

TEESDALE DISTRICT COUNCIL

achieving excellence together



Statement of Accounts 2007-2008

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Explanatory Foreword

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts for the financial year 2007/08, assist in the interpretation of the accounting statements, and provide an explanation in overall terms of the financial position at 31 March 2008. It also contains a commentary on the major influences affecting the authority's income and expenditure and cash flow, and information on the financial needs and resources of the authority.

The Statement of Accounts comprises:

Statement of Accounting Policies

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

Statement of Responsibilities for the Statement of Accounts

This sets out the respective responsibilities of the authority and the Chief Finance Officer for the accounts.

Auditors' Report

The auditors' independent opinion on the accounts for the financial year ended 31 March 2008.

Core Financial Statements

The core financial statements are applicable to all local authorities and are followed by a consolidated set of notes.

Income and Expenditure Account

This statement is fundamental to the understanding of the Council's activities, in that it reports the net cost for the year of all the functions for which the authority is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

Statement of Movement on the General Fund Balance

This statement contains the amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute and non-statutory proper practices to be charged or credited to the General Fund in determining the movement on the General Fund Balance for the year.

Statement of Total Recognised Gains and Losses

Not all the gains and losses experienced by the Council are reflected in the Income and Expenditure Account, for example gains on revaluations of fixed assets and pension actuarial gains and losses are excluded as they are treated as arising from asset and liability valuation changes rather than from the Council's operating performance. This statement addresses the requirement to consider all gains and losses recognised in a period when assessing the financial result for that period.

Balance Sheet

The Balance Sheet is fundamental to the understanding of the Council's financial position at the year-end. It shows its balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. The Balance Sheet includes all of the assets and liabilities of all activities of the Council.

Cash Flow Statement

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

Notes to the Core Financial Statements

The notes to the core financial statements are required to be shown together after the core financial statements.

Supplementary Financial Statements

Housing Revenue Account (HRA) Income and Expenditure Account

This statement reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. It includes the credit and debit items required to be taken into account in determining the surplus or deficit on the HRA for the year.

Statement of Movement on the Housing Revenue Account Balance

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

Following the HRA financial statements are notes providing further information on the more significant items relating to the Housing Revenue Account.

Collection Fund

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

Following the financial statement are notes giving further information on the more significant items in the Collection Fund.

Annual Governance Statement

The preparation and publication of an Annual Governance Statement is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations 2003 (as amended) which requires authorities to 'conduct a review at least once in a year of the effectiveness of its system of internal control' and to prepare a statement on internal control 'in accordance with proper practices'.

Financial Summary 2007/2008

Revenue Income and Expenditure

Every year the Council approves a budget for the forthcoming twelve months. The budget for 2007/08 is summarised below and the actual outturn and variations are shown alongside.

| | Budget £000 | Actual £000 | Variance £000 |
|--|----------------|----------------|------------------|
| Gross service expenditure | 11,496 | 12,078 | 582 |
| Capital financing costs | 322 | 1,432 | 1,110 |
| | 11,818 | 13,510 | 1,692 |
| Income: | | | |
| Specific grants | -5,519 | -6,044 | -525 |
| Other income | -1,871 | -1,872 | -1 |
| Collection Fund surplus | -50 | -50 | - |
| General Government Grants | -346 | -1,578 | -1,232 |
| Redistributed Non-Domestic Rates | -2,062 | -2,062 | - |
| Council taxpayers | -1,809 | -1,809 | - |
| Transfer to/from(-) balances | -126 | -623 | -497 |
| Increase(-)/Decrease in General Fund balance for year | 35 | -528 | -563 |
| Balance brought forward | -546 | -845 | -299 |
| Balance carried forward | -511 | -1,373 | -862 |

Fuller details of spending by category are shown in the Income and Expenditure Account on page 21. The above table shows an increase in gross expenditure of £1,692,091 and an increase in income of £526,245. The major reasons for these differences are:

| | £000 |
|---|-------|
| Gross expenditure: | |
| Increase in housing benefit and council tax benefit payments | 189 |
| Write-off of housing benefit overpayments | 112 |
| Management restructure | 59 |
| Increase in audit fees | 32 |
| Increase in provision for bad debts | 52 |
| Discretionary rate relief policy change | -38 |
| Reduction in expenditure on concessionary travel | -31 |
| Reduction in interest charges and MRP | -116 |
| Repayment of debt using over-hanging debt grant | 1,200 |
| Increase in expenditure on other services | 233 |
| | 1,692 |
| Income and specific grants: | |
| Increase in housing benefit and council tax benefit related subsidy | -287 |
| Increase in HRA subsidy | -125 |
| Increase in other specific grants | -113 |
| Reduced income from car parking | 42 |
| Increase in interest and investment income | -114 |
| Reduction in other income (fees, charges and grants) | 71 |
| | -526 |

Housing Revenue Account

The Council ceased to be a provider of rented accommodation in the district on 3 July 2006. The Housing Revenue Account Income and Expenditure Account and Statement of Movement in the Housing Revenue Account Balance set out on pages 56 and 57, together with the accompanying notes on pages 58 to 61, show the residual income and expenditure for the financial year until the HRA was closed on 31 March 2008. Consent was received from the Secretary of State to close the HRA on this date once all related transactions had been completed in accordance with the requirements of the Communities and Local Government.

The table below summarises the actual expenditure and income. A budget was not set for 2007/08 other than an expected balance on the account as minimal transactions were expected.

| | Budget £000 | Actual £000 | Variance £000 |
|--|----------------|----------------|------------------|
| Expenditure | - | -6 | -6 |
| Income: | | | |
| Rents | - | - | - |
| Other income | - | -141 | -141 |
| Net Cost of Services | - | -147 | -147 |
| Capital financing and other adjustments | -174 | 504 | 678 |
| Increase(-)/Decrease in Housing Revenue Account balance for year | - | 357 | 357 |
| Balance brought forward | -357 | -357 | - |
| Balance carried forward | -531 | - | 531 |

The table shows a surplus of £146,000 at net cost of service level. This is mainly due to housing subsidy of £125,000 being receivable, and the receipt of £13,000 from repaid discounts relating to the past sales of dwellings. The overall surplus on the HRA was £685,785 following the transfer of the Major Repairs Reserve balance of £201,229, and this has been transferred to the General Fund following the closure of the HRA as at 31 March 2008.

Capital Expenditure in 2007/08

In 2007/08 the Council's capital spending was £979,512. Further details of this expenditure and how it was financed are provided in note 13 to the Core Financial Statements.

| 2006/2007 | | | 2007/2008 | |
|-----------|-------|----------------------------------|-----------|------|
| % | £000 | | % | £000 |
| | | Total expenditure: | | |
| 45 | 534 | Housing | 15 | 149 |
| 55 | 658 | General | 85 | 831 |
| | 1,192 | | | 980 |
| | | Financed by: | | |
| 26 | 310 | Borrowing | 54 | 532 |
| 30 | 355 | Capital Grants and Contributions | 32 | 312 |
| 37 | 441 | Capital Receipts | 13 | 125 |
| 7 | 86 | Major Repairs Allowance | - | - |
| - | - | Revenue | 1 | 11 |
| | 1192 | | | 980 |

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At 31 March 2008 the Council had usable capital receipts of £52,608 (2006/07 £1,485,840) available to finance new capital expenditure in future years. In addition to the amount above used to finance capital expenditure, £1,311,741 was used to repay housing attributable debt (see borrowing below).

Prudential Code for Capital Finance

The code became effective from 1 April 2004, allowing the Council greater flexibility to borrow provided that the costs are affordable. This authority's use of the Code and the required indicators were approved by Council on 28 February 2007 as a part of the 2007/08 budget setting process. The Council's borrowing for 2007/08 was all unsupported borrowing (£687,000).

Borrowing

The following transactions took place during the year 2007/08:

| | 2007/08 £ |
|--------------------------------------|--------------|
| Balance outstanding at 1 April 2007 | 3,914,827 |
| Loans raised during year | 687,000 |
| | <hr/> |
| | 4,601,827 |
| Loans repaid during year | -2,513,056 |
| | <hr/> |
| Balance outstanding at 31 March 2008 | 2,088,771 |

All of the borrowing of £687,000 was required in respect of the budgeted capital spend for the year.

When the Council transferred its housing stock to Teesdale Housing Association for £4,759,990 on 3 July 2006, debt of £2,685,022 was repaid from the capital receipt although the council's attributable housing debt was £5,196,481. As the attributable debt exceeded the receipt for the stock, the Council was in an overhanging debt position and should have been entitled to further debt being repaid by the Communities and Local Government at that time. The balance of the attributable housing debt was repaid on 5 July 2007 by both the Council (£1,311,741) and Communities and Local Government (£1,199,718). This has resulted in the Council's usable capital receipts balance reducing by £1.3m and its long term borrowing by £2.5m, and has also resulted in savings on interest payments of approximately £127,000 per annum.

Pensions Assets and Liabilities

FRS17 requires that the accounts show the benefit entitlement earned by employees of the Local Government Pension Scheme in the year rather than the costs to revenue of employer's contributions. The effect of this on the Balance Sheet is to reduce the net worth of the Council by the pension liability of £5,310,100 (£7,187,947 in 2006/07). Further information is available in note 42 to the Core Statements.

Major fixed asset acquisitions and disposals

There were no major fixed asset acquisitions or disposals during 2007/08.

Summary of Revenue and Capital Investment Plans

The Council's priorities were fully reviewed during 2007/08 and the revenue and capital plans were aligned to these new priorities through the budget setting process for 2008/09. The main areas of investment identified are summarised below.

| Investment | Priority | 2008/09 £ |
|---|---|----------------|
| Revenue | | |
| Emergency planning (statutory requirement) | Improve the Health & Wellbeing of our Residents and Develop Safer Communities | 8,000 |
| Mechanic service (health & safety requirement) | Make Teesdale a Cleaner, Greener Place | 10,000 |
| Sports development projects | Improve the Health & Wellbeing of our Residents and Develop Safer Communities | 10,417 |
| Sustainability officers | All | 16,500 |
| Management of industrial sites | Grow Teesdale's Economy | 10,000 |
| Housing handy persons service | Meet the Housing Needs of our Residents | 12,500 |
| | Improve the Health & Wellbeing of our Residents and Develop Safer Communities | |
| Democratic services officer | Improving Together | 17,660 |
| Maintenance of administrative buildings (health & safety requirement) | | 20,000 |
| Procurement officer | Improving Together | 7,500 |
| Revenues staffing (maternity leave cover) (2008/09 only) | | 7,566 |
| Development control/LDF staffing | All | 30,000 |
| Planning administration staffing | All | 22,000 |
| Building control staffing | | 8,000 |
| LGR – provision for staffing costs (2008/09 only) | All | 50,000 |
| Environmental health software subscription | Wellbeing of our Residents and Develop Safer Communities | 4,500 |
| Facilities management/ health & safety | | 15,000 |
| Homelessness | Meet the Housing Needs of our Residents | 40,000 |
| Grants to other organisations | All | 41,738 |
| Total | | 331,381 |

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| Investment | Priority | 2008/09 £ |
|--|---|----------------|
| Capital | | |
| Improvements to Garage (health & safety requirement) | | 10,000 |
| Planning Policy Appropriate Assessment | All | 10,000 |
| On-line Planning Register | Improving Together | 16,000 |
| Upgrade to Telephone System | Improving Together | 25,000 |
| Locker Replacement Programme at the Leisure Centre | Improve the Health & Wellbeing of our Residents and Develop Safer Communities | 30,000 |
| Replacement Servers for the Financial Management System | | 15,000 |
| Hamsterley Forest Cycling & Adventure Centre | Grow Teesdale's Economy | 40,000 |
| Building Improvement Works (health & safety requirement) | | 100,000 |
| Recycling Grants | Make Teesdale a Cleaner, Greener Place | 53,000 |
| Regeneration Grants | Grow Teesdale's Economy | 15,400 |
| Total | | 314,400 |

Investments beyond 2008/09 were not considered as part of the budget setting process, as the Council will cease to exist on 31 March 2009 due to Local Government Reorganisation (see note below). The Council has however identified some areas where it is hoped that support will continue; the regeneration of the district through the delivery of the Barnard Castle Vision at £100,000 per annum, and investment in meeting local housing needs through private sector grants.

The Council has limited capital resources available; capital receipts are generally minimal, and grants, when available, can only be used for specific purposes. These investments will be financed mainly by prudential borrowing.

Significant Changes in Accounting Policies

The Statement of Recommended Practice (SORP) 2007 has introduced some major changes to local authority financial statements. These changes are intended to make the financial statements easier to read, bring them more into line with practices in the private sector and be UK GAAP (Generally Accepted Accounting Practices) compliant.

The most significant changes for this Council arising from the SORP 2007 are as follows:

The implementation of a Revaluation Reserve and a Capital Adjustment Account, replacing the Fixed Asset Restatement Account and the Capital Financing Account

The Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value). The Reserve is also debited with amounts equal

to the part of depreciation charges on assets that have been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost. Whilst these gains arising from revaluations increases the net worth of the authority they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

The Capital Adjustment Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (deferred charges). The balance on the Account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Financial Instruments

The 2007 SORP contains a new chapter that is wholly concerned with accounting for financial instruments. The provisions provide a comprehensive approach to all the instruments that an authority might issue or acquire, and represent the first major development in accounting arrangements for local government arising from the influence of International Accounting Standards on UK GAAP. As well as containing many new accounting requirements, the provisions also introduce some of the new terminology used in international accounting (such as receivables and payables instead of debtors and creditors). The 2007 SORP requirements are now based on Financial Reporting Standards (FRS's) 25, 26 and 29 that relate to financial instruments. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another; the Council's investments and borrowings are therefore all financial instruments. The FRS's cover the way the Council must measure the value of its financial instruments at the Balance Sheet date and disclose additional information such as an explanation of the key risks.

Local Government Reorganisation

A single unitary Council for County Durham will be implemented and will replace the existing County and District Councils in County Durham with effect from 1 April 2009. All rights and obligations of the existing Council will vest in the new Council when established.

On 1 May 2008, elections were held to elect new members to Durham County Council. These members will form the new unitary Council for County Durham from 1 April 2009.

Statement of Accounting Policies

1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/2008 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice 2007 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2 Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3 Provisions

Provisions are made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

4 Reserves

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

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

5 Government Grants and Contributions (Revenue)

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

6 Retirement Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Durham County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pension Scheme

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

- o The liabilities of the Durham County Council pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees.

