

KIRKLEES METROPOLITAN COUNCIL

STATEMENT OF ACCOUNTS 2006/2007

R Hewitson, CPFA
Director of Finance
PO Box 243
Civic Centre 1
Huddersfield
HD1 2YU

| | Page |
|--|------|
| Explanatory Foreword | 2 |
| Statement of Responsibilities and Certificate | 5 |
| Statement on the System of Internal Control | 6 |
| Statement of Accounting Policies | 10 |
| Main Financial Statements | |
| Income and Expenditure Account | 16 |
| Statement of Movement on the General Fund Balance | 17 |
| Statement of Total Recognised Gains and Losses (STRGL) | 18 |
| Balance Sheet | 19 |
| Cash Flow Statement | 20 |
| Notes to the Core Financial Statements | 22 |
| Additional Financial Statements | |
| Housing Revenue Account Income and Expenditure Account and Statement of Movement on the Housing Revenue Account Balance | 57 |
| Collection Fund | 62 |
| Group Accounts | |
| Explanatory Foreword | 66 |
| Statement of Accounting Policies | 68 |
| Group Income and Expenditure Account | 70 |
| Reconciliation of the Single Entity Surplus or Deficit to the Group Surplus and Deficit | 71 |
| Group Statement of Total Recognised Gains and Losses (Group STRGL) | 71 |
| Group Balance Sheet | 72 |
| Group Cash Flow Statement | 74 |
| Notes to the Group Accounts | 76 |
| Glossary of Terms | 78 |
| Audit Certificate | 81 |

Introduction

I am pleased to introduce the Council's Statement of Accounts for 2006/07. These accounts demonstrate the Council's financial performance for the year ended 31 March 2007, and have been prepared in accordance with the accounting principles specified in the Code of Practice on Local Authority Accounting in the United Kingdom published by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is a Statement of Recommended Practice (SORP).

The Statement of Accounts comprises:

An Explanatory Foreword - provides a guide to the most significant matters reported in the accounts.

Statement of Responsibilities for the Statement of Accounts - sets out the respective responsibilities of the Council and the Director of Finance for the accounts.

A Statement of Internal Control - sets out a framework within which internal control is managed and reviewed, and the main components of the system, including the arrangements for internal audit.

The Statement of Accounting Policies - explains the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

The Financial Statements -

- Income and Expenditure Account
- Statement of Movement on the General Fund Balance
- Statement of Total Recognised Gains and Losses (STRGL)
- Balance Sheet
- Cash Flow
- Housing Revenue Account (HRA)
- Collection Fund
- Group Accounts

The purpose of these is explained at the beginning of the individual statements.

Notes to the Accounts - adds to and aids the interpretation of the individual statements.

Wherever possible, technical accounting terms have been explained either in the main text or in the glossary at the back of this publication.

The 2006 SORP included the following substantive changes:

- The removal of the requirement to make a capital financing charge on assets used in the provision of service.
- Changes to the Council's single entity statement of accounts comprising the replacement of the Consolidated Revenue Account and Statement of Total Movement on Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses.
- Changes to the format of the HRA to bring it into line with the new single entity format. The HRA now comprises an Income and Expenditure Account and a Statement of Movement on the HRA Balance.
- Changes in the format of the Group Accounts aimed at removing unnecessary differences between the format of the Group Accounts and the single entity accounts.
- The Statement of Internal Control has been amended to embrace controls over group activities.

Due to new requirements, the previous year's figures for income and expenditure have had to be restated and there have also been a number of presentational changes to the Balance Sheet. These are primarily detailed in Note 1 to the notes to the Main Financial Statements.

Financial Performance

The Revenue Budget for 2006/07 was approved on 22 February 2006, following an extensive planning process which began in the summer of 2005. The Budget was set at £263.8 million (excluding parish precepts), after the planned use of General Fund balances of £2.4 million, delivering a Council Tax increase of 5.0%. The Budget was set as part of the Medium Term Financial Plan, which was prepared in the context of eleven Corporate Improvement Priorities. These priorities

EXPLANATORY FOREWORD

are based on the results of community consultation, on Member priorities, on benchmarked performance review, and on the shared priorities in the Local Area Agreement. The budgets of some services have been changed to provide additional resources aligned with certain improvement targets, in particular Cultural and Leisure Services and Waste Collection. Resources were allocated to support specific projects identified in the Corporate Improvement Plan.

