

## **STATEMENT OF ACCOUNTS**

### **1. EXPLANATORY FOREWORD**

#### **1.1 Introduction**

The accounts of Chester-le-Street District Council for the year 2005/2006 are shown on pages 9 to 66. They consist of:-

#### **Consolidated Revenue Account**

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

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

#### **Housing Revenue Account**

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

#### **Collection Fund**

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

#### **Consolidated Balance Sheet**

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

#### **Statement of Total Movement in Reserves**

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

#### **Cash Flow Statement**

This summarises movements in the Council's cash position.

#### **Statement of Internal Control**

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

## 1.2 GENERAL FUND REVENUE EXPENDITURE

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

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

### WE SPENT MONEY ON

Service	Net Actual Expenditure £'000s	Percentage of Total
Community Services	566	7%
Leisure Services	2,031	24%
Regeneration	174	2%
Environmental Health	538	6%
Planning	178	2%
Environmental Services	2,435	29%
Resources	503	6%
Chief Executive's Department	1,217	15%
Corporate Functions	773	9%
	8,415	100%
<b>Less: Capital Accounting Adjustments (net)</b>	(955)	
	7,460	
Less: investment interest	(256)	
	7,204	

### WHERE THE MONEY CAME FROM

Service	£'000	Percentage of Total
Council Tax	2,702	38%
Revenue Support Grant	2,662	37%
Business Rates	1,540	21%
Collection Fund Surplus	6	-
Reserves	294	4%

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

<b>Service</b>	<b>Original Net Budget £'000s</b>	<b>Probable Net Budget £'000s</b>	<b>Net Actual Outturn £'000s</b>	<b>Variance from Probable Budget £'000s</b>
Community Services	736	585	566	(19)
Leisure Services	1,826	1,925	2,031	+ 106
Regeneration	204	98	174	+ 76
Environmental Health	587	541	538	(3)
Planning	253	177	178	+ 1
Environmental Services	2,329	2,386	2,435	+ 49
Resources	548	457	503	+ 46
Chief Executive's Department	1,084	1,203	1,217	+ 14
Corporate Functions	295	700	773	+ 73
	7,862	8,072	8,415	+ 343
<b>Less: Capital Accounting Adjustments</b>	(622)	(825)	(955)	(130)
	7,240	7,247	7,460	213
<b>Less: Interest on Investments</b>	(200)	(259)	(256)	3
	7,040	6,988	7,204	216
<b>Less: Contributions from Reserves</b>	(130)	(78)	(294)	(216)
	6,910	6,910	6,910	-

The final position for 2005/06 shows an overspend as compared with the probable budget of £216,286.

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

	<b>£'000</b>
Leisure Services	+ 69
Regeneration	+ 23
Environmental Services	+ 7
Corporate Functions	+ 26
Capital accounting adjustments	(125)

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

	£'000
Benefits	83
Concessionary Travel	40
Leisure Services	37
Environmental Services	42
Regeneration	53
Equal Pay Settlements	45

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

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

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

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

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

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

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

Finally, the costs of the equal pay settlements for services within the general fund amounted to £45,000.

Given that a considerable amount of the £216,286 overspend is on controllable budgets, CMT has requested action plans from each of the Service Team Managers setting out how they intend to manage their 2006/07 budgets to ensure that their 2005/06 overspends are addressed, in addition to the savings they are already charged with delivering in 2006/07. The action plans will be considered by CMT in July to ensure that the 2006/07 budget does not overspend.

In summary, the 2005/06 overspend of £216,286 will be funded as follows:-

Leisure's earmarked reserves	£27,237
Environmental Services - Venture Fund	£28,719
Regeneration - Venture Fund	£27,484
Insurance Fund	£87,241
General Fund Reserve	£45,605

### 1.3 HOUSING REVENUE ACCOUNT

The position at the end of the year showed a surplus of £816,000 as compared with a probable surplus of £264,000.

<b>Service</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Housing Rents (Net of Voids)	10,114	10,171	- 57
Other Rents and Charges	288	313	- 25
Major Repairs Allowance	2,217	2,217	0
Interest Receivable	41	43	- 2
<b>Total</b>	<b>12,660</b>	<b>12,744</b>	<b>- 84</b>
<b>Expenditure</b>			
Management	2,637	2,660	+ 23
Maintenance	3,092	2,605	- 487
Capital Financing	2,987	2,991	+ 4
Negative Subsidy Payable to Secretary of State	3,680	3,672	- 8
<b>Total</b>	<b>12,396</b>	<b>11,928</b>	<b>- 468</b>
<b>Use of/Contribution to Balances</b>	<b>264</b>	<b>816</b>	<b>- 552</b>

The variance of £552,000 is due to increased income due to a reduction in house sales and an underspend of revenue budgets due to the capitalisation of planned works.

### 1.4 BUILDING & MAINTENANCE DIRECT LABOUR ORGANISATION (DLO)

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

## 1.5 CAPITAL PROGRAMME

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

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

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

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

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

## 1.6 REVENUE RECOVERY

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

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

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

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

## 1.7 BORROWING

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

The Council did not exceed its Authorised limit.

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

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

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

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

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

## 1.8 INVESTMENTS

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

## 1.9 RESERVES AND BALANCES

At the end of 2005/06, the Council's total General Fund reserves amounted to £1.470 million. This total comprises:-

	<b>£'000</b>
General Fund Revenue Reserve	349
Earmarked for LSVT	160
Earmarked Revenue Reserves	961
	<b>1,470</b>

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

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

The Housing Revenue Account (HRA) has reserves of approximately £1,893,400; £456,690 of this has been earmarked to be used during 2006/07.