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Statement of Accounting Policies

- o Liabilities are discounted to their value at current prices, using a discount rate of 6.8% (based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index).
- o The assets of the Durham County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

| Asset | Valuation Method |
|---------------------|------------------------------------|
| Quoted securities | Mid-market value |
| Unquoted securities | Professional estimate |
| Unitised securities | Average of the bid and offer rates |
| Property | Market value |

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

| Component | Description | Accounting Treatment |
|--|--|---|
| Current service cost | The increase in liabilities as a result of years of service earned this year | Allocated in the Income and Expenditure Account to the revenue accounts of services for which the employee worked |
| Past service cost | The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years | Debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs |
| Interest Cost | The expected increase in the present value of liabilities during the year as they move one year closer to being paid | Debited to Net Operating Expenditure in the Income and Expenditure Account |
| Expected return on assets | The annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return | Credited to Net Operating Expenditure in the Income and Expenditure Account |
| Gains/losses on settlements and curtailments | The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees | Debited to the Net Cost of Services in the Income and Expenditure Account as part of Non-Distributed Costs |
| Actuarial gains and losses | Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions | Debited to the Statement of Total Recognised Gains and Losses |
| Contributions paid to the Durham County Council Pension Fund | Cash paid as employer's contributions to the pension fund | Allocated in the Income and Expenditure Account to the revenue accounts of services for which the employee worked |

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

Discretionary Benefits

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

7 VAT

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

8 Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

9 Intangible Fixed Assets

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

10 Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial

year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement

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

| Type of Asset | Measurement Base |
|--|---|
| Investment properties and assets surplus to requirements | Lower of net current replacement cost or net realisable value |
| Dwellings, other land and buildings, vehicles, plant and equipment | Lower of net current replacement cost or net realisable value in existing use. |
| Infrastructure assets and community assets | Depreciated historical cost. A number of community assets have been valued at nominal cost as it is not possible for an independent valuer to determine an appropriate value. |

Net current replacement cost is assessed as:

| Type of Asset | Assessment |
|--|------------------------------|
| Non-specialised operational properties | Existing use value |
| Specialised operational properties | Depreciated replacement cost |
| Investment properties and surplus assets | Market value |

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

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

Impairment

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

- o Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account

- o Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

Disposals

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

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

Depreciation

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

Depreciation is calculated on the following bases:

| Type of Asset | Assessment Base |
|-------------------------------|---|
| Dwelling and other buildings | Straight-line allocation over the life of the property as estimated by the valuer |
| Vehicles, plant and equipment | A percentage of the value of each class of assets in the Balance Sheet or straight-line allocation over the life of the asset |
| Infrastructure | Straight-line allocation over 25 years |

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

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

Grants and contributions

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

11 Charges to Revenue for Fixed Assets

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

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

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

12 Deferred Charges

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

13 Leases

Finance Leases

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

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

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

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable. The Council operates as a lessor and has granted a number of long-term leases to commercial operations mainly in respect of Stainton Grove Industrial Estate. These arrangements are accounted for as operational leases and the rental income is credited to the relevant service when it becomes receivable.

14 Financial Liabilities

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

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

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

15 Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

The Council has not made any loans at less than market prices (soft loans) during the financial year.

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

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

Available-for-sale Assets

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

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

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

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

Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

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

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

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

The Council did not hold any available-for-sale assets during the financial year.

16 Stocks and Work in Progress

Stocks are included in the Balance Sheet as the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

17 Interests in Companies and Other Entities

The Council does not have material interests in companies and other entities that have the nature of subsidiaries, associates or joint ventures and is not therefore required to prepare group accounts.

18 Events after the Balance Sheet Date

Events arising after the balance sheet date are reflected in the Statement of Accounts if they provide additional evidence of conditions that existed at the balance sheet date and materially affect the amounts to be included, but only where the originating event took place prior to the year-end.

Events that arise after the balance sheet date and concern conditions that did not exist at that time are detailed in notes to the core statements if they are of such materiality that their disclosure is required for the fair presentation of the financial statements.

The Statement of Responsibilities for the Statement of Accounts

The authority's responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority that officer is the Chief Finance Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts.

The Chief Finance Officer's responsibilities

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice.

The Chief Finance Officer 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 Chief Finance Officer

I certify that the Statement of Accounts presents fairly the financial position of the authority at 31 March 2008 and its income and expenditure for the year then ended.

Chief Finance Officer _____

Date 22 September 2008

Certificate of the presiding member at the Council meeting approving the Statement of Accounts

I confirm that the Council approved the Statement of Accounts at the meeting held on 29 September 2008

Chair of Meeting _____

Date 29 September 2008

Income and Expenditure Account

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

| 2006/2007 Net Expenditure £'s | | Gross Expenditure £'s | Gross Income £'s | 2007/2008 Net Expenditure £'s |
|--|---|-----------------------------|------------------------|--|
| | Continuing operations | | | |
| 97,963 | Central services to the public | 387,217 | -142,544 | 244,673 |
| 2,647,729 | Cultural, environmental and planning services | 4,314,378 | -1,602,245 | 2,712,133 |
| 153,698 | Highways, roads and transport services | 548,526 | -221,255 | 327,271 |
| 421,873 | Other housing services | 6,293,423 | -5,918,341 | 375,082 |
| 7,741 | Social services | 8,300 | -1,007 | 7,293 |
| 1,142,580 | Corporate and democratic core | 1,460,383 | -11,104 | 1,449,279 |
| 1,237 | Non distributed costs | 1,403 | - | 1,403 |
| 4,472,821 | Total continuing operations | 13,013,630 | -7,896,496 | 5,117,134 |
| | Services transferred to Teesdale Housing Association | | | |
| -454,082 | Local authority housing (HRA) | -6,488 | -139,467 | -145,955 |
| 4,018,739 | Net Cost of Services | 13,007,142 | -8,035,963 | 4,971,179 |
| - | Profit (-) /loss on the disposal of fixed assets | | | - |
| 163,219 | Parish council precepts | | | 188,660 |
| - | Surpluses(-)/deficits on trading undertakings not included in Net Cost of Services | | | - |
| 203,628 | Interest payable and similar charges | | | -77,665 |
| 203,057 | Contribution of housing capital receipts to Government Pool | | | 12,243 |
| - | Investment losses | | | - |
| -257,716 | Interest and investment income | | | -312,494 |
| 107,356 | Pensions interest cost and expected return on pensions assets | | | 370,000 |
| 4,438,283 | Net Operating Expenditure | | | 5,151,923 |
| -1,924,488 | Demand on the Collection Fund | | | -2,048,031 |
| -416,475 | General government grants | | | -1,578,580 |
| -1,946,602 | Non-domestic rates redistribution | | | -2,061,793 |
| 150,718 | Surplus(-)/Deficit for the Year | | | -536,481 |

Statement of Movement on the General Fund Balance

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

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

| <u>2006/2007</u> £'s | | <u>2007/2008</u> £'s |
|-------------------------|--|-------------------------|
| 150,718 | Surplus(-)/Deficit for the year on the Income and Expenditure Account | -536,481 |
| -436,149 | Net additional amount required by statute and non-statutory proper practices to be debited or credited(-) to the General Fund Balance for the year | 8,376 |
| <u>-285,431</u> | Increase(-)/Decreased in General Fund Balance for the Year | <u>-528,105</u> |
| -559,638 | General Fund Balance brought forward | -845,069 |
| <u>-845,069</u> | General Fund Balance carried forward | <u>-1,373,174</u> |

Statement of Total Recognised Gains and Losses

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

| 2006/2007 (Restated) £'s | | 2007/2008 £'s |
|--------------------------------|---|-------------------|
| 150,718 | Surplus(-) or deficit for the year on the Income and Expenditure Account | -536,481 |
| 14,442,655 | Surplus(-) or deficit arising on revaluation of fixed assets | - |
| - | Surplus(-) or deficit arising on revaluation of available-for-sale financial assets | - |
| -40,000 | Actuarial gains(-)/losses on pension fund assets and liabilities | -2,066,508 |
| 452,759 | Any other gains and losses required to be included in the STRGL | 38,942 |
| <u>15,006,132</u> | Total recognised gains(-)/losses for the year | <u>-2,564,047</u> |

Teesdale District Council Statement of Accounts 2007/2008
Balance Sheet

| | | |
|-------------------|--|----------------|
| 1,485,840 | Adjustment Account Usable Capital Receipts Reserve | 52,608 |
| 17,755 | Deferred Capital Receipts | 14,959 |
| -7,187,947 | Pensions reserve | -5,310,100 |
| 845,069 | General Fund Balance | 1,373,174 |
| 357,216 | Housing Revenue Account balance | - |
| 201,229 | Major Repairs Reserve | - |
| 549,889 | Fund balances and earmarked reserves | 427,058 |
| <u>-1,887,023</u> | Total Net Worth | <u>677,024</u> |

Cash Flow Statement for the year ended 31 March 2008

| 2006/07 £ | | 2007/08 £ |
|-------------------|--|-------------------|
| | Revenue Activities | |
| | Cash outflows | |
| 5,689,882 | Cash paid to and on behalf of employees | 4,139,740 |
| 5,195,639 | Other operating cash payments | 3,837,402 |
| 3,407,460 | Housing Benefit paid out | 3,805,450 |
| 3,016,648 | National non-domestic rate payments to national pool | 2,629,695 |
| 10,691,698 | Precepts paid | 11,099,617 |
| 248,349 | Payments to the Capital Receipts Pool | 12,243 |
| <u>28,249,676</u> | | <u>25,524,147</u> |
| | Cash inflows | |
| -616,305 | Rents (after rebates) | - |
| -11,027,229 | Council tax receipts | -11,408,666 |
| -1,946,602 | National non-domestic rate receipts from national pool | -2,079,811 |
| -2,933,552 | Non-domestic rate receipts | -2,589,641 |
| -380,917 | Revenue Support Grant | -378,862 |
| -5,627,234 | DWP grants for benefits | -6,476,240 |
| -1,053,918 | Other government grants | -277,454 |
| -2,107,842 | Cash received for goods and services | -737,864 |
| -2,963,822 | Other operating cash receipts | -2,925,394 |
| <u>-407,745</u> | Net cash inflow(-)/outflow from revenue activities | <u>-1,349,785</u> |
| | Dividends from joint ventures and associates | |
| | Cash inflows | |
| - | Dividends received | - |
| <u>-</u> | Net cash inflow(-) from joint ventures and associates | <u>-</u> |
| | Returns on investments and servicing of finance | |
| | Cash outflows | |
| 218,177 | Interest paid | -53,409 |
| | Interest element of finance lease rental payments | - |
| | Cash inflows | |
| -199,090 | Interest received | -309,236 |
| <u>-388,658</u> | Net cash inflow(-)/outflow from returns on investments | <u>-362,645</u> |
| | Capital Activities | |
| | Cash outflows | |
| 454,947 | Purchase of fixed assets | 436,529 |
| | Purchase of long-term investments | - |
| 732,655 | Other capital cash payments | 428,478 |
| | Cash inflows | |
| -4,909,914 | Sale of fixed assets | -16,176 |
| -1,695 | Capital grants received | -163,157 |
| -129,138 | Other capital cash receipts | - |
| <u>-3,853,145</u> | Net cash inflow(-)/outflow from capital activities | <u>685,674</u> |
| | Acquisitions and disposals | |
| | Cash outflows | |
| - | Investments in associates or joint ventures | - |
| - | Investments in subsidiary undertakings | - |
| | Cash inflows | |
| - | Sales of investments in subsidiary undertakings | - |

Teesdale District Council Statement of Accounts 2007/2008
Cash Flow Statement

| | | |
|-------------------|---|-------------------|
| - | Sales of investments in associates and joint ventures | - |
| <u>-4,241,803</u> | Net cash inflow/outflow before financing | <u>-1,026,756</u> |
| | Management of liquid resources | |
| 1,735,000 | Net increase/decrease in short-term deposits | -1,000,000 |
| | Net increase/decrease in other liquid resources | - |
| <u>1,735,000</u> | Increase/Decrease(-) in liquid resources | <u>-1,000,000</u> |
| | Financing | |
| | Cash outflows | |
| 5,489,139 | Repayments of amounts borrowed | 2,513,057 |
| - | Capital element of finance lease rental payments | - |
| | Cash inflows | |
| -3,445,696 | New loans raised | -687,000 |
| - | New short-term loans | - |
| <u>2,043,443</u> | Increase/Decrease(-) in financing | <u>1,826,057</u> |
| <u>-463,360</u> | Net increase(-)/decrease in cash | <u>200,699</u> |

Notes to the Core Financial Statements

1 Services Transferred to Teesdale Housing Association Ltd

On 3 July 2006, the council transferred its responsibilities for providing local authority housing to the newly created Teesdale Housing Association Ltd. Further information relating to the amount spent on this service in 2007/08 and the transfer is provided in the Housing Revenue Account statements and notes (pages 56-61) and the transfer is referred to in the following notes to the core statements: Interests in Companies (note 30) and Reserves (note 34).

2 Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The council's expenditure under this power was £13,084 on donations to voluntary bodies working in the local area (£14,324 in 2006/2007).

3 Expenditure on Publicity

Per the requirements of section 5(1) of the Local Government Act 1986, the council's spending on publicity was:

| | 2007/2008 | 2006/2007 |
|---|---------------|---------------|
| | £ | £ |
| Recruitment Advertising | 26,171 | 17,557 |
| Other Advertising | 19,814 | 18,421 |
| Information relating to regional government | - | - |
| Other Publicity | 39,990 | 25,315 |
| Total | <u>85,975</u> | <u>61,293</u> |

4 The Building Control Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Teesdale District Council sets charges for work carried out in relation to building regulations with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

| Building Regulations Charging Account | Non- Chargeable 2007/2008 £ | Chargeable 2007/2008 £ | Total Building Control 2007/2008 £ |
|--|--------------------------------------|------------------------------|---|
| Expenditure | | | |
| Employee Expenses | 30,275 | 51,867 | 82,142 |
| Premises | 1,594 | 2,730 | 4,324 |
| Transport | 2,473 | 4,237 | 6,710 |
| Supplies and Services | 15,491 | 28,673 | 44,164 |
| Central and support service charges | 9,022 | 20,482 | 29,504 |
| Total Expenditure | 58,855 | 107,989 | 166,844 |
| Income | | | |
| Building regulation charges | - | -120,433 | -120,433 |
| Miscellaneous income | - | -1,201 | -1,201 |
| Total Income | - | -121,634 | -121,634 |
| Surplus(-)/Deficit for Year | 58,855 | -13,645 | 45,210 |
| Comparatives for 2006/2007 | | | |
| Expenditure | 72,119 | 109,228 | 181,347 |
| Income | -1,700 | -112,277 | -113,977 |
| Surplus(-)/Deficit for year | 70,419 | -3,049 | 67,370 |

5 Local Area Agreements

The council is a participant in an LAA – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA has completed the second year of its three year agreement.

The purpose of the LAA is:

- To form agreement between the partners in County Durham and Government (represented by Government Office North East) as a means of securing significant improvements in services for the people of County Durham
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement
- To improve the effectiveness and efficiency of public service in County Durham by pooling and aligning funding streams.

The LAA partners are:

- Local Government Bodies – Durham County Council, City of Durham Council, District of Easington Council, Sedgefield Borough Council, Wear Valley District Council, Derwentside District Council, Chester-le-Street District Council and Teesdale District Council
- Community Protection Authorities – Durham Constabulary and Durham and Darlington Fire and Rescue Authority
- Health Bodies – County Durham Primary Care Trust

- Learning Bodies – Learning & Skills Council, North East Chamber of Commerce and Connexions
- Voluntary Organisations – Community & Voluntary Service, One Voice Network
- Other Organisations – Chester-le-Street LSP, City of Durham LSP, Derwentside LSP, East Durham LSP, Sedgefield Borough LSP, Teesdale LSP, Wear Valley LSP, Jobcentre Plus and Government Office for the North East.

Durham County Council acts as the accountable body for the LAA. This means that they are responsible for managing the distribution of the grant paid by the Government office to the partners involved, but do not determine which bodies are due payments, this is determined by the partnership.

As a body in receipt of grant from the partnership and not the accountable body, Teesdale District Council has not therefore recognised the full amount of LAA Grant in its financial statements, but only the part to be spent by the council in providing services.

The total amount of LAA grant received by Durham County Council in 2007/08 is £24,120,289 (2006/07 £5,492,067). Teesdale District Council received £97,011 in 2007/08 (2006/07 £76,272) of this total to fund its own services.

6 Members' Allowances

The total paid in respect of members' allowances for 2007/08 was as follows:

| | 2007/2008 | 2006/2007 |
|---------------|-----------|-----------|
| | £ | £ |
| Payments Made | 134,237 | 127,339 |

Details of the amounts paid to each member of the Council are published annually in the local newspaper.