In addition, the Medium Term Financial Plan is based on projected needs, using trend analysis and known information about sets of clients (children in schools, social service clients etc). As a result the Revenue Budget for 2006/07 responded to pressures arising from increasing numbers of social service clients requiring intense support, adults with learning difficulties and older people requiring complex care packages.

During the year, the Budget was increased by £9.3 million to take account of additional budgets agreed as part of the 2005/06 "Rollover" process. Subject to certain conditions, this is a process where unspent budgets in one year can be carried forward into following years. In addition, it was agreed to transfer £2.4 million from certain earmarked reserves to support future revenue budgets.

Actual net revenue expenditure in 2006/07, totalled £257.5 million (including parish precepts of £0.415 million), allowing £6.7 million to be added to General Fund Balances, as detailed below:

| | Original Estimate | Revised Estimate | Actual Expenditure | Variance from Revised Estimate |
|--|----------------------|---------------------|-----------------------|--------------------------------------|
| | £000s | £000s | £000s | £000s |
| Net revenue expenditure | 266,118 | 273,010 | 257,095 | -15,915 |
| Parish Precepts | 415 | 415 | 415 | 0 |
| | 266,533 | 273,425 | 257,510 | -15,915 |
| Balances used (-)/ added to | -2,352 | -9,244 | 6,671 | 15,915 |
| Amounts met from RSG, NNDR and local taxpayers | 264,181 | 264,181 | 264,181 | 0 |

The underspending in the year was primarily due to:

- An underspending on Adult Services (£3.3 million) largely due to changes in the phasing of increases in client numbers over the three year plan.
- Various underspendings on Children and Young People's Services (£1.4 million), mainly related to pupil support and changes in grant regimes.
- Higher than anticipated slippage on capital schemes together with increased revenue balances resulting in reduced interest costs (£2.8 million).
- The release of revenue resources earmarked to support the capital programme (£1.2 million).
- Notification after the budget process of an award of LABGI grant (£2.6 million).
- Deferral of expenditure on major projects and initiatives including the Corporate Improvement Plan (£2.3 million).

The main areas of service revenue expenditure were:

| | Gross Exp | Income including grants | Net Exp |
|---|--------------|-------------------------------|------------|
| | £000s | £000s | £000s |
| Education | 351,051 | 317,565 | 33,486 |
| Social Services | 166,540 | 51,360 | 115,180 |
| Housing | 150,027 | 161,559 | -11,532 |
| Highways, Roads and Transport | 49,642 | 14,869 | 34,773 |
| Cultural, Environmental and Planning | 105,321 | 37,584 | 67,737 |
| Net interest on borrowing and investing | | | 22,717 |

EXPLANATORY FOREWORD

Net expenditure was financed by Revenue Support Grant (7.9%), Council Tax (51.4%), and National Non-Domestic Rates Pool (40.7%).

The General Fund Balance at 31 March 2007 was £30.5 million, of which £5.0 million is required as the prudent minimum level. Use of balances above this minimum level is determined within the Council's Medium Term Financial Plan, which was updated by Council in February 2007. In addition, the Council has earmarked reserves of £31.0 million to cover specific areas of activity and risk.

The balance on the Housing Revenue Account (HRA) decreased marginally during the year to £32.3 million at 31 March 2007. This balance will be used in future years to support the decent homes programme.

Capital expenditure for 2006/07 totalled £115.7 million. The monies were spent in the following service areas:

| | £000s | % |
|------------------------|----------------|------|
| Housing | 45,681 | 39.4 |
| Education | 24,368 | 21.1 |
| Social Services | 1,484 | 1.3 |
| Highways | 20,535 | 17.7 |
| Cultural and Leisure | 4,815 | 4.2 |
| Environmental Services | 3,002 | 2.6 |
| Fleet Management | 1,277 | 1.1 |
| Economic Development | 5,660 | 4.9 |
| Information Technology | 2,099 | 1.8 |
| Community Support | 3,118 | 2.7 |
| Other | 3,658 | 3.2 |
| | <u>115,697</u> | |

The capital plan was financed by borrowing (44.7%), grants and contributions (28.3%), capital receipts (9.7%), revenue contributions (5.6%) and the Major Repairs Reserve (11.7%). Largely due to the need to finance this capital expenditure, external borrowing for the year increased by £57.5 million to £487.6 million.

