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Explanatory Foreword

The purpose of this foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation, in overall terms, of the purpose and content of the Council's statutory accounts and should assist in the interpretation of the accounting statements, including the group accounts.

The Council's statutory accounts and financial statements for 2008/09 are set out on Pages 38 - 115 of this document, which will eventually be subject to an independent Audit opinion, as shown at Pages 127 - 129.

In addition, this document includes a summary of the Financial Performance of the City Council, which is designed to help the reader understand in greater detail the financial standing of City of Durham Council as at 31 March 2009. It contains a commentary on the major influences affecting the authority's income, expenditure and cash flow, and information on carry over into 2009/10. It is not the purpose of this foreword or the overall financial performance to comment on the effectiveness or otherwise of the policies of the authority, rather to explain the financial facts.

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

1. Financial Overview – Income and Expenditure and Capital

A review of the financial constraints affecting the Council in 2008/09, together with a financial summary of the outturn position, is set out on Pages 8 - 21 of this document.

2. Statement of Accounting Policies

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

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

Pages 22 - 35 explain the policies adopted in preparing the Council's Accounts.

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

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

The Statement of Accounts is intended to present fairly the financial transactions of the Council during the year ended 31 March 2009 (the 2008/09 financial year).

Pages 36 - 37 summarises the responsibilities of the Authority and the nominated Chief Financial Officer, relating to the making of proper arrangements for the administration of the financial affairs of the Council and the keeping of accounting records.

The accounts and statements in respect of 2008/09 have been prepared using the professional guidance given in the Code of Practice on Local Authority Accounting 2008, together with other legal requirements as contained in various Acts of Parliament, including the Accounts and Audit Regulations 2006 (amended).

4. Income and Expenditure Account

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

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

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

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

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

Page 38 shows the revenue expenditure and income for each service provided, including contributions to funds, etc. Following the statement are notes (Pages 44 to 93) providing further information and explanation on the more important items in the Revenue Account.

5. Statement of Total Recognised Gains and Losses

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

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

Page 41 shows the Statement of Total Recognised Gains and Losses as at 31 March 2009.

6. Balance Sheet

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

Page 42 summarises the financial position of the Council as at 31 March 2009. Following the statement are notes (Pages 44 to 93) providing further information and explanation on the more important items in the Balance Sheet.

7. Cash Flow Statement

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

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

Page 43 summarises the inflows and outflows of cash arising from revenue and capital transactions with third parties. Following the statement are notes (Pages 44 to 93) providing further information and explanation on the more important items in the Cash Flow Statement.

8. Housing Revenue Account

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It includes the credit and debit items that are required to be taken into account in determining the surplus or deficit on the HRA for the year. The amounts included in the HRA differ from the amounts in respect of HRA services' included in the Income and Expenditure Account for the authority as a whole, which includes income and expenditure in accordance with the SORP rather than that required by statute and non-statutory proper practices. For this reason the HRA statement has two parts:

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

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

Pages 94 - 103 show the housing revenue expenditure and income, including contributions to funds, etc. Following each statement are notes providing further information and explanation on the more important items in the Housing Revenue Accounts.

9. Collection Fund

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

Pages 104 - 108 show the income received by the Council from Council Tax payers, Non-Domestic Rate payers and government grants to meet the Council's demand (including precepts from Parish Council's) and precepts from Durham County Council, Durham Police Authority and the Durham and Darlington Fire and Rescue Authority during 2008/09.

10. Group Accounts

For a variety of legal, regulatory and other reasons, undertakings, including local authorities, often choose or are required to conduct their activities not through a single legal entity but through several undertakings under the ultimate control of the parent undertaking of that group, i.e. the reporting authority. For these reasons the financial statements of the reporting authority by itself do not present a full picture of its economic activities or financial position. Group financial statements are therefore required in order to reflect the extended service delivery and economic unit that conducts activities under the control of the parent reporting authority. Increasing use of public/private partnerships and similar arrangements serves to emphasise the importance of group accounts.

In addition, local authorities may have special types of investments for whose activities it is partly accountable because of the closeness of its involvement, i.e. in associates as a result of the extent of its interest and influence and in joint ventures as a result of its long-term interest and joint control. Again, users of financial statements require more information than would be required for a simple investment in order to understand the full economic implications of the reporting authority's involvement in such entities, including exposure to risk through their activities.

Pages 109 - 115 present the Council's Group Accounts. These statements consolidate the Council's interest in Durham Villages Regeneration Ltd. with the City Council's own accounts. The aim of this statement is to provide better understanding of the Council's overall financial position.

11. Annual Governance Statement

The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

Regulation 4(2) of The Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 (including circular 03/2006 which replaces the publication of a statement on internal control with an

annual governance statement) requires authorities to 'conduct a review at least once in a year of the effectiveness of its system of governance and internal control'.

Pages 116 - 126 summarises the responsibilities of "those charged with Governance" (the Authority, the Leader of the Council, the Executive Director and the Director of Financial Services), relating to the arrangements in place to comply with the CIPFA/SOLACE Framework 'Good Governance in Local Government 2007' and the monitoring of an effective system of internal control and arrangements to ensure effective corporate governance.

12. Auditor's Report

Pages 127 - 129 give an independent, professional opinion by the District Auditor on the Council's Statement of Accounts (including its Governance arrangements, as detailed in the Annual Governance Statement) for the year ended 31 March 2009.

13. Glossary of Terms

Pages 130 - 137 provides details of those accounting terms used within this document and give a basic definition in order to assist the reader to understand the Financial Statements.

14. Local Government Reorganisation

A single unitary Council for County Durham replaced the former County and District Councils with effect from vesting day, 1st April 2009. All rights and obligations of the former District Council now rest in the new Authority and the responsibility for approving this Statement of Accounts also rests with the new council.

Overview of Financial Performance

Financial Performance in 2008/09

The pages that follow show the main financial results for the year-ended 31 March 2009. They summarise the income and expenditure incurred by the Council, highlighting any changes in the financial position of the Council that occurred during the year.

The Council is responsible both for the provision of General Fund Services, where the net costs of the service fall on the Council Tax payer and for Housing Revenue Account services, where net costs are borne by the Rent payer. The Housing Revenue Account is totally ring fenced from the General Fund Accounts, i.e. Council Taxpayers cannot and do not subsidise Housing Rent payers and vice versa.

The Council incurs both revenue and capital expenditure in the delivery of its services. Generally, revenue spending relates to items consumed within the year, whereas capital expenditure creates an asset that has a life beyond one year. Revenue spending is financed from council tax, rents, fees and charges, government grants and other income. Capital spending is financed mainly from external loans, proceeds from the sale of assets (called capital receipts), government grants, external contributions and support from revenue (called Direct Revenue Financing).

General Fund 2008/09- Financial Position

2008/09 Budgets

The 2008/09 budgets were prepared in the context of the impending Local Government Review and amalgamation with Durham County Council on 1 April 2009.

All the budgets were prepared on an outturn basis, taking into account all known / projected commitments. They included provision for a 2.50% pay award in 2008/09 and a 1% increase in Employers Pension Fund contributions. The provision for savings arising from staff turnover was increased to 3% to reflect the anticipated increased turnover during the transition to the new authority on 1 April.

Overall, the budgets were prepared on the basis of "business as usual", with any growth in service provision being restricted to essential / pre-determined areas only and where these would not be to the detriment of the new authority.

A small number of non-recurring one off commitments were built into the budgets. These related to an increase in the central training budget (to deal with expected increased demands during the transition year - £51,000); the business build / facility commissioning costs in relation to the Freeman's Quay Leisure Centre (the centre was planned to open in July 2008 and would take some months to build full memberships - £75,000); and the purchase of the new re-usable sacks for the expansion of the kerbside recycling scheme (£72,000). All these costs were included within the relevant service budgets, and financed through the use of General Fund Reserves.

In addition, a business continuity / service initiatives provision of £460,000 was included within the budget to deal with any unknown costs associated with business as usual activities during the transition to the new authority – for example additional training, agency, overtime payments etc. This provision was also capable of being applied to finance one off small capital environmental schemes / projects during transition, but only where such schemes result in no ongoing detriment to the new authority. This contingency sum was only part financed by a further use of General reserves of £304,637 in 2008/09.

Settlements from the Government in relation to Revenue Support Grant and Redistributed National Non Domestic Rates have a significant influence on the Council's annual spending plans.

The 2008/09 grant settlement for the City of Durham was £8,606,785, compared with £8,471,391 in 2007/08 - an increase of £135,394 or 1.60% year on year.

In overall terms, the grant settlement fell well short of meeting the general financial pressures facing the City Council, particularly in relation to pay related costs (pay awards and pension fund contributions) and significant fuel price inflationary pressures.

In considering the Budget Framework and setting the Council Tax for 2008/09 a budget requirement of £13,575,134 for 2008/09, an increase of £292,668 or 2.2% over the 2007/08 budget has been established.

The overall aim of the Council's budget framework was to limit the City Council's Council Tax increase in 2008/09 to a maximum of 2.5%.

The actual increase in Council Tax (net of the City Council's share of the forecast surplus on the Collection Fund at 31 March 2008) was 1.90%. The Council's Band D Council Tax was set at £186.62 (£183.14 in 2007/08).

2008/09 Revenue Outturns: General Fund

2008/09 was a difficult year for the City Council. In addition to the challenges of the transition to the new authority there was a significant and largely unexpected sharp decline in the global economy. This impacted significantly on both revenue and capital plans, particularly in relation to interest and dividends receivable, but also on fees and charges budgets.

The Council's Cabinet considered detailed budgetary control information, including probable outturn financial information and "balance sheet reporting" (of key items), throughout the financial year. The Council's Officer Management Team also considered regular summary financial reports during the year and corrective action has been taken during the course of the year to effectively manage the Council's budgets, both at a service and a corporate level. This, in addition to monthly monitoring by nominated budget holders / service managers, meant that tight control was maintained over the Council's finances throughout 2008/09, where these were controllable. The County Treasurer was kept fully informed of the financial performance of the City Council throughout the year, including the consequent impact on reserves and balances held.

The overall actual outturn position on the General Fund for 2008/09, taking into account the application of earmarked reserves in the year, was £14.191M, representing an overspend of £0.616M over the budgeted position. All redundancy costs and year one augmentation costs for any early retirements / voluntary redundancy cases (as a result of the transition to the new unitary authority) were charged against the service revenue accounts in which the individual worked and have therefore been fully accounted for in the revenue outturn position. All early retirements / voluntary redundancy cases relating to the local government review process were approved by the County Councils LGR ER / VR panel. The following significant issues account for the variances against the 2008/09 budgets: -

Non-Distributed Costs

- ◆ Intangible asset charges (formerly deferred charges) were £368,574 less than anticipated in the base budgets due to reductions in respect of ICT charges. This “underspend” does not impact on the “bottom line” trading position of the authority as it is offset / reversed out via a corresponding reduction in the capital financing adjustment.

Central Services to the Public

- ◆ Income from local land charges was £147,053 below budget, due to a sharp decline in the housing market and competition from the private sector.

Other Operating Income & Expenditure

- ◆ Interest receivable was £166,266 less than budgeted, as a result of lower than expected balances and lower than expected interest rates;
- ◆ The budgets assumed that the City Council would receive a dividend payment from Durham Villages Regeneration Company (DVRC) of £750,000 in 2008/09. However, following the collapse of the housing market in 2008/09, the DVRC business plan was effectively mothballed and no surplus was generated in the year. This resulted in a shortfall of £750,000 in 2008/09; and
- ◆ On a more positive note, Local Authority Business Growth Incentive (LABGI) Grant of £156,566, relating to the release of resources withheld in previous years, was received in the year. This grant had not been budgeted for.

Highways, Road and Transport Related

- ◆ Car Parking income was £32,447 less than anticipated in 2008/09; and
- ◆ Concessionary Travel Costs were £84,838 more than budgeted, primarily due to increased usage following the introduction of the free travel scheme in April 2008.

Housing General Fund Services

- ◆ Improvement grants (intangible asset charges) were £247,082 less than budgeted due to underspends on renovation grants within the capital programme, which are written off via the revenue account in the year. This “underspend” does not impact on the “bottom line” trading position of the authority as it is offset / reversed out via a corresponding reduction in the capital financing adjustment;
- ◆ Homelessness was £16,042 underspent as a result of higher than anticipated income from usage of the Council’s homeless units; and
- ◆ Welfare Benefit Administration costs were £185,090 under budget, due to a combination of additional income from overpaid housing benefit recovery and efficiencies / savings in benefits administration costs.

Environmental Services

- ◆ Refuse collection and recycling was £78,238 overspent, primarily due to income projections not being achieved and increased costs of the Greencycle recycling scheme;
- ◆ Sustainable Development was £26,161 underspent as a result of the receipt of a Climate Change grant from Central Government in the year that hadn’t been budgeted;
- ◆ The City Council’s share of surpluses generated by the Joint Committee of the Durham Crematorium was £200,000 more than budgeted;
- ◆ Staff savings and additional unbudgeted income from premises and gambling licences resulted in a £47,935 saving on the Licences/Certificates budget in the year; and

- ◆ An underspend on contaminated land surveys and street nameplate expenditure resulted in a saving of £32,936 on Other Environmental Health expenditure.

Planning & Development Services

- ◆ Planning Policy and Regeneration was £36,843 underspent at the year-end due to staff savings;
- ◆ Building Control was overspent by £60,124 due to the fee income budget not being achieved and overspending on agency related costs;
- ◆ Statutory Planning Development Control was £151,074 overspent due to a combination of reductions in Planning Delivery Grant and Planning Fee income received in the year;
- ◆ Unbudgeted costs of £46,937 were incurred in relation to a Planning Appeal which was upheld in the year;
- ◆ Community development was overspent by £417,492, however, this position is somewhat skewed by the inclusion of unbudgeted capital financing charges (intangible asset charges) relating to Flourishing Communities Fund Grants financed through the Capital Programme. This “overspend” does not impact on the “bottom line” trading position of the authority as it is offset / reversed out via a corresponding entry in the capital financing adjustment account. The “true” outturn position (in terms of General Fund impact) for this budget was an underspend of £107,508 and related to staff savings in the year.

Cultural & Related Services

- ◆ The City Centre Visioning Budget was overspent by £78,249, however, this is financed by an earmarked fund, relating to sums set aside in earlier years;
- ◆ The Gala’s operating subsidy was £78,912 over the budgeted position at the year-end and this primarily relates to overspends on agency and printing costs in the year;
- ◆ Parks Cemeteries and Allotments were £178,329 underspent as a result of savings achieved on fleet management costs and underspends on premises and supplies and services related expenditure; and
- ◆ Tourism was £32,555 overspent as a result of higher than budgeted premises and supplies and services expenditure (mainly printing), together with an overspend on overtime.

Capital Financing Adjustment

- ◆ The major change between the budgeted and actual outturn position was the net impact of changes in Capital Financing Charges within Non-Distributed Costs (see comments above regarding ICT Intangible Asset Charges) and Planning & Development Services (see comments above regarding Community Development Intangible Asset Charges).

Contingency

- ◆ The base budgets included a provision for the estimated costs (to the General Fund) of implementing Job Evaluation / Single Status in 2008/09 (£300,000) and a Business Continuity / Service Initiatives Provision (£460,000). An agreement on Job Evaluation was not reached in 2008/09, resulting in a saving of £300,000. The Business Continuity / Service Initiatives Provision was also not fully utilised in 2008/09, resulting in a saving of £180,294 at 31 March 2009.

Contributions to / (From) Reserves

- ◆ The base budget included the application of £803K to finance mainly one off non-recurring items in the budget for 2008/09. During the year, this figure was increased by £30,020 through the application of earmarked reserves set aside at 31 March 2008

within the Corporate and Service Initiatives Fund. Taking into account the outturn position, there was a net additional requirement for use of General Fund reserves of £616,117 over the originally planned position. Full details of earmarked reserves and balances and transfers made in the year / at year-end are set out on Page 16.

The overall position is summarised in the following table: -

	What we spent in 2008/09		
	Adjusted Budget £000	Actual £000	Variance £000
Corporate and Democratic Core	1,863	1,812	(51)
Non Distributed Costs	2,008	1,619	(389)
Central Services to the Public	705	817	112
Other Operating Income & Expenditure	(1,358)	(598)	760
Highways, Roads & Transport Services	739	854	115
Housing Services	1,071	621	(450)
Environmental Services	3,579	3,413	(166)
Planning & Development Services	1,684	2,270	586
Cultural and Related Services	5,563	5,902	339
Capital Financing Charges Adjustment	(1,926)	(1,686)	240
Contingency Sums – Job Evaluation	300	-	(300)
Contingency Sums – Bus. Cont. /Initiatives	180	-	(180)
	14,408	15,024	616
Appropriations to / (from) Reserves	(833)	(1,449)	(616)
Total	13,575	13,575	-

NB: The above figures are shown on a non FRS 17 basis. The adjusted budget reflects allocations (virements) from the Business Continuity / Service Initiatives contingency provision in the year

In preparing the accounts, the General Fund provision for bad and doubtful debts has been reviewed. In terms of general debtors, taking into account amounts written off in the year and the aged debt analysis at the year-end (which includes an assessment of the recovery stage the debt is at) a reduction in the provision balance of £20,627 has been credited to the Income and Expenditure Account in 2008/09. This makes a total provision for these debts of £250K at the year-end – which is £56K lower than the provision as at 31 March 2008.

Full details regarding the Income and Expenditure Account can be found on Pages 38 to 93.

2008/09 Revenue Outturns: Trading Accounts

Trading surpluses of £400,000 were received in the year relating to the Council's proportion of the revenue surplus generated through the trading transactions of Central Durham Crematorium Joint Committee in 2008/09.

The Council maintains a trading account with respect to Maintenance and New Construction, this operated on a balanced account basis during the year, with all operating surpluses and deficits cleared (recharged) within and at the year-end.

Housing Revenue Account 2008/09 – Financial Position

2008/09 Budgets

The Housing Revenue Account (HRA) includes all services related to the Council's own Housing Stock. This includes all expenditure on the Management and Repair and Maintenance of its HRA property. It is a statutory requirement that the HRA be "ring fenced", which means that only items specifically allowed by statute relating to the Council Housing Stock may be charged to the HRA.

The HRA must not be cross subsidised by council tax payers i.e. it must be funded only from Rent and Government grants – called housing subsidy.

In terms of housing subsidy, management allowances per property were increased by 7.40% (from £369.58 in 2007/08 to £396.94 in 2008/09), whereas maintenance allowances were increased by 12.52% (from £884.68 in 2007/08 to £995.48 in 2008/09). In addition, the Major Repairs Allowance per property was increased by 11.56% (from £558.22 in 2007/08 to £622.75 in 2008/09). Taking into account reduced stock levels; this resulted in increases in Management and Maintenance Allowances of £699,626 year on year, whilst MRA Grant funding (used to finance the HRA Housing Business Plan Capital Programme) was increased by £330,233 next year. Included within the management allowance was a sum of £4 per property to cover the production of Energy Performance Certificates in 2008/09.

In terms of Guideline Rent income within the Subsidy calculation, the Government increased guideline rents by 5.68% (increasing the average guideline rent from £49.94 in 2007/08 to £52.78 in 2008/09), resulting in additional income within the Notional HRA (after reductions in stock numbers and accounting for voids of 2%) of £576,114.

2008/09 saw a major shift in central Government policy towards rent convergence. In contrast to 2006/07 and 2007/08, the Rent Constraint Allowance has been removed from the formula. To offset the effects of this, the guideline increases (see above) are lower than expected in 2008/09 (the guideline increase was 6.85% in 2007/08) and convergence was modelled on the basis of rent convergence by 2016/17, but for one year only and subject to future review. The cap on rent increases above 5% was therefore removed for 2008/09 only, whilst the Government considered the future direction of the subsidy system.

The impact of the changes to the rent restructuring / rent convergence model (used to determine the rent increases the City Council) was that rents increased by 5.50% in 2008/09, increasing the average rent from £50.80 in 2007/08 to £53.59 in 2008/09. At the 07 April 2008, no Council properties were at their target rent levels, however, 61% of the tenancy rents were between 90-99% of their target rent and another 38% will be at 80-89% of their target rent

Therefore, whilst the subsidy regime allowed for the Council to increase investment in maintaining and managing its housing stock, it was at the cost of above inflation rent increases for many tenants. Overall, the notional HRA remained in a negative position in 2008/09, with £1.897M budgeted to be paid over to Central Government, compared with £1.959M in 2007/08 – a decrease of £62K. The payments made in respect of the City of Durham's HRA are "pooled" by Central Government to assist with social housing in other parts of the country which are calculated to be in a positive subsidy position.

Council house sales slowed considerably in the last few months of 2006/07 and this continued throughout 2007/08 and was expected to continue throughout 2008/09. Whilst this produces additional income into the HRA it came at the expense of capital resources that would be available to the HRA Housing Capital programme through retained elements of the right to buy capital receipts.

The budgets built in the additional income to HRA from these retained stock numbers and, together with a 5.50% increase in rents, resulted in additional gross rental income of around £850,000 in 2008/09. The forecasts showed that the stock at 31 March 2008 would be 6,138, with expected right to buy sales of 55 in the year, giving a closing position at 31 March 2009 of 6,083 dwellings. Rent lost from voids was forecast to be 1.50% of gross rents.

The 2008/09 HRA maintained a budgeted £100,000 provision for Bad and Doubtful debts. New recurring commitments were built in for re-let and disturbance allowances, whilst non-recurring expenditure of £51,000 for the HRA share of the increase in the Corporate Training budget was also included.

The additional resources generated through rents and the reductions in the negative subsidy payments allowed an increase in Direct Revenue Financing to the HRA Housing Capital Programme in 2008/09. This, plus the additional MRA grant, helped mitigate against the capital resources lost through the considerable slow down in right to buy sales.

Also included within the HRA budget was a £100,000 provision for the impact of job evaluation on the HRA, together with a further £100,000 provision for business continuity / service initiatives. Like the General Fund, the business continuity /service initiatives provision was there to deal with unknown costs associated with business as usual activities during transition to the new authority – for example additional training, agency, overtime payments etc. that may be required. This provision could also be applied to finance one off small capital environmental schemes / projects during transition, but only where such schemes resulted in no ongoing detriment to the new authority

There was no planned use of HRA Working balances in 2008/09. The approved budget assumed that the HRA would be balanced in 2008/09, with all expenditure being offset by income generated within the year.

2008/09 Revenue Outturns: Housing Revenue Account

The budgetary control information considered by Cabinet throughout the year, including probable outturn financial information and “balance sheet reporting” (of key items), incorporated the HRA. As with the General Fund revenue spend position, regular monthly summary financial reports were also considered by the Council’s Officer Management Team during the year. Again, corrective action was taken during the year to effectively manage the HRA spend and this, in addition to monthly monitoring by nominated budget holders / service managers, has meant that tight control has been maintained over the HRA finances throughout 2008/09.

The overall actual outturn position on the HRA for 2008/09 was a net underspend of £252,031 against the budgeted position. The following significant issues account for the variances against the 2008/09 budgets: -

- ◆ Gross housing rent income exceeded the budget by £165,923 due to the fact that the opening stock position was above that budgeted and there was less than anticipated Right to Buy (RTB) completions in the year. The base budget assumed an opening stock of 6138, whereas the actual opening stock was 6160 Assumed RTB sales were 55 in 2008/09, however, RTB’s only totalled 11 in the year. Housing rental income loss through voids was slightly greater than the budgeted level. Net housing rental income was £140,868 greater than the budget;
- ◆ Repairs and maintenance was £88,471 overspent;
- ◆ Direct Revenue Financing was £50,000 greater than budgeted;

- ◆ Investment income relating to HRA Balances - the Item 8 Credit – was £12,558 less than budgeted due to lower than anticipated interest rates in the year;
- ◆ The Council sold various miscellaneous pieces of HRA land with values of less than £10,000 in the year amounting to £29,800. Such sales are designated de-minimis and are credited to the HRA at the year-end. This income is not budgeted;
- ◆ Despite an increased charge to the HRA of £151,506 for bad debts in 2008/09 - £51,506 more than budgeted. The provision for bad debts in respect of Housing Rents has been reduced at the year-end from £585K to £535K which is £50K lower than last year. The provision now reflects a more realistic provision in respect of potential bad HRA related debt.
- ◆ Housing Supervision and Management was underspent by £53,275. The main factors for this being reduced costs associated with the pension scheme charged to the HRA, savings on home loss and disturbance allowances, and an underspend on Council Tax on void properties and costs of the Tenants Survey;
- ◆ The HRA Business Continuity / Service Initiatives contingency provision (£100,000) was not utilised in 2008/09 as the projected overspend on repairs and maintenance was being offset by savings and additional income elsewhere within the HRA; and
- ◆ As noted above, the HRA included a provision for the estimated costs (to the HRA) of implementing Job Evaluation / Single Status in 2008/09, however, as an agreement was not reached in the year, savings of £100,000 were achieved in the year.

