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County Treasurer, PETER SWABY, C.P.F.A



# Table of Contents

|   | <i>Page</i> |
|---|-------------|
| STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS | 3           |
| EXPLANATORY FOREWORD  | 4-7         |
| STATEMENT ON THE SYSTEM OF INTERNAL CONTROL                 | 8-21        |
| GENERAL STATISTICS  | 22-23       |
| STATEMENT OF ACCOUNTS                                       |             |
| Statement of Accounting Policies                            | 24-26       |
| Auditor's Opinion   | 27-29       |
| County Fund Consolidated Revenue Account                    | 30-38       |
| Consolidated Balance Sheet                                  | 39-49       |
| Statement of Total Movement in Reserves                     | 50-52       |
| Cash Flow Statement   | 53-56       |
| Pension Fund  | 57-69       |
| Capital Expenditure   | 70-71       |
| GLOSSARY OF FINANCIAL TERMS                                 | 72-74       |

# Statement of Responsibilities for the Statement of Accounts

## **The Authority's responsibilities**

The authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the County Treasurer.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the statement of accounts.

The Accounts were approved by Cabinet on 27 June 2006.



Councillor J G Williams  
Chair, Cabinet  
28 September 2006

## **The County Treasurer's responsibilities**

The County Treasurer is responsible for the preparation of the authority's statement of accounts which, in terms of the Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

In preparing this statement of accounts, the County Treasurer has:

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

## **The County Treasurer has also:**

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

## **Certificate of County Treasurer**

I certify that the Statement of Accounts present fairly the financial position of Derbyshire County Council at 31 March 2006 and its income and expenditure for the year then ended.



Peter Swaby  
County Treasurer  
28 September 2006

# Explanatory Foreword

## Introduction

These accounts set out the financial results of the Council's activities for the year ended 31 March 2006. The County Council manages its affairs to ensure the economic, efficient and effective use of resources and safeguard its assets. This is vital if the Council is to continue to play a leading role in the community and provide high quality services for the benefits of all its residents. This task is shared by all Members and Officers of the Council under the leadership of Cabinet and the Chief Executive. The Director of Corporate Resources and County Treasurer play a particular role in ensuring financial stewardship.

This booklet is prepared following the statutory requirements of the Accounts and Audit Regulations 2003 and in accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code') which requires that the accounts present fairly the financial position of the County Council. Appropriate accounting policies have been applied consistently and prudent judgements and estimates have been made in compliance with the Code. The Council keeps proper, up to date financial records, maintains effective internal control and risk management systems and takes all reasonable steps to ensure the prevention and detection of fraud and other irregularities.

The purpose of this foreword is to provide the reader with:

- An explanation of the accounting statements which follow
- A review of the Council's financial performance in 2005-06
- An indication of the Council's financial position as at 31 March 2006
- An overview of the Council's plans for future priorities in service delivery

A glossary of terms is provided on page 72 to assist the reader

## The Statements

The main statements, and their purpose, within the accounts are:

- *Statement of Responsibilities for the Statement of Accounts* which outlines the relative responsibilities of the Council and the County Treasurer for preparing the accounts.
- *Statement on the System of Internal Financial Control* which sets out the framework within which financial control is managed and reviewed and the main components of the system.
- *Statement of Accounting Policies* which explains the basis for recognition, measurement and disclosure of transactions and other events in the accounts
- *County Fund Consolidated Revenue Account (CRA)* which gives details of the cost of services which the County Council provides and shows how the net cost after income and movements to and from reserves has been financed from Revenue Support Grant and local Council Tax payers
- *Consolidated Balance Sheet* which summarises the financial position of the County Council. It provides a statement of the Council's assets and liabilities at the year end (31 March 2006)
- *Statement of Total Movement in Reserves* which summarises movements in the Council's revenue and capital reserves
- *Cash Flow Statement* which summarises the total external cash movements during the year for revenue and capital purposes
- *Pension Fund* The County Council administers the Derbyshire pension Fund. Other participating authorities include Derby City Council, all 8 District Councils and over 85 other admitted bodies
- *Capital Expenditure Statement* Although not a required statement the Council considers this statement showing capital expenditure in the year and its method of financing to provide the reader with a full picture of the Council's financial transactions in the year.

Legislation requires the Council also to produce Group Accounts consolidating the Council's main accounts with those of any subsidiary or associate companies whose turnover is material. Whilst the Council does have such companies it considers their turnover to be immaterial to the overall position and is not therefore required to consolidate.

## Explanatory Foreword (continued ...)

### Summary of the Council's financial performance for the year 2005-06

The Audit Commission assesses each local authority at regular intervals through a Comprehensive Performance Assessment (CPA). In 2004-05 the authority was assessed as "Excellent" but during 2005-06 only two elements of the CPA were reassessed one of which was Use of Resources. The authority scored 3 out of 4, on what was intentionally devised by the Audit Commission as a much harder test, and which contributed to an overall 4\* or maximum assessment. Despite one of the best scores in the country the Council is determined to continue on its path of continuous improvement and has therefore developed an action plan to further improve its Use of Resources. The other element of CPA that was assessed was the "direction of travel" and the Council was one of only five 4\* authorities in the country to score "improving strongly".

### Revenue Expenditure

The Council set a total revenue budget for the year of £704.463m, an increase of £32.3m or 4.8% after adjusting for changes in function. Government support in the form of Revenue Support Grant and a share of National Non Domestic Rates rose to £475.928m, an increase of 5.7%. This resulted in an increase in Council Tax of 2.25%, the lowest of any county council in the country, where the average increase was 3.85% and lower than the county council average for the 7<sup>th</sup> consecutive year.

The budget was set using just over £4m of balances and reserves and enabled the Council to invest an additional £19.4m in Education and £11.5m in Social Services. Central government also provides finance by way of specific grants to ensure local authorities provide particular services it considers highest priority and for Derbyshire these increased by 11% to £140.4m.

The Code defines how the Council's expenditure on services should be split for Statement of Accounts purposes (page 30). Expenditure is however controlled at departmental level and the table below shows that expenditure compared to the original and revised estimates.

| Department                    | Original Estimate | Revised Estimate | Actual Expenditure |
|-------------------------------|-------------------|------------------|--------------------|
|                               | £000              | £000             | £000               |
| Chief Executives              | 3,526             | 5,242            | 4,348              |
| Corporate Resources           | 2,880             | 2,197            | 387                |
| Cultural & Community Services | 15,923            | 17,024           | 16,453             |
| Education                     | 394,568           | 401,211          | 399,785            |
| Environmental Services        | 67,893            | 69,802           | 68,994             |
| Social Services               | 178,764           | 180,462          | 180,708            |
| Corporate                     | 15,329            | 6,472            | 2,155              |
| Service Total                 | 678,883           | 682,410          | 672,830            |
| Capital Financing Costs       | 29,705            | 29,705           | 29,672             |
| Transfers to/(from) balances  | -4,125            | -7,652           | 1,961              |
| Expenditure to be financed    | 704,463           | 704,463          | 704,463            |
| Revenue Support Grant         | 249,792           | 249,792          | 249,792            |
| NNDR                          | 226,136           | 226,136          | 226,136            |
| Council Tax                   | 228,535           | 228,535          | 228,535            |
| Total financed                | 704,463           | 704,463          | 704,463            |

The revised estimate for service expenditure increased from the original estimate as a result of approvals for the carry forward of previous year underspends to be financed from balances.

Actual net expenditure was below the revised estimate and therefore additions were made to balances rather than drawing from them. Although there were some variations on specific services the main reasons for the net underspend were:

## **Explanatory Foreword** (continued ...)

- No calls on the Risk Management provision (£2.4m) were necessary
- Interest earned on balances was £2.0m higher than the revised estimate
- PSA Performance Reward grant of £1.5m, that had not been budgeted for, was received.

Below are some statistics that should enable readers to put the financial statements into context.

Pay for more than 420 schools and 10,000 staff to educate nearly 120,000 pupils  
Provide a free home help service to 14,000 vulnerable people  
Deliver almost 600,000 meals on wheels  
Supply over 20,000 aids and adaptations to disabled people  
Carry out nearly 1,000 child protection investigations  
Invest over £30m repairing and improving over 2,800 miles of roads and pavements  
Organise school transport for 35,000 pupils  
Respond to over 14,000 requests for consumer information, advice and help  
Spend £1.8m on books for our 58 libraries  
Look after 9,000 footpaths, nine country parks, wildlife sites and information centres  
Dispose of over 360,000 tonnes of waste collected by the district councils

### **County Fund Reserves and Balances**

At 1 April 2005 the Council had uncommitted general reserves of almost £24m and was anticipating that this would reduce by £2m by the end of 2005-06 due to the proposed use of almost £4m to support the revenue budget. Given the favourable position on the revenue account uncommitted reserves have risen to almost £29m at the end of the year although services have made proposals to utilise some of these.

### **Capital Expenditure**

The original estimate for capital expenditure was £99.5m but additional approvals during the year resulted in a final estimate of £105.4m. Expenditure was £98.7m, the main reason for the underspend being delays to the Markham Employment Growth Zone (MEGZ) project because of a hold up in statutory procedures outside the authority's control.

### **Pension Fund**

The Pension Fund's overall return for 2005-06 was 25.0% (2004-05 12.2%) which compares to the average return on local authority funds of 24.9%. Over the last 10 years the return was 8.3% per annum which is 0.2% per annum ahead of the average. For comparison the 10 year figures for average earnings and retail prices are 4.3% and 2.6% respectively.

The Fund's latest Actuarial Valuation was carried out as at 31 March 2004 at which point it was calculated that the Fund's assets represented 70% of its past service liabilities compared with 88% at the March 2001 valuation. The main reasons for the decrease in funding level were the unfavourable performance of equity markets relative to the actuary's assumptions and the fall in gilt yields. If the market continues to hold or improve the gains it has made over the last two years the next valuation (2007) should show an improvement on this position.

## **Explanatory Foreword** (continued ...)

### **Accounting Policies**

There were no changes in accounting policies for 2005-06

### **Planned Future Developments**

Under the Council's Financial Strategy it has further developed its forward financial plan into a forecast of resources and costs up to 2010-11. The plan indicates significant pressure from both reduced central government funding as part of the next Spending Review in 2007 and from cost pressures such as Building Schools for the Future, new waste disposal requirements, increasing need for services from vulnerable people and other Council Plan targets as well as ongoing pressures of pay and prices. All this is within the context of keeping council tax rises down to as low a level as possible.

More detail on the 2006-07 financial position can be found in the reports to Cabinet and Council on the budget and the Council's budget book which are available on the web site [www.derbyshire.gov.uk](http://www.derbyshire.gov.uk)

Peter Swaby  
County Treasurer



# Statement on the System of Internal Control

## Incorporating Local Code of Corporate Governance

### 1. Scope of Responsibility

The 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.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

### 2. The Purpose of the System of Internal Control

The system of internal control is an ongoing process designed to support the Council's operation and manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved.

The next section outlines the internal control environment in which the Council operates and reviews the effectiveness of the controls. This system of internal control has been in place at the Council for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts.

### 3. The Internal Control Environment

The key elements of control are described below:

- (a) The Council sets out its objectives through a series of Plans, including the Community Strategy, the Council Plan and Service Plans, Asset Management Plans, and key strategies eg Financial. Action Plans arising from Best Value Reviews, Improvement & Scrutiny Reports and External Inspection reports, and Revenue and Capital Budgets are also key controls. Systems to monitor outcomes are also in place.

Notable amongst the External Inspection reports is the Audit Commission's Comprehensive Performance Assessment (CPA), where the Council achieved a high 4 star rating. The CPA now constitutes one of the main external examinations of the Council's service performance, use of resources, and provision of value for money.

- (b) The Council facilitates policy and decision making through a series of mechanisms designed with effectiveness, efficiency, economy, transparency and accountability to local people as prime objectives, all within the statutory framework within which the Council operates. The Council's policy and decision making process is set out in the Council's Constitution which describes how the Council operates and how decisions are made through Council and Cabinet, explains the role of Standards, Improvement & Scrutiny and the Council's Staff, and sets out the rights of Citizens in respect of their dealings with the Council. An Audit Committee was also established by the Council in 2005.

The Constitution is supplemented by a range of policies and processes to support the operation of the Council, including schemes of delegation to officers, standing orders relating to the business of the Council, forward plan of key decisions, codes of conduct for members and officers, an anti-fraud/corruption strategy, a confidential reporting code, and member and employee training. The Council also undertakes both external and internal consultation exercises to inform strategic planning and budget decisions, and to identify and promote best practice.

- (c) The financial management of the Council is integrated with and influenced by many of the above processes, and includes processes for forward planning of expenditure and resources, budget consultation, setting and monitoring, and completion of final accounts, all aimed to be accurate, informative and timely. The Council also has in place financial regulations designed to support sound financial management policies and procedures, and adherence thereto, and also to reflect the Council's current political and management structure and business activities.

## Statement on the System of Internal Control (continued ....)

- (d) In order to ensure compliance with policies, procedures and statutory requirements, the Council has a range of controls and processes in place, as set out below. These processes also assist the authority in ensuring the economical, effective and efficient use of resources, in securing continuous improvement in exercising its functions, and provide for an effective performance management and reporting process.

### Review of Effectiveness of Internal Controls

The table below lists the controls in operation, together with a review of their effectiveness and related assurances.

| Control  | Review of Effectiveness  |
|--|--|
| <p>Statutory roles of the Council's Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing.</p> | <p>Council, Cabinet, Committees and Chief Officers have a full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The External Auditor is satisfied with the Council's arrangements for ensuring legality of financial transactions (Annual Audit &amp; Inspection Letter 2004-05) and that budgets and the capital programme are soundly based and performance managed. The importance of linking the financial strategy to the Council Plan, to drive resource allocation, was emphasised by the Auditor.</p> <p>The Auditor also recommends the application of 'whole life costing' techniques in respect of major projects, and this will be taken forward.</p> <p>On setting the budget for 2006-07, Council was also advised on the financial prospects over the next 3 years, including possible future levels of council tax, and on the robustness of the budget process.</p> <p>The Council scored well in the 2005 CPA 'Use of Resources'.</p> <p>The Accounts and Audit Regulations have been modified to require a statement that Direct Schools Grant (DSG) has been deployed in accordance with Regulations. The new process required by DFES - the Schools Management of Financial Information Systems (SMFiS) - will underpin this statement. SMFiS requires, over time, all schools to be evaluated to assess compliance with standards of financial control and management. Officer discussions will be reported to Members.</p> |

**Statement on the System of Internal Control** (continued ....)

| Control   | Review of Effectiveness   |
|---|---|
| <p>Internal Audit provide independent and objective assurances across the whole range of the authority's activities.</p>  | <p>The External Auditor is able once again to place reliance on the work of the Section (Annual Audit &amp; Inspection Letter 2004-05) and commented that it is important that Internal Audit continues to develop its links in respect of risk management activities and ensure that the Section has sufficient resources and skills to deliver its work programme.</p> <p>The Audit Committee receives regular reports, in accordance with its terms of reference, concerning the Section's plans and performance, and proposals to address the resources issues which slowed progress against the 2005-06 internal audit plan.</p> <p>The External Auditor commented that the Council should further 'embed' Audit Committee practices to cover regular reviews of partnerships, business critical systems and codes of governance.</p> <p>The Head of Audit Services produces a statement on the adequacy of the Council's control framework as part of the Unit's Annual Audit Report (Audit Committee 12 August 2005 covering 2004-05 accounts). A similar statement will be included in the Unit's 2005-06 Report.</p> <p>The processes are considered to comply with the Accounts &amp; Audit Regulations 2006.</p> |
| <p>External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to their statutory functions and codes of practice.</p> | <p>The External Auditor issued an unqualified audit opinion on the 2004-05 financial accounts, but recommended that the Council facilitate further member scrutiny of the accounts and improve quality control procedures to ensure they are free from material misstatements.</p> <p>The 2005-06 accounts will be submitted to Cabinet and to Audit Committee for scrutiny, and additional time for quality control has been allocated in the programme.</p> <p>The External Auditor was able to place reliance on the work performed by Internal Audit as set out above.</p> <p>The External Auditor made a presentation on the Annual Audit &amp; Inspection Letter to Cabinet on 28 February, Audit Committee on 10 March, and full Council on 26 April 2006, and the Council has made its responses to the recommendations.</p>  |