## **2. STATEMENT OF ACCOUNTING POLICIES**

### **2.1 General Principles**

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

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

#### **SSAP9 – Stocks and Work in Progress**

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

### **2.2 Fixed Assets**

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

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by CIPFA's 2004 Code of Practice on Local Authority Accounting.

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

- Land, operational properties and other operational assets are included at open market value in existing use or where this is not available, at depreciated replacement cost. In the case of Council housing more details are provided in section 6.6 on page 37.
- Non-operational assets, including investment properties and assets that are surplus to requirements, are included at the lower of net current replacement cost and net realisable value. In the case of investment properties, this is normally open market value.

- Infrastructure assets and community assets at historical cost.

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

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

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

### **2.3 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.

### **2.4 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.

### **2.5 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.

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

## **2.7 Charges to Revenue**

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

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

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

## **2.8 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.

## **2.9 Government Grants and Other Contributions**

### **Revenue**

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

### **Capital**

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

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

## **2.10 Leases**

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

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

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

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

### **Provisions**

Provisions are amounts which have been set aside to meet 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 2006 are given in Section 7 on page 45.

### Capital:

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

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

## 2.13 Overheads

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

<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.

#### **2.14 Pensions**

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

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

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

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

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

#### **2.15 Interest Charges**

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

#### **2.16 Investments**

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

## **2.17 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.

## **2.18 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.

## **2.19 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 2005/2006.

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

2004/2005 Net Expenditure £'000		Note	2005/2006		
			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
336	Housing – Services		19,302	19,298	4
5,889	Cultural, Environmental and Planning Services		8,726	3,285	5,441
442	Highways, Roads & Transport Services		760	456	304
661	Central Services to the Public		14,285	13,725	560
1,452	Corporate & Democratic Core		1,926	470	1,456
74	Unapportionable Central Overheads		679	739	(60)
<b>8,854</b>	<b>Net Cost of Services</b>		<b>45,678</b>	<b>37,973</b>	<b>7,705</b>
152	Parish Council Precepts				172
940	Pension Interest Cost & Expected Return on Pension Assets				780
124	(Surpluses)/Deficits from DLO Activities	3.2			(49)
(95)	(Surpluses)/Deficits from Trading Operations	3.2			(35)
(2,173)	Asset Management Revenue Account	3.1			(1,411)
4,207	Contribution of Housing Capital Receipts to Government Pool				2,907
(299)	Interest and Investment Income	3.12			(256)
<b>11,710</b>	<b>Net Operating Expenditure</b>				<b>9,813</b>
607	Transfer to HRA Balances				816
191	Contribution to/(from) Earmarked Reserves				142
(145)	Contribution to/(from) DLO Reserves				15
(780)	Contribution to/(from) Pension Reserve				(410)
(4,207)	Transfer from Useable Capital Receipts				(2,907)
(1,721)	Deferred Charges				(738)
(306)	MRP Net of Depreciation	3.8			(575)
0	Capital Expenditure financed from revenue				78
1,843	Government Grant Applied				1,031
<b>7,192</b>	<b>Amount to be met from Government Grants and Local Taxation</b>				<b>7,265</b>
(2,616)	Revenue Support Grant				(2,662)
(1,451)	Contribution from Non-Domestic Rates Pool				(1,540)
(2,734)	Precept on Collection Fund				(2,874)
4	Transfer to/(from) the Collection Fund				(6)
<b>395</b>	<b>Net General Fund (Surplus)/Deficit</b>				<b>183</b>
<b>(951)</b>	<b>Balance on General Fund brought forward</b>				<b>(531)</b>
<b>25</b>	<b>Transfers to/from Reserves</b>				<b>0</b>
<b>(531)</b>	<b>Balance on General Fund carried forward</b>				<b>(348)</b>



## Notes to the Consolidated Revenue Account

### 3.1 Asset Management Revenue Account

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

### 3.2 Trading Undertakings

#### a) Trading Activities

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

		£'000	£'000
The Council owns and manages an <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 surplus for 2004/2005 was £10,468)	Turnover	175	
	Expenditure	223	
	Deficit		(48)
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 2004/2005 was £78,252)	Turnover	234	
	Expenditure	124	
	Surplus		110
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 2004/2005 before asset charges was £16,597 (The trading surplus for 2004/2005 was £39,930)	Turnover	357	
	Expenditure	394	
	Deficit		(37)
<b>Net Surplus on Trading Activities before FRS 17 Adjustment</b>			25
<b>FRS 17 Adjustment – see Note 2.14</b>			10
<b>Net Surpluses on Trading Activities after FRS 17 Adjustment</b>			35

**b) Direct Service Trading Activities**

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

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

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

**3.3 Section 137 Expenditure**

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

**3.4 Agency Services**

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

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

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

### 3.5 Publicity

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

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

### 3.6 Finance and Operating Leases

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

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

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

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

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

### **3.7 Pensions**

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

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

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

Further to Note 2.14 in the Statement of Accounting Policies the Council recognises the cost of retirement benefits in the "Net Cost of Services" when they are earned by employees, rather than when the benefits are eventually paid as pensions.