The overall position is summarised in the following table: -

	What we spent in 2008/09		
	Planned £000	Actual £000	Variance £000
Expenditure on:			
Repairs and Maintenance	3,629	3,717	88
Supervision and Management	5,301	5,248	(53)
Provision for Bad and Doubtful Debts	100	151	51
Capital Charges – Notional Interest	1,520	1,513	(7)
Capital Charges – Depreciation (MRA)	3,866	3,866	-
Capital Charges – Premia on Redemption	163	163	-
Debt Management Expenses	67	71	4
Direct Revenue Financing	312	362	50
Negative Subsidy Payable to ODPM	1,896	1,896	-
Contingency – Job Evaluation	100	-	(100)
Contingency – Bus. Cont. / Service Init.	100	-	(100)
Contribution to the HRA Working Balance	-	252	252
Total Expenditure	17,054	17,239	185
Income:			
Dwelling and Garage Rents (Net of Voids)	16,937	17,072	135
Non-Dwelling Rents	16	26	10
Heating Charges	31	27	(4)
Other Income	23	49	26
Item 8 Credit	47	35	(12)
De minimis Capital Receipts	-	30	30
Total Income	17,054	17,239	185
Net Expenditure	-	-	-

Full details regarding the Housing Revenue Account can be found on Pages 93 to 102.

Reserves and Balances at 31 March 2009

The following table sets out the actual position at 31 March 2009, and compares this with the position at 31 March 2008: -

	Balance at 31 March 2008 Restated £000	Balance at 31 March 2009 £000
GENERAL FUND		
Earmarked Funds and Balances:		
Insurance & Risk Management Fund	500	450
Pension Strain Reserve	464	919
Section 106 Agreements	206	149
HMO Licensing Reserve	150	100
City Centre Visioning	100	22
Job Evaluation – Contingency Provision	300	-
Flourishing Communities Fund	38	-
Flourishing Communities Fund – Revenue	40	-
Corporate & Service Initiatives Fund	34	-
Pride in Durham Fund	57	-
Collection Fund (COD Share Only)	50	57
Sub-Total: Earmarked Funds and Balances	1,939	1,697
Non-Earmarked Funds and Balances:		
General Fund – Strategic Emergency Reserve	700	-
General Fund – General Reserve	667	445
Sub-Total: Non-Earmarked Funds and Balances	1,367	445
Total General Fund Reserves and Balances	3,306	2,142
Housing Revenue Account	851	1,103
Total Reserves and Balances	4,157	3,245

Collection Fund

The Council, as billing authority, maintains the Collection Fund account in respect of all the precepting authorities within the district area. Surpluses and deficits on the Fund have to be used to support or be charged against future Council Tax bills.

In preparing the Collection Fund accounts, the provisions for bad and doubtful Council Tax and NNDR debts were reviewed at the year-end. Taking into account an analysis of arrears by age and recovery stage and recent experience with regards to amounts written off in year, plus continuing improvements in recovery performance, the provisions for bad debts in respect of Council Tax has been decreased, whereas the NNDR bad debt provision at 31 March 2009 has been slightly increased.

Taking into account these adjustments and factoring in improving collection rates, the Council's Collection Fund has achieved an accumulated surplus of £407K at 31 March 2009 (an accumulated surplus of £354K was achieved at 31 March 2008).

In terms of the accumulated surplus on the Fund at 31 March 2009 (£407K), £350K (85%) is due to other authorities i.e. Durham County Council; Durham Police Authority; and the Durham and Darlington Fire and Rescue Authority. The statement above reflects only the City Council's share of the Collection Fund Surplus at 31 March 2009.

Full details regarding the Collection Fund Accounts can be found on Pages 104 to 108.

Borrowing Procedures

Section 45 of the Local Government and Housing Act 1989 requires the Council to set an overall borrowing limit, a short term borrowing limit and to determine what proportion of the Council's debt will be at variable rates of interest. The limits agreed by the Council in respect of the 2008/09 financial year was as follows: -

	Agreed Limit	Outturn Position
Overall Borrowing Limit	£28.875M	£21.451M
Short-Term Borrowing Limit	£26.275M	£1.042M
Proportion of Interest Payable at Variable Rates	NIL	NIL

The Council operated within these limits throughout the year.

Long Term Borrowing

The Council's normal source of long-term borrowing is from the Public Works Loans Board (PWLB). Overall borrowing decreased by £0.702M in the year.

All borrowing was in accordance with the Council's agreed Treasury Management Strategy and procedures. Loans repayable within 12 months of 31 March 2009 reflect principal repayments of PWLB annuity loans in 2009/10. An analysis of the Council's long-term indebtedness as at 31 March 2009 is shown within Note 29 to the Balance Sheet (Pages 73 to 80).

The Council has an overdraft facility with the Co-operative Bank Plc and is able to borrow by means of temporary loans on the money market using banks, building societies and other financial institutions up to the limits specified in its Treasury Management procedures. There was limited use of the overdraft facility with the Co-operative Bank plc in 2008/09 and no other further temporary borrowing was undertaken.

Variable Rate Loans

The Council did not have any variable rate long-term borrowings outstanding at 31 March 2009.

Debt Redemption

The Council did not undertake any debt rescheduling or redemption in 2008/09. The provision for premiums on debt rescheduling in earlier years held in the Balance Sheet is included in Financial Instruments Adjustment Account, in accordance with changes introduced in the Statement of Recommended Practice (SORP) 2007. This sum will continue to be applied to the Housing Revenue Account and included in future subsidy claims until fully exhausted in 2013/14.

2008/09 Outturns: Capital Expenditure and Financing

In preparing the Council's Capital Budgets for 2008/09, account had to be taken of the resources available to the Council in the form of Government allocations (Major Repairs Allowance and Supported Borrowing) and other capital resources such as capital receipts, revenue contributions and accumulated reserves.

The approved gross spending target for 2008/09 was subsequently set at £6.845M - £1.721M for General Fund Services, £4.704M for Housing Services and £0.420M for Flourishing Communities Fund activities (incorporating the two earmarked Community Investment Funds at Bowburn and Ushaw Moor).

Both major programmes were set a revised budget during the year to reflect an underspend on projects in 2007/08, slippage amounting to £1.028M on the General Fund Capital Programme (gross of capital grants and contributions for those schemes) and £0.145M on Housing was added at the beginning of the year. Further amendments were made in respect of slippage brought forward from 2007/08 on Bowburn Community Investment Fund (£814K); Ushaw Moor Community Investment Fund (£319K) and the Flourishing Communities Fund (£74K).

The capital programmes were monitored and reviewed by the Council's Capital Works Steering Group in detail on a monthly basis and regular detailed reports were submitted to Cabinet on a quarterly basis. The budgetary control reports clearly highlight slippage brought forward from 2007/08, include a capital financing statement and reflect robust project management arrangements. Each project is assigned a responsible officer and start and end dates are included for each scheme.

In response to the pressure on capital receipts from land / property sales as a result of the recession, the approved Capital Programmes were re-appraised and spending plans reduced in a number of areas during the year and some schemes slipped into later years.

The programme was continually updated throughout the year, with amendments approved by the Council's Cabinet.

General Fund Capital Programme

The General Fund programme is allocated around the Council's three high level strategic aims – Flourishing Communities; Quality Public Services; and Capital City. As noted above, budget monitoring reports considered during the year show gross capital expenditure and gross capital income / financing. A breakdown of gross capital expenditure, together with commitments and spend carried forward into 2009/10 are set out below: -

	Spend in Year	Commitment/ Spend Carried Forward to 2009/10
	£000	£000
Flourishing Communities		
- Disabled Facilities Grants	336	39
- Private Sector Grants	51	12
	387	51
Quality Public Services		
- ICT / Implementing E-Government Schemes	74	21
- Civic Buildings / Office Accommodation	59	-
- Land Drainage	2	-
- Waste Recycling	55	-
- Regeneration – City Centre Streetscape	10	24
- Regeneration of Public Spaces (Parks etc.)	288	89
- Freeman’s Quay Leisure Centre	995	44
	1,483	178
Capital City		
- Pride in Durham (Public Realm)	133	9
- Millennium City / Arts Provision Millennium Place	127	-
- Riverbanks Garden	50	-
- Town Hall	41	-
	351	9
Flourishing Communities Fund Activities		
- Ushaw Moor Community Investment Fund	314	13
- Bowburn Community Investment Fund	698	550
- Flourishing Communities Fund	88	236
	1,100	799
Total General Fund Gross Capital Expenditure	3,321	1,037

Housing Capital Programme

The Housing Capital Programme (often referred to as the Housing Investment Programme (H.I.P.)) is based around achieving the Decent Homes Standard for all Council properties by 2010 and for the re-vitalisation of its dwellings. The significant areas of the programme and the gross spend against each, together with details of commitments and spend carried forward into 2009/10 are set out below: -

	Spend in Year £000	Commitment/ Spend Carried Forward to 2009/10 £000
Professional Administration Fees	480	-
Planned Maintenance & Component Replacement	3,804	60
Environmental Improvements	8	-
Heating Systems and Energy Efficiency Measures	95	15
Members Discretionary Fund	12	-
Disabled and Medical Adaptations	380	10
Total Council Housing Gross Capital Expenditure	4,779	85

Summary

As can be seen above, the Council has commitments of £1.122M into 2009/10 (£1.037M in respect of the General Fund Programme and £0.085M in respect of Council Housing capital programmes), of which £0.348M is contractually committed.

Full details of the individual schemes and capital commitments (contracted and non-contracted) at 31 March 2009 are set out in Note 25 to the Balance Sheet on Pages 65 to 70.

Financing the Capital Programmes

There are two sources of capital resources available to the Council; Government Allocations and the Council's own resources.

Government Allocations consist of supported borrowing approvals and specified Government Grants. The Council's supported borrowing allocation is the amount which the Government calculates / assumes the Council will raise credit to finance capital expenditure. Supported borrowing can be applied to any type of capital expenditure in the year. Capital grants are also paid by the Government to support spending on specific projects and must only be used to finance capital expenditure for which it is awarded. The allocation of Capital Grant is usually on the basis of "expenditure defrayed" (i.e. spent) in the year.

The Major Repairs Allowance is the most significant Government Capital Grant that the Council receives and this is used to support the delivery of the Decent Homes Standard for the Council's housing stock. The other major Capital Grants received from the Government is the Disabled Facilities Grant.

Capital receipts, direct revenue financing, capital grants and contributions, and the use of the Council's reserves and balances make up the Council's own resources that are available to finance capital expenditure.

The Council is able to use specified proportions of the capital receipts it generates from the sale of its assets; these are 25% from the sale of Council housing and 100% from the sale of all General Fund assets. In addition, from 1 April 2004, the Council is also allowed to use 100% of capital receipts generated from the sale of housing land, provided a suitable resolution has been passed by the Council and the receipts generated from these sales are earmarked for affordable housing and/or regeneration initiatives.

Direct revenue financing involves financing the capital expenditure directly from revenue income in the year and whilst there is no limit set, the Council's ability to finance capital expenditure in this way is limited. The impact on the Council Tax and the penalties for not achieving Government guidelines in terms of both rent and Council Tax increases mean that the Government effectively exerts indirect control over the level of direct revenue financing which can be applied.

Other capital grants and contributions are received for specific projects, on the basis of a business case and bid for the award of the grant, and are usually associated with specific outcomes and linked to joint projects and partnership arrangements. The Single Regeneration Budgets and One North East bids are good examples of these, however, a number of contributions are received from other local authorities participating in Council led partnering activities.

Details of how the 2008/09 Capital Programme was financed are shown in Note 25 to the Balance Sheet on Pages 65 to 70. The Programme reflects the full use of the Major Repairs Allowance to finance the Housing Programme and shows the significant amounts of external grant income that was receivable in 2008/09.

Local Government Review

On 25 February 2008 it was agreed by Parliament that a single Unitary Council for County Durham would replace the existing County and District Council's (including Durham City Council) 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 the County Council and these Members formed the new Unitary Council for Durham on 1 April 2009.

During 2008/09 officers and members of the City Council worked closely with officers and members of the County Council and the other six District Councils to make effective arrangements for the transition to the new authority.

This Statement of Accounts represents the final Statement of Accounts produced for the City of Durham District Council.

— Statement of Accounting Policies —

1. General Principles

The Council's accounting policies (and indeed the financial Statements included in this document) have been prepared in line with recommended accounting principles, as specified in the Best Value Code of Practice on Local Authority Accounting (BVACOP) and accompanying Guidance Notes for Practitioners, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Institute's guidance note on the application of Statements of Standard Accounting Practice (SSAPs), Statements of Recommended Practice (SORPs) and Financial Reporting Standards (FRSs) have also been taken into account.

The financial statements contained in the Statement of Accounts take into account the recommended accounting principles wherever possible and any departures from the recommended practice are identified in the following notes.

The Statement of Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2008 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Revenue Accounts

Income and Expenditure Accruals

Revenue transactions are recorded on an income and expenditure basis. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. This is called accruals accounting and is in accordance with the Code of Accounting Practice and SSAPs. Income and Expenditure are accounted for in the year in which they arise by the creation of debtors and creditors, including estimates where appropriate. Debtors are included to represent the value of goods supplied or services rendered by the Council during the financial year and creditors are included to represent goods received or services provided to the Council during that period.

Value Added Tax

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

Government Grants (Revenue Services)

Whatever their basis of payment, revenue grants are matched with the expenditure to which they relate. Grants made to finance the general activities of a local authority or to compensate for a loss of income are credited to the revenue account of the period in respect of which they are payable.

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

Support Services and Other Overheads

Charges or apportionments covering all support service costs are made to all users (including DSOs, HRA and Capital) in accordance with the seven principles of overhead apportionment outlined in BVACOP. These principles are:-

Complete recharging of overheads	All overheads not defined as unapportionable central overheads, should be fully recharged to service expenditure headings as defined in Section 3 of the BVACOP
Correct Recipients	The system must identify correctly who should receive overhead recharges.
Transparency	Recipients must be clear what each recharge covers and be provided with sufficient information to enable them to challenge the approach being followed.
Flexibility	The recharging arrangements must be sufficiently flexible to allow recharges to be made regularly enough and to a level of detail appropriate to meeting both users' and providers' needs.
Reality	Recharging arrangements should result in a distribution of actual costs, which have a basis in fact. Even if the link cannot be direct, reality should be the main aim.
Predictability/ Stability	Recharges should be as predictable as possible, although there will be practical limitations to this.
Materiality	It is unlikely that a simple system will be adequate to meet all the other requirements noted above. However, due regard should be shown to materiality to minimise the costs involved in running the system.

All costs of management and administration have been fully allocated to services with the exception of overheads defined as non-distributed costs in accordance with BVACOP. The basis of allocation used for the main costs of central support services / overheads are outlined below:-

Cost	Basis on Which Allocated
Central Departments	Individual assessment of time spent by staff
Administrative Buildings	Floor Area occupied
Architects' Services	Allocated to capital scheme in ratio to valuations

Pensions

The Council's Accounts have been prepared in accordance with FRS17 "Retirement Benefits", which became fully effective from 1 April 2003 and which requires local authorities to account for retirement benefits when it is committed to give them, even if the actual giving will be many years in the future.

In complying with FRS17 it should be noted that the Financial Statements reflect the value of assets and liabilities arising from the Council's retirement benefit obligations; that the operating costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by the employees; and that the financial statements contain adequate disclosure of the costs of providing retirement benefits and the related gains, losses, assets and liabilities.

The introduction of FRS17 has meant that the overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services and overall net operating expenditure is higher than would have otherwise been. Recognising / including the net pension liability in the Balance Sheet has reduced the reported net worth of the Council.

In accordance with SSAP, the additional costs that would have arisen over the relevant period, in order to comply with FRS17, are shown by way of a note to the Income and Expenditure Account (Note 7, Pages 48 - 53)

The Annual Report of Durham Pension Fund is available from the County Treasurer, Durham County Council, County Hall, Durham, DH1 5UE.

Interest

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

A copy of the Council's Local Code of Treasury Management and Annual Treasury Management Strategy is available from Durham County Council, Accountancy Service, Annand House, John Street North, Meadowfield, Durham, DH7 8RS.

Premiums and Discounts on the Early Redemption of External Debt

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

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

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

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

The Council did not undertake any debt rescheduling or redemption in 2008/09. However, where early redemption of debt takes place, premiums or discounts incurred are accounted for as follows: -

- ◆ Premiums and discounts incurred as a result of a debt restructuring exercise are charged to the revenue account over the life of the new loan for the General Fund, and over the life of the old loan or ten years, whichever is shorter, for the Housing Revenue Account.
- ◆ Premiums and discounts that are not associated with a wider restructuring of the Council's debt portfolio are charged to the revenue account in the year in which they are incurred.
- ◆ Premiums and discounts are split between the General Fund and the Housing Revenue Account, in accordance with their share of debt as identified by the Council's

Capital Financing Requirement (formerly its Credit Ceiling) at 1 April in the year in which they are incurred.

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

The provision for premiums on debt rescheduling in earlier years held in the Balance Sheet has been reclassified and charged to the new Financial Instruments Adjustment Account in accordance with changes introduced in the Statement of Recommended Practice (SORP) 2007.

Capital Charges to Revenue

General Fund Service Revenue Accounts, as defined in CIPFA's Best Value Accounting Code of Practice, central support services and statutory trading accounts, including DSOs, are charged with a capital charge and where required, any related impairment loss (due to a clear consumption of economic benefits), for all fixed assets used in the provision of the service.

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

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

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

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

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

Insurances

The Council insures against the majority of its potential losses by using an Insurance Company and the Council has established an Insurance Fund to meet the potential cost of insurance claims falling within agreed excesses.

There are no material un-funded risks and it is considered that the present Insurance arrangements are adequate to meet any potential claims on the Council.

Leases

The Council has adopted and implemented the CIPFA Prudential Code for Capital Financing. As part of this, the Council has established and monitors performance against its Prudential Indicators on a quarterly basis. The Council also complies with the Code in terms

of undertaking a lease – buy – borrow options appraisal for capital investment decisions around the acquisition of its vehicle fleet. There are two main types of lease agreements that the Council can enter into and the accounting treatment of each of these is as follows: -

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

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

Exceptional Items

Exceptional items will be included in the cost of the service to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item will be given within the notes to the accounts. The costs of any fundamental reorganisation or restructuring which has a material effect on the nature and focus of the authority's operations will be shown separately on the face of the Income and Expenditure Account.

Extraordinary Items

Extraordinary items will be disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of the authority and will be explained fully in a note to the accounting statements.

Prior Year Adjustments

Prior year adjustments will be accounted for in the year in which they are identified and disclosed within the notes to the accounts or, where considered necessary for a fair report or required by Accounting Standards, there will be an adjustment of preceding year comparative figures and of the opening balances of funds. The requirement to match all expenditure in the reporting period with income from general Government grants and local taxpayers will always be considered.

Post Balance Sheet Events

Where a material post balance sheet event occurs which provides additional evidence relating to conditions existing at the balance sheet date; or indicates that application of the going concern concept to a material part of the authority is not appropriate; then changes are made in the amounts to be included in the Statement of Accounts.

Any occurrence of a material post balance sheet event which concerns conditions which did not exist at the balance sheet date, are fully disclosed. The disclosure states the nature of the event and, where possible, an estimate of the financial effect of the event.

Acquired Operations

Income and expenditure directly related to acquired operations will be shown separately on the face of the Income and Expenditure Account under the heading of acquired operations.

Discontinued Operations

Income and expenditure directly related to discontinued operations will be shown separately on the face of the Income and Expenditure Account under the heading of discontinued operations. Any liabilities in respect of discontinued operations will be disclosed separately in the notes to the Balance Sheet.

Contingent Liabilities

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

Contingent Assets

Contingent assets are not accrued in the accounting statements, but disclosed by way of notes if the inflow of a receipt or economic benefit is probable. The disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

Foreign Currency Translation

Income and expenditure arising from a transaction denominated in a foreign currency is translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred; if the rates do not fluctuate significantly, an average rate for a period will be used as an approximation. Where the transaction is to be settled at a contracted rate, that rate will be used.

At each balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated by using the closing rate or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

Interest in Companies

The Council has an interest / shareholding in the following companies: -

Durham Housing Partnership Ltd - The City Council has a minority interest of 19 x £1 shares (19%) in Durham Housing Partnership Limited. The objective of the Company is to enrich the quality of housing, employment and development opportunities in Durham, concentrating initially in the area of housing. The Company develops houses for sale and social housing for rent. The land value of the houses for sale is used to subsidise the social housing for two local housing associations, in return for Council nomination rights to the social housing. Under a Minority Protection Agreement certain major transactions may not be carried out without the prior written consent of all shareholders.

Durham Heart of the City Joint Venture Company - In order to regenerate the heart of the City and the riverside area around Framwellgate Bridge, during 1999/2000 the Council entered into a Joint Venture Company with AMEC PLC (Durham Heart of the City Limited) pursuant to the economic development powers contained in Part III of the Local Government and Housing Act 1989. That Company in turn entered into a Development Agreement with AMEC PLC, AMEC Developments Ltd and the Council to develop sites at Walkergate, Framwellgate Peth, Framwellgate Waterside, Back Silver Street and other "future sites" to be identified through Durham Heart of the City Ltd. (The agreement for the disposal of the Council owned sites provided co-funding for the Council's Millennium City Project.)

The Council holds 500 'B' ordinary shares in the Joint Venture Company of £1 each. AMEC holds 500 'A' ordinary shares of £1 each. AMEC and the Council are each entitled, for so long as each holds shares in their respective classes in the Joint Venture Company, to nominate one of their respective Directors to be a Joint Chairman.

Durham City Forum Limited - The purpose of this Company is to encourage the private, voluntary and public sectors to work in partnership to build a better City Centre in Durham in accordance with the 'Heart of the City Masterplan'.

The Forum is a company limited by guarantee and not having share capital. The Members of the Company are City of Durham Council, Durham Markets Company Ltd, Chester-le-Street and City of Durham Enterprise Agency Ltd, University of Durham and Boots the Chemist Ltd.

Durham Villages Regeneration - The City Council has joined with Keepmoat Plc to form a Joint Venture Company known as Durham Villages Regeneration Ltd (Company No. 4305805). The Company aspires to be an economic and community regeneration public/private partnership where Keepmoat holds 51% and the Council 49% of the share capital. The issued share capital is £100 divided into 51A ordinary shares and 49B ordinary shares.

The aims of the Company are:-

- ◆ To create economic regeneration through the provision of affordable housing for sale, the provision of recreational facilities and some commercial schemes.
- ◆ To take forward socio-economic initiatives such as employment and training programmes, crime prevention schemes, small business start up catalysts, community awareness and capacity building of local people.
- ◆ To provide a sustainable safe and well balanced environment where community spirit will raise people's aspirations.

The Council has prepared Group Accounts in accordance with the 2008 SORP. The statements are shown on pages 109 to 115. The Council's interest in the above companies is included as a note to the Balance Sheet (Note 39, Pages 87 - 88).

3. Current Assets

Stocks and Work in Progress

Stocks are valued and included in the Balance Sheet at current market value. This is a departure from the requirements of the Code of SSAP 9, which requires stocks to be shown at actual costs or net realisable value, if lower. The effect of this different treatment has not been quantified, but the opinion is held that because of the levels of stocks held, any difference in value would be immaterial.