7 Officers' Emoluments

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

| Remuneration Band | Number of | Number of |
|-------------------|-----------|-----------|
| | Employees | Employees |
| | 2007/2008 | 2006/2007 |
| £50,000 - £59,999 | 2 | 2 |
| £60,000 - £69,999 | - | - |
| £70,000 - £79,999 | - | - |
| £80,000 – £89,999 | 1 | - |
| £90,000 - £99,999 | - | - |

8 Related Parties

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 relating to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. Members operate within the Code of Conduct and are required to declare any relationships on appointment, at each committee meeting prior to the issue being discussed, and annually in the form of a questionnaire and signed declaration. The relevant members do not take part in any discussion or decision if such an interest is declared. During 2007/08 grants totalling £10,536 were paid to 2 voluntary organisations in which 2 members had an interest (one each). The grants were made with proper consideration of declarations of interest and the relevant members did not take part in any discussion or decision relating to the grants.

Senior Officers are required to identify information regarding any related party transactions in the form of a questionnaire and signed declaration. Disclosure is only required where there have been material transactions. There are no such related party transactions to disclose.

Some Members and Senior Officers have been appointed as directors of companies that have links and transactions with the Council. The companies concerned and the nature of the interest are detailed in interests in companies (note 30).

9 Audit Costs

In 2007/08 Teesdale District Council incurred the following fees relating to external audit and inspection:

| | 2007/2008 | 2006/2007 |
|--|-----------|-----------|
| | £ | £ |
| Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor | 129,781 | 106,289 |
| Fees payable to the Audit Commission in respect of statutory inspection | - | - |
| Fees payable to the Audit Commission for the certification of grant claims and returns | 17,610 | 24,434 |
| Fees payable in respect of other services provided by the appointed auditor | 6,728 | 12,420 |
| Total | 154,119 | 143,143 |

The fees for other services payable in 2007/08 related to a data quality and target setting workshop, the National Fraud Initiative and a proposed objection from a local elector in respect of the 2006/07 accounts.

10 **Explanation of the significance of the Statement of Movement on the General Fund Balance**

The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services during the year. However, this accounting basis is currently out of line with the statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions.

The Statement of Movement on the General Fund Balance provides the necessary reconciliation. The full significance of the Statement for local taxation is described in the introduction to the statement itself.

11 **Breakdown of reconciling items in the Statement of Movement on the General Fund Balance**

| 2006/2007 £'s | | 2007/2008 £'s |
|------------------|--|------------------|
| | Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year | |
| -36,803 | Amortisation of intangible fixed assets | -51,310 |
| -356,148 | Depreciation and impairment of fixed assets | -476,259 |
| 92,002 | Government Grants Deferred amortisation | 381,489 |
| -498,052 | Write downs of deferred charges to be financed from capital resources | -532,168 |
| - | Net gain/loss(-) on sale of fixed assets | - |
| - | Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt | 170,176 |
| -614,858 | Net charges made for the retirement benefits in accordance with FRS17 | -880,000 |
| - | | - |
| 1,413,859 | | -1,388,072 |
| | Amounts not included in the Income and Expenditure Account but required to be included by | |

| statute when determining the Movement on the General Fund Balance for the year | | |
|--|---|---------------|
| 121,801 | Minimum revenue provision for capital financing | 129,362 |
| - | Capital expenditure charged in-year to the General Fund Balance | 10,814 |
| -203,057 | Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool | -12,243 |
| 585,931 | Employer's contributions payable to the Durham County Pension Fund and retirement benefits payable direct to pensioners | 691,339 |
| <hr/> 504,675 | | <hr/> 819,272 |
| Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year | | |
| 454,082 | Housing Revenue Account balance | -538,652 |
| - | Voluntary revenue provision for capital financing | 1,199,718 |
| 18,953 | Net transfer to or from(-) earmarked reserves | -83,890 |
| <hr/> 473,035 | | <hr/> 577,176 |
| -436,149 | Net additional amount required to be credited to the General Fund balance for the year | 8,376 |
| <hr/> | | <hr/> |

12 Movement on Fixed Assets

Operational Assets

| | Council dwell-ings | Other land and buildings | Vehicles, plant, etc | Infra-structure | Commun-ity assets | Total |
|--|--------------------|--------------------------|----------------------|-----------------|-------------------|-----------------|
| Certified valuation at 31 March 2007 | - | 4,988,792 | 1,073,027 | - | 12 | 6,061,831 |
| Accumulated depreciation and impairment | - | -903,668 | -425,696 | - | - | -1,329,364 |
| Net book value at 31 March 2007 | <hr/> - | <hr/> 4,085,124 | <hr/> 647,331 | <hr/> - | <hr/> 12 | <hr/> 4,732,467 |
| Movement in 2007/2008 | | | | | | |
| Additions | - | 266,808 | 125,386 | - | 10,638 | 402,832 |
| Disposals | - | - | - | - | - | - |
| Transfers | - | -123,812 | - | - | - | -123,812 |
| Revaluations | - | - | - | - | - | - |
| Depreciation | - | -197,156 | -164,857 | - | - | -362,013 |
| Impairments | - | -103,608 | - | - | -10,638 | -114,246 |
| Net book value of assets at 31 March 2008 | <hr/> - | <hr/> 3,927,356 | <hr/> 607,860 | <hr/> - | <hr/> 12 | <hr/> 4,535,228 |

Non-operational Assets

| | Investment Properties | Assets under construction | Surplus assets held for disposal | Total |
|--|--------------------------|------------------------------|---|---------|
| Certified valuation at 31 March 2007 | 660,000 | - | 14,910 | 674,910 |
| Accumulated depreciation and impairment | - | - | - | - |
| Net book value at 31 March 2007 | 660,000 | - | 14,910 | 674,910 |
| Movement in 2007/2008 | | | | |
| Additions | - | - | - | - |
| Disposals | - | - | -2,160 | -2,160 |
| Transfers | 96,925 | - | 26,887 | 123,812 |
| Revaluations | - | - | - | - |
| Depreciation | - | - | - | - |
| Impairments | - | - | - | - |
| Net book value of assets at 31 March 2008 | 756,925 | - | 39,637 | 796,562 |

13 Capital Expenditure and Financing

| | 2007/2008 £ | 2006/2007 £ |
|--|----------------|----------------|
| Opening Capital Financing Requirement | 3,234,054 | 5,666,294 |
| Capital Investment | | |
| Intangible Assets | 44,511 | 72,531 |
| Operational assets | 402,832 | 461,226 |
| Non-operational assets | - | - |
| Deferred charges | 532,168 | 658,172 |
| Sources of finance | | |
| Capital receipts | -125,424 | -440,371 |
| Government grants and other contributions | -311,775 | -441,239 |
| Sums set aside from revenue (NB: includes direct revenue financing, MRP and any voluntary set aside) | -2,651,635 | -2,806,823 |
| Closing Capital Financing Requirement | 1,124,731 | 3,169,790 |
| Explanation of movements in year | | |
| Increase in underlying need to borrowing (supported by Government financial assistance) | - | 33,667 |
| Increase in underlying need to borrowing (unsupported by Government financial assistance) | -2,109,323 | -2,530,171 |
| Increase/(Decrease) in Capital Financing Requirement | -2,109,323 | -2,496,504 |

14 Commitments under Capital Contracts

At 31 March 2008 five capital projects had been committed to as follows:

- Phase 2 of the visioning project had been partially delivered through three capital contracts. The Council had committed £40,000 to this phase
- A contract to the value of 40,814 was underway with a consultant to develop a waste strategy. £9,041 of the budget remained at 31 March
- The changing room redevelopment project was almost complete with retentions due of £7,993
- The Startforth cemetery extension project was underway with £7,690 of the remaining £41,202 budget committed to one contractor
- Consultants had been commissioned to undertake the Local Housing Needs Survey with a budget of £29,108.

15 Information on Assets Held

Fixed assets owned by the Council include the following:

| | At 31 March 2008 No. | At 31 March 2007 No. |
|---------------------------------|----------------------------|----------------------------|
| Operational Assets | | |
| Council dwellings | - | - |
| Other Land and Buildings | | |
| Lock-up garages | - | - |
| Council offices | 2 | 2 |
| Depots and workshops | 2 | 2 |
| Markets | 1 | 1 |
| Off-street car parks | 2 | 2 |
| Public conveniences | 8 | 8 |
| Industrial estate | 1 | 1 |
| Sport centre | 1 | 1 |
| Community Assets | | |
| Cemeteries | 8 | 8 |
| Parks | 2 | 2 |
| Picnic sites | 1 | 1 |
| Non-operational Assets | | |
| Caravan site | 1 | 1 |

16 Finance and Operating Leases

Vehicles, Plant, Furniture and Equipment – the authority uses leased cars, refuse and other vehicles, office equipment, computer equipment and wheeled bins under the terms of operating leases. The amount paid under these arrangements in 2007/08 was £194,087 (2006/07 £142,059).

Land and Buildings – the Council leases property on King Street which has been accounted for as an operating lease. The rentals payable in 2007/08 were £1,320 (2006/07 £4,265).

Authority as Lessor – the authority has granted a number of leases to various third parties for land and buildings including industrial units. The arrangements are accounted for as operating leases. During 2007/2008 the aggregate rentals received were £75,667 (2006/07 £66,948)

Commitments under Operating Leases - The authority was committed at 31 March 2008 to making payments of £113,087 under operating leases in 2008/09, comprising the following elements:

| | Other Land and Buildings £000's | Vehicles, Plant and Equipment £000's |
|---|--|---|
| Leases expiring in 2008/09 | - | 3 |
| Leases expiring between 2009/10 and 2013/14 | - | 110 |
| Leases expiring after 2013/14 | - | - |

Authority as Lessor – with regard to the authority's activity as a lessor, the gross value of assets held for use in operating leases was £649,750 for various land and buildings (valued at 1 April 2004 and subject to £133,422 depreciation to 31 March 2008).

17 Valuation Information

Valuations are carried out by the District Valuer, a qualified and independent valuer. The basis for valuation is set out in the statement of accounting policies.

| | Council Dwellings £'s | Other Land and Buildings £'s | Vehicles, Plant, Equipment £'s | Investment Properties £'s | Total £'s |
|-----------------------------------|-----------------------------|---------------------------------------|---|---------------------------------|------------------|
| Valued at Historic Cost | - | - | 607,860 | - | 607,860 |
| Valued at current value in: | | | | | |
| 2007/08 | - | - | - | - | - |
| 2006/07 | - | - | - | - | - |
| 2005/06 | - | - | - | - | - |
| 2004/05 | - | 3,927,356 | - | 756,925 | 4,684,281 |
| 2003/04 | - | - | - | - | - |
| Total | - | 3,927,356 | 607,860 | 756,925 | 5,292,141 |

18 Information about depreciation methodologies

Detailed information about depreciation methodologies is contained in the Accounting Policies (paragraph 10) and in note 12 above (Movement on Fixed Assets).

19 Changes in Depreciation Methods

There were no changes in depreciation methods during 2007/08.

20 Movement in Intangible Assets

| | Purchased software licences | Licences, trademarks and artistic originals | Patents | Total |
|-----------------------------------|-----------------------------------|--|---------|---------|
| | £'s | £'s | £'s | £'s |
| Original Cost | 268,605 | - | - | 268,605 |
| Amortisations to 1 April 2007 | -70,562 | - | - | -70,562 |
| Balance at 1 April 2007 | 198,043 | - | - | 198,043 |
| Expenditure in Year | 44,511 | - | - | 44,511 |
| Written off to revenue in year | -51,310 | - | - | -51,310 |
| Balance at 31 March 2008 | 191,244 | - | - | 191,244 |

In 2004/05, 2005/06 and 2006/07, expenditure on intangible assets related to the purchase of software. Some of the more significant items included were the cash receipting system (£25,648), the financial management system (£76,869), software for remote member access (£14,921), elections (£19,500), licensing (£11,400), planning (£9,933) and leisure (£9,510). During 2007/08, expenditure included £23,233 relating to e-payments software and £9,876 in respect of the content management system.

21 Changes in Amortisation Method for Intangible Fixed Assets

There were no changes in amortisation method for intangible fixed assets in 2007/08.

22 Long-term Debtors

Debts that will become due after more than one year:

| | 31 March 2008 £'s | 31 March 2007 £'s |
|--|----------------------|----------------------|
| Mortgages relating to council house sales | 14,959 | 17,755 |
| Loans to individuals | 4,875 | 6,270 |
| Total | 19,834 | 24,025 |

23 Debtors and Payments in Advance

| | 31 March 2008 £'s | 31 March 2007 £'s |
|------------------------------|----------------------|----------------------|
| Non-domestic rate payers | 96,574 | 114,592 |
| Council tax payers | 723,233 | 668,479 |
| Government departments | 357,638 | 306,093 |
| Sundry debtors | 519,950 | 687,590 |
| | 1,697,395 | 1,776,754 |
| Less provision for bad debts | -757,238 | -805,718 |
| | 940,157 | 971,036 |
| Payments in advance | 146,852 | 155,523 |
| Total | 1,087,009 | 1,126,559 |

24 Creditors and Receipts in Advance

| | 31 March 2008 | 31 March 2007 |
|--------------------------|-------------------------|-------------------------|
| | £'s | £'s |
| Non-domestic rate payers | 100,170 | 109,405 |
| Council tax payers | 327,567 | 310,504 |
| Government departments | 659,676 | 310,955 |
| Sundry creditors | 860,264 | 804,669 |
| Interest on borrowing | - | 37,900 |
| | <u>1,947,677</u> | <u>1,573,433</u> |
| Receipts in advance | 170,558 | 239,771 |
| Total | <u>2,118,235</u> | <u>1,813,204</u> |

25 Analysis of Net Assets Employed

| | 31 March 2008 | 31 March 2007 |
|-------------------------|-------------------|----------------------|
| | £'s | £'s |
| General Fund | 167 | -2,461 |
| Housing Revenue Account | - | 574 |
| Trading Operations | - | - |
| Total | <u>167</u> | <u>-1,887</u> |

26 Financial Instruments Balances

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

| | Long-Term | | Current | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 March | 31 March | 31 March | 31 March |
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Financial liabilities at amortised cost | 2,101,117 | 3,911,504 | 1,298 | 3,323 |
| Financial liabilities at fair value through profit and loss | - | - | - | - |
| Total borrowings | <u>2,101,117</u> | <u>3,911,504</u> | <u>1,298</u> | <u>3,323</u> |
| Loans and receivables | - | - | 2,564,993 | 3,500,000 |
| Available-for-sale financial assets | - | - | - | - |
| Unquoted equity investment at cost | - | - | - | - |
| Total investments | <u>-</u> | <u>-</u> | <u>2,564,993</u> | <u>3,500,000</u> |

Borrowing decreased significantly in 2007/08 due to the repayment of housing attributable debt following the housing stock transfer in July 2006. The table below shows the actual long-term borrowing position and residual maturity analysis without accrued interest. Further information on the stock transfer and repayment of debt is contained in the explanatory forward, note 1 to the core financial statements, and in the HRA Income and Expenditure Account and notes.

| As at 31 March 2007 £'s | | As at 31 March 2008 £'s |
|-------------------------------|--------------------------------------|-------------------------------|
| | Analysis of loans by type | |
| 3,911,504 | Public Works Loans Board | 2,087,473 |
| 3,911,504 | Total Outstanding | 2,087,473 |
| | Analysis of loans by maturity | |
| 3,621 | Between 1 and 2 years | 1,415 |
| 18,054 | Between 2 and 6 years | 7,054 |
| 72,954 | Between 6 and 15 years | 28,538 |
| 3,816,875 | More than 15 years | 2,050,466 |
| <u>3,911,504</u> | | <u>2,087,473</u> |

27 Financial Instruments Gains/Losses

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses (STRGL) in relation to financial instruments are made up as follows:

| | Financial Liabilities | | Financial Assets | |
|---|--|-----------------------|---------------------------|-----------------|
| | Liabilities measured at amortised cost | Loans and receivables | Available-for-sale assets | Total 2007/08 |
| | £ | £ | £ | £ |
| Interest expense | -104,179 | - | - | -104,179 |
| Losses on derecognition | - | - | - | - |
| Impairment losses | - | - | - | - |
| Interest payable and similar charges | -104,179 | - | - | -104,179 |
| Interest income | - | 224,667 | - | 224,667 |
| Gains on derecognition | 189,085 | - | - | 189,085 |
| Interest and investment income | 189,085 | 224,667 | - | 413,752 |
| Gains on revaluation | | | - | - |
| Losses on revaluation | | | - | - |
| Amounts recycled to the Income and Expenditure Account after impairment | | | - | - |
| Surplus arising on revaluation of financial assets | | | - | - |
| Net gain/loss(-) for the year | 84,906 | 224,667 | - | - |

Of the total net gain of £309,573 above, £139,397 impacted on the General Fund and £170,176 has been credited to the Financial Instruments Adjustment Account to be spread over the next 9 years.

