

Sedgefield Borough Council

STATEMENT OF ACCOUNTS

2008 / 2009



I hope that this document proves to be both informative and of interest to readers. It is important to try to improve the quality and suitability of information provided and feedback is welcomed.

If you have suggestions or comments on either the format of the report or its content, or you would like any further information or further copies of this document, please contact the following:

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EXPLANATORY FOREWORD

1. INTRODUCTION

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the statement of 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.

Sedgefield Borough Council is required by legislation to account for its expenditure in three distinct categories:

- **General Fund Revenue Account** – This includes day to day spending on all services except those directly relating to council housing. Expenditure is financed mainly from Government Grant (Revenue Support Grant), Non Domestic Rate income, Charges to users of services, and Council Tax.
- **Housing Revenue Account (HRA)** – Included within this account is all expenditure on the day to day management of the Council's housing stock, reflecting the Council's role as a Landlord. Expenditure is principally funded from council house rents. On the 30th March 2009 the Council transferred its housing stock to a new Registered Social Landlord 'Sedgefield Borough Homes'.
- **Capital** – All improvements and enhancements to the Council's assets are included in this category. This expenditure is financed partly from the sale of capital assets, Government Grant, and contributions from other organisations.

This is the last set of accounts for Sedgefield Borough Council due to local government reorganisation in County Durham affecting all Councils in the area. From the 1st April 2009, this Council ceased to exist, however all its functions continue to be provided by the newly created Unitary Authority 'Durham County Council' formed by the merger of Durham County Council and the seven district councils within County Durham.

2. STRUCTURE OF THE STATEMENT OF ACCOUNTS

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

- **Explanatory Foreword**
Provides a guide to the most significant matters reported in the accounts.
- **Statement of Responsibilities for the Statement of Accounts**
This sets out the respective responsibilities of both the authority and officer responsible for the proper administration of its financial affairs.
- **Statement of Accounting Policies**
This explains the accounting policies that have been adopted in preparing the financial statements which provide a framework for analysing the Council's expenditure and income.

Core Financial Statements:

These are the financial statements that are produced by all local authorities. They consist of:

- **Income and Expenditure Account**
This statement is fundamental to the understanding of a local authority's activities, in that it brings together expenditure and income relating to all of the local authority's functions, and demonstrates how that cost has been financed from general government grants and income from local taxpayers.

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

The Income and Expenditure Account is prepared using a similar basis as that used by a large private sector company when producing the financial statements. However there are other items that apply to local authorities such as those set out in statutory and non statutory proper practices that need to be taken into account to arrive at the overall financial position. This statement shows the additional adjustments that must be taken into account to arrive at the actual movement on the General Fund Balance for the year.
- **Statement of Total Recognised Gains and Losses**

This statement brings together all the gains and losses of the authority for the year and identifies the changes in the Council's net worth. Not all the gains and losses experienced by a local authority are reflected in the Income and Expenditure Account and it is therefore necessary to consider other gains and losses to arrive at the overall financial position, including those associated with the revaluation of assets and changes in pension liabilities.
- **Balance Sheet**

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

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. 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 activities of the Council.
- **Notes to the Core Financial Statements**

The purpose of the notes is to add to and interpret the content of the individual statements. They also provide principles which are applied to the Council's transactions to produce the financial statements and further explanation or analysis where matters of financial significance cannot be adequately treated in the statements themselves.

Supplementary Financial Statements:

These are statements produced by some authorities depending on their functions. For Sedgefield Borough Council there are two supplementary statements: Housing Revenue Account and the Collection Fund.

- **Housing Revenue Account**

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a separate account for local authority housing provision in accordance with the Housing Act 1989. The statement shows the major elements of housing revenue expenditure and how this is met by rents and other income.
- **The Statement of the Movement on the Housing Revenue Account Balance**

Similar to the Statement of Movement on the General Fund Balance, amounts that need to be included in the HRA to arrive at an overall position for the financial year include items calculated in accordance with statute that are either added or removed from the figures in the Income and Expenditure Account. This shows how the HRA Income and Expenditure Account surplus or deficit for the year is adjusted to arrive at the total movement on the Housing Revenue Account Balance for the year.
- **Collection Fund**

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund that shows the transactions of the Council as a billing authority in relation to non-domestic rates and the council tax, and illustrates the way in which council tax been distributed to precepting authorities and non-domestic rates has been paid into the national pool.

Other Statements:

- **Auditor's Report**
Pages 75 - 76 give an independent, professional opinion by the District Auditor on the Council's Accounts for the year ended 31st March 2009.
- **Annual Governance Statement**
This statement summarises the Council's review of the effectiveness of its overall governance arrangements.
- **List of Abbreviations and Glossary of Terms**
Pages 78 - 81 provide details of abbreviations and accounting terms used within this document.

3. GENERAL FUND REVENUE EXPENDITURE

The Council's net expenditure on General Fund services before the use of balances was £16.355m compared to a budget of £15.795m. The reason for the variance is mainly attributable to local government reorganisation costs and provision for settling equal pay claims. A summary of the final outturn on the Council's General Fund analysed over individual portfolios is shown in the table below:

| Portfolio | What We Spent 2008/2009 | | |
|--|--------------------------------|------------------------------|--|
| | Budget £000 | Actual £000 | (Under)/ Overspend £000 |
| Strategic Leadership | 1,399 | 1,288 | (111) |
| Healthy Borough | | | |
| - Community Health | 162 | 162 | - |
| - Leisure & Culture | 3,987 | 4,099 | 112 |
| Strong Communities | | | |
| - Housing | 740 | 812 | 72 |
| - Safer Communities | 1,175 | 1,045 | (130) |
| Prosperous Borough | | | |
| - Learning & Employment | 251 | 175 | (76) |
| - Social Regeneration & Partnership | 1,869 | 1,871 | 2 |
| Attractive Borough | | | |
| - Environment | 5,716 | 5,649 | (67) |
| - Planning & Development | 496 | 684 | 188 |
| Equal Pay Provision | - | 219 | 219 |
| Local Government Reorganisation Costs | - | 351 | 351 |
| Net Expenditure (1) | 15,795 | 16,355 | 560 |
| (Use of) / Contribution to Balances | (790) | (1,350) | (560) |
| Net Expenditure after use of Balances | 15,005 | 15,005 | - |

(1) The net expenditure on services identified above differs slightly to Net Operating Expenditure in the Income and Expenditure Account (Page 20). The difference is due to parish precepts, net expenditure on the Housing Revenue Account, impairments, contributions to various reserves and the impact of retirement benefits, which are included in the Income and Expenditure Account, but not the above.

The net expenditure of £15.005m after use of balance was financed by Government Revenue Grant of £9.791m and £5.214m from Council Taxpayers.

4. HOUSING REVENUE ACCOUNT EXPENDITURE

The Housing Revenue Account recorded a deficit of £0.456m compared to a budget which anticipated a small use of balances of £0.070m. A summary of the final outturn on the Council's Housing Revenue Account is shown in the table below which shows the key areas of income and expenditure relating to the housing stock:

| <i>Analysis of Income and Expenditure</i> | <i>What We Spent 2008/2009</i> | | |
|---|--------------------------------|---------------|-------------------------------|
| | <i>Budget</i> | <i>Actual</i> | <i>(Under)/ Overspend</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Income | | | |
| Housing and Other Rental Income | 24,520 | 24,084 | 436 |
| Other Contributions and Charges | 5,114 | 4,747 | 367 |
| Mortgage Interest & Investment Income | 127 | 150 | (23) |
| Total Income | 29,761 | 28,981 | 780 |
| Expenditure | | | |
| Management Costs | 10,882 | 10,183 | (699) |
| Maintenance Costs | 7,606 | 8,681 | 1,075 |
| Capital Financing | 6,370 | 5,980 | (390) |
| Revenue Contribution to Capital | 1,700 | 1,175 | (525) |
| Negative Subsidy Payable | 3,273 | 3,418 | 145 |
| Total Expenditure | 29,831 | 29,437 | (394) |
| Contribution from HRA Balances | 70 | 456 | 386 |

The loss of one week's rental income and a significant overspend on the repairs and maintenance budget meant that an additional use of balances was required. The Council transferred its housing stock to Sedgfield Borough Homes on 30th March 2009. Further details are included on Page 7 of this Explanatory Forward and from Page 60 incorporating the HRA Income and Expenditure account and supporting notes including technical accounting adjustments.

5. CAPITAL EXPENDITURE

During the year the Council incurred capital expenditure of £20m compared to a planned programme of £26m. This covered a range of projects including community regeneration, private sector housing regeneration and improvements to Council dwellings. The following table shows the outturn capital spend analysed over individual portfolios.

| <i>Portfolio</i> | <i>What We Spent 2008/2009</i> | | |
|--------------------------------|--------------------------------|--|-----------------------------|
| | <i>Gross Spend</i> | <i>Less Capital Grants & Contributions</i> | <i>Net Spend to Finance</i> |
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| GENERAL FUND | | | |
| Strategic Leadership | 513 | (255) | 258 |
| Healthy Borough | 1,057 | (197) | 860 |
| Prosperous Borough | 5,660 | (1,009) | 4,651 |
| Attractive Borough | 107 | (72) | 35 |
| Strong Communities | 5,348 | (1,993) | 3,355 |
| TOTAL GENERAL FUND | 12,685 | (3,526) | 9,159 |
| HOUSING REVENUE ACCOUNT | 7,668 | - | 7,668 |
| TOTAL CAPITAL PROGRAMME | 20,353 | (3,526) | 16,827 |

The net capital spend of £16.827m was financed by use of capital receipts of £9.490m, Major Repairs Allowance £5.541, Revenue Contributions of £1.583m and Supported Capital Expenditure of £0.213m. Further details on the Council's capital programme are shown in Notes 19-22 from Page 33.

Projects not completed during the year have been carried forward into 2009/2010.

6. RESERVES

The Council maintains a number of earmarked reserves to assist in medium term financial planning and to direct funds at specific initiatives or projects. The balance of reserves carried forward is £5.948m (£7.737m in 2007/2008) after a net reduction in the year of £1.789m.

The Council's unallocated balances, excluding those restricted for the HRA and Collection Fund, amounted to £1.830m.

Further details of all reserves held can be found in Note 42 on Page 42.

7. COLLECTION FUND

The Collection Fund is a statutory account that records the accounting entries for the billing and collection of local taxes. Balances retained within the Fund are held on behalf of local taxpayers and are taken into account when calculating future council tax levels. Total income due to the Fund amounted to £62.9m, made up of £43.0m from council tax, and £19.9m from business ratepayers.

Expenditure against the Fund is mainly payment of council tax income to all precepting bodies. Expenditure also includes payment to the national non-domestic rating pool of all business rate income less an allowance to the Council for the cost of collection of £108,000. The business rate income is pooled by the Government and redistributed back to local authorities as part of the annual revenue support grant. For 2008/2009 the Council received £8.6m from the business rate pool.

Expenditure in the Collection Fund exceeded income by £1,058,000 leaving a closing deficit balance of £654,000 after taking into account a brought forward surplus of £404,000.

Further details can be found in the Collection Fund statement and accompanying notes from Page 68.

8. TREASURY MANAGEMENT AND BORROWING FACILITIES

The Council's treasury management activities during the year included the investment of cash funds, which averaged £23m. The income earned from investments for the year was £1.236m, which equated to a rate of return of 5.35% compared with a 7-day benchmark rate of 3.78%.

At the end of the year the Council had a sum of £15.810m held as short term investments. Investment activity was carried out in accordance with the Treasury Management Strategy 2008/2009 approved by the Council in February 2008.

The Council's investments were not affected by the turbulent conditions in the market experienced by many organizations during the year and the approach taken by the Council to manage risk ensured that the security of the Council's funds was achieved.

Interest paid on debt during the year amounted to £1.187m and the average rate of interest paid was 5.69%. The Council repaid £23.316m of PWLB debt on 31st March 2009, leaving the authority substantially debt-free with only a residual amount of long term borrowing outstanding in respect of Durham County Pension Fund loans totaling £0.308m. The repayment of PWLB debt alongside premiums of £3.528m was fully met by Overhanging Debt Grant from Central Government in connection with the large scale voluntary transfer of the Council's housing stock.

The following table summarises the Council's net borrowing / (investment) position at the year end and shows the favourable impact on the Council's finances as a result of fully repaying its PWLB debt.

| <i>Borrowing / Investment</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|--------------------------------------|----------------------------------|----------------------------------|
| Borrowing | | |
| Public Works Loan Board | 18,284 | - |
| Other Loans | 316 | 308 |
| | 18,600 | 308 |
| Investments | | |
| Various Banks and Building Societies | (21,770) | (15,810) |
| Net Borrowing (Investments) | (3,170) | (15,502) |

The above figures are the principal amounts only and exclude accrued interest.

Further details are provided in Notes 34, 35, 37 and 51 to the core financial statements.

9. PENSION LIABILITY

The main statements include entries to show the financial position of the Council's share of the Durham County Pension Fund. This information has been compiled by the Fund's actuary in accordance with *Financial Reporting Standard 17: Retirement Benefits (FRS17)*.

Overall a pension liability attributable to the Council of £49.59m (£38.54m for 2007/2008) has been included in the Balance Sheet as at 31st March 2009.

Based on the information supplied by the actuary in compliance with FRS 17, the calculated deficit on the Fund has increased during 2008/2009 from £38.54m in 2007/08 to £49.59m. The change of £11m is largely attributable to actuarial losses.

The liability reported for 2008/2009 indicates that to date there is a deficit between the assets of the fund which are attributable to the Council and the future pension benefits earned to date by its employees. However this deficit is being recognised in real terms through a contribution made by the Council to the Pension Fund each year which aims to close this funding gap in the longer term

The Council's employer contribution to the Fund was 21.8% in 2008/2009. This percentage was reviewed as part of the triennial actuarial valuation in March 2007. Future contributions will depend on demographic factors, investment returns, and changes in the legislation which governs the scheme.

10. CHANGES IN STATUTORY FUNCTIONS

There has been a major change to the statutory functions performed by the authority during 2008/2009 that has had a significant impact on the accounts.

- **Local Government Reorganisation** – A new Unitary Council for County Durham came into being on the 1st April 2009 to replace the existing County and District Councils in County Durham. All rights and obligations of Sedgefield Borough Council have been vested in the new council.
- **Large Scale Voluntary Transfer** – Following a positive ballot of tenants in August 2008, the Council transferred its housing stock to Sedgefield Borough Homes on 30th March 2009. The transfer has a significant impact on the Statement of Accounts. Further details about the implications of the transfer on the Council are provided in the next section and in the notes to the financial statements.
- **Training and Employment Services** – The Council transferred its training and employment service and related assets to Bishop Auckland College on 1st November 2008.

11. STOCK TRANSFER

The Council transferred its housing stock to Sedgefield Borough Homes on 30th March 2009. This has had a significant impact on the Council's accounts for 2008/2009 and this note explains the main issues and implications for the accounts in 2008/2009 and beyond.

Assets transferred and retained – the Council transferred 8,556 dwellings, various small land holdings within housing estates which did not have any future development potential, various operational properties and 2,779 garages. In addition, a total of 168 staff transferred to the housing association.

Transfer price and associated costs – the transfer price for the dwellings and associated assets is largely determined by a prescribed formula set by Government and reflects the current value of the future income and expenditure streams of the assets over the next 30 years. The transfer price agreed with Sedgefield Borough Homes was £4.1m and set up costs associated with the transfer have been off-set against this receipt with the agreement of the Department of Communities and Local Government (DCLG).

The Council received an Overhanging Debt Grant of £26.844m from the DCLG to pay off its housing attributable debt of £23.316m and premiums of £3.528m associated with the premature repayment.

Preserved Right to Buy (PRTB) Receipts Sharing Agreement - as is common with all stock transfers, the Council have negotiated an agreement with the housing association relating to any future sales of the transferred stock to existing tenants. The Council will receive 75% of the net proceeds from such sales after deduction of an agreed amount for administration costs and income foregone by the housing association.

VAT Shelter arrangements - in normal circumstances, housing associations are not able to reclaim VAT on improvement works to dwellings. The VAT Shelter is an arrangement, used in every transfer since 2002, with Her Majesty's Revenues and Customs (HMRC) agreement, whereby Sedgefield Borough Homes can reclaim VAT on future improvement works to the transferred stock. The Council has agreed a 45% share of the reclaimed VAT with Sedgefield Borough Homes over a 15 year period.

Pension Deficit – the deficit on the pension fund in respect of the staff transferring to Sedgefield Borough Homes has been transferred to the housing association. This will be paid to the pension fund within three years by top-slicing the savings from the VAT shelter over this period.

Service Level Agreements – agreements were negotiated with Sedgefield Borough Homes to provide them with a range of services post transfer. Along with office accommodation in the short term, these include provision of Customer Services, Cash Collection, ICT and telephone support services (whilst occupying the Council Offices), Grounds Maintenance and Supporting Housing. The total annual value of these contracts is £1.456m.

Rent Arrears – the Council transferred over to Sedgefield Borough Homes the rent arrears due from existing tenants and former tenants. The amount paid to the Council for these arrears was based on a percentage of their value and reflected the value of the arrears to the Council and the cost to Sedgefield Borough Homes of pursuing them.

Contingent Liabilities - as is usual in stock transfers, the Council gave Sedgefield Borough Homes certain warranties in relation to staff transferring, property and environmental pollution. The potential amounts the Council could be liable to are unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts, and insurance cover has been purchased to protect the Council.