For trading activities, the amount recognised in the appropriate revenue account for contract work in progress, for which interim valuations are made, represents the progress payments received and receivable, less related costs and any foreseeable losses, to the extent that the amount exceeds the corresponding amount recognised in previous periods.

Investments

Short Term Investments are shown in the Balance Sheet at their nominal value. However, in accordance with the requirements of SORP 2008, the notes to the Balance Sheet include a disclosure pertinent to the scope and significance and these financial instruments.

Provision for Bad and Doubtful Debt

All outstanding debts are pursued in accordance with the Council's Debt Management Strategy and are reviewed on an ongoing basis. Known uncollectable debts are written off and regular reports are submitted to the Council's Cabinet for this.

A separate provision is charged to the revenue accounts on an annual basis to reflect the fact that some debts will become doubtful or bad at a future date. The provision is calculated in accordance with BVACOP guidance and is primarily based on the age of the debt outstanding and the recovery stage / action taken to date to recover the sums.

4. Revenue Provisions

Provisions are required for any liabilities or losses that are likely to be incurred, or certain to be incurred, but where uncertainty exists as to the amounts or the dates on which they will arise. Provisions are required to be recognised when: -

- ◆ The local authority has a present obligation (legal or constructive) as a result of a past event;
- ◆ It is probable that a transfer of economic benefits will be required to settle the obligation; and
- ◆ A reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision is recognised.

Provisions are required for any liabilities of uncertain timing or amounts that have been incurred.

Provisions are charged to the appropriate revenue account; when payments for expenditure are incurred to which the provision relates they should be charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

Details of the provisions contained within these Accounts are shown in Note 33 to the Balance Sheet (page 82).

5. Revenue Reserves

In accordance with the Code, amounts set aside for purposes falling outside the definition of provisions are considered to be reserves and transfers to and from them are distinguished from service expenditure in the Statement of Accounts. No expenditure has been charged directly to any reserve. The major reserves held and a brief description of their purpose is shown below: -

General Fund Reserve - Represents an amount available to meet any shortfall between expenditure incurred in the day to day running of the Council and income received. It also provides support to maintain services when the Council is faced with cuts in Government Grant Allocations. It includes the surplus or deficit on the General Fund for the year – as shown in the Income and Expenditure Account.

Housing Revenue Account Reserve - Represents an amount available to meet any revenue shortfalls in the day-to-day running of the Council's housing service and to support capital projects. It includes the surplus or deficit on the Housing Revenue Account for the year.

Insurance Fund - An amount established under statutory powers to indemnify the Council directly against specified risks not covered by the Council's insurance policy.

A complete Schedule of Reserves held at 31 March 2009 is shown in Note 42 to the Statement of Accounts on page 89.

6. Capital Accounts

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets, has been capitalised in accordance with Part IV of the Local Government and Housing Act 1989.

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefit to the authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets that is charged direct to service revenue accounts.

Assets acquired under finance leases and hire agreements are capitalised in the Council's accounts on the basis of their notional capital value as notified by the Lessor or Hirer. Operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value.

The Asset values used in the accounts are based on a valuation report issued by Mr R Hurst MA BSc FRICS, Asset Management Officer at Derwentside District Council. During the year revaluations were undertaken on a number of operational and non-operational land and building assets, which were last revalued at 31 March 2004 and 25% of HRA housing beacon properties, in line with the policy of undertaking continuous housing stock revaluations.

All additions are included in the accounts at their cost of acquisition. The basis of the valuation of Fixed Assets, shown in the Balance Sheet as at 1 April 2008, is shown below:-

Asset Type	Basis of Valuation
Other Land & Buildings	Open Market Value
Vehicles Plant & Equipment	Historical Cost
Infrastructure	Historical Cost – No added/Tangible Value
Council Dwellings	Open Market – Existing Use (Social Housing)
Community Assets	Historical Cost
Non-Operational Assets	Open Market Value

Impairment

The value at which each category of assets is included in the balance sheet is reviewed at the end of each reporting period and where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly. Examples of events and changes in circumstances that indicate a reduction in value may have incurred include:-

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

All infrastructure assets, previously shown in the Balance Sheet at historic cost, were written off at 31 March 2000. All capital expenditure incurred on infrastructure assets in the year and in subsequent years, has been written off and not included in the Council's Asset Register.

The Council owns various pieces of housing and other land throughout the District that were previously deemed to be individually below the de minimis level £20,000 and were therefore not previously included in the Council's Asset Register (for accountancy purposes) or in the Balance Sheet. During the year a detailed review of these land holdings was carried out with the result that small pieces of land with a total value of £1.037M at 31 March 2009 were identified. Whilst these pieces of land are individually below the de minimis level, their value in aggregate is significant enough to warrant inclusion and they have therefore been included in the Balance Sheet.

During the last five years, the Council has undertaken a number of Village Appraisals and identified areas of housing land to be released for development, either through the Durham Villages Regeneration Company or via sale on the open market. This phased land release has financed a number of key priority investment areas, including the new Freeman's Quay Leisure Centre, which opened in July 2008, and the Flourishing Communities and Community Investment Funds.

An impairment review of the Council's entire Asset Register has been undertaken by John Murray MRICS of the District Valuer Services at 31 March 2009. As a result of this review an impairment of £30,568,682 has been recognised in the accounts for the year, attributable to a significant decline in the market value of Council assets during the year.

Depreciation

Assets, other than land, are being depreciated over their estimated useful economic lives, in accordance with FRS 15, which came into effect from the 1 April 2000.

Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or at a revaluation) and is calculated using the straight-line method. Depreciation on housing dwellings is equated to the Major Repairs Allowance received through the Housing Subsidy System. This sum reflects the assessment of work needed on the housing stock to maintain the value of the property.

Where depreciation is provided for, assets are being depreciated using the straight-line method over the following periods: -

Asset Type	Number of Years
Intangible Assets – Computer Software	2 to 5
Motor Vehicles	5 to 7
Other Plant, Furniture & Equipment	3 to 20
Council Dwellings, Offices and Other Buildings	21 to 60

No depreciation is charged in the year of acquisition. A full year of depreciation is charged in the year of disposal.

Sale of Fixed Assets – Capital Receipts

Under the 1985 Housing Act, Council tenants have the right to buy their dwellings. The proceeds of these sales, together with other disposals of assets that arise in the normal course of Council activities, are known as capital receipts.

The Government prescribes the proportions of receipts that a Council can retain and utilise to finance its capital expenditure. From 1 April 2004 the Council has been required to pool the non-usable elements of all capital receipts and pay this over to the Government on a quarterly basis, as set out below: -

Type of Receipt	Use Locally	Repayable to National pool
General Fund Asset Sales	100%	-
Housing Land Asset Sales	50%	50%
Right to Buy Sales	25%	75%

In terms of the City Council, the new rules (introduced in April 2004) apply rigidly to Right to Buy (RTB) receipts but, in the case of housing land, the Council had the opportunity to retain the full amount if it resolved to spend these receipts either on the provision of ‘affordable housing’: –

“the provision of dwellings to meet the housing needs, as identified by the local authority, of persons on low incomes, whether provided by the local authority or a registered local landlord ...”

or ‘regeneration’: –

“any project for the carrying out of works or activities on any land where –

- ◆ *the land, or a building on the land, is vacant, unused, under-used, ineffectively used, contaminated or derelict; and*
- ◆ *the works or activities are carried out in order to secure that the land or the building will be brought into effective use.”*

In response to this the Council took advantage of this rule and has resolved to use receipts from the disposal of housing land to be applied to affordable housing and regeneration.

The 2008/09 creditors figure on the Balance Sheet (Note 31, page 82) includes provision for the payment of the pooled set aside receipts to the DCLG (paid 20 April 2009).

Credit Approvals / Supported Capital Borrowing

Credit Approvals, now termed Support Capital Borrowing Approvals, ceased to exist from April 2004 when the Local Government Act 2003 introduced a new Prudential Framework for Capital Finance. Government support for capital expenditure is now described as Supported Capital Expenditure (SCE).

Previously, credit approvals from Central Government set a limit to the amount of local authority borrowing that could be used to finance capital investment. Under the new system,

a local authority is free to determine its own level of borrowing, as long as it is affordable, prudent and sustainable. The Council has adopted and monitors a range of prudential indicators that measure this, in accordance with the requirements of the Code. However, Central Government still continues to provide some support for the costs of borrowing through revenue support grant, but only for a specified amount of expenditure.

Intangible Assets

Intangible Assets relate to computer software, which is written down over its useful life.

In previous year's expenditure which may properly be capitalised but which does not represent tangible fixed assets, for example grants to other persons or bodies for capital expenditure purposes, was recorded in the accounts as Intangible Assets. These charges were written off annually to revenue. Following the implementation of the 2008 SORP, such charges are now described as Revenue Expenditure Funded from Capital under Statute and are charged directly to the appropriate service revenue account.

This change represents a change of accounting policy and the comparative 2007/08 balances have therefore been restated.

Government Grants and Contributions (Capital Expenditure)

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

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the Government Grants Deferred account. The SORP requires that amounts are released to the Income & Expenditure Account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Prior to 1 April 2004, the Council's treatment did not comply with the SORP as the overall impact was recognised in the Income & Expenditure Account in the year of incidence. From 1 April 2004, the Council has fully complied with the SORP in respect of the treatment of Grants Deferred and will release these sums to the Income and Expenditure Account in line with the depreciation charge on the assets to which they relate.

Where a grant has been received to finance expenditure now classified as Revenue Expenditure Funded from Capital Under Statute, the grant had been released directly to the appropriate service revenue account.

Reserves

Capital reserves are not available for revenue purposes and some can only be used for specific statutory purposes. The major capital reserves held and a brief description of their purpose is shown below: -

Revaluation Reserve

The Revaluation Reserve includes cumulative unrealised revaluation gains and losses (since 1 April 2007) arising from holding fixed assets, these gains and losses were previously shown in the Fixed Asset Restatement Account which, along with the Capital Financing Account, has now been abolished. A permanent record of historical cost together with associated depreciation and impairment is now required for assets acquired or enhanced after 1st April 2007. The net carrying amount for each asset held at the start of 1st April 2007 is effectively deemed to be the historical cost of that asset.

Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated and financed through the capital controls system.

7. Changes in Accounting Practice and Prior Year Adjustments

The 2008/09 accounts include the following changes (from the 2007/08 Accounts) to accounting practice in comparison to previous years, which include alterations to the form and structure of local authority accounts as detailed in SORP 2008: -

Remodelling of the Fixed Assets Note

The Fixed Assets Note (See Note 25 on page 65) has been remodelled in order to ensure that the brought forward cost or valuation of each class of assets is clearly identifiable from accumulated depreciation.

Revenue Expenditure Funded From Capital Under Statute

As noted above, expenditure previously classified as Deferred Charges and taken in the first instance to the balance sheet as Intangible Assets is now taken directly to the appropriate service revenue account in the Income and Expenditure Account. Any grants received to fund such expenditure are also now taken directly to the appropriate service revenue account.

Comparative balances from 2007/08 in the primary statements have been restated to reflect this change.

Revaluation on Disposal of Assets

The revaluation of a fixed asset at the point of disposal is no longer permitted. In previous years, council dwellings sold under the Right-to-Buy program were written down to the value of the net sales proceeds and an impairment loss recognised in the Income and Expenditure account. Under the 2008 SORP, the value of the assets are not adjusted and any difference between the carrying value of the asset disposed and the proceeds received is shown as a loss or a gain on disposal in the Income and Expenditure Account.

Comparative balances from 2007/08 in the primary statements have been restated to reflect this change.

Changes to Pensions Disclosures under FRS 17

The 2008 SORP reflects changes introduced by the new Pension SORP July 2007. It incorporates requirements to provide additional information in respect of transaction costs and comparative information which have been provided in Note 7 on Pages 48 - 53

The most significant change relates to the basis used for valuing investments. Derivatives and investments are required to be valued at fair value and in the case of investments where there is an active market the SORP requires the bid price to be used. Investments with an active market were previously valued at mid-market price. This change in the basis of valuation constitutes a change in accounting policy necessitating a restatement of the 2007/08 comparative information.

It is not practical to disclose the effects of the change in accounting policy on the current period's results because the current valuation has only been carried out using bid price. The cost of having the scheme actuary carry out an additional valuation based on mid-market price outweighs the potential benefit of the additional disclosure.

Prior Year Adjustments

As a result of the above changes and other year end review procedures, adjustments to the previously published Statement of Accounts 2007/08 have been made as follows:

- The value of council dwellings disposed of in the prior year had been overstated. A net increase in the carrying value of housing stock at 31 March 2008 of £1,749,886 was required and the 2007/08 Income and Expenditure Account was restated to reflect a gain on disposal of £638,652. See Note 25 to the balance sheet page 65.
- An adjustment of £317,491 was required to reduce the value of Intangible Assets at 31 March 2008 in order to write off deferred charges held in the balance sheet. See Note 26 to the balance sheet page 71
- The actuarial gain on pension fund assets was reduced by £160,000 to reflect the new basis of valuation. The pensions provision in the top half of the balance sheet and the pensions reserve in the lower half were both increased by this amount.
- A review was carried out during the year to provide valuations for small pieces of land owned by the District but thought to have a value below the de minimis level for inclusion in the accounts of £20,000. As a result of this review, de minimis land with a total value at 31 March 2008 of £1.037M, and other larger assets with a total value at 31 March 2008 of £13.816M were identified. The carrying value of Other Land and Buildings has therefore been increased by £2.208M, Community Assets by £0.081M and Surplus Assets Held for Disposal by £12.564 to reflect the inclusion of these assets in the balance sheet at 31 March 2008. A corresponding credit of £14.853M has been made to the revaluation reserve.

8. Local Government Reorganisation

Although the authority ceased to exist on 1st April 2009 all of its functions, activities, assets and liabilities are ongoing as part of the new Unitary Authority. Under FRS18 this could have meant that there was a requirement to change measurement bases used for assets and liabilities, however, the 2008/09 SORP Guidance Notes make it clear that this is not necessary, as they state;

“In the case of local government reorganisation, where assets are to be redistributed, the concept of going concern should be applied to the provision of local government services as a whole, although an individual authority may itself cease to exist or to provide particular services. Authorities should therefore continue to use the going concern basis and there will rarely be a need to change measurement policies in preparation for a reorganisation.”

Taking this guidance into account these statements are prepared under normal going concern principles.

The Statement of Responsibilities for the Statement of Accounts

The Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009 makes Durham County Council responsible for the preparation and publication of the final accounts of City of Durham Council.

Durham County Council's Responsibilities

The County Council is required to:-

- make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In the County Council, that officer is the Corporate Director - Resources.
- approve the Statement of Accounts.

The Corporate Director - Resources' Responsibilities

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

In preparing this Statement of Accounts the Corporate Director - Resources 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.

In respect of the points below, reliance has been placed on the governance statement certified by City of Durham Council.

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

Certificate of Corporate Director - Resources

I certify that the Statement of Accounts presents fairly the financial position of the City of Durham Council as at 31st March 2009 and their income and expenditure for the year ended 31st March 2009.

S. D. Crowe C.P.F.A.
Corporate Director - Resources
9th December 2009

Certificate of Chairman

In accordance with Regulation 10 (3) (b) of the Accounts and Audit Regulations 2003, I certify that these Accounts were approved by the County Council at the meeting held on 9th December 2009

B. Myers MBE JP
Chairman of the County Council
Chair of the meeting approving the accounts

Income and Expenditure Account

Year Ended 31 March 08 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)			
Net £000		Expend £000	Income £000	Net £000	Notes
0	Total continuing operations	0	0	0	
	Services transferred to Durham County Council				
1,399	Central Services to the Public	9,524	(8,152)	1,372	
10,114	Cultural, Environmental and Planning Services	22,864	(10,225)	12,639	
1,050	Highways, Roads and Transport Services	1,576	(613)	963	
506	Housing General Fund Services	19,314	(18,955)	359	
(3,295)	HRA Housing	34,638	(17,645)	16,993	
3,531	Corporate & Democratic Core	3,827	(397)	3,430	
1,818	Non Distributed Costs	2,493	(1,108)	1,385	
15,123	Total discontinued operations	94,236	(57,095)	37,141	(a)
15,123	Net Cost of Services	94,236	(57,095)	37,141	
386	Precepts Paid to Parish Council's (Surpluses) / Deficits on Undertakings Not Included in the Net Cost of Services			432	1
(1,162)	(Gain) / Loss on Sale of Fixed Assets			(400)	2&3
8,763	Interest Payable and Similar Charges			1,276	
1,919	Contribution of Housing Capital Receipts to Government Pool			1,739	10
1,950	Interest and Dividends Receivable			528	
(1,130)	Pensions Interest Costs and Expected Return on Pension Fund Assets			(477)	8
1,370				3,210	7
27,219	Net Operating Expenditure			43,449	
	Principal Sources of Finance :-				
(5,197)	Demand from the Collection Fund			(5,354)	
(29)	Collection Fund Surplus			(46)	
(1,217)	Revenue Support Grant			(1,052)	
(7,254)	Redistributed Non-Domestic Rates (From Central Pool)			(7,555)	
(592)	Local Authority Business Growth Incentive Grant			(157)	
12,930	(Surplus) / Deficit for the Year			29,285	

(a) Discontinued operations

From the 1st April 2009 this Council ceased to exist, however all functions continue to be provided by the newly created Unitary Authority "Durham County Council" created by the merger of Durham County Council and the seven district Councils within County Durham.

Statement of the 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 difference being:

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

The General Fund Balance compares the Council's spending against 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 difference between the surplus / deficit on the Income and Expenditure Account and the General Fund Balance.

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)
£000		Notes £000
12,930	(Surplus) / Deficit for the year on the Income and Expenditure Account	29,285
(11,447)	Net additional amount required by statute and non-statutory proper accounting practices to be debited or credited to the General Fund Balance for the year	(28,153)
1,483	(Increase) / Decrease in the General Fund Balance for the year	1,132
(2,850)	General Fund – General Fund Reserve Balance Brought Forward	(1,367)
(1,367)	General Fund Balances Carried Forward	(235)

Detailed analysis of the "amount required by statute and non statutory proper practices to be debited or credited to the General Fund Balance" is given below.

**Net Additional Amount Required By Statute
and Non-Statutory Proper Accounting
Practices to be Debited or Credited to the
General Fund Balance for the Year**

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)
£000		£000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance		
(2,733)	Depreciation and impairment of General Fund fixed assets	(4,749)
167	Differences between statutory debits/credits and amounts recognised as income and expenditure in relation to financial instruments	163
761	Amortisation of Government Grants Deferred	1,009
(697)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute	(962)
(8,763)	Net gain or loss on sale of fixed assets	(1,437)
(4,780)	Amount by which pension costs calculated in accordance with the SORP are different from the contributions due under the pension scheme regulations	(6,010)
(16,045)	Sub Total	(11,986)
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		
162	Minimum Revenue Provision for Capital Financing	156
1,194	Capital Expenditure charged in year to Revenue	143
(1,950)	Transfer from Usable Capital Receipts to meet payments to Housing Capital Receipts Pool	(528)
3,317	Capital Expenditure financed from Earmarked Reserves	99
3,720	Employer's Contributions Payable to Pension Fund and retirement benefits payable direct to pensioners	4,540
6,443	Sub Total	4,410
Transfers to or from the General Fund Balance required to be taken into account when determining the movement on the General Fund Balance		
-	Surplus transferred to Housing Revenue Account Balance	(20,358)
(1,845)	Net Transfer to or (from) Earmarked Reserves	(219)
(1,845)	Sub Total	(20,577)
(11,447)	Net additional amount required by statute and non-statutory proper accounting practices to be debited or (credited) to the General Fund Balance for the year	(28,153)

Statement of Total Recognised Gains and Losses

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)	
£000		Notes	£000
12,930	(Surplus) / deficit for the year on the Income and Expenditure Account		29,285
(37,128)	(Surplus) / Deficit for the year arising from the revaluation of Fixed Assets		6,272
(10,000)	Actuarial (gains) and losses on Pension Fund assets and liabilities		14,070
784	Deferred premiums on early repayment of debt		-
34	Other (gains) and losses		(47)
(33,380)	Total (Gains) and Losses		49,580
	Cumulative effect on reserves of Prior Year Adjustments made in the year		(16,125)

Balance Sheet

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)		
£000		Notes	£000	£000
1,247	<u>Intangible assets</u>			
	Purchased software licences	26		1,565
	<u>Tangible fixed assets</u>			
	Operational:			
268,825	Council dwellings		231,691	
39,402	Other land & buildings		52,283	
899	Vehicles, plant, furniture and equipment		640	
1,855	Community assets		435	
	Non-operational:			
2,822	Investment properties		2,787	
13,484	Surplus assets held for disposal		12,004	
327,287	Total Tangible Fixed Assets	25		299,840
267	Long Term Debtors	27		258
328,801	Total Long Term Assets			301,663
	<u>Current Assets</u>			
4,809	Stocks and Work in Progress	28	921	
6,700	Debtors	30	6,765	
4,787	Short Term Investments	29	70	
14	Cash and Bank		240	
16,310	Total Current Assets			7,996
	<u>Current Liabilities</u>			
(1,181)	Borrowing Repayable within 12 months	29	(1,042)	
(7,512)	Creditors	31	(6,235)	
(162)	Bank overdraft		-	
(8,855)	Total Current Liabilities			(7,277)
	<u>Long Term Liabilities</u>			
(20,972)	Long Term Loans Outstanding	29	(20,409)	
(43,820)	Liabilities related to defined benefit pension scheme		(59,360)	
(19)	Provisions	33	(19)	
(1,284)	Government Grants Deferred		(2,013)	
(66,095)	Total Long Term Liabilities			(81,801)
270,161	Total Assets Less Liabilities			220,581
	<u>Financed By</u>	42		
32,507	Revaluation Reserve		25,324	
276,167	Capital Adjustment Account		251,533	
1,608	Usable Capital Receipts Reserve		343	
(618)	Financial Instruments Adjustment A/c		(454)	
(43,820)	Pension Reserve		(59,360)	
1,367	General Fund Balance		235	
851	Housing Revenue Account Balance		1,103	
160	Deferred Capital Receipts Reserve		160	
1,939	Earmarked Reserves	22	1,697	
270,161	Total Net Worth			220,581

Cash Flow Statement

Year Ended 31 March 2008 (2007/08) Restated £000		Notes	Year Ended 31 March 2009 (2008/09) £000
3,982	REVENUE ACTIVITIES NET CASH INFLOW / (OUTFLOW)	44.	3,021
	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES		
	Cash inflows		
826	Dividends received		349
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Cash outflows		
(2,684)	Interest Paid		(1,750)
	Cash inflows		
807	Interest Received		550
	CAPITAL ACTIVITIES		
	Cash outflows		
(10,288)	Purchase of fixed assets		(8,101)
	Cash inflows		
2,846	Sale of Fixed Assets		772
1,092	Capital Grants Received		1,509
56	Other Capital Contributions		13
(3,363)	NET CASH INFLOW / (OUTFLOW) BEFORE FINANCING		(3,637)
	MANAGEMENT OF LIQUID RESOURCES		
317	Net decrease in short term deposits	46.	4,743
	FINANCING		
	Cash outflows		
(5,140)	Repayments of Amounts Borrowed	46.	(692)
	Cash inflows		
4,250	New Loans Raised		-
(3,936)	NET INCREASE / (DECREASE) IN CASH	47.	414

The notes to the Cash Flow Statement begin on page 91.

Notes to the Single Entity Core Financial Statements

1. Parish Precepts

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

Year Ended 31 March 2008 (2007/08) £	Parish	Year Ended 31 March 2009 (2008/09) £
12,000	Bearpark	14,000
65,000	Belmont	65,000
4,436	Brancepeth	5,600
103,560	Brandon & Byshottles	124,914
23,000	Cassop-Cum-Quarrington	24,150
28,000	Coxhoe	33,473
7,200	Croxdale & Hett	7,200
36,200	Framwellgate Moor	38,200
8,231	Kelloe	8,566
11,495	Pittington	12,875
13,500	Shadforth	14,000
23,550	Sherburn	24,468
10,000	Shincliffe	10,000
20,000	West Rainton	25,000
20,033	Witton Gilbert	24,500
386,205	Total	431,946

2. Trading Services

Trading surpluses of £400,000 (£162,000 in 2007/08) relating to the City of Durham's proportion of revenue surplus generated through the trading transactions of Central Durham Crematorium Joint Committee in 2008/09 were received in the year. The Crematorium Joint Committee had a total net trading surplus of £529,432 (£539,811 in 2007/08); expenditure was £520,863 (£428,824 in 2007/08), with appropriations in year totalling £132,150 during 2008/09.

