

## **STATEMENT OF ACCOUNTS**

### **1. Explanatory Foreward**

The purpose of this foreword is to give an easily understandable guide to the accounts.

The Council's statutory accounts and financial statements for 2006/07 are set out on Pages 22 - 75 of this document, which will eventually be subject to an independent Audit opinion.

The main purpose of the financial statements that make up the Statement of Accounts, are detailed below.

### **2. Report by the Director of Resources**

The report summarises the most significant matters included in the accounts on pages 6 - 11.

### **3. Statement of Accounting Policies**

The purpose of the statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. In certain circumstances, where more than one accounting basis or estimation technique is acceptable, the accounting policy and/or estimation techniques followed can significantly affect an authority's reported results and financial position. The view presented can only be appreciated properly if the policies, which have been followed for material items and estimation techniques that have been used in applying those policies, are explained.

The Statement of Accounts summarises the council's transactions for the 2006/07 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2006 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

Pages 12 - 21 explain the policies adopted in preparing the Council's Accounts.

### **4. Income and Expenditure Account**

This statement is fundamental to the understanding of a local authority's activities, in that it reports the net cost for the year of all the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the local authority's functions, in three distinct sections, each divided by a sub-total.

The first section provides segmental accounting information on the costs of the local authority's different continuing operations, net of specific grants and income from fees and charges, to give the net cost of services.

The second section comprises items of income and expenditure relating to the authority as a whole. When added to the net cost of services these give the authority's net operating expenditure.

The third section shows the income from local taxation and general government grants in the period, to give the net deficit or surplus for the year.

The Income and Expenditure Account has been compiled in accordance with the Best Value Accounting Code of Practice.

Pages 22 - 23 show the revenue expenditure and income for each service provided, including contributions to funds. Following each statement are notes providing further information and explanation on the more important items in the Revenue Accounts.

## **5. Statement of Total Recognised Gains and Losses**

Not all the gains and losses experienced by a local authority are reflected in the Income and Expenditure Account. For example, gains on revaluations of fixed assets and pension actuarial gains and losses are excluded as they are treated under UK GAAP as arising from asset and liability valuation charges rather than from an entities operating performance. It is necessary to consider all gains and losses recognised in a period when assessing the financial result for the period.

FRS 3 (Reporting Financial Performance) requires all gains and losses to be included in a Statement of Total Recognised Gains and Losses (STRGL) to be shown with the same prominence as the other primary statements.

Page 25 shows the Statement of Total Recognised Gains and Losses as at 31<sup>st</sup> March 2007.

## **6. Balance Sheet**

The balance sheet is fundamental to the understanding of the authority's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Page 26 summarises the financial position of the Council as at 31 March 2007. Following the statement are notes providing further information and explanation on the more important items in the Balance Sheet.

## **7. Cash Flow Statement**

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Its objective is to ensure that significant elements of receipts and payments of cash are highlighted in a way that facilitates comparison of cash-flow performance of different businesses and to provide information that assists in assessing their liquidity, solvency and financial adaptability.

Page 27 summarises the inflows and outflows of cash arising from revenue and capital transactions with third parties.

## **8. Housing Revenue Account**

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with the Housing Act 1987. It includes the credit and debit items that are required to be taken into account in determining the surplus or deficit on the HRA for the year. The amounts included in the HRA differ from the amounts in respect of HRA services' included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the SORP rather than that required by statute and non-statutory proper practices. For this reason the HRA statement has two parts:

The HRA Income and Expenditure Account – which shows in more detail the income and expenditure on HRA services included in the whole authority Income and Expenditure Account (comprising as well as the amounts included in the whole authority Net Cost of Services for the HRA, the HRA's share of amounts included in the whole authority Net Service Cost but not allocated to individual services and the HRA's share of operating income and expenditure such as Pension Interest Costs and Expected Return on Pension Assets).

The Statement of the Movement on the Housing Revenue Account Balance – which shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year.

Pages 51 - 52 show the housing revenue expenditure and income, including contributions to funds, etc. Following each statement are notes providing further information and explanation on the more important items in the Housing Revenue Accounts.

**9. Collection Fund**

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

Pages 60 - 61 show the income received by the Council from Council Tax payers, Non-Domestic Rate payers and government grants to meet the Council's demand (including precepts from Parish Councils) and precepts from Durham County Council, Durham Police Authority and the Durham and Darlington Fire and Rescue Authority during 2006/07.

**10. Statement on the Systems of Internal Control and Corporate Governance**

Regulation 4(2) of The Accounts and Audit Regulations 2003 and regulation 4(2) of The Accounts and Audit (Wales) Regulations 2005 require English and Welsh authorities to 'conduct a review at least once in a year of the effectiveness of its system of internal control' and include a statement on internal control with any statement of accounts.

Pages 63 - 75 summarise the responsibilities of the Authority, the Leader of the Council and the Director of Resources, relating to monitoring of an effective system of internal control and arrangements to ensure effective corporate governance.

**11. Statement of Responsibilities for the Statement of Accounts and Certification by the Section 151 Officer**

Local authorities are required to include in their statement of accounts a statement of responsibilities for the statement of accounts, which sets out the respective responsibilities of the authority and the Chief Financial Officer for the accounts.

The Statement of Accounts is intended to present fairly the financial transactions of the Council during the year ended 31 March 2007 (the 2006/07 financial year).

Page 76 summarises the responsibilities of the Authority and the Director of Resources, relating to the making of proper arrangements for the administration of the financial affairs of the Council and the keeping of accounting records.

The accounts and statements in respect of 2006/07 have been prepared using the professional guidance given in the Code of Practice on Local Authority Accounting 2006, together with other legal requirements as contained in various Acts of Parliament, including the Accounts and Audit Regulations 2003.

**12. Glossary of Terms**

Pages 77 - 84 provides details of those accounting terms used within this document and give a basic definition in order to assist the reader to understand the Financial Statements.

## 2. REPORT BY DIRECTOR

### 2.1 GENERAL FUND REVENUE EXPENDITURE

General Fund expenditure for 2006/07 is summarised in the Income and Expenditure Account in section 4 of the Statement of Accounts.

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	Percentage of Total
Community Safety and Development	69.3	0.8%
Leisure	1,790.7	19.7%
Environmental Health	513.1	5.7%
Planning	85.1	0.9%
Environmental Services	2,646.6	29.1%
Revenues and Benefits	657.6	7.2%
Finance and Accountancy	12.6	0.1%
Organisational Development	154.3	1.7%
Corporate Development Unit (Incl. conc. Travel)	1,309.5	14.4%
Regeneration	603.3	6.7%
Legal and Democratic Services	319.3	3.5%
Corporate Functions and Savings	930.8	10.2%
Sub Total	9,092.2	100%
Less: Capital Accounting Adj.	(972.4)	
Less: Interest on Investments	(333.3)	
Net	7,786.5	100%

#### WHERE THE MONEY CAME FROM:-

	£'000	Percentage of Total
Council Tax	2,851	36%
Revenue Support Grant	792	10%
Business Rates	4,103	53%
Collection Fund Surplus	70	1%
Budget for the year	7,816	100%

The Council set a net General Fund Revenue Budget of £7,815,767 for 2006/07.

The table below shows the budgeted figures for 2006/07 as compared with the actual outturn for the year.

Service	Original Net Budget £'000s	Probable Net Budget £'000	Net Actual Outturn £'000	Variance from Probable Budget £'000
Community Safety and Development	144.2	75.6	69.3	- 6.3
Leisure	1,672.3	2,146.7	1,790.7	- 356.0
Environmental Health	576.5	530.0	513.1	-16.9
Planning	200.7	86.3	85.1	- 1.2
Environmental Services	2,579.8	2,668.2	2,646.6	-21.6
Revenues and Benefits	661.7	704.1	657.6	- 46.5
Finance and Accountancy	16.3	3.1	12.6	+ 9.5
Organisational Development	196.1	156.0	154.3	- 1.7
Corporate Development Unit	1,345.7	1,324.4	1,309.5	- 14.9
Regeneration	850.4	797.1	603.3	- 193.8
Legal and Democratic Services	280.0	299.2	319.3	+ 20.1
Corporate Functions and Savings	439.7	806.6	930.8	+ 124.2
Less: Capital Accounting Adj.	(890.0)	(1,451.5)	(972.4)	+ 479.1
Less: Interest on Investments	(257.6)	(330.0)	(333.3)	- 3.3
	7,815.8	7815.8	7,786.5	- 29.3

The final position for 2006/07 shows an underspend of £29,354 as compared with the probable budget. This has been transferred to reserves.

Changes in the treatment of capital charges, which, effectively, show the depreciation of assets used to provide the service, have affected the outturn for several service areas; leisure, environmental services and regeneration, and the Civic Centre (included in Corporate Functions), are the main services affected by these 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 costs of services.

Excluding the effects of the changes in capital charges, the main variances from the probable budget were as follows:

	£'000
Leisure	- 35.3
Environmental Services	+ 27.8
Revenues and Benefits	- 46.5
Regeneration	- 50.7

The overspend on leisure services is mainly due to additional income at the leisure centre and riverside along with a small saving at Selby Cottage.

The overspend on Environmental Services is mainly due to a reduction in income from the highways agency service carried out for Durham County Council.

The underspend on Revenues and Benefits is mainly due to vacancy savings.

The underspend on regeneration is mainly due to savings from vacant posts, and some small underspends against budgets for the housing needs survey, maintenance and equipment.

The variance showing against corporate functions and savings is simply due to the fact that the PSA grant and the LAGBI grant income which were expected to be needed to fund the probable budget were not actually required for the final outturn for the year.

## 2.2 HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) is a statutory ring-fenced account into which all items of expenditure and income relating to the provision of the public sector housing service must be charged. The HRA cannot be subsidised from the General Fund, neither can it subsidise the General Fund. Housing Revenue Account expenditure for 2006/07 is summarised in section 10 of the Statement of Accounts.

The table below shows the budgeted figures for 2006/07 compared with the actual outturn for the year.

	<b>Original Budget £'000</b>	<b>Actual Outturn £'000</b>	<b>Variance from Budget £'000</b>
<b>Income</b>			
Rents and other income	10,660	10,802	- 142
Major Repairs Allowance	2,376	2,376	0
Interest receivable	41	51	- 10
Negative subsidy paid to DCLG	(4,281)	(4,275)	- 6
Rent Constraint Allowance	0	92	- 92
<b>Total income</b>	<b>8,796</b>	<b>9,046</b>	<b>- 250</b>

<b>Expenditure</b>			
Property Services	3,032	2,826	- 206
Central Costs	437	412	- 25
Estate Management	778	854	+ 76
Income Management	265	269	+ 4
I T and Accounts	374	317	- 57
Community Engagement	147	203	+ 56
Exceptional Items	227	119	- 108
Stock Transfer	300	370	+ 70
Special Services – Sheltered Housing	228	191	- 37
Care for the Elderly – Careline	34	121	+ 87
Council House Sales	-	13	+ 13
Cost of Democracy	278	278	0
Depreciation	2,376	2,376	0
Debt Management and Loan Charges	775	855	+ 80
Direct Revenue Financing	0	435	+ 435
<b>Total expenditure</b>	<b>9,251</b>	<b>9,639</b>	<b>+ 388</b>
(SURPLUS)/DEFICIT	455	593	+ 138



The main reason for the variance on the Housing Revenue Account of £138,000 is the direct revenue financing – which is a revenue contribution to the housing capital programme, partly offset by additional income and savings in our budgets.

The closing balance on the housing revenue account reserve at the end of 2006/07 is £1.3 million. Savings in the HRA are expected in 2007/08 which will increase the balance on the reserve by the end of the year.

### **2.3 BUILDING AND MAINTENANCE DIRECT LABOUR ORGANISATION (DLO)**

Turnover in 2006/07 amounted to £2.735 million and resulted in a surplus of £4,231 for the year. (2005/06 turnover amounted to £2.587 million and a surplus of £15,057).

### **2.4 CAPITAL PROGRAMME**

Total Capital Programme expenditure amounted to £11.467 million, as compared with the agreed programme of £12.264 million.