## Statement on the System of Internal Control (continued ....)

| Control   | Review of Effectiveness   |
|---|---|
| <p>Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed, and these arrangements are approved and reviewed by Cabinet following advice from the Chief Executive and all Chief Officers.</p> | <p>The Risk Management Policy was reviewed and approved by Cabinet on 6 April 2004 and regular reviews of the risk registers are undertaken, and reports updating the risks facing the Council are taken to both Audit Committee and Cabinet. Risk considerations are incorporated into the budget process and service planning. Risk awareness training for members and managers has taken place and will continue, and further awareness raising will be provided through Dnet and Workforce articles and payslip enclosures.</p> <p>It is also important to ensure that there is a joint understanding with the Council's many partners, on the Council's procedures, requirements and reporting mechanisms relating to legal, financial, personnel or any other relevant operational issues, all designed to assist effective partnership working. The External Auditor has commented that the Council needs to assess the performance of partnership through development of effective performance measures and cost benefit analysis.</p> <p>The Council has developed a partnership register and protocols to address these recommendations.</p> <p>Cabinet (13 December 2005) has approved a Business Continuity Strategy &amp; Operational Plan.</p> <p>The 'Project Appraisal &amp; Management Toolkit' available on Dnet to all staff incorporates a risk assessment module to assess risks relating to new projects or initiatives.</p> <p>Insurance policies and funds are in place and are regularly reviewed to ensure the Council is adequately safeguarded.</p> <p>A 'Corporate Insurance Strategy', setting out a framework for dealing with insurable risks, including internal/external funding, the role of insurance brokers, actuarial reviews and procurement processes, was approved by Cabinet on 22 June 2004.</p> <p>A policy for the financial vetting of contractors was approved by Cabinet on 22 February 2005.</p> <p>Cabinet, on 12 April 2005, considered the provisions of the Money Laundering Regulations 2003. Financial Regulations have been amended and further detailed arrangements will need to be implemented.</p> |

## Statement on the System of Internal Control (continued ....)

| Control  | Review of Effectiveness  |
|--|--|
| <p>Provision of effective, efficient and responsive systems of financial management.</p>   | <p>To support forward planning and ensure the Council can meet its objectives, financial strategy has been further developed and Cabinet approved the Financial Strategy for the Council on 20 September 2005. Procedures have been reviewed to ensure the requirement for earlier completion of final accounts is achieved.</p> <p>Financial Regulations and Standing Orders - new and revised regulations were implemented from 1 April 2002 and the Regulations were reviewed and revised during 2005 to reflect legislative changes and developments within the Council. Internal Audit, as part of their standard work processes, test compliance against the regulations across Departments, and their effectiveness.</p> <p>The External Auditor has made a number of recommendations relating to the control framework for the administration of grant claims. Comprehensive guidance notes have been issued to staff involved in the administration of grant claims.</p> <p>The Council has adopted a procurement strategy (Cabinet 2 November 2004) to ensure effective use of resources and compliance with relevant statutory requirements.</p> <p>It is essential that financial management systems are in place to deliver the framework necessary to identify, quantify and monitor "Gershon" savings, and an officer group is established to evaluate and monitor service improvement initiatives and achievement of targets. Cabinet has been regularly informed of progress against Gershon targets.</p> |
| <p>Codes of practice are issued by external bodies in respect of Council services and processes, with which the Council is expected to comply.</p> | <p>The Council has complied with the 2003 CIPFA Code relating to Capital Finance &amp; Treasury Management.</p> <p>In preparing its Funding Strategy Statement (FSS), that sets out a strategy for dealing with employers' pension liabilities in the longer term, the Council has had regard to the guidance issued by CIPFA in its publication, "CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement". (The FSS was approved by the Pensions Committee on 24 March 2005.) In addition a governance policy statement for the pension fund was adopted by the Council in March 2006 in accordance with Local Government Pension Scheme regulations.</p>  |

## Statement on the System of Internal Control (continued ....)

| Control  | Review of Effectiveness   |
|--|---|
| <p>The scrutiny function is carried out and developed through Improvement &amp; Scrutiny Committees covering a wide range of Council functions.</p> <p>The role of the Standards Committee is to promote and maintain high standards of conduct by councillors and co-opted members.</p> | <p>The Improvement &amp; Scrutiny Committees have continued to carry out reviews across a wide range of functions and Cabinet has received reports and recommendations from the Committees. The Council developed a Service Improvement Programme for 2005-06 which included a series of further reviews to be considered by the Committees.</p> <p>The Standards Committee has met on three occasions in the last financial year to consider issues including a revised Code of Conduct for councillors, and review and revision of the "call-in" arrangements for Council decisions. Council on 2 November 2005 also considered a report from the Standards Committee on Ethical Standards.</p>   |
| <p>A performance management framework is in place to measure progress against objectives, and to provide for remedial action where appropriate, and to inform planning and decision making.</p>  | <p>The Council's processes are considered to be effective and will continue to be developed through the implementation of new performance management systems and continued emphasis on establishing robust performance targets and monitoring processes.</p> <p>The External Auditor is satisfied with the Council's performance management framework and commented that key objectives and milestones such as PSA targets and BVPI targets are generally being achieved (Annual Audit &amp; Inspection Letter).</p>  |
| <p>Continued implementation of best value reviews and related improvement plans.</p>   | <p>A Service Improvement Programme for 2006-07 has been developed, and was approved by Cabinet on 9 May 2006.</p> <p>Investment in the Change Management Programme continues and systems are in place to monitor and measure the benefits gained. The External Auditor has carried out a review of the Programme and commented positively on its delivery. (Annual Audit and Inspection Letter 2005-06)</p> <p>A start has also been made on the planned replacement of the Council's 'core systems' - payroll and employee systems, and payment, income and accounting systems, which will involve major service redesign and procurement issues.</p> <p>The corporate asset management plan and capital strategy are being reviewed, together with the preparation of a 'property strategy'.</p> <p>The External Auditor commented that the Council has a successful track record of improvement sustained over the past three years, but that there are considerable challenges ahead which will impact on capacity, including change management, service redesign and single status (Annual Audit &amp; Inspection Letter).</p> |

## Statement on the System of Internal Control (continued ....)

| Control  | Review of Effectiveness   |
|--|---|
| Reports received recently from external agencies and inspectorates, which would encompass major services, and other specific external evaluations. | <p>The latest CPA judgement, issued in December 2005, and using revised methodology - the 'harder test' - resulted in an overall highest four-star rating for the Council, and also judged that the Council is improving strongly.</p> <p>The External Auditor commented that the Council is 'open about areas where performance is weaker than expected and action it intends to take to redress the situation'.</p>   |
| Delivery of services by trained, skilled and experienced personnel.  | <p>The Council is staffed by suitably qualified and experienced employees, selected against accurate and specific job descriptions and person specifications.</p> <p>The Council has demonstrated its commitment through IIP accreditation, due priority to employee training needs and competencies, work aids, such as IT facilities, and improved communication with staff, including an Employee Attitude Survey. Induction and awareness training is in place.</p> <p>The Council is investing in a Learning Management System to support training development, recording and monitoring across the Council.</p> |

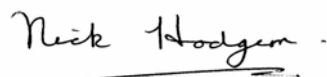
Links to information and documents to evidence the above controls/reviews are attached at Page 20.

The internal controls will be subject to further review and monitoring over the next 12 months to ensure their continued effectiveness.

#### 4. Significant Internal Control Issues

This statement refers to a number of areas for development and further action, however, based on CIPFA criteria, it is considered that there are no significant internal control issues.

Signed:



Chief Executive

Signed:



Chair of Cabinet

6 June 2006

## Statement on the System of Internal Control (continued ....)

### LOCAL CODE OF CORPORATE GOVERNANCE

Good Corporate Governance underpins credibility and confidence in our public services. A framework for Corporate Governance in local government has been set out in the CIPFA/SOLACE Framework for Corporate Governance in Local Government. The Council complies with the underlying principles of good governance:

- Openness and inclusivity
- Integrity
- Accountability

The Council's Code of Corporate Governance sets out the principles used to run its business in accordance with five key components:

1. Community Focus
2. Service Delivery Arrangements
3. Structures and Processes
4. Risk Management and Internal Control
5. Standards of Conduct

#### 1. Community Focus

In carrying out its duties the Council works with and for the local community, exercises leadership in the local community, where appropriate, and undertakes an ambassadorial role to promote the well-being of the county by maintaining arrangements which:

- Give accountability to stakeholders for the Council's performance and effectiveness in delivery of its services.
- Demonstrate openness in all its dealings.
- Demonstrate inclusivity through effective communication and engagement with the local community.
- Articulate a clear strategic vision in response to local need.

#### 2. Service Delivery Arrangements

The Council monitors the implementation of its agreed policies and decisions and aims to achieve continuous improvement in the procurement and delivery of services by maintaining arrangements which:

- Demonstrate accountability for service delivery at a local level.
- Ensure effectiveness through measurement of performance.
- Demonstrate integrity in its dealings with service users and partnerships to ensure the right provision of services locally.
- Demonstrate openness and inclusivity through consultation with key stakeholders and service users.



## Statement on the System of Internal Control (continued ....)

### 3. Structures and Processes

The Council has put into place effective managerial structures and processes to govern its decision making and the duties of the authority by:

- Defining roles and responsibilities of Members and officers to ensure accountability and clarity of the Council's business and their roles within it.
- Ensuring proper scrutiny and review of all aspects of performance and effectiveness.
- Demonstrating integrity by securing a balance of power and authority.
- Documenting its structures and procedures and ensuring they are communicated and understood to demonstrate openness and inclusivity.
- Ensuring these structures and processes are kept up to date and adapted to meet the needs of a changing and improving environment.

### 4. Risk Management and Internal Control

The Council has established a risk strategy and framework and maintains systematic processes for managing risk. This area is covered in greater detail within the SIC.

### 5. Standards of Conduct

Members and Chief Officers within the Council exercise leadership by conducting themselves as a role model for others within the authority to follow. The Council has defined standards of personal behaviour to be expected from members and staff and those involved in service delivery. This is achieved by having in place arrangements that ensure:

- Accountability, through establishing systems for investigating breaches and disciplinary problems, and taking action where appropriate.
- Effectiveness, through monitoring compliance.
- Integrity, by ensuring objectivity and impartiality are maintained in all relationships.
- Openness and inclusivity, through the documentation of standards and their regular review.
- Ensuring such standards are documented and clearly understood to display openness and inclusivity and are kept up to date on a regular basis.

The Council will deliver these outcomes by:

- Annually defining a series of local procedures and practices which together create a framework for good corporate governance as described by the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance.
- Chief Officers annually reviewing the adequacy and effectiveness of the Code of Corporate Governance including statement of internal control which is a specific statutory requirement and the extent of compliance, and reporting to Audit Committee and Cabinet.
- Producing an annual Assurance Statement on the extent to which the local code has been adhered to and show where adherence has not been achieved and any action required.

The key policies and processes that illustrate the council's commitment to this process include:

- Community Strategy
- Local Area Agreement
- Council Plan
- Council Constitution
- Code of Conduct for Member's and Employees
- Statement of Internal Control
- Risk management Strategy
- Strategic Audit Plan and Annual Internal Audit Report
- Equal Opportunities Policy
- Corporate Equality Plan (Draft)

## Statement on the System of Internal Control (continued ....)

- Race Equality Scheme
- Annual Report
- Medium Term Financial Strategy
- Procurement Strategy
- Property Strategy
- Capital Strategy
- Asset Management Plan
- Consultation Strategy
- Communication Strategy
- Business Continuity Strategy
- Confidential Reporting Code

For more information on Corporate Governance within Derbyshire County Council please see our web site [www.derbyshire.gov.uk](http://www.derbyshire.gov.uk) or contact Call Derbyshire on 08 456 058 058.

## Statement on the System of Internal Control (continued ....)

### Derbyshire County Council Local Code of Corporate Governance - Annual Assurance Statement

Derbyshire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically and effectively.

In discharging this accountability, Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the resources at its disposal. The Council has approved a Local Code of Corporate Governance to achieve this aim which is consistent with the principles and requirements in the document entitled CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. A copy of Derbyshire's Code of Corporate Governance can be obtained from our website [www.derbyshire.gov.uk](http://www.derbyshire.gov.uk) or by contacting Call Derbyshire on 08 456 058 058. This Annual Assurance Statement has been produced, in addition to the Local Code, to assure the public of the extent to which the local code has been adhered to.

Corporate governance affects the quality of services. Weaknesses in governance arrangements contribute to service and organisational failure. In light of this, corporate governance has a critical impact on the level of trust that the public is willing to place in public bodies and services.

The Assurance Statement is written to give assurance to the public about the Council's commitment to achieving good corporate governance. In the coming 12 months the Council promises to do the following:

1. Oversee the implementation and monitoring of the operation of the Code.
2. Review the operation of the Code.
3. Report annually to the Council's Audit Committee and Cabinet on compliance with the Code and any changes necessary to ensure its effectiveness in practice.

This year the Council has continued to put in place arrangements which ensure it complies with the criteria set out in the CIPFA/Solace Framework. These arrangements also enable the council to be satisfied that its approach to Corporate Governance is both adequate and effective in practice.

In order to demonstrate our commitment to ensuring adequate and effective arrangements are in place, the Council undertook the following actions in 2005-06 in addition to the monitoring and review of its existing policies and procedures:

- Completed a pilot Local Area Agreement
- Established Local Area Forums
- Published an Access to Services Strategy
- Published a new Council Plan for 2005-2009
- Published a revised Consultation Strategy
- Published a Race Equality Scheme and draft revised Corporate Equality Plan
- Embedded the corporate performance management system
- Put in place an Audit Committee with appropriate terms of reference
- Reported with greater frequency the risks facing the Council
- Approved a Business Continuity Strategy
- Implemented a revised Complaints procedure
- Published a medium term financial strategy
- Achieved 4 Star "Improving Strongly" rating in CPA 2005

## Statement on the System of Internal Control (continued ....)

The following actions are planned for 2006-07:

- Produce the Community Strategy 2006-09
- Produce and implement a Disability Equality Scheme
- Produce and implement a Partnerships Protocol
- Implement the Access to Services Strategy
- Further embed risk management policies and procedures
- Strengthen consultation with seldom heard groups
- Strengthen data quality management arrangements

### Monitoring Arrangements

Chief Officers are collectively responsible for annually reviewing Corporate Governance arrangements including a statement of internal control which is a specific statutory requirement and reporting to Audit Committee and Cabinet on the adequacy and effectiveness of the Code of Corporate Governance and the extent of compliance.

On the basis of this work the Chief Executive, Members and senior officers are satisfied that the Council's arrangements are robust and adequate. However, the Council is a large and complex organisation, undergoing significant change; therefore the Local Code will be reviewed annually and strengthened as part of the Council's commitment to good corporate governance.

## Statement on the System of Internal Control (continued ....)

### Evidence for SIC

1. **Annual Audit & Inspection Letter 2004-05**
  - DCC Website - search 'Annual Audit & Inspection Letter'
2. **Budget 2006-07** - DCC Website - Meetings and Decisions - Council 8/2/06
3. **Annual Internal Audit Report 2004-05**
  - DCC Website - Meetings and Decisions - Audit Committee - 12 August 2005
4. **Risk Management Policy, Corporate Risk Register Update and Corporate Insurance Strategy**
  - DCC Website - Meetings and Decisions - Cabinet - 06/04/2004 (Risk Management Strategy); Cabinet - 22/06/2004 (Corporate Insurance Strategy); Cabinet 22/02/05 (Financial Vetting of Contractors); Cabinet 12/4/05 (Money Laundering Regulations); Cabinet 13/12/05 (Business Continuity Strategy)
5. **Project Appraisal and Management Toolkit**
  - Dnet - Project Appraisal and Management Toolkit.
6. **Financial Strategy**
  - DCC Website - Meetings & Decisions - Cabinet 20/9/05
7. **Financial Regulations**
  - Dnet - Financial Information - Financial Regulations.
8. **CIPFA's Code for Capital Finance, Pension Fund Strategy Statement & Government Policy Statement**
  - DCC Website - Meetings and Decisions - Council Meeting 08/02/2006, Cabinet Meeting 31/1/06 - Prudential Code for Capital Finance and Treasury Management Strategy; Pensions Committee 03/06/05 - Minutes 24/03/05 - Minute No 7/05 - Funding Strategy Statement; Investment & Pensions Committees 31 March 2006 - Governance Policy Statements.
9. **Improvement & Scrutiny Committees**
  - DCC Website - Meetings and Decisions - Improvement and Scrutiny Committees.
10. **Standards Committee**
  - DCC Website - Meetings and Decisions - Standards Committee.
11. **Procurement Strategy**
  - DCC Website - Meetings and Decisions - Cabinet - 02/11/04

## **Statement on the System of Internal Control** (continued ....)

12. **Gershon Savings**

DCC Website - Main Site/Meetings & Decisions - Search "Gershon".

13. **Comprehensive Performance Assessment (CPA) & PSA**

- DCC Website/Dnet

14. **Investors in People & Training**

- Dnet - Departmental sites and/or internal information.  
- Training – Dnet – Democratic Services – Quick Search "Training"

15. **Consultation**

- DCC Website - site search - consultation  
- Dnet - site search - consultation

16. Council Plans, Service Plans, Revenue & Capital Budgets and Monitoring Reports, Council Constitution, Confidential Reporting Code, Anti-Fraud Strategy, Forward Plan of Key Decisions, LEA inspections etc are accessible either via the DCC Website, Dnet or from Democratic Services.

17. Legislation setting out the statutory obligations of the Council is available from the County Secretary or from Government websites.

### **Evidence for Local Code**

List of supporting evidence for the Local Code - monitoring forms held in the Policy Unit.

(Hard copies of all of the above are widely available.)

## General Statistics

This table shows a range of statistics which give a picture of the County Council. Derbyshire's population makes it the 11th most populous county, whilst its area makes it the 20th largest out of 34 English Counties.

