment of added years to certain retired employees outside the provisions of the scheme. Further details are shown in Note 3.7 to the Consolidated Revenue Account.

The Council's assets and liabilities are:

| | 31 March 2005 £m | 31 March 2006 £m |
|---|----------------------------|----------------------------|
| Share of Liabilities in County Council Fund | (51.73) | (58.52) |
| Estimated Liabilities for Discretionary Added Years | (2.11) | (2.26) |
| Total Liabilities | (53.84) | (60.73) |
| Share of Assets in County Council Fund | 28.44 | 36.19 |
| Net Pensions Deficit | (25.40) | (24.59) |

Liabilities have been valued on an actuarial basis using the projected unit method, which assesses the future liabilities of the Fund discounted to their present value. The County Council Fund liabilities have been valued by Hewitt, Bacon and Woodrow, an independent firm of actuaries. The main assumptions used in the calculations are:

| | 31 March 2005 % | 31 March 2006 % |
|---|--------------------|--------------------|
| Rate of Inflation | 2.9 | 3.0 |
| Rate of Increase in Salaries | 4.4 | 4.5 |
| Rate of Increase in Pensions | 2.9 | 3.0 |
| Rate of Increase to Deferred Pensions | 2.9 | 3.0 |
| Rate for Discounting for Pension Cost over the following year | 5.3 | 4.9 |

Assets in the County Council Pension Fund are valued at fair value, principally market value for investments. They consist of the categories as set out below showing the percentage of the total assets held by the Fund by each category together with the long term expected rate of return:-

| | 31 March 2005 % | 31 March 2006 % | Expected Return at 31 March 2006 % |
|--------------------|--------------------|--------------------|---|
| Equity Investments | 83 | 87 | 7.3 |
| Government Bonds | 9 | 7 | 4.3 |
| Corporate Bonds | 1 | 1 | 4.9 |
| Property | 3 | 2 | 6.3 |
| Other Assets | 4 | 3 | 4.6 |
| | 100 | 100 | 7.0 |

The movement in the net pension liability for the period is as follows:-

| | 31 March 2006 £m |
|---|---------------------|
| Net Pensions Deficit as at 1 April 2005 | (25.40) |
| Current Service Cost | (1.32) |
| Past Service Cost | (0.31) |
| Contributions Paid | 2.00 |
| Curtailment Cost | 0.00 |
| Other Finance Income (Charge) | (0.78) |
| Actuarial Gains (Losses) | 1.22 |
| Net Pensions Deficit as at 31 March 2006 | (24.59) |

The actuarial gains (losses) can be further analysed as follows:

| | 2005/2006 £m | % |
|--|-----------------|-------------------------------|
| Actual Return Less Expected Return on Assets | 5.61 | 15.5% of Scheme Assets |
| Experience Gains and (Losses) on Pension Liabilities | 0.03 | (0.0)% of Pension Liabilities |
| Changes in Assumptions Underlying the Present Value of Pension Liabilities | (4.42) | (7.3)% of Pension Liabilities |
| Total | 1.22 | 2.0% of Pension Liabilities |

The above figures have been provided by the actuaries to the Durham County Council Pension Fund using information provided by the scheme and assumptions determined by the Council in conjunction with the actuary.

The last valuation of the Pension Fund (as at 31 March 2004) will result in the Council's employer contribution rate increasing to 385% in 2006/07; and 400% in 2007/08.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

The primary cause of the change from an estimated net liability of £25.40m at 31 March 2005 to an estimated net liability of £24.59m at 31 March 2006 is as a result of a rise in the markets during the year ended 31 March 2006. The markets returned more than assumed, resulting in a gain.

The £24.59m net liability represents the difference between the value of the Council's Pension Fund assets at 31 March 2006 and the estimated present value of the future pension payments to which it was committed at that date. These pensions liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1 April 2006 would also have an impact on the capital value of the pension fund assets.

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities will be considered by the actuaries in their next full actuarial review of the Pension Fund, due to be carried out as at 31 March 2007. Their advice on whether or not there is any anticipated shortfall in the funding of the scheme at that time will determine the future level of pension contributions.

