



DERBY CITY COUNCIL

# STATEMENT OF ACCOUNTS

## **2007 – 2008**

# CONTENTS

• <b>The Explanatory Foreword</b>	<b>Page 7</b>
○ Introduction	Page 7
○ Financial Statements and Policies	Page 7
○ Council Tax	Page 8
○ Revenue Expenditure and Income	Page 8
○ Revenue Outturn Table	Page 8
○ Revenue Reserves	Page 8
○ Capital Expenditure and Income	Page 9
○ Unapplied Capital Grants Reserves and Unapplied Capital Receipts	Page 9
○ Private Finance Initiatives	Page 9
○ Net Pensions Liability	Page 10
• <b>The Core Financial Statements</b>	<b>Page 11</b>
○ The Income and Expenditure Account	Page 11
○ Statement of Movement on the General Fund Balance	Page 12
○ Note of Reconciling Items to SMGFB	Page 13
○ Statement of Total Recognised Gains and Losses	Page 14
○ The Balance Sheet	Page 15
○ The Cashflow Statement	Page 17
• <b>Notes to the Core Financial Statements</b>	<b>Page 19</b>
-Income and Expenditure notes	Page 19
○ 1. Expenditure on Services	Page 19
○ 2. Discontinued Services	Page 19
○ 3. Obligations Under PFI Contracts	Page 19
▪ Housing Inner City Regeneration	Page 19
▪ Grouped Schools	Page 19
▪ Street Lighting	Page 20
▪ Affordable Housing	Page 20
○ 4. Section 137 Expenditure	Page 20
○ 5. Local Authority Goods and Services Act 1970	Page 20
○ 6. Trading Services	Page 21
○ 7. Publicity	Page 22
○ 8. Building Control Account	Page 22
○ 9. Pooled Budgets	Page 23
○ 10. Officers' Remuneration	Page 24
○ 11. Members Allowances	Page 24
○ 12. Transactions with Related Parties	Page 24
▪ Central Government, Local Authorities or Precepting Bodies	Page 24

## CONTENTS

▪ Subsidiary and Associated Companies	Page 24
▪ Joint Ventures and Joint Venture Partners	Page 24
▪ Members and Chief Officers	Page 25
▪ Partnership and Accountable Body Arrangements	Page 25
○ 13. Local Area Agreements	Page 25
○ 14. Auditors Fees	Page 26
○ 15. Deferred Charges	Page 26
○ 16. Financial Instruments Gains / (Losses)	Page 27
○ 17. Housing Services	Page 27
○ 18. Leases	Page 28
○ 19. Contributions to Joint Committees and Joint Bodies	Page 28
○ 20. Deployment of Dedicated Schools Grant	Page 28
○ 21. Pensions	Page 29
▪ Local Government Pensions Scheme (LGPS)	Page 29
▪ Teachers Pension Scheme	Page 30
<i>-Balance sheet notes</i>	<i>Page 31</i>
○ 22. Movement on Reserves	Page 31
○ 23. Tangible Fixed Assets	Page 32
▪ Movement in Fixed Assets Table	Page 32
▪ Commitments under Capital Contracts	Page 33
▪ Significant Capital Expenditure 2008/9	Page 33
▪ Tangible Fixed Asset Valuation	Page 33
▪ Depreciation	Page 34
▪ Impairment	Page 34
○ 24. Intangible Fixed Assets	Page 35
○ 25. Financing of Capital Expenditure	Page 35
○ 26. Long Term Investments	Page 36
○ 27. Long Term Debtors	Page 36
○ 28. Stocks and Work in Progress	Page 37
○ 29. Debtors	Page 37
○ 30. Creditors	Page 37
○ 31. Deferred Capital Receipts	Page 38
○ 32. Long Term Borrowing	Page 38
○ 33. Financial Instruments Balances	Page 39
○ 34. Deferred Liabilities / Credits	Page 39
○ 35. Disclosure of Risk Arising from Financial Instruments	Page 40
▪ Key Risks	Page 40

## CONTENTS

▪ Overall Procedure for Managing Risk	Page 40
▪ Credit Risk	Page 40
▪ Liquidity Risk	Page 42
▪ Refinancing and Maturity Risk	Page 42
▪ Market Risk – Interest Rate Risk	Page 42
▪ Market Risk – Price Risk	Page 43
▪ Market Risk – Foreign Exchange Risk	Page 43
○ 36. Provisions	Page 44
○ 37. Revaluation Reserve	Page 45
○ 38. Fixed Asset Restatement Account	Page 45
○ 39. Deferred Government Grants / Contributions	Page 46
○ 40. Usable Capital Receipts Reserve	Page 46
○ 41. Capital Adjustment Account	Page 47
○ 42. Financial Instrument Adjustment Account	Page 48
○ 43. Available for Sale Reserve	Page 48
○ 44. Earmarked Reserves	Page 48
○ 45. Schools Balances	Page 48
○ 46. General Fund Reserve	Page 48
○ 47. Housing Revenue Account	Page 48
○ 48. Collection Fund Balance	Page 48
○ 49. European Monetary Union	Page 48
○ 50. Business Improvement District (BID)	Page 49
○ 51. Fair Value of Assets and Liabilities Carried at Amortised Cost	Page 49
○ 52. Trust Funds	Page 50
○ 53. Pensions Disclosures	Page 51
▪ Local Government Pension Scheme (LGPS)	Page 51
▪ Teachers' Pension Scheme	Page 53
○ 54. Contingent Liabilities	Page 54
○ 55. Subsidiary Companies	Page 54
○ 56. Post Balance Sheet Events	Page 54
○ 57. Issue Authorisation	Page 54
- <i>Cashflow Notes</i>	Page 55
○ 58. Reconciliation between I&E and Revenue Cashflow	Page 55
○ 59. Reconciliation of Cash and Net Debt Movements	Page 55
○ 60. Other Movements	Page 56
○ 61. Revenue and Capital Grants	Page 56
▪ Capital Grants	Page 56

## CONTENTS

▪	Revenuel Grants	Page 57
•	<b>The Housing Revenue Account (HRA)</b>	<b>Page 58</b>
○	HRA Income and Expenditure Account	Page 58
○	Statement of Movement on HRA Balance	Page 59
○	Note of Reconciling Items to the SMHRAB	Page 60
○	Notes to the HRA	Page 61
▪	1. The Number and Type of Dwelling	Page 61
•	Operational Assets	Page 61
•	Non Operational Assets	Page 61
▪	2. Council Dwellings Vacant Possession Value	Page 61
▪	3. Major Repairs Reserve	Page 62
▪	4. Housing Repairs Account	Page 62
▪	5. Capital Expenditure and Financing	Page 62
▪	6. Depreciation	Page 63
▪	7. Impairment	Page 63
▪	8. Deferred Charges	Page 64
▪	9. Analysis of HRA Subsidy	Page 64
▪	10. Rent Arrears in Respect of Uncollectible Debt	Page 64
•	<b>The Collection Fund</b>	<b>Page 65</b>
○	The Collection Fund	Page 65
○	Notes to the Collection Fund	Page 66
▪	1. Council Tax	Page 66
▪	2. Income from Business Rate Payers	Page 66
▪	3. Collection Fund Surplus	Page 66
•	<b>Group Accounts</b>	<b>Page 67</b>
○	Introduction	Page 67
○	Inclusion within the Group Accounts	Page 67
○	Group Income and Expenditure Account	Page 68
○	Reconciliation of single entity to group surplus or deficit	Page 69
○	Group Statement of Total Recognised Gains and Losses	Page 70
○	Group Balance Sheet	Page 71
○	Group Cashflow	Page 73
•	<b>Statement of Responsibilities</b>	<b>Page 74</b>
○	The Councils Responsibilities	Page 74
○	The Corporate Director of Resources Responsibilities	Page 74
•	<b>Annual Governance Statement</b>	<b>Page 75</b>
○	Scope of Responsibility	Page 75

## CONTENTS

○ The Councils Governance Framework	Page 75
○ Determining the Councils Purpose	Page 75
○ Members and Officers Working Together	Page 77
○ Values and Upholding High Standards of Behaviour	Page 78
○ Informed and Transparent Decisions and Managing Risk	Page 79
○ Effective Management	Page 80
○ Engaging with Local People	Page 81
○ Review of Effectiveness	Page 82
○ Significant Governance Issues	Page 83
○ Certification	Page 85
● <b>Auditors Report</b>	<b>Page 86</b>
○ Opinion on Financial Statements	Page 86
○ Respective Responsibilities of Chief Finance Officer and the Auditor	Page 86
○ Basis of Audit Opinion	Page 87
○ Certificate	Page 88
● <b>Accounting Policies</b>	<b>Page 89</b>
○ General	Page 89
○ Tangible Fixed Assets	Page 89
○ Depreciation on Fixed Assets	Page 89
○ Depreciable Lives	Page 90
○ De Minimus Level for Capitalisation of Expenditure	Page 90
○ Charges to Revenue for the Use of Fixed Assets	Page 90
○ Impairment	Page 90
○ Long Term PFI Contracts	Page 91
○ Deferred . Consideration	Page 91
○ Intangible Assets	Page 92
○ Deferred Charges	Page 92
○ Leases – Finance Leases	Page 92
○ Leases – Operating Leases	Page 92
○ Credit Arrangements	Page 92
○ Capital Reserves	Page 93
▪ Capital Financing Account & Fixed Asset Restatement Account	Page 93
▪ Revaluation Reserve	Page 93
▪ Capital Adjustment Account	Page 93
▪ Usable Capital Receipts Reserve	Page 93
○ Government Grants – Revenue Account	Page 93
○ Government Grants – Contribution to the Capital Programme	Page 93

## CONTENTS

○ Investments	Page 93
○ Financial Assets	Page 94
○ Loans and Receivables	Page 94
○ Available for Sale Assets	Page 94
○ Financial Liabilities	Page 94
○ Repurchase of Borrowing	Page 95
○ Debtors and Creditors	Page 95
○ Stocks and Works in Progress	Page 95
○ Provisions	Page 95
○ Earmarked Reserves	Page 96
○ General Fund Balance	Page 96
○ Local Government Pension Scheme	Page 96
○ Teachers Pensions	Page 96
○ FRS17 Compliance	Page 97
○ Housing Revenue Account – Resource Accounting	Page 97
○ Support Services	Page 97
● <b>Glossary of Terms</b>	<b>Page 98</b>

## **THE EXPLANATORY FOREWORD**

The Explanatory Foreword, which provides a brief explanation of the Council's main financial activities during the year, precedes the statements. It also draws attention to the main issues that will affect the Council's present and future financial position.

The principles used in compiling the accounts are set out in the Statement of Accounting Policies.

### **Financial Statements and Policies**

#### **Reporting Requirements for the 2007/8 Accounts**

The Statement of Recommended Practice (SORP 2007) is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and is statute imposed. This year includes some major changes to local authority financial statements. These changes are intended to make the financial statements easier to read and bring them more in line with practices in the private sector, enabling taxpayers to gain a greater understanding of council finances. These changes include:

- The introduction of a revaluation reserve
- The loss of the capital financing account and fixed asset restatement account, being replaced by a capital adjustment account
- Introduction of the new financial reporting standards (FRS) for financial instruments, FRS25 – Financial Instruments: Presentation and Disclosures, FRS26 – Financial Instruments: Recognition and Measurements, FRS29 – Financial Instruments: Disclosures.

The above changes have no effect on the net budget requirement or council tax.

These changes are not required to be applied retrospectively. Therefore these changes have only been applied from 1 April 2007 onwards.

To ensure comparatives are meaningful as required under FRS 28 *Corresponding Amounts*, presentational changes have taken place within the 2007/8 accounts. These changes do not affect council tax or general fund balances. These changes are presentational within the main financial statements. They became necessary after analysis linked with SORP 2007. The principal amendments relate to Government grants deferred account, the financial instruments adjustment account and the capital adjustment account (including capital financing account and fixed asset restatement account).

The pages that follow show the main financial results for the year for the activities undertaken by the Council. They summarise day-to-day expenditure and income, and highlight changes in the financial position of the Council during the year. Separate statements are shown for council housing and the Collection Fund. Notes are used to explain certain figures in more detail.

The Council incurs revenue and capital expenditure during the year. The Local Government and Housing Act 1989 (the 1989 Act), requires all expenditure to be charged to a revenue account of the Authority unless it can be classified as capital or is one of the limited number of specific exclusions under the 1989 Act.

Generally, revenue spending relates to items consumed within the year, whereas capital expenditure creates an asset that has a life beyond one year. Revenue spending is financed from council tax, fees and charges, government grants, and other income. Capital spending is financed mainly from loans, the proceeds of asset sales, government grants, external contributions and revenue.



## THE EXPLANATORY FOREWORD

### Council Tax

In 2007/8 the Council had to decide its spending plans having regard to the Government's reserve capping powers. The Band D council tax for 2007/8 for Derby City Council services was £1,014.41. This was derived by dividing the amount needed by the Council from taxpayers (£70.562m) by the tax base of 69,560.06.

### Revenue Expenditure and Income

In 2007/8, net spending on the Council's General Fund services was £163.822m creating a £1.871m transfer to revenue reserves, representing 1.1% of the Council's 2007/8 Budget Requirement. Savings have, in the main, been earmarked for use in future years to support strategic corporate and service priorities and future budget pressures, including commitments made but not accounted for in 2007/8.

The results for the Housing Revenue Account show a carried forward surplus of £1.616m for 2007/8.

The Statement of Recommended Practice defines how the Council's expenditure on services should be split for the Statement of Accounts. Expenditure is however controlled at departmental level and the table below shows that expenditure compared to the revised budget.

	Latest Approved Budget	Final Actual	Final (Under) / Over Spend
Environmental Services:			
Trading	(131)	(131)	0
Non-Trading	24,999	24,628	(371)
Corporate and Adult Services	55,110	58,188	3,078
Resources	4,514	4,505	(9)
Regeneration and Community	25,523	26,295	772
Children & Schools - Excluding Individual			
Schools Budget	43,885	43,297	(588)
Corporate Budgets	11,793	7,040	(4,753)
<b>Total Departmental Spending</b>	<b>165,693</b>	<b>163,822</b>	<b>(1,871)</b>
Less Planned Transfer from Reserves	(2,694)	(2,694)	0
<b>Net Spending</b>	<b>162,999</b>	<b>161,128</b>	<b>(1,871)</b>
Add Transfer of Underspend to Reserves	0	1,871	1,871
<b>Budget Requirement</b>	<b>162,999</b>	<b>162,999</b>	<b>0</b>
Net Operating Expenditure per I&E Account		179,335	
Less Deficit for the year		(16,338)	
Rounding		2	
		<b>162,999</b>	

### Revenue Reserves

Unallocated general reserves stand at £6.181m at the end of 2007/8. The balance is consistent with the Council's financial policy of holding general reserves at approximately 2% of the net revenue budget. Other revenue reserves available to the general fund stand at £38.8m and are earmarked for either departmental or Corporate use.

Corporate earmarked revenue reserves include a Corporate Investment Fund for priority initiatives. In addition reserves are being held to provide cover for potential future budget risks and pressures, including job evaluation. The budget for 2007/8 includes the use of £2.5m Corporate reserves and £0.2m service reserves.

## THE EXPLANATORY FOREWORD

### Capital Expenditure and Income

In 2007/8, the Council spent £82.9m on capital schemes. The major schemes were:

	<b>£m</b>
New build, extensions and modernisation of schools and education centres	30.19
Devolved capital schools grants	2.95
Modernisation of council dwellings	10.25
Highways and transportation	8.01
Refuse vehicles, street cleaning and grounds plant and equipment	1.21
Information and communications technology	0.64
New bus shelters and buses	1.29
City centre infrastructure improvements	5.05
New alcohol dependency unit	1.09
Rosehill market social, economic and infrastructure improvements	1.15
Creation of visual arts and media centre (QUAD)	5.11

### Unapplied Capital Grants Reserves and Unapplied Capital Receipts

Unapplied Capital resources stand at £47.136m at 31 March 2008. These consist of £32.234m unapplied capital grants, £14.228m developer and other capital contributions and £2.279m earmarked capital reserves. These resources are earmarked and are planned to be used over the next five years, as included in the Council's 5 year capital programme.

The Unapplied Capital Receipts account is £14.018m at 31 March 2008. This is available to fund the capital programme and £9m is earmarked for the Council's Accommodation Strategy.

### Private Finance Initiatives (PFI)

Derby City Council has three operational PFI projects and a further one in procurement as follows:

#### Operational

- **Grouped Schools**  
A 27-year PFI contract with Derby School Solutions (DSS), a private sector consortium, to build, maintain and operate 5 new schools in the City. This initiative is funded by a combination of special grant from the central Government, contributions from each schools delegated budget over the life of the contract and Early Years service.
- **Housing Inner City Regeneration**  
A 30 year contract with Home Housing Association to acquire and refurbish 150 housing properties, which commenced in January 2001. This initiative is funded by a contribution from the council's revenue budget and a special grant from central Government.

## **THE EXPLANATORY FOREWORD**

- Street Lighting (commenced June 2007)  
A 25-year PFI contract was signed in April 2007 with Connecting Roads (Derby), to replace all the life expired lighting units within the city, and to maintain the whole of the lighting of stock for the period of the contract. This initiative is funded by a contribution from the council's revenue budget and a special grant from central Government.

In procurement

- Housing – New Build and Refurbishment (commencement due in 2009/10). To provide 175 affordable properties across the city.

### **Net Pension Liability**

The Council participates in the Derbyshire County Council defined benefit (open) pension fund. During the year there was a increase in the Council's Net Pension Liability of £53.836m. This meant the Council's Net Pension Liability as at 31 March 2008 was £232.267m. A more detailed analysis of the movement in Net Pension Liability can be found in the notes to the Balance Sheet. The forecast pension payments will be paid out over a period of many years during which time the assets will continue to generate returns towards funding them. In addition future changes in the equity market will also adjust the value of the fund assets In calculating the scheme assets and liabilities the fund's actuaries make a number of assumptions about events and circumstances in the future. The resulting actuarial calculations are subject to uncertainties on the outcome of future events. These include assumptions on the income and valuation of investments held by the fund. The principal actuarial assumptions made in relation to these accounts are disclosed. Note 53 discloses the actuarial gains and losses in the year which reflects where actual outcomes differed from actuarial assumptions made last year together with the effect of consequent revision of these estimates moving forward.

Corporate Director of Resources  
June 2008

## THE CORE FINANCIAL STATEMENTS

### THE INCOME AND EXPENDITURE ACCOUNT

This account shows the gross expenditure, income, and net expenditure analysed by service, which is ultimately paid for by council taxpayers, business ratepayers and the Government.