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

	<b>£'000</b>
Affordable Housing	5,286
Town Centre Regeneration	2,150
SHIP	1,494
Housing Grants	654
I.T. (incl. telephony)	599
Pelton Fell Regeneration	522

The total capital programme expenditure of £11,467 million was financed as follows:-

	<b>£'000</b>	<b>Percentage of Total</b>
Major Repairs Allowance	2,376	21%
Capital Receipts	1,480	13%
Borrowing	4,906	43%
Government Grants	118	1%
Other Grants and Contributions	1,969	17%
Revenue	618	5%
	<b>11,467</b>	<b>100%</b>

## 2.5 REVENUE RECOVERY

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

	<b>Arrears</b>	<b>Arrears</b>
	<b>31 March 2006</b>	<b>31 March 2007</b>
	<b>£</b>	<b>£</b>
Council Tax	807,611	729,479
Non Domestic Rates	498,979	311,078
Rents	465,168	506,020
	1,771,758	1,546,577

The total amount of Council Tax collected during 2006/07 amounted to £19,389,665.64 million, and the total amount of non-domestic rates amounted to £6,563,714.59 million.

The authority achieved a collection rate of 97.2% for Council Tax and 96.7% for non-domestic rates in 2006/07.

## 2.6 BORROWING

For 2006/07 the Council set its Authorised Limit which is the 'Affordable Borrowing Limit' required by s3 of the Local Government Act 2003 at £22.05 million.

The Council did not exceed its authorised limit.

The Operational Boundary, set at £20.04 million for 2006/07, 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 £21.77 million, and the minimum gross borrowing position was just over £14.63 million.

The long-term debt at the end of 2006/07 stood at £18.77 million.

The average rate of interest paid on long-term loans in 2006/07 was 5.55% compared with a rate of 5.63% in 2005/06.

## 2.7 INVESTMENTS

The Council's investments amounted to £6.39 million on 31 March 2007. An average rate of interest of 4.83% was earned on investments.

## 2.8 RESERVES AND BALANCES

At the end of 2006/07, the Council's total General Fund reserves amounted to £1.7 million. This total comprises:-

	£'000
General Fund Reserve	390
Insurance Reserve	176
Earmarked Revenue Reserves	1,134
	1,700

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, Durham and Darlington Fire and Rescue 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 amounts due have been collected. It is important, therefore, to have the general reserve available to help meet these payments should this be required.

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

The Housing Revenue Account (HRA) has reserves of approximately £1.3 million.

## 2.9 STATEMENT OF INTERNAL CONTROL

The Statement of Internal Control is detailed in section 12 of the Statement of Accounts. This is the last year that the SIC will be reported to Council in this format. A revised Framework for Corporate Governance is being published in June 2007 which will necessitate a review of local government arrangements and recommend an annual governance statement that subsumes the requirement to prepare and publish a Statement of Internal Control, effective from 2007/08.

### **3. STATEMENT OF ACCOUNTING POLICIES**

#### **3.1 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.

#### **3.2 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.

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.
- 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 were revalued during 2005/06. The non-housing assets were revalued by the District Valuer in September 2006.

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).

### **3.3 Intangible Assets**

Intangible Assets are assets which do not have a physical substance but are identifiable and controlled by the Council and have a life exceeding one year. The balance is amortised to revenue over the economic life to reflect the consumption each year. The balance identified on the balance sheet relates to computer software and licences.

### **3.4 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.

### **3.5 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.

### **3.6 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 assets 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.

### **3.7 Capital Charges to Revenue**

General Fund Service Revenue Accounts, as defined in CIPFA's Best Value Accounting Code of Practice, central support services and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of the service.

Such charges are calculated on the current valuation of the asset and comprise of depreciation which is calculated using the straight line method.

Finance costs, (including interest payable and interest payable under finance leases) and provisions for depreciation are charged to the Income & Expenditure Account. The General Fund accounts have been charged with an amount known as the Minimum Revenue Provision (MRP). The MRP is calculated on the basis of 4% of the Non-Housing Capital Financing Requirement at 1 April and under the capital accounting system, the provision for depreciation equates to the MRP. Where the provision for depreciation, which has been charged to the service accounts is lower than the MRP, an additional charge is made to the Income and Expenditure Account, below net operating expenditure. A credit is included where the provision for depreciation exceeds MRP. This allows compliance with the statutory requirement concerning the provision for the redemption of debt.

From 1 April 2004, the Housing Revenue Account is no longer charged with a Minimum Revenue Provision. Depreciation charges in the HRA equate to the level of the Major Repairs Allowance.

All capital charges for the use of fixed assets and relevant impairment losses included in revenue accounts are credited to the Statement of the Movement in General Fund Balance.

The amounts set aside from revenue for the repayment of external loans and to finance capital expenditure are disclosed separately on the face of the Income and Expenditure Account, below net operating expenditure.

### **3.8 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.

### **3.9 Government Grants and Other Contributions**

Money received from central government is credited to the appropriate revenue and capital accounts when the money is due rather than when it is actually received (accrual basis).

All grants and contributions to finance capital expenditure are initially credited to the Government Grants Deferred Account. Amounts are released to the Income and Expenditure Account over the useful life of the asset to match the depreciation charged on to asset to which it relates.

For expenditure on assets which will not be depreciated, the amounts of grants are written out to the Capital Financing Account in the year they are applied.

The Council receives specified Capital Grant from the Government which helps to pay for Disabled Facilities Grants to private householders.

### **3.10 Leases**

There are two main types of lease agreements that the Council can enter into and the accounting treatment of each of these is as follows: -

**Finance Leases** – Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

**Operating Leases** - Rentals payable, net of benefits received or receivable (e.g. incentives for a lessee to sign a lease), under operating leases are charged to revenue on a straight-line basis over the term of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more appropriate

### **3.11 Income and Expenditure and the basis on which Debtors and Creditors Outstanding at 31 March 2007 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 2007 in respect of debtors and creditors have been included in the Balance Sheet. The figures shown represent actual amounts due.

### **3.12 The Nature of Material Provisions and Reserves**

#### **Provisions**

Provisions are amounts which have been set aside to meet existing liabilities or losses.

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 2007 are given in Section 9.18 on page 38.

##### Capital:

The requirements of the capital accounting system for local authorities involve the maintenance of three significant capital reserves in the 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.



### 3.13 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:-

<b>Cost</b>	<b>Basis of Allocation</b>
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.

### 3.14 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 2005/2006 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 2006/07 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 2006/07 are charged to the "Income and Expenditure Account – 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 9.6 of the Notes to the Core Single Entity Accounting Statements.

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.

### 3.15 Interest Charges

All surplus capital and revenue monies are externally invested, in line with the Council's approved Annual Treasury Management Strategy and in accordance with the Local Code of Treasury Management. The General Fund receives the interest and an internal transfer is made to the Housing Revenue Account based on the actual average interest rate achieved on the Council's Reserve Account throughout the year and in accordance with the Item 8 Credit calculation of the Housing Subsidy Determinations. Interest payable on external borrowings and investment income is accounted for on an accruals basis.

### 3.16 Premiums and Discounts on the Early Redemption of Debt

The Council makes provision for all scheduled debt repayments. The basis of these payments is dependent upon the type of loan raised. There are two types of loans currently used by the Council, these are:

**Maturity loans** – the principal is repaid in full on the date the loan matures and in the interim, interest only payments are made.

**Annuity loans** – repayments of these loans are calculated on the basis of a sinking fund where the proportion of principal in relation to the payment increases throughout the term of the loan.

In addition to these budgeted repayments the Council can also redeem or restructure its debt early, as part of its overall debt management policy, thus utilising its ability to repay and/or replace debt based on prevailing market conditions.

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 revenue account over the life of the new loan for the General Fund, and over the life of the old loan or ten years, whichever is shorter, for the Housing Revenue Account.
- Premiums and discounts that are not associated with a wider restructuring of the Council's debt portfolio are charged to the revenue account in the year in which they are incurred.
- Premiums and discounts are split between the General Fund and the Housing Revenue Account, in accordance with their share of debt as identified by the Council's Capital Financing Requirement (formerly its Credit Ceiling) at 1 April in the year in which they are incurred.

The repayment (redemption) of debt by services is provided for in accordance with the requirements of the Local Government and Housing Act 1989.

### **3.17 Investments**

External investments to the value of £6.39 million were held at 31 March 2007. 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.

### **3.18 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.

### **3.19 Value Added Tax**

Income and expenditure is shown net of VAT where this is recoverable. Claims to Customs and Excise for the net VAT are made on a monthly basis.

### **3.20 Post Balance Sheet Events**

Where an event occurs after the closure of accounts which is significant then changes will be made to the Statement of Accounts. Otherwise a note of the event will be disclosed. There are no such events in 2006/2007.

### **3.21 Changes in Accounting Practice and Prior Year Adjustments**

The 2006/07 accounts include the following changes, as detailed above, to accounting practice in comparison to previous years: -

- Intangible fixed assets which were not computer software have now been written off in the year of acquisition.

Other changes introduced by the 2006 SORP, include significant alterations to the form and structure of local authority accounts. This has been brought about by a desire to converge local authority accounting arrangements more in line that of the private sector and for them to be "UK GAAP compliant". That is that the accounting practices in local authorities are in line with / comparable to the Generally Accepted Accounting Practices in the private sector.

The SORP 2006 (applicable to accounts for the financial year ended 31 March 2007) was published in Autumn 2006 and sets out recommendations regarding these changes. In addition to bringing the form and structure of the accounts into more of a UK GAAP compliant context, the whole aim of these changes is to try and make the statements more accessible and better understood. Whilst these changes are applicable from 2006/07 onwards, there is a requirement to re-cast (for comparison and consistency purposes) the 2005/06 figures as part of the closedown process.

The main significant changes (from the 2005/06 Accounts) are as follows: -

- **Change in Format and Structure**

The Financial Statements have been reclassified into Core Single-Entity Statements (including the new and amended statement requirements); Supporting Single Entity Financial Statements; and Group Accounts Financial Statements. The Core Statements are now grouped together at the front of the document and the notes to these are shown in one section rather than immediately after the statements themselves.

- **Abolition of Capital Financing Charges**

From 1 April 2006 the Council is no longer required to make a notional interest charge against service revenue accounts and as a consequence the requirement to maintain an Asset Management Revenue Account has been removed.

- **Replacement of the Consolidated Revenue Account with a new "Income and Expenditure Account"**

This new statement excludes a host of accounting entries and adjustments that were key features of the Income and Expenditure Account (see below) and show the net surplus or deficit for the year before adjustments are made for the items that were previously included in the Income and Expenditure Account. The net cost of services included in the I&E account includes items that do not impact directly in the Council tax due to statute bar – principally actual depreciation charges, deferred charges and FRS 17 adjustments, plus appropriations to and from earmarked funds. These will be adjusted in a new statement that is to be included (see below).

- **A New Statement of Movement on the General Fund Balance**

This statement includes all the entries that are required by statute and non-statutory proper practices to be adjusted against the Income and Expenditure Account surplus or deficit to give the "true" General Fund Council Taxpayer position – i.e. the position that would otherwise have been the case on the Income and Expenditure Account. This statement also records the profits and losses on the disposal of fixed assets.

- **Replacement of the Statement of Total Movement in Reserves with a New Statement of Total Recognised Gains and Losses**

This new statement will effectively reconcile the opening and closing balance sheet values i.e. the change in the net worth of the authority in year and will bring together both the movement in reserves and balances and the change in asset values, taking into account any additions, revaluations and disposals and associated surpluses or losses on those disposals of assets.