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

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

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

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

### 3.8 Minimum Revenue Provision

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

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

### 3.9 Acquired and Discontinued Operations

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

### 3.10 Officers' Emoluments

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

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

### 3.11 Members Allowances

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

<b>Type of Allowance</b>	<b>2004/2005 £'000</b>	<b>2005/2006 £'000</b>
Basic Allowance	135	139
Special Responsibility Allowance	39	39
<b>Total</b>	<b>174</b>	<b>178</b>

### 3.12 Interest Receivable

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

### 3.13 Related Party Transactions

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

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

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

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

Income and expenditure account for the year ended 31 March 2006

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

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

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

### **3.14 Building Control Trading Account**

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

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

### 3.15 Local Authority (Goods and Services) Act 1970

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

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

### 3.16 External Audit Costs

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

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



#### 4. HOUSING REVENUE ACCOUNT

	Note	2004/2005 £'000	2005/2006 £'000
<b><u>INCOME</u></b>			
Gross Rent Income:			
Dwelling Rents (Gross)	4.3/4.4	10,212	10,211
Non Dwellings Rents (Gross)		269	270
Charges for Services and Facilities		159	190
Contributions towards Expenditure		120	110
HRA Subsidy Receivable		2,279	2,217
<b>Total Income</b>		<b>13,039</b>	<b>12,998</b>
<b><u>EXPENDITURE</u></b>			
Repairs and Maintenance		2,370	2,605
Supervision and Management-General	4.15	2,449	2,642
Supervision and Management-Special		223	221
Rents, Rates, Taxes and other Charges		8	17
Rent Rebates	4.5	0	0
Transfer to Housing Repairs Account	4.2	71	0
Increased Provision for Bad and Doubtful Debts	4.4	78	40
Cost of Capital Charge	4.7	5,884	6,213
Depreciation on Fixed Assets	4.7/4.8 /4.10	4,572	5,010
Amortisation of Deferred Charges	4.13	539	602
Debt Management Costs	4.7	41	43
Negative Subsidy Payable to Secretary of State	4.5/4.6	4,136	3,672
<b>Total Expenditure</b>		<b>20,371</b>	<b>21,065</b>
<b>Net Cost of Services</b>		<b>7,332</b>	<b>8,067</b>
Adjusting transfer from AMRA	3.1/4.7	(5,804)	(6,181)
HRA Investment Income			
Mortgage Interest		0	0
Notional Interest		(17)	(43)
Premium on Debt Redemption		157	97
<b>Net Operating Expenditure</b>		<b>1,668</b>	<b>1,940</b>
<b><u>APPROPRIATIONS</u></b>			
Contribution to/(from) Pension Reserve	4.15	18	37
Expenditure for Capital Purposes		0	0
HRA Set Aside (MRP)	4.7	0	0
Transfer to/(from) Major Repairs Reserve	4.10	(2,293)	(2,793)
<b>(Surplus) / Deficit for the Year</b>		<b>(607)</b>	<b>(816)</b>
Balance Brought Forward		(470)	(1,077)
<b>Balance Carried Forward</b>		<b>(1,077)</b>	<b>(1,893)</b>

## Notes to the Housing Revenue Account

### 4.1 Housing Stock

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

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

### 4.2 Housing Repairs

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

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

### 4.3 Rent Income

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

### 4.4 Rent Arrears

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

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

#### 4.5 HRA – Rent Rebates

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

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

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

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

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

#### 4.6 Negative Subsidy Payable to Secretary of State

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

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

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

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

#### 4.7 Cost of Capital Charge / Capital Financing Costs

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

	2004/2005 £'000	2005/2006 £'000
Cost of Capital Charge (Notional Interest @ 3.5%)	5,884	6,212
Capital Charges Accounting Adjustment	(5,804)	(6,181)
Depreciation on Fixed Assets	4,572	5,010
Debt Management Costs	41	43
HRA Set Aside (MRP)	0	0
Expenditure for Capital Purposes	0	0
	<b>4,693</b>	<b>5,084</b>

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

#### 4.8 Depreciation Charge

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

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

#### 4.9 Capital Expenditure and Financing

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

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

The above Capital Expenditure was financed as follows:-

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

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

#### 4.10 Movement on the Major Repairs Reserve

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

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

#### 4.11 Housing Assets Valuation

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

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

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

#### **4.12 Impairment**

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

#### **4.13 Deferred Charges**

There were deferred charges amounting to £601,754 attributable to the Housing Revenue Account. This is in respect of expenditure on housing regeneration works.

#### **4.14 Exceptional Items and Prior Year Adjustments**

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

#### **4.15 Pensions – FRS 17**

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

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

## 5. COLLECTION FUND ACCOUNTS

### 5.1 Collection Fund Income and Expenditure Account

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

### Notes to the Collection Fund Accounts

#### 5.2 General

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



### 5.3 Income from Business Rates

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

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

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

### 5.4 Calculation of Tax Base

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

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

**6. CONSOLIDATED BALANCE SHEET**

	Note	31.03.2005		31.03.2006	
		£'000	£'000	£'000	£'000
<b>Fixed Assets (Notes 6.1-6.6)</b>					
<i>Operational Assets</i>					
Council Dwellings		152,745		168,674	
Other Land & Buildings		10,969		11,586	
Vehicles, Plant & Equipment		469		1,320	
Infrastructure Assets		799		776	
Community Assets		1,403		1,403	
<i>Non-Operational Assets</i>					
Investment Properties		2,136		2,199	
Assets Under Construction		2,790	171,311	2,655	188,613
Intangible Assets		0		361	
Long Term Debtors		10	10	8	369
<b>Total Long Term Assets</b>			171,321		188,982
<b>Current Assets</b>					
Stocks & Work in Progress	6.9	142		219	
Debtors	6.10	3,137		2,650	
Short Term Investments		5,475		8,075	
Cash-in-Hand and at Bank		2		4	
Payments in Advance		294	9,050	214	11,162
<b>Total Assets</b>			180,371		200,144
<b>Current Liabilities</b>					
Short-term Borrowing		1,100		2,960	
Creditors	6.10	3,297		2,075	
Cash Overdrawn		18		394	
Receipts in Advance		692	5,107	545	5,974
<b>Total Assets Less Current Liabilities</b>			175,264		194,170
Long Term Borrowing	6.7	13,960		14,641	
Deferred Liabilities		39		35	
Pension Scheme		25,400	39,399	24,590	39,266
<b>Total Assets Less Liabilities</b>			135,865		154,904
Fixed Asset Restatement Account	7.3	116,037		131,612	
Capital Financing Account	7.4	38,588		40,252	
Usable Capital Receipts Reserve	7.2	1,750		1,564	
Major Repairs Reserve	7.4	0		0	
Pension Reserve		(25,400)		(24,590)	
Government Grants Deferred	7.4	1,791		1,991	
Deferred Premiums		(642)		(545)	
Capital Grants/Contributions	7.2	848		746	
Earmarked Reserves	7.1	979		1,121	
General Fund Reserves	7.1	531		349	
Housing Revenue Account Balance	4.0	1,077		1,893	
Collection Fund Balance	5.1	306	135,865	511	154,904
<b>Total Net Worth</b>	6.8		135,865		154,904