The next section shows the Council's revenue spending and the sources of finance. Before the start of each financial year the County Council prepares a budget taking account of known commitments and estimated pay and price increases. It deducts income received from charges and other sources and grants received from Central Government for specific services.

The Authority's budget requirement is then funded from three sources. Revenue Support Grant is a general grant received from central government. National non-domestic rates are levied on non-domestic properties with the rate poundage set by central government. Receipts are redistributed to individual local authorities based on residential population.

The balance is collected from the Council Tax which is based on the assessed capital values of domestic properties grouped into 8 bands.

In addition to revenue spending, the County Council spends money on the provision of land and buildings, roads and other assets which last for a number of years. These assets are financed by borrowing; from capital receipts built up from selling surplus assets, or from other funds.

## General Statistics (continued ...)

|  | Financial Year |     | Financial Year |     |
|--|----------------|-----|----------------|-----|
|  | 2004-05        |     | 2005-06        |     |
| <b>Area and Population</b>                       |                |     |                |     |
| Area of County (hectares)                        | 255,077        |     | 255,077        |     |
| Population                                       | 748,300        |     | 750,100        |     |
| Density per hectare                              | 2.93           |     | 2.94           |     |
| <b>Revenue Expenditure</b>                       |                |     |                |     |
|  | £'000          | %   |                | %   |
| Employees  | 523,542        | 54  | 556,025        | 55  |
| Running Expenses                                 | 420,013        | 43  | 422,969        | 42  |
| Debt charges                                     | 26,865         | 3   | 31,781         | 3   |
| <b>Gross expenditure</b>                         |                |     |                |     |
|  | £970,420       | 100 | £1,010,775     | 100 |
| Gross expenditure per head of population         | £1,296.83      |     | £1,347.52      |     |
| <b>Income</b>                                    |                |     |                |     |
|  | £'000          | %   | £'000          | %   |
| Precepts   | 221,880        | 23  | 228,536        | 23  |
| Revenue Support Grant                            | 258,503        | 27  | 249,792        | 25  |
| Non-Domestic Rates                               | 186,373        | 19  | 226,136        | 22  |
| PSA 1 Reward Grant                               | 2,379          | 0   | 746            | 0   |
| Specific Grants                                  | 163,369        | 17  | 166,465        | 16  |
| Other sources                                    | 137,916        | 14  | 139,100        | 14  |
| <b>Total Income</b>                              |                |     |                |     |
|  | £970,420       | 100 | £1,010,775     | 100 |
| <b>Rateable Value</b>                            |                |     |                |     |
|  | £ million      |     | £ million      |     |
| Non Domestic Rateable Value                      | 347,294        |     | 422,163        |     |
| <b>Council Tax</b>                               |                |     |                |     |
| Tax Base (Equivalent Band D properties)          | 246,915        |     | 248,400        |     |
| Band D Council Tax (County Council element only) | £896.87        |     | £917.05        |     |
| <b>Capital Expenditure</b>                       |                |     |                |     |
|  | £'000          |     | £'000          |     |
| Gross expenditure                                | 97,934         |     | 98,707         |     |
| Capital expenditure per head of population       | £130.88        |     | £131.59        |     |
| Met from:  |                | %   |                | %   |
| Loans  | 43,124         | 44  | 46,614         | 47  |
| Capital Receipts and other Internal Funds        | 8,681          | 9   | 14,991         | 15  |
| Capital grants and contributions                 | 46,129         | 47  | 37,102         | 38  |
| <b>Total</b>                                     |                |     |                |     |
|  | 97,934         | 100 | 98,707         | 100 |



# Statement of Accounting Policies

The information presented in these Accounts follows the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy. The Pension Fund accounts have been compiled in accordance with the Statement of Recommended Practice (Financial Reports of Pension Schemes) for pension scheme accounts.

## Fixed Assets

The Code of Practice on Local Authority Accounting incorporates the requirements of FRS15: Tangible Fixed Assets. The FRS sets out the principles of accounting for the valuation and depreciation of tangible fixed assets. The Code now requires assets included in the Balance Sheet at current value to be formally revalued at intervals of not more than five years and that depreciation should be charged on such assets. Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value.

Non operational assets and assets surplus to requirements are included in the balance sheet at the lower of net current replacement cost and net realisable value.

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

## Capital Charges

The capital charges made to service revenue accounts, central support services and DSO accounts, equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is valued as at 1 April 2004. The notional rates of interest used are 3.5% for those fixed assets included in the balance sheet at current value and 4.95% for infrastructure assets and community assets which are included in the balance sheet at historical cost.

## Depreciation

Depreciation is charged on a straight line basis using the following bases:-

|                         |  |
|-------------------------|--|
| Land                    | Nil                                    |
| Infrastructure          | 40 years                               |
| Buildings               | 40 years                               |
| Vehicles                | Over the life of the asset (3-8 years) |
| Furniture and Equipment | 10 years                               |

It is the Authority's policy not to charge depreciation in the year of acquisition but a full years charge is made in the year of disposal.

No depreciation is charged against community assets such as Country Parks.

## Government Grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or in the case of capital grants to a deferred grants account and written off over the life of the asset to which they relate.

## Statement of Accounting Policies (continued ...)

However, where assets have no lasting benefit, it is the policy of the Authority to write off any grant received in the year of receipt.

Derelict Land Grants in relation to Community Assets are written off against the costs of acquisition and in all other cases held as a deferred liability until disposal of the asset when it is written off as the grant is repaid.

In order to match the Authority's depreciation policy amortisation of grants commences in the financial year following that in which they are received.

### **Basis of provision for redemption of debt**

The Council operates a Consolidated Loans Pool within the County Fund as a means of administering loans raised by the authority.

Details of the minimum revenue provision for the repayment of principal which the County Council is required to make under the Local Government and Housing Act 1989 are provided as a note to the Consolidated Revenue Account.

The average rate of interest charged by the Pool was 5.79% in 2005-2006 (6.05% in 2004-2005). Loan liability has been transferred from other authorities under the Local Government Act 1972 for services now the responsibility of the County Council. The loan debt continues to be serviced by District Councils and loan charges reimbursed to them by the County Council. Following Local Government Reorganisation on 1 April 1997, Derby City Council reimburses the County Council a share of loan debt outstanding at that date based on the respective council tax bases of the two authorities.

### **Capital Receipts**

Under current legislation capital receipts from the sale of the Authority's assets may be used in full to finance capital expenditure.

### **Deferred Charges**

Deferred charges represent expenditure which may properly be capitalised, but which does not represent tangible fixed assets. At 1 April 1994, deferred charges in respect of assets transferred or sold were written off to the fixed asset restatement reserve. The remaining deferred charges are amortised to revenue over an appropriate period.

### **Basis on which debtors and creditors at the year end have been included in the accounts.**

The revenue accounts of the Authority are maintained on an accruals basis which means that sums due to or from the County Council during the year are included in the accounts whether or not the cash has actually been received or paid. Minor sums of cash income are not shown in the accounts until they are received but these are not considered material. Capital transactions have been recorded on an accruals basis.

### **Nature of substantial reserves, provisions, and contingent liabilities.**

The Council has set aside a number of financial reserves and provisions, operating as part of the County Fund, and set up for specific purposes.

Details of reserves are provided in the statement of total movement in reserves.

Any under or over spending on the delegated budgets of schools in 2005-2006 has been carried forward and will be added to or deducted from their budgets in 2006-2007. The net balance carried forward is shown in the Consolidated Balance Sheet as a reserve, but is committed to be spent on schools and is not available to the authority for general use.

Provision has been made in the accounts for any losses or liabilities which are likely or certain to be incurred, but where there is uncertainty as to the amounts or dates on which they will arise.

None of the above reserves or provisions has been credited with interest.

## Statement of Accounting Policies (continued ...)

The Authority operates an insurance reserve, primarily to provide internal insurance to cover claims under the 'excess' clauses of the council's insurance policies. Details of the Fund are provided as a note to the Balance Sheet.

### Allocation of central support services

In compliance with the CIPFA Best Value Accounting Code of Practice there is complete allocation of central support services over all services including Direct Service Organisations. A note showing the allocation of such expenses has been attached to the summary revenue account.

The Authority is currently developing an internal market for central support services under which services will have greater control over the quality, quantity and cost of such support. Each central support service will have a service level agreement with the direct services which will be agreed prior to the commencement of each financial year and will cover the services to be provided, their level and their cost.

### Work in progress, stocks and stores

Work in progress which will ultimately be charged to outside persons, eg private street works, is included in the accounts at cost price. Work in progress in the Property Services DLO's accounts is stated at a figure representing cost or at a professional valuation. Payments received or receivable on account are deducted in arriving at the balance sheet figure. A proportion of profit has been included only if the contract has progressed to the point where a profitable outcome can prudently be foreseen. Known losses have been allowed for.

Stocks and stores accounts are maintained for the various departments of the County Council as appropriate. Values included in the accounts at the year end are at cost price, except those in respect of DSOs which are stated at latest invoice price.

### Pensions

(1) The County Council participates in two pension schemes which meet the needs of employees in particular services. All the schemes provide members with defined benefits related to pay and service. The schemes are as follows:-

#### *Teachers:*

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 DFES on the basis of a notional fund. However where discretionary benefits have been awarded by the Authority the liabilities accrue directly to the Authority and have therefore been accounted for in line with FRS 17 as set out below.

#### *Other Employees*

Other employees are eligible to join the Local Government Pension Scheme (LGPS). The Authority pays contributions to a funded pension scheme from which pension benefits are paid out. The Council also pays any costs arising in relation to unfunded elements of pensions where employees have been awarded discretionary compensation under the provisions of the County Council's early retirement scheme.

(2) Financial Reporting Standard No 17

The pension costs included in the financial statements in respect of the LGPS have been drafted in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The current service pensions cost reflected in the service revenue accounts is an estimate made by the actuary of the true economic cost of employing people in the financial year.

The actuary also measures the assets and accrued liabilities of the Pension Fund as at 31 March with the net liability shown in the Balance Sheet, as a pensions reserve. The accounting entries required to reflect the above costs and liabilities have no net effect on the Authority's Council Tax.

### Leasing

The Authority, on occasions, uses operating leases to acquire vehicles or equipment as an alternative to capital financing and annual rentals are charged directly to the revenue account.

# Auditor's Opinion

## Independent auditors' report to the Members of Derbyshire County Council

### Opinion on the financial statements

We have audited the financial statements and pension fund accounts of Derbyshire County Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Consolidated Revenue Account, the Pension Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Derbyshire County Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Derbyshire County Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Derbyshire County Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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 report to the Authority our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005. We review whether the statement on internal control reflects compliance with CIPFA's guidance The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003 published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

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

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 financial statements 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 financial statements.

## Auditor's Opinion (continued...)

### Opinion

In our opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of Derbyshire County Council as at 31 March 2006 and its income and expenditure for the year then ended.
- The Derbyshire Pension Fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP

KPMG LLP  
Chartered Accountants  
Birmingham

29 September 2006

## Auditor's Opinion (continued...)

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

#### Authority's Responsibilities

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

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

#### 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.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

#### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Derbyshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

#### Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 in November 2005. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

#### Certificate

We certify that we have completed the audit of Derbyshire County Council's accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP

KPMG LLP  
Chartered Accountants  
Birmingham

29 September 2006

# County Fund Consolidated Revenue Account

This table shows the County Council's spending on services during the year, and the way this spending was financed. It is divided into the major services, and shows gross expenditure, income from fees, charges and specific grants and net expenditure. This is compared with the revised estimate for the year.

Before the start of each financial year the County Council prepares a budget taking account of known commitments and estimated pay and price increases. It deducts income received from charges and other sources and grants received from Central Government for specific services.

The Authority's budget requirement is then funded from three sources. Revenue Support Grant is a general grant received from Central Government. National non-domestic rates are levied on non-domestic properties with the rate poundage set by Central Government. Receipts are re-distributed to individual local authorities based on residential population. The balance is collected from the Council Tax which was introduced as the local tax with effect from April 1993. It is based on the assessed capital values of domestic properties grouped into 8 bands.

The Service Headings within the consolidated Revenue Account are in accordance with the Service Expenditure Analysis issued by CIPFA as part of the Best Value Accounting Code of Practice.

## County Fund Consolidated Revenue Account

2004-05

Net

Expenditure  
£000

Services

|                |  |
|----------------|--|
| 427,914        | Education  |
| 4,112          | Central  |
| 1,956          | Courts   |
| 39,762         | Cultural, Environmental & Planning                                 |
| 54,764         | Highways, Roads & Transport  |
| 171,416        | Social Services  |
| 6,170          | Non Distributed Costs  |
| 0              | Non Distributed Costs - Past Service Gain                          |
| 5,606          | Corporate & Democratic Core  |
| <b>711,700</b> | <b>NET COST OF SERVICES</b>  |
| (881)          | Surplus/Deficit on Trading Operations                              |
| (56,873)       | Tfr from Asset Management Revenue Account                          |
| (8,079)        | Interest received  |
| 13,783         | Pensions Interest & expected return on assets                      |
| 220            | Levies & Precepts  |
| <b>659,870</b> | <b>Net Operating Expenditure</b>                                   |
| 4,018          | Contributions from ( ) or to Revenue reserves                      |
| (11,950)       | Contributions from ( ) or to Pensions reserve                      |
| 7,419          | Contributions from ( ) or to Capital financing account             |
| <b>659,357</b> | <b>Amount to be met from government grants and local taxpayers</b> |
| (221,880)      | Precepts   |
| (258,503)      | RSG  |
| (186,373)      | NNDR   |
| (2,379)        | PSA 1 Reward Grant   |
| 0              | Local Authority Business Growth Incentive                          |
| <b>(9,778)</b> | <b>(Surplus)/Deficit for the year</b>                              |
| 22,809         | County Fund Balance 1 April 2005                                   |
| 0              | Transfer to earmarked reserves and other local authorities         |
| 9,778          | Contribution to ( ) or from revenue                                |
| 32,587         | Balance 31 March 2006  |

Gross  
Expenditure  
£000

Income

£000

Note:

2005-06

Net  
Expenditure  
£000

|                  |                |    |                |
|------------------|----------------|----|----------------|
| 612,174          | 153,257        |    | 458,917        |
| 21,637           | 14,555         |    | 7,082          |
| 1,479            | 916            |    | 563            |
| 51,871           | 10,072         |    | 41,799         |
| 74,747           | 15,725         |    | 59,022         |
| 297,157          | 112,491        |    | 184,666        |
| 6,250            | 260            |    | 5,990          |
| 0                | 18,555         |    | (18,555)       |
| 6,502            | 4              |    | 6,498          |
| <b>1,071,817</b> | <b>325,835</b> |    | <b>745,982</b> |
|                  |                | 1. | (879)          |
|                  |                | 9. | (59,673)       |
|                  |                |    | (9,675)        |
|                  |                |    | 15,519         |
|                  |                |    | 214            |
|                  |                |    | <b>691,488</b> |
|                  |                |    | 2,176          |
|                  |                |    | 4,476          |
|                  |                |    | 6,109          |
|                  |                |    | <b>704,249</b> |
|                  |                |    | (228,536)      |
|                  |                |    | (249,792)      |
|                  |                |    | (226,136)      |
|                  |                |    | (746)          |
|                  |                |    | (923)          |
|                  |                |    | <b>(1,884)</b> |
|                  |                |    | 32,587         |
|                  |                |    | (4,264)        |
|                  |                |    | 1,884          |
|                  |                |    | 30,207         |



# Notes to County Fund Consolidated Revenue Account

## 1. Trading Operations

Disclosed on the face of the consolidated revenue account are the trading results relating to industrial development activities. The Authority provides a number of factory units located on industrial estates throughout the County to provide accommodation for companies and provides a number of small business centres. Performance for the year was as follows:

|             | <b>2005-06</b><br><b>£'000</b> | <b>2004-05</b><br><b>£'000</b> |
|-------------|--------------------------------|--------------------------------|
| Turnover    | 1,768                          | 1,759                          |
| Expenditure | <u>(889)</u>                   | <u>(878)</u>                   |
| Surplus     | <u>879</u>                     | <u>881</u>                     |

In addition the Authority has a number of operations which used to operate under the compulsory competitive tendering provisions which have now been repealed. Details for the year are as follows:

|                                       | <b>Turnover</b><br><b>£'000</b> | <b>Surplus/(Deficit)</b><br><b>£'000</b> |
|---------------------------------------|---------------------------------|--|
| Building construction and maintenance | 22,667                          | 143                                      |
| Grounds maintenance                   | 2,631                           | 63                                       |
| Building cleaning                     | 7,685                           | 43                                       |
| Allroads-Highways maintenance         | 33,969                          | 544                                      |
| Catering (excluding school meals)     | 118                             | 18                                       |

## 2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989, allows local authorities to incur expenditure on activities or projects which will bring direct benefit to their area or its inhabitants and which are not specifically authorised by other powers. Expenditure incurred under this section in any financial year may not exceed the sum of £5.00 per head of resident population i.e. about £3.8 million. Expenditure incurred under section 137 in 2005-2006:-

|                                   | <b>2005-06</b><br><b>£'000</b> | <b>2004-05</b><br><b>£'000</b> |
|-----------------------------------|--------------------------------|--------------------------------|
| Grants to voluntary organisations | 220                            | 215                            |
| Community Venture Scheme          | <u>29</u>                      | <u>27</u>                      |
|                                   | <u>249</u>                     | <u>242</u>                     |