Further Information

The preparation of a Statement of Accounts is a statutory requirement and local authorities are required to have them approved by Members by 30 June and published with an Audit Certificate by 30 September following the end of the financial year. This Statement of Accounts was approved by the Council Business Committee at its meeting on 22 June 2007.

Acknowledgements

I wish to thank colleagues in the Strategic Finance Service and finance staff in other service areas for their hard work and commitment in completing this Statement of Accounts and all the supporting information.

R Hewitson, CPFA
Director of Finance

STATEMENT OF RESPONSIBILITIES AND CERTIFICATE

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance;
- manage its affairs to secure the economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this Statement of Accounts, the Director of Finance has:

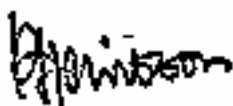
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Finance 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

I certify that this Statement of Accounts presents fairly the financial position of Kirklees Metropolitan Council at 31 March 2007, and its income and expenditure for the year then ended.



R Hewitson, CPFA
Director of Finance

15 June 2007

I certify that this Statement of Accounts was approved by the Council Business Committee on 22 June 2007.

Chair, Council Business Committee



Donald M Firth

22 June 2007

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

Scope of Responsibility

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

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

This Statement also applies to the Council's two wholly owned subsidiaries (Kirklees Neighbourhood Housing Limited and Kirklees Metropolitan Development Company) and three joint venture companies (Kirklees Henry Boot Partnership Limited, Kirklees School Services Limited and Kirklees Stadium Development Limited).

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuous process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place for the year ended 31 March 2007 and up to the date of approval of the Annual Report and Accounts.

The Internal Control Environment

The key elements of the internal control environment include -

- Corporate objectives and policies set by the Council and delivered by the Cabinet and officers under delegated authority and in accordance with the Council's Constitution.
- Operational policies and statements, at Council-wide and Service level, including Financial Procedure Rules, Contract Procedure Rules, an Anti Fraud and Corruption Strategy, a Whistleblowing Policy, a Complaints Policy, Human Resource Management policies on, for example, recruitment & selection, absence management and equality and diversity. The Financial and Contract Procedure Rules are reviewed annually.
- Service Plan preparation, approval and monitoring, risk and business planning controls related to major developments and changes to activity, and target setting and performance monitoring, linked to the revenue budget process and in most service areas to individual performance appraisal and assessment.
- A comprehensive methodology to identify and manage both corporate and service specific risks.
- Systems for recording transactions.
- Assurance Statements signed by directors regarding the effectiveness of internal controls within the key financial and business systems for which each has responsibility.
- The Director of Finance monitoring and reporting on the financial effectiveness of the subsidiary and joint venture companies, whose Accounts are subject to external audit, albeit that the joint venture companies have a different financial year. In addition, the Council provides an Internal Audit service to Kirklees Neighbourhood Housing Limited and the Company's governance arrangements include an Audit Committee.

Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control and internal audit and for reporting the findings. The review of the effectiveness of the system of internal control is informed by the work of internal auditors and executive managers within the Authority who have responsibility for the development and

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates. The review of the effectiveness of internal audit and the wider control environment is informed by the work of the external auditors and the Audit Committee.

The Cabinet also has responsibility for the Risk Management Strategy, as prepared and promoted by the Director of Finance and for reviewing the effectiveness of the overall arrangements. A process has been implemented that identifies business risks and appropriate control measures, both at service and corporate level with named managers responsible for risk control and reporting on changes to corporate risk on a regular basis. Understanding of, and adherence to, the process has risen, although it still needs to be embedded further into operational and particularly project management.

The Cabinet and directors are responsible for effective performance management of the Council and for achieving compliance with financial and other targets and objectives set by the Council.

The Council's Internal Audit function reports to the Audit Committee, which oversees its work, and also directly to service managers, directors and the Cabinet on its findings. Other internal review and inspection agencies also monitor performance, policy and legislative compliance.

The Cabinet considers the advice of the external auditor and other review agencies.

The Executive Management Group collectively determined to introduce Assurance Statements from directors this year as an additional source of assurance in preparing this Statement. The content and format of these Statements will be reviewed regularly to develop this approach as a valuable tool in the process of devising the SIC.