## 6.1 Movements on Fixed Assets 2005/2006

	Council Dwellings	Other land & buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Investment Properties	Other Non-Op. Assets	TOTAL FIXED ASSETS
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net Book Value at 31 March 2005	152,745	10,969	470	798	1,403	2,136	2,791	171,312
Restatements	0	110	0	0	0	0	(132)	(22)
Additions	1,338	39	1,128	0	0	0	0	2,505
Work in Progress	0	0	0	0	0	0	0	0
Disposals	(4,948)	(1)	0	0	0	0	0	(4,949)
Revaluations	24,481	950	0	0	0	63	0	25,494
Gross Book Value at 31 March 2006	173,616	12,067	1,598	798	1,403	2,199	2,659	194,340
Depreciation for year	(4,942)	(481)	(278)	(22)	0	0	(4)	(5,727)
Net Value at 31 March 2006	168,674	11,586	1,320	776	1,403	2,199	2,655	188,613

## 6.2 Deferred Charges

The treatment of Deferred Charges is explained in the Statement of Accounting Policies in 2.8 on page 11. Any balance outstanding at the year end is now classified as an intangible asset. Details for the year are as follows:-

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

## 6.3 Capital Expenditure and Financing 2005/2006

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

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

#### 6.4 Capital Commitments

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

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

#### 6.5 Details of Assets Held

Fixed assets owned by the Council include the following:-

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

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

## 6.6 Valuation of Fixed Assets

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

The non-housing assets have been revalued by a FRICS qualified Valuer from the Valuation Office in September 2006. The effective date of the valuation was 1 April 2005.

### Operational Assets

#### Council Dwellings

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

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

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

### Other Land and Buildings

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

### Vehicles, Plant and Equipment

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

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

### Infrastructure

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

### Community Assets

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

### Non-Operational Assets

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

## 6.7 Long Term Borrowing

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

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

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

	<b>31 March 2005</b> <b>£'000</b>	<b>31 March 2006</b> <b>£'000</b>
Between 1 and 2 years	0	0
Between 2 and 5 years	0	0
Between 5 and 10 years	3,000	3,000
Over 10 years	10,910	11,610
	<b>13,910</b>	<b>14,610</b>

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

### 6.8 Net Assets Employed

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

	<b>31 March 2005</b> <b>£'000</b>	<b>31 March 2006</b> <b>£'000</b>
General Fund	(4,236)	(5,898)
Housing Revenue Account	139,789	160,186
Direct Labour/Service Organisation	6	105
Collection Fund	306	511
	<b>135,865</b>	<b>154,904</b>

### 6.9 Stocks

	<b>31 March 2005</b> <b>£'000</b>	<b>31 March 2006</b> <b>£'000</b>
<b>STOCKS</b>		
Sacriston Depot	18	16
DLO – Joiners Shop	0	0
DLO – Bullion Lane Depot	112	198
Leisure Centre	12	5
	<b>142</b>	<b>219</b>

## 6.10 Debtors and Creditors

### Debtors

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

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

### Creditors

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

	31 March 2005 £'000	31 March 2006 £'000
Rates	17	17
General Fund	2,234	1,501
Housing	959	356
DLO	86	201
Collection Fund	1	0
	3,297	2,075

## 6.11 Insurance Arrangements

The Council self insures its housing properties in respect of fire and storm damage and associated risks. However, there is a limit of £50,000 on the total value of claims which can be met internally in any year. Claims above this figure are met by external insurers. An amount of £108,586 is included in the Council's reserves at 31 March 2006 for insurances. £50,000 is earmarked to cover the maximum cost of claims chargeable under the fire policy. The balance of £58,586 is available to meet the cost of certain events which may not result in claims to the Council's insurers, and to contribute to the cost of insurance cover charged to the HRA. Movements on this reserve are shown on page 46.



## 6.12 Investments in Related Companies

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

## 6.13 Contingent Liabilities

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

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

The Council has agreed compensation payments with the Trade Unions to settle potential equal pay claims. In terms of progressing single status all posts graded up to scale 3 will be re-evaluated using the NJC Scheme by the end of September 2006.

## 6.14 Retirement Benefits

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

The Council's assets and liabilities are:

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

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

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

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

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

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

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

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

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

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

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 Movement in Reserves. The change has not affected the figures in the Consolidated Revenue Account.

