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# EXPLANATORY FOREWORD

## Introduction

The purpose of this foreword is to provide you, the reader, with an easily understandable guide to the most significant matters reported in the accounts for 2008/09. The accounts are by their very nature both technical and complex and this foreword attempts to clarify some of the statements and sections within the document and provide a summary of the authority's financial performance for 2008/09.

The format of the accounts for 2008/09 is in accordance with the Code of Practice on Local Authority Accounts 2008 (Statements of Recommended Practice) or (SORP) which have been compiled by the Chartered Institute of Public Finance and Accountancy and approved by the Accounting Standards Board (ASB). The aim of the SORP is to establish and improve standards of financial accounting and reporting for the benefit of those using the statements, those preparing them and Auditors of the financial information.

## *The Statement of Accounts*

The format and order of the statement of accounts comprises of the following:-

- a) *This Explanatory Foreword*, which should provide a concise and understandable guide for the reader.
- b) *A Statement of Accounting Policies*, which discloses the accounting principles and concepts that have been used in compiling the accounts.
- c) *A Statement of Responsibilities*, which sets out the respective requirements for the authority and for the Corporate Director – Resources who has statutory responsibilities for the administration of the Council's financial affairs.
- d) *The Accounting Statements* comprising of:-
  - Core financial statements, which are grouped together and are described below.
  - The supplementary single entity financial statements such as the housing revenue account and collection fund.
  - The group accounts, which have to be prepared to reflect the transactions of a subsidiary company – East Durham Homes.
- e) *The Notes to the Accounts*, which shows the information to be disclosed in relation to the core financial statements.

## *The Core Financial Statements*

The core financial statements have to be prepared by all local authorities and are comprised of:-

- a) *The Income and Expenditure Account*, which reports the net cost of all the functions for which the authority is responsible and how that cost has been financed. The net cost is a term used in the statements and basically means costs after deducting any income due or received in the period. In this authority costs are financed mainly from government grants and income from local taxpayers. This is in accordance with General Accepted Accounting Policies (UKGAAP).
- b) *The Statement of the Movement on the General Fund Balance* is basically a reconciliation to show how the balance arrived at in the Income and Expenditure Account links to the statutory requirement for raising council tax.

- c) *The Statement of Total Recognised Gains and Losses* reflects the changes in assets or liabilities on balance sheet valuations rather than from the authority's operating performance.
- d) *The Balance Sheet* reflects the overall financial position of the Council at the 31<sup>st</sup> March 2009 disclosing balances, reserves and debt outstanding compared to the overall assets held by the authority.
- e) *The Cash Flow Statement* summarises the inflow and outflow of cash, for revenue and capital purposes, arising from transactions with third parties for the financial year.

### ***The Supplementary Financial Statements***

The contents of the supplementary financial statements can vary between local authorities depending on its responsibilities. Those relevant to the District of Easington are as follows:-

- a) *Housing Revenue Account (HRA)*. The HRA reflects transactions in terms of the Council's council housing functions. In terms of HRA statements there will be an Income and Expenditure Account together with a Statement of the HRA balance. The former reflects the effects of the transactions by following accepted accounting policies, whilst the latter reflects those transactions required by statute and non-statutory proper practices to arrive at the HRA balance.
- b) *Collection Fund*. Statutorily the Council is specified as a billing authority and as such there is a statutory requirement to maintain an account, which is known as the Collection Fund. In essence billing authorities are responsible for the billing, collection and recovery of all council tax levies and non-domestic or business rates in the District. This includes not only collecting taxes due to the Council but also those in respect of precepting authorities such as Durham County Council, Town/Parish Councils and the local Police and Fire Services.

The *Collection Fund* shows the transactions of the Council as billing authority in relation to non-domestic or business rates, the council tax, and how this is distributed to the precepting authorities. This account also reflects how the transactions affects the Council's own general fund.

### ***Group Accounts***

Group accounts are required when it is deemed that the authority has control over another organisation. Consequently it has been determined that the accounts of East Durham Homes, which was established to carry out the management and maintenance functions of the Councils housing stock, should be included within the Council's accounts, to demonstrate the full extent of the authority's activities. Any transactions between the Council and East Durham Homes are eliminated before compiling the group accounts that include the following:-

- a) A Group Income and Expenditure Account.
- b) A Reconciliation of the Council's financial position to that of the company's.
- c) A Group Statement of Total Recognised Gains and Losses similar to that outlined above.
- d) The Group Balance Sheet.
- e) The Group Cash Flow Statement.

## **SUMMARY OF THE ACCOUNTS – 2008/09**

### ***Key message on the overall financial position***

It has been recommended by Central Government that the County Council and the seven District Councils of Durham be combined to form one single Unitary Authority. This was effective from the 1<sup>st</sup> April 2009, and as such this will be the final year's accounts for this Council.

For a number of years the Council has planned its resources in the medium term, around 3 years. This coupled with strong corporate monitoring systems for performance, financial control and risk management has enabled us to:-

- Forecast events over 3 years and assess their impact on performance and the finances.
- Ensure the resources outlaid are delivering pre-set objectives.
- Provide growth where required to deliver our outcomes.
- Maintain council tax increases at inflation levels or below giving stability and certainty to our taxpayers. The district council tax for 2008/09 was the lowest of the districts in County Durham.
- Stabilise and smooth the overall financial position of the Council by having robust and balanced base budgets and an adequate level of reserves to meet pressures and indeed carry out further investment in communities.

In this Council's final year, as with many other organisations, we were detrimentally affected by the downward swing in the economic climate. In particular we were impacted by reduced investment income resulting from falling interest rates and from significantly reduced capital receipts from falling Land and Property Sales.

In terms of how effectively we use our resources, the Audit Commission has assessed us in the past as *'working above minimum requirements and performing well in most areas.'*

### ***The Statement of Accounts for the year ended 31<sup>st</sup> March 2009***

The statement of accounts is a high level technical document required by law and prepared in accordance with specific accounting regulation and practice. If not prepared properly the Council's accounts will be qualified and confidence could be damaged.

The Income and Expenditure Account on page 21 is a key account and brings together all transactions relating to all functions in one overall account. Further analysis is necessary because we monitor budgets on the basis of activity within the general fund, the housing revenue account (HRA) and the capital programme.

### ***Interpretation of the accounts – looking behind the figures!***

#### **Background**

It should be acknowledged that primarily the statement of accounts sets out the financial position at a point in time. In reality proactive financial management requires an environment, which is fluid in order to effectively manage in the medium term and maximise the overall position, which is getting the best out of the money and our assets.

It is also worth noting that because balance sheets and financial statements reflect transactions arising from decisions at a point in time they are unable to record the benefits of those decisions which if taken towards year end will be realised in future years. Many decisions taken can be legacies for the future.

## General Fund

The table below has been extracted from the overall Income and Expenditure Account to arrive at the results applicable to the general fund. It shows on the bottom line that in the year a contribution of £456k was required from general reserves against a budgeted sum of £590k, producing an in year saving of £134k. There were no significant areas causing the variation from budget.

### Extract from the Income and Expenditure Account referring to the General Fund

General Fund	Original Budget £'000	Actual Outturn £'000
Service Expenditure	21,921	27,863
Parish Precepts	4,313	4,313
Interest Payable and other charges	719	655
Investment Income	(1,303)	(1,306)
Loss/(Gain) on Disposals	0	201
Payment to DCLG pool	0	845
Pension Interest costs and return on assets	0	3,030
<b>Net Operating Expenditure</b>	<b>25,650</b>	<b>35,601</b>
District Demand	(9,274)	(9,274)
Revenue Support Grant	(1,489)	(1,489)
NNDR Redistributed Income	(10,693)	(10,693)
Area Based Grant	0	(7,102)
<b>(Surplus)/Deficit for the Year</b>	<b>4,194</b>	<b>7,043</b>
Items included in the Income & Expenditure Account but excluded from the Movement on Fund Balance	(6,336)	(14,651)
Items not included in the Income & Expenditure Account but required to arrive at Fund Balance	4,355	2,751
Transfers to/(from) reserves	(1,623)	5,313
<b>Use of General Fund Balance in Year</b>	<b>590</b>	<b>456</b>

## Housing Revenue Account (HRA) Position

The HRA produced an in year change of £1.073m to the balance as opposed to the original break even budget. The following table outlines the position.

Housing Revenue Account	Original Budget £'000	Actual Outturn £'000
Service Expenditure	(7,030)	5,227
Gain/Loss on sale of assets	0	(27)
Interest Payable/premia	3,945	3,941
Investment Income	(275)	(112)
<b>(Surplus)/Deficit for the Year</b>	<b>(3,360)</b>	<b>9,029</b>
*Items included in the HRA Income and Expenditure Account but excluded from the Movement on HRA Balance	(898)	(11,330)
*Items not included in HRA Income and Expenditure Account but required to arrive at HRA Balance	4,258	3,648
Transfers to/(from) reserves	0	(274)
<b>Change in HRA Balance in Year</b>	<b>0</b>	<b>1,073</b>

\* Further details of these figures can be seen in the note to the movement on the HRA balance (page 51).

The change in the HRA balance is due to the following: -

	£'000	£'000
Additional Rent Income	(708)	
Additional Housing Subsidy	(16)	
Other Savings / Increased Income	(106)	
Total Savings/ Increased Income		(830)
East Durham Homes Additional Support		1,003
Revenue Contribution to Capital		900
<b>Net Change in HRA Balance</b>		<b>1,073</b>

## Capital Programme

The financing of the capital programme was detrimentally affected by the current economic climate (credit crunch). As a result of the Council receiving significantly less capital receipts than budgeted for, resulting from reduced land and property sales, it was necessary for the Council to incur unsupported borrowing of £641k in order to fully finance the capital programme.

During the year the Council invested £15.6m on capital schemes. Around 97% of the programme was achieved with slippage being rolled forward as part of the management of the rolling programme. Discussions are taking place with the new Unitary Council to allow commitments to be honoured in future programmes.

The table below outlines the programmes agreed and how they were financed.

<b>Total Capital Programme</b>	<b>Budget £'000</b>	<b>Outturn £'000</b>
General Fund	7,236	6,076
Housing Revenue Account	8,863	9,535
<b>TOTAL</b>	<b>16,099</b>	<b>15,611</b>

<b>Financed By</b>	<b>Budget £'000</b>	<b>Outturn £'000</b>
Supported Capital Expenditure (Revenue)	1,000	1,000
Unsupported Capital Expenditure (Revenue)	0	641
Revenue Contribution to Capital/Reserves	1,983	2,239
Major Repair Allowance	5,415	5,415
Capital Receipts	6,456	2,743
Grants & Contributions	1,245	3,573
<b>TOTAL</b>	<b>16,099</b>	<b>15,611</b>

## Pension Assets/Liabilities

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits, employers and employees therefore contribute to the Durham County Council Pension Fund. In common with most pension funds there is a liability on the fund of £54.24m (2007/08 £41m), however arrangements are in place to fund the deficit. The deficit on the scheme will be made good by increased contributions as agreed with the Corporate Director - Resources and the Actuary.

## Change in Statutory Functions

As previously stated, as a result of the Local Government Review, Durham County Council together with the seven District Councils of Durham combined on the 1<sup>st</sup> April 2009 to create a new Unitary Council.

## Borrowing Facilities

The Council currently has external borrowing of £65.99m (£66.6m in 2007/08), £58m of which is in relation to the Housing Revenue Account. Interest on the HRA debt is fully subsidised by Central Government.

## Prior Year Restatement

Due to a change in accounting policy arising from the 2008 SORP, whereby assets held in the pension fund are to be valued at bid price rather than mid market value, it has been necessary to amend the 2007/08 figures. Such amendments are shown as "RESTATED". Current and prior year surpluses are unaffected by this change.

# STATEMENT OF ACCOUNTING CONCEPTS, POLICIES AND ESTIMATION TECHNIQUES

## GENERAL PRINCIPLES

The accounts have been prepared in accordance with the fundamental accounting principles set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2008, (The Code) a Statement of Recommended Practice (SORP).

The SORP specifies many of the accounting concepts, policies and estimation techniques to be adopted for material items.

The accounting convention adopted for fixed assets is that of historical cost, modified by the revaluation of certain categories of tangible fixed assets.

## ACCOUNTING CONCEPTS

The accounting concepts that have a material impact on the accounts are as follows: -

### 1 Fundamental Accounting Concepts

#### *Relevance*

The accounts have been prepared with the objective of providing information on the authority's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions.

#### *Reliability*

The financial information is reliable as it:-

- a) Has been prepared so as to reflect the reality or substance of the transaction and other events that have taken place.
- b) Is free from deliberate or systematic bias.
- c) Is free from material error.
- d) Is complete within the bounds of materiality.
- e) Is prudently prepared.

#### *Comparability*

In addition to complying with the SORP, the authority's accounts are also required to comply with the Best Value Accounting Code of Practice. This code establishes proper practices with regard to consistent financial reporting and therefore aids comparability with other local authorities.

#### *Understandability*

These accounts are based on accounting concepts, treatments, and terminology that require reasonable knowledge of accounting and of Local Government. However where possible plain language rather than technical terminologies has been used. Where technical terms have been used, explanations will appear in the glossary at the end of the statements.

#### *Materiality*

As allowed under the code the concept of materiality has been utilised in preparing the accounts. This means that insignificant items and fluctuations under an acceptable level of tolerances are permitted provided that in aggregate they would not affect the overall interpretation of the accounts by the reader.

## **2 Pervasive Accounting Concepts**

### *Accruals*

The financial statements, other than the cash flow information, should be prepared on an accruals basis. This means that expenditure and income are recognised in the accounts in the period that they are earned or incurred, not on dates when money is paid or received.

### *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*

Sometimes local authorities have to compile the accounts in a certain format as prescribed by statute, even if this contradicts accounting standards. It is a fundamental principle of local authority accounting that where specific legislative requirements and accounting principles conflict, then the legislative requirements shall be applied.

## **ACCOUNTING POLICIES**

Accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of the transactions and other events are to be reflected in the financial statements of the authority. Consistent accounting policies have been applied both within year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.

### **1 Accruals of Income and Expenditure**

*Customer and client* receipts in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate. This is in accordance with application note G of FRS5 “Reporting the Substance of Transactions on Revenue Recognition”, which states revenue should only be recognised when a “right to consideration exists” due to the performance of a contractual obligation. Payments received in advance of such performance have been recognised as a liability on the balance sheet.

*Employee* costs are charged to the accounts in relation to the period within which the employees worked. Accruals have been made for wages earned but unpaid at the year-end.

*Interest payable* on external borrowings and interest income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. However, in most cases the effective and actual rates of interest are the same. Any accrued interest due is reflected in the accounts and the principal outstanding is increased by the accrual, previously a sundry creditor was recognised.



*Supplies and services* are to be accrued and accounted for in the period during which they are consumed or received. Accruals have been made for all material sums unpaid at the year-end for goods and services received or work completed.

An exception is made with regard to quarterly accounts where charges are made at the time of meter reading rather than between financial years.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. An exception to this is in respect of interest accrued which from 2008/09 is added to the principal amount of borrowing or investments held on balance sheet at the year end. Where it is doubtful the 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.

## **2 Provisions and Contingencies**

*Provisions* are recognised when there is a legal or constructive obligation to transfer economic benefits as a result of a past event. They are charged to the revenue account, when payments for expenditure are incurred to which the provision relates they are charged directly to the provision.

The carrying amount of debtors in the balance sheet has been adjusted for impairment and uncollectability both individually (if individually significant) and collectively.

*Contingent Liabilities* arise if there is a possible obligation on the authority that may require a payment or a transfer of economic benefits. It is necessary to disclose in the notes of the core statements the nature of such a contingency, a brief description, an estimate of its financial effect, and an indication of the uncertainties relating to the amount or timing of any possible payment.

*Contingent Assets* should not be recognised in the accounting statements but should be disclosed in the notes to the core statements stating the nature of the contingent asset and an estimate of its financial effect.

## **3 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 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.

## **4 Government Grants and Other Contributions**

Government grants and other contributions are accounted for on an accruals basis and income has been credited, in the case of revenue grants to the appropriate revenue account to match expenditure as necessary, or in the case of capital grants to a government grants deferred account. Amounts are written off to the service revenue account over the useful life of the asset to match depreciation of the asset to which it relates.

## **5 Area Based Grant**

From 2008/09, the Local Area Agreement Grant has been replaced by the Area Based Grant (ABG). ABG is a non ring-fenced general grant, no conditions on its use are imposed thus the local authority has full control over how funding is used. As ABG is a general grant it should be included in the Income and Expenditure Account together with other general grants such as Revenue Support Grant (RSG).

## **6 Investments**

Investments are shown in the balance sheet at cost. They are all in the form of deposits with banks and building societies using funds not currently required for operational purposes.

Investments for periods longer than one year are identified separately in the balance sheet.

Investment income is accrued and accounted for in the period to which it relates, from 2008/09 the accrued amount is added to the principal amount invested, previously a sundry debtor was created.