**4. INCOME AND EXPENDITURE ACCOUNT**

2005/2006 Net Expenditure £'000		2006/2007			Notes
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	
692	Housing – Services	918	(172)	746	
(829)	HRA Housing	11,833	(11,246)	587	
4,496	Cultural, Environmental and Planning Services	9,290	(3,622)	5,668	
275	Highways, Roads and Transport Services	1,174	(447)	727	
535	Central Services to the Public	15,628	(14,862)	766	
1,106	Corporate and Democratic Core	2,526	(988)	1,538	
(60)	Unapportionable Central Overheads	(20)	(202)	(222)	
<b>6,215</b>	<b>Net Cost of Services</b>	<b>41,349</b>	<b>(31,539)</b>	<b>9,810</b>	
172	Parish Council Precepts			181	
780	Pension Interest Cost and Expected Return on Pension Assets			480	9.6
195	Interest Payable and Similar Charges			185	
(200)	(Surpluses) / Deficit on Undertakings Not included in the Net Cost of Services			(177)	9.1
2,907	Contribution of Housing Capital Receipts to Government Pool			1,161	
(256)	Interest and Dividends Receivable			(333)	9.7
<b>9,813</b>	<b>Net Operating Expenditure</b>			<b>11,307</b>	
	<b>Principal Sources of Finance:-</b>				
(2,880)	Demand from the Collection Fund			(3,102)	
(2,662)	Revenue Support Grant			(792)	
0	Government Grant Previous Year Adjustment			(24)	
(1,540)	Redistributed Non-Domestic Rates (From National Pool)			(4,103)	
<b>2,731</b>	<b>(Surplus) / Deficit for Year</b>			<b>3,286</b>	

## 5. STATEMENT OF THE MOVEMENT ON THE GENERAL FUND BALANCE

2005/2006 £'000		2006/2007 £'000
2,731	(Surplus) / Deficit for year on the Income and Expenditure Account	3,286
(2,548)	Net Additional amount required by statute and non-statutory proper accounting practices to be debited or credited to the General Fund balance for the year	(3,328)
183	(Increase) / Decrease in General Fund Balance for the Year	(42)
(531)	General Fund Balance Brought Forward	(348)
<b>(348)</b>	<b>General Fund Balance Carried Forward</b>	<b>(390)</b>

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

2005/2006 £'000		2006/2007 £'000
	<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>	
(716)	Depreciation and Impairment of General Fund Fixed Assets	(1,219)
1,031	Amortisation of Government Grants Deferred	2,110
(738)	Write down of deferred charges financed from capital resources	(2,761)
-	Net loss on sale of fixed assets	-
<b>(423)</b>	<b>Sub Total</b>	<b>(1,870)</b>
	<b>Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance</b>	
141	Minimum Revenue Provision for Capital Financing	62
78	Capital Expenditure Charged in year to Revenue	0
(2,907)	Transfer from usable capital receipts to meet payments to Housing Capital Receipts Pool	(1,161)
(410)	Employers Contributions payable to pension fund and retirement benefits payable direct to Pensioners	(150)
<b>(3,098)</b>	<b>Sub Total</b>	<b>(1,249)</b>
	<b>Transfers to or (from) the General Fund Balance required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
816	Surplus / (Deficit) Transferred to / (from) Housing Revenue Account Balance	(593)
157	Net Transfer to or (from) Earmarked Reserves	384
<b>973</b>	<b>Sub Total</b>	<b>(209)</b>
<b>(2,548)</b>	<b>Net Additional amount required by statute and non-statutory proper accounting practices to be debited or credited to the General Fund Balance for the year</b>	<b>(3,328)</b>



**6. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

<b>2005/2006 £'000</b>		<b>2006/2007 £'000</b>
2,731	(Surplus) / Deficit for the year on the Income and Expenditure Account	3,286
21,696	(Surplus) / Deficit for the year arising from the revaluation of Fixed Assets	(12,888)
400	Actuarial (gains) and losses on Pension Fund assets and liabilities	(40)
7	(Increase) / decrease in the Capital Financing Reserve	(1,297)
0	(Increase) / decrease in Deferred Capital Receipts Reserve	0
1,492	(Increase) / decrease in Other Reserves	994
(186)	(Increase) / decrease in Usable Capital Receipts Reserve	(273)
<b>26,140</b>	<b>Total</b>	<b>(10,218)</b>

**7. BALANCE SHEET – As at 31 March 2007**

Year Ended 31 March 2006		Notes	Year Ended 31 March 2007	
£'000			£'000	£'000
361	<b>Fixed Assets</b>	9.20		
	<b>Intangible Fixed Assets</b>	9.21	271	
	<b>Tangible Fixed Assets</b>			
	<b>Operational Assets-</b>			
168,674	Council Dwellings		163,230	
17,812	Other Land and Buildings		17,035	
1,320	Vehicles Plant and Equipment		1,206	
776	Infrastructure		755	
1,518	Community		1,506	
	<b>Non-Operational Assets</b>			
3,210	Assets Under Construction		3,285	
2,878	Investment Properties		2,865	
196,549	<b>Total Fixed Assets</b>			190,153
8	Long-Term Debtors	9.22		4
545	Deferred Premiums on the Early Repayment of Debt	9.8		765
197,102	<b>Total Long-Term Assets</b>			190,922
	<b>Current Assets</b>			
219	Stocks and work in progress	9.23	144	
8,075	Short-term investments	9.24	6,390	
2,650	Debtors	9.25	3,167	
0	Cash at bank		0	
4	Cash in hand		3	
214	Payments in Advance		165	
				9,869
208,264	<b>Total Assets</b>			200,791
	<b>Current Liabilities</b>			
2,960	Short-term Borrowing	9.27	11	
2,517	Creditors	9.26	2,806	
394	Cash Overdrawn		1,787	
545	Receipts in Advance		574	
				5,178
201,848	<b>Total Assets Less Current Liabilities</b>			195,613
	<b>Long Term Liabilities</b>			
14,641	Long-term Borrowing	9.28		18,759
35	Deferred Liabilities			34
1,991	Government Grants Deferred			1,967
24,590	Liability Related to Defined Benefit Pension Scheme	9.6		24,480
160,591	<b>Total Assets Less Liabilities</b>			150,373
	<b>Financed by:</b>	9.35		
139,187	Fixed Asset Restatement Account			130,279
40,252	Capital Financing Account			37,944
1,564	Usable Capital Receipts Reserve			1,291
(24,590)	Pension Reserve			(24,480)
349	General Fund Balance			390
1,893	Housing Revenue Account Balance			1,300
1,936	Earmarked Reserves			3,649
160,591	<b>Total Net Worth</b>			150,373

**8. CASH FLOW STATEMENT**

To follow – 1 page

**9. NOTES TO THE CORE SINGLE ENTITY ACCOUNTING STATEMENTS**

**9.1 Trading Undertakings**

**a) Trading Activities**

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

		£'000	£'000
The Council owns and manages an <b>outdoor market</b> , in the Town Centre, generating rental income from the letting of market stalls. The trading objective is to maximise the surplus. (The trading deficit for 2005/2006 was £47,858)	Turnover	130	
	Expenditure	102	
	Surplus		28
The Council lets 57 units in <b>Industrial Estates</b> located in various parts of the District. The trading objective is to maximise rental income.  (The trading surplus for 2005/2006 was £110,272)	Turnover	261	
	Expenditure	64	
	Surplus		197
The Council owns and manages the <b>Selby Cottage Child Care Facility</b> located in South Pelaw. The trading objective is to break-even before asset charges are applied. The deficit for 2005/2006 before asset charges was £16,958 (The trading deficit for 2005/2006 was £37,419)	Turnover	357	
	Expenditure	420	
	Deficit		(63)
<b>Net Surplus on Trading Activities before FRS 17 Adjustment</b>			<b>162</b>
<b>FRS 17 Adjustment – see Note 2.14</b>			<b>2</b>
<b>Net Surpluses on Trading Activities after FRS 17 Adjustment</b>			<b>164</b>

**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
<b>Public Works</b> (Building Maintenance and Major Works) The trading objective is to break-even  (The trading surplus for 2005/2006 was £15,057)	Turnover	2,735	
	Expenditure	2,731	
	Surplus		4
<b>Net Surplus on Direct Service Trading Activities before FRS 17 Adjustment</b>			<b>4</b>
<b>FRS 17 Adjustment – see Note 2.14</b>			<b>9</b>
<b>Net Surplus on Direct Services Trading Activities after FRS 17 Adjustment</b>			<b>13</b>

The net surplus shown above is a result of a £4,231 surplus on Building Maintenance Works.

## 9.2 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 £28,445 in 2006/2007 (£84,071 in 2005/2006).

## 9.3 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 in 2006/2007 amounted to £103,119 (2005/2006 £92,187).

The Council also manages a Gypsy Site in the area on behalf of Durham County Council, and after income of £22,585 (2005/2006 £23,788) was recovered the net costs amounted to £15,767 (2005/2006 £18,372). This amount is reimbursed by the County Council.

## 9.4 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.

	2005/2006 £'000	2006/2007 £'000
Total Expenditure on Publicity	157	155
Comprising:-		
Staff Recruitment	56	54
Housing Matters	5	12
Leisure Matters	22	14
Public Notices	16	13
Environmental Matters	9	0
Regeneration	2	18
Economic Development	1	0
District News	24	27
Corporate Plan	9	0
General Survey	8	1
Other	5	6
Comprehensive Performance Assessment	0	10
	157	155

## 9.5 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 in the past been financed by operating leases. During 2005/2006 all operating leases in their primary period were redeemed and the assets purchased by the Council.

The amount of rentals paid in 2006/2007 under the operating lease agreements was Nil (2005/2006 - £245,063). However, the amount charged to revenue accounts in the year amounted to Nil (2005/2006 – Nil), the difference has been accounted for within the Asset Register and associated accounts.

The total undischarged rentals as at 31 March 2007 in respect of operating leases is now Nil (2005/2006 - Nil).

- c) The Council also acts as lessor under many rental agreements for properties which it owns and operates. All of these lease agreements are classified as Operating Leases for the reasons outlined below:-
  - All leases are relatively short term, compared with asset life.
  - In all cases the total rental income over the life of the lease amounts to a small percentage of the asset value, well under 90%.
  - In all cases the Council maintains responsibility for maintenance and insurance of the assets.

In 2006/2007 rental income from leases on assets held as operating leases amounted to £287,008 (2005/2006 - £268,469). This rental income has been credited to various budget heads within the service revenue accounts.

## 9.6 Pensions and 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.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Statement of Total Recognised Gains and Losses. The change has not affected the figures in the Income and Expenditure Account.

The accounts for 2006/2007 have been charged with an amount of £1,837,231 in respect of the Council's contribution to the Durham County Council Superannuation Fund (2005/2006 - £1,634,043). This represents 385% 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 £1,841,755 representing 22.61% of pensionable pay.

In addition, the Council funded an amount of £356,328 in respect of pension increases and enhanced pensions paid out of the Fund to former employees (2005/2006 - £360,537). This represents 4.38% of total pensionable pay (2005/2006 - 4.71%).

Further to the note 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 Income and Expenditure Account.

The Council's assets and liabilities are:

	31 March 2006 £m	31 March 2007 £m
Share of Liabilities in County Council Fund	(58.52)	(61.38)
Estimated Liabilities for Discretionary Added Years	(2.26)	(2.37)
<b>Total Liabilities</b>	<b>(60.73)</b>	<b>(63.75)</b>
Share of Assets in County Council Fund	36.19	39.27
<b>Net Pensions Deficit</b>	<b>(24.59)</b>	<b>(24.48)</b>

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 2006 %	31 March 2007 %
Rate of Inflation	3.0	3.2
Rate of Increase in Salaries	4.5	4.7
Rate of Increase in Pensions	3.0	3.2
Rate of Increase to Deferred Pensions	3.0	3.2
Rate for Discounting for Pension Cost over the following year	4.9	5.3

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 2006 %	31 March 2007 %	Expected Return at 31 March 2007 %
Equity Investments	87	85	7.7
Government Bonds	7	8	4.7
Corporate Bonds	1	0	5.3
Property	2	2	6.7
Other Assets	3	5	5.6
	<b>100</b>	<b>100</b>	<b>7.3</b>

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

	31 March 2007 £m
<b>Net Pensions Deficit as at 1 April 2006</b>	(24.59)
Current Service Cost	(1.56)
Past Service Cost	(0.08)
Contributions Paid	1.97
Curtailment Cost	0.00
Other Finance Income (Charge)	(0.48)
Actuarial Gains (Losses)	0.26
<b>Net Pensions Deficit as at 31 March 2007</b>	<b>(24.48)</b>



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

	2006/2007 £m	%
Actual Return Less Expected Return on Assets	0.31	0.8% of Scheme Assets
Experience Gains and (Losses) on Pension Liabilities	(0.17)	(0.3)% of Pension Liabilities
Changes in Assumptions Underlying the Present Value of Pension Liabilities	0.12	0.2% of Pension Liabilities
Total	0.26	0.4% 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 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 £24.48m net liability represents the difference between the value of the Council's Pension Fund assets at 31 March 2007 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 2007 would also have an impact on the capital value of the pension fund assets.