2006/7 Net Expenditure  £000		Note	2007/8 Gross Expenditure  £000	2007/8 Gross Income  £000	2007/8 Net Expenditure  £000
6,308	Central Services to the Public		27,103	(21,042)	6,061
37,010	Cultural, Environmental and Planning Services		79,239	(36,852)	42,387
41,283	Children and Education Services		275,208	(229,757)	45,451
20,091	Highways, Roads and Transport Services		28,938	(14,247)	14,691
(6,564)	Housing		97,458	(104,147)	(6,689)
54,535	Adult Social Services		87,061	(34,558)	52,503
4,133	Corporate and Democratic Core		7,924	(2,215)	5,709
(1,201)	Non Distributed Costs		691	0	691
<b>155,595</b>	<b>Net Cost of Services</b>	1	<b>603,622</b>	<b>(442,818)</b>	<b>160,804</b>
(272)	(Surpluses)/ Deficits on Trading Undertakings not included in Net Cost of Services	6			(390)
18,916	Interest Payable and Similar Charges				18,015
5,107	Contribution of Housing Capital Receipts to Government Pool				4,098
(6,301)	Interest and Investment Income				(7,317)
4,930	Pensions Interest Cost and Expected Return on Pensions Assets	21			4,062
(6)	Amortised Premiums and Discounts				63
<b>177,969</b>	<b>Net Operating Expenditure</b>				<b>179,335</b>
(66,667)	Demand on the Collection Fund				(70,562)
0	Share of Previous Year Collection Fund Surplus				(83)
(14,381)	General Government Grants				(13,271)
(3,078)	Back Dated Census				0
(74,499)	Non-Domestic Rates Redistribution				(79,081)
<b>19,344</b>	<b>Deficit for the Year</b>				<b>16,338</b>

## THE CORE FINANCIAL STATEMENTS

### STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

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

<b>2006/7</b> <b>£000</b>		<b>2007/8</b> <b>£000</b>
19,344	Deficit for the year on the Income and Expenditure Account	16,338
(19,115)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(18,033)
<b>229</b>	<b>(Increase)/decrease in General Fund Balance for the Year</b>	<b>(1,695)</b>
(11,692)	General Fund Balance brought forward	<b>(11,463)</b>
<b>(11,463)</b>	<b>General Fund Balance carried forward</b>	<b>(13,158)</b>
(5,544)	Amount of General Fund Balance held by governors under schemes to finance schools	(6,977)
(5,919)	Amount of General Fund Balance generally available for new expenditure	(6,181)
<b>(11,463)</b>		<b>(13,158)</b>

## THE CORE FINANCIAL STATEMENTS

### NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

2006/7 Restated £000		2007/8 £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>	
(13)	Amortisation of intangible fixed assets	(87)
(18,506)	Depreciation and impairment of fixed assets	(22,846)
1,034	Government Grants Deferred amortisation	1,608
(6,888)	Write downs of deferred charges to be financed from capital resources	(2,011)
(24,732)	Net charges made for retirement benefits in accordance with FRS17	(25,236)
0	Revaluation Reserve write off to take into account disposals in year	0
<b>(49,105)</b>		<b>(48,572)</b>
	<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>	
4,983	Minimum revenue provision for capital financing	5,671
1,867	Share of liability Derbyshire County Council transferred debt	1,791
17	Credit arrangement notional interest	21
1,964	Capital expenditure charged in-year to the General Fund Balance	1,829
(5,107)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(4,098)
(347)	Deferred consideration PFI	(347)
19,969	Employer's contribution payable to the Pension Fund and retirement benefits payable direct to pensioners	20,907
0	Differences between amounts debited / credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans and premiums and discounts on the early repayment of debt	(805)
<b>23,346</b>		<b>24,969</b>
	<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>	
2,987	Housing Revenue Account balance	1,616
778	Voluntary revenue provision for capital financing	1,166
2,879	Net transfer to / (from) earmarked reserves	2,788
<b>6,644</b>		<b>5,570</b>
<b>(19,115)</b>	<b>Net additional amount required to be credited to the General Fund balance for the year</b>	<b>(18,033)</b>

## THE CORE FINANCIAL STATEMENTS

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

2006/7 £000		2007/8 £000
19,344	Deficit for the year on the Income and Expenditure Account	16,338
(1,787)	Surplus arising on revaluation of fixed assets	(67,071)
(28,542)	Actuarial (gains) / losses on pension fund assets and liabilities	49,439
(819)	Any Other Gains and Losses	93
(11,804)	<b>Recognised gains for the year</b>	<b>(1,201)</b>
(9,744)	Prior year adjustments	(27,872)
<b>(21,548)</b>	<b>Total (Gains)/Losses since last Statement of Accounts</b>	<b>(29,073)</b>

Previous Year Adjustments (PYA's) consist of adjustments to the Government grants / contributions and S106 deferred accounts totalling £29,163k, less £1,245k Financial Instrument Adjustment Account restated opening balance (new reserve in 2007), less £61k Available for Sale Reserve restated amount (new reserve in 2007), plus £15k accrual.

2006/7 £000	Other Gains and Losses	2007/8 £000
(192)	Collection Fund	170
0	Business Improvement District (BID)	(77)
(961)	PFI - Residual Value	0
334	Other (Gains) / Losses	0
<b>(819)</b>		<b>93</b>

# THE CORE FINANCIAL STATEMENTS

## THE BALANCE SHEET

The Balance Sheet shows the financial position of the Council as a whole in relation to the outside world. All internal transactions between Council Services have been eliminated.

2006/7 £000			2007/8 £000
	<b>Fixed Assets</b>		
248	Intangible fixed assets	24	188
587,653	Council Dwellings	23	620,498
370,786	Other land and buildings	23	425,532
10,224	Vehicles, plant, furniture and equipment	23	11,156
76,634	Infrastructure assets	23	81,277
13,424	Community assets	23	13,866
37,885	Investment properties	23	809
8,066	Assets under construction	23	36,739
13,485	Surplus assets held for disposal	23	17,351
<b>1,118,405</b>	<b>Total Fixed Assets</b>		<b>1,207,416</b>
100	Long term investments	26	5,238
14,133	Long term debtors	27	14,912
<b>1,132,638</b>	<b>Total long term assets</b>		<b>1,227,566</b>
	<b>Current Assets</b>		
2,277	Stocks and works in progress	28	2,245
49,121	Debtors	29	35,460
112,300	Investments		155,304
3,469	Cash and bank		2,820
<b>167,167</b>	<b>Total current assets</b>		<b>195,829</b>
<b>1,299,805</b>	<b>Total Assets</b>		<b>1,423,395</b>
	<b>Current Liabilities</b>		
(46,028)	Creditors	30	(43,023)
(9,191)	Bank overdraft		(8,077)
<b>(55,219)</b>	<b>Total current liabilities</b>		<b>(51,100)</b>
<b>1,244,586</b>	<b>Total assets less current liabilities</b>		<b>1,372,295</b>
	<b>Long Term Liabilities</b>		
(344,806)	Long term borrowing	32	(368,659)
(1,516)	Provisions	36	(1,911)
(58,230)	Government grants deferred	39	(62,678)
(28,569)	Government grants unapplied		(46,463)
(45,092)	Deferred liabilities	34	(43,302)
(178,431)	Net Long Term Liability related to defined benefit pension scheme		(232,267)
<b>(656,644)</b>	<b>Total long term liabilities</b>		<b>(755,280)</b>
<b>587,942</b>	<b>Total assets less liabilities</b>		<b>617,015</b>



# THE CORE FINANCIAL STATEMENTS

## THE BALANCE SHEET

2006/7 £000			2007/8 £000
	<b>Represented by:</b>		
(602,130)	Fixed Asset Restatement Account	38	0
0	Revaluation Reserve	37	(75,379)
(84,160)	Capital Financing Account		0
0	Capital Adjustment Account	41	(689,070)
(14,301)	Useable Capital Receipts Reserve	40	(14,018)
(177)	Deferred Capital Receipts	31	(130)
(2,977)	Capital Earmarked Reserves	44	(2,279)
178,431	Pensions Reserve	53	232,267
(5,919)	General Fund Balance	46	(6,181)
(14,214)	Housing Revenue Account Balance	47	(15,830)
(334)	Collection Fund Balance	48	(164)
0	Business Improvement District (BID)	50	(77)
(36,617)	Revenue Earmarked reserves	44	(38,847)
0	Financial Instrument Adjustment Account	42	(422)
0	Available For Sale Financial Instruments Reserve	43	92
(5,544)	Schools Balances	45	(6,977)
<b>(587,942)</b>	<b>Total Net Worth</b>		<b>(617,015)</b>

Signed:	Date:
Corporate Director of Resources	
Chair of Audit and Accounts Committee	

# THE CORE FINANCIAL STATEMENTS

## THE CASHFLOW STATEMENT

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

2006/7 £000		Notes	£000	2007/8 £000
	<b>REVENUE ACTIVITIES</b>			
	<b>Cash outflows –</b>			
258,589	Cash paid to and on behalf of employees		234,431	
283,758	Other operating cash payments		422,655	
26,966	Housing benefits paid out		30,691	
9,321	Precept payment to Police Authority		9,883	
3,975	Precept Payment to Fire Authority		4,215	
70,342	Payment to Non-Domestic Rate Pool		65,612	
652,951				767,487
	<b>Cash inflows -</b>			
(18,597)	Rents (after rebates)		(18,549)	
(66,190)	Council tax receipts		(70,619)	
(76,893)	Distribution from Non-Domestic Rate Pool		(79,082)	
(65,470)	Non-domestic rate receipts		(74,285)	
(15,065)	Revenue Support Grant		(13,272)	
(130,521)	Dedicated Schools Grant		(138,746)	
(26,795)	Government Grant for housing benefits	61	(34,572)	
(85,903)	Other government grants	61	(126,230)	
(186,467)	Cash received for goods and services		(210,773)	
(671,901)				(766,128)
(18,950)	<b>Net Revenue Activities Cashflow</b>	58		1,359
	<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
	<b>Cash outflows –</b>			
19,424	Interest paid		19,227	
0	Interest element of finance leases		0	
19,424				19,227
	<b>Cash inflows -</b>			
(5,491)	Interest received			(7,331)
13,933				11,896

# THE CORE FINANCIAL STATEMENTS

## THE CASHFLOW STATEMENT

2006/7 £000		Notes	£000	2007/8 £000
	<b>CAPITAL ACTIVITIES</b>			
	<b>Cash outflows –</b>			
49,139	Purchase of fixed assets		36,543	
6,208	Deferred charges		7,119	
3,163	Other net capital cash		(7,532)	
	<b>Cash inflows -</b>			
(11,200)	Sales of fixed assets		(15,936)	
(35,526)	Capital grants received	61	(53,064)	
11,784	<b>Net Capital Activities Cashflow</b>			(32,870)
6,767	Net Cash Outflow / (Inflow) before Financing		Inflow	(19,615)
	<b>MANAGEMENT OF LIQUID RESOURCES</b>			
8,070	Net increase / (decrease) in short term deposits			43,004
	<b>FINANCING</b>			
	<b>Cash outflows –</b>			
67,296	Repayments of amounts borrowed		136,955	
	<b>Cash inflows -</b>			
(83,750)	New loans raised		(160,808)	
(16,454)				(23,853)
(1,617)	<b>Net Cash (Inflow) / Outflow = Net Increase / (Decrease) in Cash</b>	59	(Inflow)	(464)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. Expenditure on Services

The analysis of service expenditure is in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2007 (the SORP). The SORP sets out what local authorities should report in their Statement of Accounts.

The classification of services and total cost is fully compliant with the Best Value Code of Practice (BVACOP). The recharged costs of support services are shown only in the gross expenditure of the service receiving them.

No new services have been provided by the City Council in 2007/8.

### 2. Discontinued Service

There have been no discontinued services in 2007/8

### 3. Obligations under Private Finance Initiative (PFI) Contract

Future performance related obligations under operational PFI contracts are as follows:

- Housing Inner City Regeneration:

30-year contract with Home Housing Association, which commenced in January 2001. Gross service charge payments of £0.389m are anticipated in 2008/9. Future cash payments between 2009/10 and the end of the contract are expected to be approximately £11.34m.

- Grouped Schools:

A 27-year PFI contract was signed in November 2004 with Derby School Solutions (DSS), a private sector consortium, to build, maintain and operate 5 new schools in the City. Interim operational services commenced immediately after the contract was signed in respect of the existing schools. The first new school became fully operational in October 2005. Ultimately, the value of contract payments depend on the level of performance of DSS, measured against predetermined standards. However, the maximum payments expected during 2008/9 and 2009/10, will amount to £5.47m and £5.48m respectively. Future total cash payments from 2010/11 onwards for each five-year period to the end of the contract are expected to be as follows:

Period	Amount for five years £	Average annual payment £
2010/11 – 2014/15	£26.6m	£5.3m
2015/16 – 2019/20	£25.1m	£5.0m
2020/21 – 2024/25	£24.3m	£4.9m
2025/26 – 2029/30	£24.2m	£4.8m
2030/31 – 2031/32	£13.5m	£4.9m

Amounts above include for a variation made to the contract in November 2007 to Design, Build, Finance and Operate two additional nurture units and a Children Centre at Lakeside Primary School. Services are expected to commence during September 2008. The contract end date for the variation finishes in line with the original grouped schools contract agreement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- Street Lighting

A 25-year PFI contract was signed in April 2007 with Connecting Roads (Derby), to replace all the life expired lighting units within the city, and to maintain the whole of the lighting of stock for the period of the contract. The first service charge was paid in June 2007. The Core Investment Period of the project is during the first five years of the scheme.

Ultimately, the value of contract payments depend on the level of performance of Connecting Roads (Derby), measured against predetermined standards. However, the maximum payments expected during 2008/9 and 2009/10, will amount to £2.9m and £3.3m respectively. Future total cash payments from 2010/11 onwards for each five-year period to the end of the contract are expected to be as follows:

Period	Amount for five years £	Average annual payment £
2010/11 – 2014/15	£20.7m	£4.1m
2015/16 – 2019/20	£23.0m	£4.6m
2020/21 – 2024/25	£24.6m	£4.9m
2025/26 – 2029/30	£26.3m	£5.3m
2030/31 – 2032/33	£12.4m	£5.5m

- Affordable Housing

A 30-year PFI contract is currently in procurement, to provide a minimum of 175 affordable houses in the City. Two bidders have been selected to proceed to Preferred Bidder stage and are currently in the Competitive Dialogue stage of the process. Financial close is anticipated to be in 2009/10.

### Residual Value Build up for PFI schools and street lighting

Residual value build up reflects a cumulative annual build up of the cost of the assets over the life of the contract, where the total value of the schools and street lighting units will transfer back on to the council's Balance Sheet at the end of the contract term. The Residual Value is included under long-term debtors on the Balance Sheet and will be transferred into Fixed Assets at the end of the contract period.

#### 4. Section 137 Expenditure

Section 137(1) of the Local Government Act 1972 (as amended) enables authorities to incur expenditure not specifically authorised (nor prohibited) under any other power for the benefit of people in their area. The Local Government Act 2000 granting new powers to authorities in England and Wales to promote social, economic and environmental well-being in their area has largely replaced the use of S137(1). Section 137(3), which covers donations to charities and other non-profit organisation operating in the United Kingdom, is still be applicable to the City Council. In 2007/8 there has been no expenditure under that power and there was also no such expenditure in 2006/7.

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

The Council is empowered by this Act to provide goods and services to other public bodies. During 2007/8 there were no material contracts in place.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 6. Trading Services

Trading services have been analysed in accordance with the Best Value Accounting Code Of Practice. The net surplus is after any profit share payments. The following table shows the financial results of each trading service.

2006/7				2007/8		
Income £000	Expenditure £000	(Surplus) /Deficit £000		Income £000	Expenditure £000	(Surplus) /Deficit £000
			<b>Continuing arrangements</b>			
			<b>CCT</b>			
(18,984)	18,780	(204)	Building	(18,089)	17,989	(100)
(3,062)	3,077	15	Building Cleaning/Caretaking	(3,256)	3,142	(114)
(5,051)	5,287	236	Catering	(5,071)	5,113	42
(182)	182	0	School Crossing Patrols	(177)	177	0
(5,881)	5,528	(353)	Waste Management	(6,655)	6,294	(361)
(690)	710	20	Street Lighting	(168)	175	7
(817)	751	(66)	Conveniences/Market Cleaning			
(4,045)	3,814	(231)	Grounds Maintenance	(3,766)	3,726	(40)
(3,291)	3,086	(205)	Other Cleaning (Gullies)	(3,865)	3,865	0
(4,549)	4,710	161	Sports and Leisure Management	(4,608)	4,771	163
(46,552)	45,925	(627)	<b>Net trading (surplus) / deficit</b>	(45,655)	45,252	(403)
0	355	355	<b>ADD FRS17 adjustment</b>		13	13
(46,552)	46,280	(272)	<b>Net (surplus) / deficit in Income &amp; Expenditure Account</b>	(45,655)	45,265	(390)

Deficits have occurred on Street Lighting, Catering and Leisure Services in both 2006/7 and 2007/8. The following action is expected in 2008/9;

- Street Lighting – A 25 year PFI contract has just been signed with Balfour Beatty, therefore this will not be accounted for within the trading accounts in 2008/9.
- Catering – 2008/9 financial outturn will probably again show a loss, due to the service suffering from high levels of food inflation, lower take up in meals due to healthier menus and a general decline in the condition of the kitchens. A report is going to Cabinet at the end September 2008 to explain the current position and possible options to reduce this deficit.
- Leisure Services – Increased promotion and sports development work appears to have increased participation so far in 2008/9. Indications are that the service will break even in 2008/9, however income targets are difficult to predict as we are reliant on people coming through the doors of the Leisure Centres.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 7. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to identify expenditure on certain types of publicity. Publicity expenditure included in the Income and Expenditure Account is as follows.

2006/7 £000		2007/8 £000
639	Recruitment advertising	758
366	Other publicity	607
1,005		1,365

### 8. Building Control Account

The Building (Local Authority Charges) Regulations 1988 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The following statement shows the total cost of building control operations split between the chargeable and non-chargeable activities. The chargeable trading deficit of £31,322 in 2007/8 has been met from the ring fenced Building Control Trading Reserve. The remaining expenditure and income is included within Cultural, Environmental and Planning Services in the Income and Expenditure Account.

Total Building Control 2006/7 £000		Chargeable 2007/8 £000	Non-chargeable 2007/8 £000	Total Building Control 2007/8 £000
	<b>Expenditure</b>			
709	Employee expenses	472	236	708
1	Premises costs	0	0	0
21	Transport	16	8	24
51	Supplies and Services	33	20	53
123	Central support service charges	164	42	206
905	<b>Total Expenditure</b>	<b>685</b>	<b>306</b>	<b>991</b>
	<b>Income</b>			
(618)	Building Regulations charges	(654)	0	(654)
(6)	Other Income	0	(6)	(6)
(624)	<b>Total Income</b>	<b>(654)</b>	<b>(6)</b>	<b>(660)</b>
281	<b>(Surplus) / Deficit for the year</b>	<b>31</b>	<b>300</b>	<b>331</b>

The trading deficit during 2007/8 is primarily due to the noticeable downturn in the construction industry in general, but over the last 3 years we have also experienced increased competition from private sector building inspectors.

In order to mitigate the impact of this during 2008/9 we are providing Building Inspection Services to another Local Authority: this generates additional plan vetting fees. For the longer term we are also investigating the possibility of more formal partnership working with neighbouring District Authorities which could produce some economies of scale - this is at the very early stages of discussion at present.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 9. Pooled Budgets

The Council has entered into a pooled budget arrangement with Derby City PCT to provide an integrated disabled children's service (IDCS). The IDCS pooled budget operates under Section 31 of the Health Act 1999 and the Council is acting as the host partner.

The IDCS pooled budget provides a range of services for disabled children which include:

- Residential overnight short breaks
- Community activities and family support
- Nursery, early years and group work for under 5's
- Assessment and care planning
- Provision of equipment and aids
- Emergency support to families

The objectives of the IDCS are to:

- support and prevent family breakdown
- prevent children requiring tier 4 services (hospitalisation/ public care)
- support families through crisis
- promote independence and develop skills in the children
- quality assure packages of support
- enable children to live safely in appropriate environments
- provide early years education for babies and toddlers who may be prevented from accessing provision due to their complex health and disability needs.

Income and expenditure for the 2007/08 financial year, are as follows:

2006/07 £'000	Integrated Disabled Children's Service	2007/08 £'000
	<b>Income</b>	
1,217	Social Services	909
930	Central Derby PCT	949
225	Other income	205
<b>2,372</b>	<b>Gross income</b>	<b>2,063</b>
	<b>Expenditure</b>	
931	Residential services	995
366	Community Service Team (Outreach service)	371
412	Disability social work services	102
559	Management and Administration	623
<b>2,268</b>		<b>2,090</b>
<b>104</b>	<b>Surplus/(deficit) for the period</b>	<b>(27)</b>
27	Surplus/(deficit) brought forward	131
<b>131</b>	<b>Surplus/(deficit) carried forward</b>	<b>104</b>

This expenditure and income is included within the Children's and Education Services category within the Income and Expenditure Account.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 10. Officers' Remuneration

The number of employees whose total remuneration, excluding employer's pension contributions, was £50,000 or more is shown below, in bands of £10,000. Remuneration includes all taxable pay and benefits:

Number of employees 2006/7	Total Remuneration	Number of employees 2007/8
91	£50,000 - £59,999	119
21	£60,000 - £69,999	21
15	£70,000 - £79,999	23
3	£80,000 - £89,999	3
2	£90,000 - £99,999	3
3	£100,000 - £109,999	3
2	£110,000 - £119,999	3
0	£120,000 - £129,999	0
1	£130,000 - £139,999	0
0	£140,000 - £149,999	1
<b>138</b>	<b>Total number of officers with remuneration over £50,000</b>	<b>176</b>

### 11. Members' Allowances

In 2007/8 the Council paid a total of £772,134 (£756,763 in 2006/7) to its members in the form of allowances. These comprised of basic and special responsibility allowances.