## **7 Leases**

*Finance Lease rentals* should be apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. The amount of outstanding principal is to be recognised on the balance sheet as a deferred liability with a corresponding entry into fixed assets.

*Operating Lease rentals payable* are charged to revenue on a straight-line basis over the term of the lease in line with the net benefit received.

*Operating lease rentals receivable* are credited to revenue as and when due. The assets in respect of these leases are shown on the balance sheet as fixed assets and depreciated over their useful life.

## **8 Overheads**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to 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 depreciated costs in respect of surplus assets.

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

## **9 Reserves**

Reserves are amounts that do not fall within the definition of a provision. Transfers to and from them should be distinguished from expenditure disclosed in the Income and Expenditure Account. Expenditure is not charged directly to any reserve, but to the appropriate service revenue account.

Capital reserves are not used for revenue purposes and certain reserves can only be used for specific statutory purposes:-

- The usable capital receipts reserve emanates from receipts for the sale of Council assets and may only be used to finance capital expenditure or to repay external debt.
- The major repairs reserve is a statutory reserve for the housing revenue account (HRA). The reserve is built up from the in year depreciation charge and from an HRA statutory provision which are then used to finance expenditure for HRA capital purposes or to voluntarily repay external debt.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Council, such as Pensions Reserve and Revaluation Reserve.

## **10 Retirement Benefits**

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

The liabilities of the Durham County Council pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method ie. 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 projected earnings for current employees.

The assets of the Durham County Council pension fund attributable to the Council are included in the balance sheet at their fair value:-

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

There has been a change in Accounting Policy from the 1<sup>st</sup> April 2008. SORP, quotes securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value as in previous years. The effect of this change is reflected in the notes to the core statements (Retirements Benefits).

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

#### Discretionary Benefits

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

### **11 Stocks and Work in Progress**

#### *Stocks*

Goods and materials are chargeable to revenue, however if not consumed in the year of account they are carried forward to be charged in the accounting period in which they are consumed. Stocks and stores are valued on the basis of the latest cost price. This is not in accordance with SSAP9 that requires valuation of stock at the lower of cost or net realisable value.

#### *Work in Progress*

Work in progress (if appropriate) is included within the stock items in the balance sheet and is subject to an interim valuation at the year-end. The interim valuation is recorded in the balance sheet at cost less any foreseeable loss.

### **12 Value Added Tax (VAT)**

Value Added Tax is included within the accounts only to the extent that it is irrecoverable and therefore charged to service expenditure or capital expenditure as appropriate.

### **13 Group Accounts**

It has been determined that group accounts are to be prepared by reference to the SORP definitions of subsidiaries, associates and joint ventures. The group accounts show the full picture of the authority's economic activities and financial position by combining the income and expenditure for the authority and East Durham Homes in accordance with proper practice.

### **14 Intangible Assets**

Intangible assets are assets that do not have a physical substance but are identifiable and controlled by the authority and have a life exceeding one year. The assets are capitalised at cost and are not revalued.

The capital cost of an intangible asset is written down over its economic life on a straight-line basis, to reflect the consumption each year. It has been deemed that the intangible assets on the authority's balance sheet have no residual value at the end of their useful life.

### **15 Tangible Fixed Assets**

#### *Recognition*

All expenditure on the acquisition, creation or enhancement of tangible fixed assets has been capitalised on an accruals basis, on the proviso that it yields benefits to the authority and the services it provides for a period of more than one year.

### *Measurement*

All assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement basis:-

Operational properties of a specialised nature are valued on the basis of what it would cost to reinstate the asset or to acquire a modern equivalent, adjusted to reflect the age, wear and tear and obsolescence of the asset.

Operational properties of a non-specialised nature are valued by reference to the open market value and on the assumption that they would continue in their existing use.

Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

Vehicles, plant and equipment are valued on net replacement cost, allowing for age, wear and tear and obsolescence.

Investment properties and assets surplus to requirements are valued at the lower of net current replacement cost or net realisable value.

In year capital spend on tangible fixed assets is reflected in the asset value at the year-end as determined by the Council's Asset and Property Manager.

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

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

### *Impairment*

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

- Where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account.
- Otherwise - written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

### *Disposals*

#### *Change in policy*

Prior to the 1<sup>st</sup> April, 2008 assets disposed of were revalued to match the capital receipt received, this policy has now been amended to reflect requirements of Financial reporting statement 21 which prohibits the revaluation of fixed assets on disposal. The 2007/08 statements have been amended to reflect this change.

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other

assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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

#### *Depreciation*

Depreciation is provided for on all assets with a determinable finite life, by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. All assets are depreciated on a straight-line basis over the life of the asset.

Grants and contributions received that are identifiable to a fixed asset are written down to revenue to offset the depreciation charge on that asset.

### **16 Charges to Revenue for Fixed Assets**

Service revenue accounts, 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 (write down) of intangible fixed assets attributable to the service.

The authority is not required to raise council tax to cover the above, however it is necessary to make an annual provision from revenue to contribute towards the reduction in the overall borrowing requirement. (Equal to either on amount calculated on a prudent basis determined by the authority in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

## **17 Financial Liabilities**

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

Gains and Losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However changes to regulations in 2007/08 state that where repurchase has taken place as part of restructuring of the loan portfolio that involves the modification or exchange of instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term of the replacement loan this will continue for those premium/discounts held on the balance sheet at 31<sup>st</sup> March, 2007.

## **18 Financial Assets**

Financial Assets are classified into two types :-

- I. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- II. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the investments the Council has made this means that the amount presented in the balance sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure is the amount receivable for the year in accordance with the agreement.

Available for Sale Assets are initially measured and carried at fair value. If an asset has fixed or determinable payments, annual credits would be made to the Income and Expenditure Account for interest receivable based on the amortised cost of the asset multiplied by the effective rate of interest. Where there is no fixed or determinable payments, income (e.g. dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council. The Council does not currently hold any available for Sale Assets.

Financial Assets must be considered both individually (if significant) and collectively for impairment and uncollectability. At each balance sheet date assessment is made as to whether there is objective evidence that any financial assistance or group of financial assets may be impaired.

## **19 Acquired Operations**

Any income or expenditure relating to acquired operations should be shown in the Income and Expenditure Account under the heading of acquired operations.

## **20 Discontinued Operations**

Income and expenditure directly related to discontinued operations should be shown separately on the face of the Income and Expenditure Account under the heading of discontinued operations. Any liabilities in respect of discontinued operations should be disclosed separately in the notes to the balance sheet. Due to Local Government

Reorganisation this Council ceased to exist from the 1<sup>st</sup> April 2009, from that date all operations have been carried out by the Unitary Council “ Durham County Council”. A note has been added to the Income and Expenditure Account Notes to highlight that all functions have been transferred to the new authority.

## **21 Events after the Balance Sheet Date**

Any material post balance sheet events, which provide evidence that those conditions existed at the balance sheet date, will be recognised in the Statement of Accounts.

Any material post balance sheet event, relating to conditions that did not exist at the balance sheet date are not to be adjusted in the accounts but are to be disclosed in a note to the accounts.

## **22 Exceptional Items, Extraordinary Items and Prior Year Adjustments**

- i) *Exceptional items* of income or expenditure are to be included in the costs of the service to which they relate, with an explanation provided within the notes to the accounting statements.
- ii) *Extraordinary items* are to be disclosed and described on the face of the Income and Expenditure Account and fully explained in the notes to the accounting statements.
- iii) *Prior year adjustments* would normally be corrections and adjustments arising from estimations in the accounting process and are to be accounted for as a normal in year transaction. Material adjustments arising from changes in accounting policies or the correction of fundamental errors are to be reflected by restating the comparative figures for the previous year and adjusting the opening balance of reserves. Such adjustments should be disclosed in the notes to the accounting statements.

## **23 Foreign Currency Translation**

Any transaction in a foreign currency is translated into £ sterling at the exchange rate in operation at the date on which the transaction occurred.

## **24 Research and Development**

Research and development costs are normally regarded as part of the continuing operations of local authorities and should be charged to revenue as it is incurred.

## **25 Changes in Accounting Policies**

From 2008/09 the SORP permits the presentation of the Cash flow in either of two formats, the direct method, showing gross cash flows, or the indirect method, whereby revenue cash flow is derived by adjusting the overall Income and Expenditure Account surplus or deficit to a cash basis.

In 2007/08 the direct method was used, from 2008/09 it has been decided that the indirect method will be used, the 2007/08 format has therefore been amended.

## **Estimation Techniques**

Estimation techniques may have to be used to arrive at an estimated monetary amount, an accounting policy will specify the basis on which an item is to be measured. Where there is uncertainty over the monetary amount then an estimation technique will be applied. Techniques, which have been used, are in the authority's view appropriate and consistently applied. Where the effect of a change to an estimation technique is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.



## 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 Easington District Council.

### Durham County Council's Responsibilities

The County Council is required to:-

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

### The Corporate Director Resources' Responsibilities

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

In preparing this Statement of Accounts the Corporate Director - Resources has:

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

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

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

### Certificate of Corporate Director - Resources

I certify that the Statement of Accounts presents fairly the financial position of the Easington District Council as at 31<sup>st</sup> March 2009 and their income and expenditure for the year ended 31<sup>st</sup> March 2009.

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

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### 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

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# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DURHAM COUNTY COUNCIL**

## **Opinion on the financial statements**

I have audited the Authority and Group accounting statements and related notes of District of Easington Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Durham County Council as successor to District of Easington Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## **Respective responsibilities of the Corporate Director Resources and auditor**

The Corporate Director Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

## **Basis of Audit Opinion**

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

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

## **Opinion**

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

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

### ***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 have arrangements in place to monitor the quality of its published performance information;
- the Authority did not have an internal audit function that operated in accordance with the CIPFA code of practice for internal audit in local government; and
- the Authority did not have arrangements in place to ensure that appropriate asset information, including an up-to-date asset register, is made available to the new unitary authority.

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, District of Easington 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;
- to maintain a sound system of internal control; and
- for the management of its asset base.

### **Certificate**

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

Cameron Waddell  
Officer of the Audit Commission  
Nickalls House  
GATESHEAD  
NE11 9NH

9 December 2009

## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2009

RESTATED Net Expenditure 2007/08 £'000		Notes	Gross Expenditure 2008/09 £'000	Gross Income 2008/09 £'000	Net Expenditure 2008/09 £'000
	<b>Discontinued Operations</b>	1			
285	Central services to the public		14,996	(11,766)	3,230
11,083	Cultural, environmental and planning services		23,104	(6,978)	16,126
2,203	Highways, road and transport services		3,708	(1,197)	2,511
(6,425)	Local authority housing (HRA)		31,054	(26,124)	4,930
1,133	Other housing services		30,803	(29,469)	1,334
2,110	Corporate and democratic core		2,317	(63)	2,254
978	Non distributed costs		2,703	0	2,703
11,367	<b>Net Cost of Services</b>		108,685	(75,597)	33,088
(8,038)	Loss (Gain) on the disposal of fixed assets				175
4,060	Parish/Town Council precepts				4,313
4,645	Interest payable and similar charges				4,595
4,724	Contribution of housing capital receipts to government pool				845
(1,675)	Interest and investment income				(1,417)
1,270	Pensions interest cost and expected return on pensions assets				3,030
16,353	<b>Net Operating Expenditure</b>				44,629
(8,720)	Demand on the collection fund				(9,274)
(12,011)	Central government grants	8			(19,284)
(4,378)	<b>(Surplus) Deficit for the Year</b>				16,071

The Income and Expenditure Account above brings together all of the functions of the authority and summarises all of the resources that the authority has generated, consumed or set aside in providing services in the year. However this accounting basis is currently out of line with the statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. It is necessary therefore to reconcile the Income and Expenditure Account with the amount required following statutory provisions, such transactions are stated below in the Statement of Movement on the General Fund Balance and subsequent reconciliation note.

### STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

RESTATED 2007/08 £'000		2008/09 £'000
(4,378)	(Surplus) Deficit for the year on the Income and Expenditure Account	16,071
4,573	Net Additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(15,615)
195	(Increase)/Decrease in General Fund Balance for the year	456
(4,159)	General Fund Balance brought forward	(3,964)
(3,964)	General Fund Balance carried forward	(3,508)

## Note of Reconciling Items for the Statement of Movement on the General Fund Balance

RESTATED 2007/08 £'000		Notes	2008/09 £'000	2008/09 £'000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>			
(192)	Amortisation of intangible fixed assets	20	(141)	
(1,640)	Depreciation and impairment of fixed assets		(20,390)	
190	Government Grants Deferred amortisation		1,709	
(697)	Revenue Expenditure charged to Capital Under Statute		(1,542)	
8,038	Net Gain/(loss) on sale of fixed assets		(175)	
142	Net Adjustment re Finance costs in accordance with SORP		(22)	
(4,470)	Net charge made for retirement benefits in accordance with FRS 17	32	(5,420)	
1,371				(25,981)
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>			
440	Minimum revenue provision for capital financing		422	
155	Capital expenditure charged in year to the General Fund Balance		1,170	
(4,724)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool		(845)	
3,819	Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to pensioners	32	3,791	
2,972	Transfers to/(from) Major Repairs Reserve		1,862	
2,662				6,400
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>			
88	Housing Revenue Account balance in year		(1,073)	
452	Net transfer to/(from) earmarked reserves		5,039	
540				3,966
4,573	Net additional amount (to)/from General Fund Balance			(15,615)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

RESTATED 2007/08 £'000		Notes	2008/09 £'000
(4,378)	(Surplus)/Deficit for the year on the Income and Expenditure Account		16,071
(81,676)	(Surplus)/Deficit arising on revaluation of fixed assets		(2,771)
(9,950)	Actuarial (Gains)/Losses on pension fund assets and liabilities	33	11,630
(69)	Collection fund balance (Easington only)		(158)
(96,073)	<b>Total recognised (Gains)/ Loss for the year</b>		24,772

Note. The surplus on revaluation of fixed assets for 2007/08 has been amended to reflect the requirements of SORP that no deathbed revaluations are allowed.

## BALANCE SHEET AS AT 31<sup>st</sup> MARCH 2009

RESTATED 31st March 2008 £'000		Notes	31st March 2009 £'000	31st March 2009 £'000
	<b>Fixed Assets</b>			
200	<b>Intangible Fixed Assets</b>	20		59
	<b>Tangible Fixed Assets</b>			
	Operational assets:			
278,721	Council dwellings and garages	13	250,257	
23,956	Other land and buildings	13	42,011	
2,101	Vehicles, plant, furniture and equipment	13	2,308	
19	Infrastructure assets	13	19	
1,915	Community assets	13	80	294,675
	Non-operational assets:			
3,404	Investment properties	13	1,951	
2,201	Surplus assets held for disposal	13	4,120	6,071
312,517	<b>Total Fixed Assets</b>			300,805
83	Long-term debtors			51
312,600	<b>TOTAL LONG-TERM ASSETS</b>			300,856
	<b>Current Assets</b>			
65	Stocks and work in progress		64	
10,748	Debtors	25	11,189	
21,648	Investments	37	17,565	
78	Cash		86	28,904
345,139	<b>Total Assets</b>			329,760
	<b>Current Liabilities</b>			
(851)	Short-term borrowing	38	(2,032)	
(11,094)	Creditors	25	(10,872)	
(2,474)	Bank overdraft		(243)	(13,147)
330,720	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			316,613
	<b>Long-Term Liabilities</b>			
(65,777)	Long-term borrowing	38	(63,983)	
(12,022)	Government grants deferred		(11,241)	
(41,000)	Liability related to defined benefit pension	34	(54,240)	(129,464)
211,921	<b>TOTAL ASSETS LESS LIABILITIES</b>			187,149
	<b>Financed by:-</b>			
80,550	Revaluation Reserve	24		70,154
152,014	Capital Adjustment Account	24		150,260
142	Financial Instruments Adjustment Account	24		104
1,986	Usable Capital Receipts Reserve	24		46
23	Deferred Capital Receipts	24		20
(41,000)	Pensions Reserve	24		(54,240)
11,248	Earmarked Reserves	24		15,218
3,964	General Fund Balance	24		3,508
160	Collection Fund Balance	24		318
2,834	Housing Revenue Account Balance	24		1,761
211,921	<b>TOTAL NET WORTH</b>	21		187,149

## CASH FLOW STATEMENT 2008/09

RESTATED 2007/08 £'000		2008/09 £'000	2008/09 £'000
3,620	<b>Net Revenue Activities</b>		(5,421)
	<b><u>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</u></b>		
	<b><u>Cash Inflows</u></b>		
(1,679)	Interest received	(1,593)	
	<b><u>Cash Inflows</u></b>		
7,116	Interest paid	4,585	
5,437	<b>Net Cash Inflow/(Outflow)- Servicing of Finance</b>		2,992
	<b><u>CAPITAL ACTIVITIES</u></b>		
	<b><u>Cash Outflows</u></b>		
16,535	Purchase of Fixed Assets		15,537
	<b><u>Cash Inflows</u></b>		
(11,638)	Sale of fixed assets	(2,582)	
(7,224)	Capital Grants Received	(9,088)	
(114)	Other Capital Cash Receipts	(77)	(11,747)
(2,441)	<b>Net Capital Activities</b>		3,790
6,616	<b>Net Cash (Inflow)/ Outflow before financing</b>		1,361
	<b><u>Management of Liquid Resources</u></b>		
(4,990)	Net Increase /(decrease) in short term deposits		(4,283)
(4,990)	Net increase/(decrease) in deposits		(4,283)
	<b><u>FINANCING</u></b>		
	<b><u>Cash Outflows</u></b>		
2,988	Repayments of Amounts Borrowed	773	
	<b><u>Cash Inflows</u></b>		
(3,000)	New Loans Raised	0	
30	New Short Term Loan	(90)	
18	<b>Net (Increase)/ Decrease in Long Term Debt</b>		683
1,644	<b>Decrease /(Increase) in Cash &amp; Cash Equivalents</b>		(2,239)

(See Notes 39 – 43)



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Discontinued Operations

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

## 2. Redundancy and Compensation Costs

Due to the creation of the Unitary Authority there have been a number of early retirements/voluntary redundancies at the 31<sup>st</sup> March 2009. The amount included within net cost of services for redundancy and compensation costs is £151,700 a further £50,700 has been deferred into 2009/10. In addition the annual capitalised cost of reimbursing the pension fund for early retirements and additional liabilities over the next five years is £157,500 and £107,000 respectively. No provision has been made for these costs.