Closure of the HRA – it is the Council's intention to close the HRA as soon as is practically possible. In the meantime the HRA remains technically "open". The Council will apply to the Secretary of State to formally close the HRA. This is envisaged for the beginning of the 2010/11 financial year. Following closure, the HRA balance (currently £0.977m.) will be transferred to the General Fund.

12. SIGNIFICANT TRANSACTIONS AFFECTING THE ACCOUNTS

Financial Reporting Standard 5 (FRS 5): 'Reporting the Substance of Transactions' requires the Council's financial statements to reflect the substance of transactions into which it has entered.

As a consequence of the transfer of the housing stock to Sedgefield Borough Homes there are a number of unusually large transactions appearing in the financial statements:

- Repayment of all PWLB debt and entitlement to overhanging debt grant of £26.844m;
- An impairment charge of £324m was incurred because the balance sheet value of the housing stock was much higher than the actual sale price of the stock which stood at £4.1m;
- The Council and Sedgefield Borough Homes entered into a VAT Shelter arrangement whereby expenditure to be paid by the Council was offset by a capital receipt to be received from Sedgefield Borough Homes. The value of this transaction was £248m and related VAT savings amount to £37m.

Whilst none of the above transactions resulted in a movement of cash, the substance of the transactions has been reflected in the Statement of Accounts and explained in the notes to the financial statements.

13. CHANGES IN ACCOUNTING POLICY

The 2008 Statement of Recommended Practice (SORP) has required further changes to the content of the Council's Statement of Accounts in line with Financial Reporting Standards.

These changes have meant that the Council has adopted some new accounting policies for the year, and further details are provided in the Statement of Accounting Policies and in the notes accompanying the core and supplementary 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.

15. FURTHER INFORMATION

Further information about the Council's Statement of Accounts is available upon request from the following address:

Strategic Finance
Resources Department
County Hall
Durham
DH1 5UE

The Statement of Accounts can also be viewed on the Council's website, www.durham.gov.uk. Please contact us at the above address if you have any comments on the presentation of the Statement of Accounts.

Members of the public have a statutory right to inspect the accounts on deposit for audit purposes. The availability of the accounts for inspection is advertised in the local press.

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 Sedgefield Borough Council.

Durham County Council's Responsibilities

The County Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In 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/LASAAC *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 Sedgefield Borough 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 Sedgefield Borough Council as at 31st March 2009 and its 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

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the transactions for the 2008/09 financial year and its position at the year end of 31st March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice (the SORP) and the Best Value Accounting Code of Practice 2008: (BVACOP) which are issued by the Chartered Institute of Professional Finance and Accountancy (CIPFA).

2. Accounting Convention

The accounting convention adopted in these financial statements is historical cost modified by the revaluation of land, buildings, plant and vehicles.

3. Accounting Concepts

In preparing the Statement of Accounts the Council has particular regard to the accounting concepts within the SORP. The precise existence and value of assets, liabilities, income and expenditure may be uncertain and where this is the case, professional judgement is used to estimate. In doing so the Council adheres to the accounting concepts set out below to ensure that the accounts present fairly its financial position and performance.

- **Relevance:** The information in the accounts is useful in assessing the Council's stewardship of public funds and for making economic decisions.
- **Reliability:** The information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors.
- **Comparability:** A consistent approach to accounting policies is used in preparing the accounts to ensure that it may be compared to previous years. Where there is a change in accounting policy that has a material effect of the information, this has been disclosed.
- **Understandability:** The information in the statement is capable of being understood by users having a reasonable knowledge of business and economic activities and accounting and a willingness to study with reasonable diligence the information provided.
- **Materiality:** In using its professional judgement the Council has considered the size and nature of any transaction, or set of transactions. An item is considered to be material where its omission or misstatement would reasonably change the substance of the information presented in the accounts.
- **Accruals:** The non-cash effects of transactions have been reflected in the statements for the financial year in which they occur, not when any cash is received or paid.
- **Going Concern:** 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.

- **Primacy of Legislative Requirements:** The Council operates through the power of statute. Where legislation prescribes the express treatment of transactions then the accounting concepts outlined above may be over-ruled.

4. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date that supplies are received and their consumption; they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Both interest payable on external borrowings and investment income are accrued and accounted for in the accounts for the period to which they relate.
- Where income and expenditure have been recognized but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

At the year end provisions are made to reflect income and expenditure which have not been received or paid in respect of goods and services, and where exact amounts are unknown estimates are used.

There are a few exceptions to this general rule where costs are not apportioned between years

- Wages are accounted for in whole weeks
- Housing Rents are accounted for in whole weeks
- Leisure Centre Income is accounted for in whole weeks
- Periodic accounts e.g. Electricity are reflected on the basis of four payments per annum [the same principal applies for annual and half yearly payments]

This policy is consistently applied each year and does not materially affect the accounts.

5. Provisions

Provisions are made when an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate revenue account when recognised. 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 financial statements are shown in Note 40 on Page 40.

6. Reserves

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

A complete schedule of reserves held at 31st March 2009 is shown in the notes to the core financial statements (refer to Note 42 on Page 42)

7. Government Grants and Contributions (Revenue and Capital)

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.

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.

Capital grants can be used to fund a) fixed assets or b) expenditure that is only classed as capital under the legal framework covering local authorities. The latter is known as 'Revenue Expenditure Funded From Capital Under Statute' (REFCUS) and for this type of expenditure the capital grant is credited directly to revenue (as if it were a revenue grant) to match expenditure. Refer to Note 15 on Page 16 for a definition of REFCUS.

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 balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

8. Retirement Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Durham County Council. The Local Government Scheme is accounted for as a Defined Benefit Scheme.

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

Liabilities are discounted to their value at current prices, using a discount rate of 6.7%, based on the indicative rate of return on a high quality corporate bond [Hewitt AA Corporate Bond Yield Curve].

The assets of the Durham County Pension Fund attributable to Sedgefield Borough Council are included in the Balance Sheet at their fair value as set out below:

- Quoted securities - current bid price
- Unquoted securities – professional estimate
- Unitised securities – average of bid and offer rates/current bid price
- Property – market value

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

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

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

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision of the award.

The Balance Sheet discloses the net liability in relation to retirement benefits. The assessment process used to compile the figures takes account of the most recent actuarial valuation updated to reflect current conditions. Therefore the figures presented are based on the actuary's latest calculations. The assumptions used by the actuary are in accordance with the code and are mutually compatible.

The notes to the financial statements provide further information about the pension scheme, estimates of the amounts necessary to meet future pension liabilities, and in particular the shortfall in the Pension Fund. Refer to Note 52 on Page 46.

9. Value Added Tax

VAT is only included in income and expenditure accounts, whether of a capital or revenue nature, to the extent that it is irrecoverable from Her Majesty's Revenues and Customs (HMRC).

10. Overheads and Support Services

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). The total absorption costing principle is used – the full cost of overheads

and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

11. Intangible Fixed Assets

Intangible asset charges represent expenditure which may properly be capitalised, but which does not represent tangible fixed assets. They include grants to other persons and bodies for capital expenditure purposes and expenditure on fixed assets, which have been sold. These charges are written off annually to revenue, except where the intangible asset relates to computer software, which is written down over an appropriate period.

12. Tangible Fixed Assets

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

Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement

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

| <i>Asset Type</i> | <i>Basis of Valuation</i> | <i>Depreciation</i> |
|------------------------------|--|---------------------|
| Council Dwellings | Market Value - Existing Use Value – Social Housing | Straight Line |
| Other Land and Buildings | Market Value or Net Current Replacement Cost | Straight Line |
| Vehicles Plant and Equipment | Historical Cost | Straight Line |
| Infrastructure | Historical Cost – No Added/Tangible Value | n/a |
| Community Assets | Historical Cost | n/a |
| Non-Operational Assets | Market Value | n/a |

The housing stock and other assets have been revalued in accordance with statutory DCLG “Guidance on Stock Valuation”. These values are reflected in the Balance Sheet under Fixed Assets – Council Dwellings.

Following a positive ballot of tenants in August 2008, the valuation basis for the Council’s housing stock was changed to Tenanted Market Value (or TMV). This valuation basis reflects the present value of future income and expenditure streams of the housing assets over the next 30 years and is the price that Sedgefield Borough Homes paid for the stock. A large impairment charge was incurred in 2008/2009 due to the difference in the book value of council dwellings held on the Council’s balance sheet and the actual sale price of the stock.

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

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

Capitalisation Policy

The Council capitalises the initial purchase of software, classifying these as Intangible Assets, but does not capitalise annual upgrades, maintenance and support. These are financed from the service's revenue budgets.

All infrastructure assets, previously shown in the Balance Sheet at historic cost, have been written off at 31st March 2000. All capital expenditure incurred in the year and in subsequent years, will be written off as expenditure not enhancing the value of the Council's Asset Register.

Impairment

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

- Where attributable to a clear consumption of economic benefits (e.g. physical damage or deterioration in the quality of the service provided by the asset) – the loss is charged to the relevant service revenue account.
- For other instances of impairment – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

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

Disposals

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is credited to the Usable Capital Receipts Reserve and can only be used either to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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

Depreciation

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

Where depreciation is provided for, assets are being depreciated using the straight-line method, based on the amount at which the asset is included in the Balance Sheet. Newly acquired assets are depreciated in the year after they were acquired.

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

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

Grants and Contributions

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

13. Charges to Revenue for Fixed Assets

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

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

The Council is not required to charge depreciation, impairment losses or amortisations to council tax. These transactions are therefore reversed in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account.

14. Minimum Revenue Provision

The Council is required to make an annual provision from revenue (known as 'Minimum Revenue Provision' or MRP) to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance). The Council has determined that its MRP is to be calculated as 4% of the adjusted Opening Capital Financing Requirement (a notional measure of the Council's indebtedness) as laid down in the Capital Finance Regulations 2003.

15. Revenue Expenditure Funded From Capital Under Statute

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

16. Leases

Finance Leases – Leases are accounted for as finance leases when substantially all the risks and rewards related to the leased asset transfer to the Council. Rental payments under finance leases are apportioned between a finance charge and a charge for the acquisition or interest in the asset, with the finance charge being allocated and charged to revenue over the term of the lease.

Operating Leases – Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable, net of benefits received or receivable (e.g. incentives for a lessee to sign a lease), are charged to the relevant service revenue account over the term of the lease.

Council as Lessor – Where the authority acts as lessor, annual rentals are included as revenue income within the accounts of the relevant service.

17. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. The Council does not have any financial liabilities that require an effective interest rate calculation to be undertaken. The amount charged to the Income and Expenditure Account for interest payable is based on the principal outstanding multiplied by the rate of interest for the instrument. The amount for borrowing shown on the Balance Sheet is the carrying amount, which is outstanding principal repayable and accrued interest.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or extinguishment of an existing instrument, the premium or discount will be deducted from, or added to, the amortised cost of the new or modified loan i.e. included within long or short term borrowing, and the write-down to the Income and Expenditure Account is spread over the life of the loan.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term of the new loan within the general fund and over a maximum of, 10 years or the old loan (whichever is the greater), for the Housing Revenue Account.

The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

During the year the Council incurred premiums associated with the early repayment of its PWLB debt and these were met in full by Overhanging Debt Grant from Central Government.

18. Financial Assets

Financial assets are classified into 2 types:

- Loans and receivables – assets that have fixed or determinable payments, but are not quoted in an active market: and
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. The Council holds no financial assets under this category.

Investments and receivables are shown at fair value when recognised and carried at amortised cost. The Council does not have any financial assets that require an effective interest rate calculation to be undertaken. The amount credited to the Income and Expenditure Account for interest receivable is based on the principal outstanding multiplied by the interest rate for the instrument. The amount for loans shown on the Balance Sheet is the carrying amount, which is outstanding principal and accrued interest.

19. Stocks and Work in Progress

Stocks included in the Balance Sheet are valued at current market price. This is a departure from the requirements of S.S.A.P. 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 any difference in value would be immaterial

20. Provision for Bad and Doubtful Debt

All outstanding debts are reviewed on an ongoing basis and known uncollectible debts are written off. 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 probability of the debt being collected.

21. Contingent Assets and Liabilities

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.

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.

22. Group Accounts

The 2008 SORP requires local authorities to prepare Group Accounts where they have an interest in subsidiary or associate companies, or joint ventures with other organisations. This Council believes that this change does not affect the presentation of the 2008/2009 Accounts. Transactions in respect of the Hackworth Trust Fund have been excluded on the grounds of materiality and there are considered to be no other significant transactions with other organisations in which the Council has access to benefits or exposure to the risk of a potential loss.

23. Foreign Currency Translations

Any income or expenditure arising from a transaction denominated in a foreign currency is included within the accounts, and translated into £ sterling, using the exchange rate in operation on the day on which the transaction occurred.

24. Post Balance Sheet Events

The accounts include the impact of any material post balance sheet events that reflect conditions existing at the balance sheet date. Any material post balance sheet events that reflect conditions after the balance sheet date are disclosed as a note to the accounts.

25. Changes in Accounting Practice

The 2008 SORP has imposed further changes to the form and structure of the accounts as part of the continuing drive to make public sector accounts generally more compliant with what is termed 'Generally Accepted Accounting Practices (UK GAAP)'.

The main changes for 2008/09 are:

Pensions

The 2008 SORP incorporates recent changes to Financial Reporting Standard (FRS) 17 on Retirement Benefits, which bring it into line with International Financial Reporting Standards (IFRS) by changing the method used to value certain scheme assets and revising disclosure requirements.

Removal of Deferred Charges

A significant amount of the Council's capital resources are used to fund expenditure that is not classed as capital under UK GAAP, but is classed as capital under the legislation covering local authority accounts. An example of the type of expenditure covered is where grants are awarded to third parties for capital expenditure.

Previously these costs were known as deferred charges and were initially charged to capital then recharged to the Income and Expenditure Account, before being reversed out in the Statement of Movement in General Fund Balance (SMGFB) through a charge to the Capital Adjustment account.

Under the SORP 2008 these costs have been renamed as 'Revenue Expenditure Funded from Capital Under Statute' (REFCUS) and will be charged directly to revenue before being reversed out in the SMGFB to the Capital Adjustment Account, as previously.

Fixed Assets

The main change here is the prohibiting of deathbed revaluations which will mean that there will be gains and losses on the disposal of fixed assets.

Area Based Grant (ABG)

From 2008/2009 ABG replaced Local Area Agreement (LAA) grant. ABG is a non-ring-fenced general grant meaning that no conditions on use are imposed as part of the grant determination, ensuring full local control over how funding can be used. Its use is not restricted to supporting the achievement of LAA targets. ABG is paid directly to authorities and not through an accountable body like LAA grant.

INCOME AND EXPENDITURE ACCOUNT

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

| 2007-08 | | Notes | 2008-09 | | |
|---------------------------|---|--------------|-----------------------------|------------------------------|---------------------------|
| Net Spend £000 | | | Gross Spend £000 | Gross Income £000 | Net Spend £000 |
| | Discontinued Operations | Note 1 | | | |
| 754 | Central Services to the Public | | 12,589 | (11,831) | 758 |
| 12,948 | Cultural, Environmental, Regulatory, Planning Services | | 26,103 | (7,528) | 18,575 |
| 1,364 | Highways, Road & Transport Services | | 1,613 | (290) | 1,323 |
| 609 | Other Housing Services | | 28,503 | (26,410) | 2,093 |
| 161 | Adult Social Care | | 312 | (134) | 178 |
| 3,260 | Corporate & Democratic Core | | 4,153 | (942) | 3,211 |
| (1,000) | Non Distributed Costs | Note 52 | - | (4,245) | (4,245) |
| (177) | Sure Start | | - | - | - |
| 601 | Local Authority Housing (HRA) | Note 1 | 353,336 | (26,991) | 326,345 |
| 18,520 | Net Cost of Services | | 426,609 | (78,371) | 348,238 |
| 1,907 | (Gains)/Losses on Disposal of Fixed Assets | | | | 3,744 |
| 4,400 | Precepts Paid to Parish Councils | | | | 4,620 |
| 1,532 | Interest Payable and Similar Charges | Note 54 | | | 4,884 |
| (1,527) | Interest and Investment Income | Note 54 | | | (1,244) |
| 2,985 | Amount payable into the Housing Capital Receipts Pool | | | | 834 |
| 780 | Pension Interest Costs and Expected Return on Pension Fund Assets | Note 52 | | | 2,870 |
| 28,597 | Net Operating Expenditure | | | | 363,946 |
| | Principal Sources of Finance | | | | |
| (9,267) | Demand from the Collection Fund | | | | (9,677) |
| (150) | Share of Collection Fund Surplus | | | | (157) |
| (9,675) | General Government Grants | Note 13 | | | (12,045) |
| - | Overhanging Debt Grant | Note 2 | | | (26,844) |
| 9,505 | (Surplus) / Deficit for the Year | | | | 315,223 |

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

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

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

| <i>2007/2008 £'000</i> | | <i>2008/2009 £'000</i> |
|----------------------------|--|----------------------------|
| 9,505 | (Surplus) / Deficit for the Year on the Income and Expenditure Account | 315,223 |
| (9,505) | Net Additional amount required by statutory and non-statutory proper accounting practices to be debited or credited to the General Fund balance for the year | (314,813) |
| - | (Increase) Decrease in General Fund Balance for the Year | 410 |
| (2,240) | General Fund Balance brought forward | (2,240) |
| (2,240) | General Fund Balance Carried Forward Balance | (1,830) |