### 12. Transactions with Related Parties

The Accounting Code of Practice requires that disclosure be made of material transactions with related parties. For local government these parties are mainly central government, other local authorities or precepting bodies, subsidiary and associated companies, joint ventures and joint venture partners, members and chief officers and the pension fund.

#### Central Government, Other Local Authorities or Precepting Bodies

Disclosure is made in both the Collection Fund and Income and Expenditure Account of the main transactions with these bodies, together with a statement of debtors and creditors in the notes to the Balance Sheet.

#### Subsidiary and Associated Companies

The Council has included £1.104m (£1.612m in 2006/7) income from Derby Homes Limited for the provision of support services, paid out of the management fee Derby Homes received from the Housing Revenue Account. This income is included in the Income and Expenditure Account.

The Council has no other subsidiary or associated companies during the financial year.

#### Joint Ventures and Joint Venture Partners

The Council owns a 19.9% minority interest in a joint venture company with Bowmer & Kirkland Ltd (Derby City Homes Regeneration Ltd) with the objective of refurbishment of vacant properties owned by the Council which are in disrepair in order to bring such properties back into use for social housing.

## **NOTES TO THE CORE FINANCIAL STATEMENTS**

### **Members and Chief Officers**

Council members make disclosures of their pecuniary and non-pecuniary interests to the Council's monitoring officer and have to make declarations on individual committee agenda items. In addition, where members are nominated by the Council to sit on outside bodies, this is reported to the Council.

During 2007/8 services to the value of £172k were commissioned from companies in which one member had an interest. This relationship had no bearing on any decision made. Contracts were entered into following full compliance with the council's procedure rules. In addition, the Council paid grants totaling £278k to voluntary organisations in which two members had an interest. These grants were made with proper consideration of declarations of interest.

During 2007/8 the Chief Executive of the City Council and one member held the position of Director of Derby Cityscape Limited which received a contribution of £252k from the Council. The Chief Executive did not take part in any administration of the company and received no payment from them. The Council does not have a controlling interest in the company.

The Director for Children and Young People is one of four members of the management board of Connexions, representing the City Council. Connexions are one of the organisations receiving external funding through the Local Area Agreement administered by the City Council. However, the City Council's representation on the management board has not influenced the amount of funding received in 2007/8, only how the funding will be used.

### **Partnership and Accountable Body Arrangements**

Transactions totalling £5.8m (£5.6m in 2006/7) relating to the Derwent New Deal for Communities programme are included in the Income and Expenditure Account. This is because the Authority acts as Accountable Body for funding streams managed by these organisations and consequently enters into funding contracts on their behalf.

The Derwent Community Team Management Board manages the Derwent New Deal for Communities 10 year programme that commenced in 2001 and aims to improve the quality of life of all residents of Derwent.

Derby City Partnership is the City's Local Strategic Partnership and is responsible for bidding for, and management of, most external funding including national and European Union funded action plans. The Partnership was formed in 1995 and represents a range of organisations with an interest in the economic and social regeneration of Derby. It includes over 200 organisations plus community representatives. The Derby City Partnerships includes the External Funding Management Groups and the Community Safety Partnership who manage individual funding streams on behalf of the partnership.

In addition, Social Services and Children and Young People includes £12.008m income from other local authorities, Health Authorities and other partners for the provision of services. This income is not received as part of a pooled budget agreement.

## **13. Local Area Agreements**

The Council acts as the accountable body for the Local Area Agreements. This means that the Council is responsible for the financial and performance management of the Local Area Agreement (LAA) grant received from the Department for Communities and Local Government (DCLG).

Decisions on awarding the LAA grant and the selection of indicators which the delivery of the grant is measured against are driven through Derby City Partnership (DCP) who are the Local

## **NOTES TO THE CORE FINANCIAL STATEMENTS**

Strategic Partnership and are overseen by the DCP's Strategy Co-ordination Group – SCG. The Partnership represents a range of organisations with an interest and commitment to the economic and social regeneration of Derby.

In 2007/08 the Local Area Agreement (LAA) has completed the third year of its three year agreement and grant totalling £19.4m (which includes £4.3m Neighbourhood Renewal Fund) was received in respect of this and managed through the Council, in accordance with DCLG guidance. £272,000 ringfenced element of this grant has been carried forward to 2008/09 as per the Statement of Grant Usage reported to DCLG.

### **14. Auditors Fees**

The auditors Grant Thornton were appointed 1<sup>st</sup> April 2007 with regard to external audit services under the Audit Commission Act 1998. Fees payable for Audit Code work in the financial year 2007/8 were £197,300 (no payments were made to Grant Thornton in 2006/7). During 2006/7 the appointed auditors were PricewaterhouseCoopers LLP. Payments in relation to continuing Audit Code work in 2007/8 were £99,000 (£247,500 in 2006/7 payable to PricewaterhouseCoopers LLP).

The fees payable to the Audit Commission in respect of statutory inspections in the financial year 2007/8 totalled £22,125 (£21,553 in 2006/7) in accordance with the Local Government Act 1999.

The fees payable for certification of claims returns totalled £141,508 (£113,591 in 2006/7) payable to PricewaterhouseCoopers LLP under the Audit Commission Act 1998.

All of the above figures are shown on cash paid basis. This is a departure from SORP 2007 which requires amounts to be shown on an accrual basis. However there is no material difference between the two bases stated.

### **15. Deferred Charges**

To fully comply with capital accounting requirements, grant income used to finance deferred charge expenditure has been amortised to revenue to match the amortised expenditure.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 16. Financial instruments Gains/Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets			Total £000
	measured at amortised cost £000	Loans and receivables £000	Available-for-sale assets £000	Fair value through the I&E £000	
Interest expense	0	0	(3)	0	(3)
Losses on derecognition	0	0	0	0	0
Impairment losses	0	0	0	0	0
<b>Interest payable and similar charges</b>	<b>0</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(3)</b>
Interest income	0	0	95	0	95
Gains on derecognition	0	0	0	0	0
<b>Interest and investment income</b>	<b>0</b>	<b>0</b>	<b>95</b>	<b>0</b>	<b>95</b>
Gains on revaluation	0	0	0	0	0
Losses on revaluation	0	0	0	0	0
Amounts recycled to the I+E Account after impairment	0	0	0	0	0
<b>Surplus arising on revaluation of financial assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net gain/(loss) for the year</b>	<b>0</b>	<b>0</b>	<b>92</b>	<b>0</b>	<b>92</b>

The interest gain on the "Available for Sale" assets arises from differences between the coupon interest rates of the Council's forward deals and the interest rates available from the financial markets on 31 March 2008. Generally, comparable interest rates were lower on 31 March 2008 than the rates at which the forward deals had been agreed.

Although classed as "Available for Sale" the Council's forward deals are not tradeable, and the Council owns no tradeable financial instruments.

The Council has no other assets or liabilities that are subject to financial instrument gains or losses.

### 17. Housing Services

Expenditure and income on housing services includes the separate, ring-fenced Housing Revenue Account (HRA), which has been fully consolidated into the Income and Expenditure Account under SORP 2007.

The costs of providing council housing do not fall on the council tax payer, however, and the net surplus or deficit is transferred to the HRA to ensure this. Details of the Housing Revenue Account, including housing repairs can be found on page 56.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 18. Leases – Disclosure by Lessees

Operating lease rentals paid in the year amounted to £0.227m General Fund (£0.284m 2006/7) and £0.409m HRA (£0.506m 2006/7). There were no hire purchase payments in the year and there are no such agreements outstanding. As at 31 March 2008, the Council had a commitment to meet the following payments under existing operating leases:

Financial Year	HRA £000	General Fund £000	Total £000
2007/2008	409	227	636
2008/2009	360	103	463
2009/2010	334	99	433
2010/2011	302	86	388
2011/2012	152	86	238

### 19. Contributions to Joint Committees and Joint Bodies

The City Council contributes to Derbyshire County Council towards the cost of the Coroners, Emergency Planning and Concessionary Fares services.

### 20. Deployment of Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Details of the deployment of Dedicated Schools Grant receivable for 2007/8 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the authority's budget	12,459	125,665	138,124
Adjustment to finalised grant allocation	622	0	622
DSG receivable for the year	13,081	125,665	138,746
Actual expenditure for the year	(12,823)	(124,273)	(137,096)
<b>(Over) / underspend carried forward to 2008/9</b>	<b>258</b>	<b>1,392</b>	<b>1,650</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21. Pensions

#### a) Local Government Pension Scheme (LGPS)

As part of the terms and conditions of employment of its officers and other employees, the Council 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 Council participates in the Local Government Pension Scheme. The Local Government Pension Scheme for civilian employees, administered by Derbyshire County Council – is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The cost of retirement benefits is recognised 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 against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure. The following transactions have been made in the Income and Expenditure Account during the year:

Local Government Pension Scheme 2006/7 £000		Local Government Pension Scheme 2007/8 £000
19,487	<b>Net Cost of Services</b>	16,086
190	• Current Service Cost	4,851
55	• Past Service Cost/(Gain)	75
	• Curtailment Loss	
27,796	<b>Net Operating Expenditure</b>	31,206
(23,866)	• Interest cost	(28,195)
	• Expected return on assets in the scheme	
23,662	<b>Amounts to be met from Government Grants and Local Taxation</b>	
	• Movement on pensions reserve	24,023
18,576	<b>Actual amount charged against council tax for pensions in the year:</b>	19,450
	• Employers' contributions payable to scheme including added years	

The Annual Report of the Derbyshire Pension Fund is available from Derbyshire County Council.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Teachers Pension Scheme

The Teachers' Pension Scheme is a defined contribution scheme which is accounted for by charging employer contributions to the Net Cost of Services as they become payable by the City Council. In 2007/8 the Council paid £10.595m to the Teachers Pensions Agency in respect of teachers' pension costs (£9.976m in 2006/7). The contribution rate for 2007/8 was 14.1% (13.5% 2006/7).

In addition to this the Council is responsible for all pension payments relating to added years' benefits that it, or its predecessor Derbyshire County Council, has awarded. These are accounted for in the Income and Expenditure Account as follows:

<b>Teachers' Pension Scheme</b> <b>2006/7</b> <b>£000</b>		<b>Teachers' Pension Scheme</b> <b>2007/8</b> <b>£000</b>
<b>70</b> <b>0</b>	<b>Net Cost of Services</b> <ul style="list-style-type: none"> <li>• Past Service Cost</li> <li>• Curtailment Cost</li> </ul>	<b>0</b> <b>230</b>
<b>1,000</b> <b>0</b>	<b>Net Operating Expenditure</b> <ul style="list-style-type: none"> <li>• Interest cost</li> <li>• Expected return on assets in the scheme</li> </ul>	<b>1,051</b> <b>0</b>
<b>1,070</b>	<b>Amounts to be met from Government Grants and Local Taxation</b> <ul style="list-style-type: none"> <li>• Movement on pensions reserve</li> </ul>	<b>1,281</b>
<b>1,393</b>	<b>Actual amount charged against council tax for pensions in the year:</b> <ul style="list-style-type: none"> <li>• Employers' contributions payable in respect of added years</li> </ul>	<b>1,457</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 22. Movement on Reserves

	<b>Balance at 31 March 2007 £000</b>	<b>SORP 2007 Changes £000</b>	<b>Gains or Losses During the Year £000</b>	<b>Transfers to/from Other Reserves £000</b>	<b>Balance at 31 March 2008 £000</b>
Fixed Asset Restatement Account	<b>(602,130)</b>	602,130	0	0	<b>0</b>
Capital Financing Account	<b>(84,160)</b>	84,160	0	0	<b>0</b>
Revaluation Reserve	<b>0</b>	0	(85,593)	10,214	<b>(75,379)</b>
Capital Adjustment Account	<b>0</b>	(686,290)	11,753	(14,533)	<b>(689,070)</b>
Usable Capital Receipts Reserve	<b>(14,301)</b>	0	(3,039)	3,322	<b>(14,018)</b>
Deferred Capital Receipts	<b>(177)</b>	0	0	47	<b>(130)</b>
Capital Earmarked Reserves	<b>(2,977)</b>	0	(252)	950	<b>(2,279)</b>
Pensions Reserve	<b>178,431</b>	0	53,836	0	<b>232,267</b>
General Fund Balance	<b>(5,919)</b>	0	0	(262)	<b>(6,181)</b>
Housing Revenue Account Balance	<b>(14,214)</b>	0	(1,616)	0	<b>(15,830)</b>
Collection Fund Balance	<b>(334)</b>	0	170	0	<b>(164)</b>
Business Improvement District Reserve (BID)	<b>0</b>	0	(77)	0	<b>(77)</b>
Revenue Earmarked Reserves	<b>(36,617)</b>	(31)	(2,461)	262	<b>(38,847)</b>
Financial Instruments Adjustment Account	<b>0</b>	1,146	(1,568)	0	<b>(422)</b>
Available for Sale Reserve	<b>0</b>	31	61	0	<b>92</b>
Schools Balances	<b>(5,544)</b>	0	(1,433)	0	<b>(6,977)</b>
	<b>(587,942)</b>	<b>1,146</b>	<b>(30,219)</b>	<b>0</b>	<b>(617,015)</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 23. Tangible Fixed Assets

#### a. Movement in fixed assets 2007/8

The table below shows the movements in fixed assets for the year.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Investment Properties	Surplus Properties	Construction & Work in Progress	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Net book value at 31 March 2007</b>	<b>587,653</b>	<b>370,786</b>	<b>10,224</b>	<b>76,634</b>	<b>13,424</b>	<b>37,885</b>	<b>13,485</b>	<b>8,066</b>	<b>1,118,157</b>
Re-classifications	(864)	40,003	0	50	371	(35,814)	(476)	(3,270)	<b>0</b>
Revaluations	51,527	19,813	0	0	6	0	6,136	0	<b>77,482</b>
Impairment revaluation decreases	(1,990)	(3,789)	(56)	0	0	(1,262)	(897)	0	<b>(7,994)</b>
<b>Value at 1 April 2007</b>	<b>636,326</b>	<b>426,813</b>	<b>10,168</b>	<b>76,684</b>	<b>13,801</b>	<b>809</b>	<b>18,248</b>	<b>4,796</b>	<b>1,187,645</b>
Additions	2,940	5,135	3,622	6,699	65	0	0	31,943	<b>50,404</b>
Additions – Deminimus	0	344	9	9	5	0	7	0	<b>375</b>
Additions – Impairment	7,050	13,525	385	504	668	20	0	0	<b>22,152</b>
Disposals	(6,002)	0	0	0	0	0	(897)	0	<b>(6,899)</b>
<b>Gross book value</b>	<b>640,314</b>	<b>445,817</b>	<b>14,184</b>	<b>83,896</b>	<b>14,539</b>	<b>829</b>	<b>17,358</b>	<b>36,739</b>	<b>1,253,676</b>
Depreciation for the year	(12,766)	(6,416)	(2,634)	(2,105)	0	0	0	0	<b>(23,921)</b>
De-minimis capital expenditure written out to revenue	0	(344)	(9)	(10)	(5)	0	(7)	0	<b>(374)</b>
Capital expenditure impairment	(7,050)	(13,525)	(385)	(504)	(668)	(20)	0	0	<b>(22,153)</b>
<b>Net book value at 31 March 2008</b>	<b>620,498</b>	<b>425,532</b>	<b>11,156</b>	<b>81,277</b>	<b>13,866</b>	<b>809</b>	<b>17,351</b>	<b>36,739</b>	<b>1,207,229</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### b. Commitments under capital contracts

The council has ongoing commitments on capital schemes totalling £45,655k. These are summarised by directorate below.

	2008/9 £000
Children and Young Peoples Services	29,468
Regeneration and Community Services	9,482
Corporate and Adult Social Services	6,127
Environmental Services	3,578
<b>Total</b>	<b>45,655</b>

### c. Significant capital expenditure included in the above departmental commitments are as follows:-

- Connecting Derby £1.245m to progress the completion of the Inner Ring Road and the King Street Link.
- Condition and modernisation projects in a range of schools relating to roofing, structural and rewiring schemes (£7m), rebuild of Sinfin School (£10m), creation of a new autistic unit (£1m) and rebuild of Ivy House Special School (£5m).
- The Housing capital programme includes schemes totalling £11.6m focussing on routine, ongoing replacement of worn out building elements such as kitchens, bathrooms, heating systems and windows. There is also a capital element in the Estates Pride Fund, which makes improvements to the external environment of Council estates. In addition the private sector element of the programme includes schemes totalling £10.9m to bring homes to the Decent Homes Standard, particularly those occupied by vulnerable householders delivering home adaptations for disabled people and helping older low income homeowners 'stay put' in their homes through the provision of financial assistance. Also within the private sector element are schemes to bring empty properties back into use as well as area based housing regeneration.
- Derby's visual art and media centre £1.678m. Completion of the £10.8m programme to develop and construct QUAD.

### d. Tangible fixed asset valuation

The freehold and leasehold assets that comprise the Authority's fixed asset portfolio have been valued as at 1 April 2007 by the Council's Chief Estates Officer, S J Meynell, ARICS. The valuations detailed below are in accordance with the Statement of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors (RICS), except that buildings were not inspected where this was either impracticable or considered by the valuer to be unnecessary for the purpose of valuation. Static plant and machinery is included within the valuation of buildings.

Property valuations are performed as part of a rolling programme to ensure that all assets are reviewed over a 5 year cycle in accordance with recommended practice.

Valuation of the Council housing stock was carried out in accordance with Government guidance on existing use value for social housing, as defined by the RICS. The beacon principle was used to arrive at the vacant possession value of the properties and adjusted to reflect occupation by a secure tenant.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Buildings regarded by the Council as operational have been valued at open market value for existing use or, where there was insufficient evidence of market transactions for that use, at the depreciated replacement cost.

Non-operational buildings have been valued in all cases on the basis of open market value. The valuations were carried out on the basis of existing records with limited site inspections.

Vehicles, plant and equipment, infrastructure and community assets are all valued at historic cost, and as such require no formal valuation.

Further detailed information regarding the various valuations is set out in a valuation certificate.

### e. Depreciation

Depreciation has been provided for on assets with a finite useful life in accordance with Financial Reporting Standard 15 and SORP 2007. There is no requirement to depreciate land assets.

In calculating depreciation, the straight line method has been adopted using a prudent estimate for the useful economic life and residual land value for individual assets within each category. A maximum life of 50 years is used for all assets, although each asset is considered individually based on its condition and construction. The asset register contains the detailed information used in the depreciation calculation.

The following table details the cumulative provisions for depreciation for each category of assets as at 31 March 2008.

Asset Category	Depreciation provision at 1 April 2007	Depreciation for 2007/8	Depreciation provision at 31 March 2008
Council Dwellings	(69,563)	(12,766)	(82,329)
Other Land and buildings	(36,072)	(6,416)	(42,488)
Vehicles, plant and equipment	(11,569)	(2,634)	(14,203)
Infrastructure	(13,794)	(2,105)	(15,899)
Community Assets	(185)	0	(185)
Investment properties	(46)	0	(46)
Intangible Assets	(13)	(87)	(100)
<b>Total</b>	<b>(131,242)</b>	<b>(24,008)</b>	<b>(155,250)</b>

### f. Impairment

Although the borrowing for capital works has increased, works included within this spending, as detailed below, do not increase asset value but merely bring the property and infrastructure up to a reasonable standard. This expenditure has occurred as a result of clear consumption of economic benefits of Council assets and is known as impairment works.

As well as impairment losses incurred from in year capital expenditure, impairment also occurs through the annual revaluation process. Impairment losses due to revaluation total £7.5m and have been accounted for as part of the rolling programme of revaluations.