## 3. Section 137 of the 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 service in the United Kingdom and mayoral appeals. The Council's expenditure under this power was £45,000 on donations to voluntary bodies working in the area (£30,000 in 2007/2008).

## 4. Expenditure on Publicity

Under Section 5 of the Local Government Act, 1986 all local authorities must keep a separate account of expenditure on publicity.

The detailed breakdown is as follows: -

2007/08 £'000		2008/09 £'000
205	Communications and Marketing Section	191
55	Appointments	8
115	Informative Documentation	95
14	Economic Development	17
36	Other	0
3	Sport & Recreation	14
7	Property Advertising	2
435		327

## 5. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. The authority provided Payroll Services and Internal Audit Services for some Town/Parish Councils during the year. Income from these services amounted to £26,812 compared to £28,293 in 2007/08.

## 6. 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. The fees are set to ensure that income over a three-year period shall not be less than the direct and indirect costs attributable to the building control chargeable activities. However certain activities performed by this Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between chargeable and non-chargeable activities.

2007/08 Chargeable £	2007/08 Non Chargeable £	2007/08 Total £		2008/09 Chargeable £	2008/09 Non Chargeable £	2008/09 Total £
			<b>Expenditure</b>			
191,547	76,064	267,611	Employees	174,667	71,626	246,293
6,789	0	6,789	Supplies and Services	2,397	0	2,397
13,068	4,388	17,456	Transport	13,065	4,598	17,663
36,878	1,165	38,043	Central Support Services	39,459	1,136	40,595
63,710	26,758	90,468	Service Unit On cost	67,448	29,302	96,750
311,992	108,375	420,367	Total Expenditure	297,036	106,662	403,698
			<b>Income</b>			
(259,037)	0	(259,037)	Building Regulation Charges	(192,811)		(192,811)
0	(7,000)	(7,000)	Miscellaneous Income	0	(7,250)	(7,250)
(259,037)	(7,000)	(266,037)	Total Income	(192,811)	(7,250)	(200,061)
52,955	101,375	154,330	<b>(Surplus)Deficit for the year</b>	104,225	99,412	203,637

## 7. Partnerships

### a. E Government Partnership

The County Durham E-Government Partnership was established in November 2003. The partnership includes Durham County Council and the seven District Councils (Wear Valley, Easington, City of Durham, Sedgefield, Derwentside, Teesdale and Chester-le-Street) within the boundaries of 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 member authorities in different ways. In 2008/09 District of Easington made a contribution of £56,861 to the partnership. The equivalent contribution in 2007/08 was £80,602. The partnership balance sheet shows retained income to be carried forward of £307,000, compared to £663,000 in 2007/08.

### b. Durham County Coalfields Housing Renewals Partnership

The Durham County Coalfields Housing Renewals partnership was established in November 2006. The partnership is made up of the seven district Councils within the boundaries of County Durham (Wear Valley, Easington, City of Durham, Sedgefield, Derwentside, Teesdale and Chester-le-Street). The partnership was established as a vehicle to intervene in local housing markets suffering a market decline. The partnership aims to reverse this failure in coalfield areas through a programme of strategic housing investment generated through capital receipts from land sales, and supported through additional funding from English Partnerships National Coalfield Programme. In 2008/09 District of Easington made a contribution of £66,287 to the partnership. The equivalent contribution in 2007/08 was £17,145. The partnership balance sheet shows £169,130 retained income to be carried forward compared to £117,303 in 2007/08.

## 8. Government Grants

Government grants (not attributable to specific services) received in year is as follows:-

Description of Grant	2007/08 £'000	2008/09 £'000
Revenue Support Grant	1,726	1,489
Redistributed Non Domestic Rates	10,285	10,693
Area Based Grants	0	7,102
<b>Total Government Grants</b>	<b>12,011</b>	<b>19,284</b>

From 2008/09 Area Based Grants are required to be shown as a central grant not attributable to specific services, in 2007/08 such grants appeared within net cost of service.

## 9. Members Allowances

The Local Authorities (Members Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and to the maximum amounts payable in respect of certain allowances. There is also a requirement to publicise the scheme and to disclose annually amounts paid to each member. The total value of member allowances paid in 2008/09 was £424,000 compared to £428,000 in 2007/08. Further information is available from the Councils Democratic Services Unit if required.

## 10. Officers' Emoluments

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

Remuneration Band	2007/08 Number of Employees	2008/09 Number of Employees	Left In Year
£50,000 - £59,999	2	8	0
£60,000 - £69,999	2	3	0
£70,000 - £79,999	1	0	0
£80,000 - £89,999	1	0	0
£110,000 - £119,999	0	1	1
£130,000 - £139,999	0	1	1

## 11. Related Parties 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 parties ability to bargain freely with the Council.

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

Members of the Council have direct control over the Council's financial and operating policies. Several members disclosed that they were associated with a range of local bodies and groups, such as Parish/Town Councils, Community/Voluntary Associations, where it has been viewed that transactions with the above bodied groups are not material.

Officers of the Council specifically relate to the Chief Executive, Directors, Assistant Chief Executive and Heads of Service who are represented on the Council's Management Team and Corporate Support Team. No material related party transactions were reported. This disclosure also covers Council Members and Officers close family and household.

## 12. Audit Costs

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

	2007/08 £'000	2008/09 £'000
Fees payable to the Audit Commission: -		
External audit services	141	144
Statutory inspections	0	0
Grant claims and returns	24	18
Other Services	2	1
	167	163

## 13. Summary of Capital Expenditure and Fixed Asset Disposals

### a. Movement on Fixed Assets

	OPERATIONAL					
	Council Dwellings & Garages £'000	Other Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	TOTAL £'000
<b>Cost of Valuation</b>						
1 <sup>st</sup> April 2008	279,913	25,986	2,546	20	2,522	310,987
Additions /Enhancements	8,962	1,825	385	0	70	11,242
Disposals	(866)	(667)	(49)	0	(162)	(1,744)
Reclassifications	0	6,033	0	0	(5,126)	907
Revaluations	(37,651)	9,901	0	0	2,819	(24,931)
At 31 <sup>st</sup> March 09	250,358	43,078	2,882	20	123	296,461
<b>Depreciation and Impairment</b>						
1 <sup>st</sup> April 2008	(1,192)	(2,030)	(445)	(1)	(607)	(4,275)
Charge for 08/09	(37,144)	(18,159)	(174)	0	(147)	(55,624)
Disposals	8	222	46	0	74	350
Reclassifications	0	(30)	0	0	0	(30)
Revaluations	38,227	18,929	0	0	636	57,792
At 31 <sup>st</sup> March 09	(101)	(1,068)	(573)	(1)	(44)	(1,787)
<b>Balance Sheet as at 31<sup>st</sup> March 09</b>	250,257	42,010	2,309	19	79	294,674
<b>Balance Sheet as at 1<sup>st</sup> April 08</b>	278,721	23,956	2,101	19	1,915	306,712
<b>Nature of Asset Holding</b>						
Owned	250,257	42,010	2,309	19	79	294,674
Finance Lease	0	0	0	0	0	0
PFI	0	0	0	0	0	0
	250,257	42,010	2,309	19	79	294,674

	NON OPERATIONAL		
	SURPLUS FOR DISPOSAL £'000	INVESTMENT PROPERTIES £'000	TOTAL £'000
<b>Cost of Valuation</b>			
1 <sup>st</sup> April 2008	2,201	3,404	5,605
Additions/Enhancements	24	159	183
Disposals	(461)	(208)	(669)
Reclassifications	594	(1,501)	(907)
Revaluations	1,762	99	1,861
At 31 <sup>st</sup> March 09	4,120	1,953	6,073
<b>Depreciation and Impairment</b>			
1 <sup>st</sup> April 2008	0	0	0
Charge for 08/09	(3,359)	(596)	(3,955)
Disposals	23	156	179
Reclassifications	0	30	30
Revaluations	3,336	408	3,744
At 31 <sup>st</sup> March 09	0	(2)	(2)
<b>Balance Sheet as at 31<sup>st</sup> March 09</b>	4,120	1,951	6,071
<b>Balance Sheet as at 1<sup>st</sup> April 08</b>	2,201	3,404	5,605
<b>Nature of Asset Holding</b>			
Owned	4,120	1,951	6,071
Finance Lease	0	0	0
PFI	0	0	0
	4,120	1,951	6,071

## b. Capital Expenditure and Financing

The table below shows the capital expenditure incurred during the year and how this was financed:-

	<b>31<sup>st</sup> March 2008 £'000</b>	<b>31<sup>st</sup> March 2009 £'000</b>
<b>Opening Capital Finance Requirement</b>	67,370	67,930
Capital Investment		
Operational Assets	11,879	11,243
Non Operational Assets	220	182
Intangible Assets	42	0
REFCUS	3,525	4,186
<b>Sources of Finance</b>		
Capital Receipts	(5,798)	(2,742)
Government Grants and other Contributions	(8,868)	(8,989)
Revenue Provision	(440)	(2,661)
<b>Closing Capital Finance Requirement</b>	67,930	69,149
<b>Movement in Year</b>	(560)	(1,219)

<b>Explanation of Movements in Year</b>		
Increase in underlying need to borrow (net of * MRP) (supported by government financial assistance)	(560)	(1,219)
<b>Movement in Year</b>	(560)	(1,219)

\* Minimum Reserve Provision (4% of General Fund Capital Financing requirement at start of year)

## 14. Commitments under Capital Contracts

As at 31<sup>st</sup> March 2009 the Council had commitments in place in respect of 6 schemes valued at £379,000.

## 15. Information on Assets

The number of major assets held by the Council is: -

	<b>31<sup>st</sup> March 2008</b>	<b>31<sup>st</sup> March 2009</b>
Council Dwellings	8,634	8,563
Leisure Centres	2	2
Community Centres	7	7
Warden Controlled Complexes	32	31
Major Depots	1	1
Open Spaces Hectares	471	471
Allotment Plots	408	408

## 16. Disclosures in Relation to Operating Leases

Vehicles, Plant, Furniture and Equipment - the authority uses operating leases for all its vehicle fleet requirements. The amount paid (and charged to Income and Expenditure Account) in 2008/09 was £715,000 compared to £678,000 in 2007/08.

Commitments under Operating Leases – the authority was committed at 31<sup>st</sup> March 2009 to making payments of £603,000 under operating leases in 2009/10 for its vehicle fleet requirements.

	<b>Vehicles &amp; Equipment £'000</b>
Lease Rentals payable in 2009/10	603
Lease Rentals payable in 2010/11 to 2013/14	594
Lease Rentals payable after 2013/2014	0
	<b>1,197</b>

Land and Buildings – the authority leases accommodation at Meridian Court and Peterlee Town Centre, both offices are in turn subleased to East Durham Homes.

The rentals and service charges payable by the Council in 2008/09 were £200,250 compared to £205,630 in 2007/08 subsequently reimbursed by East Durham Homes.

Authority as Lessor – with regard to the authority's activity as a lessor the gross value of assets held for use in operating leases was £11.078m valued at 31<sup>st</sup> March 2009, (£10.919m in 2007/08) and subject to £2.385m depreciation for the period (£1.527m in 2007/08). Rentals receivable in respect of these leases is £190,000 (£83,000 in 2007/08) although rentals are yet to be confirmed on four assets with gross value of £9.5m.

	<b>Other Land and Buildings</b>	
	<b>Gross Value £'000</b>	<b>Depreciation £'000</b>
Leases expiring in 2009/10	2,147	364
Leases expiring in 2010/11 to 2013/14	8,659	2,021
Leases expiring after 2013/2014	272	0
	<b>11,078</b>	<b>2,385</b>

## 17. Disclosures in Relation to Finance Leases

The Council does not have any commitments in respect of finance leases.

## 18. Valuations of Fixed Assets Carried at Current Value

The following statement outlines the progress in relation to the Council's rolling programme for the revaluation of fixed assets. The Housing valuations were carried out by the District Valuer, Mr S Baister, the General Fund valuations were carried by Mr M Gilbey of Durham County Council both are members of the Royal Institution of Chartered Surveyors.

The basis of valuation is set out in the statement of accounting policies.

	<b>Council Dwellings &amp; Garages £'000</b>	<b>Other Land and Buildings £'000</b>	<b>Vehicles, Plant &amp; Equipment £'000</b>	<b>Investment Properties £'000</b>	<b>TOTAL £'000</b>
Value at Historical Cost	0	0	0	0	0
Valued at current valuation (GROSS)					
2008/09	245,249	40,765	384	5,163	291,561
2007/08	0	167	195	0	362
2006/07	0	0	257	841	1,098
2005/06	0	1,500	207	0	1,707
To Be Revalued	5,109	646	1,839	100	7,694

## 19. Information on Depreciation Methodologies

- All assets are depreciated on a straight-line basis over the estimated life of the asset.
- The useful life of the assets in most cases is 99 years.
- The total depreciation charge in year was £4,300,450 compared to £2,477,426 in 2007/08.
- The historical cost (or re-valued amount) of assets at the 1<sup>st</sup> April 2008 was £317m and at the 31<sup>st</sup> March 2009 was £302m.
- The cumulative amount of provisions for depreciation and impairment at the 1<sup>st</sup> April 2008 was £4,304,763 and the 31<sup>st</sup> March 2009 was £1,819,246.
- The net carrying amount at the 1<sup>st</sup> April 2008 was £312m and at the 31<sup>st</sup> March 2009 was £301m.
- A reconciliation of the movements in depreciation and impairment are as follows:-

<b>Depreciation Operational</b>	<b>Council Dwellings &amp; Garages</b> £'000	<b>Other Land &amp; Buildings</b> £'000	<b>Vehicles Plant &amp; Equipment</b> £'000	<b>Infra-structure</b> £'000	<b>Community Assets</b> £'000	<b>Total</b> £'000
1 <sup>st</sup> April 2008 Depreciation	0	(2,030)	(431)	(1)	(607)	(3,069)
Depreciation 08/09	(2,804)	(1,319)	(174)	0	(1)	(4,298)
Depreciation (Revaluations)	2,750	3,273	0	0	591	6,614
Depreciation (Disposals)	3	21	43	0	14	81
Depreciation (Reclassifications)	0	(30)	0	0	0	(30)
At 31 <sup>st</sup> March 2009	(51)	(85)	(562)	(1)	(3)	(702)

<b>Depreciation Non Operational</b>	<b>Non Operational Surplus for Disposal</b> £'000	<b>Non Operational Investment Properties</b> £'000	<b>Total</b> £'000
1 <sup>st</sup> April 2008 Depreciation	0	(30)	(30)
Depreciation 08/09	0	(1)	(1)
Depreciation (Reclassifications)	0	30	30
Revaluations	0	0	0
At 31 <sup>st</sup> March 2009	0	(1)	(1)

<b>Impairment Operational</b>	<b>Council Dwellings &amp; Garages</b> £'000	<b>Other Land &amp; Buildings</b> £'000	<b>Vehicles Plant &amp; Equipment</b> £'000	<b>Infra-structure</b> £'000	<b>Community Assets</b> £'000	<b>Total</b> £'000
1 <sup>st</sup> April 2008 Impairment	(1,192)	0	(14)	0	0	(1,206)
Impairment 08/09	(34,340)	(16,840)	0	0	(146)	(51,326)
Impairment (Revaluations)	35,477	15,626	0	0	45	51,148
Impairment (Reclassifications)	0	30	0	0	0	30
Impairment (Disposals)	5	201	3	0	60	269
At 31 <sup>st</sup> March 2009	(50)	(983)	(11)	0	(41)	(1,085)

<b>Impairment Non Operational</b>	<b>Non Operational Surplus for Disposal</b> £'000	<b>Non Operational Investment Properties</b> £'000	<b>Total</b> £'000
1 <sup>st</sup> April 2008 Impairment	0	0	0
Impairment 08/09	(3,359)	(595)	(3,954)
Impairment (Revaluations)	3,336	408	3,744
Impairment (Disposals)	23	156	179
At 31 <sup>st</sup> March 2009	0	(31)	(31)

## 20. Movement in Intangible Assets

An intangible asset is expenditure on an item, which “does not have a physical substance but is identifiable and is controlled by the Council through custody or legal rights”.