Prior year comparatives are detailed below:

| | Financial Liabilities | | Financial Assets | |
|---|--|-----------------------|---------------------------|-----------------|
| | Liabilities measured at amortised cost | Loans and receivables | Available-for-sale assets | Total 2006/07 |
| | £ | £ | £ | £ |
| Interest expense | -222,611 | - | - | -222,611 |
| Losses on derecognition | -102,047 | - | - | -102,047 |
| Impairment losses | - | - | - | - |
| Interest payable and similar charges | -324,658 | - | - | -324,658 |
| Interest income | - | 170,693 | - | 170,693 |
| Gains on derecognition | 185 | - | - | 185 |
| Interest and investment income | 185 | 170,693 | - | 170,878 |
| Gains on revaluation | | | - | - |
| Losses on revaluation | | | - | - |
| Amounts recycled to the Income and Expenditure Account after impairment | | | - | - |
| Surplus arising on revaluation of financial assets | | | - | - |
| Net gain/loss(-) for the year | -324,473 | 170,693 | - | - |

28 Fair Value of Assets and Liabilities Carried at Amortised Cost

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

- As all financial liabilities were with the PWLB, the 31 March 2008 value has been calculated by reference to the 'premature repayment' set of rates in force on that day, and the 31 March 2007 value by reference to the set of rates in force on 30 March 2007, by the PWLB
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| | 31 March 2008 | | 31 March 2007 | |
|-----------------------|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | £ | £ | £ | £ |
| Financial liabilities | 2,102,415 | 2,264,252 | 3,914,827 | 3,900,203 |

The fair value is more than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This means that the authority would have to pay more if the lender requested or agreed to early repayment of the loans.

| | | | | |
|-----------------------|-----------|-----------|-----------|-----------|
| Loans and receivables | 2,564,993 | 2,564,993 | 3,500,000 | 3,500,000 |
|-----------------------|-----------|-----------|-----------|-----------|

The fair value is the same as the carrying amount because the authority's portfolio of investments will all mature in the next 12 months.

29 Nature and Extent of Risks Arising from Financial Instruments

The authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum Fitch rating or equivalent of short term 'F1' and long term 'A'. The authority has a policy of not lending more than £2m of its surplus balances to one institution.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and uncollectability, adjusted to reflect current market conditions where appropriate.

| | Amount at 31 March 2008 | Historical experience of default | Historical experience adjusted for market conditions at 31 March 2008 | Estimated maximum exposure to default and uncollect- ability |
|---|----------------------------------|--|---|--|
| | £ A | % B | % C | £ (AxC) |
| Deposits with banks and financial institutions | 3,873,231 | 0.0036145 | 0.0036145 | 140 |
| Bonds | - | - | - | - |
| Customers | 237,857 | 5.4960711 | 5.4960711 | 13,073 |
| | | | | <u>13,213</u> |

The authority does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The historical experience of default for deposits has been taken from Moody's, a credit rating organisation used by the Council and applies for the period 1982-2005. Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. As a result of this high credit criteria, historical default rates have been maintained as a good indicator under the current conditions.

The historical experience of default for customers has been derived from actual losses occurring from 1 April 2004 to 31 March 2008. The historical default rate has been maintained as current conditions are consistent with those of recent years.

Although debts are due immediately the authority generally allows customers up to 30 days for payment, such that £73,778 of the £237,857 balance is past its due date for payment. The past due amount can be analysed by age as follows:

| | |
|------------------------|---------------|
| Less than three months | £ 26,833 |
| Three to six months | 2,111 |
| Six months to one year | 17,358 |
| More than one year | 27,476 |
| | <u>73,778</u> |

Liquidity risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise

finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than 75% of loans are due to mature within one year, between one and two years, between 2 and five years and between five and ten years. This is achieved through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

The maturity analysis of financial liabilities based on outstanding principal is as follows:

| | £ |
|----------------------------|------------------|
| Less than one year | 1,298 |
| Between one and two years | 1,414 |
| Between two and five years | 5,056 |
| More than five years | 2,081,003 |
| | <u>2,088,771</u> |

All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

The authority has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 80% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget monthly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2008, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £ |
|--|-------|
| Increase in interest payable on variable rate borrowings | - |
| Increase in interest receivable on variable rate investments | - |
| Increase in government grant receivable for financing costs | 8,469 |
| Impact on Income and Expenditure Account | 8,469 |
| Share of overall impact debited to the HRA | - |
| | - |
| Decrease in fair value of fixed rate investment assets | - |
| Impact on STRGL | - |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The authority does not generally invest in equity shares. The authority is consequently not exposed to losses arising from movements in the prices of shares.

Foreign exchange risk

The authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

30 Interests in Companies

The Council has minor interests in a number of companies and organisations and provides limited support through small contributions or officer time as follows:

- Durham Rural Community Council Limited

DRCC is a rural community development agency, committed to improving the quality of life for people in County Durham. Its role is in the development and delivery of community support, together with intelligence gathering and influencing on rural policy matters:

- Specialist advice and support on rural issues: transport, housing and community buildings
- Support and guidance on Parish Planning and community planning initiatives
- Community development and tackling issues of social exclusion in targeted rural areas

- o Networking and sharing best practice and providing consultation on government policy with other RCCs.

The Council has no on going financial commitment.

1 Council member is a director on the board.

- West Durham Groundwork Trust

- o Working with communities throughout West Durham and Darlington bringing together partnerships aimed at delivering cleaner, greener, safer and more empowered communities
- o Identifying the real needs of an area economically, socially and environmentally
- o Working in partnership to identify and source new funding streams
- o Involving local people in meaningful dialogue about their changing environment
- o Working with people to develop local skills and abilities.

The Council provides an annual revenue contribution of £9000 towards running costs, plus match funding for individual projects.

1 Council member is a director on the board.

- Middleton Plus Development Trust

A private company limited by guarantee without share capital, Middleton Plus works with residents of Middleton and the upper dales to market the area and promote tourism. The trust has an active role with the monthly farmers market, operates a voluntary Tourist Information Centre and publicises and organises an ongoing programme of events.

The Council has no ongoing financial commitment but provides match funding for some individual projects.

1 Council member is on the board of directors.

- Teesdale and Wear Valley Enterprise Agency

A not for profit organisation offering a range of support services, business counselling, advice, training and consultancy as an aid to encourage and support the development of a stable and diverse local economy. The Enterprise Agency delivers models of best practice and skills development to start and improve enterprises and assists in the identification and accessing of grant funding.

The Council provides an annual revenue contribution of £6000 towards running costs.

1 officer and 1 Council member are directors on the Board.

- Teesdale Development Company Limited

A non profit distributing company, limited by guarantee, that owns and operates the managed workspace at Enterprise House. The company's purpose is to:

- o Promote the economic development of the district of Teesdale through training opportunities, advice, and the provision of accommodation
- o Contribute to the social and economic development of Teesdale in accordance with national, regional and local government policies
- o Monitor developments in training, business support and workspace provision in Teesdale.

The Council has no ongoing financial commitment but provides match funding for some individual projects.

1 officer and 1 Council member are on the Board of Directors.

- Teesdale Marketing

A non profit distributing company formed in 1998 to promote Teesdale and to encourage economic prosperity and vitality, the company attracts funding from a variety of sources for projects with clear commercial and social benefits for Teesdale businesses and residents.

The Council has no ongoing financial commitment but provides match funding for some individual projects.

1 member is on the Board of Directors.

- Teesdale NET Limited

Teesdale Net is a non profit distributing company limited by guarantee. It was created in 2003 from local private and public sector organisations to develop a broadband solution for Teesdale. Its aims are:

- o To make broadband widely available to businesses, community organisations and private subscribers
- o To improve access to the network for all target groups in the area
- o To fund the maintenance and future development of Teesdale market towns web portal.

Financial support was provided towards the initial development costs. Officer support continues through attendance at meetings as and when needed.

- Teesdale Housing Association

Teesdale Housing Association, part of the North Star Housing Group, was formed in July 2003 following the transfer of the Council's housing stock. It is constituted as an Industrial and Provident Society with charitable status.

The association is governed by a Board of Management on which 4 of the 12 members are elected members of Teesdale District Council.

The stock transfer included a contract for the improvement of the housing to meet and exceed the Decent Homes Standard set by central government, and in respect of this a VAT sharing arrangement was determined that is expected to generate approximately £1m for each party over 10 years. The Council is also entitled to receive £9,900 per right-to-buy disposal.

There are various agreements in place with the housing association for the provision of services to the Council (buildings maintenance, allocations, homelessness) and from the Council (processing of RTBs), that are reviewed annually.

31 Partnership Arrangements

County Durham E-Government Partnership

The County Durham e-Government Partnership was established in November 2006. The partnership includes Durham County Council and the seven district councils in County Durham. The aim of the partnership is to promote the use of technology to offer all local taxpayers the freedom to

access services provided by the member authorities in different ways. In 2007/08 the council made a contribution of £23,938 to the partnership. The contribution in 2006/07 was £19,529.

Wear Valley District Council, the lead authority, has prepared the following financial summary for the partnership:

| | 2007/2008 £000's | 2006/2007 £000's |
|--|---------------------|---------------------|
| Income and Expenditure Account for the year ended 31 March | | |
| Income: Authority contributions | -675 | -579 |
| Interest earned | -32 | - |
| Total Income | <u>-707</u> | <u>-579</u> |
| Expenditure | 878 | 860 |
| Appropriation to Retained Income Fund | <u>171</u> | <u>281</u> |

The Balance Sheet shows retained income brought forward of £834,000 which, when offset by the deficit of £171,000 above, gives a balance carried forward of £663,000.

Coalfields Housing Renewals Project

The Durham Housing Strategy has been developed by the Durham Housing and Neighbourhoods Partnership Board (DHNPB). The purpose of the group is to act as the strategic partnership within County Durham for the consideration of housing and related policy issues to assist the development of more sustainable communities and to support the well being of County Durham. The Board acts in a commissioning role to:

- Maintain an appropriate strategic housing policy framework to guide the direction of the Partnership's work and programmes and those of individual members and other stakeholders
- Ensure that housing policies blend better with other plans and strategies for County Durham and the North East region.

In 2007/08 the council made a contribution of £4,464 to the partnership. There was no contribution made in 2006/07.

Sedgefield Borough Council, the lead authority, has prepared the following financial summary for the partnership:

| | 2007/2008 £ |
|--|-----------------|
| Income and Expenditure Account for the year ended 31 March | |
| Income: Authority contributions | -90,000 |
| Single Programme Revenue Grant | -187,507 |
| Other Income – LAA Grant | <u>-5,000</u> |
| Total Income | <u>-282,507</u> |
| Expenditure | 195,204 |
| Appropriation to Retained Income Fund | <u>-87,303</u> |

The Balance Sheet shows retained income brought forward of £30,000 which, when added to the surplus of £87,303 above, gives a balance carried forward of £117,303.

32 Insurance Provisions

The Council elected to adopt a £5,000 deductible (with an aggregate cap) against each insurance claim in June 2000 and established a reserve to meet this cost and to contribute towards the cost of risk management initiatives. The level of the reserve is maintained in accordance with the advice of the Council's insurance advisors, based upon known outstanding losses and estimated future losses.

33 Provisions

The Council held a provision of £4,000 as at 31 March 2008, relating to costs of a planning appeal that were awarded to appellant. The provision is estimated as the appellant must substantiate the costs that were attributable to defending the relevant part of the appeal.

34 Reserves

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

| Reserve | Balance 1 April 2007 | Gains and Losses during 2007/08 | Transactions with other reserves during 2007/08 | Balance 31 March 2008 |
|--|-------------------------|--|---|-----------------------------|
| | £'s | £'s | £'s | £'s |
| Capital Adjustment Account | 1,843,926 | | 2,105,223 | 3,949,149 |
| Revaluation Reserve | - | | - | - |
| Financial Instruments Adjustment Account | - | - | 170,176 | 170,176 |
| Useable Capital Receipts | 1,485,840 | 3,933 | -1,437,165 | 52,608 |
| Deferred Capital Receipts | 17,755 | -2,796 | - | 14,959 |
| Pensions Reserve | -7,187,947 | 2,066,507 | -188,660 | -5,310,100 |
| Housing Revenue Account | 357,216 | 133,753 | -490,969 | - |
| Major Repairs Reserve | 201,229 | - | -201,229 | - |
| General Fund | 845,069 | 401,592 | 126,513 | 1,373,174 |
| Collection Fund | 28,732 | -38,942 | - | -10,210 |
| Insurance Provision | 52,716 | - | -8,243 | 44,473 |
| Commuted Sums | 267,884 | - | -185,100 | 82,784 |
| Building Control | 930 | | - | 930 |
| Superannuation | 98,790 | | -98,790 | - |
| Planning Delivery | 27,603 | | 33,232 | 60,835 |
| Revenue | 18,233 | | 13,736 | 31,969 |
| Improvement Fund | 55,001 | | 24,111 | 79,112 |
| Community | - | | 57,180 | 57,180 |
| Improvement Fund | | | | |
| CPA Fund | - | | 20,342 | 20,342 |
| Contingency | - | | 59,643 | 59,643 |
| Total | -1,887,023 | 2,564,047 | - | 677,024 |

Teesdale District Council Statement of Accounts 2007/2008
Notes to the Core Financial Statements

| Reserve | Purpose of the Reserve | Further Detail of Movements |
|--|--|---|
| Capital Adjustment Account | Store of capital resources set aside to meet past expenditure | |
| Revaluation Reserve | Store of gains on revaluation of fixed assets not yet realised through sales | |
| Financial Instruments Adjustment Account | Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments | A discount of £189,085 arising from premature debt repayments in 2007/08 is required to be spread over 10 years, the balance represents 9 years |
| Useable Capital Receipts | Proceeds of fixed assets sales available to meet future capital investment | £1.3m from the housing stock transfer has been used to repay debt |
| Pensions Reserve | Balancing account to allow inclusion of pensions liability in the Balance Sheet | Retirement benefits note to the Core Financial Statements (note 42) |
| Housing Revenue Account | Resources available to meet future running costs for council houses | Closed on 31 March. See HRA Statements (pages 56-61) |
| Major Repairs Reserve | Resources available to meet capital investment in council housing | Transferred to the HRA. See HRA Statements (pages 56-61) |
| General Fund | Resources available to meet future running costs for non-housing services | |
| Insurance | Resources to meet insurance deductible and risk management costs | Insurance provision note to the Core Financial Statements (note 32) |
| Commuted Sums | Resources for car parking and open space provision | Total held is £231,384. £148,600 transferred to creditors as the associated legal requirements have not yet been met. |
| Building Control | Available resources for investment in the building control service | |
| Superannuation Reserve | Amounts set aside to contribute to the superannuation fund | Balance transferred to General Fund. |
| Planning Delivery Reserve | Unallocated planning delivery grant | Used to fund planning improvements |
| Revenue Reserve | Amounts earmarked for specific revenue needs anticipated for 2008/09 | |
| Improvement Fund | Resources available to deliver the improvement programme | All resources are allocated to specific areas of improvement |
| Community Improvement Fund CPA Fund | Resources available to deliver 'Teesdale Listens' Resources identified to meet any costs arising from the Council's CPA reassessment | £40,680 unallocated as at 31 March 2008 |
| Contingency | Resources available to address unbudgeted expenditure requirements | |

35 Implementation of the Revaluation Reserve

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve (see accounting policy 10). The Revaluation Reserve replaces the Fixed Asset Restatement Account (FARA). The debit balance of £6,665,556 on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£8,509,482 credit balance) to form the new Capital Adjustment Account with a credit balance of £1,843,926. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 remains at zero because there has been no revaluation gains accumulated since 1 April 2007.