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

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

| 2007/2008 £'000 Restated | | 2008/2009 £'000 |
|---|--|----------------------------|
| | Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on General Fund Balance | |
| (78) | Amortisation of Intangible Fixed Assets | (78) |
| (6,003) | Depreciation and Impairment of Fixed Assets | (335,375) |
| 1,039 | Government Grants Deferred Amortisation | 445 |
| (2,732) | Revenue Expenditure Funded from Capital under Statute | (6,550) |
| 1,774 | Grants and Contributions applied to finance Revenue Expenditure Funded From Capital Under Statute | 1,653 |
| 17 | Net Gains and Losses on the Sale of Fixed Assets | (3,976) |
| - | Overhanging Debt Grant | 23,316 |
| (5,030) | Net charges made for Retirement Benefits in accordance with FRS17 | (810) |
| (11,013) | Sub total | (321,375) |
| | Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on General Fund Balance | |
| 362 | Minimum Revenue Provision | 151 |
| (1,373) | Transfer to HRA – Major Repairs Reserve | 3,042 |
| 2,491 | Capital Expenditure Charged in Year to Revenue | 1,583 |
| (2,985) | Transfer from usable capital receipts to meet payments to the Housing Capital Receipts Pool | (834) |
| 5,774 | Employers Contributions payable to pension fund and retirement benefits payable direct to Pensioners | 3,760 |
| 4,269 | Sub total | 7,702 |
| | Transfers to or from General Fund Balance required to be taken into account when determining the movement on the General Fund Balance | |
| (1,949) | Surplus transferred to or (from) the Housing Revenue Account Balance | (456) |
| (812) | Net Transfer to or (from) Earmarked Reserves | (684) |
| (2,761) | Sub total | (1,140) |
| (9,505) | Net Additional amount required by statute and non-statutory proper accounting practices to be credited or debited to the General Fund balance for the year. | (314,813) |

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

| | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| (Surplus) / deficit for the year on the Income and Expenditure Account: | 9,505 | 315,223 |
| (Surplus) / deficit for the year arising from the revaluation of fixed assets | (48,306) | 29,070 |
| Actuarial (gains) and losses on Pension Fund Assets and liabilities | (5,095) | 14,000 |
| (Increase) / Decrease in Collection Fund Reserve | 46 | 239 |
| Financial Instruments Adjustment Account Reserve | - | (33) |
| Transitional Adjustments in Net worth | 1,752 | - |
| | (42,098) | 358,499 |

BALANCE SHEET

This statement shows the financial position of Sedgefield Borough Council as a whole, and summarises assets and liabilities and balances and reserves at the year end.

| 31 st March 2008 RESTATED | | 31 st March 2009 | | |
|--|---|-----------------------------|----------|-----------------|
| | | Notes | £000 | £000 |
| | | | | |
| | Fixed Assets | | | |
| 338,374 | Council Dwellings | Note 20 | - | |
| 36,414 | Land and Buildings | Note 20 | 28,674 | |
| 3,826 | Vehicles, Plant and Equipment | Note 20 | 3,906 | |
| 778 | Community Assets | Note 20 | 545 | |
| 43,306 | Non-Operational Assets | Note 20 | 27,517 | |
| 422,698 | Total Fixed Assets | | | 60,642 |
| 156 | Intangible Assets | Note 28 | | 78 |
| 10,316 | Long Term Investments | Note 30 | | - |
| 169 | Long Term Debtors | Note 31 | | 372 |
| 433,339 | Total Long Term Assets | | | 61,092 |
| | Current Assets | | | |
| 65 | Stocks and Work in Progress | Note 32 | 56 | |
| 7,121 | Debtors | Note 33 | 7,961 | |
| 12,546 | Short Term Investments | Note 34 | 16,743 | |
| 401 | Cash at Bank | | 2,235 | |
| 11 | Cash in Hand | | 10 | |
| 20,144 | Total Current Assets | | | 27,005 |
| | Current Liabilities | | | |
| (246) | Short Term Borrowing (less than 12 months) | Note 35 | (17) | |
| (10,102) | Creditors | Note 36 | (10,488) | |
| (10,348) | Cash Overdrawn at Bank | | - | (10,505) |
| 443,135 | Total Assets Less Current Liabilities | | | 77,592 |
| (18,556) | Long Term Borrowing | Note 37 | (300) | |
| (2,166) | Provisions | Note 40 | (966) | |
| (2,328) | Government Grants Deferred | | (3,757) | |
| (442) | Usable Capital Grants & Contributions Reserve | Note 57 | (375) | |
| (38,540) | Pensions Scheme Liability | Note 52 | (49,590) | (54,988) |
| 381,103 | Total Assets Less Liabilities | | | 22,604 |
| | Financed By | | | |
| 48,306 | Revaluation Reserve | Note 58 | | 17,419 |
| 358,386 | Capital Adjustment Account | Note 59 | | 43,728 |
| (860) | Financial Instruments Adjustment Account | Note 60 | | (370) |
| 5,978 | Usable Capital Receipts Reserve | Note 61 | | 5,397 |
| 96 | Deferred Capital Receipts | Note 62 | | 72 |
| (38,540) | Pensions Scheme Reserve | Note 52 | | (49,590) |
| 7,737 | Revenue Reserves | Note 42 | | 5,948 |
| 381,103 | Total Net Worth | | | 22,604 |

CASH FLOW STATEMENT

This consolidated statement summarises the cash inflows and outflows arising with third parties for revenue and capital activities.

| 2007/2008 £000 | | Notes | 2008/2009 £000 |
|-------------------|---|---------|-------------------|
| | REVENUE ACTIVITIES | | |
| | Cash Outflows | | |
| 27,500 | Cash Paid to and on behalf of Employees | | 24,232 |
| 17,519 | Other Operating Cash Payments | | 29,210 |
| 8,968 | Housing Benefit Paid Out | | 11,086 |
| 17,094 | NNDR Payments to National Pool | | 18,436 |
| 36,082 | Precepts Paid | | 37,874 |
| 3,485 | Payments to the Capital Receipts Pool | | 1,333 |
| 110,648 | | | 122,171 |
| | Cash Inflows | | |
| (11,619) | Rents (net of Benefits) | | (12,017) |
| (32,231) | Council Tax Receipts | | (33,325) |
| (16,938) | NNDR Receipts | | (20,160) |
| (8,222) | NNDR Pool Redistribution | | (8,595) |
| (1,380) | Revenue Support Grant | | (1,196) |
| (9,491) | DWP Grants for Benefits | | (8,882) |
| (23,199) | Other Government Grants | Note 64 | (26,275) |
| (3,155) | Cash Received for Goods and Services | | (4,349) |
| (8,548) | Other Operating Cash Receipts | | (8,674) |
| (114,783) | | | (123,473) |
| (4,135) | Revenue Activities Net Cash Flow | | (1,302) |
| | SERVICING OF FINANCE | | |
| | Cash Outflows | | 1,370 |
| 1,080 | Interest Paid | | |
| | Cash Inflows | | (1,396) |
| (983) | Interest Received | | |
| 97 | Servicing of Finance Net Cash Flow | Note 66 | (26) |
| | CAPITAL ACTIVITIES | | |
| | Cash Outflows | | |
| 16,094 | Purchase of Fixed Assets | Note 69 | 261,577 |
| 1,518 | Other Capital Cash Payments | | 5,570 |
| 17,612 | | | 267,147 |
| | Cash Inflows | | |
| (6,549) | Sale of Fixed Assets | Note 69 | (253,319) |
| (1,919) | Capital Grants Received | Note 65 | (2,557) |
| (377) | Other Capital Cash Receipts | | (790) |
| (8,845) | | | (256,666) |
| 8,767 | Capital Activities Net Cash Flow | | 10,481 |
| 4,729 | Net Cash Flows Before Financing | | 9,153 |
| | MANAGEMENT OF LIQUID RESOURCES | | |
| (5,496) | Net Increase / (Decrease) in Long and Short Term Deposits | Note 67 | (5,960) |
| | FINANCING | | |
| 42 | Repayments of Amounts Borrowed | | 41 |
| - | New Loans Raised | | (5,068) |
| 42 | Financing Net Cash Flow | | (5,027) |
| (725) | Net (Increase) / Decrease in Cash | Note 68 | (1,834) |

NOTES TO THE CORE FINANCIAL STATEMENTS

The following notes to the accounts are designed to aid the interpretation of the preceding financial statements and for ease of reference are listed below:

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NOTES TO THE CORE FINANCIAL STATEMENTS

1. Acquired and Discontinued Operations

The authority ceased to exist from 1st April 2009 and all its previous functions became the responsibility of Durham County Council as the new Unitary Authority for County Durham. All services and activities of Sedgefield Borough Council have been classified as discontinued operations in the Income and Expenditure Account. The Council also transferred its housing stock to Sedgefield Borough Homes on 30th March 2009 and the Training and Employment Service and related assets were merged with Bishop Auckland College on 1st November 2008.

2. Exceptional and Extraordinary Items and Prior Year Adjustments

The Council transferred its housing stock at a value of £4.1m resulting in an impairment of £324m represented within the Income and Expenditure Account. The Government agreed to repay PWLB housing related debt of £23.316m and associated premiums of £3.528m on behalf of the Council. This is a one-off transaction which has been included on the face of the Income and Expenditure Account showing entitlement of Overhanging Debt Grant of £26.844m. In addition, the Council entered into a VAT Shelter arrangement with Sedgefield Borough Homes to undertake development works of £248m on the transferred stock. The expenditure of £248m is financed by a notional capital receipt of the same value.

A prior year adjustment of £10,000 has been made in respect of an additional rent to mortgage sale that was not reflected in last year's accounts. In addition, the opening pension liability and reserve was amended from £38.39m to £38.54m to reflect a revised valuation basis used for measuring pension scheme assets. The net impact of the above is a reduction in the Council's net worth of £150,000.

3. Trading Accounts

The Council operates a number of Trading Services and the financial results are shown below. The cost of these operations is included within the Service Expenditure Analysis rather than as a separate line within the Income and Expenditure Account.

| <i>Description of Trading Activity</i> | <i>(Surplus) / Deficit</i> | <i>2008/2009 £000</i> |
|---|---------------------------------------|---------------------------|
| The Council owns and manages 2 Outdoor Markets throughout the Borough, generating rental income from the letting of market stalls. The trading objective is to maximise the surplus. (Trading Surplus for 2007/2008 was £1,908). | <i>Turnover</i> <i>Expenditure</i> | (2.5) 0.5 |
| | Surplus | (2) |
| The Council runs a Staff Restaurant for the benefit of their employees that is currently provided in-house by Leisure Services. The trading objective is to minimise the trading deficit. (Trading Deficit for 2007/2008 was £21,858). | <i>Turnover</i> <i>Expenditure</i> | (83) 119 |
| | Deficit | 36 |
| The Council lets over 100 Units on Industrial Estates located in various parts of the Borough. The trading objective is to maximise rental income before asset charges are applied. There was a trading surplus of £256,433 before asset charges in 2008/2009. (Trading Surplus before asset charges in 2007/2008 was £288,883). | <i>Turnover</i> <i>Expenditure</i> | (553) 559 |
| | Surplus | 6 |
| The Council run 4 Bar facilities within the 4 Leisure Centres. The trading objective is to maximise the surplus. (Trading Surplus for 2007/2008 was £33,845). | <i>Turnover</i> <i>Expenditure</i> | (172) 141 |
| | Surplus | (31) |
| The Council run Catering facilities within the Leisure Services department. The trading objective is to maximise the surplus. (Trading Surplus for 2007/2008 was £32,070). | <i>Turnover</i> <i>Expenditure</i> | (99) 70 |
| | Surplus | (29) |
| Overall Surplus on Trading Services | | (20) |

4. Undischarged Obligations arising from Long Term Contracts

There are no undischarged obligations arising from long term contracts.

5. Section 137 Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council's expenditure under this power during the year was £88,800 (£85,700 in 2007/2008) mainly on providing grants to voluntary bodies working in the local area.

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: -

| <i>Description</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|------------------------------------|---------------------------|---------------------------|
| Recruitment Advertising | 37 | 61 |
| Other Advertising | 93 | 23 |
| Local Government Review Publicity | 5 | - |
| Other Publicity | 202 | 191 |
| Housing Stock Transfer Publicity | 52 | 9 |
| Total Publicity Expenditure | 389 | 284 |

7. Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Certain activities performed by the Building Control Service cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities for 2008/2009.

| <i>Analysis of Expenditure</i> | <i>Chargeable Activities 2008/2009 £</i> | <i>Non-Chargeable Activities 2008/2009 £</i> | <i>Total 2008/2009 £</i> |
|--------------------------------------|--|--|----------------------------------|
| Expenditure | | | |
| Employee Expenses | 149,853 | 99,902 | 249,755 |
| Premises | 2,934 | 1,956 | 4,890 |
| Transport | 6,985 | 4,657 | 11,642 |
| Supplies & Services | 11,223 | 7,482 | 18,705 |
| Central & Support Service Charges | 13,011 | 8,674 | 21,685 |
| Total Expenditure | 184,006 | 122,671 | 306,677 |
| Less: Income | | | |
| Building Regulation Charges | 151,571 | - | 151,571 |
| Miscellaneous Income | 1,043 | - | 1,043 |
| (Surplus)/Deficit for Year | 31,392 | 122,671 | 154,063 |
| Comparatives for 2007/2008 | | | |
| <i>Expenditure</i> | 178,299 | 111,428 | 289,727 |
| <i>Income</i> | 174,747 | - | 174,747 |
| (Surplus) Deficit | 3,552 | 111,428 | 114,980 |

8. Agency Income and Expenditure

Under various statutory powers an authority may agree with other local authorities, water companies and government departments to do work on their behalf. During the year the Council has not entered into any such arrangements with other bodies.

9. Schemes under Transport Act 2000

The Council has not adopted a scheme of road user charging or workplace parking levies under the Transport Act 2000.

10. Business Improvement District

A Business Improvement District (BID) is a partnership arrangement through which local authorities and the local business community can make specific improvements in their local area, subject to business rate payers agreeing to pay an additional levy on their rate bill to finance a BID. The Council has no business improvement district schemes operating in its area.

11. Local Authority (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to public bodies. During 2008/2009 the following services were provided: -

| <i>Description of Goods and Services Provided</i> | <i>2008/2009 £</i> |
|---|------------------------|
| Work Provided to Town and Parish Councils | |
| Horticultural and Playground Maintenance Works etc. | 45,160 |
| CCTV and Alarm Monitoring | 95,487 |
| Aycliffe Office, Depot and Other Premises Works | 114,608 |
| GATC Park Warden Service | 67,300 |
| | 322,555 |
| Work Provided to County Councils | |
| Horticultural Works, etc. | 56,656 |
| Fire Station Sewer Diversion | 58,565 |
| CCTV and Alarm Monitoring | 142,948 |
| | 258,169 |
| Work Provided to District Councils | |
| CCTV and Alarm Monitoring | 265 |
| Domestic Violence initiatives | 11,977 |
| Horticultural Works, etc. | 7,326 |
| | 19,568 |
| Work Provided to other Public bodies | |
| Housing Maintenance Works for Housing Associations | 6,966 |
| MOT Testing and Associated Works | 2,384 |
| CCTV Monitoring and Security Checks | 2,586 |
| | 11,936 |

12. Health Act 1999 Pooled Funds and Similar Arrangements

The Council is not involved with pooled budget schemes established under Section 31 of the Health Act (1999) and the NHS Bodies and Local Authorities Arrangements Regulations (2000). Pooled budgets enable the establishment of joint working arrangements between NHS bodies and local authorities

13. General Government Grants

The Council received the following General Government Grants:

| <i>Type of Grant</i> | <i>2007/2008 £'000</i> | <i>2008/2009 £'000</i> |
|--|----------------------------|----------------------------|
| Revenue Support Grant | 1,380 | 1,196 |
| Redistributed Non Domestic Rates | 8,221 | 8,595 |
| Local Authority Business Growth Incentives | 74 | 69 |
| Area Based Grant (ABG) | - | 2,185 |
| Total | 9,675 | 12,045 |

The ABG is paid directly to the Council and is a non-ringfenced grant that can be used at the Council's discretion. The grant replaced Local Area Agreement Grants that were paid to Durham County Council, as the accountable body for the Local Strategic Partnership, and used to fund initiatives that were linked to agreed performance targets. The Council determined that the ABG should continue to fund these initiatives, to enable it to continue its involvement in cross cutting measures to support and enhance employment and economic regeneration in the area. The costs are included in the Income and Expenditure account under the Cultural, Environmental Regulatory and Planning Services heading.

14. Members' Allowances

During 2008/2009 the total sum paid to Members in respect of basic, special responsibility and attendance allowances, was as follows:-

| <i>Type of Allowance</i> | <i>2007/2008 £</i> | <i>2008/2009 £</i> |
|-------------------------------------|------------------------|------------------------|
| Basic Allowance | 325,425 | 323,726 |
| Special Responsibility Allowance | 136,837 | 140,006 |
| Attendance Allowance | 714 | 569 |
| Subsistence and Travelling Expenses | 3,345 | 8,306 |
| Total | 466,321 | 472,607 |

15. Officers' Emoluments

The number of employees whose remuneration in 2008/2009, excluding pension contributions, was £50,000 or more in bands of £10,000 are as follows: -

| <i>Remuneration Band</i> | <i>2007/2008</i> | | <i>2008/2009</i> | |
|--------------------------|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | <i>Number of Employees</i> | <i>Left During the Year</i> | <i>Number of Employees</i> | <i>Left During the Year</i> |
| £50,000-59,999 | 2 | - | 7 | 7 |
| £60,000-69,999 | - | - | 1 | 1 |
| £70,000-79,999 | 4 | - | 4 | 4 |
| £80,000-89,999 | - | - | 5 | 5 |
| £90,000-99,999 | - | - | 1 | 1 |
| £100,000 - £109,999 | 1 | - | - | - |
| £110,000 - £119,999 | - | - | 1 | 1 |
| £120,000 - £129,999 | - | - | - | - |
| £130,000 - £139,999 | - | - | - | - |
| £140,000 - £149,999 | - | - | - | - |
| £150,000 - £159,999 | - | - | - | - |
| £160,000 - £169,999 | - | - | 1 | 1 |
| Total | 7 | 0 | 20 | 20 |

The movement in the number of employees within the above bandings is a result of management restructuring due to local government reorganisation in County Durham and the merger of the Council's training service with Bishop Auckland College, and includes one off redundancy payments to several members of staff. As a result of these payments 16 employees would otherwise have been placed in lower remuneration bands.