	<b>Purchased Software Licences £'000</b>
Original Cost	964
Amortisation's to 1 <sup>st</sup> April, 2008	(764)
<b>Balance at 1<sup>st</sup> April, 2008</b>	<b>200</b>
Expenditure in year (net of grant)	0
Written off to revenue in year	(141)
<b>Balance at 31<sup>st</sup> March, 2009</b>	<b>59</b>

Software Licences held for the Housing Benefit and Housing Management Systems are being written off over the five-year life of the licences, expenditure in 07/08 was for licences for the Customer Services Centre amortised over two years. There was no new expenditure on intangible assets in 2008/09.

## 21. Analysis of Net Assets Employed

<b>RESTATED 31<sup>st</sup> March 2008</b>		<b>31<sup>st</sup> March 2009</b>
(15,289)	General Fund	(22,275)
227,210	Housing Revenue Account	209,424
<b>211,921</b>		<b>187,149</b>

This table shows the net assets of the Council split between the Housing Revenue Account and the General Fund and can be used to identify how the resources are distributed amongst the local population.

## 22. Interest in Companies

East Durham Homes was created as an Arms Length Management Organisation in April 2004 to carry out the housing management and maintenance functions on behalf of the authority. The Board of East Durham Homes has a total of 15 members of which 5 are also members of the District of Easington. The net liability of the company at 31<sup>st</sup> March 2009 is £13,328,694 compared with £6,757,227 in 2007/08. This includes the pension liability of £13,970,000 compared to £7,180,000 in 2007/08.

The Council has agreed to act as guarantor with regard to the pension scheme deficit (currently £13.97m) transferred to East Durham Homes on the 1<sup>st</sup> April 2004, for the life time of the current management agreement which is until 31<sup>st</sup> March 2014.

The Company's profit (loss) for the period was as follows: -

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
180	(Deficit)/Surplus on Ordinary Activities	(1,082)
(21)	Taxation	(9)
159	<b>Retained (Deficit) Surplus for year</b>	<b>(1,091)</b>
5,480	Actuarial Gain(Loss) on Pension Scheme	(5,480)
<b>5,639</b>	<b>Total (Deficit)/Surplus for year</b>	<b>(6,571)</b>

The Accounts of East Durham Homes have been incorporated within the group accounts section of this Statement of Accounts.



### 23. Insurance Reserve

The authority established an insurance reserve in 1992, to fund the first £145,000 of each claim up to a £500,000 annual cap. From 2006/07 in line with the SORP, services are now charged directly for any settled claims in year, together with a share of the external premium. Balances are debited or credited to the reserve as required.

2007/08			2008/09	
HRA £'000	General Fund £'000		HRA £'000	General Fund £'000
159	337	External Premium Payable	71	168
38	198	Settled Claims in Year	61	150
(180)	(507)	Revenue Budget Provision	(206)	(171)
17	28	Difference (to)HRA/from Reserve	(74)	147

### 24. Movement on Reserves

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

Reserve	Balance 1 <sup>st</sup> April 2008 £'000	Net Movement In Year £'000	Balance 31 <sup>st</sup> March 2009 £'000	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	80,550	(10,396)	70,154	Store of gains on revaluation of fixed assets not yet realised through sales	(a) below
Capital Adjustment Account	152,014	(1,754)	150,260	Store of capital resources set aside to meet past expenditure	(b) below
Financial Instruments Adjustment Account	142	(38)	104	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.	(c) below
Usable Capital Receipts	1,986	(1,940)	46	Proceeds of fixed asset sales available to meet future capital investment	(d) below
Pension Reserve (RESTATED)	(41,000)	(13,240)	(54,240)	Balancing account to allow inclusion of Pension Liability in the Balance Sheet	Note 34 to the Core Financial Statements Page 39
Housing Revenue Account	2,834	(1,073)	1,761	Resources available to meet future running costs for Council Housing	HRA Statements Page 51
Major Repairs Reserve	0	0	0	Resources available to meet capital investment in Housing	HRA Statements Page 53
General Fund	3,964	(456)	3,508	Resources available to meet future running costs for non-housing services	Statement of Movement on General Fund Balance Page 21
Deferred Credits	23	(3)	20	Resources still to be received from deferred payments in respect of Council Housing	(e) below
Other Reserves	11,248	3,970	15,218	Resources available to meet future spending plans	(f) below
Collection Fund	160	158	318	Resources available to supplement General Fund spend in following year	Collection Fund Statements Pages 56-60
	211,921	24,772	187,149		

a. Movement on the Revaluation Reserves

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
0	Opening Balance	80,550
81,742	Revaluation increase in Year	39,000
0	Disposals in Year	(2,196)
(1,192)	Impairment (Including downward valuations) in Year	(47,200)
80,550	Closing Balance	70,154

b. Movement on Capital Adjustment Account

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
148,164	Opening Balance	152,014
5,798	Usable Receipts Applied	2,742
155	Revenue Contributions to Capital Expenditure	1,170
58	Use of Reserves to Fund Capital Spend	1,070
5,015	Major Repairs Allowance	5,415
(697)	Revenue Expenditure Funded from Capital under Statute	(1,541)
190	Government Grant Amortised	1,710
(427)	General Fund Depreciation	(747)
440	Minimum Revenue Provision	422
(192)	Amortisation of Intangible Assets	(141)
(2,043)	Housing Revenue Depreciation	(3,553)
0	Impairment	(2,958)
0	Revaluations	(4,982)
(4,447)	Cost of Assets Disposed (net of Historic Cost)	(361)
152,014	Closing Balance	150,260

c. Financial Instruments Adjustment Account

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
0	Opening Balance	142
0	Transfer from Financial Liabilities	(22)
342	Overhanging PWLB Discount	(75)
(200)	Overhanging PWLB Premia	59
142	Closing Balance	104

d. Movement on Usable Capital Receipts

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
86	Opening Balance	1,986
12,709	Amounts Receivable Gross	1,664
(4,724)	Payments to DCLG Pool	(845)
(287)	Costs offset against receipts	(17)
(5,798)	Applied to New Investment	(2,742)
1,986	Closing Balance	46

e. Movement of Deferred Credits

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
37	Opening Balance	23
(14)	Amounts Received in Year	(3)
23	Closing Balance	20

f. Movement on Other Reserves

2007/08 £'000		2008/09 £'000
10,854	Opening Balance	11,248
2,328	Amounts Received in Year*	8,841
(1,934)	Amounts Used in Year *	(4,871)
11,248	Closing Balance	15,218

\*Includes £2,080,000 transfers between reserves

Further Analysis of Reserves

Reserve Description	Opening Balance £'000	Received In Year £'000	Used In Year £'000	Closing Balance £'000
Insurance Reserve	1,933	0	(147)	1,786
Support Services	315	55	(330)	40
General Housing Subsidy	300	0	(274)	26
Benefits General	107	0	(107)	0
Building Control	27	0	(27)	0
Planning	842	0	(395)	447
Social Inclusion	16	0	(13)	3
Communications	39	0	(39)	0
Area Based Grants	0	5,910	0	5,910
Lottery	36	0	(13)	23
East Shore Village	0	330	0	330
Dowry	572	0	(47)	525
Repayment of After Values	262	0	0	262
Regeneration Reserve	2,714	2,416	(379)	4,751
Management of Change	1,500	0	(1,500)	0
Use of Reserves	873	0	(688)	185
Earmarked for Capital	264	0	(264)	0
Staffing Reserve	813	0	(236)	577
East Durham Business Service Reserve	400	0	(177)	223
Housing Strategy Reserve	235	0	(235)	0
Capital Schemes	0	130	0	130
	11,248	8,841	(4,871)	15,218

**Description and Reasons for Reserves**

**The Insurance Reserve** was established in 1992 and is used to fund the first £145,000 of each claim up to a £500,000 annual cap. A further £125,000 is held by the Council's external insurance broker to administer claims handling on behalf of the Council.

**The Support Services Reserve** arises following the introduction of internal recharges and Service Level Agreements between Central Support Services and Direct Service Departments. Any profits or losses are allocated to this account as necessary.

**The General Housing Subsidy Reserve** (HRA) is available for repayment of DCLG grant.

**The Benefit General Reserve** was established to ensure sufficient funds are available if the DWP request reimbursement for grants previously received from them, and also to finance the new initiatives currently being implemented within the benefits regime. This has now been transferred in full back to the general fund.

**The Building Control Reserve** has been established from surplus income received in 2003/04 which was required to fund a replacement IT system and an additional staffing placement. This has now been fully utilised.

**The Planning Grant Reserve** has been established from the Government grants paid since 2003/04. The grant is being utilised to fund improvements to the service over the coming years.

**The Social Inclusion Reserve** has been established to address initiatives in respect of the elderly and young people and to resource the officer support.

**The Communications Reserve** was established to fund areas identified within the communications strategy. There were a number of national and local initiatives to be communicated to the public. This has now been fully utilised.

**The Area Based Grant Reserve** has been established from the balance of Area Based Grants received from the Government in 2008/09, these funds are required in order to meet a programme of works as identified by the Local Area Agreement Board.

**The Lottery Reserve** is the balance of monies remaining unallocated from the defunct local lottery, and is available to fund leisure activities.

**The East Shore Village Reserve** has been established from funds received from the Housing Developer, who has contributed funds to the Council to carry out the maintenance of open space areas over the coming years.

**The Dowry Account** is a reserve received from One North East and is to be used towards maintenance works of the Hawthorn Coke work site, this began in April 2008 for a 10-year period.

**The Repayment of After Values** is a reserve set aside to meet possible repayment of grant in relation to Derelict Land (reclamation schemes).

**The Regeneration Reserve** has been established from the Local Authority Business Growth Incentive grant and is to be used to sustain and support future regeneration within the District.

**The Management of Change Reserve** has been established to support the general fund budget over the medium term in anticipation of severe financial risks emerging from the Comprehensive Spending Review 2007, the Efficiency Agenda for 2008 and other service pressures. This has now been transferred to the Regeneration Reserve.

**The Use of Reserves** has been established to set aside resources to cover the programme of initiatives agreed by Members in November 2005 whereby an additional £1.5m of reserves was released to achieve service improvements, increased capacity and efficiencies over a 3-year programme.

**The Capital Reserve** was established from monies for the sale of the industrial portfolio, which was previously included within the main General Fund balance. This reserve has now been fully utilised.

**The Staffing Reserve** has been established to ensure that persons employed on a fixed term contract are provided for following the transfer of District Council functions to the new Unitary Authority.

**The East Durham Business Service Reserve** has been established to provide support for the Business Service for the next 3 years, to sustain the service in the medium term.

**The Housing Strategy Reserve** was established to provide for the carrying out of a number of Housing Strategic related projects. This has been transferred back to the general fund as it is no longer required.

**The Capital Schemes Reserve** has been established to complete the Apollo Pavilion project and to provide a Council contribution towards the overall play strategy for the area.

## 25. Debtors and Creditors

The net amount due is analysed as follows:-

31 <sup>st</sup> March 2008 Gross £'000	31 <sup>st</sup> March 2008 Bad Debt Provision £'000	31 <sup>st</sup> March 2008 Net £'000		31 <sup>st</sup> March 2009 Gross £'000	31 <sup>st</sup> March 2009 Bad Debt Provision £'000	31 <sup>st</sup> March 2009 Net £'000
			<b>Debtors</b>			
2,981	0	2,981	Government Departments	3,483	0	3,483
2,582	0	2,582	Other Local Authorities	1,086	0	1,086
4,243	(2,823)	1,420	Taxpayers	4,210	(1,619)	2,591
1,718	(1,060)	658	Housing Rents	1,595	(995)	600
3,714	(607)	3,107	Other Debtors	3,927	(498)	3,429
15,238	(4,490)	10,748		14,301	(3,112)	11,189

31 <sup>st</sup> March 2008 Gross £'000	31 <sup>st</sup> March 2008 Bad Debt Provision £'000	31 <sup>st</sup> March 2008 Net £'000		31 <sup>st</sup> March 2009 Gross £'000	31 <sup>st</sup> March 2009 Bad Debt Provision £'000	31 <sup>st</sup> March 2009 Net £'000
			<b>Creditors</b>			
(3,199)	0	(3,199)	Government Departments	(2,732)	0	(2,732)
(1,424)	0	(1,424)	Other Local Authorities	(2,266)	0	(2,266)
(1,701)	0	(1,701)	Taxpayers	(1,396)	0	(1,396)
(4,725)	0	(4,725)	Other Creditors	(4,478)	0	(4,478)
(45)	0	(45)	Public Works Loan Board	0	0	0
(11,094)	0	(11,094)		(10,872)	0	(10,872)
4,144	(4,490)	(346)	Amount (owed to) due from related parties	3,429	(3,112)	317

At the end of March 2009 the district council, along with the other districts within County Durham ceased to exist, Council tax collection became the responsibility of the new Unitary Council, it was agreed that a flat rate provision for bad debts would apply to all the former districts, this flat rate resulted in a provision of £940,000 in 2008/09 as opposed to the previous calculation method of £1,950,000.

## 26. Contingent Liabilities

- During 1992 the Council's former insurers, Municipal Mutual Insurance ceased accepting new business. The Council has a number of claims outstanding estimated at £183,000 (2007/08 £199,000) and arrangements are in place to try to ensure an orderly settlement of sums due. In addition there is an arrangement in place which may be called upon whereby an additional payment of £1,024,619 (2007/08 £973,270) may be payable by the authority. These amounts are provided for within the insurance reserve.
- The Council has entered into an agreement (reviewed annually) for the Castle Eden Dene Partnership, this agreement includes a clause that we will contribute not more than 8.85% of any redundancy costs or any unforeseen claims or costs. Whilst the financial liability is difficult to precisely quantify it is considered to be within the Councils risk appetite. Durham County Council is also an existing partner in this agreement and as a consequence of Local Government Reorganisation this contingent liability automatically transfers to the new Unitary Authority.
- The Council has agreed to act as guarantor with regard to the pension scheme deficit transferred to East Durham Homes on the 1<sup>st</sup> April 2004, currently standing at £13.97m, for the lifetime of the current management agreement which is until 31<sup>st</sup> March 2014.

## 27. Contingent Asset

A claim was submitted on behalf of the Council by PricewaterhouseCoopers during 2008/09 to HMRC for VAT charged on certain leisure income during the period 1989 to 1997. During this period VAT was charged based upon UK VAT law, however, this was incompatible with EU legislation at the time. The claim amounts to £257,000 with an addition claim of £177,000 for interest, both net of fees payable.

## 28. Authorisation of the Accounts for Issue

The Statement of Accounts was authorised for issue on the 9<sup>th</sup> December 2009 the Corporate Director - Resources Mr S Crowe.

## 29. Events after the Balance Sheet Date

No events have taken place since the 31<sup>st</sup> March 2009, which would have an effect on the balance sheet as stated.

## 30. Change in Accounting Policy

From 2008/09 it is no longer acceptable to carryout deathbed revaluations of assets on disposal, a prior year adjustment has been carried out in the 2007/08 accounts resulting in a change to the loss/gain on sale of asset, from a loss of £18,000 to a gain of £8,038,000.

## 31. Information about retirement benefits

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

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

## 32. Transactions Relating to Retirement Benefits

We recognise the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance:-

	RESTATED 2007/08 £'000	2008/09 £'000
<b>Income and Expenditure Account</b>		
<b>Net Cost of Services</b>		
Current Service Cost	2,480	1,670
Past Service Cost	720	720
<b>Net Operating Expenditure</b>		
Unfunded Liabilities - Interest Cost	400	490
Funded Liabilities - Interest Cost	5,870	6,960
Expected Return on Assets	(5,000)	(4,420)
<b>Net Charge to the Income and Expenditure Account</b>	<b>4,470</b>	<b>5,420</b>
<b>Statement of Movement in the General Fund Balance</b>		
Reversal of net charge made for retirement benefits in accordance with FRS 17	(4,470)	(5,420)
Actual amount charged against the General Fund for pensions in the year		
Employers contributions payable to the reserve	3,819	3,791

In addition to the recognised gains and losses in the Income and Expenditure Account, actuarial gains and (losses) of (£11.63m) (£9.95m 2007/08 Restated) were included in the Statement of Total Recognised Gains and Losses.