36 Movement on the Capital Adjustment Account

The balance on the Capital Adjustment Account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements. However, the account was created on 31 March 2007 from the amalgamation of the Fixed Asset Restatement Account and the Capital Financing Account, so the opening balance effectively consolidates revaluation gains accumulated up to that date and the surplus/deficit from capital financing and consumption.

As the Capital Adjustment Account was not effective in 2006/07, the Capital Financing Account has been shown in the table below as a prior period comparator.

| | 2007/2008 | 2006/2007 |
|---|------------------|------------------|
| | £ | £ |
| Balance at 1 April | 1,843,926 | 6,019,386 |
| Add: | | |
| Usable capital receipts used to finance capital expenditure | 125,424 | 439,967 |
| Revenue financing of capital expenditure | 10,814 | - |
| Minimum revenue provision and loan repayments | 2,640,821 | 2,806,823 |
| Government grants deferred | 390,061 | 294,025 |
| Less: | | |
| Depreciation and impairment | -529,729 | -392,951 |
| Deferred charges | -532,168 | -657,768 |
| Balance at 31 March | <u>3,949,149</u> | <u>8,509,482</u> |

37 Useable Capital Receipts Reserve

| | 2007/2008 | 2006/2007 |
|-------------------------------------|---------------|------------------|
| | £ | £ |
| Balance at 1 April | 1,485,840 | 351,201 |
| Add: | | |
| Amounts received | 3,933 | 1,575,010 |
| Less: | | |
| Used to finance capital expenditure | -125,424 | -440,371 |
| Used to repay borrowing | -1,311,741 | - |
| Balance at 31 March | <u>52,608</u> | <u>1,485,840</u> |

38 Contingent Liabilities

There are no contingent liabilities identified in respect of the financial year 2007/08.

39 Contingent Assets

VAT on Off-Street Car Parking

The council has made voluntary disclosures to reclaim overpaid VAT in respect of off-street car parking since February 1998 amounting to £212,173. These disclosures are being held by HM Revenue and Customs pending the resolution of the Isle of Wight case that has been referred to the European Court of Justice.

40 Authorisation of Accounts for Issue

The date on which the chief finance officer authorised the statement of accounts for issue was 19 June 2008.

41 Events after the Balance Sheet Date

There were no events arising after the Balance Sheet date that materially affected the amounts included or the fair presentation of the financial statements.

42 Retirement Benefits

Participation in Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme, administered by Durham County Council. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Transactions Relating to Retirement Benefits

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

| | 2007/2008 £'s | 2006/2007 £'s |
|---|------------------|------------------|
| Income and Expenditure Account | | |
| Net Cost of Services: | | |
| Current service cost | -510,000 | -507,502 |
| Past service costs | -240,000 | - |
| Gain on curtailment/settlement | - | - |
| Net Operating Expenditure: | | |
| Interest cost | -1,060,000 | -917,407 |
| Expected return on assets in the scheme | 930,000 | 810,051 |
| Net Charge to the Income and Expenditure Account | -880,000 | -614,858 |
| Statement of Movement in the General Fund Balance | | |
| Reversal of net charges made for retirement benefits in accordance with FRS17 | 880,000 | 614,858 |
| Actual amount charged against the General Fund Balance for pensions in the year: | | |
| Employer's contributions payable to scheme | 691,340 | 585,931 |

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March 2008 are as follows:

| | 31 March 2008 £m | 31 March 2007 £m |
|---------------------------------|------------------------|------------------------|
| Estimated liabilities in scheme | 17.70 | 20.11 |
| Estimated assets in scheme | 12.39 | 12.91 |
| Net asset/liability(-) | -5.31 | -7.20 |

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £5.31m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a positive overall balance of £677,024. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy; the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Durham County Council Pension Fund liabilities have been assessed by Hewitt Associates Limited, an independent firm of actuaries, estimates for the fund being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations have been:

| | 2007/2008 | 2006/2007 |
|---|-----------|-----------|
| | % p.a. | % p.a. |
| Rate of inflation | 3.7 | 3.2 |
| Rate of increase in salaries | 5.2 | 4.7 |
| Rate of increase in pensions | 3.7 | 3.2 |
| Rate for discounting scheme liabilities | 6.8 | 5.3 |
| Take-up of option to convert annual pension into retirement grant | 50 | 50 |

Assets in the Durham County Council Pension Fund are valued at fair value, principally market value for investments, totalling £1,427.9m for the fund as a whole at 31 March 2008 (1,448.0m at 31 March 2007). The Fund's assets consist of the following categories, by proportion of the total assets held by the fund.

| | Long-term Return | 31 March 2008 | 31 March 2007 |
|------------------|------------------|---------------|---------------|
| | % | % | % |
| Equities | 7.6 | 47.4 | 85.0 |
| Property | 6.6 | 4.5 | 2.4 |
| Government Bonds | 4.6 | 29.3 | 7.6 |
| Corporate Bonds | 6.8 | 9.1 | 0.0 |
| Other | 6.0 | 9.7 | 5.0 |
| Total | | 100.0 | 100.0 |

Actuarial Gains and Losses

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

| | 2004/05 | | 2005/06 | | 2006/07 | | 2007/08 | |
|---|-------------|-----|-------------|-------|-------------|------|-------------|------|
| | £m | % | £m | % | £m | % | £m | % |
| Differences between the expected and actual return on assets | 0.41 | 4.2 | 1.92 | 15.7 | 0.11 | 0.9 | -1.22 | -9.8 |
| Differences between actuarial assumptions about liabilities and actual experience | 0.19 | 1.3 | 0.01 | 0.1 | -0.06 | -0.3 | 0.54 | 3.1 |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0.71 | 4.9 | -1.47 | -1.47 | -0.01 | 0.0 | 2.71 | 15.3 |
| | <u>1.31</u> | | <u>0.46</u> | | <u>0.04</u> | | <u>2.03</u> | |

Figures provided by the actuary for 2003/2004 do not provide the information required for this note.

43 Notes Relating to the Cash Flow Statement

Reconciliation of net surplus/deficit on the Income and Expenditure
Account to the revenue activities net cash flow in the Cash Flow Statement

| | 31 March 2008 £ | 31 March 2007 £ |
|--|-----------------------|-----------------------|
| Total surplus(-)/deficit on all revenue accounts: | | |
| Income and Expenditure Account | -536,481 | 150,718 |
| Housing Revenue Account | -147,132 | -280,598 |
| Collection Fund | 38,942 | -200,560 |
| | <u>-644,672</u> | <u>-330,440</u> |
| Non cash transactions: | | |
| Net charges made for retirement benefits | -880,000 | -614,858 |
| Appropriations to(-)/from the Pensions Asset/Liability Account | 691,340 | 585,931 |
| Payments to the Capital Receipts Pool | -12,243 | -203,057 |
| Amortisation of intangible fixed assets | -51,310 | -36,803 |
| Depreciation and impairment of fixed assets | -478,419 | -356,148 |
| Write down of deferred charges | -532,168 | -498,052 |
| Depreciation in HRA equivalent to MRA received | | -142,330 |
| Amortisation of government grants | 390,062 | 92,002 |
| Other non cash transactions | 368,426 | 961,883 |
| | <u>-504,312</u> | <u>-211,432</u> |
| Debtors and creditors: | | |
| Net movement in revenue debtors and creditors | -577,652 | -217,469 |
| Stocks and provisions: | | |
| General provisions | -4,000 | - |
| Movement in stocks | -30,274 | 19,659 |
| Provision for bad debts | 48,480 | 123,875 |
| | <u>14,206</u> | <u>143,534</u> |
| Items classified in another category in the Cash Flow Statement: | | |
| Net interest received | 362,645 | 208,062 |
| Net Cash Flow from Revenue Activities | <u>-1,349,785</u> | <u>-407,745</u> |

Movement in cash and cash equivalents

| | 31 March 2007 £ | 31 March 2008 £ | Movement £ |
|---------------|-----------------------|-----------------------|----------------|
| Bank balances | 1,172,688 | 1,373,231 | 200,543 |
| Cash in hand | 57,659 | 57,815 | 156 |
| Net movement | <u>1,230,347</u> | <u>1,431,046</u> | <u>200,699</u> |

Reconciliation of management of liquid resources and financing items

| | 31 March 2007 £ | 31 March 2008 £ | Movement £ |
|------------------------------------|-----------------------|-----------------------|---------------|
| Short term investments | 3,500,000 | 2,500,000 | -1,000,000 |
| Short term loans | - | - | - |
| Net movement | 3,500,000 | 2,500,000 | -1,000,000 |
| Interest | 67,401 | 64,993 | -2,408 |
| Carrying value on Balance Sheet | 3,567,401 | 2,564,993 | -1,002,408 |
| Long term borrowing | 3,911,504 | 2,087,473 | -1,824,031 |
| Short term borrowing | 3,323 | 1,298 | -2,025 |
| Net movement | 3,914,827 | 2,088,771 | -1,826,056 |
| Interest | 37,900 | 13,644 | -24,256 |
| Carrying value on Balance Sheet | 3,952,727 | 2,102,415 | -1,850,312 |

Movement in cash reconciled to the movement in net debt

| | |
|--|------------|
| Increase(-)/decrease in cash during the year | 200,699 |
| Cash inflow(-)/outflow from short-term investments | -1,000,000 |
| Cash inflow(-)/outflow from long-term investments | - |
| Cash inflow(-)/outflow from short-term borrowing | 2,025 |
| Cash inflow(-)/outflow from long-term borrowing | 1,824,031 |
| Change in net funds | 1,026,755 |
| Net debt as at 31 March 2007 | 815,520 |
| Net debt as at 31 March 2008 | 1,842,275 |

Analysis of government grants

| | 31 March 2008 £ | 31 March 2007 £ |
|---------------------------------------|-----------------------|-----------------------|
| DEFRA | -3,028 | - |
| Home Office | -62,585 | -40,201 |
| Planning Delivery Grant | -76,702 | -240,900 |
| Department of Transport | -13,368 | - |
| Department for Constitutional Affairs | -2,746 | - |
| Communities and Local Government | -76,536 | -290,073 |
| Department of Health | -11,514 | - |
| Homelessness | -30,975 | - |
| Department for Works and Pensions | - | -482,744 |
| Total | -277,454 | -1,053,918 |

Housing Revenue Account

The HRA Income and Expenditure Account

| 2006/2007 £'s | | 2007/2008 £'s | £'s |
|-------------------|---|------------------|-----------------|
| | Income | | |
| -513,980 | Dwelling Rents | - | |
| -7,866 | Non-dwelling rents | -374 | |
| -2,534 | Charges for services and facilities | -391 | |
| -5,690 | Contributions towards expenditure | - | |
| -135,652 | Housing Revenue Account subsidy receivable | -125,322 | |
| | Other Income | -13,380 | |
| - | Sums directed by the Secretary of State that are income in accordance with UK GAAP | - | |
| -420,000 | Pensions settlement gain arising from the housing stock transfer | - | |
| <u>-1,085,722</u> | Total Income | | <u>-139,467</u> |
| | Expenditure | | |
| 135,875 | Repairs and maintenance | -75 | |
| 351,036 | Supervision and management | - | |
| -5,967 | Rents, rates, taxes and other charges | - | |
| - | Negative housing revenue account subsidy payable | - | |
| - | Negative housing revenue account subsidy transferable to the General Fund under the transitional arrangements | - | |
| 140,902 | Depreciation and impairment of fixed assets | -6,413 | |
| 2,075 | Debt Management Costs | - | |
| 7,719 | Increase in bad debt provision | - | |
| | Sums directed by the Secretary of State that are expenditure in accordance with UK GAAP | - | |
| <u>631,640</u> | Total Expenditure | | <u>-6,488</u> |
| <u>-454,082</u> | Net Cost of HRA Services per Authority Income and Expenditure Account | | <u>-145,955</u> |
| | | | |
| 33,185 | HRA services share of Corporate and Democratic Core | - | |
| - | HRA share of other amounts included in the whole Net Cost of services but not allocated to specific services | - | |
| <u>-420,897</u> | Net Cost of HRA Services | | <u>-145,955</u> |
| - | Gain(-) or loss on sale of HRA fixed assets | - | |
| 34,928 | Interest payable and similar charges | - | |
| 103,978 | Amortisation of premiums and discounts | - | |
| -1,250 | Interest and investment income | -1,177 | |
| 2,643 | Pension interest cost and expected return on pension assets | - | |
| <u>-280,598</u> | Surplus(-) or deficit for the year on HRA services | | <u>-147,132</u> |

Statement of Movement on the HRA Balance

| 2006/2007 £'s | | 2007/2008 £'s |
|------------------|--|------------------|
| -280,598 | Surplus(-) or deficit for the year on the HRA Income and Expenditure Account | -147,132 |
| 249,731 | Net additional amount required by statute to be debited or credited(-) to the HRA Balance for the year | 504,348 |
| -30,867 | Increase(-) or decrease in the Housing Revenue Account Balance | 357,216 |
| -326,349 | Housing Revenue Account surplus brought forward | -357,216 |
| -357,216 | Housing Revenue Account surplus carried forward | - |

Note to the Statement of Movement on the HRA Balance

| 2006/2007 £'s | | 2007/2008 £'s |
|------------------|--|------------------|
| | Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year | |
| -158,692 | Difference between any other items of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements | 6,412 |
| - | - Gain or loss on sale of HRA fixed assets | 13,380 |
| 404,858 | Net charges made for retirement benefits in accordance with FRS 17 | - |
| - | - Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP | 685,785 |
| 246,166 | | 705,577 |
| | Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year | |
| -8,851 | Transfer to/from(-) Major Repairs Reserve | -201,229 |
| - | - Transfers to/from(-) Housing Repairs Account | - |
| 12,416 | Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable directly to pensioners | - |
| - | - Voluntary set aside for debt repayment | - |
| - | - Capital expenditure funded by the HRA | - |
| 3,565 | | -201,229 |
| 249,731 | Net additional amount required by statute to be debited or credited(-) to the HRA Balance for the year | 504,348 |

Teesdale District Council Statement of Accounts 2007/2008
Housing Revenue Account

The stock of dwellings within the HRA during the year was as follows:

| <u>1 April 2007</u> | | <u>31 March 2008</u> |
|---------------------|--|----------------------|
| | Numbers and types of dwellings | |
| - | Houses | - |
| - | Bungalows | - |
| - | Flats | - |
| - | Total | - |
| <hr/> | | |
| £ | Balance Sheet Value | |
| - | Dwellings | - |
| 2,160 | Other land and buildings | - |
| - | Furniture & equipment | - |
| 2,160 | Total (All HRA assets are operational) | - |

The housing stock was transferred to Teesdale Housing Association Ltd on 3 July 2006 valued at £18,837,545 which takes into account a contract for improvement works of £14m to be undertaken by the housing association.

The stock transfer omitted to include 3 garages valued at £2,160 that were transferred to non-operational assets on the Balance Sheet. These assets were being employed by Teesdale Housing Association and the legal transfer was completed in 2007/08.