16. Related Party Transactions

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

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 benefits). Details of transactions with Government departments are set out in the Cash Flow Statement.

Precepts

Precept transactions in relation to Durham County Council, the Durham Police Authority, Durham and Darlington Fire and Rescue Authority and the various Town and Parish Councils, are shown within the Collection Fund Income and Expenditure Account on Page 68 and in Note 4 to the statement on Page 70.

Members of the Council

Members have direct control over the Council's financial and operating policies. During the year no Members have made 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. This is in addition to a specific declaration obtained in respect of Related Party Transactions and information obtained from Companies House in respect of declared interests.

The Council has decided not to make disclosures with regard to family/household members, on the basis that there is no reasonable expectation of influence over the independent action of Members.

Officers of the Council

Related parties in respect of Officers are only required to be disclosed when they have been involved in material transactions. During the year, no officers have been involved in declarable transactions.

Other Public Bodies

Transactions in relation to the Local Government Pension Scheme administered by Durham County Council are set out in Note 52 on Page 46.

Joint Ventures

During 2008/2009 the Council acted as the Accountable Body for the following programme: -

Coalfields Housing Renewals Programme – see Note 51 on Page 45.

17. Disclosure of Audit Costs

In 2008/2009 Sedgefield Borough Council incurred the following fees relating to external audit and inspection.

| <i>Description of Fees</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|--|---------------------------|---------------------------|
| Fees payable to the Audit Commission with regard to external Audit Services carried out by the Appointed Auditor | 104 | 120 |
| Fees payable to the Audit Commission in respect of Statutory Inspection | 12 | 9 |
| Fees payable to the Audit Commission for the certification of Grant Claims and Returns | 18 | 15 |
| Fees payable in respect of other services provided by the appointed Auditor | 1 | - |
| Total | 135 | 144 |

18. Significance of Statement of Movement on General Fund Balance

The Statement of Movement on the General Fund Balance reconciles the income and expenditure account with statutory provisions that need to be taken into account when setting local taxes. A full explanation is shown after the actual statement on Page 22.

19. Capital Expenditure and Financing

| | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Opening Capital Financing Requirement | 18,983 | 13,834 |
| Capital Investment | | |
| Operational Assets | 15,024 | 12,686 |
| Non-operational Assets | 294 | 955 |
| Intangible Assets | 104 | - |
| Equity Loans | - | 162 |
| Revenue Expenditure Funded From Capital Under Statute | 2,704 | 6,550 |
| Sources of Finance | | |
| Capital Receipts | (7,837) | (4,490) |
| Capital Grants and Contributions | (2,524) | (3,526) |
| Major Repairs Allowance | (5,061) | (5,541) |
| Revenue Resources (including MRP) | (7,853) | (1,734) |
| Overhanging Debt Grant | - | (22,859) |
| Closing Capital Financing Requirement | 13,834 | (3,963) |
| Explanation of Movements in Year: | | |
| Increase/(Decrease) in underlying need to borrow (supported by government financial assistance) | 213 | (22,646) |
| Increase/(Decrease) in underlying need to borrow (unsupported by government financial assistance) | (5,362) | 4,849 |
| Increase/(decrease) in Closing Capital Financing Requirement | 13,834 | (17,797) |

The Capital Financing Requirement represents the Council's underlying need to borrow to finance capital expenditure. The negative balance of £3.963m at 31st March 2009 reflects the full repayment of the Council's long term PWLB loan debt by central government in connection with the LSVT.

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

| | Operational Assets | | | | Non-Operational Assets | | | | | Total £000 |
|--|--------------------|--------------------------|------------------------------|------------------|------------------------|---------------------|---------------------|---------------------|------------------|-----------------|
| | Council Dwellings | Other Land and Buildings | Vehicles Plant and Equipment | Community Assets | Infra-structure | Commercial Property | Land Awaiting Dev't | Investment Property | Work In Progress | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | |
| Gross Book Value at 31/3/2008 | 350,267 | 41,635 | 13,897 | 807 | - | 8,563 | 35,973 | 596 | 204 | 451,942 |
| Revaluation and Restatements | (18,405) | (623) | - | - | - | - | (234) | - | - | (19,262) |
| Value at 1/4/2008 | 331,862 | 41,012 | 13,897 | 807 | - | 8,563 | 35,739 | 596 | 204 | 432,680 |
| Additions | 7,811 | 3,261 | 1,417 | 197 | 904 | - | - | - | 51 | 13,641 |
| Impairments | (320,884) | (9,590) | (350) | - | (904) | (1,474) | (9,543) | (268) | - | (343,013) |
| Reclassifications | - | 261 | 198 | (459) | - | - | - | - | - | - |
| Disposals | (18,789) | (226) | - | - | - | - | (3,724) | - | - | (22,739) |
| Gross Book Value at 31/3/2009 | - | 34,718 | 15,162 | 545 | - | 7,089 | 22,472 | 328 | 255 | 80,569 |
| Gross Depreciation at 31/3/2008 | (11,893) | (5,221) | (10,071) | (29) | - | (2,030) | - | - | - | (29,244) |
| Depreciation for Year | (1,974) | (1,049) | (1,184) | - | - | (343) | - | - | - | (4,550) |
| Reclassifications | - | (29) | - | 29 | - | - | - | - | - | - |
| Disposals | 13,867 | - | - | - | - | - | - | - | - | 13,867 |
| Gross Depreciation at 31/3/2009 | - | (6,299) | (11,255) | - | - | (2,373) | - | - | - | (19,927) |
| Net Book Value at 31/3/2009 | - | 28,419 | 3,907 | 545 | - | 4,716 | 22,472 | 328 | 255 | 60,642 |
| Net Book Value at 31/3/2008 | 338,374 | 36,414 | 3,826 | 778 | - | 6,533 | 35,973 | 596 | 204 | 422,698 |

21. Commitments under Capital Contracts

The Council has commitments of £6.497m into 2009/2010 of which £2.592m has been contractually committed and £3.905m approved in principle to proceed, but not yet contractually committed. A summary of these commitments is shown below: -

| <i>Portfolio</i> | <i>Approved and Contracted at 31/3/2009</i> | <i>Approved but not Contracted at 31/3/2009</i> | <i>Request to carry Forward to 2009/2010</i> |
|--------------------------|---|---|--|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| Strategic Leadership | 14 | - | 14 |
| Healthy Borough | 499 | 1,524 | 2,023 |
| Attractive Borough | - | 69 | 69 |
| Strong Communities | 106 | 2,198 | 2,304 |
| Prosperous Borough | 1,973 | 114 | 2,087 |
| Total Commitments | 2,592 | 3,905 | 6,497 |

22. An analysis of fixed assets, other than land holdings, includes:

| <i>Analysis</i> | <i>31/3/2008 Numbers Restated</i> | <i>31/3/2009 Numbers</i> |
|-----------------------------|---|------------------------------|
| Council Dwellings | 8,563 | - |
| Council Garages | 2,779 | - |
| Non-Council Dwellings | 86 | 134 |
| Administrative Offices | 6 | 1 |
| Depots and Workshops | 2 | 1 |
| Leisure Centres | 4 | 4 |
| Recreation Grounds | 3 | 2 |
| Outdoor Markets | 2 | 2 |
| Shops & Commercial Premises | 50 | 9 |
| Industrial Units | 104 | 109 |

23. Leases – Council as Lessee

The Council uses commercial vehicles and equipment under the terms of an operating lease. The amount paid under these arrangements in 2008/2009 was £398,000 (£299,000 in 2007/2008).

In addition to the above, the Council financed the replacement of its Carelink Lifeline Units through a seven year operating lease which expired on 27 March 2009. The final primary rental payable in 2008/2009 was £135,556. The Council has entered into a two year extension with payments of £66,178 and £60,646 in 2009/2010 and 2010/2011 respectively.

The Council was committed at 31st March 2009 to making payments of £876,000 under operating leases as follows:

| <i>Expiry Term</i> | <i>Vehicles, Plant and Equipment £000</i> |
|--|---|
| Leases Expiring 2009/2010 (next year) | 117 |
| Leases Expiring 2010/2011 to 2014/2015 (between 2 - 5 years) | 759 |
| Leases Expiring after 2014/2015 (over 5 years) | - |
| Total | 876 |

The Council's only finance leases relate to secondary lease rentals in respect of Industrial Units. The total annual payments under these leases were £984 in 2008/2009 which is charged direct to the relevant service and is included within net cost of services in the Income and Expenditure Account.

24. Finance and Operating Leases – Council as Lessor

The Council also acts as lessor under many rental agreements for assets owned by the authority. These lease agreements are classified as Operating Leases for the following reasons:

- All the 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 the maintenance and insurance of the asset.

In 2008/2009 rental income from assets that are leased to third parties amounted to £1,040,000 (£970,000 in 2007/2008).

The gross value at 31st March 2009 of assets held for use as operating leases was £4,716,000 (£6,533,000 at 31st March 2008).

25. Assets recognised under PFI Arrangement

There are no arrangements under a Private Finance Initiative (PFI) arrangement.

26. Valuation Information

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The Council's Valuation and Corporate Property Services Manager, John Wilkinson (F.R.I.C.S.), carries out the valuations. The basis for valuation is set out in the Statement of Accounting Policies, Note 12 on Page 14. There was a significant impairment of asset values in 2008/2009, to reflect the challenging market conditions, and this is reflected in the credit balances shown in the table below.

| <i>Valuation Date</i> | <i>Council Dwellings</i> | <i>Other Land and Buildings</i> | <i>Vehicles Plant and Equipment</i> | <i>Community Assets</i> | <i>Non-Operational Assets (1)</i> | <i>Total</i> |
|------------------------------------|--------------------------|---------------------------------|-------------------------------------|-------------------------|-----------------------------------|-----------------|
| | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> | <i>£000</i> |
| <i>Valued at historical cost</i> | - | | 3,907 | 545 | | 4,452 |
| <i>Valued at current value in:</i> | | | | | | |
| <i>Current year 2008/2009</i> | - | (1,704) | - | - | (15,017) | (16,721) |
| <i>Previous year 2007/2008</i> | - | 20,706 | - | - | 27,062 | 47,768 |
| <i>Two years ago 2006/2007</i> | - | 2,864 | - | - | 15,090 | 17,954 |
| <i>Three years ago 2005/2006</i> | - | 4,359 | - | - | 445 | 4,804 |
| <i>Four years ago 2004/2005</i> | - | 2,194 | - | - | 191 | 2,385 |
| Total | - | 28,419 | 3,907 | 545 | 27,771 | 60,642 |

(1) Includes Infrastructure, Commercial Property, Land Awaiting Development, Investment Property, and Work in Progress

27. Depreciation on Tangible Fixed Assets

Depreciation is provided using the straight-line method over the following periods: -

| <i>Asset Category</i> | <i>Years</i> |
|--|--------------|
| Motor Vehicles | 5 to 7 |
| Other Plant, Furniture and Equipment | 3 to 20 |
| Council Dwellings, Offices and Other Buildings | 21 to 60 |

There have been no changes in the depreciation method during the period.

28. Intangible Assets

| <i>Analysis</i> | <i>31/3/2008</i> <i>£000</i> | <i>Expenditure</i> <i>During year</i> <i>£000</i> | <i>Amounts</i> <i>Written Off</i> <i>£000</i> | <i>31/3/2009</i> <i>£000</i> |
|--------------------------|---------------------------------|---|---|---------------------------------|
| <i>Computer Software</i> | 156 | - | 78 | 78 |

These assets are amortised on a straight line basis over a three year period and will be fully amortised at the end of 2009/2010. There has been no change in the amortisation method of intangible assets during the period.

29. Analysis of Net Assets Employed

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

| <i>Net Assets</i> | <i>31/3/2008</i> <i>£000</i> | <i>31/3/2009</i> <i>£000</i> |
|-----------------------------------|---------------------------------|---------------------------------|
| General Fund | 31,427 | 22,604 |
| Housing Revenue Account | 349,676 | - |
| <i>Net Assets Employed</i> | 381,103 | 22,604 |

30. Long Term Investments

| <i>Source of Investment</i> | <i>31/3/2008</i> <i>£000</i> | <i>31/3/2009</i> <i>£000</i> |
|-----------------------------|---------------------------------|---------------------------------|
| HSBC | 5,222 | - |
| Royal Bank of Scotland | 2,831 | - |
| Toronto Dominion Bank | 2,263 | - |
| <i>Total</i> | 10,316 | - |

HSBC exercised an option to repay their borrowing during 2008/2009 and both the Royal Bank of Scotland and Toronto Dominion Bank repaid their borrowing in April 2009 and have been reclassified as short term investments at the balance sheet date. Consequently, the Council held no investments at 31st March 2009 that were due for repayment for more than 12 months.

31. Long Term Debtors

| <i>Description</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|------------------------------|---------------------------|---------------------------|
| Mortgages | 96 | 72 |
| Sedgefield Town Council | 25 | 20 |
| Merlin Locomotive Group | 31 | 43 |
| Dean Bank Literary Institute | 17 | 16 |
| Equity Loans | - | 221 |
| Total | 169 | 372 |

As part of a major initiative to regenerate private sector housing, the Council has advanced monies - known as Equity Loans - to owner occupiers to enable them to relocate. These loans are due to be paid back when the properties are eventually sold and represent the Council's share of the equity in the properties.

32. Stocks and Work in Progress

| <i>Description</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|-------------------------|---------------------------|---------------------------|
| Bar and Catering Stocks | 30 | 27 |
| Postal Franking Stocks | 1 | 1 |
| Fuel Stocks | 22 | 21 |
| Other Stocks | 12 | 7 |
| Total Stocks | 65 | 56 |

33. Debtors

| <i>Analysis</i> | <i>Net 31/3/2008 £000</i> | <i>Gross 31/3/2009 £000</i> | <i>Doubtful Debts Provision £000</i> | <i>Net 31/3/2009 £000</i> |
|---|-----------------------------------|-------------------------------------|--|-----------------------------------|
| Amounts Falling Due in One Year | | | | |
| Government Departments | 909 | 2,378 | - | 2,378 |
| Other Local Authorities | 1,692 | 1,913 | - | 1,913 |
| Housing Rents | 317 | - | - | - |
| Sundry Debtors | 1,340 | 1,397 | (449) | 948 |
| Non-Domestic Rate Payers | 110 | 475 | (150) | 325 |
| Council Tax Payers | 2,751 | 3,334 | (937) | 2,397 |
| Sub Total | 7,119 | 9,497 | (1,536) | 7,961 |
| Less Provision for Doubtful Debts | - | (1,536) | | |
| Amounts Falling Due After One Year | | | | |
| Car Loans to Employees | 2 | - | | |
| Total Debtors | 7,121 | 7,961 | | |

On the basis of £248m of expenditure in connection with the VAT Shelter agreement, VAT of £37m was owed by HMRC to the Council. However, an offsetting arrangement was put in place which meant that this amount was revoked by the Council to satisfy an equivalent amount owing to Sedgefield Borough Homes at the balance sheet date.

34. Short Term Investments

| <i>Source of Investment</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|-------------------------------------|---------------------------|---------------------------|
| Banks | 2,276 | 6,894 |
| Building Societies | 10,270 | 9,849 |
| Total Short Term Investments | 12,546 | 16,743 |

As explained earlier in Note 30 on Page 37 the above figures include investments that were previously classified as long term investments at 31st March 2008 but at the current balance sheet date are repayable within 12 months and have therefore been reclassified as short term.

35. Short Term Borrowing

| <i>Source of Borrowing</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|-----------------------------------|---------------------------|---------------------------|
| Public Works Loan Board | (229) | - |
| Durham County Pension Fund | (17) | (17) |
| Total Short Term Borrowing | (246) | (17) |

The amounts included in the above table comprise the principal amount to be repaid within 12 months plus accrued interest.

36. Creditors

| <i>Analysis</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|--------------------------|---------------------------|---------------------------|
| Government Departments | (2,097) | (2,138) |
| Other Local Authorities | (2,246) | (1,390) |
| Housing Rents | (159) | - |
| Sundry Creditors | (4,582) | (5,543) |
| Third Party Funds | (139) | (190) |
| Non-Domestic Rate Payers | (216) | (443) |
| Council Tax Payers | (663) | (784) |
| Total Creditors | (10,102) | (10,488) |

In connection with the VAT Shelter agreement mentioned earlier, VAT of £37m was owed to Sedgfield Borough Homes but the offsetting arrangements put in place meant that no creditor provision is required at the balance sheet date.