### 33. Assets and Liabilities in relation to Retirement Benefits

#### a. Reconciliation of present value of scheme liabilities

	Funded Liabilities		Unfunded Liabilities	
	2007/08 £'m	2008/09 £'m	2007/08 £'m	2008/09 £'m
1 <sup>st</sup> April	111.59	103.06	7.77	7.40
Current Service Cost	2.48	1.67	0.00	0.00
Interest Cost	5.87	6.96	0.40	0.49
Contributions by scheme participants	0.72	0.78	0.00	0.00
Actuarial Gains and Losses*	(13.41)	(2.72)	(0.30)	(0.25)
Net Benefits paid out**	(4.91)	(4.74)	(0.47)	(0.48)
Past Service Cost	0.72	0.72	0.00	0.00
31 <sup>st</sup> March	103.06	105.73	7.40	7.16

\* includes changes to the actuarial assumptions.

\*\* consists of net cash flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums of £0.49m for the period ending 31<sup>st</sup> March 09.

#### b. Reconciliation of present value of scheme assets

	Assets	
	RESTATED 2007/08 £m	2008/09 £m
1 <sup>st</sup> April	69.07	69.46
Funded Expected rate of Return	5.00	4.42
Actuarial Gains and losses	(3.76)	(14.60)
Employer Contributions	3.34	3.33
Contributions by scheme participants	0.72	0.78
Net Benefits paid out *	(4.91)	(4.74)
31 <sup>st</sup> March	69.46	58.65

\* consists of net cash flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums of £0.49m for the period ending 31<sup>st</sup> March 09.

### 34. Scheme History

	2004/05 * £m	2005/06 * £m	RESTATED 2006/07 AS £m	RESTATED 2007/08 AS £m	2008/09 £m
Present Value of Liabilities					
Funded	(96.35)	(106.94)	(111.59)	(103.06)	(105.73)
Unfunded	(7.35)	(7.61)	(7.77)	(7.40)	(7.16)
Fair Value of Assets	52.32	64.74	69.07	69.46	58.65
Surplus/(Deficit)funded Scheme	(44.03)	(42.20)	(42.52)	(33.60)	(47.08)
Surplus/(Deficit) unfunded Scheme	(7.35)	(7.61)	(7.77)	(7.40)	(7.16)
Total Liability	(51.38)	(49.81)	(50.29)	(41.00)	(54.24)

\*The Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by paragraph 77 (o) of FRS17 (as revised), the assets for the current period and previous two periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2007 and 2008 have been re-measured for this purpose. Asset values for periods ending 2005 and 2006 are shown at mid-market value and have not been re-measured.

- The liabilities show the underlying commitment that the authority has in the long run to pay retirement benefits. The liability for the funded element of £54.24m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy.
- The deficit on the scheme will be made good by increased contributions, over the remaining working life of employees, as assessed by the Fund's actuary.
- The expected contributions to the pension scheme for 2009/10 are £3.55m, in addition strain on the fund contributions may be required. In addition it is expected that £0.50m will be paid directly to beneficiaries in respect of un-funded liabilities. All payments will be subsumed within the totals for the newly created Unitary Council.

### 35. Basis for Estimating Assets and Liabilities

#### a. Liabilities

The latest actuarial valuation of District of Easington's liabilities (funded scheme) took place as at 31<sup>st</sup> March 2007, and that of the un-funded scheme was at 31<sup>st</sup> March 2009.

The principal financial assumptions used by the actuary have been:-

	Funded		Unfunded	
	31 <sup>st</sup> March 2008 %	31 <sup>st</sup> March 2009 %	31 <sup>st</sup> March 2008 %	31 <sup>st</sup> March 2009 %
Inflation	3.7	3.3	3.7	3.3
Rate of general increase in salaries	5.2	4.8	0	0
Rate of increase to pensions in payment	3.7	3.3	3.7	3.3
Rate of increase to deferred pensions	3.7	3.3	0	0
Discount Rate	6.8	6.7	6.8	6.7

In addition allowance has been made for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31<sup>st</sup> March 2007.

Other principal assumptions used by the actuary are as follows:-

	31 <sup>st</sup> March 2008	31 <sup>st</sup> March 2009
Longevity at 65 for Current Pensioners		
Males	20.3 years	21.1 years
Females	22.4 years	23.2 years
Longevity at 65 for Future Pensioners		
Males	22.2 years	23.4 years
Females	23.6 years	25.3 years
Take-up of option to convert annual pension into retirement lump sum:-		
- Service pre April 2008	50%	50%
- Service post April 2008	0%	75%

#### b. Assets

The approximate split of Assets for the fund as a whole (based on data supplied by Durham County Council) is shown in the table above. Also shown are the assumed rates of return adopted by this Council for the purposes of FRS17.

The actuary, on behalf of District of Easington Council, employs a building block approach in determining the rate of return on Funds Assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset over the actual asset allocation for the fund at 31<sup>st</sup> March 09.



	31 <sup>st</sup> March 2008		31 <sup>st</sup> March 2009	
	Long Term expected rate of return % p.a.	Asset Split %	Long Term expected rate of return % p.a.	Asset Split %
Equities	7.6	47.4	7.0	45.2
Properties	6.6	4.4	6.0	3.9
Government Bonds	4.6	29.3	4.0	30.0
Corporate Bonds	6.8	9.2	5.8	11.0
Cash/Other	6.0	9.7	1.6	9.9
Total	6.4	100	5.4	100

### 36. History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories:-

Funded Liabilities*					
	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Difference between the expected and actual return on assets	2.00	10.19	0.54	(3.76)	(14.60)
Experience gains and losses on liabilities **	1.44	0.7	(0.39)	(1.16)	(0.58)

Un-Funded Liabilities					
	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	2008/09 £m
Experience gains and losses on liabilities **	N/A	N/A	N/A	(0.05)	0.18

\* In accordance with paragraph 79 of FRS17 (as revised), un-funded liabilities are disclosed separately for periods beginning on or after 6<sup>th</sup> April 2007. The history of experience gain/(loss) on liabilities shown has not been re-stated for periods ending 2005, 2006 and 2007 and includes the experience relating to un-funded liabilities.

\*\* This item consists of gains/(losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

### 37. 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 financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

#### Overall Procedures for Managing Risk

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

- By formally adopting the requirements of the Code of Practice.
- By approving annually in advance prudential indicators for the following three years limiting:-

The Councils overall borrowing:

Its maximum and minimum exposures to fixed and variable rates

Its maximum and minimum exposures within the maturity structure of its debt

Its maximum annual exposures to investments maturing beyond a year

- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance. These are required to be reported and approved at or before the Council's annual council tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual outturn performance is also reported to Members.

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 (TMP's). These TMP's are a requirement of the Code of Practice and reviewed regularly. From the 1<sup>st</sup> April 2009 the new Unitary Authority has ensured the overall procedures as required above have been put into place.

### Credit Risk

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

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

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

	Amount at 31 <sup>st</sup> March 2009 £'000	Historical Experience Of Default %	Adjustment For market Conditions At 31 <sup>st</sup> March 2009 %	Estimated maximum exposure to default £'000
<b>Deposits with Banks and Financial Institutions</b>				
AAA rated counterparties	0	0.00	0.00	0
AA rated counterparties	11,124	0.06	0.06	7
A rated counterparties	6,441	0.65	0.65	42
Other counterparties	0	0.65	0.65	0
Bonds – AAA rates	0	0.00	0.00	0
Trade Debtors	3,221	Local experience	15.50	498
	20,786			547

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

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

The Council does not generally allow credit for its trade debtors, such that £1.8m of the £3.2m balance is past its due date for payment. The past amount can be analysed by age as follows:-

	<b>31<sup>st</sup> March 2008</b> <b>£'000</b>	<b>31<sup>st</sup> March 2009</b> <b>£'000</b>
Less than three months	342	401
Three to six months	79	38
Six months to one year*	555	425
More than one year *	864	1,008
Total	1,840	1,872

\* A major proportion of the outstanding debt over six months is in respect of benefits to be recovered and court costs in respect of Council Tax and NNDR, arrangements are in place to recover these sums.

### **Collateral**

During the reporting period the Council held no collateral as security.

### **Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through comprehensive cash flow management procedures required by the Code of Practice.

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 the last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Therefore, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

### **Refinancing and Maturity Risk**

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

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The new Council's approved treasury management and investment strategies address the main risks.

These include:-

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and that the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:-

	<b>31<sup>st</sup> March 2008 £'000</b>	<b>31<sup>st</sup> March 2009 £'000</b>
Less than 1 year	851	2,032
Between 1 and 2 years	1,815	5,766
Between 2 and 7 years	12,329	10,110
Between 7 and 15 years	19,133	18,091
Over 15 years	32,500	30,000
	<b>66,628</b>	<b>66,015</b>

The maturity analysis of financial assets is as follows:-

	<b>31<sup>st</sup> March 2008 £'000</b>	<b>31<sup>st</sup> March 2009 £'000</b>
Less than 1 year	21,648	17,565
Between 1 and 2 years	0	0
Between 2 and 3 years	0	0
More than 3 years	0	0
	<b>21,648</b>	<b>17,565</b>

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

## **Market Risk**

### **Interest rate risk**

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

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

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and effect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and Expenditure Account. The risk of interest rate loss is partly mitigated by the government grant paid in respect of housing financing costs. During 2008/09 all borrowings were fixed rate.

### **Price Risk**

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

## Foreign exchange risk

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

## 38. Fair Value of Financial Assets and Liabilities

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

	Long Term		Current	
	Year Ended 31 <sup>st</sup> March 2008 £'000	Year Ended 31 <sup>st</sup> March 2009 £'000	Year Ended 31 <sup>st</sup> March 2008 £'000	Year Ended 31 <sup>st</sup> March 2009 £'000
Financial liabilities (principal amounts)	65,777	63,983	851	1,986
Financial liabilities at amortised costs (1)	65,777	63,983	851	2,032
Financial liabilities at fair value through the Income & Expenditure	0	0	0	0
<b>Total Borrowings</b>	<b>65,777</b>	<b>63,983</b>	<b>851</b>	<b>2,032</b>
Loans and receivables (principal amount)	0	0	21,648	17,322
Loans and receivables at amortised cost (1)	0	0	21,648	17,565
Available for sale financial assets	0	0	0	0
Financial assets at fair value through the Income & Expenditure	0	0	0	0
Unquoted equity investment at cost	0	0	0	0
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>21,648</b>	<b>17,565</b>

(1) Under accounting requirements the financial instrument value shown in the balance sheet include the principal amount borrowed or lent plus accrued interest and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation).

## Financial Instruments Gains and Losses

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

## Fair Value of Assets and Liabilities carried at Amortised Cost

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

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:-

	RESTATED Year ended 31 <sup>st</sup> March 2008		Year ended 31 <sup>st</sup> March 2009	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
PWLB	66,517	76,891	65,845	80,251
Non PWLB Debt	111	111	170	170
Total Debt	66,628	77,002	66,015	80,421
Trade Creditors	4,725	4,725	4,478	4,478
<b>Total Financial Liabilities</b>	<b>71,353</b>	<b>81,727</b>	<b>70,493</b>	<b>84,899</b>

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date.

	RESTATED Year ended 31 <sup>st</sup> March 2008		Year ended 31 <sup>st</sup> March 2009	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Money Market Loans < 1 year	21,648	21,648	17,565	17,565
Money Market Loans > 1 year	0	0	0	0
Trade Debtors	2,398	2,398	3,221	3,221
<b>Total Loans and Receivables</b>	<b>24,046</b>	<b>24,046</b>	<b>20,786</b>	<b>20,786</b>

There are no differences between the carrying amount and fair value amount as all investments are for a period of less than 1 year.

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

Year Ended 31 <sup>st</sup> March 2008 £'000		Year Ended 31 <sup>st</sup> March 2009 £'000
1	Dalton-le-Dale Parish Council	0
30	Peterlee Town Council	0
80	East Durham Development Agency	170
111		170

#### Details of investments held at the end of the Year

	31 <sup>st</sup> March 2008	31 <sup>st</sup> March 2009
HBOS	6,292,255	0
Bank of Ireland	5,500,000	4,410,056
Allied Irish Bank	2,500,000	2,031,216
Nationwide	5,534,175	3,109,763
Abbey National	48,937	5,111,185
Bank of Scotland	1,773,259	2,903,204
	21,648,626	17,565,424

#### Other – Soft Loans

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

value of a soft loan will increase over the term of the loan, because the amount of interest forfeited will reduce. This is reflected by increasing the carrying value of the loan to reflect the unwinding of the discount. The resulting increase in value is recognised in the Income and Expenditure Account. The impact of a soft loan upon the Income and Expenditure Account will therefore be neutral over the period of the loan. This Council does not currently have any soft loans.

### 39. Reconciliation of Net Surplus/Deficit on the Income and Expenditure Account to the Revenue Activities Net Cash Flow Statement

RESTATED 2007/08 £'000		2008/09 £'000	2008/09 £'000
(4,378)	(Surplus)/Deficit for the year		16,071
	<b>Non Cash transactions</b>		
1,371	Amounts included in I and E but required by statute to be excluded when determining the movement on the general fund balance		(25,981)
142	Finance Costs re SORP		0
1,513			
	<b>Cash Transactions not included in I and E</b>		
3,819	Employers Contributions to the superannuation fund	3,791	
2,972	Transfers to the Major repairs reserve	1,862	
(69)	Collection Fund Surplus	(158)	
6,722			5,495
	<b>Adjustment for items on an accruals basis</b>		
(59)	Increase/(decrease) in Long Term Debtors	(32)	
1,986	Increase/(decrease) in Debtors	440	
(6)	Increase/(decrease) in Stock	(1)	
6,681	Increase/(decrease) in Creditors	222	
(5,719)	Increase/(decrease) in Other cash flows	1,536	
2,883			2,165
	<b>Items classified elsewhere</b>		
1,675	Investment Income	1,417	
(4,795)	Interest Paid	(4,588)	
(3,120)			(3,171)
3,620	Surplus/(Deficit) on Revenue Activities		(5,421)

### 40. Reconciliation of Cash and Cash Equivalents to the Balance Sheet

Analysis of Net Debt	Cash	Short Term Investments	Long Term Investments	Total	Loans Due Within one year	Loans Due after one year	Deferred Liabilities	Net Debt
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 <sup>st</sup> April 08	2,396	(21,648)	0	(19,252)	851	65,777		47,376
Receipt/Payment of interest at last balance sheet date								
cash flow changes in year	(2,239)	4,083		1,844	1,181	(1,794)		1,231
Other Non cash changes								
Balance at 31 <sup>st</sup> March 2009	157	(17,565)	0	(17,408)	2,032	63,983		48,607

#### 41. Analysis of Changes in cash and liquid resources during the year

Change in Year	2007/08		Change in Year	2008/09
10	78	Cash in hand	8	86
(1,654)	(2,474)	Cash overdrawn	2,231	(243)
(1,644)	(2,396)	(Increase)/decrease in year	2,239	(157)
1,302	21,648	Short Term Deposits	4,083	17,565
(6,292)	0	Long Term Deposits	0	0
(4,990)	21,648		4,083	17,565

Included within liquid resources are all the investments held with Banks/Building Societies in line with the authority's Treasury Policy Statement. From 2008/09 interest due but not received at the year end is added to the investment balance held.

#### 42. Reconciliation of Changes in Cash to Movement in Net Debt

2007/08		2008/09
1,644	(Increase)/decrease in cash in year	(2,239)
4,990	<b>Cash(Inflow)/Outflow from Management of Liquid Resources and Investments</b>	4,283
	<b>Cash Inflows</b>	
0	Receipt of Interest accrued at last Balance sheet date	(200)
2,970	New Loans raised	90
	<b>Cash Outflows</b>	
(2,988)	Loans Repaid	(773)
314	Payment of principal accrued	0
(24)	Amounts transferred (to)/from financial liabilities	22
0	Payment of interest accrued at last balance sheet	48
6,906		1,231
40,470	Net debt b/fwd	47,376
47,376	Net debt c/fwd	48,607
6,906		1,231



### 43. Analysis of Government Grants

	<b>2007/08 £'000</b>	<b>2008/09 £'000</b>
<b>CAPITAL</b>		
Derwentside District Council	0	89
Wear Valley District Council	211	0
Department of Communities and Local Government	743	1,066
Renovation Grants	348	356
Miscellaneous	44	132
Major Repairs Allowance	5,015	5,415
Durham County Council *	1,398	2,030
	7,759	9,088
<b>REVENUE</b>		
Other Local Authorities	0	444
Department of Communities and Local Government	329	13,249
Durham County Council *	4,762	352
Home Office	85	0
Neighbourhood Pathfinder	197	0
Miscellaneous Grants	76	14
Supporting People	816	730
Department for Works and Pensions	35,897	38,729
Local Authority Business Incentive Grant	45	0
Department of Health	47	120
Derwentside District Council	179	830
Department of Transport	78	0
	42,511	54,468

\* Durham County Council are the accountable body for many schemes which received European/ Single Programme/ Local Area Agreement grants, the actual type of grant is not necessarily known by this Council therefore, for 2008/09, all such grants are included within the analysis as Durham County Council.