Major Repairs Reserve

An analysis of the movement on the Major Repairs Reserve (MRR) is shown below:

| <u>2006/2007</u> | | <u>2007/2008</u> |
|------------------|--|------------------|
| £ | | £ |
| 138,504 | Balance at 1 April | 201,229 |
| | Transfer from Capital Financing Reserve: | |
| 133,479 | Depreciation – Dwellings | - |
| 8,851 | Depreciation – Other | - |
| 280,834 | | 201,229 |
| <hr/> | | |
| 15,456 | Transfer from Capital Receipts | - |
| | Transfer to Housing Revenue Account: | |
| -8,851 | Depreciation – Other | - |
| | Reserve balance | -201,229 |
| | Transfer in respect of Capital Expenditure: | |
| - | Land | - |
| -86,210 | Houses | - |
| - | Other property | - |
| 201,229 | Balance at 31 March | - |

The Council no longer has a requirement for a Major Repairs Reserve following the housing stock transfer and the balance has therefore been transferred to the Housing Revenue Account.

Capital Expenditure and Receipts

There was no capital expenditure on land, houses and other property within the HRA during the financial year as shown below:

| 2006/2007 £ | | 2007/2008 £ |
|-----------------|----------------------------------|----------------|
| | Capital expenditure: | |
| - | Land | - |
| 106,424 | Houses | - |
| 160,120 | Other | - |
| <u>266,544</u> | | <u>-</u> |
| | Financing: | |
| -20,214 | Capital Grants and Contributions | - |
| -86,210 | Major Repairs Reserve | - |
| -160,120 | Capital Receipts | - |
| <u>-266,544</u> | Total | <u>-</u> |

No capital receipts were generated from the disposal of houses, land or other property within the HRA during the year.

Depreciation Charge

During 2007/08 there were no charges to the HRA in respect of depreciation on its assets.

| 2006/2007 £ | | 2007/2008 £ |
|----------------|----------------------------------|----------------|
| | Operational assets: | |
| 133,479 | Dwellings | - |
| 8,851 | Other assets | - |
| <u>142,330</u> | Total Depreciation Charge | <u>-</u> |

Impairment

During 2007/08 charges of £2,160 in respect of impairment were applied to the HRA in relation to the three garages that were omitted from the housing stock transfer. As the receipt for the stock transfer was received in 2006/07 and no further consideration was received for these assets, they were revalued to zero prior to their legal transfer.

Deferred Charges

Deferred charges are payments of a capital nature where no fixed asset is created. There were no deferred charges attributable to the HRA in 2007/08.

Subsidy

The Government pays a subsidy to the HRA. It is based on a notional account representing the Government's assessment of what the Council should be collecting and spending. A breakdown of the amount of HRA subsidy payable for 2007/08 is shown below:

Teesdale District Council Statement of Accounts 2007/2008
Housing Revenue Account

| 2006/2007 £ | Claim summary for HRA Subsidy | 2007/2008 £ |
|----------------|---|----------------|
| 280,908 | Management and maintenance | - |
| 133,479 | Major Repairs Allowance | - |
| 286,776 | Charges for capital | 122,293 |
| 3,772 | Admissible Allowance | - |
| - | Anti Social Behaviour | - |
| -1,302 | Interest on receipts | -1,135 |
| -567,980 | Guideline rent income | - |
| 135,653 | HRA Subsidy receivable/payable to ODPM(-) | 121,158 |
| -1 | Previous year adjustment | 4,164 |
| 135,652 | | 125,322 |

Pensions Reserve

The cost of retirement benefits is recognised in the Net Cost of Services when earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required against the Housing Revenue Account balance is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on the Housing Revenue Account Balance. There were no transactions made in the Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance during the year:

| | 2007/2008 £'s | 2006/2007 £ |
|--|------------------|----------------|
| Housing Revenue Account | | |
| Net Cost of HRA Services: | | |
| Current service cost | - | -12,498 |
| Past service costs | - | - |
| Gain on curtailment/settlement | - | 420,000 |
| Interest cost | - | -22,593 |
| Expected return on assets | - | 19,949 |
| Net Credit to the Housing Revenue Account | - | 404,858 |
| Statement of Movement in the HRA Balance | | |
| Reversal of net charges made for retirement benefits in accordance with FRS17 | - | -404,858 |
| Actual amount charged against the HRA Balance for pensions in the year: | | |
| Employer's contributions payable to scheme | - | 12,416 |

Rent Arrears

As a part of the housing stock transfer in 2006/07 all outstanding arrears were transferred, therefore there are no amounts owing to Teesdale District Council in respect of housing rents.

| 1 April 2007 £ | | 31 March 2008 £ |
|-------------------|-----------------------|--------------------|
| | Gross Arrears: | |
| - | Current Tenants | - |
| - | Former Tenants | - |
| - | | - |

Teesdale District Council Statement of Accounts 2007/2008
Housing Revenue Account

There is no longer a requirement for a provision for uncollectable debts in relation to housing rent arrears following the transfer of all debts with the housing stock to Teesdale Housing Association.

| 2006/2007 | | 2007/2008 |
|-----------|--|-----------|
| £ | | £ |
| 65,345 | Opening provision for uncollectable debts | - |
| 7,719 | Increase/decrease(-) in the provision for the year | - |
| -73,064 | Use of provision | - |
| - | Closing provision for uncollectable debts | - |

Sums Directed by the Secretary of State to be Debited or Credited to the HRA

On 29 November 2007, the Council received consent from the Secretary of State to close the HRA with effect from 31 March 2008. The debit item of £685,785 therefore represents the HRA balance being transferred to the General Fund as at that date.

Exceptional Items and Prior Year Adjustments

There were no exceptional items or prior year adjustments in respect of the HRA for 2007/08.

Collection Fund Income and Expenditure Account for the year ended 31 March 2008

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

| 2006/2007 £ | | 2007/2008 £ |
|----------------|--|----------------|
| | Income | |
| -10,836,143 | Income from Council Tax (Net of benefits, discounts for prompt payments and transitional relief) | -11,444,005 |
| | Transfers from General Fund: | |
| -1,536,273 | Council Tax Benefits | -1,606,564 |
| 673 | Transitional Relief | -2,351 |
| - | Discounts for Prompt Payment | |
| -2,972,466 | Income collectable from business ratepayers | -3,110,335 |
| | Contributions: | |
| - | Towards previous year's Collection Fund deficit | - |
| - | Adjustment of previous years' community charges | - |
| -15,344,209 | | -16,163,255 |
| | Expenditure | |
| | Precepts: | |
| 8,670,905 | Durham County Council | 8,965,612 |
| 903,467 | Durham Police Authority | 1,222,325 |
| 690,507 | County Durham & Darlington Fire and Rescue Authority | 723,020 |
| 1,879,628 | Teesdale District Council | 1,997,831 |
| | Business Rate: | |
| 2,895,688 | Payment to national pool | 3,141,154 |
| 40,966 | Costs of collection | 41,074 |
| | Bad and doubtful debts/appeals: | |
| - | Write-offs | |
| 33,884 | Provisions | -4,685 |
| | Contributions: | |
| | Towards previous year's estimated Collection Fund surplus: | |
| 44,860 | General Fund | 50,200 |
| 222,780 | Durham County Council | 253,590 |
| 23,130 | Durham Police Authority | 26,420 |
| 17,690 | County Durham & Darlington Fire & Rescue Authority | 20,200 |
| - | Adjustment of previous years' community charges | |
| 15,423,505 | | 16,436,741 |
| 79,296 | Movement on fund balance | 273,486 |
| -279,856 | Balance brought forward | -200,560 |
| -200,560 | Balance carried forward | 72,926 |

Non-Domestic Rates

Non-domestic rates operate on a national basis whereby the Council collects rates due from the ratepayers in the area but pays the proceeds into a Pool administered by the Government. The Government redistributes the sums paid into the Pool back to local authorities on the basis of a fixed amount per head of population.

The Government specified a multiplier of 44.4p (43.3p in 2006/07) and, subject to the effects of transitional arrangements, local businesses paid rates calculated by multiplying their rateable value by that amount. The total non-domestic rateable value for the District at 31 March 2008 was £8,686,892 (2006/07 - £8,616,920).

Calculation of Council Tax Base for 2007/08

The Local Government Finance Act 1992 requires a billing authority to calculate its council tax base for tax setting purposes between 1 December and 31 January in the financial year preceding that to which the tax base applies.

The following calculation was made in the manner prescribed by the Local Authorities (Calculation of Council Tax Base) Regulations 1992 for the year 2007/08.

| Band | Number of Dwellings on Valuation List | Discounts and Exemptions | Equivalent Number after Discounts and Exemptions | BAND D EQUIVALENTS |
|--------|---------------------------------------|--------------------------|--|--------------------|
| A(DIS) | 0 | 10.75 | 10.75 | 6.0 |
| A | 3,446 | -631.75 | 2,814.25 | 1,876.2 |
| B | 2,676 | -396.75 | 2,279.25 | 1,772.8 |
| C | 1,932 | -245.50 | 1,686.50 | 1,499.1 |
| D | 1,671 | -166.00 | 1,505.00 | 1,505.0 |
| E | 1,217 | -122.25 | 1,094.75 | 1,338.0 |
| F | 532 | -34.50 | 497.50 | 718.6 |
| G | 228 | -22.50 | 205.50 | 342.5 |
| H | 28 | -8.50 | 19.50 | 39.0 |
| Total | 11,730 | -1,617.00 | 10,113.00 | 9,097.2 |

The council tax base after allowing for a collection rate of 99.0% is 9,006.23 (8,962.97 in 2006/2007).

Precepts and Demands

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

| | 2007/2008 £000 | 2006/2007 £000 |
|--|-------------------|-------------------|
| Durham County Council | 8,966 | 8,671 |
| Durham Police Authority | 1,222 | 903 |
| County Durham and Darlington Fire and Rescue Authority | 723 | 691 |
| Teesdale District Council | 1,809 | 1,717 |
| Parish Councils & Meetings | 189 | 163 |
| | 12,909 | 12,145 |

Accounting for the Collection Fund Balance

The opening balance for the Collection Fund for 2007/08 was £200,560 surplus. An in-year deficit of £273,486 resulted in a deficit of £72,926 at the end of the year. On the basis that surpluses and deficits are shared between the precepting authorities (70% Durham County Council, 10% Durham Police Authority, 6% County Durham and Darlington Fire and Rescue Authority and 14% Teesdale District Council), the Council accounted for the Collection Fund balance in its 2007/08 Statement of Accounts as follows:

- In the Balance Sheet at 31 March 2008, the Council included the £72,926 deficit on a disaggregated basis as debtors to the value of £62,716 (£51,048 to Durham County Council, £7,293 to Durham Police Authority and £4,375 to County Durham and Darlington Fire and Rescue Authority) and a £10,210 attributable deficit on the Collection Fund balance alongside the General Fund balance.
- In the STRGL, the Council inserted a new line for attributable movement on the Collection Fund balance to record a £38,942 loss $((-200,560 - 72,926) \times 14.2391\%)$.

Annual Governance Statement 2007/08

1 Scope of Responsibility

Teesdale District Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure the continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework: 'Delivering Good Governance in Local Government'. A copy of the code can be found on the Council website: www.teesdale.gov.uk or by contacting:

Teesdale District Council
Teesdale House
Galgate
Barnard Castle
Co Durham
DL12 8EL

Telephone: 01833 690000

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

2 The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of the approval of the statement of accounts (29 September 2008).

3 The Governance Framework

The Council's governance framework derives from six core principles identified in the 2004 publication: 'The Good Governance Standard for Public Services', produced by the Independent Commission on Good Governance in Public Services, set up by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office for Public Management. The commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007.

The six core principles are:

- Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

The remainder of this section outlines the key elements of each of these core principles within Teesdale District Council.

3.1 Focusing on the purpose of the authority and on outcomes for the community, and creating and implementing a vision for the local area

A clear statement of the Council's purpose and vision is set out in the Combined Corporate and Best Value Performance Plan: 'Achieving Excellence Together', produced for the first time, as a single document, in 2007.

The Council's vision, jointly agreed with our Local Strategic Partnership, is:

'Teesdale will be a place where people will want to live, work and visit while we protect and enhance our valuable environment; where we use opportunities to strengthen our economy; where our communities are vibrant and prosperous; and where our people are safe and healthy and able to realise their full potential.'

Our corporate values are:

- Equality and Diversity
- Effective Partnership working

- Innovation and Imagination
- Listening and Acting

The Combined Plan details the Council's corporate priorities, revised in 2006 following extensive internal and external consultation, and improvement projects, collectively termed: 'Improving Together'.

The corporate priorities are:

- To make Teesdale a cleaner and greener place
- To grow Teesdale's economy
- To improve the health and well-being of our residents and develop safer communities
- To meet the housing needs of our residents.

These priorities are reflected within the Sustainable Community Strategy and also within the Council's various strategies and plans, such as the Medium Term Financial Plan and Strategy, Leisure Strategy, Housing Strategy, Local Development Framework, People Strategy and Economic Development Strategy, and within operational objectives to be achieved by each service in the departmental service plans which are prepared and updated annually.

Performance against these objectives, and agreed targets and performance indicators, are monitored monthly by individual services with high level exception reports submitted to the Corporate Management Team (CMT), quarterly reports to the Improvement & Performance Board, comprising Executive and Overview & Scrutiny members together with CMT, and also subjected to initial and outturn reviews by Overview and Scrutiny Committee.

Specific and general satisfaction surveys and a formal complaints procedure allow the Council to gauge customer satisfaction with regard to the effectiveness of service delivery.

The Local Strategic Partnership for the District has been reviewed, restructured and relaunched as the Teesdale Partnership, with an independent chair and with community, parish and independent representation. A new Sustainable Community Strategy has been adopted, covering the period to 2021, with four overarching priorities:

- People
- Prosperity
- Access
- Environment.

The Council has a formal performance management framework in place providing links between the corporate objectives, the budget and service planning process, annual service plans and performance development reviews.

The annual service and financial planning cycle begins in September each year, the intention being that budget and service plans are agreed in February for the following Council year. Once service plans and performance targets have been agreed, employees' Performance

Development Reviews, which set individual targets for the following year, take place.

Performance against targets is monitored, as outlined above, by each service, CMT, Overview & Scrutiny and the Improvement & Performance Board.

In addition, the Council's performance, during the period 2004 – 2008, was subjected to regular scrutiny by a Government Monitoring Board comprising the Department for Communities and Local Government, Audit Commission and Improvement & Development Agency representatives, established following the Council's 'Poor' Comprehensive Performance Assessment (CPA) classification in 2004. The Monitoring Board met on a regular (two to three monthly) basis to review the performance of the Council's improvement programme. Steady progress was made from 2004 and, in March 2008, the Council underwent a follow up CPA inspection. The final report was issued in June 2008, resulting in the Council being re-categorised as 'Fair'. The Audit Commission considered that the Council was performing at least adequately in all aspects covered by the assessment, a significant improvement on 2004.

3.2 Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council has adopted a Constitution which sets out how it operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people.

The Council adopted the 'fourth option' or 'alternative arrangements' decision making system (available only to District Councils with a population under 85,000) in 2002, following the implementation of the Local Government Act 2000. Subsequent reviews have taken place and the Council now has a single, cross party Executive Committee, comprising the Leader and Deputy Leader (these posts first established in 2005) and six other lead members, each with a defined lead role.

In 2007, the Council established a new Audit & Governance Committee, with separate membership from both Executive and Overview & Scrutiny Committees; all committees have clearly defined roles within the Constitution.

All committee meetings are open to the public except where exempt or confidential matters are being considered.

The Executive Committee has delegated authority from the Council to make decisions in accordance with the policy and budget framework, subject to the call-in provisions which may be exercised by the Overview & Scrutiny Committee. Regulatory functions are undertaken by the Planning and Licensing Committees.