Further information can be found in the Annual Report of Durham County Council Superannuation Fund and is available from the County Treasurer, Durham County Council, County Hall, Durham DH1 5UB.

## 9.7 Interest Receivable

Interest	2005/2006 £'000	2006/2007 £'000
Interest Received on External Investments	(308)	(395)
Interest Received on Employee Car Loans	(1)	0
Interest Received on Housing Advances	0	0
Interest Payable to Inland Revenue	0	1
Total Interest Received	(309)	(394)
Less Recharged to Other Accounts	53	61
Net Credit to Income and Expenditure Account	(256)	(333)

**9.8 Premiums / Discounts on Early Redemption of Debt**

The repurchase (early redemption) of external debt generates either a premium or discount as a result of interest rate differentials. Where the interest rate on a loan redeemed is higher than the prevailing rate available at the date of redemption, a premium is incurred, where it is below a discount is earned.

In accordance with recommended accounting practice, premiums and discounts incurred on such repayments are being amortised to revenue accounts over a number of years, as outlined in the Statement of Accounting Policies. The impact on revenue accounts is shown below:-

	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
General Fund Premiums	0	2
HRA Premiums	97	115
Total Charge	97	117

**9.9 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:-

	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
Actual Depreciation Charged to Revenue Accounts (Including Amortisation of Intangible Assets)	(716)	(1,219)
General Fund MRP (4% of Opening Capital Financing Requirement)	141	61
Excess Depreciation over MRP	(575)	(1,158)
Credit to Income and Expenditure Account	(575)	(1,158)

**9.10 Acquired and Discontinued Operations**

The information contained in the Income and Expenditure Account relates to continuing services. There have been no acquired or discontinued operations during 2006/2007.

### 9.11 Officers' Emoluments

The number of employees whose remuneration in 2006/07, excluding pension contributions, was £50,000 or more, in bands of £10,000 are as follows:-

<b>Remuneration Band</b>	<b>2005/2006 Number of Employees</b>	<b>2006/2007 Number of Employees</b>
£50,000 - £59,999	0	3
£60,000 - £69,999	1	1
£70,000 - £79,999	3	3
£80,000 - £89,999	-	-
£90,000 - £99,999	-	-
£100,000 - £109,999	-	-
£110,000 - £119,999	1	1

### 9.12 Members Allowances

During 2006/2007, the total sum paid to Members in respect of basic allowance and special responsibility allowance was as follows:-

<b>Type of Allowance</b>	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
Basic Allowance	139	139
Special Responsibility Allowance	39	37
<b>Total</b>	<b>178</b>	<b>176</b>

### 9.13 Insurance Provisions/Self Insurance

The Council self-insures its housing properties in respect of fire and storm damage and associated risks. There is, however, 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.

The balance on the insurance fund as at 31 March 2007 was £176,405. £50,000 is earmarked to cover the maximum cost of claims chargeable under the fire policy. The balance of £126,405 is available to meet the costs of certain events which may not result in claims to the Council's insurers.

**9.14 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 2006/2007, 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.

	<b>Chargeable 2006/2007 £'000</b>	<b>Non Chargeable 2006/2007 £'000</b>	<b>Total Building Control 2006/2007 £'000</b>
Expenditure:			
Employees	56	41	97
Supplies and Services	11	8	19
Third Party Payments	21	0	21
Direct Support Services	4	3	7
Indirect Support Services	14	10	24
	106	62	168
Income			
Building Control Fees	105	0	105
Building Control Notice	15	0	15
	120	0	120
Surplus/(Deficit) for the Year	<b>14</b>	<b>(62)</b>	<b>(48)</b>

**9.15 Local Authority (Goods and Services) Act 1970**

The Council is empowered by this Act to provide Goods and Services to other public bodies. During 2006/2007 the following services were provided:-

	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
Housing Maintenance Works for Housing Associations	1	1
Emergency Alarm Monitoring for Housing Associations	32	31
Vehicle Safety Checks and Servicing	2	3
Grounds Maintenance Works	3	1
	38	36

## 9.16 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 2006/2007 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.

## 9.17 External Audit Costs

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

	2005/2006 £'000	2006/2007 £'000
Audit Fee	98	104
Inspection Fee	15	11
Grant Claims Audit	15	19
Other	3	2
	131	136

**9.18 Earmarked Reserves**

<b>GENERAL FUND</b>	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
<b>Earmarked Reserves and Balances:-</b>		
Insurance Reserve	109	176
General Fund LSVT Reserve	160	0
Miscellaneous Earmarked	841	1,128
Special Reserve	7	5
Unallocated Revenue Reserve	4	7
Section 106 Agreements	432	1312
Developers Contributions	150	786
Capital Grants	142	184
Home Office Initiatives	22	1
Collection Fund	69	50
	<b>1,936</b>	<b>3,649</b>

**9.19 Exceptional Items and Prior Year Adjustments**

There were no exceptional items in 2006/2007.

With regard to Prior Year Adjustments, an amount of £158,801 has been charged to service revenue accounts to reflect the depreciation not charged in 2005/2006 following the revaluation of non-housing assets. This is in accordance with instructions from our External Auditors to ensure the Balance Sheet as at 31 March 2007 reflects accurate asset valuations.

**9.20 FIXED ASSETS**

**Movements on Fixed Assets 2006/2007**

	Council Dwellings	Other land & buildings	Plant & Vehicles	Infra-structure	Community Assets	Investment Assets	Assets in Course of Construction	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Certified Valuation as at 31 March 2005</b>	<b>173,616</b>	<b>18,293</b>	<b>1,895</b>	<b>798</b>	<b>1,518</b>	<b>2,878</b>	<b>3,214</b>	<b>202,212</b>
Accumulated Depreciation and Impairment	(4,942)	(481)	(575)	(22)	0	0	(4)	(6,024)
<b>Net Book Value of Assets at 31 March 2006</b>	<b>168,674</b>	<b>17,812</b>	<b>1,320</b>	<b>776</b>	<b>1,518</b>	<b>2,878</b>	<b>3,210</b>	<b>196,188</b>
<u>Movement in 2006/2007</u>								
Additions	2,240	0	146	0	0	0	228	2,614
Disposals	(2,802)	(7)	0	0	0	(30)	0	(2,839)
Restatements	0	0	114	0	0	17	(131)	0
Revaluations	0	0	0	0	0	0	0	0
Depreciation	4,882	770	374	21	12	0	22	6,081
Impairments	0	0	0	0	0	0	0	0
<b>Net Book Value of Assets at 31 March 2007</b>	<b>163,230</b>	<b>17,035</b>	<b>1,206</b>	<b>755</b>	<b>1,506</b>	<b>2,865</b>	<b>3,285</b>	<b>189,882</b>

## Disposal of Assets

Disposals relate to assets sold and transferred in the year and equal the value at which those assets were held in the Balance Sheet. Details are as follows:-

	<b>2006/2007 £'000</b>
(Right to Buy) Sales	2,657
Demolition of Dwellings	145
Other Land and Buildings	37
	<b>2,839</b>

## Net Assets Employed

The net assets employed represents the aggregate of reserves attributable (both revenue and capital) to the Authority, and as such represent the sum of the local taxpayers' equity. An analysis of net assets employed is as follows:-

	<b>31 March 2006 £'000</b>	<b>31 March 2007 £'000</b>
General Fund	(708)	(3,190)
Housing Revenue Account	160,949	153,432
Direct Labour/Service Organisation	281	80
Collection Fund	69	51
	<b>160,591</b>	<b>150,373</b>

## Valuation and Impairment

The value at which each category of assets is included in the balance sheet is required by FRS 11 to be reviewed at the end of each reporting period by a professionally qualified valuer. Where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly. An impairment review of the Council's Asset Register has been undertaken by the Valuation Office and no adjustments were required.

## Capital Expenditure and Financing 2006/2007

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

<b>Capital Financing</b>	<b>£'000</b>	<b>Capital Expenditure</b>	<b>£'000</b>
Major Repairs Allowance	2,376	Fixed Assets	8,707
Capital Receipts	1,480	Deferred Charges	2,760
Borrowing	4,906		
Government Grants	118		
Other Grants and Contributions	1,969		
Revenue	618		
	<b>11,467</b>		

## Capital Commitments

The Council has commitments of £2.472 million into 2007/08, of which £1.574 million has been contractually committed and £0.898 million approved but not yet contractually committed.

A summary of these commitments is shown below:-

	<b>Expenditure Approved and Contracted at 31.3.07 £'000</b>	<b>Expenditure Approved but not Contracted at 31.3.07 £'000</b>
Town Centre Regeneration Scheme	1,011	-
Riverside Investment Appraisal	-	25
Careline Equipment	105	-
Disabled Facilities Grants	50	-
Play Areas	60	-
Riverside Sports Pitches	-	25
Athletics Track	12	-
Fire Prevention Works	6	-
Bournmoor Churchyard	-	31
Civic Centre Works	-	200
IEG Schemes	125	17
Contribution to A693 Roundabout Works	100	-
Pelton Fell Relocation Grants	75	-
Pelton Fell Environmental Works	-	600
Pelton Fell – Other Works	30	-
	<b>1,574</b>	<b>898</b>

## Statement of Physical Assets

Tangible fixed assets owned by the Council include the following:-

	<b>31 March 2006</b>	<b>31 March 2007</b>
Council Dwellings	4,383	4,331
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	3	3



	31 March 2006	31 March 2007
Leisure Centres (inc. pools)	1	1
Riverside Sports Pavilion	1	1
Childcare Nursery	1	1
Avenues Resource Centre	1	1
Garages	1,013	1,006
Operational Equipment		
Vehicles	16	16
Heavy Plant	21	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

### 9.21 Intangible Asset Charges

	31 March 2006 £'000	31 March 2007 £'000
Balance Brought Forward	56	361
Expenditure in Year		
GIS	23	19
Housing	42	0
E. Government/ICT	122	22
Environmental Services	16	0
Planning	10	0
Concessionary Fares	7	0
Environmental Health	6	0
Revenues and Benefits	79	18
Amounts w/o to Income and Expenditure Accounts	0	(149)
Balance Carried Forward	361	271

### 9.22 Long Term Debtors

	31 March 2006 £000	31 March 2007 £000
Car Loans	7	5

### 9.23 Stocks

	31 March 2006 £'000	31 March 2007 £'000
STOCKS		
Sacriston Depot	16	13
DLO – Joiners Shop	0	0
DLO – Bullion Lane Depot	198	124
Leisure Centre	5	7
	219	144

### 9.24 Short Term Investments

The Council invests its surplus cash balances for short periods ranging from 1 to 364 days in approved organisations such as banks and building societies. The value of investments at 31 March 2007 was £6.39m (£8.075m 31 March 2006). Details of short-term investments held at 31 March 2007 are as follows:-

	31 March 2006 £'000	31 March 2007 £'000
Abbey Business Reserve	2,000	1,000
Nationwide Building Society	1,000	
Derbyshire Building Society	1,600	
Bradford & Bingley plc	2,000	
Portman Building Society	1,475	
Co-operative Bank Reserve		1,390
Allied Irish Bank		2,000
Landsbanki Islands HF		2,000
<b>Total</b>	<b>8,075</b>	<b>6,390</b>

### 9.25 Debtors

The Debtors figure of £3,167,192.97 (£2,650,112.20) included in the Balance Sheet net of provisions for bad debts is analysed as follows:

	<b>31 March 2006</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Government Departments	663	1,429
Other Local Authorities	251	87
Housing Rents	465	506
Sundry Debtors	702	465
Non-Domestic Ratepayers	503	335
Council Tax Payers	865	1,043
Former Rate Payers	151	0
Third Party Debtors	281	287
<b>Sub Total</b>	<b>3,881</b>	<b>4,152</b>
Less: Provision for Doubtful Debts	-1,231	-985
<b>Total</b>	<b>2,619</b>	<b>3,167</b>

### 9.26 Creditors

The Creditors figure of £2,806,240.56 (£2,516,842.52) included in the Balance Sheet is analysed as follows:

	<b>31 March 2006</b> <b>£'000</b>	<b>31 March 2007</b> <b>£'000</b>
Government Departments	591	1,001
Other Local Authorities	458	587
Sundry Creditors	1,096	1,074
Ratepayers	17	0
Third Party Creditors	355	144
<b>Total</b>	<b>2,517</b>	<b>2,806</b>