7. STATEMENT OF TOTAL MOVEMENT IN RESERVES FOR THE YEAR ENDED 31 MARCH 2006

| | 2005/06 £000's | 2005/06 £000's | 2004/05 £000's |
|--|-------------------|-------------------|-------------------|
| Surplus/(deficit) for the year: | | | |
| - General Fund | (137) | | (420) |
| - Housing Revenue Account | 852 | | 607 |
| Add back Movements on specific Revenue Reserves | 347 | | 460 |
| Add back movements on Pensions Reserve | 810 | | (6,950) |
| Total increase/(decrease) in Revenue Resources (Note 7.1) | | 1,872 | (6,303) |
| Increase/(decrease) in Usable Capital Receipts | (186) | | (485) |
| Increase/(decrease) in Unapplied Capital Grants and Contributions | (102) | | (708) |
| Total increase/(decrease) in Realised Capital Resources (Note 7.2) | | (288) | (1,193) |
| Gains/(Losses) on Revaluation of Fixed Assets | 25,494 | | 47,295 |
| Capital Expenditure on Revalued Assets | (5,309) | | (3,585) |
| Impairment losses on Fixed Assets due to general changes in prices | 0 | | 0 |
| Total increase/(decrease) in Unrealised Value of Fixed Assets (Note 7.3) | | 20,185 | 43,710 |
| Value of assets sold, disposed of or decommissioned (Note 7.3) | | (4,949) | (20,985) |
| Capital Receipts Set Aside | 5,263 | | 3,010 |
| Revenue Resources Set Aside | (708) | | (565) |
| Capital Resources Set Aside | 2,217 | | 3,076 |
| Movement on Major Repairs Reserve | 0 | | (797) |
| Movement on Government Grants Deferred | 200 | | 1,528 |
| Depreciation Provision to MRR | (5,011) | | (4,572) |
| HRA Set Aside (MRP) | 0 | | 0 |
| Total increase/(decrease) in amounts Set Aside to finance Capital Investment (Note 7.4) | | 1,961 | 1,680 |
| Total recognised Gains and Losses | | 18,781 | 16,909 |

7.1 Reserves

| | Balance at 01/04/05 £'000 | Transfers To £'000 | Transfers From £'000 | Balance at 31/03/06 £'000 |
|---|---------------------------------|--------------------------|----------------------------|---------------------------------|
| GENERAL FUND RESERVES: | | | | |
| Unallocated Revenue | 31 | 14 | 41 | 4 |
| Interest on Investments | 0 | 0 | 0 | 0 |
| General Fund Revenue | 500 | 41 | 151 | 390 |
| Revenue Contingency | 0 | 0 | 0 | 0 |
| Total General Fund Reserves | 531 | 55 | 192 | 394 |
| HOUSING REVENUE ACCOUNT RESERVES | | | | |
| Housing Revenue Account | 1,077 | 852 | 0 | 1,929 |
| Total Housing Revenue Account Reserves | 1,077 | 852 | 0 | 1,929 |
| COLLECTION FUND REVENUE ACCOUNT | 306 | 205 | 0 | 511 |
| DLO APPROPRIATION ACCOUNT | 0 | 0 | 0 | 0 |
| PENSION RESERVE | (25,400) | 3,220 | 2,410 | (24,590) |
| EARMARKED RESERVES: | | | | |
| Insurance | 175 | 74 | 141 | 108 |
| Plant and Vehicles | 4 | 0 | 4 | 0 |
| Civic Centre | 77 | 0 | 77 | 0 |
| Computer | 80 | 0 | 80 | 0 |
| Riverside Replacement | 6 | 0 | 6 | 0 |
| General Fund LSVT | 0 | 167 | 7 | 160 |
| Miscellaneous Earmarked | 635 | 798 | 589 | 844 |
| Community Chest | (3) | 6 | 1 | 2 |
| Special | 5 | 2 | 0 | 7 |
| Unallocated Capital | 0 | 0 | 0 | 0 |
| Pension Capital Cost | 0 | 210 | 210 | 0 |
| Housing Repairs | 0 | 0 | 0 | 0 |
| Collection Fund | 0 | 0 | 0 | 0 |
| Total Earmarked Reserves | 979 | 1,257 | 1,115 | 1,121 |
| Total Reserves | (22,507) | 5,589 | 3,717 | (20,635) |

7.2 Movements in Realised Capital Resources

| | Usable Capital Receipts £'000 | Unapplied Capital Grants & Contributions £'000 |
|--|--|---|
| Amounts receivable in 2005/2006 | 5,077 | 1,163 |
| Amounts applied to finance new Capital Investment in 2005/2006 | (5,263) | (1,265) |
| Total increase/(decrease) in Realised Capital Resources | (186) | (102) |
| Balance brought forward at 01/4/05 | 1,750 | 848 |
| Balance carried forward at 31/03/06 | 1,564 | 746 |

7.3 Movements in Unrealised Value of Fixed Assets

| | Fixed Asset Restatement Account £'000 |
|---|--|
| Gains/(Losses) on Revaluation of Fixed Assets in 2005/2006 | 25,494 |
| Impairment losses on Fixed Assets due to general changes in prices in 2005/2006 | 0 |
| Capital expenditure on revalued assets | (5,309) |
| Total increase/(decrease) in Unrealised Capital Resources in 2005/2006 | 20,185 |
| Value of assets sold, disposed of or decommissioned | |
| Amounts written off fixed asset balances for disposals in 2005/2006 | (4,949) |
| Total Movement on Account in 2005/2006 | 15,236 |
| Balance brought forward at 01/04/05 | 116,037 |
| Balance carried forward at 31/03/06 | 131,273 |