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

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

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

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

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

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

	2005/06 £000's	2005/06 £000's	2004/05 £000's
Surplus/(deficit) for the year:			
- General Fund	(182)		(420)
- Housing Revenue Account	816		607
Add back Movements on specific Revenue Reserves	347		460
Add back movements on Pensions Reserve	810		(6,950)
<b>Total increase/(decrease) in Revenue Resources (Note 7.1)</b>		<b>1,791</b>	<b>(6,303)</b>
Increase/(decrease) in Usable Capital Receipts	(186)		(485)
Increase/(decrease) in Unapplied Capital Grants and Contributions	(102)		(708)
<b>Total increase/(decrease) in Realised Capital Resources (Note 7.2)</b>		<b>(288)</b>	<b>(1,193)</b>
Gains/(Losses) on Revaluation of Fixed Assets	25,494		47,295
Capital Expenditure on Revalued Assets	(4,970)		(3,585)
Impairment losses on Fixed Assets due to general changes in prices	0		0
<b>Total increase/(decrease) in Unrealised Value of Fixed Assets (Note 7.3)</b>		<b>20,524</b>	<b>43,710</b>
<b>Value of assets sold, disposed of or decommissioned (Note 7.3)</b>		<b>(4,949)</b>	<b>(20,985)</b>
Capital Receipts Set Aside	5,263		3,010
Revenue Resources Set Aside	(708)		(565)
Capital Resources Set Aside	2,217		3,076
Movement on Major Repairs Reserve	0		(797)
Movement on Government Grants Deferred	200		1,528
Depreciation Provision to MRR	(5,011)		(4,572)
HRA Set Aside (MRP)	0		0
<b>Total increase/(decrease) in amounts Set Aside to finance Capital Investment (Note 7.4)</b>		<b>1,961</b>	<b>1,680</b>
<b>Total recognised Gains and Losses</b>		<b>19,039</b>	<b>16,909</b>

**7.1 Reserves**

	<b>Balance at 01/04/05 £'000</b>	<b>Transfers To £'000</b>	<b>Transfers From £'000</b>	<b>Balance at 31/03/06 £'000</b>
<b>GENERAL FUND RESERVES:</b>				
Unallocated Revenue	31	14	41	4
Interest on Investments	0	0	0	0
General Fund Revenue	500	41	196	345
Revenue Contingency	0	0	0	0
<b>Total General Fund Reserves</b>	<b>531</b>	<b>55</b>	<b>237</b>	<b>349</b>
<b>HOUSING REVENUE ACCOUNT RESERVES</b>				
Housing Revenue Account	1,077	816	0	1,893
<b>Total Housing Revenue Account Reserves</b>	<b>1,077</b>	<b>816</b>	<b>0</b>	<b>1,893</b>
<b>COLLECTION FUND REVENUE ACCOUNT</b>				
	<b>306</b>	<b>205</b>	<b>0</b>	<b>511</b>
<b>DLO APPROPRIATION ACCOUNT</b>				
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>PENSION RESERVE</b>				
	<b>(25,400)</b>	<b>3,220</b>	<b>2,410</b>	<b>(24,590)</b>
<b>EARMARKED RESERVES:</b>				
Insurance	175	74	141	108
Plant and Vehicles	4	0	4	0
Civic Centre	77	0	77	0
Computer	80	0	80	0
Riverside Replacement	6	0	6	0
General Fund LSVT	0	167	7	160
Miscellaneous Earmarked	635	798	589	844
Community Chest	(3)	6	1	2
Special	5	2	0	7
Unallocated Capital	0	0	0	0
Pension Capital Cost	0	210	210	0
Housing Repairs	0	0	0	0
Collection Fund	0	0	0	0
<b>Total Earmarked Reserves</b>	<b>979</b>	<b>1,257</b>	<b>1,115</b>	<b>1,121</b>
<b>Total Reserves</b>	<b>(22,507)</b>	<b>5,553</b>	<b>3,762</b>	<b>(20,716)</b>

## 7.2 Movements in Realised Capital Resources

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

## 7.3 Movements in Unrealised Value of Fixed Assets

	Fixed Asset Restatement Account £'000
Gains/(Losses) on Revaluation of Fixed Assets in 2005/2006	25,494
Impairment losses on Fixed Assets due to general changes in prices in 2005/2006	0
Capital expenditure on revalued assets	(4,970)
<b>Total increase/(decrease) in Unrealised Capital Resources in 2005/2006</b>	<b>20,524</b>
<b>Value of assets sold, disposed of or decommissioned</b>	
Amounts written off fixed asset balances for disposals in 2005/2006	<b>(4,949)</b>
<b>Total Movement on Account in 2005/2006</b>	<b>15,575</b>
Balance brought forward at 01/04/05	116,037
<b>Balance carried forward at 31/03/06</b>	<b>131,612</b>