### 9.27 Borrowing Repayable Within 12 Months

<b>Source of Loan</b>	<b>Year Ended</b> <b>31 March 2006</b> <b>£'000</b>	<b>Year Ended</b> <b>31 March 2007</b> <b>£'000</b>
European Investment Bank	0	11
<b>Total</b>	<b>0</b>	<b>11</b>

## 9.28 Long Term Borrowing

At 31 March 2007 there were loans to the value of £18,759,647 (£14,640,985) which are repayable over a period of more than 12 months. These were raised from the following lenders:

	31 March 2006 £'000	31 March 2007 £'000
Public Works Loan Board	11,610	18,760
European Investment Bank	31	0
Other Financial Institutions	3,000	0
	14,641	18,760

Of the above (£18,759,647) are maturity loans and are scheduled to be repaid as follows:

	31 March 2006 £'000	31 March 2007 £'000
Between 1 and 2 years	0	0
Between 2 and 5 years	0	0
Between 5 and 10 years	3,000	0
Over 10 years	11,610	18,760
	14,610	18,760

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

## 9.29 Deferred Charges

The treatment of Deferred Charges is explained in the Statement of Accounting Policies in 3.8 on page 15. Any balance outstanding at the year end is now classified as an intangible asset. Details for the year are as follows:-

	2005/2006 £'000	2006/2007 £'000
Balance at start of year	0	0
Expenditure	1,339	2,760
	1,339	2,760
Less amounts written off to:- Capital Financing Account	(1,339)	(2,760)
Balance at end of year	0	0

### 9.30 Provisions

Provisions are charged to services in the year in which they are recognised and relate to expenditure which is committed, but the specific amounts or date of transaction may be uncertain. Provisions for bad debts are shown as a reduction of the debtors to which they relate, rather than as financial provisions. The Council has no other provisions as at 31 March 2007.

### 9.31 Contingent Liabilities

On 30 September 1992, the Council's insurers, Municipal Mutual Ltd (MMI) ceased accepting new business. The Council's accounts show no amounts due from MMI at 31 March 2007. 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 £429,434.41 have been paid by MMI up to 31 March 2007 and estimated outstanding claims as at that date amount to £19,500. 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 than £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. There is the possibility of cost resulting from another appeal, but this is not certain.

### 9.32 County Durham E-Government Partnership

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 2007

	2005/2006 £'000	2006/2007 £'000
Balance as at 1 April 2006	174	1,115
Income		
Transfer from Durham County Council	702	0
Authority Contributions	1,084	545
Interest Earned	29	34
	1,989	1,694
Expenditure		
Expenditure in Year	874	860
Balance as at 31 March 2007	1,115	834

During 2006/2007, this Council contributed £45,216 towards the income of the partnership.

The balance sheet shows retained income brought forward of £1,115,000, which together with the net expenditure of £281,000 above, gives a balance carried forward of £834,000.

### 9.33 Investments in Related Companies

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

### 9.34 Accounts Authorised for Issue

The 2006/07 Statement of Accounts were authorised for issue on 28 June 2007 by Councillor Alan Humes, Chairman of Chester-le-Street District Council.

### 9.35 Movement in Reserves

Reserve	Balance at 1 April 2006 £'000	Net Movement in Year £'000	Balance at 31 March 2007 £'000	Purpose
Fixed Asset Restatement Account	139,187	(8,908)	130,279	Store gains on revaluation of fixed assets
Capital Financing Account	40,252	(2,308)	37,944	Store of capital resources set aside to meet future capital expenditure
Usable Capital Receipts Reserve	1,564	(273)	1,291	Proceeds of fixed asset sales to meet future capital investment
Pensions Reserve	(24,590)	110	(24,480)	Balancing amount to allow inclusion of pension liability in balance sheet
HRA Reserve	1,893	(593)	1,300	Resources available to meet future running costs for council houses
General Reserve	349	41	390	Resources available to meet future running costs for non housing services
Other Earmarked Reserve	1,936	1,713	3,649	Reserves set aside for specific purposes/ commitments
<b>Total</b>	<b>160,591</b>	<b>(10,218)</b>	<b>150,373</b>	

**9.36 INTRODUCTION TO CASH FLOW STATEMENT – TO FOLLOW**

Page to follow

**9.37 RECONCILIATION OF REVENUE SURPLUS / (DEFICIT) TO  
NET CASH FLOW – TO FOLLOW**

Page to follow



**9.38 OTHER GOVERNMENT GRANTS – TO FOLLOW**

Page to follow

**9.39 INCREASE / (DECREASE) IN CASH EQUIVALENTS – TO FOLLOW**

page to follow

## 10. HOUSING REVENUE ACCOUNT

## Income and Expenditure Account

Year Ended 31.3.2006		Notes	Year Ended 31.3.07	
£'000			£'000	£,000
	<b>Income</b>			
10,211	Dwelling Rents	10.2	10,505	
270	Non-Dwelling Rents		268	
190	Charges for Services and Facilities		248	
110	Contributions Towards Expenditure		179	
-	Housing Revenue Account – Subsidy Receivable		-	
-	Sums Directed by the Secretary of State that are Income in Accordance with UK GAAP		-	
<b>10,781</b>	<b>Total Income</b>			<b>11,200</b>
	<b>Expenditure</b>			
2,605	Repairs and Maintenance		2,826	
2,585	Supervision and Management		3,029	
17	Rents, Rates, Taxes and Other Charges		22	
1,455	Negative Housing Revenue Account Subsidy Payable	10.4	1,807	
5,010	Depreciation and Impairment of Fixed Assets	10.6	4,987	
602	Amortisation of Deferred Charges and Intangible Assets		23	
43	Debt Management Costs		43	
40	Increase in Bad Debt Provision	10.3	206	
<b>12,357</b>	<b>Total Expenditure</b>			<b>12,943</b>
<b>1,576</b>	<b>Net Cost of HRA Services per Authority Income and Expenditure Account</b>			<b>1,743</b>
278	HRA Services Share of Corporate Democratic Core		278	
0	HRA Share of Other Amounts included in the whole Authority Net Cost of Services not Allocated to Specific Services		0	
				<b>278</b>
<b>1,854</b>	<b>Net Cost of Services</b>			<b>2,021</b>
0	(Gain) or Loss on Sale of HRA Fixed Assets			0
634	Interest Payable and Similar Charges			696
97	Amortisation of Premiums and Discounts			115
(43)	Interest and Investment Income			(50)
	Pensions Interest Cost and expected return on pensions Assets			0
<b>2,542</b>	<b>(Surplus) or Deficit for the Year on HRA Services</b>			<b>2,782</b>

**STATEMENT OF THE MOVEMENT ON THE  
HOUSING REVENUE ACCOUNT BALANCE**

<b>Year Ended 31.3.2006</b>		<b>Year Ended 31.3.2007</b>
<b>£'000</b>		<b>£'000</b>
2,542	(Surplus) or Deficit for the Year on the HRA Income and Expenditure Account	2,782
(3,358)	Net Additional Amount Required by Statute to be Debited or (Credited) to HRA Balance for the Year	(2,189)
(816)	(Increase) or Decrease in the Housing Revenue Account Balance	593
0	Transfer to/(from) Other HRA Earmarked Reserves	0
(1,077)	Housing Revenue Account Surplus Brought Forward	(1,893)
<b>(1,893)</b>	<b>Housing Revenue Account Surplus Carried Forward</b>	<b>(1,300)</b>

**NOTE TO THE STATEMENT OF MOVEMENT ON THE  
HOUSING REVENUE ACCOUNT BALANCE**

Year Ended 31.3.2006		Year Ended 31.3.2007	
£'000		£'000	£'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year</b>		
(602)	Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute	-	
-	Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with the statutory HRA		
	Gain or loss on sale of HRA fixed assets		
37	Net charges made for retirement benefits in accordance with FRS17	10	
<b>(565)</b>			-
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
(2,793)	Transfers to or (from) Major Repairs Reserve	(2,634)	
-	Transfers to or (from) Housing Repairs Account	0	
-	Transfers to or (from) other housing reserves	-	
-	Employer's contributions payable to the Local Government Pension Fund and retirement benefits payable direct to pensioners		
-	Voluntary set aside for debt repayment	-	
-	Capital expenditure funded by the HRA	435	
<b>(2,793)</b>			<b>(2,199)</b>
<b>(3,358)</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>		<b>(2,189)</b>

## Notes to the Housing Revenue Account

### 10.1 Housing Stock

The Council owned 4,331 dwellings at 31 March 2007 (4,383 at 31 March 2006). The stock was made up as follows:-

	Houses	Flats	Bungalows	Total
Stock as at 1 April 2006	2,580	650	1,153	4,383
Sales	31	1	0	32
Reclassification	0	0	0	0
Demolitions	21	0	0	21
Disposals	0	0	0	0
Buy Back	1	0	0	1
<b>Stock as at 31 March 2007</b>	<b>2,529</b>	<b>649</b>	<b>1,153</b>	<b>4,331</b>

### 10.2 Rent Income

During the year 1.28% of properties were classed as void, compared with 1.18% in 2005/2006. The average rent in 2006/07 was £47.04 a week, compared with £44.88 in 2005/06. It incorporates an average increase of 5.00% applied on 1 April 2007.

### 10.3 Rent Arrears and Provision for Bad Debts

Rent arrears at 31 March 2007 amounted to £439k (£391k at 31 March 2006), which represents 4.2% (3.8%) of the gross rent debit after deducting voids.

An increased provision of £113k was made in 2006/2007 for uncollectable rent arrears, compared to an increase of £40k in 2005/2006. Bad debts amounting to £75k (£63k) were written off against this provision during 2006/2007. The net provision for uncollectable rent arrears at 31 March 2007 stands at £333k (£295k at 31 March 2006). In addition to the increase in the provision for rent arrears, an amount of £93k was included in respect of housing benefit overpayment.

	2005/2006 £'000	2006/2007 £'000
Arrears as at 31 March	391	439
Arrears as a % of debit (after deducting voids)	3.8%	4.2%
Increase in bad debt provision	40	113
Bad Debts Written Off	63	75
Net Provision for Bad Debts as at 31 March	295	333

**10.4 HRA Housing Subsidy**

	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
Management and Maintenance Allowance	4,882	5,413
Major Repairs Allowance	2,217	2,376
Charges for Capital	1,199	1,208
	<b>8,298</b>	<b>8,997</b>
Less:		
Notional Income on Rents	9,753	10,881
Rent Constraint Allowance	0	92
Add:		
Adjustment re previous years	0	15
<b>Negative Subsidy Payable to Secretary of State</b>	<b>1,455</b>	<b>1,807</b>

From 1 April 1990, by legislation, the Housing Revenue Account was “ring-fenced” and no discretionary transfers to or from the General Fund are permitted.

The calculation of Housing Subsidy is based on a “notional” Housing Revenue Account and is a negative amount i.e. payable to Central Government.

Following the Local Government Act 2003 the responsibility for Rent Rebate costs and subsidy have now transferred to the General Fund, with effect from 1 April 2004.

**10.5 Cost of Capital Charge / Capital Financing Costs**

The cost of capital charge is shown below:-

	<b>2005/2006 £'000</b>	<b>2006/2007 £'000</b>
Cost of Capital Charges	-	-
Interest Payable	634	696
<b>CAPITAL ASSET CHARGE</b>	<b>634</b>	<b>696</b>

Due to changes in recommended accounting practice no interest on capital value is chargeable as from 2006/2007. Previously a credit item equivalent to this notional interest was credited to the appropriation section of the Housing Revenue Account (HRA) in order to ensure a nil impact on the HRA. The interest paid on the use of internal loans is included in the HRA Operating Account, ensuring that the HRA only bears the actual net cost of interest paid. No debt repayments (the Minimum Revenue Provision – MRP) need to be charged to the HRA from 2004-05 onwards. As the MRP was fully reimbursed via subsidy, there is no net financial effect on the accounts.