In the prior year the Joint Committee transferred earmarked reserves of £1M to the Council in addition to the trading surplus. There were no such payments made in the current year.

The Annual Report and Statement of Accounts of the Durham Crematorium Joint Committee are available from the Corporate Director, Resources, Durham County Council, County Hall, Durham, DH1 5UE.

The Council also operates a number of other Trading Services, the financial results of which are included within the appropriate service costs in the Income and Expenditure Account, and these are noted below: -

		Year Ended 31 March 2009	
		£000	£000
Markets			
The outdoor market stall concern is operated by Durham Market Company under a management agreement. (Trading Surplus for 2007/08 was £12,000)			
	<i>Turnover</i>	(14)	
	<i>Expenditure</i>	-	
	<i>Surplus</i>		(14)
Tourism			
The objective is to promote the City of Durham as a tourist attraction and to minimise the cost of this facility. (Trading Deficit for 2007/08 was £495,000)			
	<i>Turnover</i>	(108)	
	<i>Expenditure</i>	580	
	<i>Deficit</i>		472
M.O.T.			
MOT testing centre utilises the surplus capacity to provide MOT testing to the general public. (Trading Surplus for 2007/08 was £6,000)			
	<i>Turnover</i>	(20)	
	<i>Expenditure</i>	10	
	<i>Surplus</i>		(10)

Millennium Complex incorporating the Gala Theatre

The purpose of the complex is to provide a cultural centre for Durham together with rental accommodation for 'not for profit'/charitable organisations. The Gala Theatre is a multi-functional complex which incorporates a 520 seat main auditorium with a Cinema, Café Bar and studio, which is available to hire for functions.

The construction of the Millennium Complex was partially funded via Millennium Commission and European Regional Development Fund (ERDF) grants. In 2005/06 a second performing space and cinema area were created as part of the ongoing development of this facility.

The financial performance of this facility in 2008/09 is set out below: -

	Year Ended 31 March 2009		
	Expend £000	Income £000	Net £000
Gala Theatre Operating Costs			
Trading Units			
Theatre Productions	733	(980)	(247)
Cinema Shows	258	(387)	(129)
Refreshments, Beverages and Hire	374	(477)	(103)
Support Services and Overheads			
Front of House	156	(1)	155
Marketing and Box Office	341	(21)	320
Technical Support	244	(14)	230
Overheads	613	(212)	401
Operating Subsidy	2,719	(2,092)	627
Millennium Place			
Capital Financing Costs	410	-	410
Central Admin Charges	128	-	128
Total Cost	3,257	(2,092)	1,165
In 2007/08 the comparative figures were			
Gross Income	(2,000)		
Gross Operating Costs	2,572		
Net Operating Subsidy	572		
Capital Financing Costs	421		
Administration	146		
Total Costs	1,139		

3. Direct Service Trading Activities

The Council operates a number of trading activities which were previously subject to the competition rules under the Local Government Planning and Land Act 1980 as extended by the Local Government Act 1988. The abolition of CCT has provided the opportunity to review the way in which the Council presents its accounts and the trading areas have been reduced down to one over the last few years:

Year Ended 31 March 2008		Year Ended 31 March 2009
£000		£000
	Maintenance and New Construction	
(3,838)	Turnover	(4,398)
3,838	Expenditure	4,398
-		-

The trading objective for 2008/09 was to achieve a surplus of Nil.

4. Section 137 Local Government Act 1972

Section 137 of the Local Government Act 1972 (as amended by Section 118 of Local Government & Housing Act 2003), enables a Local Authority to spend up to £5.00 per head of the resident population of the Authority for the benefit of the people in their area, on activities or projects not specifically authorised by other powers. The Council was permitted to spend £471,445 under this power in 2008/09. Actual expenditure in the year amounted to £166,027 (£157,622 in 2007/08) including the cost of administration.

The Local Government Act 2000 repealed the majority of the Section 137 powers with effect from 18 October 2000, with the exception of the power to make contributions to charities in the UK, not-for-profit bodies and mayoral appeals. All expenditure incurred in 2008/09 fell under these powers.

5. Agency Services - Income & Expenditure

Highways Agency Agreement

The Council is only responsible for verge maintenance and weed spraying under the Highways Agency Agreement with Durham County Council. Total expenditure was £26,634 in 2008/09 (£26,469 in 2007/08).

West Rainton Travellers Site

The Council also manages a Travellers Site at West Rainton on behalf of Durham County Council. A breakeven position was attained after costs of £11,305 (£8,136 in 2007/08) were reimbursed by the County Council in 2008/09.

6. Publicity Expenditure

Section 5 of the Local Government Act 1986 requires an authority to disclose separately its expenditure on publicity. The amount incurred is set out below:-

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
105	Recruitment Advertising	2
	Other Advertising & Publicity	
111	- Gala Theatre	61
18	- Industrial Promotions	14
46	- Statutory Development	41
20	- Tourism	20
108	- Corporate Management	106
22	- Leisure Services	30
8	- Other	18
438	Total	292

7. Pensions and Retirement Benefits

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers access to the Local Government Pension Scheme (LGPS) and therefore contributes to the retirement benefits of its employees. Employees are admitted to the Durham County Council Pension Fund ("the Fund") which is administered under regulation by Durham County Council.

Although the pension benefits of current employees will not actually be payable until the employees retire, the Council has a commitment to make payments that needs to be disclosed at the time the employees earn their future entitlement.

The LGPS is a defined benefit scheme based on final pensionable salary. It is a funded scheme, meaning that the authority and the employees pay contributions into a fund calculated at a level intended to balance the liabilities relating to future pensions with an equal investment in assets.

In addition to the funded scheme, the Council has unfunded liabilities relating to extra benefits awarded by the Council on a discretionary basis. The Council has responsibility for funding these benefits by paying additional contributions.

Further detailed information can be found in the Durham County Pension Funds Annual Report, which is available upon request from the County Treasurer, Durham County Council, County Hall, Durham, DH1 5UE.

In accordance with FRS 17 – Retirement Benefits, the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

Transactions Relating to Retirement Benefits

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

	Funded		Unfunded	
	2007/08	2008/09	2007/08	2008/09
	As restated £000	£000	As restated £000	£000
Income and Expenditure Account				
<i>Net Cost of Services:</i>				
- Current Service Costs	2,490	1,660	-	-
- Past Service Costs	920	1,140	-	-
<i>Net Operating Expenditure:</i>				
- Interest costs	6,000	7,080	500	610
- Expected return on assets in scheme	(5,120)	(4,480)	-	-
Net Charge to the Income and Expenditure Account	4,290	5,400	500	610
Statement of Movement in the General Fund Balance				
- Reversal of net charges made for retirement benefits in accordance with FRS17	(4,290)	(5,400)	(500)	(610)
Actual amount charged against General Fund Balance for pensions in the year				
- Employers' contributions payable to scheme	3,160	3,960	-	-
- Retirement benefits payable to pensioners	-	-	560	580

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £14.07m (2007/08 as restated: gain £10.0m) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses since 1st April 2005 was a loss of £2.77m.

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the movement in the present value of scheme liabilities:

2007/08 As Restated			2008/09	
Funded	Unfunded		Funded	Unfunded
£000	£000		£000	£000
114,140	9,730	At April 1st	105,140	9,210
2,490	-	Current service cost	1,660	-
6,000	500	Interest cost	7,080	610
750	-	Contributions by participants	830	-
(13,870)	(460)	Actuarial (gains) / losses on liabilities	(1,160)	430
(5,290)	(560)	Net benefits paid out	(5,750)	(580)
920	-	Past service cost	1,140	-
105,140	9,210	At March 31st	108,940	9,670

Reconciliation in the movement in the fair value of scheme assets:

2007/08 As restated £000		2008/09 £000
70,920	At April 1st	70,530
5,120	Expected return on assets	4,480
(4,130)	Actuarial gains / (losses) on assets	(14,800)
3,160	Contributions by the employer	3,960
750	Contributions by participants	830
(5,290)	Net benefits paid out	(5,750)
-	Net increase in assets from disposals and acquisitions	-
70,530	At March 31st	59,250

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Therefore the actual return on scheme assets in the year was a loss of £10,320k (2007/08 as restated: gain of £990k).

Scheme history:

	2004/05*	2005/06*	2006/07	2007/08	2008/09
			As restated	As restated	
	£000	£000	£000	£000	£000
Present value of liabilities					
- Funded	99,330	110,120	114,140	105,140	108,940
- Unfunded	8,550	9,400	9,730	9,210	9,670
Fair value of assets in the pension scheme					
- Funded	54,740	66,920	70,920	70,530	59,250
Surplus / (deficit) in the scheme					
- Funded	(44,590)	(43,200)	(43,220)	(34,610)	(49,690)
- Unfunded	(8,550)	(9,400)	(9,730)	(9,210)	(9,670)
Total deficit	(53,140)	(52,600)	(52,950)	(43,820)	(59,360)

* In accordance with Paragraph 77(o) of FRS17 (as revised), the assets for the current period and previous two periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2007 and 2008 have been re-measured for this purpose. Asset values for periods ending 2005 and 2006 are shown at mid-market value and have not been re-measured as permitted by FRS17 (as revised).

The liabilities show the underlying commitment that the County Council has to pay future retirement benefits. The pension liability of £60,290k has a substantial impact on the net worth of the County Council as reported in the Balance Sheet. However, statutory arrangements mean that the deficit on the Pension Fund will be made good by increased contributions, amongst other things, over the working life of employees, as assessed by the Fund actuary

The total contributions expected to be made to the funded local Government Pension Scheme by the council in the year to 31st March 2010 are £3,620k.

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 scheme has been assessed by Hewitt Associates Limited (formerly Hewitt Bacon and Woodrow Limited), an independent firm of actuaries. The latest valuation of the Fund took place as at 31st March 2007.

Assumptions

The principal assumptions used by the scheme actuary for the purposes of calculating the figures required by FRS 17 are as follows:

	Funded		Unfunded	
	2007/08	2008/09	2007/08	2008/09
	As restated £000	£000	As restated £000	£000
<u>Mortality assumptions:</u>				
<i>Men and Women</i>				
- Base table (in 2007)	PNMA00 with allowance for MC improvement factors to 2007			
- Scaling to above Base table rates	125%	125%	125%	125%
<i>Men</i>				
- Cohort improvement factors (from 2007)	100% of MC	80% of LC	100% of MC	80% of LC
- Minimum underpin to improvement factors	1.00%	1.25%	1.00%	1.25%
- Future lifetime from age 65 (currently aged 65)	20.3	21.1	20.3	21.1
- Future lifetime from age 65 (currently aged 45)	22.2	23.4	22.2	23.4
<i>Women</i>				
- Cohort improvement factors (from 2007)	100% of MC	60% of LC	100% of MC	60% of LC
- Minimum underpin to improvement factors	50.00%	1.25%	50.00%	1.25%
- Future lifetime from age 65 (currently aged 65)	22.4	23.2	22.4	23.2
- Future lifetime from age 65 (currently aged 45)	23.6	25.3	22.2	23.4
<u>Principal Financial assumptions:</u>				
- Rate of inflation	3.7	3.4	3.7	3.4
- Rate of increase in salaries	5.2	4.9	-	-
- Rate of increase in pensions	3.7	3.4	3.7	3.4
increase to deferred pensions	3.7	3.4	-	-
- Rate for discounting of scheme liabilities	6.8	6.7	6.8	6.7

The Scheme's main asset categories are shown in the table below along with the long-term expected rate of return on the asset category and the proportion of the total assets held:

	Funded		Funded	
	Long-term expected rate of return on assets in the scheme:		Asset Split	
	2007/08	2008/09	2007/08	2008/09
	%	%	%	%
- Equities	7.6	7.0	47.4	45.2
- Property	6.6	6.0	4.4	3.9
- Government bonds	4.6	4.0	29.3	30.0
- Corporate bonds	6.8	5.8	9.2	11.0
- Other	6.0	1.6	9.7	9.9
	6.4	5.4	100.0	100.0

The Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31st March 2009.

History of experience of gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 net of the adjustment for the difference between actual contributions and the actuary's estimate can be analysed in the following categories, measured as a percentage of assets or liabilities at 31st March 2009:

	2004/05*		2005/06*		2006/07*		2007/08		2008/09	
	£000	%	£000	%	£000	%	As restated £000	%	£000	%
Differences between the expected and actual return on assets										
- Funded	2,050	3.7	10,590	15.8	560	0.8	(4,130)	-5.9	(14,800)	-24.0
Experience gains and losses on liabilities										
- Funded and Unfunded #	1,400	1.3	70	0.1	(360)	-0.3	-		-	
- Funded #	-		-		-		(2,530)	-2.4	(590)	-0.5
- Unfunded #	-		-		-		(70)	-0.8	(470)	-4.9

* In accordance with Paragraph 79 of FRS 17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. The history of experience gain / (loss) on liabilities shown has not been restated for periods ending 2005, 2006 and 2007 and includes the experience relating to unfunded liabilities.

Includes gains / (loss) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used. The figure has been adjusted to reflect actual contributions.

8. Interest and Dividends Receivable

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
(778)	Interest Received on External Investments	(480)
(352)	Dividends Received	3
(1,130)		(477)
49	Less Recharges to the HRA (Item 8 Credit)	36
(1,081)	Net Credit to Income and Expenditure Account	(441)

9. Premiums/Discounts on Early Redemption of Loan Debt

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

During 2008/09 no loans were prematurely repaid and therefore no new premiums or discounts were incurred. In accordance with recommended accounting practice, premiums and discounts incurred on such repayments are being amortised to revenue accounts over a number of years, as outlined in the Statement of Accounting Policies. The impact on revenue accounts is shown below: -

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
-	General Fund Premiums	-
-	Less Charged to Capital Financing Account	-
-	Charge to General Fund	-
167	HRA Premiums	163
167	Charge to Housing Revenue Account	163
167	Total Charge	163

HRA premiums incurred are included within the HRA service costs in the Income and Expenditure Account.

In accordance with SORP 2007, "provisions" set aside for amortising premiums to the HRA have been reclassified as Financial Instruments and are now included within the "financed by" section of the Balance Sheet (see page 42). The amount held at 31 March 2009, which will be amortised over future years, was £454,146.

Amortisation will occur as follows: -

	Amount £000
2009/10	161
2010/11	130
2011/12	56
2012/13	56
2013/14	51
	454

10. Interest Payable

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
1,728	PWLB Debt	1,590
136	Market Loans – DEPFA	136
54	Market Loans – Central Durham Crematorium	13
1	Bank overdraft	-
1,919		1,739

For details of Financial Instruments including loans, see note 29 below.

11. Officers' Emoluments

The number of employees whose remuneration (including any redundancy / lump sum early retirement remuneration receivable) in 2008/09, excluding pension contributions, was £50,000 or more in bands of £10,000 are as follows:-

Year Ended 31 March 2008 (2007/08)	Remuneration Band	Year Ended 31 March 2009 (2008/09)		
		Current Employees	Left During Year	Total
11	£50,000 – £59,999	-	2	2
4	£60,000 – £69,999	4	-	4
-	£70,000 – £79,999	1	-	1
1	£80,000 – £89,999	-	-	-
-	£100,000 – £109,999	-	1	1
-	£120,000 – £129,999	-	1	1
	£150,000 – £159,999	1	-	1
1	£160,000 – £169,999	-	-	-

12. Members Allowances

During 2008/09 the total sum paid to Members in respect of basic, special responsibility and attendance allowances was as follows: -

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
272	Basic Allowance	274
90	Special Responsibility Allowance	90
362	Total	364

13. Insurance Provisions/Self Insurance

The Council insures against risk of property losses and liability claims, with a £10M limit for public liability and a £25M limit for Employers liability. There are varying claim excesses - £100,000 for Council housing, £25,000 public liability and £25,000 employer's liability. The potential cost to be met by the Council in any one year is however limited to £100,000 for Council housing and £300,000 for all liability.

The Council has made and continues to make provisions within the Insurance Fund for all these potential costs and at 31 March 2009 the balance of the fund was £450,000.

14. Local Authority (Goods & Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. During 2008/09 the following services were provided:-

	£
MOT Testing and Associated Works	20,220

15. Building Control Trading Account

The Building Control Charges Regulations (SI 1998/3129) require an authority to disclose information regarding the setting of charges for the administration of the building control function. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities for 2008/09. The Government expects the Building Control Trading Accounts to break even over a three-year rolling period, subject to local authorities recovering at least 90% of their operating costs. The position for the three years is a surplus of £10,000.

	Year Ended 31 March 2009 (2008/09)		
	Chargeable	Non Chargeable	Total
	£000	£000	£000
Employee Expenses	38	166	204
Premises Expenses	3	12	15
Transport Expenses	2	5	7
Supplies & Services	45	12	57
Agency Payments	154	-	154
Support Services	21	121	142
Total Expenditure	263	316	579
Income			
Building Control Fees	(262)	-	(262)
(Surplus)/Deficit for Year	1	316	317
(Surplus)/Deficit 2007/08	(1)	300	299

16. Local Area Agreements (LAA)

The Council is a participant in the 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 2008/09, the LAA has completed the second year of a 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.
- 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, Sedgfield 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 payment, this is determined by the partnership.

As a body in receipt of grant from the partnership and not the accountable body, the City of Durham acts as agent to the partnership and has therefore not 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 2008/09 was £695,132 (2007/08 £24,120,289). The City of Durham received £68,346 in 2008/09 (2007/08 £228,607) of this total grant to fund its own services.

17. Finance and Operating Leases

The Council holds various capital assets, principally plant and vehicles, financed under the terms of operating leases. The amount paid under these arrangements in 2008/09 was £387,067 (£382,240 in 2007/08).

The Council is committed to making payments of £689,340 under these leases in future years comprising the following elements:

	£000
Leases Expiring in 2009-10	301
Leases Expiring in 2 - 5 Years	388
Leases Expiring in more than 5 Years	0
Total	689

In accordance with current accounting procedures, the leased assets are not stated in the Balance Sheet. Rentals are charged to revenue when payable and no provision is made for outstanding lease commitments.

The Council has adopted and implemented the CIPFA Prudential Code for Capital Financing. As part of this, the Council has established and monitors performance against its Prudential Indicators. The Council also complies with the Code in terms of undertaking a lease – buy – borrow options appraisal for capital investment decisions around the acquisition of its vehicle fleet. During the year, the Council did not enter into any new operating lease agreements (There were new agreements totalling £310,042 in 2007/08).

The Council also acts as lessor under many rental agreements for properties which they own and operate. These entire lease agreements are classified as Operating Leases the reasons for which are:

- All leases are relatively short term, compared with the asset life.
- In all cases the total rental income over the life of the lease amounts to a small percentage of the asset value, well under 90%.
- In all cases the council maintains responsibility for maintenance of the asset.
- In all cases the council maintains responsibility for the insurance of the asset.

In 2008/09 rental income from leases on assets held as operating leases amounted to £119,038 (2007/08: £121,790). This rental income has been charged to various budget heads within the service revenue accounts.

The gross amount of assets held for use in operating leases was £1,256,145 (2007/08: £1,254,870). Accumulated depreciation on these assets amounted to £86,706 (2007/08: £64,781).

18. Financial Incentives and Support to Businesses

Financial Incentives to small businesses were as follows:-

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
121	Grants and Contributions (Gross)	121
121	Total	121

19. Economic Development – Grant Funding

Local Authority Business Grant Incentive Scheme

An unbudgeted government grant of £156,565 was received in the year (£591,635 in 2007/08).

Single Programme – City Centre Visioning Exercise

The Council expended £913,485 respect of the above project in the year (£873,613 in 2007/08).

All of the above expenditure was matched by grant funding and excludes the City of Durham's own contribution to the above schemes of £105,000.

20. Related Party Transactions

In accordance with FRS8 issued by the Accounting Standards Board, 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. Related Parties include:-

Central Government

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 / Council benefit claims).

Precepts

Precept transactions in relation to Durham County Council, the Durham Police Authority, the Durham and Darlington Fire and Rescue Authority and Parish Council's are contained within the Collection Fund Accounts (Pages 103 – 107). Details of individual Parish Precept payments are scheduled at Note 1 to the Income and Expenditure Account (Page 44).

The Council has interests in the following companies: -

Companies that are not currently trading

Durham Housing Partnership Ltd - The City Council has a minority interest of 19 x £1 shares (19%) in Durham Housing Partnership Limited. The objective of the Company is to enrich the quality of housing, employment and development opportunities in Durham, concentrating initially in the area of housing. The Company develops houses for sale and social housing for rent. The land value of the houses for sale is used to subsidise the social housing for two local housing associations, in return for Council nomination rights to the social housing. Under a Minority Protection Agreement certain major transactions may not be carried out without the prior written consent of all shareholders.

The company did not trade during the year or in the previous year. There were no balances owed to or owing from this company at the balance sheet date in the current year or in the previous year.

Durham Heart of the City Joint Venture Company - In order to regenerate the heart of the City and the riverside area around Framwellgate Bridge, during 1999/2000 the Council entered into a Joint Venture Company with AMEC PLC (Durham Heart of the City Limited) pursuant to the economic development powers contained in Part III of the Local Government and Housing Act 1989. That Company in turn entered into a Development Agreement with AMEC PLC, AMEC Developments Ltd and the Council to develop sites at Walkergate, Framwellgate Peth, Framwellgate Waterside, Back Silver Street and other "future sites" to be identified through Durham Heart of the City Ltd. (The agreement for the disposal of the Council owned sites provides co-funding for the Council's Millennium City Project.)

The Council holds 500 'B' ordinary shares in the Joint Venture Company of £1 each. AMEC holds 500 'A' ordinary shares of £1 each. AMEC and the Council are each entitled, for so long as each holds shares in their respective classes in the Joint Venture Company, to nominate one of their respective Directors to be a Joint Chairman.

The company did not trade during the year or in the previous year. There were no balances owed to or owing from this company at the balance sheet date in the current year or in the previous year.

Company Limited by Guarantee

Durham City Forum Limited - The purpose of this Company is to encourage the private, voluntary and public sectors to work in partnership to build a better City

Centre in Durham in accordance with the 'Heart of the City Masterplan'.

The Forum is a company limited by guarantee and not having share capital. The Members of the Company are City of Durham Council, Durham Markets Company Ltd, Chester-le-Street and City of Durham Enterprise Agency Ltd, University of Durham and Boots the Chemist Ltd.

During the year the Council purchased promotion and development services from the Company with a value of £18,625 (2007/08: £32,500). There were no outstanding balances at the balance sheet date in the current or previous year.

Joint Venture (active)

Durham Villages Regeneration Ltd - The City Council has joined with Keepmoat Plc to form a Joint Venture Company known as Durham Villages Regeneration Ltd (Company No. 4305805). The Company aspires to be an economic and community regeneration public/private partnership.

The aims of the Company are:-

- ◆ To create economic regeneration through the provision of affordable housing for sale, the provision of recreational facilities and some commercial schemes.
- ◆ To take forward socio-economic initiatives such as employment and training programmes, crime prevention schemes, small business start up catalysts, community awareness and capacity building of local people.
- ◆ To provide a sustainable safe and well balanced environment where community spirit will raise people's aspirations.

During the year the Company acquired land for development from the Council with a value of £825,000 (2007/08: £9,519,270) and the Council charged interest to the Company of £94,548 (2007/08: £53,877). The interest is payable on a capital contribution of £2M made 1st November 2007 at a rate of 1% above base rate. No dividends were receivable in the year (2007/08: dividend receivable of £348,749).

The outstanding balance included in Debtors at the balance sheet date was £94,548 (2007/08: £436,567).

The Accounts of the Company have been consolidated as a Joint Venture in line with FRS9 *Associates and Joint Ventures*. Group Accounts can be found beginning on page 109.

Other Public Bodies

There are no disclosures to make.