## 7.4 Movements in Amounts Set Aside to Finance Capital Investment

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



**7.5 Pension Note to the Statement of Total Movement in Reserves**

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

**8. THE CASH FLOW STATEMENT**

	31.3.05		31.3.06	
	£'000	£'000	£'000	£'000
<b>REVENUE ACTIVITIES</b>				
<b>Cash Outflows</b>				
Cash paid to and on behalf of employees	8,570		9,403	
Other operating cash payments	10,673		10,912	
Housing Benefit paid out	2,682		2,976	
Precepts paid	17,785		18,670	
Housing Subsidy	4,203		3,729	
Payments to Capital Receipts Pool	3,428		3,371	
Contribution to NNDR Pool	5,560	52,901	6,379	55,440
<b>Cash Inflows</b>				
Rents (after rebates)	(4,217)		(4,150)	
Council Tax	(17,419)		(18,258)	
Non-domestic rates	(5,982)		(6,093)	
Revenue Support Grant	(2,616)		(2,662)	
Contribution from National NDR Pool	(1,451)		(1,539)	
DSS grants for rebates	(12,380)		(12,841)	
Other government grants	(2,737)		(2,704)	
Charges for goods and services	(6,411)	(53,213)	(7,029)	(55,276)
<b>Revenue Activities Net Cash Flow</b>		(312)		164
<b>SERVICING OF FINANCE</b>				
<b>Cash Outflows</b>				
Interest paid	797		828	
Premium on Debt Redemption	0		0	
<b>Cash Inflows</b>				
Interest received	(204)	593	(280)	548
<b>CAPITAL ACTIVITIES</b>				
<b>Cash Outflows</b>				
Purchase of fixed assets	8,126		9,268	
Other Capital Payments	608	8,734	353	9,621
<b>Cash Inflows</b>				
Sale of fixed assets	(6,791)		(8,136)	
Capital grants received	(2,671)		(1,307)	
Other capital cash income	(240)	(9,702)	(575)	(10,018)
<b>NET CASH OUTFLOW(INFLOW) BEFORE FINANCING</b>		(687)		315
<b>MANAGEMENT OF LIQUID RESOURCES</b>				
Net increase in short-term deposits - <b>Note X</b>		2,000		2,600
<b>FINANCING</b>				
<b>Cash Outflows</b>				
Repayments of amounts borrowed - <b>Note Y</b>	18		19	
<b>Cash Inflows</b>				
New long term loans raised - <b>Note Y</b>	0		(700)	
New short term loans raised - <b>Note Z</b>	(1,100)	(1,082)	(1,860)	(2,541)
<b>(INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS</b>		231		374

<b>Note X</b>	<b>£'000</b>
Short term investments as at 1 April 2005	5,475
Short term investments as at 31 March 2006	8,075
Net outflow	2,600

<b>Note Y</b>	<b>£'000</b>
Long term borrowings as at 1 April 2005	13,960
Long term borrowings as at 31 March 2006	14,641
Net inflow	(681)

<b>Note Z</b>	<b>£'000</b>
Short term borrowings as at 1 April 2005	1,100
Short term borrowings as at 31 March 2006	2,960
Net inflow	(1,860)

## 8.1 Analysis of Grants Received

	31.3.05		31.3.06	
	£'000	£'000	£'000	£'000
<b>REVENUE</b>				
Revenue Support Grant	(2,616)		(2,662)	
National Non-Domestic Rate: Contribution from Pool	(1,451)		(1,539)	
Contribution to Pool	5,560	1,493	6,379	2,178
<b>DSS Grants for Rebates</b>				
Rent Allowances	(2,508)		(3,098)	
Council Tax	(3,453)		(3,728)	
Rent Rebate	(6,419)		(6,015)	
Non HRA Rent Rebate	(0)	(12,380)	(0)	(12,841)
<b>Other Government Grants</b>				
Major Repairs Allowance	(2,279)		(2,217)	
Benefit Administration	(346)		(361)	
WIBS Fraud Incentive	(25)		(38)	
Verification Framework	(71)		(71)	
Discretionary Housing Payment	(3)		(4)	
Defective Homes	(13)	(2,737)	(13)	(2,704)
		(13,624)		(13,367)
<b>CAPITAL</b>				
Housing Subsidy	(159)		(114)	
E-Government Support and Capacity	0		(100)	
IEG	(350)		(150)	
Single Programme	(1,144)		(693)	
Scottish Power	(29)		0	
Catherine Cookson Trust	0		(15)	
North Lodge Parish Council	(6)		0	
Countryside Agency	(126)		(54)	
Sustrans	(26)		(0)	
Durham County Council	(165)		(15)	
Durham County Cricket Club	(88)		(87)	
Groundwork West Durham	(6)		0	
Lottery Fund	(16)		0	
Sport England	(535)		(60)	
SRB	(21)	(2,671)	(19)	(1,307)
<b>Total Grants</b>		(16,295)		(14,674)

## 8.2 Movement in Cash and Cash Equivalents

	31 March 05 £'000	31 March 06 £'000	Movement £'000
Cash in Hand and at Bank	(16)	(390)	(374)

### 8.3 Reconciliation of Surplus to Cash Flow

	31.3.05		31.3.06	
	£'000	£'000	£'000	£'000
SURPLUS/ (DEFICIT) FOR THE YEAR		(395)		(346)
<b>Non-cash Transactions</b>				
Add:				
Minimum Revenue Provision/Depreciation	2,583		2,455	
Provisions Set Aside	62		(30)	
Contributions to Reserves	1,834		2,260	
	4,479		4,685	
Less Contributions from Reserves	1,161	3,318	1,230	3,455
		2,923		3,109
<b>Items on an Accruals Basis</b>				
Add Increase in Stocks	(6)		(77)	
Decrease in Debtors	(141)		64	
Decrease in Creditors	1,150	1,003	(901)	(914)
		3,926		2,195
<b>Items Classified Elsewhere in Cash Flow Statement</b>				
Transfer from Usable Capital Receipts	(4,207)		(2,907)	
Investment Interest	(204)		(280)	
Interest Paid	797	(3,614)	828	(2,359)
NET CASH FLOW FROM REVENUE ACTIVITIES		312		(164)

## **9. STATEMENT ON INTERNAL CONTROL**

### **9.1 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.

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

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

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

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:-

- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- Evaluate the likelihood of those risks being realised, and the impact should they be realised; and
- 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 2006, and up to the date of approval of the annual report and accounts.