37. Long Term Borrowing

| <i>Source of Loan</i> | <i>Range of Interest Rates %</i> | <i>Balance at</i> | |
|----------------------------|--|---------------------------|---------------------------|
| | | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
| Public Works Loan Board | 3.75 – 12.00 | (18,248) | - |
| Durham County Pension Fund | 5.75 – 9.875 | (308) | (300) |
| Total | | (18,556) | (300) |

38. Interest in Companies

The Council has no investments in subsidiary or associated companies

39. Insurance Provisions

The Council insures against the majority of its potential losses by using an Insurance Company. However, in order to minimize external premiums, the Council has an established Insurance Fund to meet the potential cost of insurance claims falling within agreed excesses. The balance on the Insurance Fund at the start of the year was £1,181,394 and £100,000 was utilised in 2008/2009 to help meet the cost of claims settled below agreed excess levels, leaving a closing balance of £1,081,394 at 31st March 09.

In connection with the housing stock transfer, there are various risks associated with warranties provided to Sedgfield Borough Homes and its Funders regarding assets, property and staff transferred. The Council has purchased insurance to cover environmental risks and will be working closely under a partnership arrangement with Sedgfield Borough Homes to manage its risk exposures.

There are no material unfunded risks and it is considered that the present Insurance Fund balance is adequate to meet any potential claims on the Council for which external insurance cover has not been arranged.

40. Provisions

Provisions are charged to services in the year in which they are recognised and relate to expenditure that 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 and therefore are not included in the following table.

| <i>Description</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|----------------------------------|---------------------------|---------------------------|
| Equal Pay | (773) | (770) |
| Commuted Sums | (134) | (196) |
| Other Various Revenue Provisions | (1,259) | - |
| Total Provisions | (2,166) | (966) |

Since the implementation of job evaluation across the Council in March 2006, the authority has been dealing with a number of equal pay claims. Of the provision set aside above, £551,000 is in respect of the HRA and £219,000 in respect of the General Fund. It is expected that the claims will be settled within the next financial year (2009/2010).

Commuted sums reflect payments by developers to meet maintenance costs by the Council over a set time period. The amounts received will be credited to the revenue account in instalments over time to support the costs incurred.

41. Movement in Reserves

There are a number of reserves held in the Balance Sheet. Some are required to be held for statutory purposes, some are required to comply with proper accounting practices and some have been set up voluntarily to earmark resources for future spending plans.

| <i>Name of Reserve</i> | <i>Balance at 1st April 2008 £000</i> | <i>Net Movement in Year £000</i> | <i>Balance at 31st March 2009 £000</i> | <i>Purpose of the Reserve</i> |
|---|--|--|---|---|
| <i>Revaluation Reserve</i> | 48,306 | (30,887) | 17,419 | Shows movement in asset value |
| <i>Capital Adjustment Account</i> | 358,386 | (314,658) | 43,728 | Store of capital resources set aside to meet future capital expenditure |
| <i>Financial Instruments Adjustment Account</i> | (860) | 490 | (370) | Debt rescheduling premiums and discounts in respect of previous years. |
| <i>Capital Receipts Reserve</i> | 5,978 | (581) | 5,397 | Proceeds of fixed asset sales available to meet future capital investment |
| <i>Pensions Reserve</i> | (38,540) | (11,050) | (49,590) | Balancing account to allow inclusion of pensions liability in balance sheet |
| <i>HRA Reserve</i> | 1,433 | (456) | 977 | Resources available to meet future running costs for Council Housing |
| <i>General Fund Reserve</i> | 2,240 | (410) | 1,830 | Resources available to meet future running costs of non-housing services |
| <i>Other Earmarked Reserves</i> | 3,973 | (684) | 3,289 | Reserves set aside for specific purposes / commitments on non housing services |
| <i>Collection Fund</i> | 91 | (239) | (148) | Reserve set aside specific for reducing future years Council Tax demands |
| <i>Deferred Capital Receipts</i> | 96 | (24) | 72 | Proceeds from the sale of council houses still to be received at some future date |
| Total | 381,103 | (358,499) | 22,604 | |

42. Movement in Revenue Individual Reserves

| | <i>Balance at 1/4/2008 £000</i> | <i>Transfers To £000</i> | <i>Transfers From £000</i> | <i>Balance at 31/3/2009 £000</i> |
|------------------------------------|---|----------------------------------|------------------------------------|--|
| EARMARKED BALANCES: | | | | |
| Economic Development Fund | 78 | - | (78) | - |
| LABGI Economic Growth Funds | 554 | - | (419) | 135 |
| ABG – Working Neighbourhood Fund | - | 1,742 | - | 1,742 |
| ABG – Climate Change Fund | - | 23 | - | 23 |
| Asset Management Fund | 302 | - | (302) | - |
| Training Services Fund | 564 | - | (564) | - |
| Youth Development Fund | 36 | - | (36) | - |
| Insurance Fund | 1,181 | - | (100) | 1,081 |
| Budget Support Fund | 908 | 31 | (939) | - |
| Private Sector Housing Fund | 103 | - | (103) | - |
| Debt Repayment Fund | 106 | - | (106) | - |
| Building Control Fund | 11 | - | (11) | - |
| LSVT Reserve | - | 160 | - | 160 |
| Other Funds | 130 | 114 | (96) | 148 |
| Total Earmarked Balances | 3,973 | 2,070 | (2,754) | 3,289 |
| NON EARMARKED BALANCES: | | | | |
| General Fund Reserve | 2,240 | - | (410) | 1,830 |
| Total General Fund Reserves | 6,213 | 2,070 | (3,164) | 5,119 |
| Housing Revenue Account | 1,433 | - | (456) | 977 |
| Collection Fund (1) | 91 | (82) | (157) | (148) |
| Total Reserves | 7,737 | 1,988 | (3,777) | 5,948 |

(1) The balance on the Collection Fund relates to Sedgfield Borough's Council's share only. Elements in respect of the other principle precepting authorities totalling £506,000 are included in debtors.

43. Contingent Assets**LSVT - Preserved Right to Buy Sharing Agreement (PRTB)**

The Council has entered into an agreement with Sedgfield Borough Homes which entitles the Council to a financial settlement from the RSL, arising from the sale of each home where the tenant had a 'preserved' right to buy entitlement. RTB sales proceeds after compensating SBH for loss of income and administration costs are to be split with 75% going to the Council and 25% going to SBH. This agreement covers a 15 year period and is expected to deliver receipts of around £19.7m.

LSVT - VAT Shelter

The Council and Sedgfield Borough Homes have entered into a VAT shelter arrangement whereby Sedgfield Borough Homes can reclaim VAT on future improvement works to the transferred stock. This scheme has been devised and implemented in nearly all stock transfers since 2003 and has approval from HMRC and the Government. Based on development works of £248m, the Council is entitled to a 45% share of VAT recovered by SBH from a VAT shelter arrangement and the estimated proceeds are £14.7m for the Council over the next 15 years.

VAT Disclosure for Overpaid Tax

The Council's tax advisors have been asked by the Council to act on its behalf in the submission of a voluntary disclosure for VAT overpaid on various supplies made between 1990 and 1996. The claim could result in £318,000 plus interest being paid to the Council.

44. Contingent Liabilities**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 21st January 1994. 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 £229,103 have been paid by MMI up to 31st March 2009 and there are six outstanding claims as at that date amounting to £62,500. If the Scheme of Arrangement is triggered, a claw back may occur which could amount to the total value of claims paid less £50,000.

Net Park Development Sedgefield

The Council has entered into an agreement with Durham County Council and the National Health Service to develop the former Winterton Hospital site into a 'high-tech' Business Park. This may give rise to a contingent liability if the development fails to achieve expected land sales.

Equal Pay Compensation Claims

A number of authorities have been approached by their employees regarding equal pay compensation claims with some of those authorities subsequently settling the claims rather than proceeding through legal avenues. The Council has to date received a number of claims and a provision of £770,000 has been made in the 2008/2009 accounts to cover this element of the potential liability.

MMP Group in Administration

The council may face a potential claim from the administrators of the above Group in respect of works undertaken by them at Spennymoor Leisure Centre in the region of £200,000. The Council has retained sums from contract payments beyond the extent of the claim and it is intended to resist any claim that the administrators may make.

Warranties in relation to LSVT of Housing Stock

The Council gave SBH certain warranties in relation to staff transferring, property and environmental pollution, The Council has given warranties to both SBH and its Funders up to a maximum period of 30 years. The potential amounts the Council could be liable to are unquantifiable. However, the risks are considered low and not expected to have a material impact on the accounts. Insurance cover for environmental risks has been purchased to protect the Council.

45. Events at the Balance Sheet Date

The financial statements have been authorised for issue on 9th December 2009. This establishes the date up to which any known events have been recognised in the statements.

46. Trust Funds

The Council was the sole trustee of the Hackworth Locomotive Trust until 18th March 2009. The purpose of the fund was to build and maintain a replica of the locomotive 'Sans Pareil' and replicas of similar locomotives. The Fund balance was transferred to the National Railway Museum during the year and the Council holds no funds at the balance sheet date.

| <i>Movement</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Balance at 1st April | (6) | (6) |
| Income | (1) | - |
| Expenditure | 1 | 6 |
| Balance at 31st March | (6) | - |

47. Reserves and Balances held by Schools under Delegated Schemes

There are no amounts held by schools under this scheme.

48. Amounts Due or From Related Parties

There are routine sums due from and to various bodies which are Related Parties. These include one month's sums due to H M Revenues and Customs (HMRC) and Department for Work and Pensions (DWP) for VAT, PAYE and National Insurance. These are all normally paid in the month following their becoming due.

Details of the total sums due from/to Government Departments and Taxpayers are shown in the Notes relating to Debtors and Creditors – Notes 33 and 36 on Pages 38 and 39 respectively.

Included within the Collection Fund are balances due to/from other County Durham authorities, details of which are within Note 6 to the Collection Fund on Page 71.

See also Note 16, Page 32, which defines Related Parties.

49. Third Party Funds

The Council administers the following funds on behalf of Third Party Organisations:-

| <i>Fund</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Sedgefield Town Twinning Association | (2) | - |
| Sedgefield Borough Mayor's Charity Appeal | (8) | (10) |
| Heritage Line Working Party | (10) | (10) |
| Union Learning Representatives Fund | (2) | - |
| County Durham Housing Partnership | (117) | (169) |
| Balance at 31st March | (139) | (189) |

Sedgefield Town Twinning Association

Funds held in respect of the Borough's Town Twinning Association to assist with visits between the Borough and Rheinhausen. This fund was fully utilised during 2008/2009.

Mayor's Charity Appeal

Relate to the proceeds of fund raising events held on behalf of the Borough's Mayor during their year of office.

Heritage Line working party

The funds represent contributions received from participating organisations that are promoting the use and development of the Heritage Rail Line

Union Learning Representatives Fund

The fund was established by the Council's Trades Unions with the support of AMICUS to provide learning facilities for trades union representatives throughout the Council.

County Durham Housing Partnership

The Council is acting as Accountable body for a jointly funded project involving all the Shire Districts within County Durham to appoint a Strategic Housing Director to implement a Coalfield Housing Regeneration project partly funded through the Single Programme initiative. The funds held at 31st March 2009 represent contributions received from the Councils involved.

50. County Durham E-Government Partnership

The County Durham Partnership that was established in November 2003 and includes all the principle Councils within County Durham. The aim of the partnership is to promote the use of technology to offer all local taxpayers the freedom to access services provided by the member authorities in different ways. In 2008/2009 Sedgefield Borough Council made a contribution of £55,175 to the partnership (£77,863 in 2007/2008).

Wear Valley District Council acts as the Accountable Body for the partnership in respect of programme management and implementation of the project through a project office. As at the 31st March 2009 they held funds on behalf of the partnership amounting to £307,000, that in accordance with the Partnership agreement can only be spent with full approval of all the partners.

| <i>Movement</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Balance at 1st April | 834 | 663 |
| Contributions from Partners | 675 | 424 |
| Interest Credited in Year | 32 | 20 |
| Expenditure in Year | (878) | (800) |
| Balance at 31st March | 663 | 307 |

51. Coalfields Housing Renewals Partnership

The Coalfields Housing Renewals Partnership, established in November 2006, includes all the principle Councils within 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.

Sedgefield Borough Council acts as the Accountable Body for the partnership in respect of programme management and implementation of the project through a Project Director. As at the 31st March 2009 they held funds on behalf of the partnership amounting to £169,000 that in accordance with the Partnership agreement can only be spent with full approval of the Partnership Board.

In 2008/2009 Sedgefield Borough Council made a contribution of £15,903 to the partnership (£15,903 in 2007/2008).

| <i>Movement</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Balance at 1st April | 30 | 117 |
| Contributions from Partners | 90 | 139 |
| Single Programme Grant | 187 | - |
| Other Income | 5 | 91 |
| Expenditure in Year | (195) | (178) |
| Balance at 31st March | 117 | 169 |

52. Retirement Benefits

Participation in Schemes

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

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

Change of Accounting Policy

Under the 2008 SORP the Council has adopted the amendment to FRS 17, *Retirement Benefits*. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. The effect of this change is that the value of the scheme assets at 31st March 2008 has been restated from £66.39m to £66.24m, a decrease of £0.15m, resulting in an increase in the pension deficit of £0.15m.

Transactions relating to retirement benefits

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

| | 2007/2008 Restated £000 | 2008/2009 £000 |
|---|--|---------------------------|
| Income and Expenditure Account | | |
| Net Cost of Services: | | |
| • Current Service Cost | 3,440 | 1,810 |
| • Past Service Cost | 1,560 | 1,170 |
| • Settlements and Curtailments | (760) | (5,040) |
| Net Operating Expenditure: | | |
| • Interest Cost | 6,280 | 7,050 |
| • Expected Return on Assets | (5,490) | (4,180) |
| Net Charge to Income and Expenditure Account: | 5,030 | 810 |
| Statement of Movement on General Fund Balance: | | |
| • Reversal of net charges made for retirement benefits in accordance with FRS 17 | (5,030) | (810) |
| Actual Amount Charged Against the General Fund Balance for pensions in the year: | | |
| • Employer's contributions payable to Scheme | 4,964 | 3,804 |

In addition to the gains and losses included in the Income and Expenditure Account, actuarial losses of £14.0m (£5.15m gain in 2007/2008 as restated) were included in the Statement of Total Recognised Gains and Losses.

A settlement gain of £5.04m was experienced in 2008/2009 because the Council was relieved of pension liabilities of staff transferring under TUPE to other organisations. This is reflected in Non-Distributed Costs in the Income and Expenditure Account on Page 20.

Assets and liabilities in relation to retirement benefits

Changes to the present value of scheme liabilities:

| | <i>2007/2008 £m</i> | <i>2008/2009 £m</i> |
|---|-------------------------|-------------------------|
| Opening Present Value at 1st April | (120.15) | (104.78) |
| Movements in the year: | | |
| Current service cost | (3.44) | (1.97) |
| Interest cost | (6.28) | (7.05) |
| Contributions by scheme participants | (1.06) | (0.96) |
| Actuarial gains (losses) | 11.96 | 0.77 |
| Benefits Paid | 5.85 | 5.51 |
| Past service costs | (1.56) | (1.16) |
| Curtailments and Settlements | 9.90 | 12.73 |
| Closing Present Value at 31st March | (104.78) | (96.91) |

Changes to the fair value of scheme assets:

| | <i>2007/2008 £m</i> | <i>2008/2009 £m</i> |
|--|-------------------------|-------------------------|
| Opening Fair Value at 1st April | 76.63 | 66.24 |
| Movements in the year: | | |
| Expected return on assets | 5.49 | 4.18 |
| Actuarial gains (losses) on assets | (6.81) | (14.77) |
| Contributions by Employer | 4.34 | 3.39 |
| Contributions by scheme participants | 1.06 | 0.96 |
| Benefits Paid | (5.33) | (4.99) |
| Curtailments and Settlements | (9.14) | (7.69) |
| Closing Fair Value at 31st March | 66.24 | 47.32 |

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 in the respective markets.

The actual return on scheme assets during the year was -£10.59m (2007/2008: £-1.32m).

Scheme history

| | <i>2004/2005 £m</i> | <i>2005/2006 £m</i> | <i>2006/2007 Restated £m</i> | <i>2007/2008 Restated £m</i> | <i>2008/2009 £m</i> |
|--|-------------------------|-------------------------|--------------------------------------|--------------------------------------|-------------------------|
| Present Value of Liabilities | (101.29) | (113.97) | (120.15) | (104.78) | (96.91) |
| Fair Value of Assets | 55.42 | 70.39 | 76.63 | 66.24 | 47.32 |
| Surplus / (Deficit) in the Scheme | (45.87) | (43.58) | (43.52) | (38.54) | (49.59) |

The assets for the current period and previous two periods are measured at current bid price. Assets values for periods ending 2005 and 2006 are shown at mid market value. The Council has elected not to restate fair value of scheme assets for 2004/2005 and 2005/2006 as permitted by FRS 17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £49.59m has an impact on the net worth of the authority as recorded in the balance sheet, showing a reduction. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis, using the projected unit method, an estimate of the pensions that will be payable in future years, dependent upon assumptions about mortality rates, salary levels, etc. The Actuary has provided the figures shown below to the Durham County Council Pension Scheme using information provided to them and assumptions determined by the Council in conjunction with the Actuary.