7.4 Movements in Amounts Set Aside to Finance Capital Investment

| | Capital Financing Account £'000 | Major Repairs Reserve £'000 | Govt. Grants Deferred £'000 | Deferred Premiums £'000 | Total £'000 |
|---|--|--------------------------------------|--------------------------------------|-------------------------------|----------------|
| Capital Receipts Set Aside in 2005/2006: | | | | | |
| Reserved Receipts | - | - | - | - | - |
| Usable Receipts Applied | 5,263 | - | - | - | 5,263 |
| Total Capital Receipts Set Aside in 2005/2006 | 5,263 | - | - | - | 5,263 |
| Revenue Resources Set Aside in 2005/2006: | | | | | |
| Capital Expenditure Financed from Revenue | (230) | - | - | - | (230) |
| Premium on Debt Redemption | - | - | - | 97 | 97 |
| Reconciling amount for Provision for Loan Repayment | (575) | - | - | - | (575) |
| Total Revenue Resources Set Aside in 2005/2006 | (805) | - | - | 97 | (708) |
| Capital Resources Set Aside in 2005/2006: | | | | | |
| Capital Expenditure Financed from MRR | 2,217 | - | - | - | 2,217 |
| Total Capital Resources Set Aside in 2005/2006 | 2,217 | - | - | - | 2,217 |
| Grants applied to Capital Investment in 2005/2006 | - | - | 1,231 | - | 1,231 |
| Amounts credited to the Asset Management Revenue Account in 2005/2006 | - | - | (1,031) | - | (1,031) |
| Movement on Government Grants Deferred | - | - | 200 | - | 200 |
| Capital Expenditure Financed from MRR | - | (2,217) | - | - | (2,217) |
| Full HRA Depreciation Provision | - | 5,010 | - | - | 5,010 |
| Depreciation on Non Dwellings | - | (68) | - | - | (68) |
| Depreciation Excess | - | (2,725) | - | - | (2,725) |
| Movement on Major Repairs Reserve | - | - | - | - | - |
| Depreciation Provision to MRR | (5,011) | - | - | - | (5,011) |
| HRA Set Aside (MRP) | - | - | - | - | - |
| Total increase/(decrease) in amounts set aside to Finance Capital Investment | 1,664 | - | 200 | 97 | 1,961 |
| Total Movement on Reserve in 2005/2006 | 1,664 | - | 200 | 97 | 1,961 |
| Balance brought forward at 01/04/05 | 38,588 | - | 1,791 | (642) | 39,737 |
| Balance carried forward at 31/03/06 | 40,252 | - | 1,991 | (545) | 41,698 |

7.5 Pension Note to the Statement of Total Movement in Reserves

| 2004/05 £'000 | | 2005/06 £'000 |
|--------------------------|--|--------------------------|
| | Revenue Account Costs | |
| (1,220) | Current Service Cost | (1,320) |
| 1,550 | Employer Contribution | 2,000 |
| (170) | Past Service Cost | (310) |
| (2,880) | Interest in Pension Scheme Liabilities | (2,850) |
| 1,940 | Expected Return on Pension Assets | 2,070 |
| (780) | | (410) |
| (6,170) | Actuarial Gains/(Losses) | 1,220 |
| (6,950) | Net Movement on Pension Reserve | 810 |
| (18,450) | Balance brought forward at 1.4.05 | (25,400) |
| <u>(25,400)</u> | Balance carried forward at 31.3.06 | <u>(24,590)</u> |

8. THE CASH FLOW STATEMENT - (information to follow)

9. STATEMENT ON INTERNAL CONTROL

9.1 The Statement of Internal Control is subject to a separate report to Council.

10. THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

10.1 The Authority's Responsibilities

Chester-le-Street District Council is required:-

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

10.2 The Director of Resources' Responsibilities

The Director of Resources is responsible for the preparation of the authority's statement of accounts which in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice') is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

In preparing this statement of accounts the Director of Resources has;

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

The Director of Resources has also

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

Certificate of the Director of Resources

I certify that the statement of accounts present fairly the financial position of the authority at 31 March 2006 and its income and expenditure for the year then ended.

Director of Resources

Date

Certificate of the Chair of Meeting Approving the Accounts

I confirm that the accounts were approved by the Council at the meeting held on

_____ .

Chairman of the Council

Date