## Notes to County Fund Consolidated Revenue Account (continued...)

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

Under this statute local authorities are empowered to supply goods and services to specified public bodies such as colleges, the Derbyshire Police Authority and the Peak District National Park Authority. The Act provides that separate accounts shall be kept and the following statement shows the income received for the goods and services supplied by the County Council during 2005-2006:-

|   | <b>2005-06</b> | <b>2004-05</b> |
|---|----------------|----------------|
|   | <b>£'000</b>   | <b>£'000</b>   |
| Educational Services                                  | 325            | 462            |
| Computer Services                                     | 99             | 105            |
| Financial Services                                    | 451            | 434            |
| Architectural Design and Property Management Services | 1              | 12             |
| Legal Services  | 164            | 158            |
| Environmental Services vehicle maintenance            | 493            | 504            |
| Other   | 18             | 23             |

## Notes to County Fund Consolidated Revenue Account (continued...)

### 4. Central Support Services

The following statement shows for the financial year 2005-2006 central support service expenditure and the subsequent recharge to services etc:-

| Central Departmental Expenditure        | £'000          | £'000           | Allocations                   | £'000        | £'000         |
|---|----------------|-----------------|-------------------------------|--------------|---------------|
| <b>Office of the Chief Executive</b>    |                |                 | <b>Services</b>               |              |               |
| Management and General                  | 414            |                 | Education                     | 6,717        |               |
| Policy and Research                     | 7              |                 | Chief Executive (exc Central) | 634          |               |
| Public Relations                        | 1,149          |                 | Other Services (exc Central)  | 3,734        |               |
| Scrutiny Committee                      | 265            |                 | Public Protection             | 232          |               |
| Regeneration                            | <u>1,129</u>   | <u>2,964</u>    | Transport                     | 13           |               |
|   |                |                 | Education Trading             | 436          |               |
| <b>Corporate Resources Department</b>   |                |                 | Libraries & Leisure           | 2,064        |               |
| County Treasurer's Division             | 5,355          |                 | Environmental Services        | 3,937        |               |
| County IT Division                      | 4,762          |                 | Social Services               | <u>6,976</u> | 24,743        |
| County Secretary's Division             | 3,281          |                 |                               |              |               |
| County Personnel Division               | 3,279          |                 |                               |              |               |
| Director of Corporate Resources         | 520            |                 | Capital                       |              | 225           |
| County Property Division                | 6,040          |                 | Allroads                      | 31           |               |
| Business Support                        | 2,578          |                 | Cleaning DSO                  | 586          |               |
| Administrative Support                  | (1)            | <u>25,814</u>   | Catering DSO                  | 197          |               |
|   |                |                 | Superannuation Fund           | 1,174        |               |
| <b>Other Services</b>                   |                |                 | Inter-Departmental Schemes    | 1            |               |
| County Buildings                        | 6,426          |                 | Partnerships                  | <u>45</u>    | 2,034         |
| Change Management                       | 1,519          |                 |                               |              |               |
| Network Upgrade                         | 1,756          |                 |                               |              |               |
| Customer database (MACCI)               | 1,148          |                 |                               |              |               |
| Service Re-Design                       | 98             |                 |                               |              |               |
| Geographical Information System         | 280            |                 |                               |              |               |
| Change Management Projects              | 957            |                 |                               |              |               |
| Corporate Activities                    | 0              |                 |                               |              |               |
| Corporate Management                    | 2,148          |                 |                               |              |               |
| Miscellaneous Services                  | <u>1,479</u>   | <u>15,811</u>   |                               |              |               |
|   |                | <u>44,589</u>   |                               |              |               |
| Less - Internal Salaries & IT Recharges |                |                 |                               |              |               |
| Office of the Chief Executive           | (345)          |                 |                               |              |               |
| Corporate Resources Department          | (9,786)        |                 |                               |              |               |
| Other Central Services                  | <u>(7,456)</u> | <u>(17,587)</u> |                               |              |               |
|   |                | <u>27,002</u>   |                               |              | <u>27,002</u> |

## Notes to County Fund Consolidated Revenue Account (continued...)

### 5. Related Party Transactions

The County Council receives Revenue Support Grant and National Non-domestic Rates from the Department for Communities and Local Government and the amounts received are disclosed in the Consolidated Revenue Account. Grants for specific projects or services are received from other government departments and an analysis is provided as a note to the Cash Flow Statement.

The County Council issues a precept on each of the District Councils in the County ie excluding Derby City Council which is a unitary authority. The total sum raised by way of precept is disclosed in the Consolidated Revenue Account. Derbyshire Police Authority and Derbyshire Fire Authority are independent bodies which issue their own precepts on the District Councils.

A number of services are provided to the Police and Fire Authorities by the County Council ie financial, legal, personnel, IT, property and fleet costs totalling £920,000 in 2005-2006 to the Police Authority and £112,000 to the Fire Authority.

The County Council is the administering authority for the pension fund and a note on the fund's related party transactions is included as a note to the pension fund accounts. In addition, surplus funds held by the pension fund may be lent to the County Council on a temporary basis through the Consolidated Loans Pool. The amount at 31 March 2006 was NIL.

The Authority operates a car loan scheme with loans outstanding to Chief Officers at 31 March 2006 totalling £19,400.

Otherwise no council member or chief officer or parties related to them has undertaken any disclosable related party transactions during the year.

### 6. Publicity

Under the Local Government Act 1986, local authorities are required to keep a separate account of expenditure on publicity and this is analysed below. Certain classes of publicity are exempt from the provisions of the Act and are therefore excluded from the account eg documents which the authority is required to publish by law, invitations to tender and publicity relating to the provision of social services and the running of educational establishments.

|   | <b>2005-06</b> | <b>2004-05</b> |
|---|----------------|----------------|
|   | <b>£'000</b>   | <b>£'000</b>   |
| Recruitment Advertising   | 1,379          | 1,465          |
| Non Recruitment Advertising   | 449            | 382            |
| Other Publicity   | 530            | 752            |
| Cost of Public Relations and Central Advertising Units not included above | 1,053          | 862            |
|   | <u>3,411</u>   | <u>3,461</u>   |

## Notes to County Fund Consolidated Revenue Account (continued...)

### 7. Operating Leases

- (a) The Authority uses leased vehicles, specialised plant and equipment under the terms of operating leases. The amount paid under these arrangements in 2005-06 was £2,448,000 (£2,995,000 in 2004-05).
- (b) The Authority is committed to making payments of £1,611,000 in 2006-2007 comprising the following:

|                                   | <b>£'000</b>        |
|-----------------------------------|---------------------|
| Leases expiring within 1 year     | 310                 |
| Leases expiring between 2-5 years | 1,281               |
| Leases expiring after 5 years     | <u>20</u>           |
|                                   | <b><u>1,611</u></b> |

### 8. Pension Costs

- (a) *Teachers (excluding Teachers' Additional Unfunded Pension Scheme)*  
In 2005-06 the County Council paid £28.4 million to the Department for Education and Skills in respect of teachers' pension costs, which represents 13.5% of teachers' pensionable pay.
- (b) *Other Employees and Teachers' Additional Unfunded Pension Scheme*  
As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

- the Local Government Pension Scheme for civilian employees, administered by the County Council - this is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Teachers Pension Scheme 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 DFES on the basis of a notional fund.

## Notes to County Fund Consolidated Revenue Account (continued...)

For the Local Government Pension Scheme and the Teachers' Additional Unfunded Pension Scheme we recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the CRA after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

|  | Local Government Pension Scheme |          | Teachers Additional Unfunded Pension Scheme |         |
|--|---------------------------------|----------|---|---------|
|  | 2005-06                         | 2004-05  | 2005-06                                     | 2004-05 |
|  | £'000                           | £'000    | £'000                                       | £'000   |
| <b>Net Cost of Services:</b>   |                                 |          |   |         |
| • current service cost   | 34,875                          | 31,303   | -   | -       |
| • past service costs   | (18,555)                        | 255      | 1,100                                       | 1,177   |
| <b>Net Operating Expenditure:</b>  |                                 |          |   |         |
| • interest cost  | 54,022                          | 47,250   | 3,035                                       | 2,993   |
| • expected return on assets in the scheme                                  | (41,538)                        | (36,460) | -   | -       |
| <b>Amounts to be met from Government Grants and Local Taxation:</b>        |                                 |          |   |         |
| • movement on pensions reserve   | 4,763                           | (11,582) | (287)                                       | (368)   |
| <b>Actual amount charged against council tax for pensions in the year:</b> |                                 |          |   |         |
| • employer's contributions payable to scheme                               | 33,567                          | 30,766   | 3,848                                       | 3,802   |

A note to the Balance Sheet contains details of the assumptions made in estimating the figures included in this note. A note to the Statement of Total Movements in Reserves analyses actuarial gains or losses on the Pensions Reserve.

## Notes to County Fund Consolidated Revenue Account (continued...)

### 9. Asset Management Revenue Account

This account is required under the capital accounting system introduced in 1994-95. The balance on the account, which represents the excess of capital charges over depreciation and interest charges, is transferred to the consolidated revenue account. Movements on the Account in 2005-2006 were as follows:-

|  |               |                 |
|--|---------------|-----------------|
|  | <b>£'000</b>  | <b>£'000</b>    |
| Reversal of capital charges made to services                     |               | (84,893)        |
| Amortisation of capital grants                                   |               | (22,634)        |
| External interest payable  | 18,467        |                 |
| Provision for depreciation                                       | <u>29,387</u> | <u>47,854</u>   |
| <b>Balance as per Consolidated Revenue Account 31 March 2006</b> |               | <b>(59,673)</b> |

There is a statutory requirement that the authority set aside, each year from its revenue account, a minimum amount as a provision for credit liabilities which is known as the minimum revenue provision (MRP). The provision for depreciation is regarded as part of the MRP and in order to achieve the statutory set aside, a reduction of £13,947,000 has been made to the revenue account in 2005-2006. This represents the difference between MRP and the depreciation charged in the accounts.

### 10. Officers' Emoluments

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

| Remuneration Band | Total<br>2005-06 | Total<br>2004-05 |
|-------------------|------------------|------------------|
| £50,000- £59,999  | 84               | 62               |
| £60,000- £69,999  | 40               | 34               |
| £70,000- £79,999  | 11               | 14               |
| £80,000- £89,999  | 3                | 1                |
| £90,000- £99,999  | 3                | 5                |
| £100,000-£109,999 | 2                | 1                |
| £120,000-£129,999 | 1                | 1                |

### 11. Members' Allowances

The total of members allowances paid in 2005-2006 to the nearest £'000 was £999,000 compared to £983,000 in 2004-05.

### 12. Audit Costs

In 2005-06 the Authority incurred the following fees relating to external audit and inspection:

|  |                          |                          |
|--|--------------------------|--------------------------|
|  | <b>2005-06<br/>£'000</b> | <b>2004-05<br/>£'000</b> |
| • Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor | 255                      | 252                      |
| • Fees payable to the Audit Commission in respect of statutory inspection  | 12                       | 10                       |
| • Fees payable to the Audit Commission for the certification of grant claims and returns (estimated)               | 70                       | 89                       |
| • Fees payable in respect of other services provided by the appointed auditor                                      | 44                       | 85                       |

## Consolidated Balance Sheet

The balance sheet overleaf combines all of the County Council's activities. It includes the County Fund, from which services are provided, the consolidated loans pool which provides resources for capital spending, and the Direct Labour and Direct Service Organisations. It excludes the Pension Fund and Trust Funds. The remainder of the book provides further details on these activities.

County Council spending can be divided into two distinct types. Most of the authority's spending is on salaries, wages and running costs. These costs go towards providing Education, Social Services and other services, and are borne year in year out, so long as the services are provided by the County Council. This type of spending is called revenue, since it is met from that year's income from precepts, grants and other sources.

The second type of spending is on the provision of assets which will last a number of years. The building of a school or a road are examples. These assets will provide a benefit to the authority for a number of years. This type of spending is called capital, and it is met from loans and other long term funds. As with all borrowing, it is necessary to repay with interest the sum borrowed. These repayments will be made over the life of the asset, and will be a revenue expense to be met from annual income.

Fixed assets have been included in the balance sheet at their current value ie replacement cost less depreciation, except for infrastructure and community assets which are shown at historical cost. Operational assets are occupied or used in the direct delivery of services. Infrastructure includes facilities required to enable other developments to take place eg roads. Community assets have no determinable useful life but which the authority intends to hold in perpetuity eg parks and historic buildings.

The County Council has liabilities for debt outstanding to finance capital expenditure together with the debt taken over for assets transferred under local government reorganisation. The latter is shown as loan liability transferred from other authorities.



**CONSOLIDATED BALANCE SHEET** (continued ...) as at  
31 March 2005

**Notes**

| <b>£000</b>      |  |     | <b>31 March 2006</b> |                  |
|------------------|--|-----|----------------------|------------------|
|                  |  |     | <b>£000</b>          | <b>£000</b>      |
|                  | <b>Fixed assets</b>                                  | 1-5 |                      |                  |
| 1,035,942        | Land & buildings                                     |     | 1,245,980            |                  |
| 50,609           | Vehicles, plant, equipment                           |     | 54,502               |                  |
| 155,438          | Infrastructure                                       |     | 170,536              |                  |
| 2,681            | Community  |     | 2,712                |                  |
| 46,461           | Non-Operational                                      |     | 56,541               | 1,530,271        |
| 61,877           | Long Term Debtors                                    |     |                      | <u>66,727</u>    |
| <u>1,353,008</u> | <b>Total long-term assets</b>                        |     |                      | <b>1,596,998</b> |
|                  | <i>Current Assets</i>                                |     |                      |                  |
| 5,739            | Stocks/WIP   | 10  | 5,998                |                  |
| 44,565           | Debtors  |     | 35,696               |                  |
| 211,960          | Short term investments                               | 8   | 231,576              |                  |
|                  | Landfill Allowances                                  |     | <u>4,697</u>         | 277,967          |
|                  | <i>Current Liabilities</i>                           |     |                      |                  |
| (108,433)        | Creditors  |     | (114,547)            |                  |
| (15,160)         | Temporary loans                                      |     | (11,980)             |                  |
| (26,966)         | Cash overdrawn                                       |     | <u>(25,335)</u>      | (151,862)        |
| <u>1,464,713</u> | <b>Total assets less current liabilities</b>         |     |                      | <b>1,723,103</b> |
|                  |  |     |                      |                  |
| (340,496)        | Long term Borrowing                                  | 11  |                      | (378,281)        |
| (6,475)          | Loan Liability OLAS                                  |     |                      | (6,215)          |
| (431,827)        | Liability relating to defined benefit pension scheme | 14  |                      | (436,568)        |
| (73,173)         | Govt. grants and contributions deferred              |     |                      | (88,995)         |
| (5,605)          | Provisions Insurance Fund                            | 6   |                      | (7,740)          |
| (5,772)          | Other  | 15  |                      | <u>(9,522)</u>   |
| <b>601,365</b>   | <b>TOTAL ASSETS LESS LIABILITIES</b>                 |     |                      | <b>795,782</b>   |
|                  | <i>Represented by</i>                                |     |                      |                  |
| 757,743          | Fixed Asset Restatement Account                      |     |                      | 927,507          |
| 166,680          | Capital Financing Account                            |     |                      | 190,101          |
| 11,250           | Usable capital receipts reserve                      |     |                      | 12,883           |
| (431,827)        | Pensions Reserve                                     | 14  |                      | (436,568)        |
|                  | <i>Earmarked Reserves</i>                            |     |                      |                  |
| 1,272            | DLOs   |     |                      | 2,069            |
| 22,857           | LMS  |     |                      | 27,613           |
| 40,803           | Other  |     |                      | 41,970           |
| 32,587           | County Fund Balance                                  |     |                      | <u>30,207</u>    |
| <b>601,365</b>   | <b>TOTAL EQUITY</b>                                  | 12  |                      | <b>795,782</b>   |

## Notes to the Consolidated Balance Sheet

### 1 Fixed Assets

Fixed assets of the Authority have been included in the balance sheet at their current value and details of the valuation policy are given in the Statement of Accounting Policies.

Two new schools which have been funded through the Private Finance Initiative at Tupton Hall and Chapel-en-le-Frith remain the property of the provider and therefore are not included in the Balance Sheet or the figures below.