### 9.3 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:-**

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

- The first Community Strategy for the District was originally published in March 2004, the updated 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. Following the review the strategy is shortly to be approved by Council. The updated Sustainable Community Strategy has clearer actions and targets.
- The Council's first Corporate Plan (including Best Value Performance Plan) was agreed by the Council on 26 May 2005 and published on 29 June 2005. The Corporate Plan for 2006/2009 was approved by the Council on 25 May 2006 and will be published by 30 June 2006.

**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.**

- Individual Service Plans which seek to achieve the Council's contribution to the Community Strategy as well as the vision and priorities within the Council's Corporate Plan. They will be updated to meet new requirements of the Sustainable Community Strategy and the 2006/2009 Corporate Plan.
- The Councils Improvement Programme is largely based on the Improvement and Recovery Plan. Phase 1 was completed during 2005-06 with Phase 2 agreed by the ODPM during November 2005 and approved by Council on 15 December 2005.
- The latest progress assessment produced by the Audit Commission in March 2006, concluded that the Council was making good progress and indicated that:-

‘Senior politicians and managers are providing good leadership both internally and externally; the Council is working with the Local Strategic Partnership to update the Community Strategy. The Council is making progress on new strategies and plans including community engagement, equality and information management.’

The report singled out significant improvements within the planning service, revenues and benefits and e government and noted progress in regeneration projects and access to services.

- 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 facilitation of policy and decision making**

- The Council’s new Constitution, which was approved 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
- During 2005-06 the constitution has undergone a process of review with amendments approved by Council on 25 May 2006.
- 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.



- The Overview and Scrutiny Committees 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 Committees 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.

**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**

- 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.
- The Scheme of Delegation and Contract Standing Orders have been updated as part of the recent review of the new Constitution.
- There is an Approved Anti-fraud and Anti-corruption Strategy.
- 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.
- 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.

- The Risk Management Policy and Strategy has been updated during 2005-06 and 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 2005/06 Action Plan was completed successfully.
- The inclusion of risk as a mandatory item within all reporting protocols is well established and has contributed to the decision making process.
- 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.
- The Council's Strategic Risk Profile has been reviewed and updated following a workshop held 25 October 2005. This has informed the 2006/07 budget setting round and current Corporate Planning cycle.
- Corporate Management Team receives monitoring reports and has allocated a lead Chief Officer responsibility for risk management to the Director of Resources.
- All key Managers have received project management training.
- In order to strengthen partnership working the Council has acquired a partnership toolkit with the assistance of the NECE which provides guidance on partnership formation, management and evaluation. This will assist the partnership review process programmed for 2006-07.

**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.**

- Improvement and Recovery Plan agreed, following the Council's Comprehensive Performance Assessment (CPA). Progress is monitored by an internal Project Management Board which meets monthly and by the ODPM Monitoring Board.
- Performance against Best Value Performance Indicators and locally agreed performance targets monitored and reported to Corporate Management Team and the Executive.
- Customer Excellence Strategy, incorporating customer service standards.

- The Service Improvement Team was set up to review performance and assist with improvement in service areas. During 2005-06 the Council adopted a new Continual Process Improvement methodology to drive sustainable improvements which will be applied initially to three pilot projects prior to being rolled out across the organisation. The Audit Commission carried out a review progress of the CPI program during June 2006 on behalf of the Monitoring Board.
- A prioritisation system for all budgetary growth bids has now been agreed as part of the development of the Medium Term Financial Strategy.
- A comprehensive performance management system – ‘Performance Plus’ has been implemented throughout the Authority.
- Annual Efficiency Statements – backward look for 2005/06 produced and forward look for 2006/07 submitted showing how efficiency targets have been and will be achieved.
- 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 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.
- The Council formally approved and adopted a revised Procurement Strategy on 27 April 2006 which is supported by the joint working arrangement with Derwentside District Council.
- The Resources Directorate has actively supported the work of the North East Centre of Excellence during 2005-06 with the objective of sharing best practice and the development of initiatives to deliver long term efficiencies.

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

- 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.
- 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.

- Quarterly financial monitoring reports are submitted to the Executive and the Overview and Scrutiny Committees – covering both revenue budgets and the capital programme.
- Financial Regulations have been revised to clarify and improve the Authority's financial management arrangements.
- The Council now has a Medium Term Financial Strategy which underpins the Council's Corporate Plan and aims to provide the means by which we intend to achieve our vision and priorities and result in priority based budgeting.

It is, however, based on assumptions that the work currently underway to ensure the revenue budget is sustainable over the medium term is completed by September 2006, to ensure that resources can be made available for key service priorities.

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

- 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.
- Corporate, computerised performance management system (Performance Plus) now fully implemented.
- 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. Now that the Corporate Plan has been agreed, the service links to the Council's aims and priorities detailed in the Plan will form a key part of the PDP process.
- Within an extensive Organisation Development programme, the authority has introduced management competency frameworks which will be applied to all managers and supervisors with effect from April 2006.
- Following the recent Environmental Services Inspection the Council was pleased to note that the inspectors report concluded 'A culture of performance improvement is developing well within the service, performance is discussed regularly at team meetings'.

## 9.4 REVIEW OF EFFECTIVENESS

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.