As with all capital expenditure, impairment works carried out in year will be partly funded through government grants, contributions and Section 106 contributions. Therefore the corresponding grant funding for impairment losses have been written down to revenue (£7.7m).

## NOTES TO THE CORE FINANCIAL STATEMENTS

The impairment balance is as follows:-

	Total £000
Bal Bfwd	0
<b>Add</b>	
Revaluation Losses	7,994
Capital expenditure in year (Consumption of economic benefits)	22,152
<b>Less</b>	
Financed by Government Grants & Contributions	(7,778)
<b>Total Net Impairment Losses</b>	<b>22,368</b>

### 24. Intangible Fixed Assets

In accordance with the SORP 2007 intangible fixed assets are required to be carried on the Balance Sheet at cost. They represent capital expenditure that does not result in a fixed asset with physical substance for the Authority. The expenditure in this instance relates to the purchase of software licences

	Total £000
Balance at 31 March 2007	248
Additions	27
Amounts Amortised in year to Service Revenue Accounts	(87)
<b>Balance at 31 March 2008</b>	<b>188</b>

### 25. Financing of Capital Expenditure

Financing	£000	Expenditure	£000
Borrowing	16,354	Tangible Fixed Assets	73,392
Capital Receipts	3,250	Intangible Fixed Assets	27
Government / other grants	42,864	Deferred Charges	8,122
Major Repairs Allowance	7,647	Movement in working capital	27
Revenue and Revenue Reserves	4,198		
Other external contributions	6,295		
Capital reserves	960		
<b>Total</b>	<b>81,568</b>		<b>81,568</b>

Deferred charge expenditure has been fully amortised to revenue, along with any grant funding, in 2007/8. However, under the capital control framework this expenditure is still classed as capital expenditure and capital financing applies as shown above.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 26. Long Term Investment

The Council holds an investment of £100,000 in ADC (Properties) Ltd which is due for repayment in October 2008 and has therefore been transferred to short term investments.

A further long term investment of £5m with the Chelsea Building Society was entered in to on 3 July 2007 which matures with interest on 2 July 2010.

<b>31 March 2007 £000</b>	Long Term Investments	<b>31 March 2008 £000</b>
100	ADC (Properties) Ltd	0
0	Chelsea Building Society	5,000
0	Accrued Interest on Investment with Chelsea Building Society	238
<b>100</b>	<b>TOTAL</b>	<b>5,238</b>

### 27. Long Term Debtors

The deferred consideration reflects PFI contract prepayments made where the payment gave rise to a future benefit for the Council. In 2007/8 there was a further prepayment and the amortisation to revenue over the period of the future benefit began.

<b>31 March 2007 £000</b>		<b>Additions £000</b>	<b>Reductions £000</b>	<b>31 March 2008 £000</b>
<b>8,601</b>	Deferred consideration – Schools PFI	0	(347)	<b>8,254</b>
<b>1,021</b>	Residual value – Schools PFI	1,405	0	<b>2,426</b>
<b>114</b>	Mortgages for sales of council housing	0	(18)	<b>96</b>
<b>21</b>	Loans to housing associations	0	(21)	<b>0</b>
<b>4,252</b>	Derbyshire County Council 1974 transferred funds	0	(206)	<b>4,046</b>
<b>70</b>	Car Loans to Employees	0	(24)	<b>46</b>
<b>54</b>	Other loans	0	(10)	<b>44</b>
<b>14,133</b>	<b>TOTAL</b>	<b>1,405</b>	<b>(626)</b>	<b>14,912</b>

#### Residual Value Build up for PFI schools

Residual value build up reflects a cumulative annual build up of the cost of the assets over the life of the contract, where the total value of the schools will transfer back on to the Council's Balance Sheet at the end of the contract term. The Residual Value is included under long term debtors on the Balance Sheet and will be transferred into Fixed Assets at the end of the contract period.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 28. Stocks and Work in Progress

31 March 2007 £000		31 March 2008 £000
	<b>Stocks</b>	
195	Trading Services	132
1,642	DICES	1,706
111	Other departments	126
1,948		1,964
	<b>Work in progress</b>	
329	Trading Services	281
2,277	<b>Total</b>	2,245

### Derby Integrated Community Equipment Services (DICES)

This is a joint project hosted by Derby City Council to provide equipment to service users to enable rehabilitation in their own homes.

### 29. Debtors

The table below shows an analysis of the amounts owing to the Council at the balance sheet date.

31 March 2007 £000		31 March 2008 £000
	<b>Amounts falling due within one year</b>	
18,671	Government Departments	13,642
1,674	Other local authorities	1,643
10,474	Council taxpayers	10,266
1,649	Business ratepayers	2,415
888	Housing rents	658
700	PWLB loan restructuring premium	0
25,208	Sundry debtors	20,001
59,264		48,625
(10,143)	Provision for bad and doubtful debts	(13,165)
49,121	<b>Total</b>	35,460

### 30. Creditors

The table below analyses the Council's creditors at the balance sheet date.

31 March 2007 £000		31 March 2008 £000
122	PWLB Borrowing with less than one year to maturity	3,126
15,376	Government Departments	9,615
3,011	Other local authorities	3,159
257	Council taxpayers	119
418	Business ratepayers	841
932	PWLB loan restructuring discounts	0
25,911	Sundry creditors	26,163
46,027	<b>Total</b>	43,023

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 31. Deferred Capital Receipts

Deferred capital receipts are amounts mainly derived from sales of assets, which will be received in instalments over agreed periods of time. They arise principally from mortgages given by the Council to finance the purchase of council housing. They totalled £0.130m at 31 March 2008 (£0.177m at 31 March 2007) and are matched by sums included in long-term debtors.

### 32. Long Term Borrowing

The following table shows an analysis of the Council's long term borrowing at the balance sheet date.

Total Outstanding 31 March 2007 £000		Range of interest rates payable %	Total Outstanding 31 March 2008 £000
	<b>Source of loan</b>		
322,106	Public Works Loan Board	3.876 to 6.748	365,292
0	Premiums and Discounts rescheduling and interest	n/a	3,367
22,700	Money Market	0	0
<b>344,806</b>	<b>TOTAL</b>		<b>368,659</b>
	<b>Analysis of loans by maturity</b>		
0	Premiums and Discounts rescheduling and interest	n/a	3,367
3,114	Maturing within 1 - 2 years - PWLB	4.284	3,102
22,700	Maturing within 1 - 2 years – Money Market	0	0
13,211	Maturing within 2 - 5 years	3.877	4,119
3,519	Maturing within 5 – 10 years	4.175	11
302,262	Maturing after 10 years	4.566	358,060
<b>344,806</b>			<b>368,659</b>
<b>325,179</b>	Fair value re PWLB (incl all debt not that just over 1 year to maturity)		<b>399,278</b>
<b>24,187</b>	Fair value re Money Market		<b>0</b>
<b>349,366</b>	<b>Total Fair Value</b>		<b>399,278</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 33. Financial Instruments Balances

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

	Long-Term		Current	
	31 March 2007	31 March 2008	31 March 2007	31 March 2008
	£000	£000	£000	£000
<b>Financial liabilities (principal amount)</b> <i>This is the actual value of the loan, not arising from any adjustments</i>	344,806	365,292	122	3,114
<b>Financial liabilities at amortised cost</b>	344,918	368,659	10	3,204
<b>Financial liabilities at fair value through the I&amp;E</b>	0	0	0	0
<b>Total borrowings</b>	<b>344,918</b>	<b>368,659</b>	<b>10</b>	<b>3,204</b>
<b>Loans and receivables (principal amount)</b> <i>This is the actual value of the loan, not arising from any adjustments</i>	100	5,000	112,300	151,500
<b>Loans and receivables at amortised cost</b>	100	5,306	112,300	154,667
<b>Available-for-sale financial assets</b>	0	0	0	92
<b>Financial Assets at fair value through the I&amp;E</b>	0	0	0	0
<b>Unquoted equity investment at cost</b>	0	0	0	0
<b>Total investments</b>	<b>100</b>	<b>5,306</b>	<b>112,300</b>	<b>154,759</b>

Figures relating to 31 March 2007 are as shown in the accounts for 2006/7. Figures relating to 31 March 2008 are shown at amortised cost and fair value as per the 2007 SORP.

### 34. Deferred Liabilities/Credits

31 March 2007 £000		31 March 2008 £000
<b>43,321</b>	<b>Deferred Liabilities</b> Share of liability for the payment of a proportion of the County Council's debt charges on becoming a Unitary Authority on 1 April 1997.	<b>41,598</b>
<b>1,430</b>	Loans transferred from neighbouring authorities in 1968	<b>1,330</b>
<b>341</b>	Other	<b>374</b>
<b>45,092</b>	<b>TOTAL</b>	<b>43,302</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 35. 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 on implementing restrictions to minimise these risks. The procedures for risk management are set out in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

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

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

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

#### Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

Deposits with banks and financial institutions	Amount at 31 March 2008 £000	Historical experience of default %	Adjustment for market conditions at 31 March 2008 %	Estimated maximum exposure to default £000
	(a)	(b)	(c)	(a * c)
AAA rated counterparties	18,535	0.000%	0.000%	0
AA rated counterparties	15,980	0.000%	0.000%	0
A rated counterparties	70,985	0.013%	0.013%	9
Other counterparties	51,000	0.007%	0.007%	4
Trade debtors	27,431	4.000%	4.000%	1,097
	<b>183,931</b>			<b>1,110</b>

The Council also uses non-credit rated institutions (for instance smaller building societies). In these circumstances these investments have been classified as "Other counterparties" and the historical experience of default has been taken to be the same as other building societies (although it differs in the table above due to the shorter average length of investment held with "Other counterparties").

The Council has a £5m investment with Northern Rock plc, whose rating grade is A, and has been included in this category above. The Bank is currently nationalised with a three-month notice period for de-nationalisation and guarantees are currently in force for long standing deposits.

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

The Council does not generally allow credit for its trade debtors, such that £7,037k of the £27,431k balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than three months	3,874
Three to six months	77
Six months to one year	1,093
More than one year	1,993
	<b>7,037</b>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Liquidity risk

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

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

### Refinancing and Maturity Risk

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

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

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

The maturity analysis of financial assets and liabilities is as follows:

<b>Assets</b>	<b>£000</b>	<b>Liabilities</b>	<b>£000</b>
Less than one year	151,500	Less than one year	3,013
Between one and two years	0	Between one and two years	3,027
Between two and three years	5,000	Between two and seven years	4,296
More than three years	0	Between seven and 15 years	13,505
		More than fifteen years	344,565
	<b>156,500</b>		<b>368,406</b>

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

### Market Risk

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	<b>£000</b>
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	(189)
Impact on Income and Expenditure Account	(189)
Increase in Government grant receivable for financing costs	0
Share of overall impact debited to the HRA	0
Decrease in fair value of fixed rate investment assets	0
Impact on STRGL	0
Decrease in fair value of fixed rate borrowings liabilities (no impact on I+E Account or STRGL)	60,678

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

**Price Risk** - The Council does not invest in equity shares and so is not exposed to losses 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

36. **Provisions** Provisions have been made for known liabilities uncertain as to the amount or timing in compliance with FRS 12.

2006/7 £000		2007/8 £000
	<b>Provision for uninsured risks</b>	
817	Balance at 1 April	729
3	Provision made in year	777
(91)	Provision used and written back in year	(909)
<b>729</b>	<b>Balance at 31 March</b>	<b>597</b>
	<b>Provision for future pension payments</b>	
769	Balance at 1 April	777
8	Provision made in year	42
0	Provision used in year	(31)
<b>777</b>	<b>Balance at 31 March</b>	<b>788</b>
	<b>Other provisions</b>	
30	Balance at 1 April	10
0	Provision made in year	537
(20)	Provision used and written back in year	(21)
<b>10</b>	<b>Balance at 31 March</b>	<b>526</b>
<b>1,516</b>	<b>TOTAL PROVISIONS AT 31 MARCH</b>	<b>1,911</b>

### Provisions for Uninsured Risks

	2007/8 £000
To cover any third party excess on public liability claims	516
To cover excesses under existing insurance policies with Zurich	13
To cover third party excess on public liability claims	68
<b>Total Provisions for Uninsured Risks</b>	<b>597</b>

### Provisions for Future Pension Payments

	2007/8 £000
Provision to enable continued funding of liabilities for former DCT (passenger transport) employees' pension	770
Added years pension costs from commercial services associated with the removal of the attendants function within city centre public conveniences	18
<b>Total Provisions for Future Pension Payments</b>	<b>788</b>

### Other Provisions

	2007/8 £000
Land Charges Provision	(11)
Outstanding equal pay claims	537
<b>Total Other Provisions</b>	<b>526</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 37. Revaluation Reserve

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/7 to accommodate the implementation of the Revaluation Reserve. The Revaluation Reserve supersedes the Fixed Asset Restatement Account (FARA). The credit balance of £602.13m on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£84.16m credit balance) to form the new Capital Adjustment Account with an opening credit balance of £686.30m. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007. Any upward revaluation gains are now taken to the revaluation reserve together with any corresponding impairment losses if there is an asset gain in the revaluation reserve for that asset. The revaluation reserve balance is as follows:-

	<b>Total £000</b>
Balance at 31 March 2007	<b>0</b>
Revaluation of Fixed Assets	<b>(77,482)</b>
Historic cost depreciation adjustment	<b>1,322</b>
Impairment expenditure in year – write down of revaluation gains	<b>459</b>
Disposals – write down of revaluation gains	<b>322</b>
<b>Balance at 31 March 2008</b>	<b>(75,379)</b>

The revaluations include revaluation increases of £51.5m in relation to council dwellings, £19.8m relating to buildings and land and £5.3m relating to surplus properties.

### 38. Fixed Asset Restatement Account

The SORP 2007 no longer requires entries to be made to this account. The balance on the account has therefore transferred to the new Capital Adjustment Account to form part of the opening balance on that account.

<b>2006/7 £000</b>		<b>2007/8 £000</b>
<b>575,846</b>	<b>Balance at 1 April</b>	<b>602,130</b>
<b>0</b>	Transfer Balance to the CAA	<b>(602,130)</b>
<b>41,260</b>	Add revaluations and restatements	<b>0</b>
<b>(549)</b>	Less impairment	<b>0</b>
<b>(14,427)</b>	Less disposal of fixed assets and investments in year	<b>0</b>
<b>602,130</b>	<b>Balance at 31 March</b>	<b>0</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 39. Deferred Government Grants/Contributions

2006/7 £000			2007/8 £000
32,971 0	<b>Balance at 1 April</b> Restatement of bal b fwd w/off to CAA		58,230 (29,163)
32,971	<b>Restated Opening Balance</b>		29,067
	<b>Government Grant receipts and contributions applied to finance capital:</b>		
25,151	Expenditure funded from Grants		42,864
3,719	Expenditure funded from Contributions		6,294
	<b>Government Grants and contributions not amortised to revenue:</b>		
(16,838)	grants		0
(1,528)	contributions		0
(1,034)	Grants/contributions amortised to revenue		(1,608)
42,441	<b>Government Grant receipts &amp; contributions to be amortised</b>		76,617
(2,577)	Credited direct to revenue for deferred charges		(6,111)
0	Credited direct to revenue for impairment		(7,778)
0	Credited direct to revenue for deminimus		(49)
39,864	<b>Balance left to amortise</b>	<b>A</b>	62,679
	<b>Off set entries to unamortised Government Grants/contributions:</b>		
16,838	grants		0
1,528	contributions		0
18,366	<b>Government Grant receipts &amp; contributions unamortised</b>	<b>B</b>	0
58,230	<b>Balance at 31 March – Total Grants and Contributions unamortised</b>	<b>A+B</b>	62,679

### 40. Usable Capital Receipts Reserve

These are capital receipts that are available to finance future capital expenditure. They derive from the sale of council housing and other property or land. The Local Government and Housing Act 1989 laid down rules for the use of both accumulated and in-year receipts whereby part of the receipts are available for use and part has to be set aside (see Note 19).

2006/7 £000		2007/8 £000
13,388	<b>Balance at 1 April</b>	14,301
11,519	Capital receipts in year from sales of assets	7,184
(5,443)	Receipts applied to finance capital expenditure in year	(3,250)
(5,107)	Housing Pooling	(4,098)
(56)	Receipts set aside	(119)
14,301	<b>Balance at 31 March</b>	14,018

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 41. Capital Adjustment Account

From 2007/8 the Capital Financing Account is no longer required to be kept. The balance carried forward has been transferred to the new Capital Adjustment account together with the 2007/8 amounts relating to those transactions required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue, capital receipts and external grants and contributions. It also contains the difference between the amounts provided for depreciation and those that are required to be charged to revenue to repay the principal element of external loans.

2006/7 £000		2007/8 £000
(123,686)	<b>Balance at 1 April</b>	(84,160)
0	Restatement of opening balance transferred from the FARA	(602,130)
0	Restated Government grants/contributions not amortised	(29,163)
0	Previous year adjustment	15
(123,686)	<b>Restated 1 April</b>	(715,438)
	<b>Capital financing from</b>	
(5,443)	Capital receipts	(3,250)
(7,259)	Major repairs allowance	(7,647)
(2,670)	Other revenue and revenue reserves	(4,198)
(368)	Capital reserves	(960)
	<b>Transfers from Movement on General Fund Balance</b>	
(5,862)	Minimum revenue provision	(6,937)
(17)	Outstanding credit arrangement	(21)
(56)	Capital receipts set aside in year	(119)
(961)	Residual Value PFI	(1,418)
(1,034)	Government Grants Amortised to revenue	(1,608)
(2,577)	Deferred charges grants amortised to revenue	(6,111)
9,465	Deferred charges written down to revenue	8,124
(1,866)	Transferred Debt	(1,791)
0	Historic Cost depreciation adjustment	(1,322)
8,731	Depreciation charged to Revenue (non HRA)	10,758
44	Impairment	22,368
	<b>Other Movements</b>	
35,987	Capital Expenditure not adding value	0
347	Deferred Consideration	347
705	De-minimis expenditure written down	326
12,360	Depreciation HRA charged to Revenue	13,250
0	Disposals	6,899
0	Disposal gains – write down from Revaluation Reserve	(322)
(84,160)	<b>Balance at 31 March</b>	(689,070)



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 42. Financial Instrument Adjustment Account

31 March 2007 £000		31 March 2008 £000
1,487	LOBO – adjustment to carrying amount	0
596	PWLB Premiums	2,375
(928)	PWLB Discounts	(2,793)
(9)	Premium amortisation adjustment	(4)
<b>1,146</b>		<b>(422)</b>

The FIAA consists of the Council's premiums and discounts resulting from the restructuring of PWLB loan debt, plus any adjustments to the carrying amounts of the Council's loans stemming from the requirement to recognise these at amortised cost.

The LOBO (market loan) adjustment was written out of the accounts when the Council redeemed this loan in June 2007.

Premiums that relate to modified loans need to be amortized in line with SORP 2007. The premium amortisation adjustment in the above table represents the difference between the straight-line write-off of premiums attributable to modified loans and their amortized write-off.

### 43. Available for Sale Reserve

The Available for Sale Reserve represents the additional value of the Council's forward deals (ie. investments committed to but not yet entered into) resulting from changes in the interest rate between the trade date and 31 March 2008.

### 44. Earmarked Reserves

These are reserves held for specific capital or revenue purposes.

### 45. Schools' Balances

These balances are held by schools under Local Management of Schools arrangements, including Foundation Schools.

### 46. General Fund Balance

The 1989 Act limited the number of funds a local authority could hold from 1 April 1990 to the General Fund (for all council services other than council housing) and the Housing Revenue Account (for council housing). Details can be found in the Income and Expenditure Account on page 12.

### 47. Housing Revenue Account

Details of this account can be found on page 57.

### 48. Collection Fund Balances

Details of this account can be found on page 64.