The latest Audit Commission review in 2006 of the Use of Resources section of the Comprehensive Performance Assessment, and of the Internal Control theme therein, both produced a three star classification that the Council is performing well.

Financial monitoring and reporting has been undertaken throughout the year in relation to the subsidiary and joint venture companies.

We have been advised on the implications of the result of the annual review of the effectiveness of the system of internal control and internal audit, by both the corporate group that has formulated this Statement and by the Audit Committee, and a plan is in place to address weaknesses described in the next section and to ensure continuous improvement of the systems.

Significant Internal Control Issues

Last year the Council reported a number of areas where it believed improvement was necessary to create a more robust internal control framework.

Considerable progress has been made in developing, improving and embedding many of the priority areas, to the extent that several are no longer viewed to be "significant" issues. However, further work is required to resolve the gaps identified in outstanding areas as follows -

- Whilst the Council's corporate governance arrangements are largely robust and continue to operate effectively, a recognition of the need to codify and exemplify its commitment to good governance and embed it into the culture of the organisation has led to the formulation of a **formal local Code of Corporate Governance**. The draft Code will be submitted for Members' approval shortly and implemented as soon as possible thereafter.
- The need for the development, implementation and monitoring of an integrated and comprehensive **Asset Management Strategy and Policy** has been recognised for some time. Progress has been made during the year, culminating in the adoption of an Asset Management Plan by the Cabinet. The Plan sets out the framework for the transformation from interim to permanent strategic and operational governance and management arrangements for asset management across the Council. Implementation has started on the organisational changes identified and these will be completed during 2007/08, alongside significant progress towards the longer term expectations on property management corporately.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

- The Council refreshed its approach to **performance management** with the launch of Performance Excellence Across Kirklees (PEAK) in December 2005 following work undertaken as a corporate improvement priority and in response to CPA. In the interim, an embedding PEAK Project within the CIP has aimed to achieve further development in a number of key areas. An internal review by the Head of Performance & Communication is underway of all aspects of PEAK including service planning, PRDs, team planning and how Services monitor progress, in order to establish where Services are doing well and where they need to improve further. Appropriate action will be taken as required and monitored annually.
- Whilst further improvements have been made in addressing budgetary pressures and financial control, particularly in Adult Services, and despite being robust in many respects, **the Council's overall processes for budgetary control do not yet fully link performance, output and outcome data with financial information.** Recent development work will be included in the new cycle of monitoring.
- The Council's **Delegation Scheme** that authorises officer decision making is not currently underpinned sufficiently by clear, consistent, complete and accurate record keeping by all Heads of Service to account for many of the decisions taken. A review by the Head of Legal Services of data captured to date will be completed and consolidated to form proposals for a revised and more robust Scheme for Members' approval.
- The reporting regime envisaged when **Contract Procedure Rules** were framed has not been introduced as planned. Heads of Service were given greater autonomy in procurement decisions on the premise that this organisational risk would be mitigated by retrospective reporting to Members, to enhance both accountability and transparency concerning instances where discretion was exercised and exceptions to the normal methods of competition were applied, as well as details of all procurements greater than £50,000. Over the last year progress has been made in a number of Services and the Council remains determined to ensure this corporate requirement is fulfilled and will support all Heads of Service in developing mechanisms to facilitate the recording and reporting of the necessary information to the Director of Regeneration.
- The Council has an ambitious agenda for modernising and reforming many aspects of its human resources arrangements, which is accompanied by a series of risks impacting upon its capacity and ability to maintain service delivery. In 2004 the Council agreed to establish a single pay scale and terms and conditions for most employees, excluding teachers, by April 2007. Due to the complex issues involved and a strong desire to produce an outcome that will best fit the Council's future needs for the long term the implementation date has been deferred (to autumn 2007). The **Pay and Reward Project** aims to ensure each job is properly and consistently evaluated so that all employees receive equal pay for work of equal value, as well as revising terms and conditions to promote a fair and efficient outcome. There is a clear recognition that this process of potentially fundamental change incorporates risks and challenges and these changes continue to be managed to maintain business continuity.
- The changing face of service delivery with greater emphasis on **partnership working** with a plethora of organisations and in a variety of settings has been identified as raising issues concerning governance and financial accountability and control. The Council will continue the process that commenced this year of strengthening financial and other governance issues relating to the Kirklees Partnership, the delivery of the Local Area Agreement and other major projects / partnerships; this includes arrangements with key organisations such as Kirklees Neighbourhood Housing, Kirklees Active Leisure, the Police, Fire Service, Health and voluntary sector organisations.