## HOUSING REVENUE INCOME AND EXPENDITURE ACCOUNT FOR 2008/09

2007/08 £'000		Notes	2008/09 £'000	2008/09 £'000
	<b>Income</b>			
(22,509)	Dwelling rents		(22,850)	
(447)	Non-dwelling rents		(428)	
(1,452)	Charges for services and facilities		(1,341)	
(939)	Housing Revenue Account subsidy receivable	8	(1,504)	
(25,347)	<b>Total Income</b>			(26,123)
	<b>Expenditure</b>			
7,972	Repairs and maintenance		7,308	
7,574	Supervision and management		8,851	
3,120	Depreciation and impairment of fixed assets	5/6	14,605	
41	Debt Management costs		34	
72	Increase in bad debt provision	10(b)	149	
143	Revenue Expenditure funded from Capital under Statute	7	107	
18,922	<b>Total Expenditure</b>			31,054
	<b>Net Cost of HRA Services per Authority Income and Expenditure Account</b>			4,931
(6,425)				
663	HRA services share of Corporate and Democratic Core			296
(5,762)	<b>Net Cost of HRA Services</b>			5,227
(6,055)	(Gain)/Loss on sale of HRA fixed assets			(27)
4,024	Interest payable and similar charges			3,964
(243)	Amortisation of premiums and discounts			(23)
(162)	Interest and investment income			(112)
0	Pensions interest cost and expected return on pensions assets			0
(8,198)	<b>(Surplus)/Deficit for the year on HRA Services</b>			9,029

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

2007/08 £'000		2008/09 £'000
(2,120)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Account	9,029
2,032	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(7,956)
(88)	(Increase)/Decrease in the Housing Revenue Account Balance	1,073
(2,747)	Housing Revenue Account surplus brought forward	(2,834)
(2,834)	Housing Revenue Account surplus carried forward	(1,761)

\*Due to roundings the above table differs by 1 in 2007/08

### Note to the Statement of Movement on the HRA Balance

2007/08 £'000		2008/09 £'000	2008/09 £'000
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
6,055	Gain or (loss) on sale of HRA fixed assets	27	
(1,077)	Other items of Income and Expenditure in accordance with SORP	(11,051)	
(304)	Net Charges made for retirement benefits in accordance with FRS 17	(199)	
227	Net Adjustment – Finance costs in accordance with SORP	0	
(143)	Revenue Expenditure Funded from capital under statute	(107)	
4,758			(11,330)
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
2,972	Transfer to/(from) Major Repairs Reserve	1,862	
997	Employer's contributions payable to the Durham County Council Pension Fund and retirement benefits payable direct to pensioners	886	
0	Capital Expenditure funded by the HRA	900	
3,969			3,648
	<b>Transfers to or from the HRA Balance that are required to be taken into account when determining the movement on the HRA Balance for the year</b>		
(617)	Transfers to/(from) reserves	(274)	
(617)			(274)
8,110	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year		(7,956)

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. Housing Stock

The Council through East Durham Homes was responsible for managing on average 8,600 dwellings during 2008/09. The change in stock can be summarised as follows: -

2007/08 No.s		2008/09 No.s
8,979	Stock at 1 <sup>st</sup> April	8,634
(345)	Less Sales, Demolition's etc., net of additions	(71)
8,634	Stock at 31 <sup>st</sup> March (see below)	8,563

Analysis of stock using the latest property type and age criteria: -

31 <sup>st</sup> March 2008				31 <sup>st</sup> March 2009		
Traditional	Non Traditional	Total	Houses, Bungalows and Flats	Traditional	Non Traditional	Total
2,751	0	2,751	Pre 1945	2,726	0	2,726
3,509	175	3,684	1945 - 1964	3,499	174	3,673
1,144	207	1,351	1965 - 1974	1,106	207	1,313
848	0	848	Post 1974	851	0	851
8,252	382	8,634		8,182	381	8,563

### 2. Asset Valuations

Details of the numbers and types of dwellings in the Council's housing stock are set out in the previous note to the Housing Revenue Account.

In addition the total balance sheet value of the land, houses and other property within the authority's HRA as at 1<sup>st</sup> April 2008 and the closing balance sheet value at 31<sup>st</sup> March 2009, together with the separate values as at 1<sup>st</sup> April 2008 and 31<sup>st</sup> March 2009 of the various categories of assets are as follows: -

1 <sup>st</sup> April 2008 £'000		31 <sup>st</sup> March 2009 £'000
	Operational assets	
273,612	- Dwellings (excluding garages)	245,211
15,124	- Other Land and Buildings (including garages)	24,249
0	- Community Assets	66
256	- Plant and Vehicles	559
1,244	Non-operational assets	3,434
290,236	Total Balance Sheet Values	273,519

The vacant possession value of dwellings within the Council's HRA at 1<sup>st</sup> April 2008 was £560,824,000 and the Gross Balance Sheet value at the same point in time was £274,803,760. The main difference between these two figures represents the discount that is allowed to council tenants when they choose to purchase their homes under the "Right to Buy" scheme.

### 3. Major Repairs Reserve (MRR)

An analysis of the movement on this account is set out below: -

2007/08 £'000		2008/09 £'000
0	Opening Balance as at 1 <sup>st</sup> April	0
2,972	Transfer to the Major Repairs Reserve	1,862
2,043	Depreciation on all HRA Assets (note 5)	3,553
(5,015)	Capital Expenditure on Council Dwellings Financed from MRA	(5,415)
0	Closing Balance as at 31 <sup>st</sup> March	0

### 4. Capital Expenditure and Capital Receipts

(a) During 2008/2009 £9,571,000 was spent on HRA capital (2007/08 £10,506,000) financed as follows: -

2007/08 £'000		2008/09 £'000
10,059	Operational Assets - Council Dwellings	8,962
362	- Other Property	215
0	Plant, Vehicles and Equipment	315
0	Non Operational Assets	9
85	Revenue Expenditure Funded from Capital Under Statute	34
10,506		9,535
	<b>Financed By:-</b>	
1,000	Borrowing	1,000
93	Capital Grants etc	18
4,398	Usable Capital Receipts	2,202
0	Revenue Contributions	900
5,015	Major Repairs Reserve	5,415
10,506		9,535

(b) During the year the following Capital Receipts were received:-

2007/08 £'000		2008/09 £'000
5,529	Council House Sales	1,113
15	Mortgages - principal repayments	3
2,428	Other - Land	267
1,629	Other - Property	55
9,601		1,438

## 5. Charges for Depreciation

This is a charge to the HRA following the introduction of resource accounting and reflects the consumption of fixed assets during the year. The total charged in the year was £3,496,000 net of grants deferred amortised (£1,928,000 in 2007/08) as follows: -

2007/08 £'000		2008/09 £'000
1,864	Operational Assets	2,801
159	- Council Dwellings	740
19	- Other Land and Buildings	11
1	- Vehicles, Plant and Equipment	1
2,043	Non-Operational Assets	3,553
(115)	Government Grants Written down	(57)
1,928		3,496

## 6. Impairment Charges

Each year it is necessary to determine if there are any material differences between the balance sheet item of an asset and the current year end value. If there are any significant differences then an impairment loss should be recognised, this is similar to depreciation except that the consumption is over and above what is normally expected, for example physical damage to an asset or deterioration of asset.

During the year assets were impaired to the value of £34,340,016 (£1,191,925 in 2007/08). The main reason for this impairment was the downward revaluation of the housing stock in year.

## 7. Revenue Expenditure Funded from Capital under Statute (REFCUS)

It is widely accepted in Local Government that capital expenditure can be incurred but no tangible (physical) asset is created, a prime example of this is improvement grants that are provided for assets that do not belong to the organisation. It is deemed that such expenditure should be reflected as revenue expenditure and charged to the revenue accounts over an appropriate period.

During the year the net REFCUS charge to revenue for the HRA was £107,136 compared to £142,886 in 2007/08, this related to information technology systems and Wardens call equipment.

## 8. Housing Revenue Account Subsidy

The following table analyses the subsidy receivable by the authority in accordance with the Governments general determination of Housing Revenue Subsidy for the year.

2007/08 £'000		2008/09 £'000
12,787	Management and Maintenance	13,959
4,814	Charges for Capital etc	4,749
(3)	Interest on Receipts	(1)
(22,023)	Rent Income	(22,346)
300	Rental Constraint Allowance	0
49	Prior Year Adjustment	(272)
(4,076)		(3,911)
5,015	Major Repairs Allowance	5,415
939	Subsidy Receivable	1,504

## 9. Pensions Reserve

The 2003 Code of Practice on Local Authority Accounting requires that retirement benefits be accounted for on a "current cost" basis within the accounts as opposed to the actual payments made. In the case of the District of Easington the current cost is less than the actual payments therefore the difference is reflected in the pensions reserve.

## 10. (a) Rent Arrears (Net) and Rent Rebate Overpayments Etc.

During 2008/09 net rent arrears as a proportion of gross rent income compared with 2007/2008 have reduced from 3.7% to 3.5%.

31 <sup>st</sup> March 2008 £'000		31 <sup>st</sup> March 2009 £'000
904	Arrears (net of prepayments)	857
423	Rent Rebate Overpayments etc.	391
1,327	Total Balance Sheet Values	1,248

## 10. (b) Bad Debts Provision

31 <sup>st</sup> March 2008 £'000		31 <sup>st</sup> March 2009 £'000
1,154	Balance brought forward	1,060
72	Provision in Year	149
(166)	Write offs in Year	(214)
1,060	Balance carried forward	995

## 11. Repairs and Maintenance

The repairs and maintenance costs in 2008/09 included an exceptional item of £424,788 (£1,378,795 in 2007/08) in relation to redundancy payments and pension capital costs incurred by East Durham Homes. The reduction in staff was carried out by the company in order to right size the business and reduce over capacity.

**THE COLLECTION FUND  
INCOME AND EXPENDITURE ACCOUNT  
FOR THE PERIOD ENDING 31<sup>st</sup> MARCH 2009**

2007/08 £'000		NOTES	2008/09 £'000	2008/09 £'000
	<b>INCOME</b>			
(31,594)	Council Tax	2(b)	(32,669)	
(9,860)	Council Tax Benefits	2(b)	(10,548)	
(15,183)	Income from Business Ratepayers	3	(17,452)	
(56,637)	<b>Total Income</b>			(60,669)
	<b>EXPENDITURE</b>			
26,249	County Council Precept	4	27,655	
8,626	District Council Demand	4	9,104	
2,117	Fire and Rescue Authority Precept	4	2,231	
3,579	Police Authority Precept	4	3,846	42,836
	<u>Contributions</u>			
15,081	Business Rate - Payments to Pool	3	17,349	
102	- Cost of Collection	3	103	17,452
	Provision for Bad Debts			
118	- Council Tax Provision	6	(1,016)	
0	- Council Tax Write offs	6	(144)	(1,160)
	Distribution of previous years surplus			
287	- County Council	4	515	
30	- Police Authority	4	70	
23	- Fire & Rescue Authority	4	42	
94	- District Council	4	169	796
56,306	<b>Total Expenditure</b>			59,924
(331)	Movement on fund (surplus)/deficit for the year			(745)
(419)	Balance brought forward (surplus)/deficit			(750)
(750)	Balance carried forward (surplus)/deficit	7		(1,495)



## NOTES TO THE COLLECTION FUND

### 1. General

This account reflects the statutory requirements for billing authorities to maintain a separate Collection Fund. This account is consolidated with the other accounts of the authority.

### 2. Council Tax

Council tax derives its income from charges raised according to the values of residential properties classified into nine valuation bands. Charges are calculated by dividing the amount required from the Collection Fund by the Council, Durham County Council, Durham Police Authority and Durham and Darlington Fire & Rescue Authority for each year by the number of Band D equivalents (a) to arrive at the average Band D (c).

(a) Tax Base Collection

2007/08	2008/09			
	BAND	NUMBER OF CHARGEABLE DWELLINGS	RATIO TO BAND D	NUMBER OF DWELLINGS CONVERTED TO BAND D
57.6	Z	104.75	5/9	58.20
18,970.8	A	28,243.00	6/9	18,828.70
2,204.0	B	3,448.75	7/9	2,682.40
2,353.8	C	2,782.75	8/9	2,473.60
1,716.80	D	1,853.00	1	1,853.00
898.9	E	755.25	11/9	923.10
308.0	F	218.75	13/9	316.00
245.4	G	155.25	15/9	258.70
14.5	H	7.25	18/9	14.50
26,769.8				27,408.20

Estimated Collection Rate was 98.5% (98.5% in 2007/08)  
 Council Tax Base was 26,997.10 in 2008/09 (26,368.30 in 2007/08).

(b) The income from council tax is calculated as follows: -

2007/08 £'000		2008/09 £'000
47,785	Debit Raised	49,761
(6,331)	Less: Reductions and Losses	(6,544)
41,454	Net Debit	43,217
(9,860)	Less: Benefits	(10,548)
31,594	Total Collectable Income	32,669

(c) The average Band D council tax for 2008/09 was £ 1,586.71 (£1,538.64 in 2007/08) detailed as follows: -

	Council Tax		Tax Base	Precept/ Demand
	2007/08 £	2008/09 £	2008/09	2008/09 £'000
Durham County Council	995.49	1,024.38	26,997.10	27,655
Durham Police Authority	135.72	142.47	26,997.10	3,846
Durham & Darlington Fire & Rescue Authority	80.28	82.62	26,997.10	2,230
District of Easington	173.16	177.48	26,997.10	4,791
Town/Parish Councils	153.99	159.76	26,997.10	4,313
<b>TOTAL</b>	<b>1,538.64</b>	<b>1,586.71</b>		<b>42,835</b>

### 3. National Non Domestic Rate (NNDR)

The Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government, which is then paid into the Non-Domestic Rate Pool.

2007/08 £'000		2008/09 £'000
15,556	Gross Amount Payable	17,818
(55)	Discretionary Relief	(57)
15,501	Net Yield of NNDR	17,761
(294)	Losses on Collection	(291)
(24)	Interest on Overpayments	(18)
15,183	Income from Business Rates Payers	17,452
(102)	Cost of Collection	(103)
15,081	Contributions to the Pool	17,349

2007/08 £'000		2008/09 £'000
43,169	The total non-domestic rateable value at year-end	43,198
0.444	National non-domestic rate multiplier (standard rate)	0.462
19,167	Anticipated Yield based on standard rate	19,957

There were two multiplier rates in 2008/09, the standard rate of 46.2p and a discounted rate of 45.8p. The above calculation is based on the standard rate.

#### 4. Precepts/Demands

The following precepts/demands were made upon the fund: -

2007/08 £		2008/09 £
26,249,379	Durham County Council (DCC)	27,655,289
286,544	DCC Previous Years Surplus (Deficit)	514,883
3,578,706	Durham Police Authority (DPA)	3,846,277
29,857	DPA Previous Years Surplus (Deficit)	70,196
2,116,847	Durham & Darlington Fire & Rescue Authority	2,230,500
22,819	Fire Authority Previous Years Surplus (Deficit)	41,522
4,565,930	District of Easington	4,791,445
94,127	District of Easington Previous Years Surplus (Deficit)	169,205
1,180,109	Peterlee Town Council	1,227,313
953,722	Seaham Town Council	1,043,372
399,909	Horden Parish Council	431,580
321,625	Easington Colliery Parish Council	337,000
1,204,975	Other Parish Councils	1,273,661

#### 5. Distribution of Previous Years Council Tax Deficit

	Final Deficit for 2007/08 £	Outturn Surplus 2008/09 £	Net Surplus 2008/09 £	Difference (Deficit) for 2008/09 £
Durham County Council	(29,290)	994,805	965,515	0
District of Easington	(9,642)	327,499	317,857	0
Durham Police Authority	(4,074)	138,357	134,283	0
Durham & Darlington Fire & Rescue Authority	(2,362)	80,234	77,872	0
<b>Total</b>	<b>(45,368)</b>	<b>1,540,895</b>	<b>1,495,527</b>	<b>0</b>

It is necessary to estimate prior to each year-end the expected outturn on the Council Tax Collection Fund, this enables precepting authorities to incorporate any surplus/deficits on the fund into their figures for the coming year. Any subsequent differences between the estimate and outturn are adjusted in the following year. Consequently the deficit of £45,368 on 2007/2008 has been incorporated into 2009/2010 distribution figures. Due to reorganisation an estimate was made for the new unitary as a whole not merely for Easington, the whole surplus at the end of March 2009 was incorporated into the 2009/10 figures for the new Unitary Council.