### 49. European Monetary Union

The Council continues to assess the impact that the possible introduction of the Euro in the UK would have on the delivery of the Council's services, its financial information systems and the Council's stakeholders. Until a decision is made as to whether the UK should adopt the Euro, the expenditure on Euro activities should be absorbed within existing budgetary provision.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 50. Business Improvement District

These accounts represent the transactions of the Cathedral Quarter Business Improvement District (BID) and are made under the Business Improvement Districts (England) Regulations 2004 schedule 3. This is a scheme under the Local Government Act 2003 whereby non-domestic ratepayers in the area concerned elect via a ballot to pay a supplementary rate to be used for the purpose of making various improvements in the area. This is administered by the Cathedral Quarter Company Limited to whom the Council make payments of the amounts collected of the supplementary rate. The Cathedral Quarter Company Limited is the BID body for the purposes of the BID Statutory Provisions and started trading from 1<sup>st</sup> December 2007. The BID period will last five years, having commenced on 1<sup>st</sup> March 2008. The accounts have been prepared on an accruals basis.

#### BID Income and Expenditure Account

2006/7 £000		2007/8 £000
	<b>Income</b>	
0	BID Levy	(177)
<b>0</b>		<b>(177)</b>
	<b>Expenditure</b>	
0	Payments to IEP BID Ltd	95
0	Provision for bad debt	4
<b>0</b>		<b>99</b>
<b>0</b>	<b>Surplus for the Year</b>	<b>(78)</b>
0	Surplus at Beginning of Year	0
<b>0</b>	<b>Surplus at End of Year</b>	<b>(78)</b>

The £78k surplus is carried forward for the sole use of the Cathedral Quarter Company Limited BID body in 2008/9 onwards.

### 51. Fair Value of Assets and Liabilities Carried at Amortised Cost

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

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

The fair values calculated are as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Liabilities	31 March 2008		31 March 2007	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
PWLB debt (Inc. < 1yr to maturity)	371,785	399,278	322,228	325,179
Non-PWLB debt	0	0	22,700	24,187
Trade creditors	9,267	9,267	7,274	7,274
<b>Total financial liabilities</b>	<b>381,052</b>	<b>408,545</b>	<b>352,202</b>	<b>356,640</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 higher than the rates available for similar loans in the market at the balance sheet date.

Financial Assets	31 March 2008		31 March 2007	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Money market investments < 1 yr	151,500	154,667	110,750	113,913
Money market investments > 1 yr	5,000	5,306	0	0
Trade debtors	27,431	27,431	26,906	26,906
<b>Total Loans and receivables</b>	<b>183,931</b>	<b>187,404</b>	<b>137,656</b>	<b>140,819</b>

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

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

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

### 52. Trust Funds

Derby City Council administers a number of Trust Funds. Some of these are funds made up of donations or bequests made to the Council, where the benefactors have specified the use to which the fund is to be put - for example the provision of educational prizes. The Council also holds, as Trustee, funds granted to children in care. The funds are invested externally in accordance with the provisions of the Trustee Investments Act 1961, or held with the Council.

These funds are not part of the Council's accounts and have therefore been excluded from the Balance Sheet

## NOTES TO THE CORE FINANCIAL STATEMENTS

2006/7 Trust Funds £000	Aggregate Revenue Account	2007/8 Trust Funds £000
1,219	Opening balance 1 April	1,264
87	Income during the year	16
1,306	Total Funds available in the year	1,280
(42)	Expenditure during the year	(40)
1,264	<b>Closing balance 31 March</b>	1,240

Balance 31 March 2007 £000	The funds are represented by:	Balance 31 March 2008 £000
161	Investments:	151
3	COIF Charity Funds	3
16	Treasury Stock	16
6	National Savings investment funds	6
1,078	Building Society Deposits	1,064
1,264	Cash and Temporary Loans	1,240
	<b>Total Assets</b>	<b>1,240</b>
39	Number of Funds	39

### 53. Pension Disclosures

The Council is required to make pensions disclosures in compliance with FRS 17. These disclosures are intended to provide additional information on the underlying economic situation of the Council.

#### Local Government Pension Scheme

The Council participates in the Derbyshire County Council defined benefit (open) pension fund. The figures below are derived by approximate methods from the full actuarial valuation of the Fund carried out by Mercer Limited as at 31 March 2004.

As at the 31 March 2008, the Council had the following overall assets and liabilities for pensions, which are not shown on the balance sheet:

Balance 31 March 2007 £000	Local Government Pension Scheme	Balance 31 March 2008 £000
414,615	Estimated Assets in Scheme	420,708
(572,852)	Estimated Liabilities in Scheme Present Value of Liabilities	(630,395)
(158,237)	<b>Net Asset (Liability)</b>	<b>(209,687)</b>

The movement in the net pension liability of the Council for the year to 31 March 2008 is as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

<b>Movement in Net Pension Liability</b>	<b>2007/8 £000</b>
Net Pensions Liability as at 1 April	<b>(158,237)</b>
<b>Movement In the Year</b>	
Contributions Paid	<b>19,450</b>
Current Service Cost	<b>(16,086)</b>
Past Service Costs Curtailment Gain/Loss	<b>(4,926)</b>
Interest Costs	<b>(3,011)</b>
Actuarial gain (loss)	<b>(46,877)</b>
<b>Net Pension Liability as at 31 March</b>	<b>(209,687)</b>

The actuarial loss can be analysed into the following categories, measured as absolute amounts and as a percentage of assets as 31 March 2008:

<b>Analysis of Actuarial Gain (loss)</b>	<b>£000</b>	<b>% of Assets/liabilities</b>
Difference between the expected and actual return on assets	(41,552)	10.3% of Assets
Difference between actuarial assumptions about liabilities and actuarial experience	13,907	2.3% of Liabilities
Changes in demographic and financial assumptions used to estimate liabilities	(19,232)	3.1% of Liabilities
<b>Total Actuarial Gain (loss)</b>	<b>(46,877)</b>	

The main financial assumptions used by the actuary for the whole of the fund are:

	<b>31 March 2007</b>	<b>31 March 2008</b>
Rates of Inflation	3.1%	<b>3.6%</b>
Rate of Increase in Salaries	4.6%	<b>5.1%</b>
Rate of Increase in Pensions	3.1%	<b>3.6%</b>
Discount Rate	5.4%	<b>6.1%</b>

Assets held by the fund as a whole are £2.226m valued at fair value as at 31 December 2007 (£2.033m at 31 December 2006). The proportion of assets held with expected rates of return is shown below:

	<b>Long Term Expected Rate of Return %</b>	<b>Proportion of Assets Held</b>	
		<b>31 March 2007</b>	<b>31 March 2008</b>
Equities	7.5%	71.8%	<b>69.4%</b>
Gilts	4.7%	15.0%	<b>16.7%</b>
Other bonds	5.4%	1.7%	<b>1.6%</b>
Property	6.5%	5.3%	<b>4.9%</b>
Cash	5.25%	6.2%	<b>6.3%</b>
Other	n/a	0.0%	<b>1.1%</b>
<b>Total</b>		<b>100.0%</b>	<b>100.0%</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Teachers' Pension Scheme

The Council participates in the Teachers' Pension Scheme, which is a defined benefit scheme, accounted for as a defined contribution scheme. Discretionary early retirement pension enhancements awarded to teachers, however, are to be treated under FRS17 as though they were a defined benefit scheme from 2004/5. The figures below are derived by approximate methods based on information provided by the actuaries to the Derbyshire Pension Fund, Mercer.

As at the 31 March 2008, the Council had an overall liability of £22.580m in respect of teachers' pensions (£20.194m at 31 March 2007).

The movement in the pension liability of the Council for the year to 31 March 2008 is as follows:

<b>Movement in Teachers' Pension Liability</b>	<b>2007/8 £000</b>
Teachers' Pension Liability as at 1 April	<b>(20,194)</b>
<b>Movement In the Year</b>	
Contributions Paid	<b>1,457</b>
Past Service Costs	<b>(230)</b>
Interest Costs	<b>(1,051)</b>
Actuarial gain (loss)	<b>(2,562)</b>
<b>Teachers' Pension Liability as at 31 March</b>	<b>(22,580)</b>

The actuarial loss can be analysed into the following categories, measured as absolute amounts and as a percentage of liabilities as at 31 March 2008:

<b>Analysis of Actuarial Loss</b>	<b>£000</b>	<b>% of liabilities</b>
Difference between actuarial assumptions about liabilities and actuarial experience	(1,163)	5.2% of Liabilities
Changes in demographic and financial assumptions used to estimate liabilities	(1,399)	6.2% of Liabilities

The main financial assumptions used by the actuary are:

	<b>31 March 2007</b>	<b>31 March 2008</b>
Rates of Inflation	3.1%	<b>3.6%</b>
Rate of Increase in Pensions	3.1%	<b>3.6%</b>
Discount Rate	5.4%	<b>6.1%</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 54. Contingent Liabilities

The Council is in the process of introducing Single Status for all employees subject to NJC terms and conditions, although the cost cannot be reliably quantified at this stage. The main aim of this is to create fair and non-discriminatory grading structures in the Council.

The Council may have a potential future liability in relation to asbestos related sickness claims. Any such claims will be funded through use of specifically set aside reserves of £1m.

### 55. Subsidiary Companies

Derby Homes Limited, the Council's arms length management organisation, is a limited company wholly owned by the Council. It was incorporated on 25 February 2002.

The net liability and results of operations for the year to 31 March 2008 are as follows:

2006/7 £000		2006/7 £000
(4,251)	Net liability at 31 March 2007	(6,412)
(187)	Operating profit / (loss) before taxation	574
(181)	Operating profit /(loss) after taxation	574
	<b>Indebtedness with Derby City Council included in net assets above is:</b>	
1,325	Derby Homes Debtors	1,291
(1,099)	Derby Homes Creditors Mainly relating to services provided to Derby Homes by the Council	(1,640)
226	<b>TOTAL NET INDEBTEDNESS</b>	<b>(349)</b>

The full Derby Homes Limited company accounts can be obtained from:

Derby Homes Limited, Floor 2, Southpoint, Cardinal Square, 10 Nottingham Road, Derby, DE1 3QT

### 56. Post Balance Sheet Events

There were no post balance sheet events requiring disclosure in the financial statements or notes.

### 57. Issue Authorisation

The Statement of Accounts was authorised for issue on 26<sup>th</sup> June 2008, subject to audit, by the Director for Resources.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 58. Reconciliation Between the Net (Surplus) / Deficit on the Income and Expenditure Account to the Revenue Activities Net Cashflow

2006/7 £000		2007/8 £000
(3)	Net (surplus) - Consolidated Revenue Account	(262)
381	Net (increase) in Schools' balances	(1,433)
(2,987)	Net (surplus) / deficit - Housing Revenue Account	(1,616)
0	Net (surplus) – BID Revenue Account	(77)
(192)	Net (surplus) / deficit – Collection Fund	170
8,011	(Decrease)/Increase in debtors	(13,661)
1,380	(Decrease)/Increase in stock and work in progress	(32)
733	(Increase) / decrease in creditors	3,004
265	(Increase) / Decrease in provisions	(395)
0	(Increase) / Decrease in available for sale reserves	93
0	(Increase) / Decrease in Financial Instruments Adjustment Account	(422)
(6,651)	(Increase) / Decrease in earmarked reserves	(2,230)
	<i>Adjustment for non-cash transactions:</i>	
(913)	Capital activities	30,116
	<i>Less:</i>	
(13,933)	Servicing of finance items	(11,896)
(8,001)	Financing included in creditors	0
(21,910)	<b>Revenue Activities Net Cashflow</b>	<b>1,359</b>

### 59. Reconciliation of Movement in Cash to Movement in Net Debt

Balance 31 March 2007 £000	Movement 2006/7 £000		Balance 31 March 2008 £000	Movement 2007/8 £000
3,469	893	Cash in hand	2,820	(649)
(9,191)	724	Bank overdraft	(8,077)	1,113
(5,722)	1,617	<b>Net Cash Increase/(Decrease) = net cash (inflow) / outflow</b>	(5,257)	464
		Adjust for the movement in liquid resources		
112,300	8,070	Short-term investments	155,304	43,004
		Borrowing		
(344,806)	(15,075)	Public Works Loans Board	(368,659)	(23,853)
		Other long-term borrowing		
(238,228)	(5,388)	<b>(Increase) / Decrease in Net Debt = net cash (inflow) / outflow before financing</b>	(218,612)	19,615



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 60. Other Movements

Balance 31 March 2007 £000	Movement £000		Balance 31 March 2008 £000	Movement £000
		<i>Decrease:</i>		
49,121	8,011	Debtors	35,460	(13,661)
2,277	1,380	Stock and work in progress	2,245	(32)
		<i>(Increase) / decrease:</i>		
(46,027)	733	Creditors	(43,023)	3,004
(1,516)	265	Provisions	(1,911)	(395)

### 61. Revenue and Capital Grants

The following capital grants are included:

	Received in 2007/8 £000
Regional Housing Plot	8,355
SRB capital grant	165
Schools capital grants	24,845
Disabled Facilities grant	656
Urban II capital grant	1,251
Objective 2 capital grant	872
New Deal for Communities	1,753
Local Area Agreement	1,323
Lottery Capital	1,643
Neighbourhood Renewal Fund (NRF)	18
Transport Supplementary Grant	1,861
ODPM	722
DEFRA	179
Derby & Derbyshire Economic Partnership (DDEP)	868
Learning & Skills Council	1,940
Youth Capital Funding	130
Department of Health	3,779
East Midlands Development Agency (EMDA) Grant	2,154
Other capital grants	550
	<b>53,064</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The following revenue grants from central government are included:

	Received in 2007/8 £000
Arms Length Management Organisation (ALMO) Subsidy	4,601
Housing Benefit Subsidy	34,572
Council Tax Benefit Grant	14,509
Rent Rebate – Housing Benefit	23,839
Social Care	3,595
Surestart	2,365
Learning and Skills	9,490
School Standards Fund Grant	14,903
Asylum Seekers' Grant	15
Urban II	590
Objective 2	258
Single Regeneration Budget (SRB) grant	370
New Deal for Communities	5,338
Neighbourhood Renewal Fund grant	5,613
Childrens Fund	192
Supporting People	10,860
Local Area Agreement	17,062
Other Regeneration and Community Services Revenue Grants	3,093
Other Children & Young People Revenue Grants	2,670
Other Corporate & Adult Social Services Revenue Grants	6,618
Other Environmental Services Revenue Grants	137
Other Resources Revenue Grants	112
	<b>160,802</b>

## THE HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the income and expenditure arising from the provision, management and maintenance of council housing. Since 1 April 1990, the Housing Revenue Account has been ring-fenced from the General Fund. This means that there can be no cross subsidies between the two accounts. These accounts have been prepared in accordance with the Best Value Accounting Code of Practice and incorporate guidance on Resource Accounting in the HRA.

2006/7 £000	HRA Income and Expenditure Account	2007/8 £000
	<b>Income</b>	
(36,183)	Dwelling rents (Gross)	(37,623)
(456)	Non dwelling rents (Gross)	(389)
(1,211)	Charges for Services and facilities	(1,336)
(229)	Contributions towards expenditure	(274)
(5,224)	Housing Revenue Account subsidy receivable	(4,326)
(48)	Decrease in bad debt provision	0
<b>(43,351)</b>		<b>(43,948)</b>
	<b>Expenditure</b>	
8,261	Repairs and Maintenance	8,765
13,793	Supervision and Management	13,825
20,242	Depreciation and impairments of fixed assets	23,443
82	Debt Management costs	108
0	Increase in bad debt provision	355
<b>42,378</b>		<b>46,496</b>
(973)	<b>Sub Total: Net cost of HRA Services as included in the whole authority income and expenditure account</b>	2,549
78	HRA services share of Corporate and Democratic Core	91
<b>(895)</b>	<b>Net Cost of Services</b>	<b>2,640</b>
0	Gain or loss on sale of HRA fixed assets	(15)
9,498	Interest payable and similar charges	9,726
(40)	Amortisation of premiums and discounts	(398)
(642)	Interest and Investment income	(917)
0	Pensions interest cost and expected return on pensions assets	0
<b>7,921</b>	<b>(Surplus) / deficit for the year on HRA services</b>	<b>11,036</b>

## STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

<b>2006/7 £000</b>	<b>Statement of Movement on the Housing Revenue Account Balance</b>	<b>2007/8 £000</b>
	<b>Increase or decrease in the Housing Revenue Account Balance comprising:</b>	
7,921	(Surplus) or deficit for the year on the HRA income and expenditure Account	11,036
(10,908)	<b>Net additional amount required by statute to be debited or (credited) to the HRA balance for the year</b>	(12,652)
<b>(2,987)</b>	<b>(Increase) or decrease in the Housing Revenue Account</b>	<b>(1,616)</b>
<b>(11,227)</b>	<b>Housing Revenue Account balance brought forward</b>	<b>(14,214)</b>
<b>(14,214)</b>	<b>Housing Revenue Account balance carried forward</b>	<b>(15,829)</b>

**NOTE OF RECONCILING ITEMS TO THE STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE**

<b>2006/7 £000</b>	<b>Note to the Statement of movement on the HRA Balance</b>	<b>2007/8 £000</b>
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA balance for the year</b>	
0	Difference between amounts charged to income and expenditure for amortisation of premiums and discounts and the charge for year determined in accordance with statute	479
(7,882)	Difference between any other item of income and expenditure determined in accordance with the SORP and determined in accordance with statutory HRA requirements	(10,938)
0	Gain or loss on sale of HRA fixed assets	15
<b>(7,882)</b>		<b>(10,444)</b>
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA balance for the year</b>	
(4,895)	Transfer to/(from) Major Repairs Reserve	(5,746)
374	Transfers to/(from) Housing Repairs Account	13
(72)	Employer's contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	(68)
173	HRA share of Minimum Revenue Provision	99
1,631	Capital expenditure funded by the HRA	2,043
(207)	Write Back of Housing Subsidy Provisions	0
(201)	Appropriations from Reserves	(171)
171	Appropriations to Reserves	1,622
<b>(3,026)</b>		<b>(2,208)</b>
<b>(10,908)</b>	<b>Net additional amount required by statute to be debited or (credited) to the HRA balance for the year</b>	<b>(12,652)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. The Number and Types of Dwellings in the Authority's Housing Stock

Dwelling Type	1 April 2007	31 March 2008
Houses	8,035	7960
Flats	4,572	4454
Bungalows	1,332	1332
<b>Total</b>	<b>13,939</b>	<b>13,746</b>

### Operational/Non Operational Assets

The value of assets held by the HRA at 31 March was:

#### a. Operational Assets

31 March 2007 £000		31 March 2008 £000
587,653	Dwellings	620,497
4,329	Other Land & Buildings	10,737
2,244	Infrastructure	2,188
265	Community Assets	345
<b>594,491</b>	<b>Total</b>	<b>633,767</b>

#### b. Non Operational Assets

31 March 2007 £000		31 March 2008 £000
0	Surplus properties	9,161
13,440	Investment properties	0
<b>13,440</b>	<b>Total</b>	<b>9,161</b>

### 2. Council Dwellings Vacant Possession Value

The total vacant possession value of dwellings within the HRA at 1 April 2007 was £1,277m (1,215m at 1 April 2006). ODPM guidance requires that the balance sheet valuation of £638.315m at 1 April 2007, (£607.715m at 1 April 2006) be determined by applying a regional multiplier (50% for the East Midlands) to the vacant possession value of dwellings.

This shows the economic cost to the Government of providing council housing at less than open market rents.

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 3. Major Repairs Reserve

The movements on the Major Repairs Reserve are shown below:

2006/7 £000		2007/8 £000
(268)	Balance at beginning of the year	(473)
(12,360)	Add transfer to the MRR during the year	(13,233)
4,690	Depreciation on dwellings in excess of the MRA	5,245
205	Depreciation on other HRA assets	484
7,259	Debit to MRR in respect of capital expenditure on properties within the HRA	7,647
(474)	<b>Balance at end of the year</b>	(330)

### 4. Housing Repairs Account

An analysis of the movements on the Housing Repairs Account is shown below.