During the period covered by this Statement, specific concerns have been raised about the following new issues, and action taken as appropriate:

- (i) The Council is a member of the **Yorkshire Purchasing Organisation (YPO)**, sharing the financial benefits and liabilities from time to time. Wakefield Council is the lead Authority for the YPO and their Internal Audit has highlighted what it regards as serious control weaknesses in the YPO's business systems. Wakefield's officers have agreed remedial action plans with the YPO, and Council officers are monitoring the outcome of these discussions and plans.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

- (ii) Five secondary schools (20%) have not achieved the **Financial Management Standard in Schools (FMSiS)** by the DfES deadline, 31 March 2007, two having failed an independent assessment by Internal Audit, two were not ready to be assessed and the fifth refused to meet the deadline, having chosen to be assessed externally. All five schools have given assurances that the FMSiS will be met during 2007/08, which will enable the Director of Finance to notify the DfES that they are subject to appropriate action to ensure they will meet it within twelve months.
- (iii) The DfES has announced recently that in addition to secondary schools, all primary and special schools too will be legally required to meet the Financial Management Standard by March 2010.

Overall, we are satisfied that all the Council's arrangements for internal control are at least adequate for their purpose. The improvements identified in this Statement will make our arrangements stronger.



R Vincent
Chief Executive



R Light
Leader of the Council

STATEMENT OF ACCOUNTING POLICIES

The accounts have been prepared in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2006. The Code has been approved as a Statement of Recommended Practice (SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The accounts also comply with the Best Value Accounting Code of Practice (BVACoP). This Code establishes proper practice with regard to consistent financial reporting.

The following accounting concepts have been applied and policies adopted in preparing the financial accounts:

FUNDAMENTAL ACCOUNTING CONCEPTS

- (i) The financial statements, other than cash flow information, are prepared on an accruals basis. This means that revenue and capital expenditure and income are recognised in the accounts in the period in which they are incurred or earned, not as money is paid or received.
- (ii) Consistent accounting policies have been applied both within the year and between years unless otherwise identified.
- (iii) The accounts have been prepared on a going concern basis, that is on the assumption that the authority will continue in operational existence for the foreseeable future.
- (iv) The concept of materiality has been used such that insignificant items and fluctuations under an acceptable level of tolerance are permitted, provided in aggregate they would not affect the interpretation of the accounts.
- (v) Where specific legislative requirements and accounting principles conflict, legislative requirements are applied.

ACCOUNTING POLICIES

Capital Instruments

The accounts include narrative and numerical disclosures relating to its loan stock, in line with FRS13.

Contingent Assets and Liabilities

Any contingent assets and liabilities are not included in the accounting statements, but are disclosed by way of notes.

Deferred Charges

Deferred charges represent expenditure which may properly be capitalised, but which does not represent fixed assets. Deferred charges are written off to revenue in the year the expenditure is incurred. Examples of deferred charges include payments of improvement grants, internally developed computer software, and expenditure on schools not owned by the Council, principally Aided Schools.

Events after the Balance Sheet Date

Any material events after the balance sheet date which provide additional evidence relating to conditions existing at the balance sheet date, or indicate that application of the going concern concept is not appropriate, have been included in the accounts. Any material events after the balance sheet date which relate to conditions which did not exist at the balance sheet date have been disclosed on a separate note to the accounts.

Events after the balance sheet date are reflected up to the date when the Statement of Accounts were authorised for issue.

STATEMENT OF ACCOUNTING POLICIES

Exceptional Items, Extraordinary Items and Prior Year Adjustments

Any exceptional items are included in the cost of service to which they relate or on the face of the Income and Expenditure Account if such a degree of prominence is necessary to give a fair presentation of the accounts. Details of such items are given in the notes to the accounts.

Any extraordinary items are disclosed on the face of the Income and Expenditure Account, after dealing with all the items within the ordinary activities of the authority, and are explained fully in the notes.