#### 6. Council Tax Provision for Bad Debts

2007/08 £'000		2008/09 £'000
(2,126)	Balance brought forward	(2,244)
0	Write offs in Year	144
(118)	(Increase)/reduction to provision in Year	1,160
(2,244)	Balance carried forward	(940)

## 7. Disaggregation of Balance between Precepting Authorities

As the surplus/deficit on the collection fund does not wholly belong to the Council it is necessary to disaggregate the balance between that which is due to other precepting authorities, to be included as creditors on the balance sheet and that which is attributable to the authority.

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
(750)	Balance as per statement	(1,495)
	<b>Amount due to:-</b>	
485	Durham County Council	965
66	Durham Police Authority	134
39	Durham and Darlington Fire and Rescue Authority	78
(160)	Balances due to District of Easington	(318)

For the purpose of compiling the District Councils accounts it is necessary to reflect the balance due to Easington from the Collection Fund. Due to reorganisation this balance will be combined with the figure for Durham County Council and is due to the new Unitary Council.

**GROUP INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED  
31<sup>ST</sup> MARCH 2009**

<b>RESTATED 2007/08 Net Expenditure £'000</b>		<b>2008/09 Gross Expenditure £'000</b>	<b>2008/09 Gross Income £'000</b>	<b>2008/09 Net Expenditure £'000</b>
1,557	Central services to the public	14,963	(10,719)	4,244
12,310	Cultural, environmental and planning services	23,045	(5,768)	17,277
2,276	Highways, road and transport services	3,689	(1,073)	2,616
(10,651)	Local authority housing (HRA)	29,565	(26,820)	2,745
1,111	Other housing services	30,796	(29,469)	1,327
2,110	Corporate and democratic core	2,316	(63)	2,253
978	Non distributed costs	2,703	0	2,703
1,395	Exceptional item (note 5)	425	0	425
11,086	<b>Net Cost of Services</b>	107,502	(73,912)	33,590
(8,038)	(Gain)/Loss on Disposals			175
4,060	Parish Council precepts			4,313
4,645	Interest payable and similar charges			4,596
4,724	Contribution of housing capital receipts to government pool			845
(1,724)	Interest and investment income			(1,477)
1,420	Pensions interest cost and expected return on pensions (note 7)			3,670
21	Corporation tax			9
16,194	<b>Net Operating Expenditure</b>			45,721
(8,720)	Demand on collection fund			(9,274)
(12,011)	General government grants			(19,284)
(4,537)	(Surplus)/Deficit for the Year for the Group			17,163

**Reconciliation of the Single Entity Surplus/Deficit to the Group Surplus/Deficit**

<b>RESTATED 2007/08 £'000</b>		<b>2008/09 £'000</b>
(4,378)	(Surplus)/Deficit for the Year on the Authority Income and Expenditure Account	16,071
(8,793)	Adjustments for transactions with other group entities	(9,472)
(13,171)	Surplus in the Group Income and Expenditure Account attributable to the Authority	6,599
8,634	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to group entities (adjusted for intra-group transactions)	10,564
	• East Durham Homes	
(4,537)	Deficit(Surplus) for the Year for the Group	17,163

**Realignment of Subsidiary Deficit by Intra Group Transaction**

<b>2007/08 £'000</b>		<b>2008/09 £'000</b>
159	Group Surplus/(Deficit) for the Year	(1,092)
(8,793)	Adjustment for transactions within group	(9,472)
(8,634)	Deficit attributable to the Group activities adjusted for intra group transactions	(10,564)

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

RESTATED 2007/08				2008/09		
District of Easington £'000	East Durham Homes £'000	Total for Group £'000		District of Easington £'000	East Durham Homes £'000	Total for Group £'000
(4,378)	(159)	(4,537)	(Surplus)/Deficit for the year on the Income and Expenditure Account	16,071	1,092	17,163
(81,676)	0	(81,676)	(Surplus)/Deficit arising on revaluation of fixed assets	(2,771)	0	(2,771)
(9,950)	(5,480)	(15,430)	Actuarial (Gains)/Losses on pension fund assets and liabilities (note 7)	11,630	5,480	17,110
(69)	0	(69)	Other (Gains)/Losses	(158)	0	(158)
(96,073)	(5,639)	(101,712)	Total Recognised (Gains)/Losses for the year	24,722	6,572	31,344

## GROUP BALANCE SHEET AS AT 31<sup>st</sup> March 2009

RESTATED 31 <sup>st</sup> March 2008 £'000		31 <sup>st</sup> March 2009 £'000	31 <sup>st</sup> March 2009 £'000
	<b>Fixed Assets</b>		
200	<b>Intangible Fixed Assets</b>		59
	<b>Tangible Fixed Assets</b>		
	<b>Operational Assets:</b>		
278,721	Council dwellings and garages	250,257	
23,956	Other land and buildings	42,011	
2,101	Vehicles, plant, furniture and equipment	2,390	
19	Infrastructure assets	19	
1,915	Community assets	80	294,757
	<b>Non-operational Assets:</b>		
3,404	Investment properties	1,951	
2,201	Surplus Assets held for disposal	4,120	6,071
312,517	<b>Total Fixed Assets</b>		300,887
0	Long-term investments		0
83	Long-term debtors		51
312,600	<b>Total Long-term Assets</b>		300,938
	<b>Current Assets</b>		
289	Stocks and work in progress	295	
10,791	Debtors	11,036	
21,648	Investments	17,565	
79	Cash in hand	86	
1,658	Cash at bank	2,097	31,079
347,065	<b>Total Assets</b>		332,017
	<b>Current Liabilities</b>		
(851)	Short-term borrowing	(2,032)	
(12,504)	Creditors	(12,460)	
(2,474)	Bank overdraft	(243)	(14,735)
331,236	<b>Total Assets less Current Liabilities</b>		317,282
	<b>Long-Term Liabilities</b>		
(65,777)	Long-term borrowing	(63,981)	
(93)	Long-term Creditor	(30)	
(12,022)	Government grants deferred	(11,241)	
(48,180)	Liability related to defined pension	(68,210)	(143,462)
205,164	<b>Total Assets less Liabilities</b>		173,820
	<b>Financed by:-</b>		
80,550	Revaluation Reserve		70,154
152,014	Capital Adjustment Account		150,260
1,986	Usable Capital Receipts Reserve		46
142	Financial Instrument Adjustment Account		104
23	Deferred Capital Receipts		20
(48,180)	Pensions Reserve		(68,210)
11,248	Earmarked Reserves		15,218
3,964	General Fund Balance		3,508
160	Collection Fund Balance		318
2,834	Housing Revenue Account Balance		1,761
423	East Durham Homes Account Balance		641
205,164	<b>Total Net Worth</b>		173,820

## GROUP CASH FLOW STATEMENT 2008/09

RESTATED 2007/08 £'000		2008/09 £'000	2008/09 £'000
3,047	<b>Net Revenue Activities</b>		(5,891)
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
	<b>Cash Inflows</b>		
(1,728)	Interest received	(1,652)	
	<b>Cash Outflows</b>		
7,118	Interest paid	4,587	
0	Discount received	0	
5,390	<b>Net Cash Inflow/(Outflow)- Servicing of Finance</b>		2,935
	<b>CAPITAL ACTIVITIES</b>		
	<b>Cash Outflows</b>		
16,535	Purchase of Fixed Assets		15,627
	<b>Cash Inflows</b>		
(11,638)	Sale of Fixed Assets	(2,582)	
(7,224)	Capital Grants Received	(9,088)	
(114)	Other Capital Cash Receipts	(78)	(11,748)
(2,441)	<b>Net Capital Activities</b>		3,879
5,996	<b>Net Cash (Inflow)/ Outflow before financing</b>		923
	<u>Management of Liquid Resources</u>		
(6,012)	<b>Net Increase /(decrease) in deposits</b>		(4,283)
	<b>FINANCING</b>		
	<b>Cash Outflows</b>		
2,988	Repayments of Amounts Borrowed	773	
	<b>Cash Inflows</b>		
(3,000)	New Loans Raised	0	
30	New Short Term Loans	(90)	
18	<b>Net Financing</b>		683
2	<b>(Increase)/decrease in cash &amp; cash equivalents</b>		(2,677)



## **STATEMENT OF ACCOUNTING POLICIES**

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balance of the Council and East Durham Homes.

### **ACCOUNTING POLICIES**

The financial statements in the Group Accounts are prepared in accordance with the policies set out in the Statement of Accounting Policies on pages 7 to 16 with the following exceptions.

### **DEFERRED TAXATION**

Deferred taxation is recognised in respect of all timing differences that have originated but not been reversed at the balance sheet date where transactions or events result in an obligation to pay more tax or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statement that arise from the inclusion of gains and losses in tax assessments in periods different from those which are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### **FINANCIAL INSTRUMENTS**

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

### **TRADE AND OTHER DEBTORS**

Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any doubtful debts. Bad debts are written off when identified.

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are included in the balance sheet at cost, they comprise of cash at bank and in hand.

## NOTES TO THE GROUP ACCOUNTS

### 1. General

The District of Easington established East Durham Homes as an Arm's Length Management Organisation on 1<sup>st</sup> April 2004 to carry out the management and maintenance of council houses. Both organisations have a year-end closure date of 31<sup>st</sup> March each year. The Board of East Durham Homes has a total of 15 members of which 5 are members of the District of Easington.

The notes shown in the single entity accounts will apply to the group accounts unless changed by any of the following notes:-

### 2. Officers' Emoluments

The number of officers whose emoluments in the year were £50,000 or more was eighteen, as follows:-

NO. OF EMPLOYEES			BAND	NO. OF EMPLOYEES	
District of Easington 2007/08	East Durham Homes 2007/08	District of Easington 2008/09		East Durham Homes 2008/09	
2	3	£50,000 - £59,999	8	3	
2	0	£60,000 - £69,999	3	1	
1	1	£70,000 - £79,999	0	0	
1	1	£80,000 - £89,999	0	0	
0	0	£90,000 - £99,999	0	1	
0	0	£110,000 - £119,999	1	0	
0	0	£130,000 - £139,999	1	0	

### 3. Audit Fees

The following table shows the total of fees payable for the audit services carried out by the Audit Commission for the Council and by external auditors for East Durham Homes.

2007/08 District of Easington £'000	2007/08 East Durham Homes £'000	2007/08 Total for Group £'000		2008/09 District of Easington £'000	2008/09 East Durham Homes £'000	2008/09 Total for Group £'000
141	17	158	Annual Audit	144	16	160
0	0	0	Statutory Inspections	0	0	0
24	0	24	Certification of Grant	18	0	18
2	0	2	Claims	1	13	14
			Other Services			
167	17	184		163	29	192

### 4. Disclosures in Relation to Operating Leases

At 31<sup>st</sup> March 2009 the group had annual commitments to operating leases.

	District Of Easington £'000	East Durham Homes £'000	Total for Group £'000
Expiring in 2009/10	603	126	729
Expiring 2010/11 - 2013/14	594	378	972
Expiring after 2013/14	0	0	0

## 5. Exceptional Item

Costs were incurred during the year by East Durham Homes in relation to redundancy payments and pension costs of £0.4m (£1.4m in 2007/08) this was due to an internal reorganisation by the company in order to right size the business and reduce over capacity.

## 6. Information about Retirement Benefits

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

The group participates in the Local Government Pension Scheme (LGPS) administered by Durham County Council. This is a funded scheme, meaning that the group and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets. It is also classed as a defined scheme based on the payment of a pension based on final salaries.

## 7. Transactions Relating to Retirement Benefits

The cost of retirement benefits is reflected in the net cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions.

For the authority's accounts the charge to be made against the council tax is to be based on the cash payable in the year so the real cost of retirement benefits is reversed out to prevent a notional charge being charged to the taxpayers.

However for company accounts the notional charge is a correct charge and is reflected in the bottom line profit or loss in the Income and Expenditure Account.

<b>RESTATED 2007/08 District Of Easington £'000</b>	<b>2007/08 East Durham Homes £'000</b>		<b>RESTATED 2008/09 District of Easington £'000</b>	<b>2008/09 East Durham Homes £'000</b>
		<b>Income and Expenditure Account</b>		
		<u>Net Cost of Services</u>		
2,480	1,620	Current Service Cost	1,670	720
720	480	Past Service Cost	720	200
0	(100)	Loss (gain) on curtailments	0	1,120
		<u>Net Operating Expenditure</u>		
400	10	Unfunded liabilities - Interest Cost	490	10
5,870	2,030	Funded Liabilities - Interest Cost	6,960	1,910
(5,000)	(1,890)	Expected Return on Assets	(4,420)	(1,280)
		<u>Statement of Total Recognised Gains and Loss</u>		
0	(5,480)	Gain/loss on Pension Fund	0	5,480
4,470	(3,330)	Net Charge to Income and Expenditure Account	5,420	8,160
3,819	1,950	Actual Contributions Paid	3,791	1,370
3,819	(3,330)	Charged to Accounts in Year	3,791	8,160

## 8. Assets and Liabilities in Relation to Retirement Benefits.

### a. Reconciliation of present value of scheme liabilities (both funded and unfunded)

As at 31 <sup>st</sup> March 2008				As at 31 <sup>st</sup> March 2009		
District of Easington £m	East Durham Homes £m	Total for Group £m		District of Easington £m	East Durham Homes £m	Total for Group £m
119.36	37.68	157.04	1 <sup>st</sup> April	110.46	31.79	142.25
2.48	1.62	4.10	Current Service Cost	1.67	0.72	2.39
6.27	2.04	8.31	Interest Cost	7.45	1.92	9.37
0	0	0	Liabilities on Settlements	0	(4.72)	(4.72)
0	(0.10)	(0.10)	Gains on Curtailments	0	0	0
0.72	0.38	1.1	Contributions by Scheme participants	0.78	0.32	1.1
(13.71)	(9.81)	(23.52)	Actuarial Gains and Losses*	(2.97)	2.08	(0.89)
(5.38)	(0.50)	(5.88)	Net Benefits paid out **	(5.22)	(0.52)	(5.74)
0.72	0.48	1.20	Past Service Cost	0.72	0.20	0.92
110.46	31.79	142.25	31 <sup>st</sup> March	112.89	31.79	144.68

\* includes changes to the actuarial assumptions

\*\* consists of net cash flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums of £0.49m for the District of Easington and £0.02m for East Durham Homes for the period ending 31<sup>st</sup> March 2009.

### b. Reconciliation of present value of scheme assets

RESTATED As at 31 <sup>st</sup> March 2008				As at 31 <sup>st</sup> March 2009		
District of Easington £'000	East Durham Homes £'000	Total for Group £'000		District of Easington £'000	East Durham Homes £'000	Total for Group £'000
69.07	25.21	94.28	1 <sup>st</sup> April	69.46	24.61	94.07
5.00	1.89	6.89	Funded Expected rate of Return	4.42	1.28	5.70
(3.76)	(4.32)	(8.08)	Actuarial Gains and Losses	(14.60)	(3.34)	(17.94)
0	0	0	Change in basis of valuations	0	(0.06)	(0.06)
0	0	0	Assets distributed on Settlements	0	(5.84)	(5.84)
3.34	1.94	5.28	Employer Contributions	3.33	1.36	4.69
0.72	0.38	1.10	Contributions by scheme participants	0.78	0.32	1.10
(4.91)	(0.49)	(5.40)	Net Benefits paid out*	(4.74)	(0.51)	(5.25)
69.46	24.61	94.07	31 <sup>st</sup> March	58.65	17.82	76.47

\* consists of net cash flow out of the fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums £0.49m for District of Easington and £0.02m for East Durham Homes for the period ending 31<sup>st</sup> March 2009.

## 9. Guarantor of Pension Liability

The Council has agreed to act as guarantor with regard to the pensions deficit (currently standing at £13.97m) transferred to East Durham Homes on the 1<sup>st</sup> April 2004, for the life time of the current management agreement which is until 31<sup>st</sup> March 2014.