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

The main assumptions used by the actuary have been been:

| | <i>Local Government Pension Scheme</i> | |
|---|--|------------------|
| | <i>2007/2008</i> | <i>2008/2009</i> |
| Long term expected rate of return on assets in the scheme: | | |
| Equity investments | 7.6% | 7.0% |
| Property | 6.6% | 6.0% |
| Government Bonds | 4.6% | 4.0% |
| Corporate Bonds | 6.8% | 5.8% |
| Cash/Other | 6.0% | 1.6% |
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 20.3 | 21.1 |
| Women | 22.4 | 23.2 |
| Longevity at 65 for future pensioners: | | |
| Men | 22.2 | 23.4 |
| Women | 23.6 | 25.3 |
| Rate of Inflation | 3.7 | 3.4 |
| Rate of Increase in Salaries | 5.2 | 4.9 |
| Rate of Increase in Pensions | 3.7 | 3.4 |
| Rate for Discounting Scheme Liabilities | 6.8 | 6.7 |
| Rate of Increase in Deferred Pensions | 3.7 | 3.4 |

Assets in the County Council Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

| <i>Category of Asset</i> | <i>31st March 2008</i> | <i>31st March 2009</i> |
|--------------------------|-----------------------------------|-----------------------------------|
| | % | % |
| Equity Investments | 47.4 | 45.2 |
| Property | 4.4 | 3.9 |
| Government Bonds | 29.3 | 30.0 |
| Corporate Bonds | 9.2 | 11.0 |
| Cash/Other | 9.7 | 9.9 |
| | 100.0 | 100.0 |

History of experience gains and losses

The actuarial gains and losses identified as movements on the pensions reserve in 2008/2009 can be analysed into the following categories.

| | <i>2004/2005</i> | <i>2005/2006</i> | <i>2006/2007</i> | <i>2007/2008 Restated</i> | <i>2008/2009</i> |
|--|------------------|------------------|------------------|-------------------------------|------------------|
| | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> | <i>£m</i> |
| Differences between expected and actual return on assets | 2.0 | 10.92 | 0.60 | (6.81) | (14.77) |
| Experience gains and losses on liabilities: | 2.84 | 0.05 | (0.28) | (2.36) | (0.69) |

53. Financial Instruments Balances

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

| | <i>Long-Term</i> | | <i>Current</i> | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | <i>31/03/08 £000</i> | <i>31/03/09 £000</i> | <i>31/03/08 £000</i> | <i>31/03/09 £000</i> |
| Financial liabilities (amount borrowed) | 18,556 | 300 | 44 | 8 |
| Financial liabilities at amortised cost* | 18,556 | 300 | 246 | 17 |
| Loans & receivables (amount invested) | 9,500 | - | 12,270 | 15,810 |
| Loans & receivables at amortised cost* | 10,316 | - | 12,546 | 16,743 |

* When accrued interest is taken into account the amortised cost may not equal the principal sum initially borrowed or invested.

54. Financial instruments Gains and Losses

The following table shows total interest payable charged to the Income and Expenditure Account.

| <i>Analysis of Interest Charges Payable</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Public Works Loans Board | 1,094 | 1,163 |
| Durham County Pension Fund | 25 | 24 |
| Premiums and Discounts Amortised (earlier years) | 257 | 33 |
| Premiums incurred in year on repayment of PWLB Debt | - | 3,528 |
| Leasing Charges | 156 | 136 |
| Total Interest Payable and Similar Charges | 1,532 | 4,884 |

Included in the above is the premium of £3.528 incurred in connection with repaying PWLB debt of £23.316m on 31st March 2009. The cost of the premium was met fully by Overhanging Debt Grant received from Government which is shown in the sources of finance section of the Income and Expenditure Account.

The following table shows total interest receivable credited to the Income and Expenditure Account.

| <i>Analysis of Interest Receivable</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---|---------------------------|---------------------------|
| Interest Received on External Investments | (1,516) | (1,237) |
| Interest Received on External Loans | (4) | (2) |
| Mortgage Interest | (6) | (4) |
| Total Interest and Investment Income | (1,526) | (1,244) |

There were no other gains or losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses [STRGL] in relation to financial instruments during 2007/2008 or 2008/2009.

55. 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 Public Works loans Board [PWLB] and other market 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 actual principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

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 31st March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values calculated are as follows: -

| <i>Financial Liabilities</i> | <i>31st March 2008</i> | | <i>31st March 2009</i> | |
|------------------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
| | <i>Carrying amount £'000</i> | <i>Fair value £'000</i> | <i>Carrying amount £,000</i> | <i>Fair value £'000</i> |
| PWLB borrowing | 18,477 | 21,663 | - | - |
| Non-PWLB borrowing | 325 | 417 | 317 | 442 |
| Total borrowing | 18,802 | 22,080 | 317 | 442 |
| Trade creditors | 5,758 | 5,758 | 5,541 | 5,541 |
| Total Financial liabilities | 24,560 | 27,838 | 5,858 | 5,983 |

The fair values for financial liabilities have been determined by reference to the 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.

| <i>Financial Assets</i> | <i>31st March 2008</i> | | <i>31st March 2009</i> | |
|------------------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
| | <i>Carrying amount £'000</i> | <i>Fair value £'000</i> | <i>Carrying amount £,000</i> | <i>Fair value £'000</i> |
| Money market loans < 1 yr | 12,546 | 12,546 | 16,743 | 16,743 |
| Money market loans > 1 yr | 10,316 | 10,386 | - | - |
| Trade debtors | 1,743 | 1,743 | 1,397 | 1,397 |
| Total Loans and Receivables | 24,605 | 24,675 | 18,140 | 18,140 |

The fair values for loans and receivables have been determined by reference to the PWLB redemption rules that 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.

Other – Soft Loans and Equity Loans

The SORP 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. Local Authority Accounting Panel 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 difference between the carrying amount and the fair value of the soft loans shown below is considered to be insignificant and have no material impact on the accounts and therefore the Income and Expenditure account has not been adjusted.

The value of Soft Loans given by Sedgfield Borough amounts to £79,000 as at 31st March 2009 and is detailed in the following table.

| <i>Organisation</i> | <i>Purpose of loan</i> | <i>Rate of Interest %</i> | <i>Outstanding Balance at 31st March 2009 £'000</i> |
|------------------------------|---------------------------|-------------------------------|--|
| Sedgfield Town Council | Purchase of offices | 4.00 | 20 |
| Dean Bank Literary Institute | Improvement works | Interest Free | 16 |
| Merlin Locomotive Group | Restoration of locomotive | Interest Free | 43 |
| Total Soft Loans | | | 79 |

The Council has also advanced Equity Loans to individual homeowners to assist in relocating households affected by areas undergoing regeneration. The total amount advanced is £221,000 as shown in Note 31 on Page 38.

56. 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 required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that a financial loss might arise for the Council as a result of changes in the wider market such as interest rate 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 items are reported with the Annual Treasury Management Strategy that outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members after the end of the financial year.

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. 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 Council'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.

| Loans and Receivables | Amount at 31st March 2009 £000 (a) | Historical experience of default % (b) | Adjustment for market conditions at 31st March 2009 % (c) | Estimated maximum exposure to default £000 (a * c) |
|--|--|---|---|---|
| <i>Deposits with banks and financial institutions:</i> | | | | |
| AAA rated counterparties | 4,500 | 0.001% | 0.001% | - |
| AA rated counterparties | 1,750 | 0.060% | 0.060% | 1 |
| A rated counterparties | 9,560 | 0.650% | 0.650% | 62 |
| Other counterparties | - | 0.650% | 0.650% | - |
| Bonds – AAA rates | - | 0.001% | 0.001% | - |
| Trade debtors | 1,397 | 23.121% | 23.121% | 323 |
| Total | 17,207 | | | 386 |

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

The Council does not allow credit for its trade debtors, such that £0.761m of the £1.397m balance is past its due date for payment. The past due amount can be analysed by age as follows: -

| Age Analysis | Amount at 31st March 2009 £000 |
|------------------------|--|
| Less than three months | 357 |
| Three to six months | 66 |
| Six months to one year | 144 |
| More than one year | 194 |
| Total | 761 |

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 councils (although it will not provide funding to a council whose actions is 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 earlier (the setting and approval of prudential indicators and the approval of the treasury and investment strategy), as well as through cash flow management procedures required by the Code of Practice.

Refinancing and Maturity Risk

During the year the Council maintained 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 ensure these are maintained within 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.

The maturity analysis of financial liabilities is as follows and has been affected by the repayment of PWLB debt in comparison with the previous year: -

| <i>Age Analysis</i> | <i>Amount at 31st March 2008 £000</i> | <i>Amount at 31st March 2009 £000</i> |
|---------------------------------|--|--|
| Less than one year | 44 | 8 |
| Between one and two years | 47 | 9 |
| Between two and seven years | 277 | 52 |
| Between seven and fifteen years | 4,956 | 87 |
| More than fifteen years | 13,536 | 152 |
| Total | 18,600 | 308 |

The maturity analysis of financial assets is as follows and reflects reclassification of investments previously held as long term investments:

| <i>Age Analysis</i> | <i>Amount at 31st March 2008 £000</i> | <i>Amount at 31st March 2009 £000</i> |
|-----------------------------|--|--|
| Less than one year | 12,270 | 15,810 |
| Between one and two years | - | - |
| Between two and three years | - | - |
| More than three years | 9,500 | - |
| Total | 21,770 | 15,810 |

All trade and other payables are due to be paid in less than one year and trade debtors of £1.397m are not shown in the table 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 if the Council had variable rate borrowings and investments any changes in interest payable and receivable would 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 would be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council does not invest in variable rate deals. It therefore has no exposure to loss arising from movements in market rates.

Market Risk - Price risk

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

Market Risk - 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.

Financial Guarantees

The Council has not entered into any financial guarantees that are defined as guarantees related to the performance of another party in relation to a debt instrument.

57. Capital Grants and Contributions Unapplied

This account shows the capital grants and contributions that have been received and applied to finance capital schemes that meet the terms of the contribution. Sums unspent are carried forward into future years to finance capital investment.

| <i>Movement in Grants and Contributions</i> | <i>Capital Grants £000</i> | <i>Capital Contributions £000</i> | <i>Section 106 Agreements £000</i> | <i>Total £000</i> |
|---|--------------------------------|---------------------------------------|--|-----------------------|
| Balance Brought Forward | (237) | 9 | (214) | (442) |
| Received in Year | (2,947) | (474) | (38) | (3,459) |
| Used to Finance Capital expenditure | 3,073 | 441 | 12 | 3,526 |
| Balance Carried Forward | (111) | (24) | (240) | (375) |

58. Revaluation Reserve

This account represents gains on individual assets from revaluation exercises.

| <i>Movement in Reserve</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|--|---------------------------|---------------------------|
| Balance Brought Forward | - | (48,306) |
| Revaluations on Opening Balances | (48,238) | 18,585 |
| Depreciation | - | 274 |
| Revaluations on Disposals | (1,022) | - |
| Transfer to CAA on Disposals written out | 954 | 1,543 |
| Impairment Review | - | 10,485 |
| Balance Carried Forward | (48,306) | (17,419) |

59. Capital Adjustment Account

The balance on this account represents the difference between the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

| <i>Movement in the Year</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|--|---------------------------|---------------------------|
| Balance Brought Forward | (355,891) | (358,386) |
| Prior Year Adjustment | (52) | (59) |
| Voluntary Set Aside of Capital Receipts | (5,000) | - |
| Minimum Revenue Provision | (362) | (151) |
| Revenue Contribution to Capital | (2,491) | (1,583) |
| Grants and Contributions written down | (2,653) | (24,956) |
| Transfer from Revaluation Reserve re Gains Outstanding on Disposal | (954) | (1,543) |
| General Fund Depreciation | 2,119 | 2,307 |
| Capital Spend Not Adding Value | 1,604 | 8,899 |
| Asset Impairment & Depreciation | 435 | 324,033 |
| MRR Appropriation | 1,373 | (3,042) |
| Disposal Book Value | 8,591 | 8,694 |
| REFCUS Write-Down | 2,732 | 6,550 |
| Capital Receipts Applied | (7,837) | (4,491) |
| Balance Carried Forward | (358,386) | (43,728) |

60. Financial Instruments Adjustment Account

This reserve holds the accumulated difference between financing costs included in the Income and Expenditure account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund or HRA balances.

The balance on the account as at 31st March 2009 amounts to £370,000 which solely relates to premiums and discounts that are still to be charged to the General Fund Income and Expenditure account under Interest Payable and Similar Charges.

All outstanding premiums and discounts in relation to the HRA have been met in full by Overhanging Debt Grant in connection with the housing stock transfer.

| <i>Movement in the Year</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|--|---------------------------|---------------------------|
| Balance Brought Forward | (1,117) | (860) |
| Charged in Year – Appropriations from FIAA | 257 | 490 |
| Balance Carried Forward | (860) | (370) |

61. Capital Receipts Unapplied

This account shows the capital receipts that have been received and applied to finance capital schemes. Sums unspent are carried forward into future years for capital purposes.

| <i>Movement in the Year</i> | <i>31/3/2008 £000</i> | <i>31/3/2009 £000</i> |
|--|---------------------------|---------------------------|
| Balance Brought Forward | (15,198) | (5,978) |
| Net Capital Receipts in year from Sale of Fixed Assets | (6,677) | (4,745) |
| LSVT VAT Shelter Notional Capital Receipt | - | (248,694) |
| Notional Receipt Applied to Establish VAT Shelter | - | 248,694 |
| Capital Receipts Applied to Finance Expenditure | 7,837 | 4,491 |
| Transferred to Section 106 Agreements | 75 | - |
| Voluntary Set-aside of Capital Receipts | 5,000 | - |
| Housing Pooling Receipts Paid to Central Government | 2,985 | 835 |
| Balance Carried Forward | (5,978) | (5,397) |

62. Deferred Capital Receipts

These are derived from the sale of assets for which the receipts will be received in instalments over agreed periods of time and relate to mortgages on the sale of former Council houses.

| <i>Description</i> | <i>No. of Loans</i> | <i>31/3/2008 £000 Restated</i> | <i>No. of Loans</i> | <i>31/3/2009 £000</i> |
|--------------------------------|---------------------|--|---------------------|---------------------------|
| <i>Council House Mortgages</i> | 28 | (70) | 26 | (46) |
| <i>Rents to Mortgages</i> | 2 | (26) | 2 | (26) |
| Total | 30 | (96) | 28 | (72) |

63. Deferred Liabilities

The Council's only deferred liabilities relate to the secondary lease rentals in respect of finance leases on industrial units. The total annual payments under these leases were £966 in 2008/2009, which is charged direct to the relevant service and is included within net cost of services in the Income and Expenditure Account.

64. Other Government Revenue Grants

| | <i>2007/2008</i> <i>£000</i> | <i>2008/2009</i> <i>£000</i> |
|---|---------------------------------|---------------------------------|
| Department for Works & Pensions | | |
| Council Tax Benefits | 9,042 | 9,335 |
| Rent Rebate Subsidy | 14,385 | 14,261 |
| Discretionary Housing Payments | 18 | 20 |
| Benefit Administration Subsidy | 993 | 982 |
| Other Grants | 47 | - |
| Department for Education & Skills | | |
| Learning & Skills Council | - | 886 |
| Surestart Local Programme | 1 | - |
| Department for Communities & Local Government | | |
| Housing Defects Act Subsidy | 85 | 30 |
| Single Regeneration Budget | 35 | 8 |
| Neighbourhood Renewal Fund | 815 | 191 |
| Home Improvement Agency Grant | 14 | - |
| Housing Revenue Account Subsidy | (3,482) | (3,266) |
| Homelessness Grant | 23 | 50 |
| Planning Delivery Grant | 96 | 63 |
| Community Empowerment Fund | 59 | 45 |
| Local Business Growth Initiative | 74 | 388 |
| Local Enterprise Growth Initiative | 73 | 450 |
| Supporting People | 298 | - |
| Other Grants | 81 | 122 |
| New Growth Point | - | 100 |
| National Indicator | - | 8 |
| Climate Change | - | 22 |
| Working Neighbourhood Fund | - | 2,113 |
| Choiced Based lettings | 95 | - |
| Home Office | | |
| Building Safer Communities | - | 105 |
| Electoral Registration & Election Grants | 96 | 38 |
| Department for Environment, Food & Rural Affairs | | |
| Recycling Grant | - | 6 |
| Contaminated Land Grant | 1 | 1 |
| Other Revenue Grants | | |
| Investing in Children | 30 | 30 |
| European Social Fund | 1 | 23 |
| Local Public Service Agreement | - | 49 |
| Smoke Free Legislation & Communities for Health | 42 | - |
| LAA Grants | 196 | - |
| Concessionary Fares | 81 | 207 |
| Other Grants | - | 8 |
| Total Revenue Grants | 23,199 | 26,275 |

65. Capital Grants

| | <i>2007/2008</i> <i>£000</i> | <i>2008/2009</i> <i>£000</i> |
|--|---------------------------------|---------------------------------|
| Department for Communities & Local Government | | |
| Disabled Facility Grants | 170 | 349 |
| Planning Delivery Grant | 32 | 30 |
| Single Capital Pot | 417 | 399 |
| Other Capital Grants | | |
| Defra – Recycling Grant | - | 27 |
| Single Housing Investment Pot | 1,300 | 1,558 |
| Other | - | 194 |
| Total Capital Grants | 1,919 | 2,557 |

66. Reconciliation of Revenue Surplus with Net Cash Flow from Revenue Activities

| | 2007/2008 £000 Restated | 2008/2009 £000 |
|--|--|---------------------------|
| Income & Expenditure Account Surplus (Deficit) | (9,505) | (315,223) |
| Add (less) contributions to (from) Collection Fund | (150) | (1,058) |
| Non Cash Transactions | | |
| Add Notional (Gains)/Losses on Asset Disposals | 1,924 | (220) |
| Add Amortisation of Intangible Fixed Assets | 78 | 78 |
| Add Depreciation & Impairment of Fixed Assets | 10,566 | 335,375 |
| Less Amortisation of Government Grants Deferred | (1,039) | (445) |
| Add Revenue Expenditure Funded by Capital Under Statute | 2,732 | 6,550 |
| Less Government Grants used to Finance Revenue Expenditure Funded by Capital Under Statute | (1,774) | (1,653) |
| Less Overhanging Debt Grant | - | (23,316) |
| Add Retirement Benefit Charges Under FRS 17 | 744 | 2,948 |
| Add/(Less) Other | (570) | 117 |
| Items on an Accruals basis | | |
| Add (less) decrease (increase) in stock | - | - |
| Add (less) decrease (increase) in debtors | 212 | (1,203) |
| Add (less) increase (decrease) in creditors | 820 | (622) |
| Items included in another classification | | |
| Add interest paid | 1,080 | 1,370 |
| Less investment interest | (983) | (1,396) |
| Net Cash Flow from Revenue Activities | 4,135 | 1,302 |

67. Movement in Liquid Resources

| Definition of Liquid Resources | Balance at 31/3/2008 £000 | Balance at 31/3/2009 £000 | As Disclosed in Cash Flow Statement £000 |
|---------------------------------------|--|--|---|
| Long Term Investments | 9,500 | - | (9,500) |
| Short Term investments | 12,270 | 15,810 | 3,540 |
| Total Liquid Resources | 21,770 | 15,810 | (5,960) |

The figures above are the actual amounts invested (or principal) and exclude accrued interest.