Members and Chief Officers

Members have direct control over the Council's financial and operating policies. During the year, no Members nor their close relations or members of the same households have undertaken any declarable transactions with the Council. Details of any transactions (if they exist) are recorded in the Register of Members; Interests, open to public inspection at the Council's offices.

Officers are only required to be disclosed as related parties when they have been involved in material transactions and during the year no officers have been involved in declarable transactions.

This disclosure note has been prepared using the Council's Register of Members' and Officers' Declarations of Interest, in addition to a specific declaration obtained in respect of Related Party Transactions.

21. Disclosure of Audit Costs

In 2008/09 City of Durham Council incurred the following fees relating to external audit and inspection:

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
136	Fees payable to the Audit Commission with regard to Code of Practice audits carried out by the appointed auditor	153
10	Fees payable to the Audit Commission in respect of statutory inspection	11
5	Fees payable to the Audit Commission for the certification of grant claims and returns	6
4	Fees payable in respect of other services provided by the appointed auditor	3
155	Total	173

22. Earmarked Funds and Balances

	Balance at 31st March 2008 £000	Contributions to reserves £000	Contributions from reserves £000	Balance at 31st March 2009 £000
Earmarked Funds and Balances:				
Insurance & Risk Management Fund	500	81	(131)	450
Pension Strain Reserve	464	459	(4)	919
Section 106 Agreements	206	15	(72)	149
HMO Licensing Reserve	150		(50)	100
City Centre Visioning	100		(78)	22
Job Evaluation – Contingency Provision	300		(300)	-
Flourishing Communities Fund	38		(38)	-
Flourishing Communities Fund – Revenue	40	28	(68)	-
Corporate & Service Initiatives Fund	34		(34)	-
Pride in Durham Fund	57		(57)	-
Collection Fund (COD Share Only)	50	7		57
Total Earmarked Funds and Balances	1,939	590	(832)	1,697

Full details of the movements on all other reserves are set out in Note 42 to the Statement of Accounts on Page 89.

Significant earmarked reserves were as follows:

Insurance & Risk Management Fund

To provide resources to cover selected risks and the possibility of claims below insurance policy excesses. Specific details of the amounts set aside can be found in Note 13.

Pension Strain Reserve

This fund relates to the costs associated with the strain on the pension fund as a result of early retirements in previous years. It reflects costs associated with the major restructuring of the Council in 2004/05 and also subsequent smaller restructuring exercises carried out following consideration of requests for early retirement on the grounds of efficiency.

Section 106 Agreements

These relate to cash received from developers as part of planning conditions. They are held for application against the provision of community recreation and other facilities in specifically identified locations.

HMO Licensing Reserve

To provide for the costs of administration and inspection of Houses in Multiple Occupancy that require licensing. Licensing income arises in fixed 5 year cycles but costs are incurred annually.

City Centre Visioning

To match funding from partners for capital projects aimed at the regeneration of Durham City Centre established from budget underspends in previous years.

Job Evaluation – Contingency Provision

This Fund was created at 31 March 2008. It reflects the savings achieved in 2007/08 against the budget for the potential General Fund costs of implementing a single

status / job evaluation agreement in 2007/08, which was to be financed from anticipated Local Authority Business Growth Incentive Scheme (LABGIS) in that year. Whilst the LABGIS grant was received in 2007/08 an agreement was not entered into in terms of single status / job evaluation and therefore an earmarked fund was created at the year end to passport the original identified resources into 2008/09.

Job Evaluation was not implemented within Durham City and, in line with a Cabinet decision taken in the year, this sum has been transferred into general reserves at the year end.

23. Economic and Monetary Union

The "Euro", the single currency for the European Union, was introduced on 1 January 1999 by 11 of the member states. The United Kingdom did not join in the first wave and has yet to make a decision on when it intends to join.

The Council changed its financial management system during 2004/05, and this will now ensure compatibility with the introduction of the Euro if and when it is introduced in the United Kingdom.

At this stage, the Council has not incurred any other expenditure, nor is it committed to any significant expenditure, in respect of Economic and Monetary Union.

24. Exceptional Items and Prior Year Adjustments

There were no exceptional items in 2008/09.

As set out above on Pages 34-35, there were several changes in the 2008 SORP that necessitated the restatement of the previously published Statement of Accounts for 2007/08. Details of each change are summarised above and discussed in detail in the relevant Notes to the Accounts for balance affected.

The Statement of the Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses have been significantly restated in relation to the treatment of depreciation, impairments, intangible asset charges and losses on the sale of fixed assets.

The Statement of Total Recognised Gains and Losses has been restated to correct the presentation in the Accounts of the surplus arising in the prior year on the revaluation of Fixed Assets. The previously reported balance was shown net of reserve transfers between the Revaluation Reserve and the Capital Adjustment Account relating to disposals of fixed assets that have no effect in this statement. The correction of this issue has no effect on the net worth of the Council and no effect on its Income and Expenditure Account.

25. Fixed Assets

Movements in Fixed Assets during the year were as follows:-

	Operational				Non Operational		Total
	Council dwellings	Other land and buildings	Vehicles, plant, furniture and equipment	Community assets	Investment properties	Surplus assets held for disposal	
	£000	£000	£000	£000	£000	£000	
<u>Cost or valuation</u>							
At 1/4/2008 (Restated)	272,333	43,960	2,141	2,048	2,850	13,523	336,855
Additions	4,349	4,680	70	174	-	-	9,273
Disposals	(513)	(101)	-	-	-	(1,399)	(2,013)
Reclassifications	(375)	248	-	(1,716)	-	1,843	-
Revaluations	(13,591)	12,271	-	-	-	833	(487)
At 31/3/2009	262,203	61,058	2,211	506	2,850	14,800	343,628
<u>Depreciation and impairments</u>							
At 1/4/2008 (Restated)	(3,508)	(4,558)	(1,242)	(193)	(28)	(39)	(9,568)
Charge for 2008/09	(3,866)	(897)	(329)	(5)	(12)	(85)	(5,194)
Disposals	8	7	-	-	-	6	21
Reclassifications	6	272	-	188	-	(466)	-
Revaluations	3,508	149	-	-	-	-	3,657
Impairments	(26,660)	(3,748)	-	(61)	(23)	(2,212)	(32,704)
At 31/3/2009	(30,512)	(8,775)	(1,571)	(71)	(63)	(2,796)	(43,788)
Balance Sheet amount at 1/4/2008 (Restated)	268,825	39,402	899	1,855	2,822	13,484	327,287
Balance Sheet amount at 31/3/2009	231,691	52,283	640	435	2,787	12,004	299,840

Freeman's Quay Development

Included in Fixed Assets (Other land and buildings) is the Freeman's Quay Leisure Centre. This facility was developed by the City Councils regeneration company, Durham Villages Regeneration Company (DVRc), via a turn-key agreement. It was financed via a combination of land transferred to the company in previous years, capital grants and contributions. The capital construction fell outside the City Councils capital programme as the expenditure was held within the DVRc accounts.

Prior Year Adjustments

The above statement includes adjustments in respect of prior years as follows:

Correction of error – Housing Disposal Calculation

A prior period adjustment of £2.048M has been made to increase the opening gross cost value of Council Dwellings in the balance sheet at 1 April 2008 and an adjustment of £0.300M has been made to increase the opening gross accumulated depreciation value. The net effect on the opening carrying value held in the balance sheet at 1 April 2008 is therefore an increase of £1.748M. This reflects an adjustment (correction) in respect of the treatment of Council Dwellings disposed of in 2007/08 that were incorrectly written out of the accounts at a value greater than their carrying value. The impact on the Council's restated Income and Expenditure Account for 2007/08 was a credit of £1.481M.

Correction of error – Assets omitted from the register

A prior period adjustment of £14.853M has been made to increase the opening gross cost value of Tangible Fixed Assets in the balance sheet at 1 April 2008. The carrying value of Other Land and Buildings has been increased by £2.208M, Community Assets by £0.081M and Surplus Assets Held for Disposal by £12.564 to reflect the inclusion of assets previously omitted from the balance sheet at 31 March 2008 in error.

Millennium Development

Included in Fixed Assets under the category of Other Land and Buildings is the Millennium City Complex. In previous years this development has been shown as a separate category both on the face of the Balance Sheet and in the notes to the accounts. In order to comply with the requirements of FRS 15 and the SORP only the specified asset categories as set out in the note above may be used. As a result assets with a carrying value of £17,654k (2007/08: £19,390k) are no longer disclosed as a separate category and are instead included in Other land and buildings.

Reclassification of assets

Further reclassifications between categories were also required in order to produce SORP compliant opening balances. It was therefore necessary to reclassify garages with a carrying value of £2,100k previously categorised as Council Dwellings to Other Land and Buildings, and Investment Property with a carrying value of £2,467k from Council Dwellings to Investment Properties.

Disposal of Assets in Year

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

	Value £000
Housing Division (Right to Buy) Sales	513
Surplus Assets	1,399
Other Land and Buildings	101
	2,013

Reclassifications during the year

Assets previously classified as Community Assets, such as expenditure on provision of facilities for children's activity and games areas, were found to be more appropriately classified as Other Land and Buildings. Under the SORP Community Assets are described as assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restriction on their disposal. This class of asset is required to be held in the Balance Sheet at historic cost.

Other reclassifications relate to the transfer of assets falling out of use in the year to non operational status.

Analysis of Net Assets Employed

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

Year Ended 31 March 2008 £000 restated		Year Ended 31 March 2009 £000
20,653	General Fund	16,863
248,530	Housing Revenue Account	202,920
978	Direct Service Organisation	798
270,161		220,581

Valuation and Impairment

The value at which each category of assets is included in the balance sheet is required by FRS 11 to be reviewed for impairments at the end of each reporting period by a professionally qualified valuer. Where there is reason to believe that its value has changed materially in the period, the valuation is adjusted accordingly. An impairment review of the Council's Asset Register has been undertaken by the District Valuer Services (John Murray MRICS) and significant adjustments were required to reflect a downturn in the market for housing and commercial properties. During the year revaluations were undertaken on a number of operational and non-operational land and building assets which were last revalued at 31 March 2004 and also on 25% of HRA housing beacon properties, in line with the policy of undertaking continuous housing stock revaluations. The asset values used in the accounts are based on valuation reports issued by Mr R Hurst MA BSc FRICS, Asset Management Officer at Derwentside District Council and Mr. M J Gilbey MRIS Asset Manager at Durham County Council.

The Council is required to disclose the carrying values of each class of asset that would have been included in the accounts had the revaluation adjustments not been applied. The carrying values of each category at their historical cost less depreciation would have been as follows:

	Depreciated Historic Cost £000	Balance Sheet amount £000	Difference taken to the Revaluation Reserve £000
Council dwellings	231,691	231,691	-
Other land and buildings	37,917	52,283	14,366
Vehicles, plant, furniture and equipment	640	640	-
Community assets	354	435	81
Investment properties	2,601	2,787	186
Surplus assets held for disposal	1,313	12,004	10,691
	274,516	299,840	25,324

Capital Expenditure and Financing 2008/09

Capital Financing	£000	Capital Expenditure	£000
		Fixed Assets:	
Capital Receipts	1,508	Work in Progress	585
Credit Approvals	248	Council Dwellings	4,769
Revenue Contributions	506	Land and Buildings	1,613
Major Repairs Allowance	3,866	Equipment	70
Other Grants and Contributions	1,804	Community Assets	43
Section 106 Agreements	70	Intangible Assets	59
Earmarked Reserve	99	Revenue expenditure funded from capital under statute	962
	8,101		8,101

Commitments into 2009/10

The Council has commitments of £1.122M into 2009/10, of which £0.348M has been contractually committed and £0.774M approved in principle to proceed, but not yet contractually committed.

A summary of these commitments is shown below:-

	Expenditure Approved and Contracted at 31/3/2009 £000	Expenditure Approved but not Contracted at 31/3/2009 £000
DSHI Programme	75	-
Off Street Parking Initiatives	24	-
DDA Compliance	10	-
Disabled Facilities Grants	39	-
Renovation Grants / Home Repair Loans	-	12
ICT	17	4
Riverbank Consolidation	-	5
Canoe Access	-	19
Churchyard improvements	-	19
Sherburn Hill Environmental Improvements	8	-
Belmont Park - Tennis Court	1	-
Brandon Play Area - Multi Games Area	-	37
Freemans Quay Leisure Centre	44	-
Ludworth Community Centre DDA	-	9
Ushaw Moor Community Investment Fund	13	-
Bowburn Community Investment Fund	-	550
Flourishing Communities Fund	117	119
Total	348	774

Statement of Physical Assets

Year Ended 31 March 2008 Numbers		Year Ended 31 March 2009 Numbers
6,160	Council Dwellings	6,139
	<u>Other Land & Buildings</u>	
1,060	Council Garages (domestic)	1,060
277	Gardens and Landscaped Areas	277
178	Open Spaces and Woodlands	178
1	Swimming Pool	1
5	Sport Centres	6
44	Recreation Grounds & associated facilities	44
5	Cemeteries	5
2	Industrial Sites	2
3	Parks & associated facilities	3
18	Surfaced Car Parks	19
1	Depots/Stores	1
7	Municipal Buildings	7
4	Toilets	4
2	Garages	2
260	Bus Shelters	254
1	Central Depot (Dragonville Complex)	1
1	Millennium Development	1
1	Gazebo - Old Durham Gardens	1
1	Conservatory – Wharton Park	1
	<u>Vehicles, Plant & Equipment</u>	
3	Light Vans	3
2	Refuse Vehicles	2
3	Street Sweepers / Gully Suckers	3
2	Tipper / Trucks	2
8	Other Vehicles	8
5	Smart Cars	5
	<u>Community Assets</u>	
1	Crematorium (land)	1
6	Sculptures/Monuments/War Memorials	7
14	Allotments	14
4	Cemeteries	4
1	Riverbed	1
1	Riverbank and Parkland	1
	<u>Investment Properties</u>	
34	Communal Halls	34
4	Commercial Properties	4
	<u>Surplus Assets Held For Disposal</u>	
1	Vacant/derelict properties	3
70	Potential Development Sites	68
1	Former Mine Shaft	1
2	Dismantled Railway	2

26. Intangible Assets – Computer Software

	Computer Software £000
<u>Cost or valuation</u>	
At 1/4/2008 (As restated)	2,544
Additions	967
At 31/3/2009	3,511
<u>Amortisation and impairments</u>	
At 1/4/2008 (As restated)	(1,297)
Charge for 2008/09	(649)
At 31/3/2009	(1,946)
Balance Sheet amount at 1/4/2008 (As restated)	1,247
Balance Sheet amount at 31/3/2009	1,565

Purchased software licences are amortised on a straight line basis over their useful lives. All intangible assets in the opening and closing balance sheet are carried at historical cost less accumulated amortisation since no revaluation or impairment has been required.

In previous years 'deferred charges', such as grants awarded for capital expenditure purposes or expenditure on assets not owned, were recorded in the accounts as Intangible Assets. Following the implementation of the 2008 SORP, such charges are now described as 'Revenue Expenditure Funded from Capital under Statute' and are charged directly to the appropriate service revenue account.

This change represents a change of accounting policy and therefore the opening balance sheet position has been restated by £317,490 in order to remove 'deferred charges' from the balance sheet and correct the amount of amortisation charged to revenue in 2007/08.

27. Long Term Debtors

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
16	Sundry Mortgages	16
85	Loans to Housing Associations	83
22	Interest Free Loans to outside Bodies	15
144	Rent to Mortgage Scheme	144
267		258

28. Stock and Work in Progress

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
247	Central Stores	242
1	Printing / Franking	-
34	Tourist Office Stock/Regalia	29
18	Vending / Bar Stock	13
9	Gala Bar Stocks	9
4,500	Work in Progress	628
4,809		921

Work in Progress principally relates to capital expenditure / projects partially completed at the year end. This expenditure is reflected within the Asset Register but only included in balance sheet Fixed Asset note once the scheme is completed and the capital accounting implications finalised.

29. Financial Instruments – Assets and Liabilities

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

	Long Term		Current	
	Year Ended 31 March 2008 £000	Year Ended 31 March 2009 £000	Year Ended 31 March 2008 £000	Year Ended 31 March 2009 £000
Financial liabilities (principal amount)	(20,972)	(20,409)	(1,181)	(1,042)
Financial liabilities at amortised cost	(20,972)	(20,409)	(1,181)	(1,042)
Financial liabilities at fair value through the I&E	-	-	-	-
Total borrowings	(20,972)	(20,409)	(1,181)	(1,042)
Loans and receivables (principal amount)	-	-	4,787	70
Loans and receivables at amortised cost	-	-	4,787	70
Available-for-sale financial assets	-	-	-	-
Financial Assets at fair value through the I&E	-	-	-	-
Unquoted equity investment at cost	-	-	-	-
Total investments	-	-	4,787	70

Financial Instruments Gains and Losses

There were no gains or losses recognised in the Income and Expenditure Account and Statement of recognised Gains and Losses (STRGL) in relation to financial instruments during 2007/08 or 2008/09.

Fair Value of Assets and Liabilities carried at Amortised Cost

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

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;

- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows: -

	Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB debt	(19,756)	(26,495)	(19,054)	(27,004)
Non-PWLB debt	(2,397)	(2,784)	(2,397)	(2,878)
Total debt	(22,153)	(29,279)	(21,451)	(29,882)
Trade creditors	(6,582)	(6,582)	(5,215)	(5,215)
Total Financial liabilities	(28,735)	(35,861)	(26,666)	(35,097)
The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.				
Money market loans < 1 yr	4,787	4,787	70	70
Money market loans > 1 yr	-	-	-	-
Trade debtors	4,557	4,557	4,341	4,341
Total Loans and receivables	9,344	9,344	4,411	4,411

The differences are attributable to fixed interest instruments payable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair value for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result the fair value figures for 31 March 2009 are relatively higher (more costly to redeem) than the 31 March 2008 comparators.

The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and include accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

Details of non-PWLB debt held at the end of the year are as follows: -.

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
(2,047)	Market Loans - DEPFA	(2,047)
(350)	Market Loans - Crematoria	(350)
(2,397)		(2,397)

Details of short-terms investments held at the end of the year are as follows: -.

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
1,531	Internally Managed Funds:	
	- Co-operative Bank	70
1,256	- West Bromwich Building Society	-
1,000	- EBS Building Society	-
1,000	- Derbyshire Building Society	-
	External Managed Funds:	
-	-	-
4,787		70

Other – Soft Loans

SoRP 2008 also requires that local authorities that grant loans to third parties at below market rates account for them on a fair value basis. The fair value is the present value of all future cash receipts discounted using the prevailing market interest rate for a similar instrument and for an organisation with a similar credit rating. LAAP Bulletin 73 confirms that materiality needs to be taken into consideration and where the value is not material the new accounting adjustments need not be followed.

The SoRP requires that the difference between cash lent and fair value be recognised immediately in the Income and Expenditure Account. The fair value of a soft loan will increase over the term of the loan, because the amount of interest forfeited will reduce. This is reflected by increasing the carrying value of the loan to reflect the unwinding of the discount. The resulting increase in value is recognised in the Income and Expenditure Account. The impact of a soft loan upon the Income and Expenditure Account will therefore be neutral over the period of the loan.

The value of Soft loans given by City of Durham Council amounts to £16,963 as at 31 March 2009 is detailed in the following table. The difference between the carrying amount and the fair value of the soft loans shown below is considered to be immaterial and the Income and Expenditure account has therefore not been adjusted.

Organisation	Purpose of the Loan	Rate of Interest %	Outstanding Balance at 31 March 2009 £
Brandon United FC	Clubhouse	Interest Free	(4,725)
Durham Archery Lawn Tennis Club	Capital Improvements to Facilities	Interest Free	(10,500)
Employees	Home Computing Initiative	Interest Free	(938)
Employees	Pay Advances – Seasonal Workers	Interest Free	(800)
Total Soft Loans			(16,963)

Disclosure of nature and Extent of Risk Arising from Financial Instruments

Key Risks

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Quarterly monitoring reports and actual outturn performance is also reported to Members.

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

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimized through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services outlined above. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

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

There have not been any material defaults which have affected the information contained in the following table, either by omission or having the balance adjusted.

	Amount at 31 March 2009	Historical experience of default	Adjustment for market conditions at 31 March 2009	Estimated maximum exposure to default
	£000s	%	%	£000s
	(a)	(b)	(c)	(a * c)
Deposits with banks and financial institutions:				
- AAA rated counterparties	-	0%	0%	-
- AA rated counterparties	-	0.06%	0.06%	-
- A rated counterparties	70	0.65%	0.65%	-
- Other counterparties	-	42.67%	42.67%	-
Bonds – AAA rates	-	0%	0%	-
Trade debtors	4,341	5%	5%	217
	4,411			217

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

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties.

The Council does not generally allow credit for its trade debtors, such that £409,832 of the £4,340,140 balance is past its due date for payment. The past due amount can be analysed by age as follows:

	Year Ended 31 March 2009 £000
Less than 30 days	287
31 to 60 days	31
61 – 90 days	25
More than 90 days	67
	410

Collateral – During the reporting period the council held no collateral as security.

Liquidity risk

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

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well through cash flow management procedures required by the Code of Practice. This seeks to assure that cash is available when it is needed.

Refinancing and Maturity Risk

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

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

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

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

The maturity analysis of financial liabilities is as follows: -

Year Ended 31 March 2008 £000	Maturity Period in Years	Year Ended 31 March 2009 £000
(1,181)	Less than 1 Year	(1,042)
(564)	1 to 2 Years	(420)
(1,093)	2 to 5 Years	(1,032)
(3,619)	5 to 10 Years	(3,266)
(15,696)	More Than 10 Years	(15,691)
(22,153)		(21,451)

The maturity analysis of financial assets is as follows:

Year Ended 31 March 2008 £000	Maturity Period in Years	Year Ended 31 March 2009 £000
4,787	Less than 1 Year	70
-	1 to 2 Years	-
-	2 to 3 Years	-
-	More Than 3 Years	-
4,787		70

All trade and other payables are due to be paid in less than one year. These are not shown in the tables above.

Market risk

Interest rate risk

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

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

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

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

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs in respect of Housing Subsidy.

If all interest rates on variable rate loans and investments had been 1% higher in the year (with all other variables held constant) the financial effect would have been: -

	Impact on 2008/09 £000
Increase in interest payable on variable rate borrowings	4
Increase in interest receivable on variable rate investments	(42)
Impact on Income and Expenditure Account	(38)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	4
Decrease in fair value of fixed rate investment assets	0
Impact on STRGL	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	0

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

Price risk

The Council does not invest in equity shares. It therefore has no exposure to loss arising from movements in share prices

Foreign exchange risk

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

30. Debtors

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
	Trade debtors:	
1,080	Government Departments	970
195	Other Local Authorities	492
1,545	Housing Rents	1,555
2,628	Sundry Debtors	2,109
5,448	Sub-total	5,126
(891)	Less : Provision for Bad and Doubtful Debts (See Below)	(785)
4,557	Total Trade debtors	4,341
	Other debtors:	
2,202	Council Tax Payers	2,203
1,260	NNDR Payers	1,237
3,462	Sub-total	3,440
(1,319)	Less : Provision for Bad and Doubtful Debts (See Below)	(1,016)
2,143	Total Other debtors	2,424
6,700	Total Debtors	6,765

It is the Council's policy to write-off irrecoverable debts in the year. Provision is, however, made for the possibility of doubtful debts. An analysis of Provision for Bad and Doubtful Debts is provided below: -

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
	Trade debtors:	
(306)	General Fund Debtors (Including Overpaid Housing Benefit)	(250)
(585)	HRA Rent Arrears	(535)
(891)	Total provisions for trade debtors	(785)
	Other debtors:	
(913)	Council Tax Payers	(604)
(406)	National Non Domestic Rate Payers	(412)
(1,319)	Total provisions for other debtors	(1,016)
(2,210)	Total provisions for bad debt	(1,801)

31. Creditors

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
	Trade Creditors:	
(1,933)	Government Departments	(426)
(1,937)	Other Local Authorities	(1,741)
(110)	Housing Rents	(105)
(2,602)	Sundry Creditors	(2,943)
(6,582)	Total Trade Creditors	(5,215)
	Other Creditors:	
(510)	Council Tax Payers	(547)
(420)	NNDR Payers	(473)
(930)	Total Other Creditors	(1,020)
(7,512)	Total Creditors	(6,235)

32. Deferred Capital Receipts

The Council's only Deferred Capital Receipts relate to Mortgages granted to enable people to buy their own home. As at 31 March 2009, there were 2 loans outstanding valued at £15,304 (at 31 March 2008 2 loans were outstanding valued at £15,543). Also included is houses purchased through the rent to mortgage scheme amounting to £144,301. Total deferred capital receipts amounted to £159,605.