- Full Council reviewed the Constitution, including Contract Standing Orders and Financial Regulations in May 2005; considered the 2004/05 Audit and Inspection Letter in February 2005; considered and agreed the Council's Corporate Plan, incorporating its Statutory Best Value Performance Plan in May 2005 and reports from the Audit and Standards Committees throughout the year.
- Training on all aspects of the Constitution including financial regulations has been undertaken with officers and Members and this will be a regular feature within the future Corporate Training Program.
- The Executive received regular reports on performance throughout the year; reviewed the Constitution and the Corporate Plan prior to these being considered by Council.
- The Audit Committee monitored internal and external audit work, including the adequacy of internal controls.
- The Overview and Scrutiny Committees considered the changes to the Constitution prior to this being adopted by Full Council.
- The Improvement Board monitored progress in respect of the Improvement Plan following the CPA inspection.
- 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.
- No s151 or Monitoring Officer reports were issued during 2005/06.
- There were no Ombudsman reports in 2005/06.
- On 15 March 2006 an inspection was conducted by Lord Colville of Culcross on behalf of the Office of the Surveillance Commissioners. The report was complimentary of the Councils knowledge of the necessary requirements; and through its recommendations has assisted greatly in the production of a relevant action plan.

- As part of its preparation for the transfer of its housing stock, the Council has agreed to set up a Shadow Board to develop the new organisation and facilitate the transfer. The Board will comprise of 15 members: five from the Council, five tenants and five independent members.
- Internal Audit complies with the ten standards of the CIPFA Code of Practice for Internal Audit.
- Planned activities on all core systems were achieved and a report was produced following each audit assignment, giving an opinion on the effectiveness of the control environment. During 2005/06 internal audit made 109 recommendations to address identified weaknesses in internal control and continued to follow up on 41 pending from the previous year. Although 4 of the recommendations were disputed by managers as uneconomical to implement, they relate to weaknesses of low risk to the Council and this situation was accepted by the Audit Committee. Action plans for the implementation of agreed actions were included in all audit reports and a process to monitor the delivery of the action plan is carried out on a quarterly basis by the Audit Committee.
- Internal Audit's Annual Report for 2005/06 which summarises the outcome of all audit assignments is scheduled to be reported to the July 2006 meeting of the Audit Committee.
- 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
- 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.

## 9.5 SIGNIFICANT INTERNAL CONTROL ISSUES

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

### **Corporate Governance issues**

Issue: Although the new Constitution includes a Local Code of Corporate Governance, the Authority is actively working to put in place fully developed mechanisms to monitor and review its Corporate Governance arrangements. Terms of reference of Corporate Governance Steering group have been agreed, and membership comprises the Council's Corporate Risk Officer, Head of Internal Audit, Assistant Chief Executive, Monitoring Officer and S151 Officer.

However, further detailed action planning and reporting are required.

Action: An action plan for 2006-07 to be taken forward with quarterly reports to CMT.

## **Risk**

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 implementation of risk software during 2006-07 to facilitate regular risk monitoring and reporting.

The adoption of a partnership toolkit to assist in the identification and management of risk in partnership working.

The application of the new competency framework to ensure that all managers are adequately trained to apply risk management principles and methodologies.

## **Procurement**

Issue: The Council has not as yet embedded the new Corporate Procurement Policy and Strategy. However, this was approved by Council on 20 April 2006.

A procurement action plan, with timescales and responsibilities, has been agreed; membership and terms of reference for both the Procurement Strategy Group and Strategy Network have been established.

Action: The Procurement Action Plan for 2006-07 will be implemented, and monitored through the Procurement Strategy Group.

## **Business continuity**

Issue: Further work is required on the Authority's Business Continuity Strategy. Business and Service Continuity Plans should be embedded within the service planning and delivery processes and be subjected to regular testing.

Action: To work with the emergency planning unit to provide a training programme and to include within future service planning guidance for 2007-08.

## Financial Systems

Issue: Following the Audit Commission's interim audit report for 2004/05 which identified that internal controls in respect of reconciliations, control accounts and suspense items needed to be improved, the Accountancy Team implemented a series of measures which has greatly improved the management of the Aggresso Financial System including clearer procedural documentation, defined user roles and responsibilities and greater priority to reconciliations between the main accounting system and feeder systems.

This has been underpinned by a revised structure across Accountancy and Financial Services which more clearly aligns resources with roles and responsibilities,

The latest Use of Resources assessment of our financial reporting and financial management arrangements produced a level 2 result and the Council is committed to achieve a minimum score of level 3 at the next assessment.

Actions: The Council's Governance Steering Group has developed an initial action plan to deliver the necessary improvements and this includes key actions which address:

- Improved budgetary control information and processes
- Embedding the revised financial planning and financial management processes
- Setting and monitoring performance against Key Financial Indicators
- Improving strategic asset management
- Developing corporate processes for assessing and improving value for money



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

### **10.1 The Authority's Responsibilities**

Chester-le-Street District Council is required:-

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

### **10.2 The Director of Resources' Responsibilities**

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

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

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

The Director of Resources has also

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

#### **Certificate of the Director of Resources**

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

**Director of Resources**

**Date**

#### **Certificate of the Chair of Meeting Approving the Accounts**

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

\_\_\_\_\_ .

**Chairman of the Council**

**Date**

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: \_\_\_\_\_

## **Independent auditors' report to the Members of Chester-le-Street District Council**

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

I have audited the financial statements of Chester-le-Street District Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Chester-le-Street District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### ***Respective responsibilities of the Chief Finance Officer and auditors***

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

I review whether the statement on internal control reflects compliance with CIPFA's guidance (The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003). I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

***Basis of audit opinion***

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

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

***Opinion***

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

---

*Steve Nicklin  
District Auditor  
Nickalls House  
Metro Centre, Gateshead  
Tyne & Wear NE11 9NH*

*Date*

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

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

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

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

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

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

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

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

### ***Conclusion***

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Chester-le-Street District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

## **Best Value Performance Plan**

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 01 October 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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*Steve Nicklin  
District Auditor  
Nickalls House  
Metro Centre, Gateshead  
Tyne & Wear NE11 9NH*

*Date*