**10.6 Depreciation Charge**

The depreciation charge into the Housing Revenue Account for 2006/2007 amounted to £4,987k compared with £5,010k in 2005/06. An analysis is shown below:-

	2005/2006 £'000	2006/2007 £'000
Operational Property	45	86
Council Dwellings	4,942	4,882
Vehicles, Plant and Equipment	9	5
Infrastructure	14	14
<b>Total Depreciation Charge</b>	<b>5,010</b>	<b>4,987</b>

**10.7 Capital Expenditure and Financing**

The Council spent £5.286 million of Capital Expenditure during 2006/2007 on its Housing Revenue Account Assets, compared with £5.144 million in 2005/2006. An analysis is shown below:-

	2005/2006 £'000	2006/2007 £'000
Improvements to Council Dwellings	5,144	5,286
Other	0	0
<b>Total Capital Expenditure</b>	<b>5,144</b>	<b>5,286</b>



The above Capital Expenditure was financed as follows:-

	2005/2006 £'000	2006/2007 £'000
Major Repairs Allowance	2,217	2,376
Supported Capital Expenditure	298	190
Capital Receipts	2,535	181
Other Contributions	94	9
Borrowing	-	2,200
Revenue	-	330
	<b>5,144</b>	<b>5,286</b>

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 2006/2007 the Council received:-

	2005/2006 £'000	2006/2007 £'000
Council House Sales (Right to Buy Legislation)	4,185	1,628
Discount Recovered	33	62
Operational Property	80	55
Council Mortgage Repayments	4	1
	<b>4,302</b>	<b>1,746</b>

### 10.8 Movement on the Major Repairs Reserve

The movement on the Major Repairs Reserve during 2006/2007 was as follows:-

	2005/2006 £'000	2006/2007 £'000
Opening Balance	0	0
Amount transferred to Major Repairs Reserve (Depreciation)	(5,010)	(5,010)
Amount transferred from Major Repairs Reserve to HRA	2,793	2,634
Debits in respect of Capital Expenditure on HRA Assets	2,217	2,376
<b>Closing Balance</b>	<b>0</b>	<b>0</b>



## 10.9 Housing Assets Valuation

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

	Valuation at 31 March 2006 £'000	Valuation at 31 March 2007 £'000
Operational Assets	1,714	1,621
Council Dwellings	168,674	163,230
Infrastructure	508	493
Investment Property	203	203
Vehicles, Plant & Equipment	9	5
Assets In the Course of Development	0	105
Intangible Assets	64	41
<b>Total Balance Sheet Valuation</b>	<b>171,108</b>	<b>165,698</b>

The vacant possession value of the dwellings held in the Housing Revenue Account as at 1<sup>st</sup> April 2006 was £335,342,500. 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.

## 10.10 Impairment

There were no charges in 2006/2007 in respect of Impairment Charges on Housing Revenue Account assets.

## 10.11 Deferred Charges

There were no deferred charges attributable to the Housing Revenue Account in 2006/2007

## 10.12 Exceptional Items and Prior Year Adjustments

There were no Exceptional Items or Prior Year Adjustments in respect of the Housing Revenue Account for 2006/2007.

## 10.13 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 £10k in 2006/07 and by £37k in 2005/06. An equivalent amount is included in The Statement of Movement on the Housing Revenue Account Balance so that there is no impact on the (surplus)/deficit carried forward.

**11. COLLECTION FUND**

	2005/2006 £'000	2005/2006 £'000	2006/2007 £'000	2006/2007 £'000
<b>INCOME</b>				
Income due from				
Business Ratepayers		6,132		6,217
Council Tax	21,583		22,738	
<b>Less</b>				
Benefit	3,268		3,439	
Transitional Relief	0	18,315	0	19,299
Benefit				
Council Tax		3,268		3,439
Discounts		0		0
Government Grants		0		0
		27,715		28,955
<b>EXPENDITURE</b>				
Precepts				
Durham County Council	15,633		16,800	
Durham Police Authority	1,623		1,751	
Durham and Darlington Fire Authority	1,242		1,338	
Chester-le-Street District Council	2,881	21,379	3,102	22,991
Business Rates				
Payment to National Pool		6,083		6,168
Costs of Collection		48		49
Provision for Uncollectable Amounts		0		(116)
Contribution				
Previous Years' Community Charge		0		0
Previous Years' Collection Fund Surplus		0		0
		27,510		29,092
<b>MOVEMENT ON FUND BALANCE</b>		205		(137)
Surplus/(Deficit) on Fund brought forward		306		511
<b>FUND BALANCE CARRIED FORWARD</b>		511		374

**Notes to the Collection Fund Accounts****11.1 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.

**11.2 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 2007 the rateable value of all business premises in Chester-le-Street was £16,902,192 (£16,689,352 in 2005/06).

The National Non-Domestic Rate multiplier for the year was 43.3p and the new Small Business Non-Domestic Rate multiplier was 42.6p. The total rates charges were £6,217,234 (£6,131,768 in 2005/06).

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 £4,103,002 in 2006/07 (£1,539,568 in 2005/06) and this is shown in the Consolidated Revenue Account.

### 11.3 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 £17,226 would be collected assuming a 100% collection rate and £16,968 would be collected assuming a 98.5% collection rate.

Band	Net Properties	Ratio to Band D	Band D Equivalent
A – Relief	21.00	5/9	11.67
A	11,265.75	6/9	7,510.50
B	2,574.60	7/9	2,002.47
C	4,112.80	8/9	3,655.82
D	1,934.40	9/9	1,934.40
E	1,070.70	11/9	1,308.63
F	287.55	13/9	415.35
G	222.15	15/9	370.25
H	8.75	18/9	17.50
	<u>21,497.70</u>		<u>17,226.59</u>
Adjustment for Collection Rate		(98.5%)	<u>16,968.19</u>

### 11.4 Precepts or Demands on the Fund

The following parish precepts were levied against the Council's General Fund:-

<b>Preceptor</b>	<b>2005/2006</b> £	<b>2006/2007</b> £
Bournmoor	11,550	12,000
Great Lumley	16,500	18,000
Little Lumley	6,000	6,000
Ouston	7,000	9,000
Edmondsley	1,200	1,200
Kimblesworth/Plawsworth	8,000	8,500
North Lodge	16,000	18,000
Pelton	37,000	39,000
Sacrison	31,500	30,000
Waldrige	20,000	20,700
Urpeth	17,500	19,000
<b>Total – Parish Precepts</b>	<b>172,250</b>	<b>181,400</b>

### 11.5 Collection Fund Balance and Previous Year's Surplus

The Council Tax element of the Collection Fund Balance at 31 March 2007 (a surplus of £374k) will be redistributed in subsequent years to the District Council, Durham County Council, the Police Authority and the Fire and Rescue Authority in proportion to the precepts and demands made upon the Collection Fund.

Chester-le-Street District Council, as the billing authority, is required by statute to forecast the estimated (surplus) or deficit on the Collection Fund each year in December and to use that (surplus) or deficit in determining the following year's Council Tax demand. The forecast for 2006/2007 estimated a surplus of £525,867 as at 31 March 2006. A similar forecast in relation to the financial year 2007/2008 indicated a surplus of £322,191 at 31 March 2007 and therefore this figure was factored into the Council tax setting for 2007/2008. The table below shows the actual fund balance at the two year ends, together with details of the surplus that has been used in determining the 2007/2008 Council Tax, the residual balance being available in 2008/2009 and beyond.

	<b>Year Ended</b> <b>31 March</b> <b>2006</b> <b>2005/2006</b> £	<b>Year Ended</b> <b>31 March</b> <b>2007</b> <b>2006/2007</b> £	<b>(Surplus)/</b> <b>Deficit</b> <b>Applied in</b> <b>2007/2008</b> £	<b>(Surplus)/</b> <b>Deficit</b> <b>Available for</b> <b>2008/2009</b> £
Chester-le-Street District Council	68,819	50,541	43,486	7,055
Durham County Council	373,426	273,626	235,427	38,199
Durham Police Authority	38,774	28,511	24,530	3,981
Durham Fire and Rescue Authority	29,653	21,790	18,748	3,042
<b>Total</b>	<b>510,672</b>	<b>374,468</b>	<b>322,191</b>	<b>52,277</b>

## **12. STATEMENT ON INTERNAL CONTROL**

### **12.1 SCOPE OF RESPONSIBILITY**

Chester-le-Street District 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. Chester-le-Street District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, Chester-le-Street District Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Chester-le-Street District Council's functions and which includes arrangements for the management of risk.

### **12.2 THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

12.2.1 An internal control system encompasses the policies, processes, tasks, behaviours and other aspects of the organisation that taken together:-

- a) Facilitate its effective and efficient operation by enabling it to respond appropriately to significant risks to achieving the organisation's objectives;
- b) Help to ensure the quality of internal and external reporting, and
- c) Help to ensure compliance with relevant laws and regulations, and internal policies with respect to the conduct of business.

12.2.2 The system of internal control is designed to manage risk reasonably rather than to eliminate all risk of failure to achieve the Council's policies, aims and objectives. It can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.

The system of internal control is based upon an ongoing process designed to:-

- a) Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- b) Evaluate the likelihood of those risks being realised, and the impact should they be realised; and
- c) Manage them efficiently, effectively and economically.

The system of internal control has been in place at Chester-le-Street District Council for the year ended 31 March 2007, and up to the date of approval of the annual report and accounts.



## 12.3 THE INTERNAL CONTROL ENVIRONMENT

The internal control environment supports the Council in establishing, implementing and monitoring its policies and objectives. It comprises a framework of policies, procedures, rules, delegation and accountability, management supervision and management information.

The key elements of the internal control environment are described below:-

### 12.3.1 Establishing and monitoring the achievements of the Council's objectives

- a) The first Community Strategy for the District was originally published in March 2004, the updated Sustainable Community Strategy for 2006-16 was agreed by the Local Strategic Partnership on 23 May 2006. The strategy is supported by an action plan which will be performance managed by the LSP. The updated Sustainable Community Strategy has clearer actions and targets.
- b) The Council's 2006-2009 Corporate Plan (including Best Value Performance Plan) was agreed by the Council on 25 May 2006 and published on 30 June 2006. The Corporate Plan for 2007/2010 will be presented to Council on 28<sup>th</sup> June 2007 and will be published by 30 June 2007.

### 12.3.2 The Corporate Plan incorporates the Council's Best Value Performance Plan and sets out its key objectives. It identifies the Council's seven agreed priorities and clearly sets out how these will be achieved. The Plan details what the Council has achieved during the previous year; how it has performed against its agreed performance targets; where planned outcomes have not been achieved, the plan explains why and what the authority intends to do about this.

- a) Individual Service Plans which seek to achieve the Council's contribution to the Sustainable Community Strategy as well as the vision and priorities within the Council's Corporate Plan. All service plans have been fully revised in 2006/7 and now incorporate a service risk analysis and a Value for Money assessment.
- b) The Council's Improvement Programme is largely based on the Improvement and Recovery Plan. Phase 2 of the plan is all on target for completion by the agreed timescales.
- c) The Council was subject to a Corporate Performance Assessment in February 2007. This concluded that the authority has made significant progress since its corporate assessment in 2003 and is now a "good" Council.

- d) Quarterly Corporate Performance monitoring reports are made to the Executive, showing how the Council is performing and its progress in respect of achieving the outcomes set out in the Corporate Plan and the Improvement and Recovery Plan (2). The reports have adopted a holistic and cross cutting approach to performance including finance, risk and data quality. The reports are subsequently considered by all the council's Scrutiny Panels. Monitoring is supported by quarterly Performance Clinics which focus on key areas where improvement is required.

### 12.3.3 The facilitation of policy and decision making

- a) The Council's Constitution, approved originally by the Council on 26 May 2005, provides a general framework for governance. The Constitution sets out:-
- Decision making processes
  - Roles and responsibilities of Members
  - Roles of Statutory Officers
  - The responsibility for functions
  - The scheme of delegation
  - Council procedure rules including financing regulations and Contract Standing Orders
  - Members' Code of Conduct
  - Code of Conduct for Council Employees
  - Confidential reporting code (Speak Out/ Whistle Blowing Policy)
  - Member/Officer Protocol
  - Monitoring Officer Protocol
  - Corporate Commendation, Comments and Complaints Scheme
  - Local Code of Conduct for Members and Officers Dealing with Planning Matters
  - Local Code of Corporate Governance
  - Anti-fraud and Anti-corruption Policy and Strategy
  - Members' Allowances
  - Management Structure
  - Standards Committee
- b) The constitution was subject to review during 2005/6 and minor amendments were approved by Council on 25 May 2006. The outcome of the 2006/7 annual review will be considered by Council during the summer period of 2007.
- c) The Executive meets monthly and has a Forward Plan identifying key decisions. The Executive has to make decisions which are in line with the Council's overall policies and budget; if the Executive wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council.
- d) The Standards Committee met regularly throughout the year. Representatives attended the annual assembly at Birmingham and also received further local training.