The Executive Committee operates in accordance with a rolling forward plan, published with each agenda and updated monthly on the Council's website. The Council's practice exceeds the minimum requirements laid down in the Local Government Act 2000.

Both the Executive and Planning Committees meet on a four weekly cycle and this, together with appropriate delegation to senior managers, enables speedy decision making. The scheme of delegation to committees and officers is regularly reviewed, most recently in 2007, following the implementation, in May, of the new management structure.

Executive lead members meet regularly with the appropriate chief and senior officers to ensure that members are kept informed of relevant matters and to enable them to provide support for, and to speak authoritatively about, the particular service area in meetings and in the wider community, including the media. The Chief Executive and (Interim) Deputy Chief Executive meet weekly with the Leader and Deputy Leader and also meets regularly with the group leaders (four) and the Chair and Vice Chair of Overview & Scrutiny Committee to enable discussions to take place on major and emerging issues.

All members have clearly defined roles and responsibilities and these are considered as required by an Independent Remuneration Panel which makes recommendations to the Council on the level of members' allowances.

The Corporate Management Team has been strengthened by the addition, in November 2007, of the Director of Customer Services, accompanied by the Interim Deputy Chief Executive, bringing its composition to seven, the newly established post of Director of Regeneration becoming a CMT member in May 2007, as did the post of Assistant Chief Executive, although the latter post was not filled until October. The Chief Executive, Chief Finance Officer and Monitoring Officer were members of CMT prior to the management restructure.

CMT now, from March 2007, meets on a fortnightly basis and provides strategic support and direction to the Council, its members and employees. It also considers other internal control issues, including risk management, performance management, efficiency, value for money, financial management, ethical and corporate governance.

There is a robust budget and policy framework and detailed financial and contract procedures, which are monitored by the Chief Finance Officer and Monitoring Officer. The Constitution is updated as required to reflect any changes in structure.

Teesdale, being a small local authority with limited capacity, recognises the benefits which can be gained from partnership working. It is important, therefore, that the intended benefits to be gained from partnerships are clearly defined from the onset and that all partners have clearly defined roles and responsibilities.

3.3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

The behaviour of members and officers is regulated through separate codes of conduct which have been formally approved and adopted. These codes are supported by protocols and policies which apply the principles of the codes to specific areas of Council activity, for example, Member Officer

Protocol, Planning Code of Practice, Anti-Fraud and Corruption Strategy, Whistle Blowing Policy.

The Members' Code of Conduct was originally adopted in 2002, then revised in 2007. A national officers' code was proposed in the Local Government Act 2000. As this has still not been forthcoming, the Council adopted a local code, in line with best practice, in 2006.

The Council has a Standards Committee, the principal functions of which (in accordance with statutory requirements) are:

- Promoting and maintaining high standards of conduct within the District and Parish Councils
- Advising and training members on the code of conduct and related standards matters
- Undertaking investigations into alleged breaches of the code of conduct by District and Parish Council members
- Receiving and giving initial consideration to alleged breaches of the code of conduct (from May 2008)
- Reporting to Council where appropriate on any standards matter.

The Council's Standards Committee comprises independent and parish representatives as required by legislation and is chaired (also as required) by an independent representative. The principal focus for the committee over the last year has been to gain an understanding of the revised code of conduct and to prepare for the local management of complaints against members, introduced from May 2008.

Complementing the codes of conduct and supporting protocols, the Council has three statutory officers: Head of Paid Service, Chief Finance (Section 151) Officer and Monitoring Officer, whose roles are specified in legislation and within the Constitution. These officers, jointly and individually, have responsibility for ensuring that all reports and decisions comply with the budget and policy framework and are lawful. Where, in the judgment of the Section 151 Officer or Monitoring Officer, the Council has made, or may be on the point of making, a decision contrary to the budget or policy framework or the law, these officers have the power to stop the decision being implemented, pending consideration by the Council of a report, agreed by all three statutory officers. In practice, the Corporate Management Team acts as a clearing house for reports prior to their being submitted to Council or committee.

All members receive copies of all Council and committee agendas in advance. A standard item on all agendas requires members to declare any personal or prejudicial interests at the outset of the meeting. In addition, members are encouraged to undertake any training relevant to their area of decision making.

Internal and External Audit work together to review and provide annual opinions of the control framework, governance arrangements and the validity of the annual accounts. Internal Audit operates to standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'.

The Council has policies to safeguard itself and its staff when making decisions. Members of the Planning and Licensing Committees, in particular, need to be aware of the requirement to avoid bias or predetermination when considering applications and to take appropriate action (which may amount to withdrawal) where there are sufficient grounds for doing so.

The Anti-Fraud and Corruption Strategy and Whistle Blowing Policy provide clear reporting channels for staff particularly, but also for members, who suspect impropriety of actions or behaviours by either members or officers.

The financial management of the Council is conducted in accordance with the financial rules set out within the Constitution and detailed within the Financial Procedure Rules. The Council has designated the Chief Finance Officer as the statutory Section 151 Officer in accordance with the provisions of the Local Government Act 1972.

The Council's overall financial arrangements are governed by the Medium Term Financial Plan and Strategy, which sets out the financial framework for the delivery of the Council's strategies and plans. In determining the revenue and capital financial framework, a number of factors are taken into account including the national context, the distribution of local government funding from central government along with other local and external funding sources.

This is supported by robust budget setting via the Star Chamber process, established in 2005, and monitoring arrangements which require spending departments to monitor their budgets on a regular basis, making returns to the Accountancy Section, which provides support and challenge to budget holders. Financial position update reports are submitted monthly to Executive Committee, budget monitoring reports quarterly to Improvement and Performance Board, and compliance reports are submitted quarterly to Audit and Governance Committee. There are regular opportunities, therefore, for member challenge. The Executive lead member for Resources is responsible for presenting financial reports to Council.

The Council has a service planning process which dovetails with the budget setting process. Service managers are required to prepare service plans on an annual basis which set out the targets for each service, within the financial parameters set by the Council for the service.

The Council manages its borrowing and investments within the guidelines of its Treasury Management and Investment Strategy, which are approved by the Council on an annual basis. Performance against this strategy is reported annually in the Treasury Management Annual Report.

3.4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Council's Constitution provides for transparent and accountable decision making, with provision for appropriate challenge and scrutiny.

The Overview and Scrutiny Committee has an overarching statutory responsibility to scrutinise decisions and the performance of the Council, its members and officers; holding decision makers to account and undertaking policy development and review.

Following a review of responsibility for functions and having regard to the capacity constraints on the Council, the non-executive members (24), previously all members of Overview and Scrutiny Committee, were subdivided into a new Audit and Governance Committee (6 members) and Overview and Scrutiny Committee, with 18 members, each with separate memberships and clearly defined functions.

The Audit and Governance Committee was given specific responsibility for overseeing the risk and internal control framework, overseeing the Council's financial reporting and audit processes, and responsibility for overseeing the corporate governance framework. The functions of the Overview and Scrutiny Committee were realigned to enable the committee to adopt an increased external and community focus, notwithstanding its statutory right to review or scrutinise any area of the Council's activity or community interest.

The capacity of both of these committees was increased by the addition of two co-opted members of the public with expertise or interest in the particular area.

In the second half of 2007/08, these two committees concentrated on developing their roles and this process has continued into 2008/09, Overview and Scrutiny having revised its panel structure to align with the revised corporate priorities. Audit and Governance, whilst continuing with its audit/risk role, has had to appraise itself with the new governance requirements on Councils from the 2007/08 year.

Risk management has been given an increased profile within the Council, responsibility for managing the process being allocated to the Chief Finance Officer as part of the management restructure. The Risk Management Group, which oversees the process, has also been given an increased profile, responsibility now lying with the Corporate Management Team, with member representatives from the Executive and Audit & Governance Committees providing support and challenge to the process. Each service manager is responsible for preparing and maintaining a service risk register, with CMT being responsible for maintaining the corporate risk register, which is reported quarterly to Audit & Governance Committee and Improvement & Performance Board.

Regulatory decisions are taken by the Planning and Licensing Committees, in accordance with the decision making framework set out in the Constitution. Members of these committees need to be aware of the possible conflicts which may arise during the decision making process: bias, predetermination, personal and prejudicial interests; and take appropriate action to ensure that the Council's integrity is not compromised.

3.5 Developing the capacity and capability of members and officers to be effective

The Council has devoted resources to ensuring high levels of experience and expertise among its staff and achieved re-accreditation under the Investors in People standard in 2005. This is a quality framework which ensures that the Council's employees have the right knowledge, skills and motivation to work effectively.

All Council services are delivered by trained, experienced officers. Job descriptions and person specifications are prepared for all posts and are reviewed, as a minimum annually, to ensure that the best candidates are appointed into each position and that employees' development is aligned to the requirements of the post.

All Council officers receive an annual Performance Development Review at which performance can be measured against set objectives. Training needs are also identified as part of this process and addressed via the Corporate Training Plan and/or individual service as appropriate.

The Council has a recruitment and selection policy aimed at attracting and retaining good quality staff. The Council seeks to encourage flexibility and succession planning, within the constraints of a small establishment. The reorganisation of local government in County Durham from April 2009 is presenting a challenge to maintaining this policy and retaining adequate staffing levels during this last year of the Council's existence.

Member development, within Teesdale has, historically, suffered from limited budget, induction, training and awareness raising being undertaken largely in-house or through county or regional networks. This was highlighted as a significant weakness in the Council's 2004 Comprehensive Performance Assessment and subsequent development programmes have focused on capacity building in this area, with support from, in particular, the IDeA. Opportunities from organisations such as the North East Improvement Partnership and Audit Commission have provided another source of specific and general training for members.

Member briefings are a regular means of informing the decision making process. In addition to the regular Chief Executive/Deputy Chief Executive briefings with Leader/Deputy Leader, Group Leaders and Overview & Scrutiny Chair/Vice Chair, and the lead member/lead officer meetings, each Executive Committee is preceded by a briefing meeting for all members of the committee prior to the final agenda being issued. Also, Chairs/Vice Chairs of committees have regular meetings with the appropriate lead officers to ensure that they are kept abreast of relevant issues.

The Overview and Scrutiny Coordinating Group, comprising Chair/Vice Chair of the committee and the Panel Chairs, meets regularly to ensure that the senior committee members have an overview of the committee's work programme.

3.6 Engaging with local people and other stakeholders to ensure robust public accountability

The Council recognises that communication with all stakeholders plays a fundamental role in the successful delivery of quality, efficient and cost effective services.

The Council is constantly striving to improve its communications performance, to build on its track record of continuous improvement and to ensure that the authority as a whole is open and accessible to the community, service users and staff.

Most recently, the Council has:

- Introduced a Customer Services contact centre which aims to deal with the majority of queries and problems promptly at the initial point of contact
- Introduced a new, improved customer-friendly website
- Adopted a new communications and engagement strategy
- Established a post of PR and Communications Manager with specific responsibility to build good relations with the press and media
- Committed to sending a quarterly newsletter 'Teesdale Talks' to all residents in the District
- Launched the 'Teesdale Listens' initiative backed by the Community Improvement Fund.

All Council and committee meetings are open to the public except where exempt or confidential matters are considered. All agendas and minutes are placed on the Council's website, as are Council policies and strategies. Agendas are also available for inspection at the Council's offices and the main public library. The Council maintains a forward plan of Executive Committee business; this is published with each committee agenda and is updated monthly on the Council's website. This practice exceeds the statutory minimum requirement for cabinet decision making Councils to publish a forward plan of key decisions.

The Combined Corporate and Best Value Performance Plan is the key document which outlines the Council's vision, objectives and priorities for the year ahead, sets performance targets and outlines the Council's accountability to stakeholders. The Corporate Plan links with the wider Local Strategic Partnership Sustainable Community Strategy, adopted this year following extensive stakeholder consultation.

The Best Value Performance Plan details the Council's post-CPA Improvement Programme 'Improving Together'. The five improvement projects were all formally concluded by the end of May 2008:

- Maximising Resources
- Equality and Diversity
- Reputation and Dialogue
- Community Leadership
- Partnership Working.

All remaining actions have been subsumed into appropriate service work programmes. The only remaining project is the recently initiated Local Government Reorganisation project which, following the March CPA inspection, has become the principal focus of the Council's activity during the remainder of 2008/09. To that end, close working relationships are now established with the County and District Councils to ensure a smooth as possible transition to the new County Durham Council.

The Council has a formal complaints procedure which allows the public and other stakeholders to make a complaint regarding the service received from the Council. Complaints can be made on-line or in writing and the Council has set targets for responding to all complaints received. The corporate complaints procedure was updated in 2006 and has links to the Information Commissioner and the Standards Board for England, which deal with complaints regarding requests for information and complaints about member conduct respectively (in the latter case, a new system of local management of complaints against members was introduced in May 2008, the Standards Board now acts as the regulatory body for complaints against members).

The Local Strategic Partnership (Teesdale Partnership), comprising District and Parish Council representatives, other public sector organisations (Police, Primary Care Trust, Fire & Rescue), voluntary sector and private interests has adopted a higher profile during the last year. The Sustainable Community Strategy was adopted in 2008 with its four main priorities: people, environment, access, prosperity.

The 'operational' work of the LSP is carried out through a series of 'thematic' working groups: Children and Young People, Community Safety, Economy and Tourism, Environment and Transport, Health and Social Care, Housing, Leisure and Culture, Lifelong Learning; each working to an agreed work programme. The Council plays a leading role in all groups through the involvement of Executive lead members and appropriate officers. The work of the LSP is directed and overseen by a management board of which the Council Chief Executive is Vice Chair.

Teesdale, being a small District Council, is involved in a number of partnerships, the remit of each being to deliver a particular service or services to the community or a particular group. In 2007, the Council carried out a review of its partnership working and agreed a set of criteria for ensuring that the principal partnerships operated within a clear set of parameters.

4 Review of Effectiveness

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, by the Head of Internal Audit's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

The key features of the Council's governance framework are summarised in this section.

4.1 The Council

The key formal document governing the internal control framework for the Council is the Constitution. All delegation of decision making is made in accordance with the requirements of the Constitution and the Scheme of Delegation, which forms part of the Constitution.

The formal rules governing the way in which the Council, committees and officers conduct business are also set out in the Constitution and include:

- Budget and Policy Framework
- Financial and Contract Procedure Rules
- Procedure Rules for Council and Committee Meetings
- Access to Information Procedure Rules

All reports are reviewed by the Monitoring Officer to ensure they are lawful, and by the Section 151 Officer for financial and risk implications and, more generally, by the Corporate Management Team collectively, prior to inclusion on committee agendas.

The Council has approved a scheme of delegation for decision making by the Executive Committee, Regulatory Committees and by named senior officers, reserving decisions on 'Council only' functions to the full member body. Committee decisions (except for decisions made by regulatory committees) may be subject to call-in by Overview and Scrutiny Committee prior to implementation.

The Monitoring Officer (Chief Governance Officer) has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. Changes to the Constitution may only be made by the Full Council on a two thirds majority of members present and voting, after consideration of the proposal by the Executive Committee.

The Constitution was fully updated in February 2008, to include revisions occasioned by the management and committee restructuring, and the revised Members' Allowances Scheme (approved in December 2007) and re-issued to all members. A fully updated version is also available on the Council's website.

4.2 Overview and Scrutiny Committee

The Council has an Overview and Scrutiny Committee comprising eighteen councillors plus two co-opted members, which has responsibility for undertaking all functions prescribed by legislation and regulations for scrutiny committees, including policy development and review, the scrutiny of executive decisions with the power of call-in, and holding decision makers (Executive members and officers) to account.

It also undertakes reviews in accordance with its annual work programme, agreed in consultation with the Executive Committee and approved by Council. Reviews undertaken in 2007/08 have included: flyposting, rural policing, car park charging policy and, each year, the committee undertakes an overview of the budget process and reviews service plans. The work programme for 2008/09, approved by Council in August 2008, is principally focused on tackling issues highlighted within the CPA report and the Council's preparedness for local government reorganisation.