68. Movement in Cash Balances

| Definition of Cash | Balance at 31/3/2008 £000 Restated | Balance at 31/3/2009 £000 | As Disclosed in Cash Flow Statement £000 |
|----------------------------|---|--|---|
| Cash in Hand and at Bank | 412 | 2,246 | 1,834 |
| Cash Overdrawn | - | - | - |
| Total Cash Balances | 412 | 2,246 | 1,834 |

69. Other Notes to the Cashflow Statement

Included within capital activities is an outflow of £248.694m which reflects the value of development works to the housing stock transferred in connection with the VAT Shelter arrangement which is offset by a compensating transaction showing a capital receipt inflow of the same amount.

HRA INCOME AND EXPENDITURE ACCOUNT

The Housing Revenue Account is a record of revenue income and expenditure relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is funded by rents charged to tenants. Consequently the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from Council Tax. The statement has two parts:

1. HRA Income and Expenditure Account, and
2. Statement on Movement on the HRA Balance.

Notes to the HRA follow these two statements.

| 2007/2008 | | 2008/2009 | |
|------------------|--|------------------|-----------------|
| £000 | | Notes | £000 |
| | Income | | |
| (22,856) | Dwelling Rents (Gross) | Note 2 | (23,507) |
| (926) | Non Dwelling Rents (Gross) | | (924) |
| (3,082) | Charges for Services and Facilities | | (2,487) |
| (56) | Contributions towards Expenditure | | (73) |
| (16) | HRA Subsidy Receivable | Note 3 | - |
| (26,936) | Total Income | | (26,991) |
| | Expenditure | | |
| 6,793 | Repairs and Maintenance | | 8,681 |
| 9,200 | Supervision and Management | | 6,605 |
| 477 | Rent, Rates, Taxes and Other Charges (including Voids) | | 630 |
| 3,459 | Negative HRA Subsidy Payable | Note 3 | 3,418 |
| 6,966 | Depreciation and Impairment of Fixed Assets | Note 7,8 | 333,794 |
| 116 | Bad Debt Provision and Debts Written Off | Note 5 | 208 |
| 2 | Sums Directed by the Secretary of State that are Expenditure in Accordance with UK GAAP | Note 4 | - |
| 27,013 | Total Expenditure | | 353,336 |
| 77 | Net Cost of HRA Services per Authority Income and Expenditure Account | | 326,345 |
| 463 | HRA Services Share of Corporate and Democratic Core | | 484 |
| 172 | HRA Share of Other Amounts Included in the Whole Authority Net Cost of Services but Not Allocated to Specific Services | | 186 |
| 712 | Net Cost of HRA Services | | 327,015 |
| (131) | (Gain) or Loss on Sale of HRA Fixed Assets | | 3,404 |
| 756 | Interest Payable and Similar Charges | | 3,278 |
| (108) | Interest and Investment Income | | (150) |
| - | Overhanging Debt Grant | | (3,025) |
| 1,229 | (Surplus)/Deficit for Year | | 330,522 |

STATEMENT OF MOVEMENT ON THE HRA BALANCE

This statement takes the surplus or deficit on the HRA Income and Expenditure Account and reconciles it to the surplus or deficit on the HRA Balance, calculated in accordance with the Local Government and Housing Act 1989.

| 2007/2008 £000 | | 2008/2009 £000 |
|---------------------------------|---|---------------------------------|
| 1,229 | (Surplus) or deficit for the year on the HRA Income and Expenditure Account | 330,522 |
| 720 | Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year | (330,066) |
| 1,949 | (Increase) or Decrease in the Housing Revenue Account Balance | 456 |
| (3,382) | Housing Revenue Account surplus brought forward | (1,433) |
| (1,433) | HRA surplus carried forward | (977) |

The deficit on the HRA Income and Expenditure Account shown above is measured on a basis that is consistent with UK GAAP. However, local authorities operate under specific statutory rules, which specify what income and expenditure must be taken into account when determining the impact on its HRA. In order to give a full presentation of the financial performance of the Council on its HRA for the year, the HRA Income and Expenditure Account is reconciled to the movement on HRA balance.

STATEMENT OF MOVEMENT ON THE HRA BALANCE

| <i>2007/2008</i> | | <i>2008/2009</i> |
|------------------|---|------------------|
| <i>£000</i> | | <i>£000</i> |
| | <i>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the Year</i> | |
| (532) | Difference between amounts charged to Income and Expenditure for amortisation of premiums and discounts and the charge for the year determined in accordance with statute | - |
| - | Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements (if any) | (331,296) |
| 131 | Gain or loss on sale of HRA Fixed Assets | (3,615) |
| - | 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 | - |
| (401) | Sub Total | (334,911) |
| | <i>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the Year</i> | |
| (1,373) | Transfers to/(from) Major Repairs Reserve | 3,042 |
| - | Transfers to/(from) Repairs | - |
| - | Premiums incurred in 2008/2009 | - |
| 224 | Premiums appropriated from Financial Instruments Adjustment Account | 458 |
| - | Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners | - |
| - | Voluntary set aside for debt repayment | - |
| 2,270 | Capital expenditure funded by the HRA | 1,175 |
| 1,121 | Sub Total | 4,675 |
| | <i>Transfers to or from Housing Revenue Account Balance required to be taken into account when determining the movement on the Housing Revenue Account Balance</i> | |
| - | Net Transfers to / (from) Earmarked Reserves | 170 |
| 720 | <i>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the Year</i> | (330,066) |

NOTES TO HRA INCOME AND EXPENDITURE ACCOUNT

1. Exceptional Items, Extraordinary Items and Prior Year Adjustments

The Large Scale Voluntary Transfer of the Council's housing stock on 30th March 2009 affected the HRA during 2008/2009 resulting in a significant impairment charge in the Income and Expenditure Account. Details of the terms of the transfer and financial implications have been provided in the Explanatory Foreword and in various notes accompanying the financial statements including the accounting treatment adopted for other material transactions.

2. Rent of Dwellings

This sum represents the gross rental income due for the year after allowance is made for empty properties. During the year 1.4% of properties available for rent were vacant, compared with 1.0% in 2007/2008, which is less than the Government's target of 2% for empty properties. The average rent in 2008/2009 was £59.40 a week, paid over 47 weeks, compared with £56.25 in 2007/2008, with 5 weeks being designated as rent-free weeks. In 2008/2009 rent was receivable for 46 weeks only because the housing stock transferred at the start of the final rent week of the financial year.

3. HRA Subsidy

The negative HRA Subsidy payable by the Council to the Government for redistribution to other local housing authorities over the last two years is shown below:-

| | 2007/2008 £000 | 2008/2009 £000 |
|---|---------------------------------|---------------------------------|
| Management and Maintenance Allowance | 11,869 | 12,806 |
| Major Repairs Allowance | 5,061 | 5,541 |
| Charges for Capital | 1,624 | 1,446 |
| Admissible Allowance | - | - |
| Rent Constraint Allowance | 332 | - |
| Subsidy Allowances | 18,886 | 19,793 |
| Less: | | |
| Mortgage Interest | (7) | (5) |
| Assumed Rent Income | (22,338) | (23,206) |
| Subsidy Reductions | (22,345) | (23,211) |
| Housing Negative Subsidy Payable to Government | (3,459) | (3,418) |
| Add: Housing Defects Act Subsidy Receivable | 16 | - |
| Total Subsidy (Payable)/ Due | (3,443) | (3,418) |

4. Rent Rebates

As from the 1st April 2004, Rent Rebates were no longer accounted for within the HRA and transferred to the General Fund.

Following the removal of rent rebates from the HRA in 2004/2005, the Secretary of State issued a direction allowing the Council to make a contribution to the General Fund in respect of the costs of rent rebate subsidy limitation and unsubsidised rebates in respect of incentive areas.

The contribution was as follows:-

| | 2007/2008 £000 | 2008/2009 £000 |
|--------------------------------|---------------------------------|---------------------------------|
| Rent Rebate Subsidy Limitation | 2 | - |

5. 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 HRA reflects the change in the provision required after taking into account sums recovered from former tenants. The provision balance is shown in the following table: -

| <i>Analysis</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|----------------------------------|---------------------------|---------------------------|
| Sundry Debtors | 65 | 52 |
| Current Tenant Arrears | 203 | - |
| Total Bad Debt Provisions | 268 | 52 |

The actual charge to the HRA in respect of bad debts provision and debts written off in 2008/2009 was £208,214. The Council's policy is to write off all former tenants' arrears in the year in which they arise to the provision for Bad and Doubtful Debts, although the Council still endeavours to recover sums due wherever possible.

6. Rent Arrears

During 2008/2009 rent arrears, as a proportion of gross income, increased from 1.56% of the amount due to 1.73%. The arrears figures are as follows:-

| | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|-----------------------------------|---------------------------|---------------------------|
| Arrears at 31 st March | 431 | - |

All current tenant arrears were transferred to Sedgefield Borough Homes on 30th March 2009 as part of the housing stock transfer. The only remaining debts in respect of the Housing Revenue Account are for sundry debtor accounts for which an appropriate provision has been made as shown in Note 4 above.

7. Depreciation Charge

During 2008/2009 the total charge to the HRA in respect of depreciation on its assets was £2.499m as shown below: -

| <i>Asset Type</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|--|---------------------------|---------------------------|
| Operational Assets: Dwellings | 6,165 | 2,151 |
| Operational Assets: Other Buildings e.g. Garages | 170 | 232 |
| Non-Operational Assets: Shops etc | 99 | 116 |
| Total Depreciation Charge | 6,434 | 2,499 |

8. Impairment Charges

There were charges arising in 2008/2009 in respect of impairment of HRA assets. The total impairment charge in the year was £331,295m. The majority of this (£323.532m) arose as a result of the downward revaluation of the stock to £4.1m to reflect its value on transfer to Sedgefield Borough Homes.

9. Capital Expenditure and Financing

The Council spent £7.668m during 2008/2009 on its HRA Assets as shown below: -

| <i>Expenditure</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|---------------------------------|---------------------------|---------------------------|
| Improvements to Council Housing | 6,252 | 7,038 |
| Other Works | 1,656 | 630 |
| Total Expenditure | 7,908 | 7,668 |

This expenditure was financed as follows:-

| <i>Financing</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|-------------------------------|---------------------------|---------------------------|
| Major Repairs Allowance | 5,061 | 5,541 |
| Capital Receipts | 347 | 739 |
| Supported Capital Expenditure | 213 | 213 |
| Revenue Contributions | 1,427 | 1,175 |
| Other Contributions | 860 | - |
| Total Financing | 7,908 | 7,668 |

10. Capital Receipts

During 2008/2009 the Council generated £5.262m gross capital receipts from the sale of its Housing assets as shown below: -

| <i>Source of Receipt</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|--|---------------------------|---------------------------|
| Council House Sales (RTB Legislation) | 4,045 | 1,121 |
| Council House Mortgage Repayments | 11 | 7 |
| Housing Land Sales | 973 | 32 |
| Stock Transfer Sale Price of Housing Stock | - | 4,102 |
| Total Capital Receipts | 5,029 | 5,262 |

Under the Capital Receipts Pooling Arrangements the Council had to pay over to the Government £834,740 of the above sale proceeds in 2008/2009 (£2,985,315 in 2007/2008). This is shown in the following table:

| <i>Source of Receipt</i> | <i>Capital Receipt £000</i> | <i>Usable Element £000</i> | <i>Poolable Element £000</i> |
|--|-------------------------------------|------------------------------------|--------------------------------------|
| Council House Sales (RTB Legislation) (1) | 1,121 | 291 | 830 |
| Council House Mortgage Repayments | 7 | 2 | 5 |
| Housing Land Sales | 32 | 32 | - |
| Stock Transfer Sale Price of Housing Stock (2) | 4,102 | 4,102 | - |
| Total | 5,262 | 4,427 | 835 |

(1) Net of the cost of administering Right to Buy sales and the value of improvements made to these properties in the three years prior to their sale.

(2) The Government confirmed that agreed set up costs of £4.1m could be deducted from the sale price of the housing stock.

11. Movement on Major Repairs Reserve (MRR)

The movement on the Council's Major Repairs Reserve (MRR) during the year was as follows and shows that the Major Repairs Allowance (MRA) was fully utilised to finance capital expenditure on Council Houses:

| <i>Movement on Reserve</i> | <i>2007/2008 £000</i> | <i>2008/2009 £000</i> |
|--|---------------------------|---------------------------|
| Balance as at 1st April | - | - |
| Depreciation on HRA Assets | (6,434) | (2,499) |
| Amount transferred to (from) HRA Appropriations: | | |
| Difference between Depreciation and MRA | 1,373 | (3,042) |
| HRA Capital Expenditure funded from MRA | 5,061 | 5,541 |
| Balance as at 31st March | - | - |

12. Housing Stock

The Council was responsible for managing 8,564 dwellings at 1st April 2008. The entire housing stock transferred to Sedgefield Borough Homes on 30th March 2009 and consequently no council dwellings were held at the balance sheet date:-

| <i>Movements in the Year</i> | <i>Houses</i> | <i>Flats</i> | <i>Bungalows</i> | <i>Total</i> |
|---|---------------|--------------|------------------|--------------|
| Stock at 1st April, 2008 | 4,836 | 945 | 2,783 | 8,564 |
| Right to Buy Sales | (17) | (1) | (1) | (19) |
| Other Adjustments | (5) | (1) | - | (6) |
| Stock Conversions | - | 17 | - | 17 |
| Stock Transfer | (4,814) | (960) | (2,782) | (8,556) |
| Stock at 31st March, 2009 | - | - | - | - |

13. Housing Assets Valuation

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

| <i>Asset Type</i> | <i>Valuation at 01/04/2008 £000</i> | <i>Valuation at 31/03/2009 £000</i> |
|------------------------------------|---|---|
| Operational Assets: | | |
| Dwellings | 337,352 | - |
| Garages | 8,021 | - |
| Other Land and Buildings (inc WIP) | 721 | 103 |
| Vehicle, Plant and Equipment | 276 | 6 |
| Community Assets | 226 | - |
| Non-Operational Assets: | | |
| Commercial Properties (Shops etc.) | 1,534 | - |
| Land | 26,879 | 16,601 |
| Investment Property | 267 | - |
| Balance Sheet Valuation | 375,276 | 16,710 |

The vacant possession value of the dwellings held in the Housing Revenue Account as at 1st April 2008 was £584,255,320. The difference between the vacant possession value and opening balance sheet value of dwellings within the HRA shows the true economic cost to the Government of providing Council housing at less than open market rents.

14. Pensions - FRS17

The 2008 Statement of Recommended Practice (SORP) allows authorities to fully account for retirement benefits in the HRA in accordance with FRS17. However the SORP includes arguments for and against the inclusion of these entries and reaffirms the view that the bottom line charge to the HRA must be accounted for on the basis of the pension regulations i.e. contributions payable.

The Council is of the opinion that the statutorily prescribed nature of the HRA does not permit the inclusion of these costs/adjustments.

On this basis, all FRS17 adjustments have therefore been excluded from the Housing Revenue Account, shown on Page 60.

However, FRS17 adjustments in respect of the HRA are fully accounted for in the Income and Expenditure Account, shown on Page 20.

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

This account reflects a statutory requirement to maintain a separate Collection Fund. It shows the transactions relating to Council Tax and Non-Domestic Rates (Business Rates) and illustrates the way these have been distributed to Durham County Council, Durham Police Authority, Durham and Darlington Fire and Rescue Authority and to the Sedgefield Borough Council General Fund. Notes to the statements follow.

| <i>2007/2008</i> | | <i>2008/2009</i> | |
|------------------|--|------------------|-----------------|
| <i>£000</i> | | Notes | <i>£000</i> |
| | Income | | |
| (32,726) | Council Tax Due from Taxpayers | Note 2 | (33,442) |
| (9,040) | Council Tax Benefit | | (9,609) |
| (17,014) | Non-Domestic Rates Due from Ratepayers | Note 3 | (19,881) |
| (58,780) | Total Income | | (62,932) |
| | Expenditure | | |
| | Precepts and Demands | | |
| 26,032 | Durham County Council | | 27,263 |
| 9,267 | Sedgefield Borough Council (including Parishes) | Note 4 | 9,677 |
| 3,549 | Durham Police Authority | | 3,792 |
| 2,099 | County Durham & Darlington Fire & Rescue Authority | | 2,199 |
| | Business Rates | | |
| 16,907 | Payment to National Pool | | 19,773 |
| 107 | Costs of Collection | | 108 |
| | Bad & Doubtful Debts | | |
| 123 | Write Offs - Council Tax | | 464 |
| 238 | Provision for Bad and Doubtful Debts | | 19 |
| 649 | Distribution of Previous Year's Estimated Surplus | Note 5 | 695 |
| 58,971 | Total Expenditure | | 63,990 |
| 191 | Movement on Fund Balance | | 1,058 |
| (595) | Surplus on Fund Brought Forward | | (404) |
| (404) | Fund Balance Carried Forward | Note 6 | 654 |

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 which the income has been raised. The costs of administering the Collection Fund 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 1st April 1993. It is a tax based on property values, which are grouped into eight bands ranging from A to H.