- e) The Overview and Scrutiny Panels monitor and scrutinise the decisions of the Executive. They can 'call in' a decision which has been made by the Executive but not yet implemented. This enables them to consider whether the decision is appropriate. They may recommend that the Executive reconsiders the decision and can insist the matter is referred to Council.

The Overview and Scrutiny Panels have responsibility for commissioning and carrying out fundamental service reviews as part of the implementation of Best Value. They allow members of the public to have a greater say in Council matters by holding investigations into matters of local concern. These lead to reports and recommendations which advise the Executive and the Council as a whole on its policies, budget and service delivery. During 2006 a review of Scrutiny was undertaken; the outcome of this was that the work of the Panels is now firmly aligned with council priorities.

The report of the Council's recent CPA concluded that "scrutiny is effective. Scrutiny Panels influence policy, recognise good performance and challenge poor performance."

#### 12.3.4 Ensuring compliance with established policies, procedures, laws and regulations, including how risk is embedded, how leadership is given to the risk management process and how staff are trained to manage risk

- a) The Legal and Democratic Services Manager is the Monitoring Officer. The Monitoring Officer Protocol clearly describes the functions of the Monitoring Officer and how the Council expects him to discharge his functions. The Monitoring Officer provides support to the Standards Committee. He is responsible for reporting any actual or potential breaches of the law or maladministration to Full Council and/or the Executive and for ensuring that procedures for recording and reporting key decisions are operating effectively.
- b) The Council's CPA inspection report stated that "the Council's systems to secure ethical governance work well; actions taken help to secure high ethical standards".
- c) The Scheme of Delegation and Contract Standing Orders were updated as part of the review of the Constitution and the changes were approved by Council on 25 May 2006.
- d) There is an Approved Anti-fraud and Anti-corruption Strategy.
- e) The Authority has an independent Internal Audit function which examines, evaluates and reports on the adequacy of internal control; internal audit assess exposure to risk and recommends, where appropriate, practical improvements to the control environment.

- f) The Audit Committee reports to Council. It is responsible for promoting and maintaining sound Corporate Governance, strong internal controls, probity and the effective use of resources. It has rights of access to all the information it considers necessary and can consult freely with Internal and External Auditors. The Committee is responsible for monitoring the performance of Internal and External Audit and receives reports on the conclusions of their audit activities.
- g) The Risk Management Policy and Strategy was updated for 2006-07 with changes approved at CMT on 22 March 2006. The strategy clearly sets out the Council's Risk Management Framework, roles and responsibilities, risk management arrangements, action plan and monitoring and reporting arrangements. The 2006/07 Action Plan was completed successfully.
- h) The 2007 review of the Strategy will be timed for inclusion with the forthcoming review of the Council's local governance arrangements following publication of the recommended Cipfa/Solace guidance which it is anticipated will be launched during June 2007.
- i) The inclusion of risk as a mandatory item within all reporting protocols is now well established and has contributed to the decision making process.
- j) Members and Managers have been trained in risk management. This included the role of risk management; the Council's Risk Management Strategy and arrangements; the business risk assessment process; and the development of service risk profiles. A Risk Management Toolkit has been adopted and included in the new Risk Management Manual.
- k) The Council's Strategic Risk Profile has been updated as part of the corporate planning cycle and shall be subject to a further full scale review during 2007 as part of a wider review of the Council's key priorities.
- l) Corporate Management Team receives monitoring reports and has allocated lead Chief Officer responsibility for risk management to the Director of Resources.
- m) The CPA inspection concluded "the Council has a thorough approach to risk management. The Council is aware of the risks to which it is exposed and is working to manage those risks"
- n) The last Use of Resources assessment stated "Risk Management is embedded at the Council and internal control arrangements are generally sound".
- o) The CPA report stated "the Council has put in place data recovery arrangements for all of its computer network and a business continuity plan is in place."

- p) All key Managers have received project management training.
- q) In order to strengthen partnership working the Council has acquired a partnership toolkit, with the support of the NECE, which provides guidance on partnership formation, management and evaluation. This will assist the partnership review process programmed for 2007-08.
- r) A Data Quality Strategy was adopted by the council in November 2006 and its implementation is now being monitored.
- s) The CPA inspection stated that “the Council’s arrangements to secure data quality are effective and improving. The Council formalised its data quality policy in July 2006.”

12.3.5 Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency, effectiveness.

- a) An Improvement and Recovery Plan was agreed following the Council’s 2003 Comprehensive Performance Assessment (CPA). Progress has been monitored by an internal Programme Management Board which meets monthly and reports progress to the Executive.
- b) Performance against Best Value Performance Indicators and locally agreed performance targets monitored and reported to Corporate Management Team and the Executive.
- c) Customer Excellence Strategy, incorporating customer service standards.
- d) The Service Improvement Team was set up to review performance and assist with improvement in service areas. The Council has implemented a Continual Process Improvement methodology to drive sustainable improvement which is being rolled out across the organisation.
- e) The 2007 CPA report concluded that “the Council has successfully used continual process improvement (CPI) to secure improvement“, and that “the Council is receptive to external challenge from other organisations and has responded positively to inspection reports. It has sought external challenge from other organisations and has acted on the advice offered and secured improved performance.”
- f) A prioritisation system for all budgetary growth bids is incorporated in the Medium Term Financial Strategy and is an integral part of the authority’s service and financial planning framework.
- g) A comprehensive performance management system – ‘Performance Plus’ has been implemented throughout the Authority.

- h) Annual Efficiency Statements – backward look for 2005/6 produced and forward look for 2006/7 and 2007/8 submitted showing how efficiency targets have been and will be achieved.
- i) The Council is committed to joint working and this is fundamental to the Council's priorities. The Council has worked with the County Durham e-Government Partnership – to improve service delivery. It has played a key role in the development and subsequent implementation of the Local Area Agreement signed in March 2006. The Council's neighbourhood management pilot has engaged other service providers such as the police in joint service delivery on a local level.
- j) The Council's Procurement Strategy and action plan is supported by the joint working arrangement with Derwentside District Council. The strategy is monitored by the Procurement Strategy Group (PSG) and delivered through the Procurement Strategy Network (PSN).
- k) The Resources Directorate has actively supported the work of the North East Centre of Excellence during 2006/7 with the objective of sharing best practice and the development of initiatives to deliver long term efficiencies.

#### 12.3.6 The financial management of the authority and the reporting of financial management

- a) The Director of Resources, as S151 Officer, is responsible for the proper administration of the Authority's financial affairs; setting and monitoring compliance with financial management standards; advising on the corporate financial position and on the key controls necessary to secure sound financial management; the Council's financial systems; reporting on the adequacy of reserves and the robustness of the budget estimates; providing financial information; preparing the revenue budget and capital programme; treasury management; and the medium term financial strategy.
- b) Monthly monitoring reports are provided for all budget holders and accounting staff meet regularly with budget holders to discuss variances and agree appropriate action; all budget holders have access to the Council's financial management system and have been trained in its use.
- c) Quarterly financial monitoring reports are submitted to the Executive and the Overview and Scrutiny Committees – covering both revenue budgets and the capital programme.
- d) Financial Regulations have been revised to clarify and improve the Authority's financial management arrangements.
- e) The Council has a Medium Term Financial Strategy which underpins the Council's Corporate Plan and provides the means by which we intend to achieve our vision and priorities and ensures priority based budgeting.

- f) The last Use of Resources assessment concluded that “the Council has taken effective action over the past two years to ensure that its Medium Term Financial Strategy, budgets, and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets and the Council manages its asset base”.

#### 12.3.7 Performance management of the Authority and reporting of performance

- a) Monthly performance monitoring reports on the Improvement and Recovery Plan progress and on performance targets are considered by the Executive. Chief Officers have individual responsibility for key themes within the Improvement and Recovery Plan and report on these to each meeting of the Executive.
- b) Corporate, computerised performance management system (Performance Plus) implemented. The outcome of the CPA concluded that the Council is performing well in performance management. The CPA report commented that “joint performance management arrangements with partners help the Council and its partners to monitor the delivery of shared objectives. The Council has a robust performance management framework. The Council’s performance management practices identify and target areas of poor performance.”
- c) Each member of staff and the majority of Members have Personal Development Plans (PDPs), agreed with his/her Line Manager, linking individual performance to Service Plans, which in turn links to the Community Strategy.
- d) Within an extensive Organisation Development programme, the authority has introduced management competency frameworks which have been applied to all managers and supervisors with effect from April 2006.

### 12.4 REVIEW OF EFFECTIVENESS

12.4.1 Chester-le-Street District Council has responsibility for conducting, at least annually, a review of the effectiveness of the systems of internal control. The review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the Senior Managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also comments made by the External Auditors and other Review Agencies and Inspectorates.

- a) Full Council reviewed the Constitution, including Contract Standing Orders and Financial Regulations in May 2006; considered the 2005/6 Annual Audit and Inspection Letter in April 2007 ; considered and agreed the Council’s Corporate Plan, incorporating its Statutory Best Value Performance Plan in May 2006 and reports from the Audit and Standards Committees throughout the year.

- b) Training on all aspects of the Constitution including financial regulations is a regular feature within the approved Corporate Training Programme.
- c) The Executive received regular reports on performance throughout 2006-07
- d) The Directors and Service Team Managers within the Authority are responsible for the design, implementation and maintenance of the systems under their control, and thereby they monitor the systems to determine their continued relevance and the effectiveness of controls. Directors and Service Team Managers were tasked with providing assurance statements on the operation of controls in their service areas.
- e) There were no s151 or Monitoring Officer reports issued during 2006/7.
- f) There were no Ombudsman reports in 2006/7. The Council arranged training for managers by the Ombudsman Service in 'Effective complaints handling and investigation' which took place in February 2007. In a recent case the Ombudsman commented that what he had received from officers was 'one of the clearest and comprehensive responses that I have seen from a council for a very long time'.
- g) As part of its preparation for the transfer of its housing stock, the Council has set up a Shadow Board to develop the new organisation and facilitate the transfer. The Board comprises 15 members: five from the Council, five tenants and five independent members.
- h) In accordance with Regulation 6 of the Accounts and Audit Regulations 2006, the Council has conducted a review of the effectiveness of its system of internal audit. The review consisted of a self-assessment carried out by the Chief Internal Auditor, supported by a peer review from a Head of Internal Audit at a neighbouring authority. Both reports agreed that the Council's arrangements for internal audit were effective; however minor improvements are necessary to update some aspects of internal audit in line with new guidance. The findings of these reports were considered by Audit Committee on 15<sup>th</sup> June 2007.
- i) A review of Internal Audit was carried out by the Audit Commission during 2006 /07 which concluded that the Council has appropriate constitutional and management arrangements in place for the Internal Audit Service. Again, minor recommendations to improve the service were made and have been incorporated into the Internal Audit Service Plan.



- j) The Annual Report of the Chief Internal Auditor 2006/07, which summarises the outcome of all audit assignments, was reported to Audit Committee on 15th June 2007 and the overall opinion was that the control environment has improved to a position where it is both adequate and effective. Action plans to rectify weaknesses that were identified by the audit process were approved and monitored by Audit Committee on a quarterly basis.
- k) The Corporate Governance Steering group coordinated the completion of the Statement of Internal Control and production of the Managers' Assurance Statements including the development of a resulting action plan for submission to the Audit Committee.
- l) Contingent liability – 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.

## 12.5 SIGNIFICANT INTERNAL CONTROL ISSUES

Several control issues have been identified, these and the associated actions to address them are detailed below:-

### 12.5.1 Corporate Governance

Issue: The Council's Constitution includes a Local Code of Corporate Governance. In June 2007 new guidance is expected to be published which will require the Authority to review its governance framework and update its local code.

This will provide an opportunity to review and improve systems and processes including the role of the Corporate Governance Steering Group and to further embed sound governance within the performance management framework.

Action: To review existing Corporate Governance arrangements including the local code following publication of the new guidance.