33. Provisions

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
(10)	- Walkergate Agreement	(10)
(9)	- Other	(9)
(19)		(19)

Provisions are charged to services in the year in which they are *recognised* and relate to expenditure which is committed, but the specific amounts or date of transaction may be uncertain. Provisions for bad debts are shown as a reduction of the debtors to which they relate, rather than as financial provisions.

There were no movements in provisions during the year. The provision relating to the Walkergate agreement was made and charged to revenue in 2004/05 and the expected timing of the resulting outflow of resources is unknown.

34. **Contingent Liabilities and Contingent Asset**

Insurance

A Scheme of Arrangement to facilitate an orderly run down of the business of the Council's former insurers, Municipal Mutual Insurance Ltd., (MMI) became effective from 23 November 2004. MMI will continue to pay agreed claims in full on behalf of the Council as a scheme creditor, for so long as a solvent run-off of liabilities is foreseen. Claims amounting to £446,392 have been paid by MMI up to 31 March 2009 (£436,645 in 2007/08). There are two outstanding claims at the year end, for which £12,999 has been set aside. If the Scheme of Arrangement is triggered, a clawback may occur which could amount to the total value of claims paid less £50,000.

Flourishing Communities Fund

The Council has established Flourishing Communities and designated Community Investment Funds. A number of applications for funding have already been considered and approved and some payments have been made, £88K in 2008/09 (£167K in 2007/08). The resources to finance these initiatives arise from ring-fenced elements of the capital receipts generated from the land release programme.

A contingent liability exists in terms of cash flow and timing of payments under these two initiatives, which can take place in advance of the capital receipt financing them being received.

An earmarked reserve exists to provide short-term financing for these projects and effective monitoring of the process will ensure that commitments and payments under these initiatives are carefully balanced against resource availability.

Job Evaluation

The Council is yet to implement job evaluation, something it was committed to as part of a National Agreement. The stage the Council reached with the process is that all roles were evaluated, allocating a score to each and four possible scenarios were formulated and fully costed. However, no decision was made as to which is the preferred proposal or indeed, if any, of the proposals are acceptable. Following the recent Local Government Review and amalgamation with Durham County Council, this issue will be now be dealt with the new Unitary Authority.

European Regional Development Fund (ERDF) – Millennium Place

The Council received European Development Fund Grant funding from the European Union towards the costs of the Millennium City Complex totalling £1,172,500, based on expenditure defrayed between 22 November 1999 and 31 December 2001.

All grant approvals and claims were submitted to Government Office North East (GONE), who are responsible for administering the grant on behalf of the European Union. GONE scrutinised and paid all grants claims in full at the time. All claims in respect of the scheme were also audited by the Audit Commission (as part of the year end audit on the accounts). In addition, the expenditure on this project was audited by the Millennium Commission (who provided the majority of funding towards the Millennium Complex) and the project was also scrutinised by the National Audit Office.

In August 2004 the European Union notified GONE and the Council that the Millennium City Project had been selected for external audit by the EU's appointed auditors (Mazars). Two auditors visited the Council in September 2004. They took papers and supporting documents and answers were provided to queries raised. In May 2005, GONE wrote to the Council to outline the auditors' findings, which were:-

- ◆ Expenditure totalling £381,775 was considered ineligible as it was committed after the deadline of 31st December 1999. This refers to the fact that GONE had issued a revised offer letter on 3 October 2000. In this letter, GONE increased the amount of eligible expenditure, reduced the percentage intervention rate and left the amount of grant unchanged at £1,172,500;
- ◆ Occurrences of incomplete procurement document were held by the beneficiary; and;
- ◆ The audit trail presented to the auditors, which was for the overall Millennium Development (including 3 ERDF eligible elements / projects), did not show clearly enough what expenditure related to the ERDF projects being audited.

The Council responded to these findings in June 2005, noting that: -

- ◆ If the revised offer (issued in October 2000 raising the amount of eligible expenditure) was invalid, then the original offer letter should stand and the Council still receive the total grant;
- ◆ The Council accepted that not all procurement documentation had been retained but pointed out that OJEU notices were available on line; and
- ◆ Because of the nature of the scheme it was difficult to allocate expenditure other than by the apportionment method used by the project managers (Turner & Townsend). The Council stated that all key officers involved in the scheme had left the authority and that all files had been archived.

In April 2008, GONE wrote to the Council highlighting that the European Union's Court of auditors had considered the auditors report on this scheme. The Auditor and the Court of Auditors had accepted that the Council had noted their findings on procurement and had closed this.

The auditor had however not accepted the Council's view on the second grant letter and was maintaining their finding that expenditure of £381,775 was ineligible. The auditor had also advised the Court that "No specific audit trail for this project had been provided. Without this audit trail it is not possible to determine what expenditure has been included in this project. All expenditure in the project is considered ineligible".

The Court had accepted the auditor's view and the European Commission was now seeking repayment of the grant of £1,172,500. GONE have confirmed that European Union was seeking repayment of grant against several projects across the North East and North West regions, which were the two areas within the UK "targeted" for external audit in 2004.

The British Government intends to appeal against the Commission's decision and forensic accountants appointed by GONE have worked with Council officers to provide additional information / analysis of eligible expenditure to verify grant claimed and received. Despite the significant time that has elapsed since the claims were made, the Council has been able to show that it had agreed to additional costs before December 1999. The Council has prepared a revised "final claim" in respect of eligible expenditure for the scheme - backed up by supporting documents / invoices wherever possible. This revised figure is slightly higher than that shown in the final ERDF grant claim and can be verified to supporting documentary evidence either in the form of an invoice, a contract valuation, or a bank transfer for transatlantic (dollar) payments grant figure. The project managers (Turner & Townsend) have provided a letter outlining the apportionment methodology used and full copy plans for the Millennium City Complex have been also provided to GONE.

A contingent liability exists in respect of this project as the EU could still request repayment of all or part of the grant from the British Government, who may then request repayment from this Council.

Contingent Asset – VAT Claims

As a result of the recent House of Lords' decisions in the cases of Michael Fleming (t/a Bodycraft) vs HMRC and Condé Nast Publications Ltd vs HMRC, claims may now be made for output tax overpaid or over declared in accounting periods ending before 4 December 1996 and input tax in respect of which the entitlement to deduct arose in accounting periods ending before 1 May 1997.

As such the Council has lodged claims with HMRC to the value of £320,770. It is not certain that the claim will be upheld and so the asset cannot be recognised in the accounts.

35. County Durham E-Government Partnership

Wear Valley District Council are the accountable body for the programme management and implementation of the project through a dedicated project office. The funds, which are included in Advance Receipts in the Balance Sheet of Wear Valley District Council amount to £307K and can only be spent with the approval of the Partnership Board. The transactions of the Partnership are shown below:

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
834	Balance at 1 April	663
675	Contributions from Durham Authorities	424
32	Interest Earned	20
(878)	Less Expenditure in Year	(800)
663	Balance at 31 March	307

36. Inprint Partnership

In 2006/07 a partnership was formed between Derwentside District Council and the City of Durham for all printing services. Derwentside DC is the host and accountable body for the partnership. Surpluses at 31 March are distributed between the partners on a 50:50 split. The transactions of the Partnership are shown below:

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
13	Balance at 1 April	90
773	Income in the year	948
(696)	Expenditure in the year	(881)
90	Balance at 31 March	157

37. Coalfields Housing Renewals Project

Sedgefield BC are the accountable body for the programme management and implementation of the project through a Project Director. The partnership was established in November 2006 and includes all the principal local authorities in County Durham. The partnership was established as a vehicle to intervene in local housing markets suffering market decline.

The partnership aims to reverse this failure in Coalfield areas through a programme of strategic housing investment generated through capital receipts from land sales, and supported through additional funding from English Partnerships National Coalfield programme.

In 2008/09 the Council made a contribution of £15,993 to the partnership (£15,993 in 2007/08) and the transactions of the partnership are shown below:

Year Ended 31 March 2008 £000		Year Ended 31 March 2009 £000
30	Balance at 1 April	117
90	Authority Contributions	139
187	Single Programme Grant	-
5	Other Income	91
(195)	Less Expenditure in Year	(178)
117	Balance at 31 March	169

38. Trust Funds

Neil Griffin Trust

The Council administers the Neil Griffin Trust which aims to educate and assist young people through leisure activities. During the year, the Trust received income of £913 and made payments of £2,250. The balance at 31 March 2009 was £25,571 (£26,907 at 31 March 2008).

Lord Crewe's Durham Charities – Apprentices Fund

The Council administers the Lord Crewe's Apprentices Fund, the aim of which is to provide grants to young people who live in Durham and are undertaking an apprenticeship. During the year, the Trust received income of £1,549 and made payments of £1,302. The balance at 31 March 2009 was £1,549 (£1,580 at 31 March 2008).

Lord Crewe's Durham Charities – Education Foundation

The Council administers the Lord Crewe's Education Foundation, the aim of which is to provide grants to young people who live in Durham and are undertaking education of a technical nature. During the year, the Trust received income of £1,374 and made payments of £1,000. The balance at 31 March 2009 was £9,705 (£10,585 at 31 March 2008).

39. Interest in Companies

Durham Housing Partnership Ltd

The City Council has a minority interest of 19 x £1 shares (19%) in Durham Housing Partnership Limited. The objective of the Company is to enrich the quality of housing, employment and development opportunities in Durham, concentrating initially in the area of housing.

The Company is currently developing houses for sale and social housing for rent. The land value of the houses for sale is used to subsidise the social housing for two local housing associations, in return for Council nomination rights to the social housing. Under a Minority Protection Agreement certain major transactions may not be carried out without the prior written consent of all shareholders. The company has not traded during 2007/08 or 2008/09.

Durham Heart of the City Joint Venture Company

In order to regenerate the heart of the City and the riverside area around Framwellgate Bridge, during 1999/2000 the Council entered into a Joint Venture Company with AMEC PLC (Durham Heart of the City Limited) pursuant to the economic development powers contained in Part III of the Local Government and Housing Act 1989. That Company in turn entered into a Development Agreement with AMEC PLC, AMEC Developments Ltd and the Council to develop sites at Walkergate, Framwellgate Peth, Framwellgate Waterside, Back Silver Street and other "future sites" to be identified through Durham Heart of the City Ltd. (The agreement for the disposal of the Council owned sites provides co-funding for the Council's Millennium City Project.)

The Council holds 500 'B' ordinary shares in the Joint Venture Company of £1 each. AMEC holds 500 'A' ordinary shares of £1 each.

AMEC and the Council are each entitled, for so long as each holds shares in their respective classes in the Joint Venture Company, to nominate one of their respective Directors to be a Joint Chairman. The company has not traded during 2008/09 or the previous year.

Durham City Forum Limited

The purpose of this Company is to encourage the private, voluntary and public sectors to work in partnership to build a better City Centre in Durham in accordance with the 'Heart of the City Masterplan'.

The Forum is a company limited by guarantee and not having share capital. The Members of the Company are City of Durham Council, Durham Markets Company Ltd, Chester-le-Street and City of Durham Enterprise Agency Ltd, University of Durham and Boots the Chemist Ltd.

Year Ended 31 March 2008 £	Position at the End of the Accounting Period	Year Ended 31 March 2009 £
(2,843)	Post Tax Profit/(Loss)	(2,927)
(1,441)	Net Assets/(Liabilities)	(1,434)
Nil	Dividends Due	Nil

Durham Villages Regeneration

The City Council has joined with Keepmoat Plc to form a Joint Venture Company known as Durham Villages Regeneration Ltd (Company No. 4305805). The Company aspires to be an economic and community regeneration public/private partnership where Keepmoat holds 51% and the Council 49% of the share capital. The issued share capital is £100 divided into 51A ordinary shares and 49B ordinary shares.

The aims of the Company are:-

- To create economic regeneration through the provision of affordable housing for sale, the provision of recreational facilities and some commercial schemes.
- To take forward socio-economic initiatives such as employment and training programmes, crime prevention schemes, small business start up catalysts, community awareness and capacity building of local people.
- To provide a sustainable safe and well balanced environment where community spirit will raise people's aspirations.

DVRC Ltd has been consolidated as a Joint Venture under FRS 9. Group Accounts are presented on pages 109-115.

40. Accounts Authorised for Issue

The 2008/09 Statement of Accounts were authorised for issue on 9th December 2009 by Stuart Crowe (Corporate Director of Resources)

41. Events after the Balance Sheet Date

On 1 April 2009 Durham City Council was replaced by a single Unitary Council for County Durham. All rights and obligations of Durham City Council were vested in the new Council. This Statement of Accounts therefore represents the final Statement of Accounts produced for the City of Durham District Council.

42. Movement in Reserves

Reserve	Balance at 1 April 2008 Restated £000	Net Movement In Year £000	Balance at 31 March 2009 £000	Purpose	Further details of movement
Revaluation Reserve	32,507	(7,183)	25,324	Shows movement in asset value.	(a) below
Capital Adjustment Account	276,167	(24,634)	251,533	Store of capital resources set aside to meet future capital expenditure.	(b) below
Usable Capital Receipts Reserve	1,608	(1,265)	343	Proceeds of fixed asset sales to meet future capital investment.	(c) below
Financial Instruments Adjustment Account	(618)	164	(454)	HRA debt rescheduling premiums in respect of previous years reclassified in accordance with SORP 2007	Being released to the General Fund over 5 years
Pensions Reserve	(43,820)	(15,540)	(59,360)	Balancing amount to allow inclusion of pension liability in balance sheet.	See Note 7 pages 48 to 53
HRA Reserve	851	252	1,103	Resources available to meet future running costs for council houses.	See Statement of Movement on page 95
General Fund	1,367	(1,132)	235	Resources available to meet future running costs of non housing services.	See Statement of Movement on page 39
Other earmarked Reserves	1,939	(242)	1,697	Reserves set aside for specific purposes / commitments.	See Note 22 on page 63
Deferred Capital Receipts	160	-	160	Reserve set aside for receipts owed.	No movement
Total	270,161	(49,580)	220,581		

(a) Movement in Revaluation Reserve

	£000
Balance at 1 April 2008 (Restated)	32,507
Revaluation (gains) / losses	3,224
Impairment losses	(9,495)
Balance written off to Capital Adjustment Account on disposal of assets	(864)
Excess of current cost depreciation over historic cost depreciation written off to the Capital Adjustment Account	(48)
Balance at 31 March 2009	25,324

(b) Movement in Capital Adjustment Account

	£000
Balance at 1 April 2008 (Restated)	276,167
Capital Financing from revenue and capital receipts	2,248
Minimum Revenue Provision/Voluntary Set Aside	156
Amounts included in I&E account but required by statute to be excluded from General Fund Balance (capital charges)	(26,967)
Amounts released from Government Grants Deferred Account	1,009
Amounts written off from Revaluation Reserve:	
Excess of current cost depreciation over historic cost depreciation	48
Balance on disposal of fixed asset	864
Other amounts written off on disposal of fixed assets:	
Net Book Value	(1,992)
Government Grants Deferred balance	-
Balance at 31 March 2009	251,533

(c) Movement in Usable Capital Receipts Reserve

	£000
Balance at 1 April 2008	1,608
Amounts received in the year	243
Amounts applied in the year	(1,508)
Balance at 31 March 2009	343

43. Introduction to Cashflow Statement

The Cash Flow Statement consolidates and summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

44. Reconciliation of Revenue Surplus / (Deficit) to Net Cash Flow

Year Ended 31-Mar-08 £000		Year Ended 31-Mar-09 £000
(12,930)	Surplus / (Deficit) from the Income and Expenditure Statement	(29,285)
	Non-cash transactions:	
6,269	Depreciation, amortisation & impairments	29,871
1,370	Pension interest costs & expected return on Pension Fund Assets	3,210
(761)	Amortisation of Government Grants	(1,075)
(310)	FRS 17 adjustment credited to Net Cost of Services	(1,740)
	Items on an accruals basis:	
(25)	(Increase) / Decrease in stock	17
(1,186)	(Increase) / Decrease in debtors	(610)
1,307	Increase / (Decrease) in creditors	(867)
-	Increase / (Decrease) in provisions	-
	Items classified elsewhere in the Cash Flow Statement:	
(1,131)	Dividends and interest receivable	(477)
1,919	Interest payable and similar charges	1,739
8,763	Loss on sale of fixed assets	1,276
697	Revenue expenditure financed from capital under statute	962
3,982	Cash inflow from operating activities	3,021

Notes

- I) Details of the surplus / (deficit) from the Income and Expenditure Account can be found on Page 38.
- II) The Cash Flow Statement reflects the revenue cash incidence of work done by the Council's DLOs for capital purposes. As a result 'capital expenditure' only includes payments to outside contractors and other non-DLO expenditure and payments made by the DLO to sub-contractors.

45. Reconciliation of net cash flow to movement in net debt

	£000	£000
Increase in Cash as per Cash Flow Statement	414	
Cash received from decrease in liquid resources	(4,743)	
Cash to repay debt	692	
Non-cash changes in net debt - movement in interest accrual	10	
Movement in Net Debt		(3,627)
Net debt at 1 April 2008		(17,514)
Net debt at 31 March 2009		(21,141)

46. Analysis of Changes in Net Debt

	1-Apr 2009 £000	Cash flows £000	Other changes £000	31-Mar 2009 £000
Cash in hand and at bank	14	226		240
Overdrafts	(162)	162		-
Short term deposits repayable on demand	44	26		70
		414		
Other short term deposits	4,743	(4,743)		-
Borrowing Repayable within 12 months	(1,181)	1,171	(1,032)	(1,042)
Long Term Loans Outstanding	(20,972)	(479)	1,042	(20,409)
		692		
	<u>(17,514)</u>	<u>(3,637)</u>	10	<u>(21,141)</u>

Short term Investments in the Balance Sheet are made up of short term cash deposits. Some of these deposits are repayable to the Council on demand and have therefore been classified in the Cash Flow Statement as Cash Equivalents (see note 47 below).

Liquid resources are made up of short term cash deposits that are not repayable on demand, for example fixed term deposits.

47. Increase/(Decrease) In Cash Equivalents

The net movement in funds is matched by the movement in cash and cash equivalents:-

Year Ended 31 March 2008		Year Ended 31 March 2009		
		Balance at 1 April £000	Balance at 31 March £000	Movement in Year £000
(328)	Cash in Hand and Bank Overdraft	(148)	240	388
(3,608)	Short Term Investments (Call Account)	44	70	26
(3,936)				414

Housing Revenue Account Income and Expenditure Account

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)	
£000		Notes	£000
	Income		
(16,329)	Dwelling Rents (Gross)	1	(17,182)
(231)	Non Dwelling Rents (Gross)		(236)
(51)	Charges for Services and Facilities		(43)
(51)	Contributions towards Expenditure		(184)
(16,662)	Total Income		(17,645)
	Expenditure		
3,476	Repairs and Maintenance		3,401
3,430	Supervision and Management		3,648
215	Rent, Rates, Taxes and Other Charges (Incl. Void Rent Loss)		348
1,959	Negative HRA Subsidy Payable	2	1,897
59	Debt Management Costs		71
139	Increase / (Decrease) in Provision for Bad and Doubtful Debts	3	152
4,089	Depreciation and Impairments of Fixed Assets		25,121
13,367	Total Expenditure		34,638
(3,295)	Net Cost of HRA Services per Authority Income and Expenditure Account		16,993
1,244	HRA Share of Corporate and Democratic Core		1,163
730	HRA Share of Other Amounts included in the whole authority Net Cost of Services but Not allocated to specific services		723
(1,321)	Net Cost of HRA Services		18,879
(636)	(Gain) or Loss on Sale of HRA Fixed Assets		(161)
1,596	Interest Payable and Similar Charges		1,513
167	Amortisation of Premiums and Discounts		163
(49)	Interest and Investment Income		(36)
(243)	(Surplus)/Deficit for Year on HRA Services		20,358

Statement of the Movement on the Housing Revenue Account Balance

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)	
£000		Notes	£000
(243)	(Surplus) / deficit for the year on the HRA Income and Expenditure Account		20,358
243	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the Year		(20,610)
-	(Increase) / decrease in the HRA Balance for the year		(252)
(851)	HRA Balance Brought Forward		(851)
(851)	HRA Balance Carried Forward		(1,103)

**Net additional amount required by
statute to be debited or credited to the
HRA Balance for the year**

Year Ended 31 March 2008 (2007/08) Restated £000		Year Ended 31 March 2009 (2008/09) £000
Amounts included in the HRA Income and Expenditure Account but excluded when determining the movement on the HRA Balance		
(553)	Difference between any other item of Income and Expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements	(21,134)
636	Gain or (loss) on sale of HRA fixed assets	161
-	Net charges made for retirement benefits in accordance with FRS17	-
-	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	-
83	Sub Total	(20,973)
Amounts not included in the HRA Income and Expenditure Account but required to be included when determining the movement on the HRA Balance		
-	Transfer to / (from) Major Repairs Reserve	-
-	Transfer to / (from) Housing Repairs Account	-
-	Employer's Contributions payable to Pension Fund and retirement benefits payable direct to pensioners	-
-	Voluntary set aside for Debt Repayment	-
160	Capital expenditure funded by the HRA	363
160	Sub Total	363
243	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(20,610)

Notes to the Housing Revenue Account

1. Rent of Dwellings

This sum represents the gross rental income due for the year after allowance is made for vacant properties. During the year 1.63% gross rent was lost due to vacant properties, compared with 1.10% in 2007/08. Rent is collected over 48 weeks, with 4 weeks being designated as rent free weeks.

Year Ended 31 March 2008 (2007/08) £ p	Rent Levels	Year Ended 31 March 2009 (2008/09) £ p
55.03	Average Weekly Rent (48 Weeks)	58.21
2.61	Average Rent Increase	3.18
4.98%	% Rent Increase for the Year	5.78%

The Council collects water rates from its tenants on behalf of Northumbria Water Ltd. It is impossible to provide a definitive split of the value of the current tenants' arrears relating to these water rates. The following table analyses the arrears position at the year end: -

Year Ended 31 March 2008 (2007/08) £000	Rent Arrears	Year Ended 31 March 2009 (2008/09) £000
1,310	Tenants Net Rent Arrears	1,290
105	Accounts in Credit	105
1,415	Gross Tenants Arrears	1,395
75	Tenants Water Rates Arrears (Estimated at 5% of Gross Arrears)	73
1,490	Gross Arrears - Council Housing	1,468

Year Ended 31 March 2008 (2007/08) £000	Analysis of Tenants Net Rent Arrears (Excluding Water Rates)	Year Ended 31 March 2009 (2008/09) £000
639	Current Tenants	539
671	Former Tenants	751
1,310	Total Arrears	1,290

£5,813	Rent Arrears Written Off in Year	£201,506
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2. HRA Housing Subsidy and Rent Rebates

In the movement towards a pure landlord account, rent rebates are no longer chargeable to the HRA and similarly, the government subsidy funding these costs is now included within General Fund Welfare Benefit Costs.

Approximately 64.4% of the Council's tenants receive some help towards the costs of rent and the benefits granted represents 59.0% of all rents due. The Council has not taken advantage of the transitional arrangements available for the transfer of rent rebates from the HRA to the General Fund.