#### MOVEMENT OF FIXED ASSETS 2005/2006

| £'000                                   | OPERATIONAL ASSETS |                             |                       |                  | NON OPERATIONAL ASSETS |                  |
|---|--------------------|-----------------------------|-----------------------|------------------|------------------------|------------------|
|   | Land & Buildings   | Vehicles, Plant & Equipment | Infrastructure Assets | Community Assets | Land & Buildings       | TOTAL            |
| <b>VALUE</b>                            |                    |                             |                       |                  |                        |                  |
| <b>Opening Value as at 1 April 2005</b> | <b>1,067,941</b>   | <b>65,511</b>               | <b>179,739</b>        | <b>2,681</b>     | <b>46,461</b>          | <b>1,362,333</b> |
| Additions                               | 68,788             | 4,157                       | 19,664                | 445              | 5,690                  | 98,744           |
| Disposals                               | (17,868)           | (2,091)                     | (100)                 | (125)            | (2,457)                | (22,641)         |
| Transfers                               | (2,859)            | (46)                        |                       | (264)            | 2,905                  | (264)            |
| Revaluations                            | 162,142            | 3,420                       |                       | (25)             | 3,942                  | 169,479          |
| <b>Value as at 31 March 2006</b>        | <b>1,278,144</b>   | <b>70,951</b>               | <b>199,303</b>        | <b>2,712</b>     | <b>56,541</b>          | <b>1,607,651</b> |
| <b>DEPRECIATION</b>                     |                    |                             |                       |                  |                        |                  |
| <b>Opening Balance 1 April 2005</b>     | <b>31,999</b>      | <b>14,902</b>               | <b>24,301</b>         |                  |                        | <b>71,202</b>    |
| Charge for the year                     | 17,777             | 7,115                       | 4,495                 |                  |                        | 29,387           |
| Adjustments for                         |                    |                             |                       |                  |                        |                  |
| Revaluations                            | (16,993)           | (5,116)                     |                       |                  |                        | (22,109)         |
| Disposals                               | (618)              | (452)                       | (29)                  |                  |                        | (1,099)          |
| Balance 31 March 2006                   | 32,165             | 16,449                      | 28,767                |                  |                        | 77,381           |
| <b>NET BOOK VALUE AT 31 MARCH 2006</b>  | <b>1,245,980</b>   | <b>54,502</b>               | <b>170,536</b>        | <b>2,712</b>     | <b>56,541</b>          | <b>1,530,271</b> |

### 2 Fixed Assets held by the County Council

A brief analysis of the Authority's principal assets is set out below:

|         |             | Nos |                   |                     | Nos |
|---------|-------------|-----|-------------------|---------------------|-----|
| Schools | - Nursery   | 8   | Social Services - | Residential Centres | 50  |
|         | - Primary   | 358 |                   | Day Centres         | 33  |
|         | - Secondary | 47  | Libraries         |                     | 46  |
|         | - Special   | 10  | Depots            |                     | 29  |

The Council also holds a number of miscellaneous properties including administrative buildings, dwelling houses, garages and industrial estates.

## Notes to the Consolidated Balance Sheet (continued ...)

### 3. Fixed Asset Valuation

The freehold and leasehold assets which comprise the Authority's fixed asset portfolio have been valued internally as at 1 April 2000 by Adrian Avery MRICS. The valuations are in accordance with the Statement of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors, 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. Buildings regarded by the Authority 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 on the basis of open market value.

Procedures have been put in place for a rolling programme of revaluations at 20% per annum together with ad hoc and additional valuations which will be carried out where it is considered there has been a material change to the asset.

### 4. Capital Contracts

Listed below are schemes over £500,000 where there is still significant expenditure outstanding as at 31 March 2006.

|                                     | TOTAL<br>ESTIMATED<br>COST<br>£'000 | EXPENDITURE<br>INCURRED<br>£'000 | EXPENDITURE<br>OUTSTANDING<br>£'000 |
|-------------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| Service                             |                                     |                                  |                                     |
| Education                           |                                     |                                  |                                     |
| Belper School                       | 1,830                               | 685                              | 1,145                               |
| Bolsover C E Junior School          | 3,031                               | 2,214                            | 817                                 |
| Chesterfield Brookfield             | 1,908                               | 1,433                            | 475                                 |
| Chesterfield Meadows                | 1,166                               | 411                              | 755                                 |
| Hasland Hall School                 | 1,100                               | 260                              | 840                                 |
| Hasland Junior School               | 4,293                               | 607                              | 3,686                               |
| Hilton Primary Ph 8                 | 1,430                               | 68                               | 1,362                               |
| Holbrook Special School             | 1,300                               | -                                | 1,300                               |
| John Port School                    | 3,276                               | 2,514                            | 762                                 |
| Long Eaton Brooklands Junior School | 2,636                               | 2,471                            | 165                                 |
| Springwell Sports Hall              | 3,109                               | 391                              | 2,718                               |
| Swanwick Hall School                | 2,326                               | 1,251                            | 1,075                               |
| Social Services                     |                                     |                                  |                                     |
| Bolsover Thomas Colledge / Grange   | 879                                 | 17                               | 862                                 |
| Bolsover Surestart                  | 1,250                               | 1,106                            | 144                                 |
| Chesterfield Replacement HOP        | 2,875                               | -                                | 2,875                               |
| Eaton Vale                          | 2,237                               | 1,460                            | 777                                 |

## Notes to the Consolidated Balance Sheet (continued ...)

### 5. **Capital Financing Account**

The Capital Financing Account contains the amounts which are 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 and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

## Notes to the Consolidated Balance Sheet (continued ...)

### 6. Insurance Fund

The authority operates an insurance fund primarily to meet the estimated outstanding claims under the 'excess' clauses of the council's insurance policies. Settlement of claims is likely to be spread over a number of years. Movements on the fund during the year were as follows:-

|   |                      |
|---|----------------------|
|   | <b>£'000</b>         |
| Opening balance 1 April 2005                        | 10,626               |
| plus Internal insurance premiums                    | 4,954                |
| Funding for Risk Management initiatives             | 123                  |
| less Claims settled and risk management expenditure | <u>(2,526)</u>       |
| <b>Closing balance 31 March 2006</b>                | <b><u>13,177</u></b> |

The fund balance as at 31 March 2006 can be analysed as set out below:-

|   |                      |
|---|----------------------|
|   | <b>£'000</b>         |
| Provision to meet notified outstanding claims | 7,593                |
| Provision to meet risk management initiatives | 147                  |
| Reserve to meet claims not yet notified       | 5,401                |
| Reserve to meet risk management initiatives   | <u>36</u>            |
| <b>Fund balance 31 March 2006</b>             | <b><u>13,177</u></b> |

That element of the fund relating to provisions represents obligations as at 31 March as a result of past claims and events where a reliable estimate can be made of the obligation. The reserve element is an estimate of possible obligations related to claims or events which have not yet been notified.

### 7. Associated Companies

The County Council maintains involvement with a number of companies which are either regulated or influenced ie Derbyshire Waste Ltd, CLASP (1988) Ltd, the National Stone Centre, Creswell Heritage Trust, Creswell Trading Company Ltd and Derbyshire Connexions Partnership Ltd.

The activities of these companies are not either considered material to the affairs of the County Council or the shareholding is below 20% and their assets and liabilities are therefore not included in the Authority's accounts.

The Authority acts as Treasurer to the CLASP Consortium and as at 31 March 2006 is holding cash of £980,000 on behalf of the Consortium. The County Council also acts as lead authority for the Derbyshire Partnership Forum and held £256,000 on the Forum's behalf at 31 March.

### 8. Short Term Investments

Investments held by the Consolidated Loans Pool are short term loans to clearing banks and major building societies and are valued at cost. The amount invested at the year-end depends on the cash flow position at that date.

### 9. Net Assets Employed

The Net Assets of the County Fund can be analysed by activity as follows:-

|  | <b>31 March 2006</b>  | <b>31 March 2005</b>  |
|--|-----------------------|-----------------------|
|  | <b>£'000</b>          | <b>£'000</b>          |
| Revenue                                  | (343,039)             | (345,489)             |
| Capital                                  | 1,136,752             | 945,582               |
| Direct Service Organisations             | <u>2,069</u>          | <u>1,272</u>          |
| <b>Total Equity as per Balance Sheet</b> | <b><u>795,782</u></b> | <b><u>601,365</u></b> |

## Notes to the Consolidated Balance Sheet (continued ...)

### 10. Stock and Work in Progress

Stocks and work in progress can be analysed as follows:

|                                      | 31 March 2006 | 31 March 2005 |
|--------------------------------------|---------------|---------------|
|                                      | £'000         | £'000         |
| Environmental Services               | 272           | 268           |
| Property Services - client           | 349           | 153           |
| Other                                | 80            | 72            |
| DLO's - All Roads                    | 669           | 945           |
| - Property Services                  | 84            | 86            |
| DSO's - Catering                     | 213           | 201           |
| Work in progress - Property Services | <u>4,331</u>  | <u>4,014</u>  |
|                                      | <u>5,998</u>  | <u>5,739</u>  |

### 11. Long-term Borrowing

The total loans outstanding at 31 March 2006 was £390,261,160. £11,980,153 of this relates to temporary borrowing of surplus funds belonging mainly to the Derbyshire Fire Authority and the Peak District National Park Authority. The balance of £378,281,007 relates to long-term borrowing and can be analysed as follows:-

|   | Range of Interest<br>Rates Payable (%) | Total Outstanding at 31 March |                |
|---|--|-------------------------------|----------------|
|   |  | 2006                          | 2005           |
|   |  | £'000                         | £'000          |
| Public Works Loan Board<br>and market debt<br>(Weighted Average Rate 5.79%) | 3.2-9.625                              | 378,281                       | 340,291        |
| An analysis of loans by maturity is:  |  | £'000                         | £'000          |
| Maturing within one year  |  | -                             | -              |
| Maturing in 1-2 years   |  | -                             | -              |
| Maturing in 2-5 years   |  | 23,000                        | 13,000         |
| Maturing in 5-10 years  |  | 43,666                        | 43,666         |
| Maturing in more than 10 years  |  | <u>311,615</u>                | <u>283,625</u> |
|   |  | <u>378,281</u>                | <u>340,291</u> |

### 12. Trust and Other Funds

The County Council administers a number of Trust Funds. These are funds made up of donations or bequests made to the Authority. The benefactors specify the use to which the fund is to be put in many cases, the most common being the provision of educational prizes. Other funds have been established to provide for the needs of clients in the care of the Social Services Department or for the maintenance of a specific project.

## Notes to the Consolidated Balance Sheet (continued ...)

The funds are invested in accordance with the provisions of the Trustee Investments Act 1961. They are generally invested in Government Stocks to provide a high income return and where the fund is large enough to split, partly in unit trusts to provide an element of capital growth.

Other funds include savings held on behalf of residents in the County Councils Part III accommodation. Where savings of any resident exceeds £100 they are transferred to an account with the Derbyshire Building Society in order that interest can be earned on these savings.

The tables below detail the Aggregate Revenue Account and Balance Sheet for all Trust and Other Funds currently administered by the County Council.

|  | <b>2005/06<br/>TRUST FUNDS<br/>£'000</b> | <b>2005/06<br/>OTHER FUNDS<br/>£'000</b> | <b>2005/06<br/>TOTAL<br/>£'000</b> |
|--|--|--|------------------------------------|
| <b>AGGREGATE REVENUE ACCOUNT</b>             |  |  |                                    |
| Opening Balance                              | 663                                      | 2185                                     | 2848                               |
| Add Income                                   | 491                                      | 132                                      | 623                                |
| Total Funds available in the year            | <u>1154</u>                              | <u>2317</u>                              | <u>3471</u>                        |
| Less Expenditure                             | 49                                       | 70                                       | 119                                |
| Closing Balance                              | <u><u>1105</u></u>                       | <u><u>2247</u></u>                       | <u><u>3352</u></u>                 |
|  |  |  |                                    |
| The funds are represented by:                |  |  |                                    |
| Investments                                  | 47                                       | 0  | 47                                 |
| Building Society Deposits                    | 0  | 1829                                     | 1829                               |
| Cash & temporary loans                       | 1058                                     | 418                                      | 1476                               |
| Total Assets                                 | <u><u>1105</u></u>                       | <u><u>2247</u></u>                       | <u><u>3352</u></u>                 |
|  |  |  |                                    |
| Number of Funds                              | 89                                       | 7  | 96                                 |
|  |  |  |                                    |
| Increase in unrealised profit on investments | 6  | -1                                       | 5                                  |

## Notes to the Consolidated Balance Sheet (continued ...)

### 13. European Monetary Union and the Euro

The Authority has set up an officer working party to assess the implications of the introduction of the single currency and to co-ordinate planning if the UK enters. Although the Authority has yet to conduct a full assessment of the effects of entry, new financial systems will be Euro-compliant to minimise possible changes in the future. No costs or commitments have been incurred in relation to the Euro.

### 14. Pension Liability

In accordance with the requirements of Financial Reporting Standard No 17 - Retirement Benefits (FRS 17) the Authority has to disclose its share of assets and liabilities related to pension schemes for its employees.

As explained in the Statement of Accounting Policies the Authority participates in two schemes which provide members with defined benefits related to pay and service. The Teachers Pension Scheme is administered by the Department for Education and Skills and the underlying liabilities for individual authorities cannot be identified on a consistent and reliable basis. However where discretionary benefits have been awarded by the Authority the liabilities accrue directly to the Authority and have therefore been accounted for in line with FRS 17.

Staff other than teachers are admitted to the Local Government Pension Fund (LPGS) which is administered by the County Council and details of which are set out below:

#### (a) The Local Government Pension Scheme assets and liabilities at 31 March are:

|                                 | <b>2005</b><br><b>£'000</b> | <b>2006</b><br><b>£'000</b> |
|---------------------------------|-----------------------------|-----------------------------|
| Estimated liabilities in scheme | 993,282                     | 1,161,573                   |
| Estimated assets in scheme      | <u>619,580</u>              | <u>786,218</u>              |
| Net asset/(liability)           | <u>(373,702)</u>            | <u>(375,355)</u>            |

The figures disclosed above have been derived by approximate methods from the full actuarial valuation of the Fund carried out by Mercer Human Resources Consulting Limited as at 31 March 2004. The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The liability of £375m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit means that the financial position of the authority remains relatively healthy.

The main financial assumptions adopted as at 31 March were:

|   | <b>2005</b> | <b>2006</b> |
|---|-------------|-------------|
| a) retail price inflation:                                    | 2.9%        | 2.9%        |
| b) increases in salaries:                                     | 4.4%        | 4.4%        |
| c) increases in pensions and deferred pensions:               | 2.9%        | 2.9%        |
| d) discount rate:   | 5.4%        | 4.9%        |
| e) proportion of employees opting to take a commuted lump sum | 50.0%       | N/A         |

#### Changes to the Local Government Pension Scheme

Changes to the Local Government Pension scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this will reduce the value of the Council's pension liabilities by £18.5m and this has been included within Non-Distributed Costs on the face of the Consolidated Revenue Account.



## Notes to the Consolidated Balance Sheet (continued ...)

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

|             | Long Term<br>Return<br>% | 31 March 2005<br>% | 31 March 2006<br>% |
|-------------|--------------------------|--------------------|--------------------|
| Equities    | 7.0                      | 70                 | 71                 |
| Gilts       | 4.3                      | 16                 | 14                 |
| Other bonds | 4.9                      | 2                  | 2                  |
| Property    | 6.0                      | 5                  | 5                  |
| Cash        | 4.5                      | 7                  | 8                  |
| Total       |                          | <u>100</u>         | <u>100</u>         |

### (b) Teachers Pension Scheme - Unfunded Liabilities

|   | 2005<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Estimated Liabilities accruing to the Authority at 31 March | 58,125        | 61,213        |

The financial assumptions adopted by the actuary as at 31 March were:

|                              | 2005 | 2006 |
|------------------------------|------|------|
| Rate of inflation            | 2.9% | 2.9% |
| Rate of increase in pensions | 2.9% | 2.9% |
| Discount rate                | 5.4% | 4.9% |

### 15. Provisions

Included in the total for provisions are the following material items:

|  | £000  |
|--|-------|
| Education provision for inter-authority and hospital recoupment          | 2,735 |
| Environmental Services provision for remedial works and work in progress | 938   |
| Environmental Services Section 74 charges                                | 717   |
| Liability for BMW Landfill Usage   | 4,009 |

### 16. Private Finance Initiative Schemes

The authority has two Private Finance Initiative (PFI) schemes in which a private sector provider builds, maintains and services accommodation for use by the County Council. Payment is made by an annual Unitary Charge over the life of the contract, subject to satisfactory performance in delivering the serviced accommodation in line with the Council's requirements.

#### Schools Phase 1

In 2001 the Council signed a contract for the provision of two new secondary schools at Tupton and Chapel-en-le Frith. The capital cost of the schools was £25.558m and they were completed and occupied in April 2003 under a 26 year contract. The Unitary Charge for 2005-06 was £4.202m.

## Notes to the Consolidated Balance Sheet (continued ...)

The Council will gain ownership of the two schools at the end of the contract period at nil cost. This is known as the acquisition of the residual interest. The schools are currently valued at £37.445m and an element of the annual Unitary Charge is deemed to relate to the acquisition of the residual interest over the life of the contract and transferred to Deferred Charges. For 2005-06 this figure was £1.466m. As this adjustment is notional a matching transfer is made to the Capital Financing Account.

Unitary Charge payments of £4.238m are anticipated to be charged to the revenue account in 2006-07.

### **Schools Phase 2**

During 2004-05 the Council signed a contract for the provision of two further secondary schools at Newbold and Long Eaton. They were built at a cost of £32.945m and became operational in February 2006. The Council made a payment of £1.5m to the provider at the time of contract signature to secure a reduction in the level of future Unitary Charge. This has been treated as a prepayment in the accounts and will be charged to revenue in equal instalments over the life of the contract, starting in 2006-07.