## 10. Movement on Revenue Activities

RESTATED				2008/09		
2007/08 District of Easington £'000	2007/08 East Durham Homes £'000	2007/08 Total for Group £'000		District of Easington £'000	East Durham Homes £'000	2008/09 Total for Group £'000
(122,970)	(1,566)	(124,536)	Income from Revenue Activities	(137,246)	(914)	(138,158)
118,206	9,912	128,118	Expenditure from Revenue Activities	122,358	9,911	132,267
(4,764)	8,346	3,582	Net Income/Expenditure	(14,888)	8,997	5,891

## 11. Reconciliation of Net Surplus/(Deficit) on the Group Income and Expenditure Account to the Revenue Activities Net Cash Flow Statement

RESTATED				2008/09	2008/09	2008/09
2007/08 District of Easington £'000	2007/08 East Durham Homes £'000	2007/08 Total for Group £'000		District of Easington £'000	East Durham Homes £'000	Total for Group £'000
(4,378)	159	(4,537)	(Surplus)/Deficit for the year	16,071	1,092	17,163
			<b>Non Cash Transactions</b> Amounts included in I and E but required by statute to be excluded when determining the movement on the general fund balance Finance costs re SORP	(25,981) 0	(2,688) 0	(28,669) 0
			<b>Cash Transactions not included in I and E</b> Employers contribution to the Superannuation fund Transfers to the major repairs reserve Collection Fund Surplus	3,791 1,862 (158)	1,370 0 0	5,161 1,862 (158)
			<b>Adjustments for items on Accruals basis</b> Increase/(decrease) in long term Debtors Increase/(decrease) in Debtors Increase/(decrease) in Stock Increase/(decrease) in Creditors Transfer between Group	(32) 0 (2,149) 9,468 (9,468)	0 8 306 (9,468) 9,468	(32) 8 (1,843) 0 0
			<b>Items classified elsewhere</b> Investment Income Interest Paid	1,417 (4,588)	60 (2)	1,477 (4,590)
(5,299)	8,346	3,047		(14,885)	8,994	(5,891)

## 12. Reconciliation of Movements of Cash and Cash equivalents

2007/08 District of Easington £'000	2007/08 East Durham Homes £'000	2007/08 Total for Group £'000		2008/09 District of Easington £'000	2008/09 East Durham Homes £'000	2008/09 Total for Group £'000
820	(16)	804	Opening Balance (in hand)	2,474	(1,658)	816
(2,474)	1,658	(816)	Closing Balance (overdrawn)	(243)	2,096	1,853
(1,654)	1,642	(12)	Movement in Year	2,231	438	2,669
(68)	(1)	(69)	Cash in hands of officers Opening	(78)	(1)	(79)
78	1	79	Cash in hands of officers Closing	86	1	87
10	0	10	Movement in Year	8	0	8
(1,644)	1,642	(2)	Total Movement in Cash Equivalents	2,239	438	2,677

## 13. Accounts of East Durham Homes

Further information on the Accounts of East Durham Homes is available from the Director of Finance and Support Services, for East Durham Homes, Rachel Taylor, Unit 2, Meridian Court, Whitehouse Business Park, Peterlee, County Durham, SR8 2RQ.

# ANNUAL GOVERNANCE STATEMENT - 2008/2009

## Scope of responsibility

The District of Easington Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, 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 providing value for money, which is 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, to discharge its functions effectively and by having regard to the management of risk.

The Council approved and adopted a local code of corporate governance, which has recently been revised and is consistent with the principles of the Chartered Institute of Finance Accounts (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Framework “*Delivering Good Governance in Local Government*”

A copy of the code is on our website at [www.durham.gov.uk](http://www.durham.gov.uk) or can be obtained from the Council Offices, Easington. This statement explains how the Council has complied with the code and meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

## The purpose of the governance framework

The governance framework includes the systems and processes, culture and values, in terms of how the Council as an accountable body properly conducts its business and how it engages with and leads the community.

It enables the authority 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 the 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. The system then evaluates the likelihood of those risks being realised, their impact if realised, and to manage them efficiently, effectively and economically.

The revised governance framework has been in place at the Council for the year ending 31<sup>st</sup> March 2009.

## The governance environment

*Striving for Excellence in the workplace - Extract from Corporate Plan*

*The Council worked hard to achieve ‘Excellent’ status through Audit commission inspection, and is proud of this achievement. We want to continually strive to be better. To achieve this, we need to have the best employees and an effective leadership. We must all be able to perform and ensure that our staff understand the part they play in delivering effective, quality services which meets the community’s needs. We also have to make sure that we properly manage our financial resources, making best use of resident’s money and keeping council taxes to a minimum.*

*We believe that an excellent Council is not only one that is well run, but one which carries out its role as a community leader to the full. This means bringing partners together for the good of the district and also advocating for Easington at the County, regional and national level. The*

*leadership team in Easington is committed to playing a full part in regional and national affairs for the benefit of our community.*

The key elements of the Council's governance environment are:-

- The District Council has adopted a constitution, which sets out how the Council operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. This is updated when required during the year and reported to Committee.
- The Council has adopted the Leader/Cabinet Model. The Executive Committee is responsible for delivering identifiable, accountable, corporate leadership for the local authority and the people it serves. The facilitation of policy and decision-making is made through the Council's Management Team, which meets on a weekly basis, and Scrutiny Committees, which assist the Council and Executive Committee in the development of its budget and the policy framework by in depth analysis of policy issues. Specific procedural rules are in place within the Constitution to govern this.
- Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority.
- The Council has a Standards Committee where membership includes representatives from outside the Council.

The committee has a number of roles including promoting and maintaining high standards of conduct for councillors and co-opted members in accordance with the members code of conduct. The Committee also overviews protocols for member/officer relations, the employee's code of conduct, the confidential reporting code and the planning code of conduct.

- The Council publishes a forward Plan, which contains details of key decisions to be made by the Council, its Committees and Chief Officers under their delegated powers.
- The Council has adopted a revised "Local Code of Corporate Governance" in accordance with the updated CIPFA/SOLACE Framework for Corporate Governance.
- The Council has robust systems for identifying and evaluating all significant risks, which are developed and maintained with the pro-active participation of all those associated with planning and delivering services. A Risk Register is in place and appropriate Members and Officers have been trained in the assessment, management and monitoring of risks. All new risk implications are included with every report to Committee.
- Through reviews by external auditors, external agencies, Internal Audit, Performance Improvement Teams and Value for money Teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised.
- Trained and experienced people deliver services. All posts have a detailed job description and person specification. Training needs are identified through the Welfare and Appraisal Scheme.
- The Council has in post a designated qualified Monitoring Officer. It is his function to report on and to ensure compliance with established policies, procedures, laws and regulations.
- The financial management of the Council is conducted in accordance with the financial rules set out in Part 4 of the Constitution and with Financial Regulations. The Council

has designated the Corporate Director - Resources in accordance with Section 151 of the Local Government Act 1972.

- The Council has in place a Medium Term Financial Plan for 3 years, which is annually updated and ensures that the budgets are fully integrated and aligned to the Council's objectives through its Corporate Plan.
- The Council has an agreed programme for managing and improving value for money.
- The Council maintains an Internal Audit Section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'.
- The Council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit and Inspection Letter.
- The Council has a performance management framework, which incorporates how we set, intend to deliver and review the Council's objectives at all levels. The system is driven by the Corporate Plan, which focuses attention on corporate priorities. This is cascaded through departmental service plans, individual employee appraisals and action plans. The Council's scrutiny committees monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary, quarterly.
- The Council has ensured that there are clear channels of communication in place with all sections of the community and other stakeholders and have put in place monitoring arrangements to ensure that they are operating effectively. This can be seen in the Council's corporate plan, which sets out its corporate priorities and objectives and takes into account local priorities. The Council has developed a customer relationship Management (CRM) system, which is used to inform and further improve service delivery. Information taken from the CRM is used to inform the Management Team and the Scrutiny Committee. The Council has developed and implemented a comprehensive (award winning website) to ensure clear and concise channels of communication.
- The Council has set out clear guidelines for whistleblowing arrangements within the Constitution, and in the confidential Reporting code within the Financial Regulations. This is also included within the Councils Anti fraud and corruption strategy.
- The Council has implemented a complaints procedure and feedback received is used to monitor service delivery and to make improvements in service delivery.
- A Partnerships Framework is in place that includes a partnership checklist to demonstrate a business case when entering partnerships and a partnership toolkit to review existing partnerships. The Risk Management Strategy Steering Group on the 8<sup>th</sup> January 2009 reviewed the Council's Register of Key Partnerships and prioritised them using four criteria: -
  - The Partnership has direct links to the Council's strategic objectives.
  - The Partnership has a lifespan after 31<sup>st</sup> March 2009.
  - The Partnership is a contractual arrangement and/or is a relationship of mutual benefit.
  - The impact of the Partnership on the Council's strategic objectives.
- Using the above the top four prioritised partnerships were identified for review, and a partnership action plan completed.
- The Councils main partner is East Durham Homes (EDH), which is a contractual partner and has links to the Council. The governance structure is laid down in the Articles of Association and Management Agreement agreed with and issued by the District of Easington. This sets out the responsibilities of EDH and its Chief Officers.



## **Review of Effectiveness**

### *Corporate governance arrangements*

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 managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

A detailed review of the current local code of Governance workplan, was undertaken by the Corporate Governance Group (on 23<sup>RD</sup> January 2009) comprising of senior officers and working to an agreed terms of reference. Areas for improvement were identified and action agreed.

Within the process the group reviewed the Council's Local Code of Governance, which was presented to Audit Committee on the 12<sup>TH</sup> March 2009.

Further to the above, the process of review and the annual governance statement was reported and considered by the Audit Committee that has responsibility for ensuring that robust corporate governance arrangements are in place to provide assurance that business is being conducted effectively and efficiently. (This included a review of the assurance statements).

### *System of internal control*

In addition to the above the Council has responsibility for conducting annual reviews of the system of internal control. The review of the effectiveness of the system is informed by the work of the internal auditors and those senior managers within the authority who have responsibility for the development and maintenance of the internal control environment.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The Monitoring Officer regularly monitors and reviews how the Constitution operates to ensure that its aims and principles are given full effect.
- During 2008/2009 the Council had a Scrutiny Management Board, which comprises of the Chairs and Vice Chairs of the Council's three Scrutiny Committees, which meet after the Council's Executive Committee to consider whether there are any issues in need of referral to the individual Scrutiny Committees. As a significant partner the scrutiny process considers the performance of East Durham Homes.
- The Council has delegated to the Audit Committee the responsibility for reviewing the adequacy of internal controls, monitoring the performance of internal audit, considering the external audit plan, monitoring corporate performance of the Council and considering the governance arrangements.
- The Council's Management Team meet weekly to discuss strategic matters together with endorsing individual reports prior to them being considered by the Council's relevant Committees.
- The Council's internal audit section undertakes the audit of the Council. The audits are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Internal Audit Standards with responsibility for monitoring the quality and effectiveness of the systems of internal control. A risk model is normally used to formulate and annually update, a three-year strategic plan, from which the annual audit plan is developed. However, for 2008/2009 an annual plan was agreed by the Audit Committee that included work for Local Government Reorganisation. (Audit committee report 13<sup>th</sup> March 2008)

There are quarterly Internal Audit reports to Audit Committee on the progress of the work carried out by the Audit Section, which summarises the findings and recommendations of each audit.

An annual audit report is completed to give an overall opinion of the Councils Internal controls. (Audit Committee 24<sup>th</sup> March 2009). In terms of the work carried out by Internal Audit for 2008/2009, they were of the opinion that the Council's key systems are operating soundly and there were no fundamental breakdown in controls resulting in material discrepancies, and that satisfactory arrangements are in place to ensure the Council's financial affairs are conducted in an effective, efficient and economical manner.

A report on the effectiveness of the internal Audit Section was examined and approved by Management Team (16<sup>th</sup> February 2009) and Audit Committee (12<sup>th</sup> March 2009).

- The Internal Audit Section is subject to regular inspection by the Council's external auditors (Audit Commission).
- The Council reviews its Financial Regulations every year.
- The Governance and Risk Management Officer provides reports to the Management Team bringing their attention to any significant risks. The Council reviews its risks through directorate service plans, which inform the corporate plan. New risks are identified throughout the year in reports to Committee and included on the risk register.
- The Council's performance management framework is supported by the operation of performance improvement teams, which focus on key performance results, trends and improvement. Performance reports are issued every three months and are supported by Officer and Member workshops when necessary. Reports are made to:
  - Corporate Support Team
  - Management Team
  - Executive Committee
  - Scrutiny Committees
  - Audit Committee.
- The Council was rated as "Excellent" in the comprehensive performance assessment. Follow up reports through the Audit Commission's Direction of Travel Statement are very positive in relation to performance management, which is now embedded within the Council.
- In saying the above, systems of control cannot provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance. There is an ongoing process in place to identify, evaluate and manage key risks, and these are reflected in the audit plan and are subject to separate reports during the year.

### **General**

The Audit Commission annually reviews the financial aspects of corporate governance at the Council, which includes the work of Internal Audit. In carrying out this work the commission seeks assurances that systems of internal financial control are in place and effective.

### **East Durham Homes (EDH)**

The business of East Durham Homes is conducted through the EDH Board consisting of district councillors, independent members and tenants. The company is a significant partner of the Council and as such is included in this statement.

- EDH is scheduled to undergo a further inspection by the Audit Commissions Housing Inspectorate in 2009 to secure additional capital funding to improve the Council's housing stock. They are required to achieve a 2 star rating to access the funding. The previous inspection assessed the Company as fair with uncertain prospects for improvement, and an action plan was produced outlining areas that required further improvement. Some of these areas do affect the corporate governance of EDH.
- EDH have appointed their own Internal Auditors from April 2008 but the Council's Internal Audit Manager monitors the Governance arrangements by receiving copies of all minutes from Committees/Boards/Panels and has quarterly meetings with the Internal Auditors and the Corporate Director – Resources. The Audit Manager also receives assurance statements from the Senior Managers of EDH.

### **Significant Governance Issues**

It is not considered that there are any significant governance issues to address, however, following reviews of the local code of Governance and of Partnerships, we have addressed some insignificant issues and action plans has been drawn up and can be evidenced.

We are therefore satisfied that these steps will improve the governance and control arrangements and their implementation and operation will be monitored within the new Council.

**LEADER OF THE COUNCIL**  
**DATE**

**CHIEF EXECUTIVE**  
**DATE**

## ABBREVIATIONS

Meanings are explained in the Glossary where appropriate

ABG	Area Based Grant
ASB	Accounting Standards Board
BVACOP	Best Value Accounting Code of Practice
CIPFA	Chartered Institute of Public Finance and Accountancy
CSR	Comprehensive Spending Review
DCLG	Department of Communities and Local Government
DEFRA	Department for Environment, Food and Rural Affairs
EDH	East Durham Homes
ERDF	European Regional Development Fund
FRS	Financial Reporting Standards
HRA	Housing Revenue Account
LABGI	Local Authority Business Growth Incentive Grant
LEGI	Local Enterprise Growth Initiative
LGPS	Local Government Pension Scheme
MRA	Major Repairs Allowance
MRP	Minimum Revenue Provision
MRR	Major Repairs Reserve
NMP	Neighbourhood Management Pathfinder
NNDR	National Non Domestic Rates
NRF	Neighbourhood Renewal Fund
PWLB	Public Works Loan Board
RCCO	Revenue Contribution to Capital Outlay
REFCUS	Revenue Expenditure Funded from Capital Under Statute
RSG	Revenue Support Grant
SOLACE	Society of Local Authority Chief Executives
SORP	Statements of Recommended Practice
SRB	Single Regeneration Budget
STRGL	Statement of Total Recognised Gains and Losses
UKGAAP	United Kingdom Generally Accepted Accounting Practices

## GLOSSARY

Accruals	The basis on which the accounts must be prepared, which shows the full cost of services received in the year regardless as to whether those services had been paid for at the year end.
Amortisation	Expenditure which is defined as Capital Expenditure but does not relate to the local authorities own assets must be classified as a REFCUS and amortised (charged) to revenue in year.
Billing Authority	The local authority responsible for collecting the council tax and non-domestic rates.
Current Service Cost	This represents an actuarial estimate of the present value of full pensions earned by current employees in the year under review.
Finance Lease	A lease usually of land, or land and buildings, where the asset is deemed to belong to the authority.
General Fund	The main revenue fund showing the day-to-day spending on services other than council housing.
Housing Revenue Account	A separate account setting out the expenditure and income arising from the provision of housing. Other services are charged to the general fund.
Major Repairs Allowance	This is an allowance provided by the government towards the cost of maintaining council dwellings.
Minimum Revenue Provision	The sum that must be charged to a revenue account each year to meet outstanding debt obligations.
National Non Domestic Rates	A levy on businesses, based on national rates in the pound set by the Government.
Operating Lease	A lease usually of equipment or vehicles, which is similar to renting from another party.
Past Service Cost	This relates to decisions made in the current year on Pensions where the financial effects derive from earlier years service, such as introduction of or improved benefits.
Precept	The levy made by a precepting authority on the billing authority.
Precepting Authorities	Those authorities which are not billing authorities such as County Councils, Police Authorities, Fire Authorities and Town/Parish Councils.
Public Works Loan Board	A Central Government body that provides loans to local authorities.
REFCUS	Local authorities are allowed to incur capital spend on assets not owned by them, example being improvement grants.
Revenue Support Grant	A grant paid by Central Government to aid local authority services in general.

Supported Capital Expenditure (Revenue)	Allows an authority to incur borrowing in respect of capital expenditure, the resulting principals and interest costs are subsidised annually by Central Government.
Supported Capital Expenditure (Capital Grant)	Allows an authority to incur capital expenditure up to the value of the grant provided by Central Government in that year.