The total HRA Subsidy receivable / negative subsidy payable by the Council is shown below:-

Year Ended 31 March 2008 (2007/08) £000	Elements of HRA Subsidy	Year Ended 31 March 2009 (2008/09) £000
(7,945)	Management And Maintenance Allowance	(8,644)
(3,536)	Major Repairs Allowance	(3,866)
(2,433)	Charges for Capital	(2,298)
-	Admissible Allowance	-
(245)	Rent Constraint Allowance	-
	Less:-	
3	Mortgage Interest	-
16,120	Assumed Rent Income	16,696
3	Prior Year Adjustment	9
1,967	Total Housing Subsidy	1,897
(8)	Housing Defects Act Subsidy	-
1,959	Total Subsidy (Due) / Payable	1,897

3. Provision for Bad and Doubtful Debts

The Council, in accordance with SORP Guidance, annually reassesses the potential losses that could arise from defaulting debtors. The charge to the Housing Revenue Account (HRA) reflects the change in the provision required after taking into account sums recovered from former tenants.

The HRA provision for bad debts at 31 March 2008 was £585,000. During the year rent and other HRA charges to the value of £201,506 were written off (£5,812 in 2007/08). Following a review of Current and Former Tenants Arrears at the year-end, an additional charge of £151,506, brought the level of provision to £535,000 at 31 March 2009.

4. Depreciation Charge

During 2008/09 the total charge to the HRA in respect of depreciation on its assets was £3.866M (£3.536M 2007/08) as shown below:-

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
	Operational Assets:	
3,536	Dwellings	3,866
-	Other Assets (Including Garages)	-
-	Non-Operational Assets (Shops etc.)	-
3,536	Total Depreciation Charge	3,866

5. Capital Expenditure and Financing

The Council spent £4.779M during 2008/09 on its HRA Assets and this was financed through the Major Repairs Allowance, Supported Borrowing Approvals, Capital Receipts, Capital Grants and Revenue Contributions as shown below: -

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (200/09) £000
5,127	Improvements to Council Housing (Incl. WIP)	4,759
88	Other Works (Env. Improvements – Incl. WIP)	20
5,215	Total Gross Capital Expenditure	4,779
1,221	Usable Capital Receipts	225
248	Supported Borrowing Approvals	248
16	Capital Grants	66
194	Direct Revenue Financing	374
3,536	Major Repairs Allowance	3,866
5,215	Total Gross Capital Income	4,779

6. Sale of Council HRA Assets

During the year, the Council received the following amounts from the sale of its Housing assets. Of these amounts, legislation limits the proportion that can be used to fund capital expenditure (the remainder repaid into the national pool on a quarterly basis). The usable element is indicated below the total receipts.

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
2,605	Council House Sales (RTB legislation)	704
1	Council House Mortgage Repayments	1
62	Land Sales/One off Sales	57
2,668	Total Receipts	762
718	Usable Element of Above Receipts	233

7. Movement on Major Repairs Reserve (MRR)

The movement on the Council's Major Repairs Reserve during the year was as follows:-

Year Ended 31 March 2008 (2076/08) £000		Year Ended 31 March 2009 (2008/09) £000
-	Balance as at 1 April	-
(3,536)	Amount transferred to MRR (Depreciation)	(3,866)
3,536	Debits to MRR in respect of Capital Expenditure (MRA)	3,866
-	Balance as at 31 March	-

8. Housing Stock

The Council's housing stock at 31 March 2009 comprised dwellings as follows:-

Year Ended 31 March 2008 (2007/08)		Year Ended 31 March 2009 (2008/09)
3,649	Houses	3,638
576	Flats and Bed Sitters	576
1,935	Bungalows	1,925
6,160	Total	6,139

The change in stock during the year can be summarised as follows:-

	Houses	Flats	Bungalows	Total
Stock at 1 April, 2008	3,649	576	1,935	6,160
Sales	9	-	2	11
Other Disposals	-	-	2	2
Demolitions	2	-	6	8
Prior Year Adjustments				
Stock at 31 March, 2009	3,638	576	1,925	6,139

9. Housing Assets Valuation

The balance sheet valuations of the Housing Revenue Account Assets are shown below:-

Year Ended 31 March 2008 (2007/08) Restated £000		Year Ended 31 March 2009 (2008/09) £000
	Operational Assets:	
268,826	Houses	231,691
2,100	Other property (Garages)	2,100
	Non-Operational Assets :	
2,467	Other property (Commercial property)	2,467
273,393	Total	236,258

The Gross value of Council dwellings is based upon a revaluation of 25% of HRA housing beacon properties, undertaken by a suitably qualified asset management officer from Derwentside District Council at 1 April 2008, in line with the policy of undertaking continuous housing stock revaluations.

The vacant possession value of the dwellings held in the Housing Revenue Account at 31 March 2009 is estimated at (applying the same valuation criteria) £507,336,500 (£528,805,500 at 31 March 2008).

The vacant possession value and balance sheet value of dwellings within the HRA show the true economic cost to the Government of providing Council housing at less than open market rent.

The values shown above for houses and property include the land upon which the buildings are built.

10. Impairment Charges

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
	Operational Assets:	
553	Houses	21,255
-	Other property (Garages)	-
-	Non-Operational Assets:	-
	Other property (Commercial property)	
553	Total Impairment Charge	21,255

An Impairment review of HRA assets was carried out by the District Valuer at 31 March 2009. As a result the charge arising in 2008/09 in respect of impairment of HRA assets was £21,255,005 (£552,829 in 2007/08). £20,775,286 of these charges are due to a downturn in the market for housing with the remainder relating to the write off of non-enhancing capital expenditure incurred in the year.

11. Revenue Expenditure Funded from Capital Under Statute

There was no charge in respect of revenue expenditure funded from capital attributable to the HRA for 2008/09 or in the prior year.

12. Exceptional Items

There were no charges or credits in respect of exceptional items in 2008/09 or the prior year other than gains credited to the Income and Expenditure Account for the sale of HRA fixed assets.

13. FRS17

FRS17 adjustments have not been included in the Housing Revenue Account on the basis that the amounts involved are so small as to be insignificant. FRS17 adjustments in respect of the HRA are fully accounted for in the Income and Expenditure Account, shown on page 38.

14. Prior Year Adjustments

There were no charges or credits in 2008/09 in respect of prior year adjustments that had an impact on the HRA balance. However certain items in the HRA Income and Expenditure Account and the Statement of Movement on the HRA Account Balance have been affected by changes in presentation adopted this year following the application of the 2008 SORP.

Amounts previously reported as impairments in the Net Cost of HRA Services relating to the write down on disposal of Council Dwellings have been recalculated, and are now shown as a gain on disposal below the Net Cost of HRA Services. In addition, the presentation of HRA depreciation and impairments relating to the write off of non-enhancing capital expenditure has been changed as these items had not previously been shown in the Net Cost of HRA Services.

Statutory Collection Fund

Year Ended 31 March 2008 (2007/08)		Year Ended 31 March 2009 (2008/09)	
£000		Notes	£000
	Income		
31,918	Council Tax Due from Taxpayers		33,066
5,092	Council Tax Benefit		5,432
27,011	Non-Domestic Rates Due from Ratepayers	3	28,569
64,021	Total Income		67,067
	Expenditure		
	Precepts and Demands		
25,994	Durham County Council		27,018
3,544	Durham Police Authority		3,758
2,096	Durham and Darlington Fire and Rescue Authority		2,179
5,197	City of Durham Council (including Parishes)	4	5,354
	Non-Domestic Rates		
26,889	Payment to National Pool		28,446
121	Costs of Collection		123
(80)	Provision for Bad and Doubtful Debts	6	(194)
200	Distribution of Previous Year's Estimated Surplus		330
63,961	Total Expenditure		67,014
(60)	(Surplus) / Deficit For the Year		(53)
(294)	(Surplus) / Deficit Brought Forward at 1 April	5	(354)
(354)	(Surplus) / Deficit Carried Forward at 31 March	5	(407)

Notes to the Collection Fund Accounts

1. The Collection Fund Income and Expenditure Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non Domestic Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. The costs of administering the collection are accounted for in the General Fund.

2. Council Tax

The Council Tax was introduced by the Government to replace the Community Charge with effect from 1 April 1993. It is a tax based on residential property values, which are grouped into eight valuation bands.

The Council Tax is broken down into individual charges for each of the local authorities operating in the District. City of Durham Council are the billing authority responsible for collecting the Council Tax on behalf of Durham County Council, Durham Police Authority, Durham Fire and Rescue authority, and various Parish Councils. Precepts and demands from these authorities are divided by the Council Tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts) to give the annual Council Tax Bills.

It is the Council Tax base that determines the taxable capacity of the authority and it is the number of Band D equivalent properties in the area that is used to calculate the Band D Council Tax, often referred to as the whole Council Tax. Properties are allocated to the Council Tax bands on the basis of their property valuations in 1991, which is then converted into a Band D equivalent figure.

The Band D equivalent number of properties is further reduced by single person's discounts (person's living alone are entitled to a 25% reduction in their Council Tax) and other exemptions (including an allowance for estimated non-payment) to calculate a Band D Equivalent Tax Base for the District. Properties in Bands A-C pay proportionally less than Band D, whilst properties in Bands E-H pay proportionally more than Band D.

The Tax Base is finally arrived at by anticipating the collection rate during the year. A collection rate of 99% has previously been anticipated in the first instance and this practise continued in calculating the tax base for 2008/09.

Throughout the District there were 38,278 chargeable dwellings in 2008/09. Applying a 99% collection rate to an overall tax base of 26,641 produces a final figure of 26,374 (26,111 in 2007/08).

An analysis of the tax base between the various Council Tax bands is provided below: -

Property Value	Council Tax Band	Number of Properties In Each Band	Proportion Of Band D	Band D Equivalent Properties
Up to £40,000	Band A	18,603	6/9 ths	12,402
Over £40,000 and up to £52,000	Band B	6,083	7/9 ths	4,731
Over £52,000 and up to £68,000	Band C	6,114	8/9 ths	5,435
Over £68,000 and up to £88,000	Band D	4,170	1	4,170
Over £88,000 and up to £120,000	Band E	1,953	11/9 ths	2,387
Over £120,000 and up to £160,000	Band F	1,084	13/9 ths	1,566
Over £160,000 and up to £320,000	Band G	711	15/9 ths	1,185
Over £320,000	Band H	86	2	172
Totals		38,804		32,048

2008/09 Tax Base (after accounting for empty property, discounts and other losses on collection)	26,374
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The average Band D tax for the year was made up as follows:-

Year Ended 31 March 2008 (2007/08) £ p		Year Ended 31 March 2009 (2008/09) £ p
995.49	Durham County Council	1,024.38
183.14	City of Durham Council	186.62
135.72	Durham Police Authority	142.47
80.28	Durham and Darlington Fire and Rescue Authority	82.62
14.79	Parish Council's (Average)	16.38
1,409.42	Total	1,452.47

3. Non-Domestic Rates

Non-Domestic Rates are determined on a national basis by Central Government, which sets an annual non-domestic rating multiplier each year. The Government increased the multiplier in 2008/09 to 46.2p in the £, compared with 44.4p in the £ for 2007/08. The small business multiplier (applying to properties with a rateable value

below £15,000) was 45.8p in the £ for 2008/09, compared with 44.1p in the £ for 2007/08.

Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. All business premises had their rateable values re-assessed by the Valuation Office with effect from April 2005. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into a national non-domestic rate 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 share of the National Non-Domestic Rates receivable by the Council, from the Pool, was £7,555,059 in 2008/09 (£7,254,017 in 2007/08).

The NNDR income (after relief and provisions) of £28.569M for 2008/09, (£27,011M for 2007/08) was based on a rateable value for the Council's area of £73.504M at 31st March 2009 (£72.822M at 31st March 2008).

4. City of Durham Demand (Including Parishes)

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

Year Ended 31 March 2008 (2007/08) £	Parish	Year Ended 31 March 2009 (2008/09) £
4,811,075	City of Durham Precept	4,922,017
	Parish Precepts :	
12,000	Bearpark	14,000
65,000	Belmont	65,000
4,436	Brancepeth	5,600
103,560	Brandon & Byshottles	124,914
23,000	Cassop-Cum-Quarrington	24,150
28,000	Coxhoe	33,473
7,200	Croxdale & Hett	7,200
36,200	Framwellgate Moor	38,200
8,231	Kelloe	8,566
11,495	Pittington	12,875
13,500	Shadforth	14,000
23,550	Sherburn	24,468
10,000	Shincliffe	10,000
20,000	West Rainton	25,000
20,033	Witton Gilbert	24,500
386,205	Total – Parish Precepts	431,946
5,197,280	Total	5,353,963

5. Collection Fund Balance and Previous Year's Surplus

The Collection Fund Balance at 31 March 2009 will be redistributed in subsequent years to Durham County Council, the Police Authority, and the Fire and Rescue Authority in proportion to the precepts and demands made upon the Collection Fund. The total surplus at 31 March 2009 has been allocated as follows:

	Year Ended 31 March 2008 (2007/08) £000	Year Ended 31 March 2009 (2008/09) £000
City of Durham Council	(50)	(57)
Durham County Council	(250)	(287)
Durham Police Authority	(34)	(40)
Durham Fire and Rescue Authority	(20)	(23)
Total	(354)	(407)

As of 1 April 2009 the new Unitary Council for County Durham became the billing authority responsible for Council Tax in the City of Durham.

6. Council Tax Written Off

Year Ended 31 March 2008 (2007/08) £000		Year Ended 31 March 2009 (2008/09) £000
(1,110)	Opening provision for bad and doubtful debts	(913)
117	Council tax arrears written off in the year	115
80	Reduction in provision credited to the Collection Fund	194
(913)	Provision for bad and doubtful Council Tax debts	(604)

GROUP ACCOUNTS

Group Income and Expenditure Account for the Year Ended 31 March 2009

Year Ended 31 March 08 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)			
Net £000		Expend £000	Income £000	Net £000	Notes
1,399	Central Services to the Public	9,524	(8,152)	1,372	
10,114	Cultural, Environmental and Planning Services	22,864	(10,225)	12,639	
1,050	Highways, Roads and Transport Services	1,576	(613)	963	
506	Housing General Fund Services	19,314	(18,955)	359	
(3,295)	HRA Housing	34,638	(17,645)	16,993	
3,531	Corporate & Democratic Core	3,827	(397)	3,430	
1,818	Non Distributed Costs	2,493	(1,108)	1,385	
(236)	Share of surplus in Joint Venture	1,908	(2,162)	(254)	
14,887	Net Cost of Services	96,144	(59,257)	36,887	
386	Precepts Paid to Parish Council's			432	
(1,162)	(Surpluses) / Deficits on Undertakings Not Included in the Net Cost of Services			(400)	
8,763	(Gain) / Loss on Sale of Fixed Assets			1,276	
1,919	Interest Payable and Similar Charges			1,942	
1,950	Contribution of Housing Capital Receipts to Government Pool			528	
(794)	Interest and Dividends Receivable			(481)	
1,370	Pensions Interest Costs and Expected Return on Pension Fund Assets			3,210	
77	Share of taxation in Joint Venture			15	
27,396	Net Operating Expenditure			43,409	
	Principal Sources of Finance :-				
(5,197)	Demand from the Collection Fund			(5,354)	
(29)	Collection Fund Surplus			(46)	
(1,217)	Revenue Support Grant			(1,052)	
(7,254)	Redistributed Non-Domestic Rates (From Central Pool)			(7,555)	
(592)	Local Authority Business Growth Incentive Grant			(157)	
13,107	(Surplus) / Deficit for the Year			29,245	

Reconciliation of the Single Entity Deficit for the Year to the Group Deficit

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)
£000		£000
12,930	Deficit for the year on the authority's single entity Income and Expenditure Account for the year	29,285
352	Add back: dividend income from Joint Venture included in the single entity deficit on the Income and Expenditure Account	(4)
	Less: Surplus arising from Joint Venture included in the Group Accounts	
(236)	Operating profit	(254)
-	Interest payable	203
(16)	Interest receivable	-
77	Taxation	15
13,107	Group Account deficit for the year	29,245

Group Statement of Total Recognised Gains and Losses

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)	
£000		Notes	£000
13,107	(Surplus) / deficit for the year on the Group Income and Expenditure Account		29,245
(37,128)	(Surplus) / Deficit for the year arising from the revaluation of Fixed Assets		6,272
(10,000)	Actuarial (gains) and losses on Pension Fund assets and liabilities		14,070
784	Deferred premiums on early repayment of debt		-
37	Other (gains) and losses		(47)
(33,200)	Total (Gains) and Losses		49,540
	Cumulative effect on reserves of Prior Year Adjustments made in the year		(16,125)

Group Balance Sheet as at 31 March 2009

Year Ended 31 March 2008 (2007/08) Restated		Year Ended 31 March 2009 (2008/09)		
£000		Notes	£000	£000
1,247	Intangible assets			1,565
	Purchased software licences			
	Tangible fixed assets			
	Operational:			
268,825	Council dwellings		231,691	
39,402	Other land & buildings		52,283	
899	Vehicles, plant, furniture and equipment		640	
1,855	Community assets		435	
	Non-operational:			
2,822	Investment properties		2,787	
13,484	Surplus assets held for disposal		12,004	
327,287	Total Tangible Fixed Assets			299,840
	Long-term investments			
	Investment in Joint Venture:			
5,459	Share of Gross Assets		4,568	
(5,284)	Share of Gross Liabilities		(4,530)	
267	Long Term Debtors		258	
442	Total Long-term investments			296
328,976	Total Long Term Assets			301,701
	Current Assets			
4,809	Stocks and Work in Progress		921	
6,700	Debtors		6,765	
4,787	Short Term Investments		70	
14	Cash and Bank		240	
16,310	Total Current Assets			7,996
	Current Liabilities			
(1,181)	Borrowing Repayable within 12 months		(1,042)	
(7,512)	Creditors		(6,235)	
(162)	Bank overdraft		-	
(8,855)	Total Current Liabilities			(7,277)
	Long Term Liabilities			
(20,972)	Long Term Loans Outstanding		(20,409)	
(43,820)	Liabilities related to defined benefit pension scheme		(59,360)	
(19)	Provisions		(19)	
(1,284)	Government Grants Deferred		(2,013)	
(66,095)	Total Long Term Liabilities			(81,801)
270,336	Total Assets Less Liabilities			220,619
	Financed By			
32,507	Revaluation Reserve		25,324	
276,167	Capital Adjustment Account		251,533	
1,608	Usable Capital Receipts Reserve		343	
(618)	Financial Instruments Adjustment A/c		(454)	
(43,820)	Pension Reserve		(59,360)	
1,367	General Fund Balance		235	
851	Housing Revenue Account Balance		1,103	
160	Deferred Capital Receipts Reserve		160	
1,939	Earmarked Reserves		1,697	
175	Share of Profit and Loss Reserve of Joint Venture		38	
270,336	Total balances and reserves			220,619

Group Cash Flow Statement

Year Ended 31 March 2008 (2007/08) Restated £000		Notes	Year Ended 31 March 2009 (2008/09) £000
3,982	REVENUE ACTIVITIES NET CASH INFLOW / (OUTFLOW)	6.	3,021
	DIVIDENDS FROM JOINT VENTURES AND ASSOCIATES		
	Cash inflows		
826	Dividends received		349
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Cash outflows		
(2,684)	Interest Paid		(1,750)
	Cash inflows		
807	Interest Received		550
	CAPITAL ACTIVITIES		
	Cash outflows		
(10,288)	Purchase of fixed assets		(8,101)
	Cash inflows		
2,846	Sale of Fixed Assets		772
1,092	Capital Grants Received		1,509
56	Other Capital Contributions		13
(3,363)	NET CASH INFLOW / (OUFLOW) BEFORE FINANCING		(3,637)
	MANAGEMENT OF LIQUID RESOURCES		
317	Net decrease in short term deposits	46.	4,743
	FINANCING		
	Cash outflows		
(5,140)	Repayments of Amounts Borrowed	46.	(692)
	Cash inflows		
4,250	New Loans Raised		-
(3,936)	NET INCREASE / (DECREASE) IN CASH	47.	414

Notes to the Group Accounts

1. Introduction

The Council has a long term investment in Durham Villages Regeneration Ltd. The Accounting Code of Practice requires that the Council's interest in this company be brought together and consolidated into a Group Statement, with the aim of providing a better understanding of the Council's overall financial position.

The SORP requires that the notes provided for the single entity accounts must also be disclosed in the group accounts except where there are no material additional amounts or details in relation to subsidiaries, associates or joint ventures. Therefore notes to the Group Accounts have been included below where there are material additional amounts or details to be added in relation to the Joint Venture Company.

2. Basis of Consolidation

The Accounts have been consolidated as a Joint Venture in line with FRS9 Associates and Joint Ventures.

3. Detail of Investment

The City of Durham Council holds 100% of the "B" Class ordinary shares and Keepmoat plc hold 100% of the "A" Class ordinary shares in Durham Villages Regeneration Ltd. Although Keepmoat have overall majority share ownership, the articles of association entitle each to a 50% split of the voting rights. Due to this proportional split of voting rights, neither party is considered to be the ultimate controlling party of Durham Villages Regeneration Ltd. The company's principal activity is social and private housing development, land sales and property development for regeneration purposes.

4. Accounting Periods

Both organisations within the Group have co-terminus accounting periods.

5. Accounting Policies

The Council prepares its accounts in accordance with the Accounting Standards Boards (ASBs) Statement of Recommended Practice, issues by CIPFA/LASAAC. Durham Villages Regeneration Ltd. have to prepare their accounts to comply with the Companies Act (1985), as well as ASB issues Financial Reporting Standards (FRS's) and residual Statements of Standard Accounting Practice (SSAP's).

The Accounts of Durham Villages Regeneration Ltd are publicly available and may be obtained by contacting the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.

6. Group Cash Flow Statement

Only cash transactions between the Council and its Joint Venture Company are included in the group cash flow statement. Most of the cash flows of the Joint Venture Company entailed in its normal trading are therefore not shown.

Included below is a note reconciling the deficit as shown in the Group Income and Expenditure Account to the group cash inflow from operating activities. The remaining notes to the cash flow are not included here as there are no additional amounts or details to be added.

Year Ended 31-Mar-08 £000		Year Ended 31-Mar-09 £000
(13,107)	Surplus / (Deficit) from the Group Income and Expenditure Statement	(29,245)
	Non-cash transactions:	
6,269	Depreciation, amortisation & impairments	29,871
1,370	Pension interest costs & expected return on Pension Fund Assets	3,210
(761)	Amortisation of Government Grants	(1,075)
(310)	FRS 17 adjustment credited to Net Cost of Services	(1,740)
(236)	Operating profit of Joint Venture	(254)
	Items on an accruals basis:	
(25)	(Increase) / Decrease in stock	17
(1,186)	(Increase) / Decrease in debtors	(610)
1,307	Increase / (Decrease) in creditors	(867)
-	Increase / (Decrease) in provisions	-
	Items classified elsewhere in the Cash Flow Statement:	
(779)	Dividends and interest receivable	(480)
1,903	Interest payable and similar charges	1,941
8,763	Loss on sale of fixed assets	1,276
697	Revenue expenditure financed from capital under statute	962
77	Taxation of Joint Venture	15
3,982	Cash inflow from operating activities	3,021

7. Reconciliation of movement in Group Balance Sheet

Year Ended 31 March 2008 (2007/08) Restated £000		Year Ended 31 March 2009 (2008/09) £000
237,549	Opening balances and reserves per Group Balance Sheet	270,336
33,200	Gains and (losses) shown in the Group Statement of Total Recognised Gains and Losses	(49,540)
(413)	Group share of capital withdrawn from the Company in the year	(177)
270,336	Total balances and reserves	220,619

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

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

In discharging this overall responsibility, the City of Durham District Council is also responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The City of Durham District Council has approved and adopted a code of corporate governance, (the Local Code) which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government 2007*. A copy of the Local Code can be obtained from The Monitoring Officer, Head of Legal and Strategic Services, 17 Claypath, Durham, DH1 1RH.

This statement explains how the City of Durham District 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) including circular 03/2006 which replaces the publication of a statement on internal control with an annual governance statement. This statement also conforms to The Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009.

2. The purpose of the governance framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

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 City of Durham District 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 City of Durham District Council for the year ended 31st March 2009. This governance statement draws principally on the arrangements that were in place up to the 31st March 2009 and has been prepared by the Director of Financial Services for the City of Durham District Council. At the 1st April 2009 the City of Durham District Council was abolished and became part of the new Unitary Authority for the Durham County area. The Annual Governance Statement has

been updated to take account of any significant emerging system weaknesses from the 1st April 2009 up to the date of approval by the new County Council (together with the Annual report and statement of accounts) by Durham County Council's Corporate Director of Resources.