The schools are valued at £37.205m and a residual interest element of £1.431m has been debited to Deferred Charges with a matching transfer to the Capital Financing Account. The Unitary Charge for the part year 2005-06 was £0.559m and is expected to be £4.380m for the first full year 2006-07.

## Statement of Total Movement in Reserves

This statement brings together all the recognised gains and losses of the Authority including those which have been recognised in the Consolidated Revenue Account and those which have not eg. profits and losses upon the disposal of fixed assets.

The statement separates the movements between revenue and capital reserves. The Fixed Asset Restatement Reserve and Capital Financing Account cannot be called upon to support revenue spending, the Usable Capital Receipts Reserve can be used to meet expenditure designated as expenditure for capital purposes and the revenue Reserves can be used to meet capital and revenue expenditure.

The actuarial gains and losses identified on the Pensions Reserve in 2005-06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March.

### (1) Local Government Pension Scheme

|   | <b>2005-06</b>  |          | <b>2004-05</b>   |          | <b>2003-04</b> |            |
|---|-----------------|----------|------------------|----------|----------------|------------|
|   | <b>£'000</b>    | <b>%</b> | <b>£'000</b>     | <b>%</b> | <b>£'000</b>   | <b>%</b>   |
| Differences between the expected and actual return on assets                      | 112,156         | 14.3     | 23,883           | 3.9      | 65,652         | 12.1       |
| Differences between actuarial assumptions about liabilities and actual experience | (27,060)        | 2.3      | 5,726            | 0.6      | 0              |            |
| Changes in the demographic and financial assumptions used to estimate liabilities | <u>(91,512)</u> | 7.9      | <u>(177,635)</u> | 17.9     | <u>0</u>       |            |
|   | (6,416)         | 0.6      | <u>(148,026)</u> | 14.9     | <u>65,652</u>  | <u>8.7</u> |

### (2) Teachers Pension Scheme - Unfunded Liabilities

|                       | <b>2005-06</b> |          | <b>2004-05</b> |          | <b>2003-04</b> |
|-----------------------|----------------|----------|----------------|----------|----------------|
|                       | <b>£'000</b>   | <b>%</b> | <b>£'000</b>   | <b>%</b> | <b>£'000</b>   |
| Liability Gain        | 0              | 0        | (310)          | 0.5      | 0              |
| Change in Assumptions | <u>(2,801)</u> | 4.6      | <u>(7,293)</u> | 12.5     | 0              |
|                       | <u>(2,801)</u> | 4.6      | <u>(7,603)</u> | 13.1     | 0              |

**STATEMENT OF TOTAL MOVEMENT IN RESERVES**

|  | CAPITAL RESERVES                |                           |                                 | REVENUE RESERVES       |               |                    | Pension Reserve  | TOTAL          |
|--|---------------------------------|---------------------------|---------------------------------|------------------------|---------------|--------------------|------------------|----------------|
|  | Fixed Asset Restatement Account | Capital Financing Account | Usable Capital Receipts Reserve | Other Capital Reserves | General Fund  | Earmarked Reserves |                  |                |
|  | £'000                           | £'000                     | £'000                           | £'000                  | £000          | £000               |                  |                |
| <b>Balance as at 1.4.2005</b>  | <b>757,743</b>                  | <b>166,679</b>            | <b>11,250</b>                   | <b>9,909</b>           | <b>32,587</b> | <b>54,942</b>      | <b>(431,827)</b> | <b>601,283</b> |
| Net surplus (deficit) for year   |                                 | (11,017)                  |                                 | 1,248                  | 1,884         | 7,056              |                  | (829)          |
| Unrealised gains (losses) on revaluation of fixed assets                   | 191,010                         |                           |                                 |                        |               |                    |                  | 191,010        |
| Repayment of transferred debt  |                                 | (1,833)                   |                                 |                        |               |                    |                  | (1,833)        |
| Transfer to other local authorities  |                                 |                           |                                 |                        | (871)         |                    |                  | (871)          |
| Effects of disposal of fixed assets<br>Cost or value of assets disposed of | (21,246)                        |                           |                                 |                        |               |                    |                  | (21,246)       |
| Usable receipts  |                                 |                           | 3,747                           |                        |               |                    |                  | 3,747          |
| Appropriations to or from( ) the pension reserve                           |                                 |                           |                                 |                        |               |                    | 4,476            | 4,476          |
| Actuarial gains or losses( ) relating to pensions                          |                                 |                           |                                 |                        |               |                    | (9,217)          | (9,217)        |
|  | <b>927,507</b>                  | <b>153,829</b>            | <b>14,997</b>                   | <b>11,157</b>          | <b>33,600</b> | <b>61,998</b>      | <b>(436,568)</b> | <b>766,520</b> |
| Financing of fixed assets:-  |                                 |                           |                                 |                        |               |                    |                  |                |
| Capital receipts   |                                 | 2,114                     | (2,114)                         |                        |               |                    |                  |                |
| Revenue contributions/grants   |                                 | 29,262                    |                                 |                        |               |                    |                  | 29,262         |
| Earmarked Reserve  |                                 | 4,896                     |                                 | (4,896)                | (3,393)       | 3,393              |                  |                |
| <b>TOTALS</b>  | <b>927,507</b>                  | <b>190,101</b>            | <b>12,883</b>                   | <b>6,261</b>           | <b>30,207</b> | <b>65,391</b>      | <b>(436,568)</b> | <b>795,782</b> |

**STATEMENT OF TOTAL MOVEMENT IN RESERVES**  
**OTHER RESERVES**

|  | <b>Balance<br/>31.3.05<br/>£000</b> | <b>Movement<br/>£000</b> | <b>Balance<br/>31.3.06<br/>£000</b> |
|--|-------------------------------------|--------------------------|-------------------------------------|
| Education  |                                     |                          |                                     |
| Schools Pool Premium                                     | 75                                  | 0                        | 75                                  |
| Standards Fund Matched Funding                           | 1,258                               | (543)                    | 715                                 |
| DESCIT   | 349                                 | 0                        | 349                                 |
| Read on Write Away                                       | 234                                 | 7                        | 241                                 |
| Education PFI  | 4,724                               | (98)                     | 4,626                               |
| Environmental Services                                   |                                     |                          |                                     |
| Traffic Man. & Permits project                           | 76                                  | 0                        | 76                                  |
| Laboratory renewals                                      | 82                                  | 17                       | 99                                  |
| Waste Disposal Royalties                                 | 1,339                               | 60                       | 1,399                               |
| Workshop Renewals  | 374                                 | (14)                     | 360                                 |
| PTU computer System                                      | 128                                 | (128)                    | 0                                   |
| Capital Salaries Contingency                             | 229                                 | 0                        | 229                                 |
| IT Reserve   | 206                                 | (51)                     | 155                                 |
| Commuted sums  | 660                                 | (21)                     | 639                                 |
| DLO Reserve  | 1,170                               | 183                      | 1,353                               |
| Monies on Deposit  | 793                                 | 229                      | 1,022                               |
| Aftersite Care   | 439                                 | 0                        | 439                                 |
| Section 137  | 0                                   | 717                      | 717                                 |
| Miscellaneous reserves                                   | 38                                  | (1)                      | 37                                  |
| Corporate  |                                     |                          |                                     |
| Lottery Treasure Chest                                   | 44                                  | (15)                     | 29                                  |
| Purchasing Equipment Repairs                             | 524                                 | 0                        | 524                                 |
| VAT recovered  | 94                                  | 0                        | 94                                  |
| Computer Renewals  | 794                                 | 227                      | 1,021                               |
| VER/VR   | 1,000                               | 0                        | 1,000                               |
| Corporate reserve  | 1,007                               | (67)                     | 940                                 |
| Chief Executive's Department                             | 0                                   | 642                      | 642                                 |
| Change Management  | 5,273                               | 2,595                    | 7,868                               |
| PSA Performance Reward                                   | 3,767                               | 658                      | 4,425                               |
| LA Business Grant Incentive                              | 0                                   | 923                      | 923                                 |
| Comm.& Cult.Serv   |                                     |                          |                                     |
| Miscellaneous  | 9                                   | 122                      | 131                                 |
| Social Services  |                                     |                          |                                     |
| Foster Carer equipment                                   | 145                                 | (1)                      | 144                                 |
| Aston Hall Redevelopment                                 | 992                                 | (992)                    | 0                                   |
| Capital  | 9,909                               | (3,648)                  | 6,261                               |
| Insurance Fund reserve element                           | 5,071                               | 366                      | 5,437                               |
| <b>TOTAL AS PER BALANCE SHEET 31 March</b>               | <b>40,803</b>                       | <b>1,167</b>             | <b>41,970</b>                       |
| LMS  | 22,858                              | 4,755                    | 27,613                              |
| DSO Appropriation Accounts                               | 1,272                               | 797                      | 2,069                               |
| Capital  | (9,909)                             | 3,648                    | (6,261)                             |
| <b>TOTAL AS PER TOTAL MOVEMENT IN RESERVES STATEMENT</b> | <b>55,024</b>                       | <b>10,367</b>            | <b>65,391</b>                       |

## Cash Flow Statement

This consolidated statement summarises the in-flows and outflows of cash arising from transactions with third parties. It reflects the operations of the Authority as a whole as it includes both revenue and capital expenditure and how this has been financed. It excludes the Superannuation fund and internal transfers between accounts which do not involve transactions with third parties.

## Cash Flow Statement (continued ...)

| 2004-2005<br>£000 | <b>CASH FLOW STATEMENT 2005-06<br/>SUMMARY</b> | Note | £000             | £000               | 2005-2006<br>£000 |
|-------------------|--|------|------------------|--------------------|-------------------|
|                   | <b>REVENUE</b>                                 |      |                  |                    |                   |
| 522,619           | Outflows Employees                             |      | 554,949          |                    |                   |
| <u>400,355</u>    | Other Operating payments                       |      | <u>408,337</u>   | 963,286            |                   |
| (221,880)         | Inflows Precepts                               |      | (228,536)        |                    |                   |
| (186,373)         | NNDR   |      | (226,136)        |                    |                   |
| (259,590)         | RSG  |      | (249,792)        |                    |                   |
| (165,747)         | Other govt.grants                              | 5    | (168,134)        |                    |                   |
| (145,346)         | Cash for goods & services                      |      | <u>(142,248)</u> | <u>(1,014,846)</u> |                   |
| (55,962)          | Net cash flow revenue activities               | 1    |                  |                    | (51,560)          |
|                   | <b>SERVICING OF FINANCE</b>                    |      |                  |                    |                   |
| 25,409            | Interest paid                                  |      |                  | 18,969             |                   |
| <u>(14,714)</u>   | Interest received                              |      |                  | <u>(10,236)</u>    | 8,733             |
| 10,695            |  |      |                  |                    |                   |
|                   | <b>CAPITAL</b>                                 |      |                  |                    |                   |
| 91,932            | Outflows Purchase of Fixed Assets              |      |                  | 97,953             |                   |
|                   | Inflows  |      |                  |                    |                   |
| (5,846)           | Sales  |      | (3,747)          |                    |                   |
| (45,292)          | Grants   |      | (38,281)         |                    |                   |
| <u>0</u>          | Other  |      | 0                | 0                  |                   |
| 40,794            |  |      |                  | (42,028)           | <u>55,925</u>     |
| (4,473)           | <b>NET CASH (INFLOW) OUTFLOW</b>               |      |                  |                    | 13,098            |
|                   | <b>MANAGEMENT OF LIQUID RESOURCES</b>          | 2    |                  |                    |                   |
| 43,663            | Net inc/dec s-term deposits                    |      |                  | 19,616             |                   |
| 1,191             | Net inc/dec other liquid resources             |      |                  | <u>3,179</u>       | 22,795            |
|                   | <b>FINANCING</b>                               | 3    |                  |                    |                   |
| 490               | Outflows Repaymts. amounts borrowed            |      |                  | 261                |                   |
| (38,500)          | Inflows New loans raised                       |      |                  | (37,785)           | (37,524)          |
| <b>2,371</b>      | <b>(INCREASE)/DECREASE IN CASH</b>             | 4    |                  |                    | <b>(1,631)</b>    |

# Notes to the Cash Flow Statement

| 1 | <b>RECONCILIATION OF REVENUE CASH FLOW</b>             | <b>£000</b>      | <b>£000</b>     |
|---|--|------------------|-----------------|
|   | Surplus for the year from Consolidated Revenue Account |                  | 1,884           |
|   | Add non-cash transactions                              |                  |                 |
|   | Minimum revenue provision                              | 15,146           |                 |
|   | Contributions to other reserves and provisions         | 10,754           |                 |
|   | Non cash government grant                              | (4,697)          |                 |
|   | Contributions to capital                               | 12,878           | 34,081          |
|   | Items on an accrual basis(revenue only)                |                  |                 |
|   | Decrease in debtors                                    | 8,139            |                 |
|   | Decrease in creditors                                  | (1,076)          |                 |
|   | Increase in stocks                                     | (260)            | 6,803           |
|   | Items classified elsewhere in the Cash Flow Statement  |                  |                 |
|   | Net Interest   |                  | 8,792           |
|   | Revenue Activities Net Cash Flow                       |                  | 51,560          |
| 2 | <b>MOVEMENT IN LIQUID RESOURCES</b>                    | <b>31-03-06</b>  | <b>31-03-05</b> |
|   |  | <b>£000</b>      | <b>£000</b>     |
|   | Short -term investments                                | 231,576          | 211,960         |
|   | Temporary loans  | <u>(11,980)</u>  | <u>(15,159)</u> |
|   |  | <u>219,596</u>   | <u>196,801</u>  |
| 3 | <b>FINANCING ITEMS</b>                                 |                  |                 |
|   | Long term borrowing                                    | (378,281)        | (340,496)       |
|   | Other long term liabilities                            | <u>(6,215)</u>   | <u>(6,476)</u>  |
|   |  | <u>(384,496)</u> | <u>(37,524)</u> |
| 4 | <b>CASH OVERDRAWN</b>                                  | (25,335)         | <u>1,631</u>    |



## Notes to the Cash Flow Statement (continued ...)

### 5. GOVERNMENT GRANTS

The Authority receives Revenue Support Grant in aid of services generally (£249,792,000 in 2005-2006). It also receives other grants which are in aid of specific projects or services and which can be analysed for the year as follows:-

|   | £'000                 |
|---|-----------------------|
| Education:-                             |                       |
| Learning and Skills Council             | 35,002                |
| Standards Fund                          | 31,085                |
| School Standards                        | 15,153                |
| Teachers Pay Reform                     | 13,450                |
| Surestart and Childcare                 | 8,869                 |
| Social Services:-                       |                       |
| Preserved Rights                        | 3,943                 |
| Supporting People                       | 17,334                |
| Residential Allowances                  | 3,223                 |
| Access and System Capacity              | 9,314                 |
| Carers                                  | 2,525                 |
| Environmental Services Trunk Road Grant | 2,280                 |
| PFI Revenue Support                     | 3,424                 |
| Rural Bus Challenge                     | 1,702                 |
| Other                                   | <u>20,830</u>         |
|   | <b><u>168,134</u></b> |

### 6. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

|  | £'000                  |
|--|------------------------|
| Increase in cash                               | (1,631)                |
| Cash inflow from increase in debt              | (38,806)               |
| Cash outflow from increase in liquid resources | <u>22,795</u>          |
| Movement in net debt for period                | <b><u>(17,642)</u></b> |

# Pension Fund - Foreword to Financial Statements

## Investment Policy

Responsibility for policy matters lies with an Investment Committee of seven County Councillors, two Derby City and two District Council member representatives. The Investment Committee receives advice from the County Treasurer and from two independent external advisers. Day-to-day management of the Fund is delegated to the County Treasurer and his in-house staff, operating within a policy framework laid down by the Investment Committee. Policy is determined by reference to investment regulations issued under the Superannuation Act, 1972, which require that advice is taken at regular intervals and that the investments are suitably diversified. In addition the regulations place limitations on investments including maximum investment in a single holding and in 'unlisted securities' (no more than 10% in each category).

The return for 2005-06 for the Fund was 25.0% (2004-05, 12.2%) which compares with the average return on local authority funds of 24.9%. Over the last ten years the Fund's return was 8.3% per annum which is 0.2% per annum ahead of the average. For comparison the ten year figures for average earnings and retail price increases are 4.3% and 2.6% respectively. On a year by year basis returns tend to fluctuate significantly according to economic and market conditions and long-term returns are a more appropriate guide to the performance of the Fund.

| <b>Members Statistics</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> |
|---------------------------|-------------|-------------|-------------|
| Contributors              | 31,307      | 33,259      | 34,847      |
| Pensioners                | 17,292      | 17,672      | 18,066      |
| Deferred Pensions         | 9,290       | 10,502      | 12,037      |

## Actuarial Position of the Fund

1. Every three years an actuarial valuation of the Fund is undertaken in accordance with the provisions of the Local Government Pension Scheme Regulations 1997. The purpose of the valuation is to determine the financial position of the Fund and to set the level of contributions payable by each participating employer for the following three years. A valuation of the Fund was undertaken as at 31 March 2004 to set the level of employer contributions for the three years commencing 1 April 2005, whereas the rate for 2004-05 was set at the 2001 valuation.
2. The contributions required in respect of future service have been determined using the "projected unit" method. The full rate of employer's contribution provides for the cost of year-by-year accrual of benefits in respect of current Scheme members and the amount required to meet a past service deficiency.
3. The valuation was undertaken using a market value approach. The assets were valued at their market value with market related discount rates used as the basis for determining the present value of the liabilities. There are a number of assumptions used in determining the value of past service liabilities, which are detailed in Note 4.