The Council Tax is broken down into individual charges for each of the local authorities operating in the Borough. Sedgefield Borough Council is the billing authority responsible for collecting the Council Tax on behalf of Durham County Council, Durham Police Authority, County Durham and Darlington Fire and Rescue Authority, various Parish Councils. Precepts and demands from these authorities are divided by the Council Taxbase (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 and exemptions) to give the annual Council Tax.

It is the Council Taxbase 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.

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 to calculate a Band D Equivalent Taxbase 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 Taxbase is finally arrived at by anticipating the collection rate during the year. A collection rate of 99% was anticipated for 2008/2009.

| <i>Property Value</i> | <i>Council Band</i> | <i>Number of Properties in Each Band</i> | <i>Proportion of Band 'D'</i> | <i>Band 'D' Equivalent Properties</i> |
|------------------------------|---------------------|--|-------------------------------|---------------------------------------|
| Up to £ 40,000 | Band A | 27,544 | 6/9ths | 15,474 |
| Over £ 40,000 up to £ 52,000 | Band B | 4,481 | 7/9ths | 3,118 |
| Over £ 52,000 up to £ 68,000 | Band C | 3,856 | 8/9ths | 3,117 |
| Over £ 68,000 up to £ 88,000 | Band D | 2,851 | 1 | 2,662 |
| Over £ 88,000 up to £120,000 | Band E | 1,337 | 11/9ths | 1,518 |
| Over £120,000 up to £160,000 | Band F | 421 | 13/9ths | 557 |
| Over £160,000 up to £320,000 | Band G | 98 | 15/9ths | 156 |
| Over £320,000 | Band H | 20 | 18/9ths | 12 |
| Chargeable Properties | | 40,608 | Taxbase | 26,614 |

The average Band D Council Tax for the year was made up as follows: -

| Authority | 2007/2008 £ p | 2008/2009 £ p |
|--|--------------------------------|--------------------------------|
| Durham County Council | 995.49 | 1,024.38 |
| Sedgefield Borough Council | 186.11 | 190.02 |
| Parish Councils (average) | 168.26 | 173.61 |
| Durham Police Authority | 135.72 | 142.47 |
| County Durham & Darlington Fire & Rescue Authority | 80.28 | 82.62 |
| Average Band D Tax | 1,565.86 | 1,613.10 |

3. Business Rates [Non Domestic]

Business Rates are determined on a national basis by Central Government, which sets an annual non-domestic rating multiplier each year.

A new valuation list was applied from 1st April 2006 that re-valued all non-domestic properties and rebased the annual multiplier. A new Small Business Relief was also introduced for properties with a rateable value below £15,000 at the same time. For 2008/2009 the general multiplier amounted to 46.2p (44.4p in 2007/2008), and the Small Business Relief was set at 45.8p (44.1p in 2007/2008).

Subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by this multiplier. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds, after various exemptions and reliefs (e.g. empty premises, charitable organisations, etc) into a national non-domestic rate pool, administered by the Government. The total non-domestic rateable value for Sedgefield Borough, at 31st March 2009, was £50,816,195 (£48,122,490 at 31st March 2008).

4. Precepts and Demands

The demand on the Collection Fund made by Sedgefield Borough Council also includes amounts in respect of Town and Parish Councils. There are 15 Town and Parish Councils which made precepts on Sedgefield Borough Council in 2008/2009 amounting to £4,620,445.59 (£4,400,003 in 2007/2008):

| Authority | 2007/2008 £000 | 2008/2009 £000 |
|-----------------------------------|---------------------------------|---------------------------------|
| Great Aycliffe | 1,506.8 | 1,576.8 |
| Spennymoor | 1,105.6 | 1,165.6 |
| Ferryhill | 566.6 | 584.0 |
| Shildon | 553.1 | 586.0 |
| Sedgefield | 207.8 | 218.0 |
| Chilton | 178.0 | 183.9 |
| Trimdon | 96.8 | 110.0 |
| Cornforth | 67.0 | 74.5 |
| Fishburn | 60.0 | 61.0 |
| Bishop Middleham | 41.3 | 42.6 |
| Eldon | 9.0 | 9.0 |
| Middridge | 4.7 | 5.5 |
| Mordon | 1.5 | 1.7 |
| Bradbury | 1.3 | 1.3 |
| Windlestone | 0.5 | 0.5 |
| Sub Total | 4,400.0 | 4,620.4 |
| Sedgefield Borough Council | 4,867.0 | 5,057.1 |
| Total | 9,267.0 | 9,677.5 |

5. Previous Year's Surplus/Deficit

Any surplus or deficit on the Collection Fund at the end of the year must be taken into account in setting future years Council Taxes by those authorities precepting upon the fund.

The Council Tax surplus distributed during 2008/2009 was shared between principal authorities as follows: -

| <i>Authority</i> | <i>Total Surplus distributed in 2007/2008 £000</i> | <i>Total Surplus distributed in 2008/2009 £000</i> |
|--|--|--|
| Sedgefield Borough | 150 | 157 |
| Durham County Council | 421 | 441 |
| Durham Police Authority | 44 | 61 |
| County Durham & Darlington Fire & Rescue Authority | 34 | 36 |
| Total Distributed | 649 | 695 |

6. Collection Fund Balance

The Collection Fund balance at the end of the 2008/2009 financial year amounted to a deficit of £654,000 which is due to be shared between principal authorities as shown below: -

| <i>Authority</i> | <i>Balance at 31/3/2008 £000</i> | <i>Balance At 31/3/2009 £000</i> |
|--|--------------------------------------|--------------------------------------|
| Sedgefield Borough Council | (91) | 148 |
| Durham County Council | (256) | 416 |
| Durham Police Authority | (36) | 57 |
| County Durham & Darlington Fire & Rescue Authority | (21) | 33 |
| Collection Fund (Surplus)/Deficit | (404) | 654 |

The Collection Fund Balance shown above of £654,000 is accounted for in the Balance Sheet on Page 24 as follows: -

| | <i>£000</i> |
|------------------------------|-------------|
| Included in Debtors | 506 |
| Included in Revenue Reserves | 148 |
| | 654 |

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Sedgefield Borough 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 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 Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a Statement of Internal Control.

The Purpose of the Governance Framework

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

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

The Governance Framework has been in place at the Council for the year ended 31st March 2009 and this Governance Statement has been prepared immediately prior to the demise of Sedgefield Borough Council from 1st April 2009 as a result of the establishment of the new Durham County Council as a unitary authority.

The Governance Framework

The Council has maintained and developed comprehensive governance processes designed to ensure the achievement of objectives, quality of service and public accountability through proper systems of internal control and management arrangements. Key areas of good governance include the setting of strategic and operational objectives, quality performance management information, risk awareness, financial regulations compliance and internal check procedures, all supported by an appropriate management structure with supervision, delegation and accountability accepted as fundamentals.

The present governance arrangements include the following, and are subject to continuous improvement by management:-

- Regular establishment and review of the Council's priority areas, including both strategic and major operational activities.
- Comprehensive performance management processes to ensure targets are established and monitored on major activity areas.
- A Council Constitution which includes clear decision-making processes, responsibility for functions, a scheme of delegation, financial/budgetary/procurement regulations, codes of conduct and management structure.
- Ongoing development of risk management arrangements, to ensure both strategic and operational areas across the Council are addressed.
- Comprehensive budgeting processes supported by effective budgetary control information systems.
- Management review of operational performance efficiency.
- Well developed and controlled systems covering the Council's major financial activities.
- Financial performance reviews against forecasts, to ensure best use of available resources.

- Capital programme framework designed to maximise quality project delivery in accordance with the strategic visions of the Council.
- Project management principles applied to ensure project delivery compliant with expectations.
- Well developed and communicated codes of conduct for Members and Officers, supported by processes for declarations of interest.
- Maintenance of an Internal Audit service responsible for reviewing all significant resource and performance areas of the Council.
- Well developed consultative arrangements with the Audit Commission, which complement their statutory role in reviewing and reporting on the Council's control framework.
- Regulatory and review responsibilities maintained by the Council's Audit Committee.
- Responsibility for compliance with relevant laws, regulations and policies placed with senior managers, with Legal Section support as necessary.
- Comprehensive public complaints processes maintained.
- Well developed public consultation and communications strategies to ensure participation and accountability.
- Appropriate governance arrangements developed to cover major Council partnerships in existence around the Borough.

Review of Effectiveness

The 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 effectiveness is informed by the work of the Directors and Heads of Service within the Council who have responsibility for the development and maintenance of the governance environment, the work of the Council's Internal Audit team and also by comments made by the Audit Commission in their role as the Council's external auditors and other review agencies and inspectorates.

Arrangements are in place to maintain and review the effectiveness of the Governance Framework. The Council's Constitution requires an annual review of the Governance arrangements to be undertaken and reported to Council as the "body charged with Governance". The Audit Committee is also involved in reviewing the effectiveness of the Council's Governance arrangements when considering the progress being made by the internal audit team during the year in achieving the Annual Audit Plan objectives. A final report on the work of Internal Audit during 2008/09 was considered by the Audit Committee on 23rd March 2009.

Significant Governance Issues 2008/09

Transition Plan:

The 2007/08 Governance Statement highlighted the major initiatives identified in the Council's Transition Plan and the importance of appropriate governance arrangements on the initiatives. The position on these is as follows:-

Housing Partnering Arrangements:

The partnering with Mears Ltd., for housing construction services, has operated since February 2008, and appropriate management and monitoring of performance has been developed during 2008/09.

Large Scale Voluntary Transfer (LSVT) of the Council's Housing Stock:

Following a positive result in the July 2008 LSVT ballot of tenants, intensive actions were undertaken, aimed at ensuring that Sedgefield Borough Homes (SBH) was established from 30th March 2009. Project Teams for both the Council and SBH were established, supported by appropriate professional advisers. The Tenants Services Authority will be responsible for ensuring that the management, performance and governance of SBH are satisfactorily developed and maintained. From 1st April 2009, Durham County Council will be responsible for the monitoring of the Transfer Agreement to ensure that SBH meets its delivery promises made to tenants.

Coalfields Housing Renewal:

The renewal of the Borough's former coalfield areas is progressing well. The Council has worked with neighbouring local authorities regarding English Partnerships funding, and a Joint Venture Collaboration agreement is almost in place. This work will be incorporated within a wider New Growth Points programme across South and East Durham.

New Training Service and Centre for the Borough:

The transfer to Bishop Auckland College was completed in November 2008. A new governance structure has been agreed for monitoring progress against the main project vision and objectives. A Construction and Skills Sub-Committee will be established as part of the overall College Corporation. The nomination will be 4 / 4 split between SBC (then the Durham County Council as the successor authority) and Bishop Auckland College.

Redevelopment of Newton Aycliffe Town Centre:

The regeneration of Newton Aycliffe town centre is progressing well. Round-table discussions between the town centre owners, Durham County Council, Sedgefield Borough Council, County Durham PCT and District Valuers continue to agree a series of property transactions to facilitate next phase of redevelopment.

Arts Resource Centre:

Design work on the Arts Resource Centre within Spennymoor Leisure Centre has progressed well and physical works on site are expected to commence during March 2009. Contractual arrangements with the Council's fitness suite partner Competition Line are integral to the development at Spennymoor, as well as to the further development of the fitness suites within Shildon and Ferryhill Leisure Centres. The proposals are to be considered shortly by Durham County Council. The major financial implications on the partnership arrangements with Competition Line will require ongoing corporate governance review by the new authority

Other Governance Issues**Local Government Reorganisation in County Durham:**

The Council's initial approach to strategic risk has been revised to better accommodate the requirements of the re-organisation of Local Government in County Durham from April 2009. Many of the most important issues affecting the Council will have been highlighted by the various Workstreams established under LGR. All Workstreams are required to operate using sound risk management practice to address identified risks.

Major Financial Systems:

The Council's major financial systems have operated satisfactorily during the year and commitment to operate within a sound internal control environment, with fully reconciled systems, has been maintained. It is understood that these important systems will continue to operate within the new authority for some time, before being replaced. It is essential, therefore, that the well developed and long-standing financial controls associated with these systems are maintained by the new authority.

The Council is working with the new authority to ensure risks in relation to financial systems, feeder systems, reconciliations, data, security of assets and accounts close down arrangements have been appropriately managed during the transition process.

ICT Security Policy:

A number of the documents that would form the overall ICT Security policy have been approved and introduced by the Head of ICT but there are still a number of other documents to complete.

This is an important issue for the new County Council to address and has been flagged up in the appropriate workstream for further consideration in a County wide context.

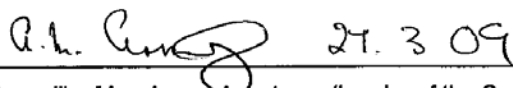
Treasury Management:

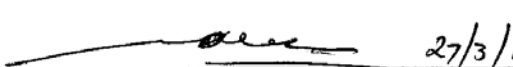
Following recent turmoil in financial markets, and potential investment losses faced by many public authorities (but not Sedgefield), the Council has reviewed its treasury management investment principles to provide an enhanced level of protection of assets.

Overall Governance Conclusion

We are satisfied that the Council has maintained and operated within a governance framework appropriate to the provision of services, throughout the financial year.

Signed on behalf of Sedgefield Borough Council:

 27. 3 09
Councillor Mrs. Agnes Armstrong (Leader of the Council)

 27/3/09
Brian Allen, C.P.F.A. (Chief Executive)

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF DURHAM COUNTY COUNCIL AS SUCCESSOR TO SEDFIELD BOROUGH COUNCIL

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Sedgfield Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Housing Revenue Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, 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 Sedgfield Borough 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 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.

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 accounting statements, and consider whether it is consistent with the audited 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 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 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 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 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 accounting statements and related notes.

Opinion

In my opinion the Authority's 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.

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

Authority's Responsibilities

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

Auditor's Responsibilities

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

Qualified Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing I identified the following:

- the Authority did not arrangements in place to monitor the quality of its published performance information.

Having regard to relevant criteria specified by the Audit Commission for principal local authorities, published by in December 2006, and the supporting guidance, I am satisfied that, in all significant respects, Sedgefield Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place adequate arrangements to monitor the quality of its published performance information, and to report the results to members.

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

11 December 2009

LIST OF ABBREVIATIONS USED IN THE ACCOUNTS

| | |
|---------------|---|
| ABG | Area Based Grant |
| BVACOP | Best Value Accounting Code of Practice |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| DWP | Department for Works and Pensions |
| FRS | Financial Reporting Standard |
| GAAP | Generally Accepted Accounting Practice |
| HMRC | HM Revenue and Customs |
| HRA | Housing Revenue Account |
| LAAP | Local Authority Accounting Panel |
| LABGI | Local Authority Business Growth Incentive |
| LASAAC | Local Authority (Scotland) Accounts Advisory Committee |
| LEGI | Local Enterprise Growth Initiative |
| LGPS | Local Government Pension Scheme |
| MRP | Minimum Revenue Provision |
| FRICS | Fellow of the Royal Institute of Chartered Surveyors |
| NNDR | National Non-Domestic Rates |
| PDG | Planning Delivery Grant |
| PWLB | Public works Loan Board |
| REFCUS | Revenue Expenditure Funded from Capital Under Statute |
| SORP | Statement of Recommended Practice |
| SSAP | Statement of Standing Accounting Practice |

GLOSSARY OF TERMS

Accounting Policies

Those principles, bases, conventions rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements, through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes to reserves.

Account and Audit Regulations 2003 (as amended)

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

Actuarial Gains & Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (i.e. experience gains and losses), or the actuarial assumptions have changed.

Appropriations

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

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 use in the provision of services.

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 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.

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.

Contingency

An event that 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.

Corporate and Democratic Core

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services.

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.

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.

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.

Earmarked Reserves

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

Exceptional Items

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary Items

Material items, possessing a high degree of abnormality which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Financial Instruments Adjustment Account

This account provides a balancing mechanism between the different rates of at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund.

Financial Reporting Standards (FRS)

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

Fixed Assets

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

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.

Government Grants

Assistance by Government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

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.

Impairment

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

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.

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.

Precepts

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

Prior Period Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

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.

Public Works Loan Board (PWLB)

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

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (a) an employer's decision to terminate an employee's employment before the normal retirement date or (b) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Expenditure

General revenue expenditure mainly on pay and other costs of running Council services.

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.

Stocks

The amount of unused or unconsumed stocks held in expectation of future use.

Supported Capital Expenditure

The Supported Capital Expenditure (Revenue) is in effect revenue support through the Revenue Support Grant System for borrowing. The Supported Capital Expenditure (Capital) is a capital grant given by Government.

Useful Life

The period over which the authority will derive benefits from the use of a fixed asset.

Work in Progress

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

**A copy of this document can be found on the Council website at
www.durham.gov.uk**

**The Council can also produce computer disk or large print copies. We can
arrange for a summary in Braille, on tape or in another language, although
this will take longer.**

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