2006/7 £000		2007/8 £000
0	Balance at beginning of the year	374
0	Add interest received	24
8,635	Add contributions during the year	8,778
8,635		9,176
(8,261)	Less actual expenditure incurred	(8,765)
374	<b>Balance on the Repairs Account on 31 March</b>	411

### 5. a. Summary of Capital Expenditure and Financing

2006/7 £000		2007/8 £000
	<b>Expenditure</b>	
2,026	Land	1,717
7,666	Dwellings	8,533
198	Other property	0
9,890	<b>Total Capital Expenditure</b>	10,250
	<b>Sources of Funding</b>	
1,000	Borrowing	1,000
0	Usable Capital Receipts	0
1,631	Revenue Contributions	1,603
7,259	The Major Repairs Reserve	7,647
9,890	<b>Total</b>	10,250

## NOTES TO THE HOUSING REVENUE ACCOUNT

### b. Summary of Capital Receipts

2006/7 £000		2007/8 £000
7,426	Dwellings	6,002
190	Land	0
48	Other property	0
<b>7,664</b>	<b>Total Receipts</b>	<b>6,002</b>

### 6. Depreciation

The total charge for depreciation of the assets within the HRA was £13.250m. This is made up of:

2006/7 £000		2007/8 £000
	<b>Operational</b>	
12,155	Council Dwellings	12,766
71	Other operational land and buildings	352
76	Vehicles, plant and equipment	76
58	Infrastructure	56
<b>12,360</b>	<b>Total depreciation Operational Assets</b>	<b>13,250</b>
	<b>Non operational</b>	
0	Investment property	0
<b>12,360</b>	<b>Total depreciation HRA</b>	<b>13,250</b>

### 7. Impairment

Although the borrowing for capital works has increased, works included within the spending, as detailed below, do not increase asset value but merely bring the property and infrastructure up to a reasonable standard of repair to aid the more effective and efficient provision of services. This is known as the impairment works required to bring the asset up to standard. HRA impairment works for capital improvements in year totalled £9.935m in 2007/08.

The impairment balance is as follows:

	2007/8 £000
Bal Bfwd	0
<b>Add</b>	
Revaluation Losses	2,885
Capital expenditure in year	7,050
<b>Less</b>	
Financed by Government Grants and Contributions	0
<b>Total Net Impairment Losses</b>	<b>9,935</b>



## NOTES TO THE HOUSING REVENUE ACCOUNT

### 8. Deferred Charges

There are no deferred charges attributable to the HRA for 2007/8 (Nil in 2006/7)

### 9. Analysis of HRA Subsidy

2006/7 £000		2007/8 £000
20,333	Management and Maintenance Allowances	20,936
7,465	Major Repairs Allowance	7,504
5,517	Charges for Capital	5,282
7,774	ALMO Allowance	7,774
(35,870)	Rent	(37,196)
(9)	Interest on Receipts	(8)
<b>5,210</b>	<b>Total Housing Revenue Account Subsidy</b>	<b>4,292</b>
14	Defective Dwellings	12
0	2006/2007 Overprovision	22
<b>5,224</b>	<b>Total Subsidy</b>	<b>4,326</b>

### 10. Amount of Rent Arrears and the Aggregate Balance Sheet Provision in Respect of Uncollectible Debts

2006/7 £000		2007/8 £000
<b>1,464</b>	<b>Amount of rent arrears</b>	<b>1,527</b>
<b>1,681</b>	<b>Aggregate Balance sheet provision in respect of uncollectible debts</b>	<b>1,772</b>
	<b>Analysed as follows:</b>	
1,158	Weekly Rents	1,236
297	Housing Benefit overpayments	199
226	Other Debts	337

These figures are reflected in the Income and Expenditure Account, note 17.

## THE COLLECTION FUND

These accounts represent the transactions of the Collection Fund, which is a statutory fund to be maintained separately, then consolidated with the Council's accounts. The accounts have been prepared on an accruals basis.

2006/7 £000		Notes	2007/8 £000
	<b>INCOME AND EXPENDITURE ACCOUNT</b>		
	<b>Income</b>		
(67,842)	Council tax		(71,553)
(66,290)	Business rates	2	(70,996)
	Transfers from General Fund:		
(13,638)	Council tax benefit		(14,140)
(147,770)	<b>Total Income</b>		(156,689)
	<b>Expenditure</b>		
	<b>Precepts and Demands</b>		
66,667	Derby City Council		70,563
9,321	Derbyshire Police Authority		9,871
3,975	Derbyshire Fire Authority		4,210
	<b>Business Rates</b>		
65,450	Payment to National Pool		69,733
312	Costs of collection		309
	<b>Provision for bad and doubtful debts</b>		
1,288	Council tax		1,153
527	Business Rates		955
	<b>Transfer of previous year's estimated surplus</b>		
	Derby City Council General Fund:		
0	Council tax		83
0	Derbyshire Police Authority		12
0	Derbyshire Fire Authority		5
147,540	<b>Total Expenditure</b>		156,894
(230)	<b>(Surplus) / Deficit For Year</b>	3	205
(171)	(Surplus) / Deficit At Beginning Of Year		(401)
(401)	<b>(Surplus) / Deficit At End Of Year</b>		(196)

## NOTES TO THE COLLECTION FUND

### 1. Council Tax

The Council's tax base for 2007/8 was 69,560.06 (68,966.00 in 2006/7). This is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings. Details are as follows:

Band	Ratio	Band D Equivalent Dwellings
A (disabled)	5/9	43.10
A	6/9	29,545.60
B	7/9	12,901.86
C	8/9	12,239.48
D	9/9	7,456.28
E	11/9	4,682.87
F	13/9	2,881.04
G	15/9	924.94
H	18/9	15.95
		70,691.12
<b>Less</b> adjustment for non-collection		(1,131.06)
<b>Council Tax Base</b>		<b>69,560.06</b>

### 2. Income from Business Ratepayers

The Council collects non-domestic rates for its area based on local rateable values multiplied by a national uniform rate. The total amount, less certain relief and other adjustments, is paid into a central pool (the NNDR Pool) which is managed by the Government. The Council receives a share of the pool based on a standard amount per head of local adult population into its General Fund.

The total non-domestic rateable value at 31 March 2008 was £197.513m (£185.496m in 2006/7). The national non-domestic multiplier for 2007/8 was 44.4p (43.3p in 2006/7).

### 3. Collection Fund Surplus

The surplus of £196,000 on the Collection Fund at 31 March 2008 relates to council tax and is to be divided between the City Council, Police Authority and Fire Authority.

The amount attributable to the City Council at 31<sup>st</sup> March 2008 is £163,000 (£334,000 at 31<sup>st</sup> March 2007).

## **GROUP ACCOUNTS**

### **INTRODUCTION**

The Accounting Code of Practice requires that where an Authority has material financial interests and a significant level of control over one or more entities it should prepare Group Accounts. The aim of these statements is to give an overall picture of an authority's financial activities and the resources employed in carrying out those activities.

### **INCLUSION WITHIN THE GROUP ACCOUNTS**

Derby Homes Limited, the Council's arms length management organisation (ALMO) is a limited company wholly owned by the Council. It was incorporated on 25 February 2002. It manages Derby City Council's stock of council houses. Under the SORP, the ALMO is classed as a subsidiary of the authority, and its financial activities have been consolidated into the group financial statements on a 100% basis.

The full Derby Homes Limited company accounts can be obtained from:

Derby Homes Limited  
Floor 2, Southpoint  
Cardinal Square  
10 Nottingham Road  
Derby DE1 3QT

## GROUP INCOME AND EXPENDITURE ACCOUNT

This account shows the gross expenditure, income, and net expenditure analysed by service, which is ultimately paid for by council taxpayers, business ratepayers and the Government.

Previous Year Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
6,261	Central Services to the Public	27,062	(21,042)	6,020
37,010	Cultural, Environmental and Planning Services	79,239	(36,852)	42,387
41,283	Children and Education Services	275,208	(229,757)	45,451
20,091	Highways, Roads and Transport Services	28,938	(14,247)	14,691
(6,416)	Housing	111,370	(118,549)	(7,179)
54,535	Adult Social Services	87,061	(34,558)	52,503
4,133	Corporate and Democratic Core	7,839	(2,215)	5,624
(1,201)	Non Distributed Costs	691	0	691
<b>155,696</b>	<b>Net Cost of Services</b>	<b>617,408</b>	<b>(457,220)</b>	<b>160,188</b>
(272)	(Surpluses)/ Deficits on Trading Undertakings not included in Net Cost of Services			(390)
18,916	Interest Payable and Similar Charges			18,015
5,107	Contribution of Housing Capital Receipts to Government Pool			4,098
(6,301)	Interest and Investment Income			(7,317)
(6)	Taxation of Subsidiary Company			0
5,016	Pensions Interest Cost and Expected Return on Pensions Assets			4,106
(6)	Amortised Premiums and Discounts			63
<b>178,150</b>	<b>Net Operating Expenditure</b>			<b>178,763</b>
(66,667)	Demand on the Collection Fund			(70,562)
0	Share of Previous Year Collection Fund Surplus			(83)
(14,381)	General Government Grants			(13,271)
(3,078)	Back Dated Census			0
(74,499)	Non-Domestic Rates Redistribution			(79,081)
<b>19,525</b>	<b>Deficit for the Year</b>			<b>15,766</b>

No additional group notes have been included as these are not materially different to those disclosed in Derby City Council's published Income and Expenditure Account.

**RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT FOR THE YEAR TO THE GROUP SURPLUS OR DEFICIT**

<b>2006/7 £000</b>		<b>2007/8 £000</b>
19,344	Derby City Deficit	<b>16,338</b>
181	Derby Homes (Surplus)/Deficit	<b>(572)</b>
<b>19,525</b>	<b>Group Deficit for the Year</b>	<b>15,766</b>

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

<b>2006/7</b> <b>£000</b>		<b>2007/8</b> <b>£000</b>
19,525	Deficit for the year on the Income and Expenditure Account	<b>15,766</b>
(1,787)	Surplus arising on revaluation of fixed assets	<b>(67,071)</b>
(29,925)	Actuarial (gains) / losses on pension fund assets and liabilities	<b>52,172</b>
(819)	Any other gains and losses	<b>93</b>
<b>(13,006)</b>	<b>Recognised (Gains)/Losses for the year</b>	<b>960</b>
(9744)	Prior year adjustments	<b>(27,872)</b>
<b>(22,750)</b>	<b>Total (Gains)/Losses since last Statement of Accounts</b>	<b>(26,912)</b>

## GROUP BALANCE SHEET

2006/7		2007/8
	<b>Fixed Assets</b>	
525	Intangible fixed assets	543
587,653	Council Dwellings	620,498
370,786	Other land and buildings	425,532
10,321	Vehicles, plant, furniture and equipment	11,169
76,634	Infrastructure assets	81,277
13,424	Community assets	13,866
37,885	Investment properties	809
8,066	Assets under construction	36,739
13,485	Surplus assets held for disposal	17,351
<b>1,118,779</b>	<b>Total Fixed Assets</b>	<b>1,207,784</b>
100	Long term investments	5,238
14,134	Long term debtors	14,912
<b>1,133,013</b>	<b>Total long term assets</b>	<b>1,227,934</b>
	<b>Current Assets</b>	
2,277	Stocks and works in progress	2,245
48,938	Debtors	35,377
112,300	Investments	155,304
3,472	Cash and bank	2,823
<b>166,987</b>	<b>Total current assets</b>	<b>195,749</b>
<b>1,300,000</b>	<b>Total Assets</b>	<b>1,423,683</b>
	<b>Current Liabilities</b>	
(46,602)	Creditors	(44,098)
(8,391)	Bank overdraft	(5,884)
<b>(54,993)</b>	<b>Total current liabilities</b>	<b>(49,982)</b>
<b>1,245,007</b>	<b>Total assets less current liabilities</b>	<b>1,373,701</b>
	<b>Long Term Liabilities</b>	
(344,806)	Long term borrowing	(368,659)
(1,516)	Provisions	(1,911)
(58,230)	Government grants deferred	(62,678)
(28,569)	Government grants unapplied	(46,463)
(45,092)	Deferred liabilities	(43,302)
(183,103)	Net Long Term Liability related to defined benefit pension scheme	(240,085)
<b>(661,316)</b>	<b>Total long term liabilities</b>	<b>(763,098)</b>
<b>583,691</b>	<b>Total assets less liabilities</b>	<b>610,603</b>



## GROUP BALANCE SHEET

2006/7		2007/8
	<b>Represented by:</b>	
(602,130)	Fixed Asset Restatement Account	0
0	Revaluation Reserve	(75,379)
(84,160)	Capital Financing Account	0
0	Capital Adjustment Account	(689,070)
(14,301)	Useable Capital Receipts Reserve	(14,018)
(177)	Deferred Capital Receipts	(130)
(2,977)	Capital Earmarked Reserves	(2,279)
183,103	Pensions Reserve	240,085
(5,919)	General Fund Balance	(6,181)
(421)	Derby Homes Profit and Loss Account	(1,406)
(14,214)	Housing Revenue Account Balance	(15,830)
(334)	Collection Fund Balance	(164)
0	Business Improvement District (BID)	(77)
(36,617)	Revenue Earmarked reserves	(38,847)
0	Financial Instrument Adjustment Account	(422)
0	Available For Sale Financial Instruments Reserve	92
(5,544)	Schools Balances	(6,977)
<b>(583,691)</b>	<b>Total Net Worth</b>	<b>(610,603)</b>

No additional group notes have been included as these are not materially different to those disclosed in Derby City Council's published Balance Sheet

## GROUP CASHFLOW

2006/7 £000		£000	2007/8 £000
(19,332)	<b>Net Cash (Inflow)/Outflow from Revenue Activities</b>		(263)
	Returns on investments and servicing of finance:		
19,424	Interest paid	19,227	
(5,491)	Interest received	(7,331)	
13,933			11,896
(6)	Taxation		0
	Capital Expenditure and Financial Investment:		
49,527	Purchase of fixed assets	36,772	
(11,200)	Sales of fixed assets	(15,936)	
(35,526)	Capital grants received	(53,064)	
9,371	Other capital cash payments	(413)	
12,166			(32,641)
0	Equity dividends paid		0
0	Acquisitions and disposals		0
<b>6,767</b>	<b>Net Cash Inflow before Financing</b>		<b>(21,008)</b>
	<b>Management of Liquid Resources:</b>		
8,070	Net increase/decrease in short-term deposits		43,004
	Financing:		
67,296	Repayments of amounts borrowed	136,955	
0	Capital element of finance lease rental payments	0	
(83,750)	New loans raised	(160,808)	
(16,454)			(23,853)
<b>(1,617)</b>	<b>Net Increase In Cash</b>		<b>(1,857)</b>

## STATEMENT OF RESPONSIBILITIES

### The Authority's Responsibilities

The Authority is required:

- (1) To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. At Derby City Council that officer is the Acting Corporate Director of Resources.
- (2) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (3) To approve the Statement of Accounts.

The Accounts were approved by Audit and Accounts Committee on 26 June 2008.

Signed: \_\_\_\_\_

Councillor Dave Roberts - Chair, Audit and Accounts Committee

### The Corporate Director of Resources Responsibilities

The Corporate Director of Resources is responsible for the preparation of the Authority's Statement of Accounts in line with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code). The Code requires the Authority to present fairly the financial position of the Authority for the year ended 31 March 2008.

In preparing this Statement of Accounts, the Corporate Director of Resources and Housing has ensured that:

- (1) Suitable accounting policies have been selected and then applied consistently
- (2) Judgements and estimates have been made that were reasonable and prudent.

The Corporate Director of Resources has also ensured that:

- (1) Proper accounting records have been kept which were up to date
- (2) Reasonable steps have been taken for the prevention and detection of fraud and other irregularities.

Signed: \_\_\_\_\_

Don McLure-  
Corporate Director of Resources

Date: \_\_\_\_\_

# ANNUAL GOVERNANCE STATEMENT

## 1. Scope of Responsibility

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

In discharging these overall responsibilities, Derby City Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

This statement explains how Derby City Council delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) Regulations 2006, which require the Council to publish a statement on internal control in accordance with proper practice. Proper practice has been defined as an Annual Governance Statement.

## 2. The Council's Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It can not 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, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

The following paragraphs summarise Derby City Council's Governance Framework which has been in place for the year ended 31st March 2008 and up to the date of approval of this Statement and the Statement of Accounts. The framework is described to reflect the arrangements in place to meet the six core principles of effective governance.

## 3. Determining the Council's Purpose, its Vision for the Local Area and Intended Outcomes for the Community

The Corporate Plan sets out the vision and priorities for the Council in the context of the wider Community Strategy.

The overarching LSP 2020 vision is for Derby to become a city for all ages – *'People of all ages and from all walks of life will feel they belong to Derby and that Derby offers them everything they need - for work, education, housing, leisure and a safe, healthy lifestyle.'*

## **ANNUAL GOVERNANCE STATEMENT**

Derby City Partnership is the Local Strategic Partnership for the city. Chaired by the Leader of the Council, the partnership was restructured in 2006 to reflect current priorities and is divided into five 'cities' or themed areas...

- City for Children and Young People.
- City Growth.
- Cultural City.
- Healthy City.
- City for Stronger and Safer Communities.

The Council is a leading member of the Derby City Partnership. The second Community Strategy was agreed for 2006-09 and work is currently underway to develop a new Sustainable Community Strategy to be launched in April 2009.

Derby City Partnership manages Derby's Local Area Agreement, LAA, which was set up in 2005 to help deliver a set of shared priorities agreed between Government and key partners in Derby. In July 2006, the Government Office for the East Midlands rated Derby's LAA as 'Green', which is the highest rating.

The Community Strategy, LAA and the Corporate Plan reflect the outcome of extensive consultation, analysis of current and future needs, and consideration of current performance.

For 2007-2010, we had set six key priorities for improvement in our Corporate Plan...

- Making us proud of our neighbourhoods.
- Creating a 21<sup>st</sup> century city centre.
- Leading Derby towards a better environment.
- Supporting everyone in learning and achieving.
- Helping us all to be healthy, active and independent.
- Giving you excellent services and value for money.

The Corporate Plan identifies actions and resources over a three year period, most recently 2008-11 and the Best Value Performance Plan contains specific targets for improvement. The Council has a range of performance indicators used to measure progress against its key priorities in the Corporate Plan and in the Local Area Agreement. Performance is reported to Council Cabinet on a quarterly basis, and is monitored by the Overview and Scrutiny Commissions. Performance reports are also prepared for the Derby City Partnership City Groups, Management Group and Board on a quarterly basis. Performance information is available across the Council and Partnership through the Performance Eye information system.

There are service delivery plans for all service units. These plans include clear identification of objectives and targets, reflect Corporate Plan priorities and include risk registers identifying risks to meeting the service objectives. They are updated annually.

The Council has a medium term financial plan and capital programme, to ensure that resources are aligned to priorities. The budget process incorporates consideration of the allocation of resources for the Corporate Plan aims. The medium term plan allows annual strategic review in the context of performance against Corporate Plan aims, and sets targets of efficiency improvement, to release resources for redeployment. Quarterly monitoring reports for the revenue budget and the capital programme are submitted to the Corporate Management Team, to Cabinet and to Resources Scrutiny Commission, and issues are referred to other Scrutiny Commissions as appropriate.

## **ANNUAL GOVERNANCE STATEMENT**

Priorities for service improvement have been identified, and there are a range of projects in progress with a view to achieving significant business efficiencies over the coming three years. The City Council also has a number of corporate processes, programmes and projects designed to improve efficiency including Transforming Derby, the Corporate Procurement Strategy, the Corporate Customer Service Standards, and the Value For Money Strategy.

Value for money is embedded in our culture; it is one of the components of our strategic priorities and has been for many years. Derby's Council Tax remains the lowest in the East Midlands. We are committed to reducing costs in real terms by 10% over three years from 2007/08 as part of the budget strategy. This in turn has released resources for:

- £17million of funding for the Public Realm Improvement Strategy which help deliver the Cityscape Strategy in the city centre including significant improvements to the Council House
- funding the increases in waste disposal costs and the implementation of single status.

The Council's Performance Strategy sets out the planning and performance framework to manage the delivery of priority outcomes. The strategy is reviewed regularly (currently in place for 2007-10) and is supported by an action plan to develop arrangements for managing performance. The strategy is based on clear accountabilities, balanced information to support decision making, sound data quality and prompt action to tackle underperformance. For example, performance surgeries are held to discuss indicators that have missed targets or compare poorly with other authorities.