## Pension Fund - Foreword to Financial Statements (continued ...)

4. The financial assumptions used were as follows:-

|  | <b>Past<br/>Service</b> | <b>Future<br/>Service</b> |
|--|-------------------------|---------------------------|
| Fixed interest gilts yield:                            | 4.6%                    | n/a                       |
| Index linked gilts real yield:                         | 1.8%                    | n/a                       |
| Asset Out-performance Assumption<br>(pre-retirement)*  | 2.5%                    | n/a                       |
| Asset Out-performance Assumption<br>(post retirement)* | 1.0%                    | n/a                       |
| Real Earnings Inflation                                | 1.5%                    | 1.5%                      |
| Discount rate (pre retirement)                         | 7.1%                    | 6.5%                      |
| Discount rate (post retirement)                        | 5.6%                    | 6.5%                      |
| Price inflation  | 2.8%                    | 2.5%                      |
| Earnings Inflation                                     | 4.3%                    | 4.0%                      |
| Pension Increases                                      | 2.8%                    | 2.5%                      |

\* Asset out-performance assumptions represent the expected out-performance of investment returns relative to gilts. This partly depends on the proportion of the Fund invested in equities.

5. The actuarial value placed on the assets represented 70% of the value of the past service liabilities compared with 88% at the 2001 valuation.

6. The main reason for the 18% decrease in funding was unfavourable investment performance relative to actuary's assumptions and the change in gilt yields. In common with other local authorities Derbyshire's Fund suffered from weak equity markets in the 3 years to March 2004, on which the actuarial valuation was based.

## Pension Fund - Foreword to Financial Statements (continued ...)

7. Employers have been given the option of paying either a full rate of contributions for the whole of the period covered by the actuary's valuation certificate or to achieve this by a stepped approach over a period of time.

**Contributions payable by the County, Unitary and district councils** expressed as a percentage of employees' contributions

| <b>Council</b>        | <b>2004-05<br/>%</b> | <b>Stepped<br/>or full rate</b> | <b>2005-06<br/>%</b> | <b>Stepped<br/>or full rate</b> | <b>2006-07<br/>%</b> | <b>Stepped<br/>or full rate</b> |
|-----------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|
| Derbyshire County     | 261                  | stepped                         | 271                  | stepped                         | 281                  | stepped                         |
| Amber Valley Borough  | 315                  | full                            | 354                  | full                            | 354                  | full                            |
| District of Bolsover  | 323                  | full                            | 336                  | full                            | 336                  | full                            |
| Chesterfield Borough  | 271                  | full                            | 292                  | stepped                         | 312                  | stepped                         |
| Derby City            | 258                  | stepped                         | 290                  | full                            | 290                  | full                            |
| Derbyshire Dales      | 255                  | full                            | 298                  | full                            | 298                  | full                            |
| Erewash Borough       | 274                  | full                            | 305                  | stepped                         | 336                  | stepped                         |
| High Peak Borough     | 341                  | full                            | 356                  | stepped                         | 371                  | stepped                         |
| North East Derbyshire | 329                  | full                            | 350                  | full                            | 350                  | full                            |
| South Derbyshire      | 292                  | full                            | 324                  | full                            | 324                  | full                            |

8. All employing bodies are paying a rate which is sufficient to meet the cost of future service and reduce their past service deficiency over a period of time.
9. Employees pay 6% of their pay excluding non-contractual overtime; certain employees (ie previously classed as manual workers) are protected and are required to pay 5% of their pay.
10. The Derbyshire Pension Fund Statement of Investment Principles Funding Strategy Statement and the report on the actuarial valuation are available on the Derbyshire County Council's website at [www.derbyshire.gov.uk/pensions](http://www.derbyshire.gov.uk/pensions).

## Pension Fund - Fund Account

| Restated<br>2004-05<br>£'000 | Note | Contributions and Benefits                          | 2005-06<br>£'000        |
|------------------------------|------|---|-------------------------|
| 97,210                       | 4    | Contributions receivable                            | 105,234                 |
| <u>13,293</u>                | 5    | Transfer values in                                  | <u>13,117</u>           |
| <u>110,503</u>               |      |   | <u>118,351</u>          |
| 62,339                       | 6    | Benefits payable                                    | 67,713                  |
| 12,268                       | 7    | Leavers - transfer values out                       | 11,966                  |
| <u>965</u>                   | 8    | Administrative expenses                             | <u>926</u>              |
| <u>75,572</u>                |      |   | <u>80,605</u>           |
| <b><u>34,931</u></b>         |      | <b>Net additions from dealings with members</b>     | <b><u>37,746</u></b>    |
|                              |      | <b>Returns on investments</b>                       |                         |
| 47,210                       | 9    | Investment income                                   | 48,193                  |
| 113,588                      | 10   | Change in market value of investments               | 328,491                 |
| <u>(1,348)</u>               | 12   | Investment management expenses                      | <u>(2,256)</u>          |
| <b><u>159,450</u></b>        |      | <b>Net returns on investments</b>                   | <b><u>374,428</u></b>   |
| 194,381                      |      | Net increase (decrease) in the Fund during the year | 412,174                 |
| <u>1,313,867</u>             |      | Net assets of the scheme at 1 April 2005            | <u>1,508,248</u>        |
| <b><u>1,508,248</u></b>      |      | <b>At 31 March 2006</b>                             | <b><u>1,920,422</u></b> |

# Pension Fund Net Assets Statement as at 31 March 2006

| Restated<br>31 March 2005<br>£'000 |             |  | 2005-06<br>£'000 |
|------------------------------------|-------------|--|------------------|
|                                    | <b>Note</b> |  |                  |
|                                    |             | <b>Investments</b>                               |                  |
| 174,415                            | 10, 11      | Fixed interest securities                        | 192,257          |
| 908,584                            |             | Equities   | 1,183,307        |
| 59,675                             |             | Index-linked securities                          | 75,040           |
| 184,576                            |             | Pooled investment vehicles                       | 271,270          |
| 56,390                             |             | Properties                                       | 61,755           |
| 101,219                            |             | Cash deposits and short term loans               | 117,293          |
| 17                                 |             | Other  | 21               |
| 1,484,876                          |             |  | 1,900,943        |
| 5,525                              | 10, 13      | Additional Voluntary Contributions (AVCs)        | 6,016            |
| 1,490,401                          |             | Total investments                                | 1,906,959        |
| 17,847                             | 14          | Current assets and liabilities                   | 13,463           |
| <b>1,508,248</b>                   |             | <b>Net assets of the scheme at 31 March 2006</b> | <b>1,920,422</b> |

# Notes to the Pension Fund Financial Statements

## 1. Basis of preparation

The accounts have been prepared in accordance with the Statement of Recommended Practice (“SORP”): Financial Reports of Pension Schemes (Revised November 2002). This requires fixed interest stocks to be valued net of accrued interest. The previous year’s figures for fixed interest stocks included accrued interest and have been re-stated in accordance with the SORP.

The financial statements summarise the transactions of the scheme and deal with the net assets available for investment in accordance with policies approved by the Investment Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the foreword of this annual report and these financial statements should be read in conjunction with this.

## 2. Accounting Policies

### Contributions

Employee contributions, including AVCs, are accounted for when deducted from members’ pay.

Employer normal contributions are accounted for in the period to which the corresponding wages and salaries relate.

Employer special contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

### Benefits

Benefits and payments to leavers are accounted for in the period they fall due for payment.

Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the trustee of their decisions as to what form of benefit they will take.

Where a member has no choice about the form of benefit, the benefit is accounted for in the period of leaving/retirement/death, being the period in which the liability to pay the benefit arises.

### Transfers

Where past service liabilities do not transfer between schemes until assets/liabilities have been transferred, transfers are accounted for on a cash basis.

Where trustees have agreed to accept past service liabilities in advance of the transfer of funds, the transfer is accounted for in accordance with the terms of the agreement.

### Expenses

Expenses are accounted for on an accruals basis.

### Investment income

Dividends from quoted securities are accounted for when the securities are quoted ex-dividend.

Rent is accounted for in accordance with the terms of the lease.

Interest on cash and bonds is accrued on a daily basis.

Income arising on the underlying investments of accumulation funds is accounted for within change in market value of investments.

## Notes to the Pension Fund Financial Statements (continued ...)

### Foreign currency translation

Overseas assets are translated into sterling from local currency at the exchange rate ruling at the balance sheet date.

Exchange gains and losses are treated as follows:

those relating to the translation of investments are accounted for as part of change in market value included in the Fund Account

those relating to current assets and liabilities are accounted for within the Fund Account under an appropriate heading.

### 3. Basis of Valuation

Investments are valued on the net assets statement at their market value as at 31 March 2006.

Quoted securities are included at closing prices: these may be the last traded prices or mid-market price depending on the convention of the exchange or other market on which they are quoted.

Fixed interest stocks are valued excluding accrued income.

Unquoted investments are included at cost unless clear evidence is available of an increase or fall in value.

Pooled investment vehicles are included at the average of the closing bid and offer prices, or if single priced, at the closing price.

Property is included at open market value determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The property portfolio was independently valued by Edmund Kirby, Chartered Surveyors and Architects.

### 4. Contributions receivable

|                                 | <b>2004-05</b>       | <b>2005-06</b>        |
|---------------------------------|----------------------|-----------------------|
|                                 | <b>£'000</b>         | <b>£'000</b>          |
| Employers normal contributions  | 69,358               | 75,364                |
| Employers special contributions | 1,520                | 1,747                 |
| Members normal contributions    | 25,985               | 27,804                |
| AVCs                            | <u>347</u>           | <u>319</u>            |
|                                 | <b><u>97,210</u></b> | <b><u>105,234</u></b> |

Employers' special contributions are made by participating employers in excess of amounts certified by the actuary to meet past service deficits or specific future liabilities.

### 5. Transfers in

|   | <b>2004-05</b>       | <b>2005-06</b>       |
|---|----------------------|----------------------|
|   | <b>£'000</b>         | <b>£'000</b>         |
| Individual transfers in from other schemes          | 12,992               | 12,897               |
| Restitution payments for mis-sold personal pensions | 137                  | 121                  |
| AVCs  | <u>164</u>           | <u>99</u>            |
|   | <b><u>13,293</u></b> | <b><u>13,117</u></b> |

### 6. Benefits payable

|                              | <b>2004-05</b>       | <b>2005-06</b>       |
|------------------------------|----------------------|----------------------|
|                              | <b>£'000</b>         | <b>£'000</b>         |
| Pensions                     | 54,128               | 57,063               |
| Lump sum retirement benefits | 6,964                | 9,290                |
| Lump sum death benefits      | 1,058                | 1,098                |
| AVCs                         | <u>189</u>           | <u>262</u>           |
|                              | <b><u>62,339</u></b> | <b><u>67,713</u></b> |



## Notes to the Pension Fund Financial Statements (continued ...)

|            |  |                  |                  |                    |                     |                  |
|------------|--|------------------|------------------|--------------------|---------------------|------------------|
| <b>7.</b>  | <b>Payments to and on account of leavers</b> | <b>Restated</b>  |                  |                    |                     |                  |
|            |  | <b>2004-05</b>   | <b>2005-06</b>   |                    |                     |                  |
|            |  | <b>£'000</b>     | <b>£'000</b>     |                    |                     |                  |
|            | Refunds to members leaving service           | 489              | 181              |                    |                     |                  |
|            | Individual transfers to other schemes        | 11,741           | 11,647           |                    |                     |                  |
|            | AVCs   | 38               | 138              |                    |                     |                  |
|            |  | <u>12,268</u>    | <u>11,966</u>    |                    |                     |                  |
| <b>8.</b>  | <b>Administrative expenses</b>               | <b>2004-05</b>   | <b>2005-06</b>   |                    |                     |                  |
|            |  | <b>£'000</b>     | <b>£'000</b>     |                    |                     |                  |
|            | Administration and processing                | 914              | 860              |                    |                     |                  |
|            | Actuarial fees                               | 37               | 50               |                    |                     |                  |
|            | Audit fee                                    | 14               | 16               |                    |                     |                  |
|            |  | <u>965</u>       | <u>926</u>       |                    |                     |                  |
| <b>9.</b>  | <b>Investment Income</b>                     | <b>Restated</b>  |                  |                    |                     |                  |
|            |  | <b>2004-05</b>   | <b>2005-06</b>   |                    |                     |                  |
|            |  | <b>£'000</b>     | <b>£'000</b>     |                    |                     |                  |
|            | Income from fixed interest securities        | 10,520           | 8,245            |                    |                     |                  |
|            | Dividends from Equities                      | 26,952           | 29,049           |                    |                     |                  |
|            | Income from Index linked securities          | 1,558            | 1,624            |                    |                     |                  |
|            | Income from pooled investment vehicles       | 327              | 485              |                    |                     |                  |
|            | Net rent from properties                     | 3,199            | 3,279            |                    |                     |                  |
|            | Interest on cash deposits                    | 4,654            | 5,511            |                    |                     |                  |
|            |  | <u>47,210</u>    | <u>48,193</u>    |                    |                     |                  |
| <b>10.</b> | <b>Investments</b>                           | <b>Restated</b>  |                  |                    |                     |                  |
|            |  | <b>Value at</b>  | <b>Purchases</b> | <b>Sales</b>       | <b>Change in</b>    | <b>Value at</b>  |
|            |  | <b>31.3.2005</b> | <b>at cost</b>   | <b>Proceeds</b>    | <b>market value</b> | <b>31.3.2006</b> |
|            |  | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>       | <b>£'000</b>        | <b>£'000</b>     |
|            | Fixed interest securities                    | 174,415          | 162,629          | (148,009)          | 3,222               | 192,257          |
|            | Equities                                     | 908,584          | 196,973          | (173,179)          | 250,929             | 1,183,307        |
|            | Index-linked securities                      | 59,675           | 45,982           | (34,261)           | 3,644               | 75,040           |
|            | Pooled investment vehicles                   | 184,576          | 26,541           | (4,960)            | 65,113              | 271,270          |
|            | Properties                                   | 56,390           | 7,032            | (6,952)            | 5,285               | 61,755           |
|            | Cash deposits & short term loans             | 101,219          | 770,030          | (753,777)          | (179)               | 117,293          |
|            | Other  | 17               | -                | -                  | 4                   | 21               |
|            |  | <u>1,484,876</u> | <u>1,209,187</u> | <u>(1,121,138)</u> | <u>328,018</u>      | <u>1,900,943</u> |
|            | Additional Voluntary Contributions           | 5,525            | 418              | (400)              | 473                 | 6,016            |
|            |  | <u>1,490,401</u> | <u>1,209,605</u> | <u>(1,121,538)</u> | <u>328,491</u>      | <u>1,906,959</u> |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

## Notes to the Pension Fund Financial Statements (continued ...)

|   | Restated<br>31 March 2005<br>£'000 | 31 March 2006<br>£'000  |
|---|------------------------------------|-------------------------|
| <b>Fixed interest securities</b>          |                                    |                         |
| UK public sector quoted                   | 137,632                            | 154,766                 |
| Overseas public sector - quoted           | <u>36,783</u>                      | <u>37,491</u>           |
|   | <b><u>174,415</u></b>              | <b><u>192,257</u></b>   |
| <b>Equities</b>                           |                                    |                         |
| UK quoted                                 | 625,880                            | 783,280                 |
| UK unquoted                               | -                                  | -                       |
| Overseas quoted                           | <u>282,704</u>                     | <u>400,027</u>          |
|   | <b><u>908,584</u></b>              | <b><u>1,183,307</u></b> |
| <b>Index linked securities</b>            |                                    |                         |
| UK quoted                                 | 59,675                             | 69,960                  |
| Overseas quoted                           | -                                  | <u>5,080</u>            |
|   | <b><u>59,675</u></b>               | <b><u>75,040</u></b>    |
| <b>Pooled Investment Vehicles</b>         |                                    |                         |
| Property - unquoted                       | 22,169                             | 36,729                  |
| Other quoted                              | 123,595                            | 191,329                 |
| Other unquoted                            | <u>38,812</u>                      | <u>43,212</u>           |
|   | <b><u>184,576</u></b>              | <b><u>271,270</u></b>   |
| <b>Properties</b>                         |                                    |                         |
| UK Freehold                               | 47,530                             | 45,815                  |
| UK Leasehold                              | <u>8,860</u>                       | <u>15,940</u>           |
|   | <b><u>56,390</u></b>               | <b><u>61,755</u></b>    |
| <b>Cash deposits and short term loans</b> |                                    |                         |
| Sterling cash deposits                    | 29,398                             | 25,727                  |
| Money Market Funds                        | 13,000                             | 9,000                   |
| Loan to Derbyshire County Council         | 5,000                              | -                       |
| Other Sterling short term loans           | 52,100                             | 79,000                  |
| Foreign Currency                          | <u>1,721</u>                       | <u>3,566</u>            |
|   | <b><u>101,219</u></b>              | <b><u>117,293</u></b>   |
| <b>Other</b>                              |                                    |                         |
| Insurance policies                        | <u>17</u>                          | <u>21</u>               |

The proportion of the market value of investment assets managed in-house and by each external manager at the year end is set out below. Collective investment vehicles held as stock selection decisions are included under in-house.

|   | Restated<br>31 March 2005<br>£'000 | %                   | 31 March 2006<br>£'000  | %                   |
|---|------------------------------------|---------------------|-------------------------|---------------------|
| In-house                                | 1,258,191                          | 84.7                | 1,591,415               | 83.7                |
| Wellington Management International Ltd | 89,269                             | 6.0                 | 116,785                 | 6.1                 |
| UBS Global Asset Management (UK) Ltd    | <u>137,416</u>                     | <u>9.3</u>          | <u>192,743</u>          | <u>10.2</u>         |
|   | <b><u>1,484,876</u></b>            | <b><u>100.0</u></b> | <b><u>1,900,943</u></b> | <b><u>100.0</u></b> |

## Notes to the Pension Fund Financial Statements (continued ...)

### Additional Voluntary Contributions

Members may make Additional Voluntary Contributions which are invested separately from the scheme's main assets. These investments are specifically allocated to the provision of additional benefits for those members. These are money purchase arrangements where the member purchases an annuity or, in certain circumstances, buys additional benefits in the Local Government Pension Scheme.