4.3 Standards Committee

The Council has a Standards Committee which is scheduled to meet quarterly. It has had an independent chair since 2006/07 and terms of reference which are in line with legislation and good practice. The principal

focus of the committee's work programme during 2007/08 was to gain a working knowledge of the revised (2007) Members' Code of Conduct and prepare for the implementation of the local management of complaints against members, which was implemented in May 2008.

No complaints, to date, have been referred by the Standards Board for England to the local Standards Committee for investigation. Since the introduction of the code of conduct in 2002, thirteen complaints have been submitted to the Standards Board: ten of them in 2007/08. None have been referred for investigation. From May 2008, the local Standards Committee now has the task of considering complaints and deciding whether they should be investigated. None, as yet, has been received.

4.4 Audit and Governance Committee

The Council has reviewed the function of the former Audit Committee against the 2005 CIPFA: 'Audit Committees: Practical Guidance for Local Authorities' and the emerging CIPFA/SOLACE: 'New Governance Framework' in 2007 and established a new Audit and Governance Committee, independent of both executive and overview and scrutiny responsibilities, and therefore better able to undertake its principal responsibilities: reviewing the adequacy of internal control, monitoring the performance of internal audit, agreeing the internal and external audit plans, risk management and overseeing the corporate governance framework.

The committee, comprising six Council members and two co-opted members of the public, concentrated on developing its role during the latter half of 2007/08. It has adopted an increasingly proactive and challenging role towards its functions, in particular, scrutiny and progress chasing of internal audit reports, budget manager monitoring returns and membership of the re-vamped Corporate Risk Management Group, comprising the Corporate Management Team and member champions from Executive and Audit & Governance Committee.

4.5 Internal Audit

Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk-based audit plan is prepared annually by the Audit Manager, in consultation with the Chief Finance Officer, chief officers and the Council's external auditors, and presented to the Audit and Governance Committee. The internal audit function is undertaken in accordance with the requirements of the CIPFA: 'Code of Practice for Internal Audit in Local Government in the UK'.

The reporting process for Internal audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer; summaries of all reports, with recommendations and action plans, are also submitted to the Audit and Governance Committee.

Each audit report also includes an action plan, agreed with the relevant service manager. All action plans are reviewed periodically, according to their significance for the Council's internal control processes. An opinion of the overall internal control environment is also provided. Where assurance is deemed to be unsatisfactory, immediate action is required.

The Audit Manager reports directly to the Audit and Governance Committee at each of its meetings. This officer maintains a degree of independence from the Council's senior officer hierarchy and, generally, does not require CMT approval for his reports to members, although prior discussion will take place, where appropriate, with chief officers. The Audit Manager left the Council's employment at the end of March 2008 and specialist cover is now provided by the Audit Manager, Durham County Council.

The Audit and Governance Committee approves the Audit Plan and monitors the performance of Internal Audit and the progress against audit recommendations. Internal Audit reports annually to the Audit and Governance Committee, providing the audit opinions of all audits undertaken and an overall audit opinion. The overall audit opinion for 2007/08 is satisfactory.

Risk management, at a corporate level, was previously managed by a small officer group, supplemented by the lead member for Resources. Following the management restructure and a review of risk management within the authority, the Corporate Management Team has now assumed responsibility, with the Chief Finance Officer as lead officer and with member representatives from Executive and Audit & Governance Committees participating in risk management review meetings. The corporate risk register is now reported quarterly to both the Improvement & Performance Board and the Audit & Governance Committee. The Risk Management Group has identified a number of risks associated with local government reorganisation and these will need to be closely monitored, and action taken as necessary, in the lead up to April 2009.

4.6 Other Assurance Mechanisms

The Council, in common with all local authorities, is required to provide satisfactory assurances that all reasonable steps are taken to deliver the services required in an efficient, effective and economic manner.

The most common sources of assurance are:

- Performance Management
- Internal Audit
- External Audit
- Assurances from Managers
- Risk Management
- External Reports including Service Inspections
- Ombudsman Reports

The Council has a Performance Management Framework through which quality of service can be measured by both local and national performance indicators. Performance targets are agreed and set within service plans and monitored monthly by service managers and Corporate Management Team. Performance is also reported quarterly to the Improvement and Performance Board. Overview and Scrutiny may decide, or be asked, to undertake specific reviews on any aspect of performance.

Headline figures for Best Value Performance Indicators for 2006/07 were encouraging. 70% of indicators had either improved or were already at

optimum levels and 47% were in the top quartile (38% in 2005/06). 29% were in the bottom quartile, compared to 34% in 2005/06. In 2007/08, 58% of indicators met or exceeded target, 7% almost met target, with 35% not meeting target. 35% of indicators were top quartile, with 29% bottom quartile.

The Audit Commission has recently reviewed the Council's data quality arrangements for assessing performance and determined that the overall management arrangements for ensuring the accuracy of performance indicators were adequate. The Council's commitment, the report states, to data quality is outlined in the Corporate Plan and clear data quality actions are identified to ensure the accuracy of data.

The Audit Commission also carried out its annual review of the Council's arrangements for Use of Resources. The Council was assessed at a score of 2 (out of 4): adequate performance, the same score as the previous year but, in the opinion of the Audit Commission, significant progress has been made over the last year. The weakest area (asset management) was now being addressed.

The Audit Commission carried out the first CPA inspection in 2003/04: the Council was assessed as 'Poor'. Since then, a Recovery Plan, followed by an Improvement Plan has been put in place, ongoing support being received from central government (Department for Communities and Local Government), Audit Commission and Improvement and Development Agency. Following encouraging corporate assessments and service inspections over the previous 12/18 months, the Monitoring Board recommended, in September 2007, that the Council should apply to be re-categorised. This was done and a further inspection has taken place (March 2008). The final report was published in June 2008. The Council was re-categorised as 'Fair' and has now been formally disengaged from Government monitoring.

The Council's annual report from the Local Government Ombudsman for 2007/08 showed an increase in complaints made, from 4 in 2006/07 to 8 in 2007/08. (There were 12 in 2005/06.) There were, however, no findings of maladministration against the Council (compared with 1 in 2005/06 and none in 2006/07), and no 'local settlements' compared to 1 in both of the two previous years. Average response times to the Ombudsman's initial enquiries have been high (poor) in recent years: 46 days in 2005/06 and 64 days in 2006/07. (The Ombudsman's target for Councils' response times is 28 days.) Due to a change in Ombudsman procedures, no complaint against the Council in 2007/08 has reached the stage of being classed as a 'formal' complaint, responses to initial enquiries in each case being sufficient for the Ombudsman to discontinue the investigation. The Council's average response time in 2007/08 was, therefore, 'nil' days.

5 Significant Governance Issues

The work done during the year by Internal Audit and External Audit may highlight significant governance issues which need to be addressed. Other issues may emerge from other areas.

The most significant issue for the Council, and which has become the principal focus of activity in 2008/09 is the move towards the establishment of unitary local government in County Durham and the abolition of the two tier system of County and District Councils. The challenge for the Council will be to maintain its service delivery functions and statutory responsibilities, and to continue to operate to the highest governance standards, notwithstanding the significant risks involved.

The Council may suffer from loss of staff, due to increasing uncertainty over their futures, at a time when the Council is heavily involved (as it is statutorily required to do so) in the preparations for the new authority, itself a distraction from the 'day job'. Members, too, may suffer from a loss of motivation in the run-up to April 2009. There remains the need, however, for members and officers to engage fully in the reorganisation process to ensure that the interests of the Teesdale community are protected as the new service delivery and decision making structures are put in place. The Council has identified a number of risks associated with local government reorganisation and these are now given prominence in each monthly review of the corporate risk register.

The Council has, on a number of occasions during the current year, addressed the issue of local government reorganisation and its impact on the Council's existing normal service and other business responsibilities, against the possibility (now an increasing reality) of the loss of key staff, due to the career insecurities felt by employees. The Council, during February 2008, agreed that some existing commitments and expectations be discontinued or reduced in scope, to enable staff to undertake additional work related to reorganisation. This was accompanied by a number of interim staffing arrangements. This policy of re-examining priorities is regularly monitored (most recently by the Executive Committee in August 2008) and is a regular discussion item at Executive Committee briefings and at Chief Executive/Leaders' meetings.

The Statement on Internal Control, approved by Council in June 2007, highlighted a number of significant internal control issues. Although progress on all of these issues has been addressed either elsewhere within this statement or within the supporting documentation, for completeness, an update on these issues is as follows:

| No. | Issue | Progress |
|-----|---|---|
| 1 | Level 1 only has been achieved in respect of equality and diversity. | Level 2 of the Equalities Standard was achieved by March 2008. Work to embed the required standards, together with our key partners and stakeholders, will continue during 2008/09. |
| 2 | Data quality arrangements identified as weak in the 2005/06 value for money assessment. | The Audit Commission reviewed the Council's data quality arrangements for assessing performance in 2007. The arrangements were considered adequate. |
| 3 | Further development in respect of procurement is | Procurement policy revised and approved (July 2007). Awareness |

| | | |
|---|--|---|
| | required in order to ensure that value for money is obtained. | raising with Managers Forum. Policy reviewed by NECE: positive outcome. CPA considered procedures adequate. |
| 4 | Partnership arrangements are weak in terms of governance and performance management. | Review of partnership working has experienced delays, although work has continued during 2007/08. Focus is on implementing framework for Council's key partnerships (10 have been identified). |
| 5 | The Council has a performance management framework in place but it is not fully embedded and improvement in performance is slow. | Performance management framework more embedded. Monthly reports to DMTs, CMT, quarterly reports to Improvement and Performance Board, including updates on O&S work programme. Regular monitoring highlights need for performance improvement measures to be taken where appropriate. |
| 6 | The Council does not have up to date information in respect of asset condition and suitability, and has not assessed the level of backlog maintenance. | This remains a weakness. Support has been commissioned from Durham County Council and work will continue in 2008/09. |
| 7 | The audit committee is less effective than it could be due to its lack of independence and members' inability to specialise in this complex area. | New Audit & Governance Committee established (August 2007), with separate membership from both Executive and O&S, including two co-opted public members. Committee has been developing its role and has adopted a more proactive, challenging approach across all areas of its activity. |
| 8 | Consultation and engagement remain weak. | Following the management restructure, new initiatives have included the adoption of a new communications and engagement strategy (October 2007), improved dialogue with press and media following appointment of PR & Communications Manager, quarterly newsletter (Teesdale Talks), Teesdale Listens initiative supported by Community Improvement Fund. |
| 9 | The development of the corporate plan and priorities was late impacting on service planning, budget setting and performance management. | New Sustainable Community Strategy, developed following public consultation undertaken by the LSP, endorsed by Council (February 2008). Corporate priorities, revised in 2006/07 and reaffirmed in 2007/08, informed service plans for 2007/08 and 2008/09. Updated corporate plan for 2008/09 submitted to Council in June 2008. |

The Audit Commission Annual Governance Report for 2006/07 was submitted to Council in September 2007. No significant issues were raised: an unqualified audit opinion was issued on the 2006/07 Statement of Accounts and the Statement on Internal Control had been prepared in accordance with proper practice. The only exception item, within the Use of Resources judgment, was in respect of asset management. Two recommendations were made in respect of accounting practice, one relating to the need for consistency in supporting documents, the other relating to the need to ensure capital accounting practices were properly followed. These issues have been addressed.

The Annual Audit and Inspection Letter, prepared in March 2008, raised no significant issues, referring to a steady improvement being made by the Council, as judged by meetings of the Monitoring Board. The outcome of the Regeneration inspection was that it was a 'good' service with 'uncertain' prospects for improvement. A number of recommendations were made, principally the need for all authorities in County Durham to work in collaboration to strengthen the service. This is able to be addressed, within the appropriate workstream, to ensure optimum coordination in the lead up to local government reorganisation.

The provision of affordable housing remains a major challenge. Whilst the Council is taking what steps it can to address this through the planning system, this continues to be an issue and one which will need to be addressed by the new authority.

The Audit Commission noted that local government reorganisation was a significant risk, although the early indications were that the Council was making a positive contribution to preparations for the new authority.

The Audit Commission carried out a Strategic Housing inspection in May 2008. The outcome was that the service received a one star 'Fair' rating. It was reported that the Council's strategic approach to housing had improved significantly and its progress should provide a good foundation for the new county wide authority.

CPA Report: June 2008

The Comprehensive Performance Assessment report stated that the Council had made substantial progress since the 'poor' CPA judgment of 2004 and was now categorised as 'fair'. It was now performing at least adequately in all aspects covered by the assessment, which is a significant improvement from 2004 when almost all were judged to be inadequate. Whilst there was still much to be done, the report stated, the Council was able to demonstrate clearly that lessons have been learned since 2004 and was now operating in a more strategic and coherent way. Indicators of improvement included the re-establishment of the Local Strategic Partnership, a strong commitment to transition planning for local government reorganisation, stronger corporate capacity, improved community leadership and better partnership working.

The Council has had to balance the priorities of making corporate improvements while maintaining services and meeting wider outcomes. There was now clarity about what was important for the area. Many of the internal systems needed to deliver on priorities were improving and

progress was being made in organisational development and political and managerial leadership. The Council was making more effective use of its resources: the approach to procurement was good, while risk management and value for money were adequate. Performance management was leading to some service improvement.

Together with partners, the Council has put in place a number of initiatives to develop tourism and was an active partner in the work of the Barnard Castle Partnership Board which has produced the Barnard Castle Vision. The Council has had some impact on the provision of affordable housing in Teesdale and there have been significant improvements in the benefits service, which was now performing strongly.

Areas for Improvement

The CPA report concluded with a number of recommended actions for the Council to consider. These are set out in the following two paragraphs.

To exercise its community leadership role effectively during the transition to a new unitary council for the county of Durham, the Council should:

- Ensure that it continues to play an appropriate role in the various work streams underway, contributing effectively to Local Government Reorganisation (LGR) and ensuring that it promotes the needs of the district and the interests of local people so that these can be reflected in the development of new local government structures and future delivery of services in the county;
- Ensure that it does not allow the demands of LGR to impact negatively on service quality during the transition period, whilst continuing to actively address areas of relatively poor performance; and
- Improve the attendance and contribution of councillors at partnership groups, keeping the profile of the district and the needs of its residents as high as possible during the period of transition.

To continue improving the way in which it functions, the Council should:

- Tackle the shortcomings of the scrutiny function, manage it more effectively and ensure that the energy of scrutiny is channelled into supporting achievement of the Council's priorities, management of performance, policy development and value for money;
- Build on recent improvements to its overall approach to promoting equality and diversity by ensuring the pace of this work continues and that all minority groups are given the opportunity to participate in setting local priorities for improvement;
- Ensure that staff concerns over strategic leadership are fully tackled; and
- Ensure that action plans are sufficiently robust so that outcomes are improved, and clear, achievable but challenging targets are met.

The Council has had regard to these recommendations as part of the monitoring and review of its prioritisation process in the transition to local government reorganisation.

Declaration

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Neil Stokell
Chief Executive

Richard Betton
Leader of the Council

Independent auditors' report to the Members of Teesdale District Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Teesdale District Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Teesdale 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 auditor

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

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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 Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, 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 Authority accounting statements and related notes 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 Authority accounting statements and related notes.

Opinion

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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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 regularly to review the adequacy and effectiveness of these arrangements.

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.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit

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Auditors Report

Commission and published in December 2006, I am satisfied that, in all significant respects Teesdale District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

We have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on October 2007. We 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.

Cameron Waddell
District Auditor

Audit Commission

2nd Floor

Nickalls House

Metro Centre

Gateshead

NE11 9NH

30 September 2008