We have implemented an internationally acclaimed Strategic IT Framework that provides a range of integrated e-services, delivering a flexible, sustainable enablement of our business transformation agenda. Not only has this allowed us to integrate to back office systems from our multi-channel Derby Direct Contact Centre, but we also continue to use our Strategic IT Framework to enable efficiencies in community-focused, multi-agency service delivery.

The Council has published a set of customer service standards and operates a complaints procedure and uses this to identify areas where service quality is not satisfactory, and to take action to improve.

As an organisation we are committed to meeting the service needs of a very diverse community and in September 2007, we were assessed at Level 3 of the 'Equality Standard for Local Government'. Equality Impact Assessments are being introduced for all Council policies and strategies.

### **4. Members and Officers Working Together to Achieve a Common Purpose with Clearly Defined Functions and Roles**

The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear.

The Council appoints a Cabinet, made up of the Leader, Deputy Leader and five other members, who are responsible for proposing budgets and policies and taking key decisions. Each Cabinet Member is responsible for a portfolio.

Over the last few years, the Council has sustained robust governance during a period of changing political administration. Indeed, since July 2005, the Council has had 4 different types of political control, which has not affected overall performance.

## **ANNUAL GOVERNANCE STATEMENT**

The Council has six Overview and Scrutiny Commissions which are tasked with scrutinising the Council's decisions and contributing to the development of its policies. Although they have no decision making powers, the Commissions are able to 'call-in' and review certain decisions of Council Cabinet. Until the call-in process is completed the decision cannot be implemented.

Additionally, the Council appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These leadership roles, and the delegated responsibilities of officers, are set out in the Constitution which came into effect on 3 December 2001.

All Committees have clear terms of reference and work programmes to set out their roles and responsibilities. An Audit and Accounts Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

The Constitution also includes a Member/Officer protocol which describes and regulates the way in which Members and Officers should interact to work effectively together

The Council's Chief Executive (and Head of Paid Service) leads the Council's officers and chairs the Chief Officer Group.

Chief Officer Group – COG - meets on a weekly basis. Corporate Directors meet with their respective Cabinet members on a regular basis. An Assistant Directors Group supports the work of COG focussing on HR and performance management issues. A number of Officer Working Groups meet to deal with a range of specific service as well as cross-cutting issues.

All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are overseen by the Consultative Joint Committee.

The Corporate Director - Resources, as the s151 Officer appointed under the 1972 Local Government Act, carries overall responsibility for the financial administration of the City Council. A corporate finance function provides support to departmentally based finance teams, and determines the budget preparation and financial monitoring process.

The Corporate Director of Corporate and Adult Services, as Monitoring Officer, carries overall responsibility for legal compliance and his staff work closely with departments to advise on requirements.

The Council has developed a partnership register.

### **5. Promoting our Values and Upholding High Standards of Conduct and Behaviour**

Member and Officer behaviour is governed by Codes of Conduct. These include a requirement for declarations of interest to be completed.

The Council takes fraud, corruption and maladministration very seriously and has the following policies which aim to prevent or deal with such occurrences:

- Anti-Fraud and Corruption Policy and Fraud Response Plan
- Confidential Reporting Code (Whistleblowing Policy)
- HR policies regarding disciplinary of staff involved in such incidents

Conduct of Members is monitored by a Standards Committee, which also

## **ANNUAL GOVERNANCE STATEMENT**

investigates allegations of misconduct by Members.

The Corporate Complaints Procedure enables the Council to receive and investigate any complaint made against it, a Member or a member of staff.

Our Workforce Development Plan 2007/10 is a three-year delivery plan for our People Strategy. Implementing the Plan is a key objective in our Corporate Plan. Many components of the Plan represent an important contribution to our change agenda. The Plan sets out an exciting and challenging agenda for change that we believe will maintain and develop a workforce fit for the challenges on the years ahead.

### **6. Taking Informed and Transparent Decisions and Managing Risk**

The Council's Constitution sets out how the Council operates and the process for policy and decision making.

Full Council sets the policy and budget framework. Within this framework, all key decisions are made by the Cabinet. Cabinet meetings are open to the public (except where items are exempt under the Access to Information Act). The council began the webcasting of Full Council, Council Cabinet and Planning Control meetings in September 2005. The Forward Plan of key decisions to be taken is published on our website.

All decisions made by Cabinet are made on the basis of written reports, including assessments of the legal and financial implications. The financial and legal assessments are provided by finance and legal officers.

The decision-making process is scrutinised by a scrutiny function which has the power to call in decisions made, but which also undertakes some pre-decision scrutiny and some policy development work.

Other decisions are made by officers under delegated powers. Authority to make day to day operational decisions is detailed in departmental Schemes of Delegation.

Policies and procedures governing the Council's operations include Financial Procedure rules, Contract Procedure Rules, Procurement Regulations and a Risk Management Policy. Ensuring compliance with these policies is the responsibility of managers across the City Council. The Internal Audit Section checks that policies are complied with. Where incidents of non-compliance are identified, appropriate action is taken.

The Council's Risk Management Strategy requires that consideration of risk is embedded in all key management processes undertaken. These include policy and decision making, service delivery planning, project and change management, revenue and capital budget management and partnership working. In addition, a Corporate Risk Register is maintained and a monitoring group meets quarterly to review the extent to which the risks included are being effectively managed.

Departmental Risk Registers are maintained through the Business Planning process. A Strategic Risk Group which is chaired by the Corporate Director - Resources, meets to identify best practice in respect of risk management and to provide opportunities for shared learning across departments. The Audit and Accounts Committee oversees the effectiveness of risk management arrangements and provides assurance to the Council in this respect. Risk management is also built into our project management methodology. Over the summer of 2007, 150 managers attended risk management training.



## **ANNUAL GOVERNANCE STATEMENT**

Financial Management processes and procedures are set out in the City Council's Financial Procedure Rules and include:

- comprehensive budgeting systems on a medium term basis
- clearly defined capital and revenue expenditure guidelines
- regular reviews and reporting of financial performance against the plans for revenue expenditure
- overall cash limited budgets and a clear Scheme of Delegation defining financial management responsibilities
- regular capital monitoring reports which compare actual expenditure plus commitments to budgets
- key financial risks are highlighted in the budgeting process and are monitored through the year departmentally and corporately.
- robust core financial systems
- documented procedures are in place for business critical financial systems,
- and these are also checked on a regular basis by the Internal Audit Section.

Having a set of clearly defined priorities means that sometimes we have to make difficult decisions and adopt alternative methods of service delivery providing services which better meet the needs of our citizens or which provide better value for money.

### **7. Effective Management - Capacity and Capability of Members and Officers**

The Council's structure gives clear accountability for the performance management of services, both within departments and corporately.

The Council aims to ensure that Members and managers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new Members and staff undertake an induction to familiarise them with protocols, procedures, values and aims of the Council.

The Council has approved a Member Development Strategy that commits it to being accredited to the East Midlands Member Development Charter during 2009/10. Of the 23 auditable points we have already made good progress on 50%, including the establishment of a Member lead, cross party monitoring group, the Members' Services Working Party, and the scheduling of ten Councillor Training Days each year. Personal Development Plans will be in place for all 51 Members by the early summer of 2009.

Members of the Audit and Accounts Committee are provided with training specific to its responsibilities on an annual basis. The focus is on key governance issues such as risk management and internal control. Individual briefings are provided to Members of the Committee as and when required.

Over 100 managers have been through our Leading Manager Programme, designed and delivered in partnership with the University of Derby. The programme is delivering leadership capacity to a critical mass of our Leaders and generating a real and measurable return on investment. The programme has been featured nationally and internationally as a best practice example and was shortlisted for a Training Journal 'Best Public Service Initiative Award'.

The Council's Achievement and Development Scheme for all staff ensures performance is managed and development needs for each member of staff are identified and met. We have

## **ANNUAL GOVERNANCE STATEMENT**

recognised the need to review the scheme and we have piloted a new system, which it is hoped will better meet the needs of employees as well as promoting effective performance management. We are continually looking to develop the potential of our staff and one initiative in achieving this is the creation of a "Succession Pool".

The Council have successfully achieved the Investors in People accreditation in all its departments.

### **8. Engaging with Local People and Other Stakeholders to Ensure Robust Accountability**

The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people.

Every year, together with our partners, we carry out many consultation exercises, including the community safety audit, Derby Pointer survey of a representative sample of residents, Police budget survey, the NHS patient satisfaction survey and many more. These surveys and events enable the Council and our partners to gauge understanding of our shared vision and priorities for the city. We have adopted a Community Engagement Strategy with DCP to ensure a co-ordinated approach to community engagement across partner organisations.

Our commitment to partnership working is demonstrated in our approach to Community Leadership. Following a successful pilot of neighbourhood working, the Council together with our partners is developing a citywide partnership model for neighbourhood management. Day-to-day co-ordination of service delivery has been transferred to a partner organisation – in this case, Derby Community Safety Partnership.

The neighbourhood model has four key objectives...

- Empowering local communities.
- Strengthening local democracy.
- Building more responsive public services.
- Developing integrated frontline public services.

Neighbourhood Teams are made up of a Neighbourhood Co-ordinator, a Neighbourhood Environmental Action Team (NEAT), a Police Community Support Officer, a Community Safety Officer, a Police Neighbourhood Team and a Community Engagement Officer. In addition, there is frequent input from other agencies, such as Derby Homes' Community Watch Patrol, Derbyshire Fire and Rescue Service and Central and Derby City Primary Care Trust.

To give local citizens a greater say in local decision making, we have transformed our five area panels into neighbourhood boards and forums. Every ward or neighbourhood now has a forum and board. Neighbourhood forums are open public meetings that are held at a local venue every two or three months. The forum is an opportunity for residents to find out what's happening in their area and to discuss the big issues and priorities. Residents meet with councillors and representatives from police, health, council and community safety. Neighbourhood boards are local leadership groups that agree priorities, decide where community grants are to be spent, monitor performance and decide on the vision for the neighbourhood.

Other arrangements for consultation and for gauging local views include the Derby Pointer Citizen's Panel. Your Derby magazine provides summary information on the Council's vision and priorities and is delivered to homes and businesses across Derby.

The Community Strategy is drawn up in consultation with stakeholders across the city including...

## **ANNUAL GOVERNANCE STATEMENT**

- the results of Citizens Panel consultations
- the results of surveys/consultations on other supporting strategies and plans
- stakeholder meetings and events
- advice from Government advisors and consultants.

Let's Talk Budget is our process for engaging residents and organisations interested in the budget setting process. We have used a budget-modelling tool and encourage participation in the budget setting process through our consultation and engagement framework.

Performance and progress against the Community Strategy, LAA and Corporate Plan is evaluated regularly using performance indicators on Performance Eye. Regular monitoring reports are presented to the DCP Board and there is an extensive annual review process.

### **9. Review of Effectiveness**

Derby City Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors and by comments made the external auditors and other inspection agencies.

Both in year and year end review processes have taken place. In year review mechanisms include:

- the Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
- there is a well resourced Scrutiny function which holds the Cabinet to account. The Scrutiny Management Commission is responsible for maintaining an overview of service and financial performance, efficiency and effectiveness.
- the Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members including referrals from the standards board. Their work has included reviewing the Code of Conduct for Members and preparation/training for the new requirements for dealing with investigations into Members' conduct.
- the Audit and Accounts Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework and internal control environment. The Committee met 5 times during the year receiving regular reports on governance, risk and internal control matters.
- Internal Audit is an independent and objective assurance service to the management of the City Council who complete a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangement. In addition, the Section undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit are reported to senior management and the Audit and Accounts Committee.
- the External Auditor's Annual Audit and Inspection Letter is considered by the Audit and Accounts Committee, Cabinet and the Chief Officer Group. A number of external audits

## **ANNUAL GOVERNANCE STATEMENT**

and inspections have also taken place. In October 2007 the Audit Commission carried out a Corporate Assessment.

- the External Auditors completed their CPA Use of Resources Key Lines of Enquiry assessment during the year and awarded the Council's internal control arrangements a score of 3 overall. The Use of Resources assessment overall retained a score of 3.
- the Change Management and Performance Unit monitor Best Value and Key Performance Indicators on a quarterly basis and recommend improvements to the performance framework on a regular basis.
- Strategic Risk Group reviews newly identified corporate risks and ensures that actions are being taken to effectively manage the Council's highest risks. The Group met quarterly to review the effectiveness of the Council's Risk Management Framework

The review of the Council's governance arrangements and the control environment included:

- the formation of a Governance Working Group who review the Council's own governance arrangements against a best practice framework endorsed by CIPFA/SOLACE to identify areas for improvement.
- reviewing other external inspection reports received by the Council during the year
- validating assurances obtained by reference to documentation held and by comparing the assurances provided to an evaluation of the effectiveness of the control environment.
- the opinion of the Head of Audit and Risk Management in his annual report to Audit and Accounts Committee and an evaluation of management information in key areas to identify any indications that the control environment may not be sound.
- consulting the Audit and Accounts Committee regarding any potential issues they felt could indicate a problem with the control environment.

The Corporate Assessment concluded that the Council was performing well. The key governance issues outlined in the report were that we:

- had clear and robust priorities
- show good and improving community leadership
- understand and meets the needs of our diverse communities and consult extensively
- have good political and managerial leadership
- have excellent partnership working
- provide good value for money
- have the capacity to deliver its priorities
- manage performance well

### **10. Significant Governance Issues**

The Statement on Internal Control 2006/7 highlighted 2 significant areas of control weakness in Debt Recovery and in Environmental Services. Action plans were developed for each area and regular reports on progress were taken to the Audit and Accounts Committee during 2007/8. Both of these areas will continue to be monitored during 2008/9.

## **ANNUAL GOVERNANCE STATEMENT**

The review process has highlighted a number of significant issues regarding the governance and internal control environment and these are described briefly below. For each one, detailed action plans have been or will be determined by a responsible officer. This will then be reported through to audit and Accounts Committee for scrutiny.

### **Areas for improvement from Corporate Assessment**

The Audit Commission identified 3 key areas for improvement:

- The Council is committed to neighbourhood working and engaging with local communities. However, communication of its priorities, progress and achievements locally is limited, representing a lost opportunity. The Council should review and strengthen its neighbourhood level communication so that it can widen neighbourhood participation and engagement.
- The Council uses metrics well to track performance and set targets, and makes satisfactory use of knowledge about performance to drive continuous improvement. But it needs to capture, report and use all customer contact data to ensure services best meet need. It needs to mainstream across all departments its good practice embedded in its business process review to ensure they make best use of metrics to drive continuous improvement. This includes better use of lead indicators to manage performance.
- The Council has a new older people's strategy which addresses independence and well-being as well as the traditional areas of health and social care. However, current consultation remains focused on health and social care and engagement is limited to those active in, or affected by, that agenda. The Council should refocus its consultation and engagement approach to ensure older people's wider needs, for example in relation to active ageing, are understood and fully integrated into its priorities.

The Council has produced an action plan to address these recommendations.

### **Derwent New Deal for Communities (NDC)**

The Corporate Director – Resources commissioned Internal Audit to review the project appraisal process for NDC following a number of high profile Derwent Community Team project failures. The Director of Derwent Community Team is addressing the governance and control issues raised and also has regular meetings with the Chief Executive and the Corporate Director – Resources.

### **Risk Management**

A review of the risk management methodology needs to be undertaken. Despite guidance being provided, the risk assessment process is not consistent throughout the Council. The linkage into the business planning process needs to be reviewed. Inconsistencies exist in the treatment of service risks in the risk registers.

The inclusion of risk implications and how these will be managed in all Cabinet and Committee reports was raised during the Corporate Assessment. This is an issue that the Strategic Risk Group is examining.

The External Auditor reviewed the risk management process and has recommended that:

- The Council should consider reporting departmental risk assessments to the Full Council and Audit and Accounts Committee.
- The Council should consider periodically re-evaluating annual risk assessments to monitor progress in mitigating risks and identify any emerging risks.
- The Council should ensure that proper attention is given to identify and manage fraud risks within the annual risk-assessment process.

## **ANNUAL GOVERNANCE STATEMENT**

These recommendations have been agreed in principle and actions will be implemented to address them.

### **Governance Framework**

Following the publication of the CIPFA/SOLACE guidance the Local Code of Corporate Governance needs to be reviewed and updated. This is a key element in the work programme for the Governance Working Group.

The Governance Working Group plans to review the Governance Framework over the next 12 months, to ensure it is properly embedded.

### **Fraud Awareness**

Further work is required to make staff more aware of fraud in general, in particular how to recognise the signs and what to do if fraud is suspected. Fraud awareness training for staff is being planned for the autumn.

### **Partnerships**

Although a Partnership Register has been developed there is still further work that the Council needs to do to formalise a protocol on how it works with its partners. The next key stage is to establish the "significant" partnerships and to undertake annual reviews of the Council's input into each significant partnership.

## **11. Certification**

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year with the exception of those areas identified section 10. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangement. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Hilary Jones  
Leader of the Council

Ray Cowlshaw  
Chief Executive

# **INDEPENDENT AUDITORS REPORT TO DERBY CITY COUNCIL**

## ***Independent auditor's report to the Members of Derby City Council***

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

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

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

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of Derby City Council, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

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

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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 our opinion we also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

# INDEPENDENT AUDITORS REPORT TO DERBY CITY COUNCIL

## Opinion

In our opinion:

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

## ***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**

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006. We are satisfied that, in all significant respects, Derby City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.



# INDEPENDENT AUDITORS REPORT TO DERBY CITY COUNCIL

## **Best Value Performance Plan**

The Council's outgoing auditor, PriceWaterhouseCoopers, issued a statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 29 November 2007. Their report did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## **Certificate**

We certify that we 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.

**Grant Thornton UK LLP**  
**Birmingham**

## ACCOUNTING POLICIES

### General

The accounts have been prepared in accordance with the accounting practices as required by the Code of Practice on Local Authority Accounting in Great Britain published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code has been approved as a Statement of Recommended Practice (SORP), which is recognised by statute as representing proper accounting practices, and also complies with relevant Financial Reporting Standards (FRS's) and Statements of Standard Accounting Practice (SSAP's). Accounting policies are consistent with those applied in 2006-7 except for specific changes to the 2007 SORP. These changes in accounting policy have specifically been shown in the notes to the accounts.

Services that continue to be operated under former Compulsory Competitive Tendering arrangements are included as Trading Services.

### Tangible Fixed Assets

Tangible fixed assets are included in the Balance Sheet at valuation, less depreciation where appropriate. These include any assets financed by finance leases.

Service Revenue Accounts are charged with capital charges for all fixed assets used in the delivery of services, comprising a provision for depreciation (where appropriate). Capital financing costs are disclosed separately in the Income and Expenditure Account.

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. This includes assets acquired under finance leases that have been capitalised and included in the Balance Sheet on the basis of the outstanding obligations to make future rental payments.

Operational assets have been included in the Balance Sheet at the lower of open market value **where possible to assess**, or depreciated replacement cost. Non-operational assets have been included at open market value. Infrastructure and community assets, which by their nature are not capable of being realised, are included at their historical cost. In accordance with SORP further reviews have been undertaken with regards to non operational assets – investment properties. These assets must now fall under the following definition to be deemed either operational assets or 'true' non operational assets – investment properties. Therefore if the letting of the commercial properties supports the Authority's service or strategic objectives, the properties should be classified as operational assets. If the commercial properties are held to purely generate income, the properties should be classified as non operational – investment properties.

A further category has been created to highlight assets under construction which when complete and operational will be added to land and buildings operational assets and will therefore carry an asset rental charge.

The current asset values used in the accounts are based upon a rolling basis of valuation and a certificate issued as such by the Council's Chief Valuation Officer.

### Depreciation on Fixed Assets

Depreciation is provided for on all assets except land, surplus and investment properties and is calculated using the straight-line method over the remaining life of the asset. For 2007/8 this fully complies with SORP 2007 and Financial Reporting Standard FRS 15.

## ACCOUNTING POLICIES

The HRA has been charged with full depreciation of its assets, including Council dwellings. In addition to normal straight line depreciation under SORP 2007 a further adjustment is required between historic cost and current cost depreciation.