### 12.5.2 Risk Management

Issue: Ensuring that the Risk Management Strategy reflects changing demands.

Action: A review of the current strategy will be undertaken as part of the broader review of local governance planned for early 2007-08.

A full review of the Council's Strategic Risk Profile will be undertaken with senior managers and members as an integral part of the forthcoming review of key priorities.

Issue: Whilst Strategic Risk Management has robust mechanisms and the service planning process now includes risk assessment, Service Teams do not formally report progress with the management of service level and partnership risks during the year.

Action: The deployment of risk software during 2007-08 to facilitate regular risk monitoring and reporting.

A further round of training based on the application of the competency framework to ensure that all managers are adequately trained to apply risk management principles and methodologies.

#### 12.5.3 Business continuity

Issue: Work needs to continue to ensure that the Authority's Business Continuity requirements are fully reflected and embedded within the service planning and delivery processes, are kept up to date and are subjected to regular testing.

Action: An action plan has been agreed with the Emergency Planning Unit to review and update the plan on a cyclical basis, and in particular to: update the accommodation strategy; assess critical supply chain issues; identify key staff skills and provide a training programme for 2007-08.

#### 12.5.4 Value for Money

Issue: The Council has a corporate approach to assessing value for money as part of the service planning and budget cycle, but many of the plans to improve value for money have not had the chance to demonstrate any impact.

Action: Develop and embed the Council's service planning and budget setting cycle to sustain a clear focus on value for money

#### 12.5.5 Procurement

Issue: The Council has put in place building blocks for effective procurement but these need to be embedded.

Action: Progress the Procurement Strategy Action Plan to ensure the Council can maximise the benefits of effective procurement practice.

#### 12.5.6 Asset Management

Issue: Work is needed to improve the corporate approach to asset management.

Action: Develop the corporate asset management plan and implement actions to address the areas for improvement identified in the Use of Resources Assessment.

#### 12.5.7 Financial Management and Systems

Issue: Work is needed to improve the Use of Resources Assessment in respect of financial reporting, financial management and financial standing.

Action: Implement the action plan to address the recommendations for improvement identified in the last Use of Resources Assessment

#### 12.5.8 Standards

Issue: The Standards Board for England has recently produced new guidance on the revised Model Code of Conduct for Members.

Action: In addition to circulation of guidance, further dissemination of information will be undertaken including additional training and the Constitution will be amended to include the new code.

Issue: The Council's Whistle-blowing arrangements have been in place for several years and are due for review.

Action: To present recommendations to Corporate Management Team and members regarding changes to the policy.

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, the Executive, the Overview and Scrutiny Committees, the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the systems is in place.

Chief Executive \_\_\_\_\_ Date: \_\_\_\_\_

Leader: \_\_\_\_\_ Date: \_\_\_\_\_

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

### **13.1 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.

### **13.2 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 28 June 2007.

**Chairman of the Council**

**Date**

## **14. GLOSSARY OF TERMS USED IN THE FINANCIAL STATEMENTS**

### **Accounting Bases**

The methods developed for applying the fundamental accounting concepts to financial transactions and items, for the purposes of financial accounts, and for determining the accounting periods in which costs and revenues should be recognised, and the amounts at which items should be stated in the balance sheet.

### **Accounting Concepts**

The broad basic assumptions which underlie the periodic financial statements. At present these fundamental accounting concepts are: materiality, going concern, matching, consistency, prudence and substance over form.

### **Accounting Policies**

The specific accounting bases selected and consistently followed by an organisation as being, in the opinion of management, appropriate to its circumstances and best suited to present fairly its results and financial position.

### **Account and Audit Regulations 1996**

The current set of regulations that detail the accounts need, how they should be published, right of electors and the conduct of the annual statutory audit.

### **Appropriations**

Transferring of an amount between specific reserves in the Income and Expenditure Account.

### **Asset Charges**

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

### **Audit Commission**

A statutory body which oversees the conduct of local authority statutory audits.

### **Bad (and doubtful) debts**

Debts which may be uneconomic to collect or unenforceable.

### **Balance Sheet**

A balance sheet is an accounting statement that shows the financial position (that is assets, liabilities and funds) of an organisation at a particular date (the balance sheet date).

## **Best Value**

A duty on local authorities to secure best value on all aspects of service provision. This duty requires councils to ensure that they are providing the best possible services to the public.

## **Best Value Accounting Code of Practice (BVACOP)**

A modernisation of local authority accounting and reporting to ensure that it meets the changing needs of modern local government; particularly the duty to secure and demonstrate best value in service provision.

## **Budget Requirement (or Revenue Budget)**

An amount each authority estimates as its planned spending, after deducting any funding from reserves and any income it expects (other than from council tax and general Government grants).

## **Capital Charges**

Charges to revenue accounts reflecting the cost of fixed assets used in the provision of services. They consist of depreciation.

## **Capital Expenditure**

Expenditure on the acquisition of fixed assets or expenditure that adds to the value of fixed assets or increases the useful life of the asset.

## **Capital Financing Account**

This reserve provides a balancing mechanism between the different rates at which assets are depreciated and financed.

## **Capital Receipts**

Proceeds from the sale of a fixed asset or the repayment of an advance made by the Council. A certain proportion of such receipts must be set aside as a provision for credit liabilities (known as reserved capital receipts). The remainder (known as usable capital receipts) can be used to finance capital expenditure.

## **Cashflow Statement**

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

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

## **CIPFA/LASAAC Code of Practice on Local Authority Accounting 2004**

The Statement of Recommended Practice (SORP) applicable to preparing the 2005/06 accounts.

### **Collection Fund**

A statutory account which billing authorities have to maintain for the collection and distribution of amounts due in respect of Council Tax, Non-Domestic Rates and residual Community Charge.

### **Community Asset**

Those fixed assets that the local authority intends to hold in perpetuity and have no determinable useful life e.g. parks and historic buildings.

### **Consistency**

The concept that consistent accounting policies should be applied both within the accounts for a year and between years.

### **Income and Expenditure Account**

This statement reports the net cost for the year of the functions for which the authority is responsible, and demonstrates how that cost has been financed from general Government grants and income from local taxpayers.

### **Contingency**

An event which exists at the balance sheet date, where the outcome will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. A contingent gain or loss is a gain or loss dependent on a contingency.

### **Council Tax**

A banded property tax which is levied on domestic properties throughout the country.

### **Council Tax Benefit**

Financial assistance available to residents on a low income that are liable for Council Tax. The majority of the cost to the Council of these benefits is reimbursed by Central Government Grant.

### **Credit Approvals (Supported Borrowing)**

Credit approvals are issued by the Secretary of State and provide authority not to charge expenditure for capital purposes to the revenue account. Provision for the revenue implications of this borrowing is factored into the Government's Revenue Support Grant formula.



## **Creditors**

Amounts owed by the Council for work done, goods received or services rendered to the Council during the accounting period, but for which payment has not been made as at the balance sheet date.

## **Current Asset**

An asset which is expected to be disposed of, utilised or realised within twelve months of the balance sheet date.

## **Current Liability**

A liability which is expected to be met within twelve months of the balance sheet date.

## **Debtors**

Amounts due to the Council which relate to the accounting period and have not been received by the balance sheet date.

## **Deferred Capital Receipts**

Proceeds from the sale of fixed assets which will be received in instalments over an agreed period of time.

## **Deferred Charges (Intangible Fixed Asset)**

Deferred charges comprise expenditure which may be capitalised, but which does not create a tangible fixed asset.

## **Deferred Liabilities**

Deferred liabilities consist of liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time.

## **Department of Works and Pensions (DWP)**

Government department that administers the welfare benefits system and reimburses the Council for benefit payments paid to individuals for Housing benefit; Rent allowances and Council Tax Benefit.

## **Depreciation**

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

### **Direct Service Organisation**

Staff employed directly by local authorities to carry out works of repair, maintenance, construction etc.

### **District Auditor**

The Audit Commission's directly employed provider of external audit services.

### **Earmarked Reserves**

These reserves represent the monies set aside that can only be used for a specific usage or purpose.

### **Financial Reporting Standards (FRS)**

These are common standards of accounting practice issued by the Accounting Standards Board.

### **Fixed Assets**

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

### **Fixed Asset Restatement Account**

This reserve is required to balance the balance sheet when fixed assets are revalued or written out upon disposal.

### **General Fund**

The main revenue account of the Council, which brings together all income and expenditure other than recorded in the Housing Revenue Account, DSO Accounts and the Collection Fund.

### **Going Concern**

The concept that a local authority's services will continue to operate in the foreseeable future.

### **Government Grants**

Assistance by Government and inter-government agencies in the form of cash or transfers of assets in return for past or future compliance with certain conditions.

### **Housing Benefits**

Financial assistance paid to tenants on a low income to help pay their rent and service charges.

### **Housing Revenue Account**

This account reflects the statutory obligation to account separately for local authority housing provision. It shows the major elements of housing revenue account expenditure and income.

### **Housing Subsidy**

A grant from or payment to Central Government in connection with the operation of the Housing Revenue Account.

### **Intangible Fixed Assets**

Capital expenditure which may be capitalised, but which does not create a tangible fixed asset.

### **Leasing**

Leases and hire purchase contracts are means by which companies obtain the right to use or purchase assets. A finance lease is a lease that transfers substantially all the risks and rewards and ownership of an asset to the lessee. An operating lease is a lease other than a finance lease.

### **Long Term Investments**

Amounts invested by the Council for a period of more than one year.

### **Major Repairs Allowance**

This amount represents the amount payable to local authorities to help tackle the backlog of repairs in council housing.

### **Matching**

The accounting concept that revenue and costs are recognised as they are earned and incurred, not as money is received or paid.

### **Materiality**

The concept that any omission from or inaccuracy in the statements of account should not be large enough to affect the understanding of those statements by the reader.

### **Minimum Revenue Provision**

The minimum amount which must be charged to an authority's revenue accounts and set aside as a provision to repay external debt.

## **National Non-Domestic Rates**

Also known as business rates, this is the means by which local businesses contribute to the cost of local authority services. All business rates are paid into a central pool. Authorities receive a share of this central pool based on the number of residents in their area.

## **Non-Operational Assets**

Fixed assets held by the local authority but not directly occupied, used or consumed in the delivery of services.

## **Operational Assets**

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

## **Precepts**

Precepts (or council tax income) are amounts levied on billing authorities which collect the tax on behalf of other authorities such as county councils and parish councils.

## **Prior Year Adjustments**

Those material adjustments applicable to prior years arising from changes to accounting policies or correction of fundamental errors.

## **Provisions**

These are amounts set aside to meet any liabilities or losses arising from contractual obligations, but it is uncertain as to the amounts or dates on which they will arise.

## **Prudence**

The concept whereby local authorities account for transactions on the basis of always taking a prudent view when losses are anticipated and not anticipating gains until they are certain.

## **Public Works Loans Board**

A central government agency which lends money to local authorities at lower rates than those generally available from the private sector.

## **Revenue Expenditure**

General revenue expenditure mainly on pay and other costs of running council services apart from housing.

**Revenue reserves (or Balances)**

This is an authority's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

**Revenue Support Grant**

A general Government grant to support an authority's budget requirement.

**Ring Fenced**

This refers to the statutory requirement that certain accounts such as the Housing Revenue Account must be maintained separately from the General Fund.

**Statements of Standard Accounting Practice (SSAP)**

These are common standards of accounting practice issued by the Accounting Standards Board.

**Standard Spending Assessment**

This is an amount derived by a formula and used to determine the amount of grant that a local authority will receive to support its General Fund expenditure.

**Substance Over Form**

This concept requires that the commercial effect of a transaction and any resulting assets, liabilities and losses are shown and that the accounts do not merely report the legal form of a transaction.

**Supported Borrowing (Credit Approvals)**

Credit approvals are issued by the Secretary of State and provide authority not to charge expenditure for capital purposes to the revenue account. Provision for the revenue implications of this borrowing is factored into the Governments Revenue Support Grant formula.

**Total Movement in Reserves**

This statement brings together all the recognised gains and losses of the authority and identifies those which have and have not been recognised in the Income and Expenditure Account.

**Trust Fund**

Funds established from donations or bequests for spending for a specific purpose.

**Work in Progress**

The cost of work done up to a specified date on an uncompleted project.