The total value of funds provided by these contributions was:

|  | <b>31 March 2005</b><br><b>£'000</b> | <b>31 March 2006</b><br><b>£'000</b> |
|--|--------------------------------------|--------------------------------------|
| Equitable Life Assurance Society       |                                      |                                      |
| - with profits fund                    | 619                                  | 561                                  |
| - unit-linked funds                    | 679                                  | 772                                  |
| - building society fund                | <u>8</u>                             | <u>8</u>                             |
| Total Equitable Life Assurance Society | <u>1,306</u>                         | <u>1,341</u>                         |
| Standard Life                          |                                      |                                      |
| - managed fund                         | 278                                  | 392                                  |
| - cautious managed fund                | 15                                   | 30                                   |
| - protection fund                      | 29                                   | 38                                   |
| - ethical fund                         | 80                                   | 106                                  |
| - with profits fund                    | <u>303</u>                           | <u>329</u>                           |
| Total Standard Life                    | <u>705</u>                           | <u>895</u>                           |
| Prudential Assurance Company Ltd       |                                      |                                      |
| - deposit fund                         | <u>3,213</u>                         | <u>3,400</u>                         |
| Clerical Medical                       |                                      |                                      |
| - with profits fund                    | <u>301</u>                           | <u>380</u>                           |
| <b>Total AVC Investments</b>           | <b><u>5,525</u></b>                  | <b><u>6,016</u></b>                  |
| Death in Service Cover                 |                                      |                                      |
| Equitable Life                         | <u>952</u>                           | <u>829</u>                           |

Death in Service cover is payable by the AVC provider where an employee has opted to pay an extra life insurance sum. The maximum amount insurable could be up to twice the annual salary of that employee.

## Notes to the Pension Fund Financial Statements (continued ...)

|  | Equitable Life<br>£'000           | Prudential<br>£'000 | Standard Life<br>£'000  | Clerical Medical<br>£'000 | Total<br>£'000      |
|--|-----------------------------------|---------------------|-------------------------|---------------------------|---------------------|
| <b>Value at 31.3.2005</b>  | <b>1,306</b>                      | <b>3,213</b>        | <b>705</b>              | <b>301</b>                | <b>5,525</b>        |
| <b>Income</b>  |                                   |                     |                         |                           |                     |
| Contributions Received   | 29                                | 184                 | 69                      | 37                        | 319                 |
| Interest & Bonuses/Change in Market Value                                | 128                               | 148                 | 146                     | 51                        | 473                 |
| Transfers in   | -                                 | 79                  | 9                       | 11                        | 99                  |
| <b>Expenditure</b>   |                                   |                     |                         |                           |                     |
| Life Assurance Premiums  | 3                                 | -                   | -                       | -                         | 3                   |
| Retirement Benefits  | 91                                | 135                 | 31                      | 2                         | 259                 |
| Transfers Out & Withdrawal   | 24                                | 65                  | 3                       | 18                        | 110                 |
| Contribution Repayments  | <u>4</u>                          | <u>24</u>           | <u>-</u>                | <u>-</u>                  | <u>28</u>           |
| <b>Value at 31.3.2006</b>  | <b><u>1,341</u></b>               | <b><u>3,400</u></b> | <b><u>895</u></b>       | <b><u>380</u></b>         | <b><u>6,016</u></b> |
| <b>11. Fund investments by geographical sector<br/>(at market value)</b> | <b>Restated<br/>31 March 2005</b> |                     | <b>31 March 2006</b>    |                           |                     |
|  | <b>£'000</b>                      | <b>%</b>            | <b>£'000</b>            | <b>%</b>                  |                     |
| UK   | 1,055,886                         | 71.1                | 1,287,576               | 67.7                      |                     |
| N.America  | 103,408                           | 7.0                 | 131,833                 | 6.9                       |                     |
| Europe   | 158,200                           | 10.6                | 220,086                 | 11.6                      |                     |
| Asia and other   | <u>167,382</u>                    | <u>11.3</u>         | <u>261,448</u>          | <u>13.8</u>               |                     |
|  | <b><u>1,484,876</u></b>           | <b><u>100.0</u></b> | <b><u>1,900,943</u></b> | <b><u>100.0</u></b>       |                     |
| <b>12. Investment Management Expenses</b>                                | <b>2004-05</b>                    |                     | <b>2005-06</b>          |                           |                     |
|  | <b>£'000</b>                      |                     | <b>£'000</b>            |                           |                     |
| Administration, management and custody                                   | 1,284                             |                     | 2,167                   |                           |                     |
| Performance measurement services   | 8                                 |                     | 7                       |                           |                     |
| Other advisory fees  | <u>56</u>                         |                     | <u>82</u>               |                           |                     |
|  | <b><u>1,348</u></b>               |                     | <b><u>2,256</u></b>     |                           |                     |

## Notes to the Pension Fund Financial Statements (continued ...)

### 13. Additional Voluntary Contributions

In accordance with the Statement of Recommended Practice: Financial Reports of Pension Schemes (revised November 2002) the accounts include employees' Additional Voluntary Contributions (AVCs). Net assets movements during the year and comparatives are identified in the relevant notes. The amounts involved are not material in relation to the size of the overall pension fund.

### 14. Current Assets and Liabilities

|                             | <b>Restated</b>      |                      |
|-----------------------------|----------------------|----------------------|
|                             | <b>31 March 2005</b> | <b>31 March 2006</b> |
|                             | <b>£'000</b>         | <b>£'000</b>         |
| Employers contributions due | 3,507                | 3,639                |
| Employees contributions due | 1,229                | 1,315                |
| Transfers due               | 933                  | 304                  |
| Unpaid benefits             | (832)                | (375)                |
| Sundry debtors              | 13,464               | 36,820               |
| Sundry creditors            | (605)                | (28,605)             |
| Tax recoverable             | <u>151</u>           | <u>365</u>           |
|                             | <b><u>17,847</u></b> | <b><u>13,463</u></b> |

Employers' and employees' contributions due at 31 March 2006 have been received since the year-end.

### 15. Related Party Transactions

Derbyshire County Council is the administering authority for the purposes of the Fund under the Local Government Pension Scheme Regulations 1995. Included in administrative expenses and investment management expenses in 2005-06 are charges from the County Treasurer's division and other council departments of £1,248,372 (2004-05 £1,249,799) for providing these services.

### 16. Investment Commitments

Investment commitments are commitments to private equity investments, not yet drawn down by the managers. At the end of the financial year investment commitments in respect of future payments were:

|                      | <b>31 March 2005</b> | <b>31 March 2006</b> |
|----------------------|----------------------|----------------------|
|                      | <b>£'000</b>         | <b>£'000</b>         |
| Unquoted investments | <u>5,588</u>         | <u>4,487</u>         |
|                      | <b><u>5,588</u></b>  | <b><u>4,487</u></b>  |

## Notes to the Pension Fund Financial Statements (continued ...)

### 17. Participating Employers

The participating employers in the Fund are Derbyshire County Council (which is also the Administering Authority), the Unitary and District Local Authorities (which are Scheduled Bodies) and a further 53 Scheduled and 23 Admitted Bodies. The Unitary and District Local Authorities are listed in the foreword of this Annual Report.

The contributions receivable and the benefits payable by the Fund during the year in respect of each type of participating employer were as follows:-

|                           | 2004-05                   |                                   | 2005-06                   |                                   |
|---------------------------|---------------------------|-----------------------------------|---------------------------|-----------------------------------|
|                           | Benefits Payable<br>£'000 | Contributions Receivable<br>£'000 | Benefits Payable<br>£'000 | Contributions Receivable<br>£'000 |
| Derbyshire County Council | 30,589                    | 38,977                            | 32,911                    | 43,681                            |
| Scheduled Bodies          | *29,374                   | 54,564                            | 32,549                    | 58,326                            |
| Admitted Bodies           | *2,187                    | 3,322                             | 1,991                     | 2,908                             |
| AVCs                      | 189                       | 347                               | 262                       | 319                               |
|                           | <b><u>62,339</u></b>      | <b><u>97,210</u></b>              | <b><u>67,713</u></b>      | <b><u>105,234</u></b>             |

\* restated figure

# Capital Expenditure

The figures overleaf show the analysis of the year's capital expenditure between the major divisions of each Service.

When the Council constructs a building or purchases a piece of land, it treats such expenditure as capital. Expenditure of this nature is of value to the community for some years to come and in most cases the cost of the asset is spread over a number of years by borrowing and repaying with interest over a period of time. Details of how the year's capital expenditure has been financed are shown at the foot of the table. In addition, vehicles have been leased during the year, the capital value of which is not included in the table but details are given in a note to the balance sheet.

The statement below shows the position on capital receipts, ie. the proceeds from the sale of land or buildings. Under current legislation capital receipts from the sale of the Authority's assets may be used in full to finance new capital expenditure. The provision for credit liabilities may be used to redeem debt, meet liabilities under credit arrangements, or as a means of financing expenditure authorised by credit approvals without borrowing. The statement shows new receipts in the year, together with the amounts applied either to finance capital expenditure in the year or to repay outstanding debt. Receipts unapplied at the year end are carried forward and shown in the consolidated balance sheet. Of the balances unapplied at the year end £12,883,000 is available to fund new capital expenditure. The remainder (£5,813,000) represents the provision for credit liabilities.

## CAPITAL RECEIPTS STATEMENT

| 2004-2005<br>£'000   |  | 2005-2006<br>£'000   |
|----------------------|--|----------------------|
| 12,116               | Balance unapplied at start of year         | 17,063               |
|                      | <i>Add</i>                                 |                      |
| <u>5,846</u>         | Land and Buildings sale proceeds in year   | <u>3,747</u>         |
| 17,962               |  | 20,810               |
|                      | <i>Less</i>                                |                      |
| -                    | Used for redemption of debt                | 0                    |
| <u>899</u>           | Used for financing new capital expenditure | <u>2,114</u>         |
| <b><u>17,063</u></b> | <b>Balance unapplied at year end</b>       | <b><u>18,696</u></b> |

## Capital Expenditure (continued ...)

| Capital<br>Expenditure<br>2004-2005<br>£'000 | Services                                  | Capital<br>Expenditure<br>2005-2006<br>£'000 |
|--|---|--|
| 102  | <b>Central and Corporate Services</b>     |  |
| 3,929  | Magistrates Courts                        | 0  |
| 2,194  | Change Management and other               | 281  |
| 1,994  | Economic Development                      | 833  |
|  | County Buildings                          | 1,718  |
|  | <b>Education</b>                          |  |
| 44,135                                       | Schools                                   | 54,583                                       |
| 3,789  | Youth and Community                       | 2,094  |
|  | <b>Environmental Services</b>             |  |
| 26,648                                       | Highways                                  | 21,407                                       |
| 310  | Transport                                 | 103  |
| 589  | Countryside                               | 830  |
| 6,126  | Reclamation of derelict land              | 3,287  |
| 80   | Refuse Disposal                           | 1,105  |
| 903  | <b>Cultural and Community Services</b>    | 700  |
|  | <b>Social Services</b>                    |  |
| 3,360  | Residential Services                      | 6,699  |
| 3,774  | Day & Community Support Services          | 5,067  |
| <u>£97,933</u>                               |   | <u>£98,707</u>                               |
|  | <b>Financed from:</b>                     |  |
| 43,124                                       | Loans                                     | 46,614                                       |
| 8,681  | Capital Receipts and other internal funds | 14,991                                       |
| 46,129                                       | Capital grants and contributions          | 37,102                                       |
| <u>£97,934</u>                               |   | <u>£98,707</u>                               |



# Glossary of Financial Terms

## **Best Value**

A duty placed on local and other authorities by central government to secure continuous improvement in the provision of services. The regime is supported by an accounting framework issued by CIPFA - the Best Value Accounting Code of Practice - in order that data consistency and comparability are achieved.

## **Capital Expenditure**

The acquisition of fixed assets which will have a long-term value to the authority, eg land, purchasing existing buildings or erecting new ones, furniture and equipment, vehicles.

## **Capital Charge**

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

## **Capital Receipts**

Money received from the sale of land or buildings which is available, subject to certain limitations, to finance other items of capital (but not revenue) expenditure, or to repay outstanding debt on assets originally financed from loan.

## **Consolidated Loans Pool**

The borrowing needs of all services to finance capital expenditure are met by advances from a separate account known as a Loans Pool, which itself is financed by the raising of loans externally. This procedure allows for the best overall borrowing policy to be pursued, and takes maximum advantage of an authority's total cash flow. Advances from the fund are repaid by annual instalments. The total interest paid by the Fund on external borrowings is recharged to all service accounts at an average Loans Pool rate.

## **Council Tax**

Council Tax was introduced as the local tax with effect from 1 April 1993 replacing the Community Charge. It is based on the assessed capital values of domestic properties which are allocated to one of eight valuation bands.

## **County Fund**

The main revenue fund of a County Council, to which costs of services are charged. The main sources of income are precepts, Government grants and fees and charges.

## **Deferred Charges**

Deferred Charges represent expenditure which may properly be capitalised but does not result in, or remain matched with, tangible fixed assets.

## **Depreciation**

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

## **Financial Reporting Standard 17 (FRS 17)**

An accounting standard issued by the Accounting Standards Board relating to retirement benefits and based on the principle that an organisation should account for retirement when it is committed to give them even if the actual giving will be many years into the future.

## **Fixed Assets**

Tangible assets that yield benefits to the local authority for a period of more than one year.

## **Glossary of Financial Terms** (continued ...)

### **Fixed Asset Restatement Account**

An account created as a result of the new system of capital accounting. It represents the difference between the new valuation of assets in the balance sheet based on current value and the old valuation based on historical cost.

### **Formula Spending Share (FSS)**

This is the Government's assessment for spending that is used as a method of allocating grant and replaces the Standard Spending Assessment (SSA).

### **Government Grants**

Payment by Government towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (revenue support grant).

### **Minimum Revenue Provision (MRP)**

The minimum amount which must be charged each year to an authority's revenue account to repay the principal element when borrowing for capital purposes.

### **Public Works Loan Board**

A Government agency which provides longer term loans to local authorities at favourable interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a prescribed maximum proportion of their requirements from this source to finance their capital expenditure.

### **Rateable Value**

A value placed on all non-domestic properties subject to rating to which a nationally fixed rate poundages applied to arrive at rates payable. The value is based on a notional rent that a property could be expected to yield after deducting the cost of repairs and management. Rateable values are fixed by Valuers of the Inland Revenue.

### **National Non-Domestic Rate or Business Rate**

All occupiers of non-domestic property eg business premises, factories and public buildings continue to pay rates. The poundage is fixed nationally and local authorities benefit not by the amount of rates collected in their area but by a national standard amount per head of population.

### **Provisions**

Amounts set aside in the accounts for liabilities of uncertain timing or amount to be settled by the transfer of economic benefits.

### **Revenue Support Grant**

A Government grant in aid of local services generally, the objective of which is to supplement authorities' own finances, so that they can each provide the services for which they are responsible to similar standards, whilst making a similar charge to the local tax payer.

### **Revenue Expenditure**

This is the annual expenditure on recurrent council services consisting principally of salaries and wages, debt charges and general running expenses.

### **Specific Grants**

Government grants to local authorities in aid of particular projects or services eg Standards Fund.

## **Glossary of Financial Terms** (continued ...)

### **Statements of Standard Accounting Practice (SSAPs)**

These are methods of accounting approved by the Accounting Standards Board (ASB) and are applicable to all accounts which are intended to give a true and fair view. Compliance with these statements is mandatory and any departure from them must be disclosed and explained, but as they originated in the commercial sector some are not relevant to local authority accounts. Accounting standards issued by the ASB are now known as Financial Reporting Standards (FRSs).

### **UK GAAP**

United Kingdom Generally Accepted Accountancy Practice