### Depreciable Lives

The Council uses the following depreciable lives for the classes of assets listed

Asset Class	Life In Years
Community Assets	+20
Council Dwellings	50
Infrastructure	40
Operational Land and Buildings	20-50
Vehicles, Plant and Equipment	5 - 20

### De minimus Level for Capitalisation of Expenditure

A de minimus level of £10,000 has been adopted for the inclusion of fixed assets in the accounts.

### Charges to Revenue for the Use of Fixed Assets

All service revenue accounts, the Housing Revenue Account, central support services and trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The charge covers the annual provision for depreciation.

The charge made to the Housing Revenue Account is its true share of debt interest costs.

External interest payable and the provision for depreciation are charged to Services but reversed in the note of reconciling items for the statement of movement on the general fund balance to be fully compliant with the SORP 2007. Capital charges have a neutral impact on the amounts required to be raised from local taxation and housing rents with the exception of the Housing Revenue Account depreciation on council dwellings which is a net charge equal to the Major Repairs Allowance with the difference reversed out to the Major Repairs Reserve.

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

### Impairment

The Council's impairment policy is such that it seeks to identify where there has been a material change in the recorded valuations of assets as a result of:

- A significant decline in an asset's value during the preceding period of 12 months
- Evidence of physical damage or obsolescence to the asset
- A significant change in the statutory or regulatory environment in which the authority operates
- A commitment by the authority to undertake a significant reorganisation

All assessments of impairment are carried out in accordance with the CIPFA Code of Practice and the relevant sections of the RICS Appraisal and Valuation Manual.

## **ACCOUNTING POLICIES**

Valuations of property to address impairment that has occurred include fixed plant and equipment, fixtures and fittings but exclude all moveable items of plant, fixtures and fittings.

### **Long Term Private Finance Initiative (PFI) Contracts**

Derby City Council has three operational PFI projects and a further one in procurement as follows:

Operational

- Grouped Schools
- Housing Inner City Regeneration
- Street Lighting (commenced June 2007)

In procurement

- Housing – New Build and Refurbishment (commencement due in 2009/10)
- Building Schools for the Future (BSF)
- Waste Strategy

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the council under a contract are charged to revenue to reflect the value of services received in each financial year in line with FRS5 (Reporting the substance of transactions).

PFI transactions in relation to operational schemes, together with the relevant notes to the accounts are treated in accordance with SORP 2007.

Where appropriate, account has been taken within the revenue account and balance sheet of the implications of any residual balance and prepayments (Deferred Consideration) in relation to schemes.

### **Deferred Consideration**

Deferred considerations reflect PFI contract prepayments made where the payment has given rise to a future benefit for the Council. The balance is amortised to revenue over the period of the future benefit, which is the life of the PFI contract. These are included under long term debtors on the Balance Sheet.

### **Residual Value Build up for PFI schools**

Residual value build up reflects a cumulative annual build up of the cost of the assets over the life of the contract, where the total value of the schools will transfer back on to the council's Balance Sheet at the end of the contract term.

In all cases, ownership of the assets generated is deemed to have been transferred to the private sector provider, returning to the Council only at the end of the operational period, with the exception of housing scheme where the assets remain with the provider.

In cases where the revenue grant stream received from the government generates cash surpluses in the early years of a project, the surpluses are retained in earmarked reserves in order to offset grant deficits anticipated in future years. Details of future obligations are shown as a note to the Income and Expenditure Account.

## **ACCOUNTING POLICIES**

### **Intangible Assets**

Intangible assets represent expenditure which may properly be capitalised at cost, but which does not represent tangible fixed assets, which need representing on the balance sheet. Intangible assets are amortised on a systematic basis over their economic life. Economic lives of intangible assets are limited to periods of 20 years or less.

### **Deferred Charges**

Deferred charges are amortised to revenue over an appropriate period consistent with the consumption of the economic benefits controlled by the local authority.

Due to the types of expenditure usually categorised as deferred charges, e.g. improvement grants, 100 per cent of the deferred charge is amortised to revenue in the year the deferred charge is recognised. This is on the assumption that full economic benefit takes place in year. Any corresponding grant funding is also amortised to revenue to match the expenditure.

Under the capital control framework, however, this type of expenditure is classed as capitalised expenditure for financing purposes, and as such, is included in the Capital Financing Note 4 to the Balance Sheet.

Entries can therefore be found in the Income and Expenditure Account with corresponding entries in the Capital Adjustment Account and Government Grants Deferred Account.

### **Leases**

#### **Finance Leases**

The council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the council in line with SSAP21 (Accounting for leases and hire purchase contracts).

Rentals payable are apportioned between:

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

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

#### **Operating Leases**

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

#### **Credit Arrangements**

Credit arrangements comprise diverse forms of leases and contractual arrangements through which authorities obtain credit other than by the borrowing of money. In 2001/2 the Council entered into a credit arrangement by taking on a long term lease of a building. Cover amounting to the net present value of future lease payments has been made within the Capital Adjustment Account.

## ACCOUNTING POLICIES

### Capital Reserves

- **The Capital Financing Account and The Fixed Assets Restatement Account** are no longer in use and under the new SORP 2007 accounting arrangements all balances have been transferred to the new Capital Adjustment Account.
- **The Revaluation Reserve** represents principally the balance of the accumulated gains on the fixed assets held by the authority arising from increases in value as a result of the periodic revaluation of fixed assets. In addition to revaluation gains further entries are required to take account of the historic cost depreciation (a compensating credit entry goes to the Capital Adjustment Account) and any revaluation increase balance relating to an asset disposal. This entry is required to write out those assets which the authority no longer owns. The Revaluation Reserve has been included in the Balance Sheet with a zero opening balance for 2007/8
- **The Capital Adjustment Account** represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets. It also includes the provision for credit liabilities. This represents sums to be set aside for debt redemption which, in accordance with statutory requirements, is the minimum revenue provision and set aside capital receipts. Under the new SORP accounting arrangements it also includes asset disposals in year and a related entry required to write out any balance held within the Revaluation Reserve of assets disposed of.

### The Usable Capital Receipts Reserve

The useable element of cash received from the sale of tangible fixed assets is held in this account until used to finance capital expenditure. This represents the balance of capital receipts available to finance new capital investment. Under current legislation only 25% of capital receipts from the sale of council housing are available for this purpose, but the whole sum is available from most non-housing capital receipts. The balance is required to be set aside to repay debt or used instead of new borrowing. Interest on these funds pending use is credited to the General Fund.

### Government Grants – Revenue Account

Government Grants are accounted for on an accruals basis. Grant income has been credited to the appropriate service line within the Income and Expenditure Account.

### Government Grants and Contributions to the Capital Programme

Grants and contributions to the Capital Programme have been credited to the Government Grants/Contributions Deferred Account as well as to capital grants. Amounts are released from this account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate or, if no depreciation is to be charged, transferred to revenue to offset any corresponding entries for expenditure incurred due to impairment or diminution expenditure charged to revenue. This is a change to the previous year whereby government grants/contributions not amortised were transferred to the Government Grants Deferred – grants not amortised notional account.

### Investments

Investments are shown in the Balance Sheet at cost less provision, where appropriate, for loss in value. Long-term investments have been identified separately on the face of the balance sheet. Any dividend income from investments is recognised when the Council has a right to receive the dividend.

## **ACCOUNTING POLICIES**

### **Financial Assets**

Financial assets are classified into two types:

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

### **Loans and Receivables**

Loans and receivables are initially recognised at fair value with subsequent movements at amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made the amount presented in the balance sheet is the outstanding principal receivable, and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement

### **Available-for-Sale Assets**

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

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

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – independent appraisal of company valuations (unless it is deemed not to be material then held at historical cost).

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

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

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

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

### **Financial Liabilities**

Financial liabilities are initially recognised at fair value with subsequent movements at 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 the borrowings that the Council has, this means that the amount presented in the Balance

## **ACCOUNTING POLICIES**

Sheet is the outstanding principal repayable plus any accrued interest, and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

### **Repurchase of Borrowing**

Gains on the repurchase or early settlement of borrowing are credited to Net Operating Expenditure in the Income and Expenditure Account in the year of repayment/settlement. Losses on the repurchase or early settlement of borrowing are debited to Net Operating Expenditure, which may be met by capital receipts, reducing the level of unapplied capital receipts carried forward, or from borrowing.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate. As at 30 March 2008 only one loan of the Council's entire portfolio was considered 'modified' and therefore required such an adjustment.

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

### **Debtors and Creditors**

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the SORP 2007. This means that sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year. This policy has been consistently applied each year to revenue and therefore does not have a material effect on the year's accounts.

Appropriate provision is made in the accounts for bad and doubtful debts following an annual review of amounts due at 31 March.

All income and expenditure figures exclude value added tax (VAT).

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

The Council's DICES stock is shown at actual cost or net realisable value, if lower. All other material items of stock are valued at the average price paid. There is a periodic review of the stores and obsolete stock is written off. This is a departure from the requirements of the SORP 2007, which require stocks to be shown at actual cost or net realisable value, if lower. The difference in treatment is not considered to have a material effect on the Council's accounts. Work in progress on incomplete jobs is valued at cost including an allocation of overheads.

### **Provisions**

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

Provisions are required to be recognised when:

- (i) the local authority has a present obligation (legal or constructive) as a result of a past event



## **ACCOUNTING POLICIES**

- (ii) it is probable that a transfer of economic benefits will be required to settle the obligation, and
- (iii) a reliable estimate can be made of the amount of the obligation.

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

The obligation can be 'constructive' (e.g. the authority has publicly expressed an intention to do something, and other parties have acted in expectation of this).

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

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

The treatment outlined above is in line with FRS12 (Provisions, contingent liabilities and contingent assets).

### **Earmarked Reserves**

These include certain sums of money held by the Council which have been earmarked for a specific purpose following a conscious decision by the Council to do so.

### **General Fund Balance**

The General Fund Balance comprises all unallocated reserves and is available to meet future net expenditure as required. The General Fund receives all interest on balances except the element relating to the Housing Revenue Account balance and school balances under Local Management of Schools arrangements. Interest due on these balances is calculated at short-term money market rates.

### **Local Government Pension Scheme**

The pension costs, which are charged to the Council's accounts in respect of its employees, are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise which relate to certain pensions paid to retired employees on an unfunded basis.

These contributions have been determined on the basis of rates that are set to meet 100% of the liabilities of the Pension Fund, in accordance with relevant Government regulations.

The Annual Report of the Derbyshire Pension Fund is available from Derbyshire County Council, County Hall, Matlock, DE4 3AH.

### **Teachers Pensions**

This is an unfunded scheme administered by the Department for Education and Skills. The pension cost charged to the accounts is the contribution rate set by the Department for Education and Skills (DfES) on the basis of a notional fund.

## **ACCOUNTING POLICIES**

### **FRS17 Compliance**

The Statement of Accounts includes accounting for and disclosure of pension costs, assets and liabilities in compliance with the requirements of the SORP relating to FRS17. This includes the requirement to charge the estimated service cost (past and present) to the Revenue Account which is then adjusted through the Statement of Movement on the General Fund Balance.

The Derbyshire Pension Fund Actuary has provided the FRS17 Pension Pension Fund costs for inclusion in the Statement of Accounts.

The objective of FRS17 is to ensure that the Council's financial statements reflect at fair value the future pension liabilities that have been incurred, and the extent to which assets have already been set aside to fund them. This is a non-cash entry in the revenue account, which is then reversed out to the pensions reserve to ensure a neutral position that does not impact on the amount to be met from local taxes.

### **Housing Revenue Account - Resource Accounting**

The Housing Revenue Account has been prepared in accordance with guidance on Resource Accounting in the HRA. Resource Accounting was introduced as part of a new financial framework for local authority housing and became effective on 1 April 2001.

### **Support Services**

In accordance with the CIPFA Best Value Accounting Code of Practice and Statement of Accounting for Overheads, the cost of professional, technical and administrative support has been charged to services on the bases given below.

Accountancy, Audit	Charge based on time allocation
Administrative buildings	Charge based on floor area and fixed charges
Cash collection, payroll, creditors, financial ledger, debtors, financial services	Charge based on usage, e.g. number of invoices, wages paid, etc
Computer services	Charge based on usage and contractual charges
Design and Property Services - architectural services, quantity surveying, property maintenance, repair and maintenance fees	Charge based on time allocation of works undertaken
Estates and Valuation	Charge based on time allocation
Legal Services	Charge based on time allocation
Personnel Services	Charge based on number of staff and time allocation
Telephone system	Charge based on number of extensions and fixed charges applicable

## **GLOSSARY OF TERMS**

### **ACCRUAL**

A sum included in the final accounts attributable to the year but for which payment has yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

### **ASSET**

An item having value measurable in monetary terms. Assets can be defined as fixed or current. A fixed asset has a value for more than one year, for example a building or a long-term investment. A current asset can be readily converted into cash, for example stocks or a short-term debtor.

### **AUDIT OF ACCOUNTS**

An independent examination of the Council's financial affairs.

### **BUDGET**

The spending plans of the authority over a specific period of time - generally the financial year 1 April to 31 March.

### **CAPITAL CHARGES**

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

### **CAPITAL EXPENDITURE**

Expenditure to acquire or enhance fixed assets that will be used to provide services beyond the current financial year.

### **CAPITAL FINANCING**

The raising of money to pay for capital expenditure. There are various methods of financing capital expenditure, including borrowing, leasing, using capital receipts, grants or contributions from third parties, or direct from revenue budgets.

### **CAPITAL PROGRAMME**

The capital schemes the Council intends to carry out over a specified period of time.

### **CAPITAL RECEIPT**

The proceeds from the disposal of land or other fixed assets. A proportion of capital receipts can be used to finance new capital expenditure, within rules set down by the government, but they cannot be used for revenue purposes.

### **COLLECTION FUND**

A separate fund recording the expenditure and income relating to council tax, non-domestic rates and residual community charges.

## **GLOSSARY OF TERMS**

### **COMMUNITY ASSETS**

Assets that the Council intends to hold in perpetuity, or that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

### **CONSISTENCY**

The concept that the accounting treatment of like items within an accounting period and from one period to the next one are the same.

### **COUNCIL TAX BASE**

The Council has to calculate the 'Council Tax Base' for 2006/07 as a means of raising council tax income from Derby council tax payers. The Base is a figure which represents the effective number of properties in terms of Band D in the Council's area during the year. It is used as a divisor to translate total council tax requirements in a 'headline' charge for Band D. Charges for other bands are calculated as fractions of the headline charge.

### **CREDIT APPROVAL**

Credit approvals give the Council permission to borrow to finance capital expenditure.

### **CREDIT CEILING**

This is a measure of the difference between the Council's total liabilities in respect of capital expenditure finance by credit and the provision that has been made to meet those liabilities.

### **CREDITOR**

Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments had not been made by the end of that period.

### **DEBTOR**

Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments had not been received by the end of that period.

### **DEFERRED CONSIDERATION**

A prepaid amount paid to the contractor in advance of services, written off over the life of the contract in equal instalments to the revenue account, in order to reduce the overall cost to the contract

## **GLOSSARY OF TERMS**

### **DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme other than a defined contribution scheme. The scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

A defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits.

### **DEPRECIATION**

The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

### **DIRECT SERVICE ORGANISATIONS (DSOs)**

Independent organisations within the local authority which, following competition with the private sector, have been successful in being awarded contracts for carrying out specified work for the Council.

### **FINANCE LEASE**

A lease that transfers substantially all the risks and rewards of ownership of a fixed asset to the lessee (the Council).

### **FINANCIAL REPORTING STANDARD (FRS) AND STATEMENTS OF STANDARD ACCOUNTING PRACTISES (SSAP)**

These cover particular aspects of accounting practice, and set out the correct accounting treatment – for example, of depreciation. FRSs are issued by, and SSAPs have been adopted by, the Accounting Standards Board.

### **GOVERNMENT GRANTS**

Grants made by the Government towards either revenue or capital expenditure to support the cost of the provision of local authority services. These grants may be specifically towards the cost of particular schemes or to support the general revenue spending of the Authority.

### **HOUSING ADVANCES**

Loans made by an authority to individuals or Housing Associations towards the cost of acquiring, constructing or improving dwellings. Loans made to individuals are termed mortgages.

### **HOUSING BENEFITS**

A system of financial assistance to individuals towards certain housing costs administered by local authorities and subsidised by Central Government.

## **GLOSSARY OF TERMS**

### **HOUSING REVENUE ACCOUNT (HRA)**

A separate account that includes all the expenditure and income arising from the provision of council housing by the Council.

### **INCOME**

Amounts which the Council receives or expects to receive from any source, including rents, fees, charges, sales and grants.

### **INFRASTRUCTURE ASSETS**

Fixed assets belonging to the Council, which are not readily sold, do not necessarily have a resale value, and for which a useful life span cannot be readily assessed (for example highways).

### **INTANGIBLE ASSET**

Intangible assets represent expenditure which may be properly capitalised, but which does not represent tangible fixed assets which need representing on the balance sheet. Intangible assets are amortised to revenue over an appropriate period not exceeding five years and as part of the capital accounting entries intangible assets are passed through the Capital Financing Reserve and the Income and Expenditure Account so there is no impact on the levels of council tax.

### **LIABILITY**

An amount owed by the Council, which will be paid at some time in the future.

### **MINIMUM REVENUE PROVISION (MRP)**

The MRP is a statutory amount relating to the principal element of loans outstanding, which is a specific percentage of the Council's credit ceiling at the end of the previous year. This percentage is 2% for the Housing Revenue Account and 4% for other services.

### **NON-DOMESTIC RATE (NDR)**

The Non-Domestic Rate is a standard rate in the pound set by the Government on the assessed rateable value of business properties.

### **NON-OPERATIONAL ASSETS**

Fixed assets held by the Council, but not directly occupied or used in the delivery of services. Examples are investment properties, or assets that are surplus to requirements, pending sale or redevelopment.

### **OPERATING LEASE**

A type of lease where the ownership of the asset remains with the lessor.

## **GLOSSARY OF TERMS**

### **OPERATIONAL ASSETS**

Fixed assets held by the Council and directly occupied or used in the delivery of its services.

### **PRECEPT**

A levy made by precepting authorities on the Collection Fund of billing authorities. The Police Authority levies a precept on the City Council.

### **PROVISION**

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are required to be recognised when:

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

The amount recognised as a provision should be the best estimate taking into account the risks and uncertainties surrounding the events and should be regularly reviewed.

### **PRUDENCE**

The concept that revenue is not anticipated but recognised only when realised or certain to be realised.

### **PUBLIC WORKS LOAN BOARD (PWL B)**

A Central Government agency, which provides loans for one year and above to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

### **RATEABLE VALUE**

The annual assumed rental value of a property, which is used for NDR purposes.

### **RESERVES**

Surpluses and deficits that have been accumulated over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the Fixed Asset Restatement Reserve cannot be used to meet current expenditure.

### **RESIDUAL VALUE**

The difference between the agreed contractual residual value (nil) and the projected fair residual value must be built up over the life of the project. The fair value must match the accumulated entries at the end of the contract. The revenue account is to be credited each year with an equal amount to enable an asset to be created at the end of the contract.

## **GLOSSARY OF TERMS**

### **REVENUE ACCOUNT**

The main account of the Council into which grants and other income is paid and from which the cost of providing services is met.

### **REVENUE EXPENDITURE**

The day-to-day expenses of providing services.

### **REVENUE SUPPORT GRANT (RSG)**

A grant paid by Central Government to authorities, contributing towards the cost of services.

### **STATEMENT OF RECOMMENDED PRACTICE (SORP)**

The SORP, issued by CIPFA in accordance with the Accounting Standards Board, governs the way local authorities must produce their financial statements and report their spending and income.

### **STOCKS**

Comprise the following categories: goods and other assets purchased for resale; consumable stores; long term contract balances and finished goods.

### **TEMPORARY LOAN**

Money borrowed for a period of less than one year.

### **TRUST FUNDS**

Funds administered by the Council for such purposes as prizes, charities, specific projects, and on behalf of minors.