3. The Governance Framework

The Corporate Performance Plan 2008-2009 sets out the Council's key priorities for the district. However, in the light of the government's decision to move from a two tier local government structure to a new single unitary authority for the County, the Plan differed from previous years in that it did not seek to identify medium term priorities. Instead the Plan was supplemented by a Transition Plan and Strategic Risk Register dealing with specific LGR transition issues.

These Plans matched the Council's activities to the environment in which it operated and provided a focus and a framework for the planning and management of services. They set out the main aims and outcomes that need to be achieved in the year and into the future by the new Unitary Authority.

In 2008/09 the City Council has continued to work closely with partners and stakeholders to identify those areas that are local priorities and to ensure the delivery of caring, open and efficient services. The Plan sets out how these important priority issues have been addressed within the overall aim of bringing about real change through the corporate efforts of the Authority, working on its own and in partnership with others.

The move to a single unitary authority for the County brings with it the opportunity to redesign services and transform the way in which we serve our communities. However it also brings with it significant risks and pressures, particularly in the transitional phase and the Council has worked hard to ensure that the needs of residents and service users have been met under the "business as usual" protocol and that all risks have been mitigated leading up to the creation of the new authority on the 1st April 2009.

Detailed Service Plans inform the Corporate Performance Plan, enabling the Council to further develop and embed performance measures and targets for each service area. This allows the Council to more accurately gauge performance and progress made against the strategic aims and objectives that it has set itself and also measure the Council's contribution to the outcomes of strategic partnerships such as the Local Strategic Partnership and County Wide Local Area Agreement.

Supporting and underpinning the Corporate Performance Plan, is the City Council's Medium Term Financial Plan and Corporate Capital Strategy / Asset Management Plans, which set out in financial terms how resources will be allocated and used to address corporate priorities and stakeholder needs within the District.

The City Council has established a number of inter-departmental working groups to support the delivery of its strategic aims; including Corporate Strategy, Risk Management, Children and Families, Flourishing Communities, Customer Services, Community Services, Human Resources, Equalities, Internal Communication, Efficiency, Information Technology, Performance, Asset management and Capital Works.

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. A copy of the Constitution can be obtained from The Monitoring Officer, Head of Legal and Strategic Services, 17 Claypath, Durham, DH1 1RH. The Council's policy and decision making is facilitated by the establishment of a Cabinet system, supported by a scrutiny function and a standards committee.

Meetings are open to the public except where personal or confidential matters are being disclosed. Senior members and officers can also make decisions under delegated powers. The Constitution contains details of decisions to be made by the Council, its committees and contains details of those powers delegated to members and officers.

The Council has adopted a "Local Code of Corporate Governance" in accordance with the latest CIPFA/SOLACE Framework for Corporate Governance. The code contains appropriate reporting and monitoring procedures. A copy of the Code can be obtained from The Monitoring Officer, Head of Legal and Strategic Services, 17 Claypath, Durham, DH1 1RH.

A Standards Committee, consisting of nine persons, including four Council members (excluding the Leader of the Council); three independent, persons (who are neither councillors or officers of the Council) and two Parish Council members (mainly in the Council's area) exists to ensure compliance with the code.

The City Council has designated the Head of Legal and Strategic Services as Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, legislation and regulations.

The Council has an inclusive culture. Weekly management team meetings are held, where the Executive Director (Head of the Paid Service) chairs meetings of all Chief Officers and Heads of Service (including the nominated Monitoring Officer and Section 151 Officer). Corporate and service issues are disseminated from this meeting via team briefings, in accordance with the City Council's Internal Communications Strategy. All draft Cabinet reports are considered at this meeting. Further departmental/service meetings are held to ensure communication and performance management arrangements are fully embedded. Regular staff newsletters (Communication Matters) are issued to all employees.

The Council has developed robust systems for identifying and evaluating all significant strategic and operational risks – the Council maintains up to date strategic and operational risk registers. The Council again reviewed and updated its Risk Management Strategy in 2008/09. A cross-department Risk Management Working Group, chaired by the Director of Strategic Services, and attended by Directors/Heads of Service, senior managers and leading members, exists and operates in accordance with best practice. The management of risks has been allocated to appropriate individual officers and risks are constantly reviewed. Extensive risk management training has been carried out for all appropriate officers and members. The use of control risk self assessment forms to highlight and review business risks continue to be utilised as part of the audit process. A transitional risk register was developed by the Risk Management group to highlight Local Government Review Risks which has been regularly updated and reviewed. Regular progress reports in respect of embedding risk management arrangements, together with an annual report are presented to both the Council's Audit Overview committee and Cabinet.

The Head of Internal Audit prepares an annual audit strategy and risk based audit plan. This is underpinned by the Internal Audit Service Plan, Audit manual and Internal Audit Protocols.

The Council has an Audit Overview Committee in place to independently monitor and review the work of internal audit, the council's risk management processes, the council's corporate governance arrangements, and the council's arrangements for seeking assurance and evidence in support of the Annual Governance Statement. Terms of reference for the Audit Overview committee fully meet the standards laid down by CIPFA. The Committee meets on a quarterly basis during the year, and the Head of Internal Audit has direct access to the Chair. The Audit Overview Committee

reviews and scrutinises the Council's Annual Statement of Accounts and the Annual Governance Statement before submission to Council.

Through reviews by internal audit, external agencies, external audit, performance review and Best Value, the Council constantly seeks ways to ensure the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised.

The financial management of the authority is conducted in accordance with the financial rules set out in the constitution, and in accordance with financial procedure rules and financial regulations and the Statements of Recommended Practice 2008. Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should ...'make arrangements for the proper administration for their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Council has designated the Director of Financial Services as its Responsible Financial Officer. In discharging this statutory responsibility, the Director of Financial Services has five key roles within the Council: -

- maintaining strong financial management underpinned by effective financial controls.
- contributing to corporate management and leadership.
- supporting and advising democratically elected representatives
- supporting and advising officers in their operational roles
- leading and managing an effective and responsive financial service

The Director of Financial Services has fully and effectively discharged these duties and the financial governance arrangements in place are considered robust and are underpinned by the preparation of regular financial reports, which indicate actual expenditure against budget, together with key Balance Sheet items.

Details of key controls for all of the authorities systems have been distributed to Heads of Service and form the basis of scoping activity for reviews undertaken by Internal Audit. They assist managers in determining the level of internal controls for systems under their responsibility that have not been subject to an internal audit review during the relevant period.

The Council has continued to identify its business critical functions, which would need to be prioritised in an emergency or business disruption situation and has in place a Business Continuity Plan outlining a number of strategy options aimed at reducing the impact of a business interruption. The Plan clearly sets out on a building by building basis, the services and critical functions that operate within that building and the key resources required to carry out the critical functions should access to that building be denied. This places the City Council in a strong position to enable it to effectively respond to a business interruption. The Risk Management Working group has reviewed this Plan and has improved the supporting arrangements. The Council also continues to regularly review its Emergency Planning arrangements in partnership with the County Durham and Darlington Civil Contingencies Unit.

The Council has adopted a 'Safeguarding of Children, Young People and Vulnerable Adults Policy'. It has put in place supporting arrangements for the reporting and investigation of any concerns. The Council has undertaken an extensive training programme for relevant staff and developed effective working relationships with other public sector bodies in this area. It has widely publicised this policy and these arrangements.

The Council has an effective performance management framework in place that is driven by the Corporate Plan which focuses attention on corporate priorities. This is linked to detailed service plans, employee's performance development reviews (PDR) and action plans. The Council's Scrutiny Committee monitors progress against targets and individual/team performance in priority areas affecting the main service areas, and considers and approves corrective action where necessary. Performance clinics, consisting of Cabinet Members and Senior Officers, meet regularly to monitor overall performance and to review key performance indicators on a quarterly basis with regard to service and national targets.

The Council has supported and assisted the transition to a Unitary Authority throughout the year via attendance at programme boards and work-stream meetings and through the completion of a number of ad-hoc tasks across a range of areas and services. Many of the Council's Directors and Heads of Service have been involved with this process either leading or supporting relevant programme boards and work-streams. The Executive Director has been an active member of the Joint Implementation Team consisting of county and district council senior officers, advising councillors and implementing policy decisions. A "mutual aid protocol" was developed and implemented to guard against the potential increased turnover and uncertainty over new structures and roles in the new authority. The objectives of this protocol were: -

- To facilitate inter-authority working, co-operation and sharing of resources to ensure that minimum statutory and other Use of Resources requirements are maintained within all authorities.
- To maintain the current high standard of provision of Financial Services throughout the eight authorities during the transition period both in respect of business as usual activity and in respect of the need to support the programme deliverables.
- To safeguard the ongoing employment of existing employees, in accordance with the objectives set out in the Joint Recruitment Protocol.
- To work towards the realisation of the benefits and efficiencies set out in the bid submission.
- To manage the risks during the transition period

At City of Durham Council the Mutual Aid Protocol has been widely used to support the Local Government Review process in the following ways:-

- Provide/facilitate support in house for services requiring assistance due to depletion of staff. (A member of the Internal audit staff was seconded to the Accountancy Section. Other Internal Staff have assisted in a number of one off ad hoc tasks)
- Support for other authorities experiencing similar problems (City of Durham Internal Audit staff have carried out system review work on Council Tax and NDR for Teesdale and LGR assurance work for the County Council)
- Verification of data transferred (data integrity)
- Data quality assurance (Internal audit staff have carried out work on data mapping, rent calculation and other charges)

4. Review of Effectiveness

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

The governance framework and system of internal control refers to the system by which the City Council directs and controls its functions and relates to the community it serves. It is therefore the totality of the policies, management systems, procedures, and structures that together determine and control the way in which the City Council manages its business, formulates its strategies and objectives and sets about delivering its services to meet those objectives.

The governance framework and system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council to facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieve the authority's objectives.

The City Council's governance framework and system of internal control reflects its control environment which encompasses its organisational structure. In particular, the system includes control activities, information and communication processes and processes for monitoring the continuing effectiveness of the governance framework and the system of internal control; the Council has established the following processes to achieve this aim:-

- The Council has established a Corporate Governance Working Group consisting of Directors, Heads of Service and Senior Line managers which is chaired by the Head of Internal Audit. The group monitor and react to any changes to the annual governance framework, review and collate evidence in support of the Annual Governance Statement, and approve the Annual Governance Statement before submission to the Audit Overview Committee for consideration and then to Council for approval. It should be noted that the Annual Governance Statement for 2008/09 will be approved by the new Unitary Authority - Durham County Council as a consequence of Local Government Review, however, an interim statement (prepared by officers of the former City of Durham Council) was considered by the Audit Overview Committee on the 26th March 2009.
- A small sub group of the Corporate Governance Working Group independently review the work of the Internal Audit Service and the Audit Overview Committee on an annual basis in accordance with the Accounts and Audit regulations 2003 (amended) A formal report has been considered by the Audit Overview Committee in this respect with the committee concluding that suitable arrangements are in place.
- All Directors and Heads of Service are expected to keep under continual review the internal control processes of systems under their responsibility, particularly where such systems have not been reviewed by Internal Audit in that year. This is to ensure continued adherence to 'key' internal controls

identified for all major systems and communicated to Heads of Service by Internal Audit.

- As part of this continual review process Directors and Heads of Service are also required to complete and sign an annual assurance statement outlining the key features of the systems of internal control, within their area of responsibility. This allows them to identify whether the arrangements set out are in place and operating effectively, identify problems encountered and set out action that has been taken or is proposed to address those issues.
- The council has in place Executive arrangements based on the Leader Cabinet model. Cabinet meets regularly to consider the plans and strategic direction of the Council. Ruling and opposition members are represented on each committee according to the rules laid down in the Council's agreed Constitution. The cabinet includes the leader of the two opposition parties (on a non-portfolio holding basis)
- The Head of Legal and Strategic Services (the 'Monitoring Officer') has a duty to monitor and review the operation of the Constitution to ensure that its aims and principles are given full effect. The Constitution is regularly reviewed throughout the year, and all amendments are agreed by Council.
- The Council reviews compliance against the adopted local Code of Corporate Governance and routinely on an annual basis adopts an action plan to deal with any issues that arise.
- Scrutiny committees review the decision making process to consider whether a decision is appropriate. They also undertake a number of reviews of key areas and make recommendations to Cabinet for consideration. The Council has four Scrutiny Committees to scrutinize the work of Cabinet and Officers and to assist the Cabinet in developing proposals. These Scrutiny Committees comprise of 12 Councillors' on each and are politically balanced to ensure full representation of the various political groups.

These four Scrutiny Committees examine the effectiveness of policies, practices and service delivery by the Council. They can ask the Cabinet and the Council's Officers to give full account of what they do and how they deliver services and can 'call in' decisions made by the Cabinet or Cabinet Members for review or reconsideration prior to implementation.

Scrutiny can make recommendations to the Cabinet and full Council, on existing and proposed new policies, whilst also providing an essential check and balance on the Cabinet and have an important role to play in the Council's Budget setting process.

- Performance clinics meet quarterly to review progress on PI's within the corporate performance plan. Annually internal audit reviews key performance indicators in accordance with guidance provided by the audit commission to ensure the use of the correct definition and calculation before publication of the authority's annual performance plan.
- The Council annually reviews its Financial Procedure rules, Contract Procedure rules and Financial Regulations where necessary. All amendments are agreed by Council.
- The Council has effective governance arrangements in place for its joint venture company Durham Villages Regeneration Company (DVRC) There is cross party executive membership of the board of DVRC drawn from the

Cabinet. The Executive Director is also appointed to the Board. Board meetings are held quarterly and the Board approves an annual business plan and receives regular monitoring reports, which includes financial performance information. The Council receives an audited copy of the Companies annual accounts, which is incorporated in the Council's Statement of Accounts as part of the Group Accounts statement.

Council Officers are signatories to the Companies bank account with all payments being approved by them. As part of the articles of association the Company has an open book arrangement. This gives the Council's internal and external auditors the ability to inspect the company's records at any time.

- The Audit Overview Committee reviews the adequacy of internal controls, monitors the performance of Internal Audit, agrees the internal and external audit plan, reviews risk management arrangements, oversees corporate governance requirements, and approves the Council's year end accounts and Annual Governance Statement prior to formal consideration by Council.
- The risk management group annually review the risk management strategy, to ensure continued relevance to the Council. With the development of the Strategic and Operational risk registers and nomination of risks to individual officers' risks are continually monitored. The Council's Cabinet formally approve/adopt the Strategic Risk Register.
- The risk management group reports on a quarterly basis to Audit Overview Committee and Cabinet bringing their attention to significant risks. An annual report is prepared for consideration by both of these.
- Internal Audit annually reviews the effectiveness of the Council's risk management arrangements.
- The Standards committee promotes and maintains high standards of conduct of Councillors and co-opted Members; assisting the Councillors and co-opted Members to observe the Members' Code of Conduct. A new Model Code of Conduct for Local Authorities was laid before Parliament on the 4 April 2007 and came into force on the 3 May 2007. The Standards Committee approved the adoption of the New Model Code of Conduct as drafted but with the addition of a requirement that all offers of gifts and hospitality, whether accepted or not, over the value of £25 should be declared and recorded in the appropriate register.
- Internal audit, monitor and review the quality and effectiveness of internal control. The audit plan is developed in line with best practice using a robust risk model, informed by the annual audit strategy and is approved by the Audit Overview Committee. The audit methodology is contained within the Audit manual which is largely based on the CIPFA model, and reflects the standards defined by the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, and meets the requirements of the Accounts and Audit Regulations 2003 (amended) Reports for each audit are submitted to relevant line managers and Heads of Service where appropriate. Reports include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the relevant Service's system of internal control, together with recommendations for improvements that are contained within an action plan and require agreement or rejection by line managers. Recommendations are prioritised according to risk. The process is subject to escalation where agreement cannot be reached, and includes quarterly reviews of recommendations to ensure that they are acted upon.

- The Internal audit section is subject to regular inspection by the Council's external auditors who report annually to the Council. The external auditors place great reliance on the work carried out by the section.
- An annual review of the Councils Corporate Governance arrangements, together with the arrangements that the Council has in place to detect and deter fraud and corruption is carried out by Internal Audit.
- Robust arrangements are in place for budgeting and strong and continuously improving budgetary control arrangements are in place and have been maintained throughout the year. These are also reviewed annually by Internal Audit
- The Council has developed a partnership toolkit to ensure that robust arrangements are put in place for any future partnerships. All significant partnerships have been identified in an electronic partnership register and the Council has assessed the risks of all partnerships. A number of reports reviewing the effectiveness of the Council's arrangements with its major partnerships have been presented to Cabinet for consideration throughout the year.
- Specific assurance in respect of the Inprint Partnership has been obtained from Derwentside District Council's Internal Audit section.

In summary, the governance framework and the system of internal control in place at the City Council for the year ended 31st March 2009 and up to the date of approval of the annual report and accounts and, except for the details of internal control issues at section 5 accords with proper practice.

Declaration of those "Charged with Governance":

"We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive, the Audit Overview Committee, the Councils Scrutiny Committees and the risk management group (as set out above), and are satisfied that plans to address weaknesses and ensure continuous improvement of the governance system is in place".

5. Significant Governance Issues

The City Council has identified the following governance and internal control issues worthy of inclusion in the 2008/09 Annual Governance Statement:

- To facilitate LGR, the Council in consultation with the Audit Commission agreed a vastly reduced audit plan in 2008/09. The plan concentrated on main financial and business critical systems only, with a large planned contingency provision to support the LGR process (included the mutual aid protocol). There was a risk that due to the demand for resources during the transition year Internal Audit would struggle to react quickly to the needs of services particularly in relation to the investigation of fraud or corruption. Although resources were still tight it was expected that despite the demands placed upon the section the audit plan would be completed.
- An internal audit review of the sundry debtors system confirmed that whilst the back office function works effectively, the services based part of the system is weak with issues primarily relating to the failure to maintain records to


substantiate the debt and a breakdown in authorisation. Follow up procedures will determine that all high risk recommendations are completed within agreed implementation dates. Internal audit also raised concerns that a previous recommendation regarding the level of sundry debtor write offs due to services not providing supporting information to the legal section to enable further recovery action to be taken was not being adhered to.

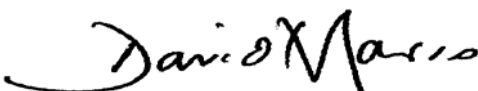
This was despite an instruction from Corporate Officers Management Team to individual services to reinforce the process. Additional guidance has been issued to managers to be communicated to all staff via team briefings regarding the supporting documentation required by the legal team to enable them to take more effective and timely recovery action.

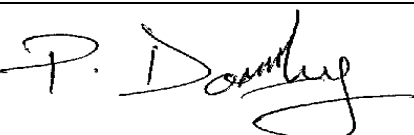
- Unexpected shortfalls in fee income for both development control and building control have arisen from the severe downturn in the Housing Market and performance of the local economy. Budgetary control arrangements have been adjusted to improve their robustness. Procedures were also strengthened to ensure maximisation of fee income and apportionment of workload to the Council's strategic partner.
- Staffing capacity difficulties have arisen in certain areas due to an increased level of regulation and growth in demands for community engagement. The uncertainty resulting from the LGR process is causing difficulties in retaining and recruiting staff.
- Some weaknesses in relation to business continuity plans and procedure notes for critical business systems have been acknowledged and managed during the year under the "business as usual" protocol. Detailed system documentation and disaster recovery plans have been developed in most areas.
- Having achieved Level 2 of the Equality Standard, the cost and resource allocation needed to achieve level 3 is significant. The Council had hoped to move forward on diversity issues towards achieving a Level 3 but a corporate decision was made to abandon plans for this due to the creation of the new Unitary Council.
- A number of cultural and operational weaknesses regarding health and safety procedures were identified during the year. Attendance at team briefings and other inter-departmental meetings together with improved training by Health and Safety staff has raised awareness. Health and safety risks have been added to the Council's risk register and ownership of relevant risks have been nominated.
- There is a risk that the Closure of accounts programme for 2008/09 may be adversely affected by the loss of experienced staff. Additional resources are currently being sought and there may be a requirement to buy in the necessary expertise.

Declaration of those "Charged with Governance":

"We propose that up until the demise of the City of Durham Council on the 31st March 2009 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 until vesting day of the new Unitary Authority on the 1st April 2009."

Signature of the Leader of City of Durham Council	Date
	31/03/09

Signature of the Executive Director	Date
	31/03/09

Signature of the Director of Financial Services	Date
	31/03/09

Independent auditor's report to the Members of Durham County Council as successor to City of Durham District Council

Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of City of Durham District Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on 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 Durham County Council as successor to City of Durham District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director Resources and auditor

The Corporate Director Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group 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 and Group accounting statements, and consider whether it is consistent with the audited Authority and Group 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 and Group accounting statements. My responsibilities do not extend to any other information.

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group 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 and Group 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 and Group 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 and Group 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

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

Council's Responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and 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 Council'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 relevant criteria specified by the Audit Commission for principal local authorities, published in December 2006, and the supporting guidance, I am satisfied that, in all significant respects, City of Durham District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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
Officer of the Audit Commission
Nickalls House
GATESHEAD
NE11 9NH

9 December 2009

Glossary of Terms Used in the Financial Statements

Accounting Bases

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

Accounting Concepts

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

Accounting Policies

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

Account and Audit Regulations 1996

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

Appropriations

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

Asset Charges

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

Audit Commission

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

Bad (and doubtful) debts

Debts which may be uneconomic to collect or unenforceable.

Balance Sheet

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

Best Value

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

Best Value Accounting Code of Practice (BVACOP)

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

Budget Requirement (or Revenue Budget)

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

Capital Charges

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

Capital Expenditure

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

Capital Adjustment Account

This reserve provides a balancing mechanism between the different rates at which assets are depreciated and financed. The balance at 1 April represents the closing value on the former Fixed Asset Restatement Account and Capital Financing Account in last years balance sheet.

Capital Receipts

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

Cashflow Statement

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

CIPFA

The Chartered Institute of Public Finance and Accountancy.

CIPFA/LASAAC Code of Practice on Local Authority Accounting 2004

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

Collection Fund

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

Community Asset

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

Consistency

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

Income and Expenditure Account

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

Contingency

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

Council Tax

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

Council Tax Benefit

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

Credit Approvals (Supported Borrowing)

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

Creditors

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

Current Asset

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

Current Liability

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

Debtors

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

Deferred Capital Receipts

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

Deferred Liabilities

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

Department of Works and Pensions (DWP)

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

Depreciation

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

Direct Service Organisation

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

District Auditor

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

Earmarked Reserves

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

Financial Reporting Standards (FRS's)

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

Fixed Assets

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

General Fund

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

Going Concern

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

Government Grants

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

Housing Benefits

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

Housing Revenue Account

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

Housing Subsidy

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

Intangible Fixed Assets

Capital expenditure which may be capitalised, but which does not create a tangible fixed asset, for example expenditure on IT systems and software licenses.

Leasing

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

Long Term Investments

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

Major Repairs Allowance

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

Matching

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

Materiality

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

Minimum Revenue Provision

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

National Non-Domestic Rates

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

Non-Operational Assets

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

Operational Assets

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

Precepts

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

Prior Year Adjustments

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

Provisions

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

Prudence

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

Public Works Loans Board

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

Revaluation Reserve

The Revaluation Reserve includes cumulative unrealised revaluation gains and losses (since 1 April 2007) arising from holding fixed assets

Revenue Expenditure

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

Revenue Expenditure Funded From Capital Under Statute

Expenditure that regulations permit to be funded from capital resources but which do not satisfy the SORP's criteria to be classified as capital expenditure. Examples include work on property not owned by the authority and grants awarded to be sent on capital items. This type of expenditure was previously described in the accounts as 'deferred charges'.

Revenue reserves (or Balances)

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

Revenue Support Grant

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

Ring Fenced

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

Statements of Standard Accounting Practice (SSAP's)

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

Standard Spending Assessment

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

Substance Over Form

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

Supported Borrowing (Credit Approvals)

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

Total Movement in Reserves

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

Trust Fund

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

Work in Progress

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