Material prior year adjustments arising from changes in accounting policies or from the correction of fundamental errors have been accounted for by restating the comparative figures in the financial statements and notes. The cumulative effect of any adjustments is noted at the foot of the STRGL, if appropriate.

Grants and Contributions

Revenue grants and contributions are credited to income in the same period in which the related expenditure was charged. Where the acquisition of an asset is financed either wholly or in part by a grant or contribution, the amount is credited initially to the Grants Deferred Account and written off in the service revenue accounts over the useful life of the asset to match the depreciation of the asset to which it relates.

Group Accounts

The Council has material interests in companies and other entities that require it to prepare group accounts. In the Council's own single-entity accounts, the interests in and transactions with companies and other entities are recorded as investments and under related party transactions respectively.

Intangible Assets

Expenditure on the acquisition of the intangible assets (software licences) are capitalised, brought onto the balance sheet at cost and are being amortised over the period benefit is received (between 3 and 10 years). Straight-line amortisation has been adopted and it is assumed that residual value is insignificant or nil. Intangible assets are reviewed annually for impairment.

All services are charged with a provision for amortisation and, where required, any related impairment loss, for all intangible assets used in the provision of the service. Charges to HRA are amounts determined by statutory provision.

Investments

Investments are shown in the Balance Sheet at cost or estimated value, if less, except that investments acquired for no consideration are shown at their nominal value.

Landfill Allowance Trading Scheme (LATS)

The Council has adopted the accounting treatment in the proposed "Urgent Issues Task Force" Abstract on Emission Rights. Allowances, whether allocated by the Department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority, are recognised as current assets, valued in the balance sheet at lower of cost and net realisable value.

Allowances issued by DEFRA are initially recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

As landfill is used, a liability is recognised. This liability is discharged by using allowances, paying a cash penalty to DEFRA or a combination of both. The liability is measured at the market value at the balance sheet date of the number of allowances estimated to be needed to cover actual biodegradable municipal waste disposed to landfill in the year.

STATEMENT OF ACCOUNTING POLICIES

Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased items transfer to the authority. Rental payments are apportioned between the finance charge and the reduction of the outstanding lease obligation (deferred liability). Fixed assets recognised under finance leases are accounted for using policies applied to Tangible Fixed Assets.

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rental payments under operating leases are charged to revenue on a straight line basis over the term of the lease.

Any rental income received from the Council acting as a lessor is recognised on a straight line basis over the period of the lease.

Overheads

In accordance with current CIPFA guidelines, the costs of support services are recovered from users either by charges under service level agreements or by cost apportionments (based on time spent or usage). The costs of the Corporate and Democratic Core and of Non Distributed Costs are allocated to discrete headings and are not apportioned to services.

Pensions

Accounting for pensions is carried out in accordance with FRS17. FRS17 requires an authority to look beyond its commitment to pay contributions to pension funds and to determine the full longer-term effect that the award of retirement benefits in any year has had on the authority's financial position. Inclusion of the attributable share of the fund assets and liabilities does not mean that legal title or obligation has passed to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit via reduced contributions from a surplus in the scheme.

FRS17 only applies to defined benefit pension schemes, that is those where retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. Defined contribution pension schemes, that is where an employer pays fixed amounts into the scheme and has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits, are accounted for by charging employer contributions to revenue as they become payable.

The Council participates in two different pension schemes which meet the needs of employees in particular services. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers – This scheme is administered by the Teachers' Pensions Agency (TPA). Although the scheme is unfunded, meaning it has no investment assets, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For this reason the SORP allows this scheme to be accounted for on the basis of a defined contribution scheme. Therefore the pensions cost reported within Net Cost of Services is equal to the contributions payable to the scheme for the accounting period. An asset or liability is recognised only to the extent that there may be prepaid or outstanding contributions at the balance sheet date.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits have been accrued in the pensions liability.

Other Employees - Other employees, subject to certain qualifying criteria, are eligible to join the West Yorkshire Pension Fund, which is part of the national Local Government Pension Scheme (LGPS). This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets over the long term.

STATEMENT OF ACCOUNTING POLICIES

FRS17 requires the following:

- the recognition of the net asset/ liability and a pensions reserve in the Consolidated Balance Sheet;
- current service (pensions) cost, past service costs, gains and losses on settlements and curtailments to be charged in the Net Cost of Services section of the Income and Expenditure Account;
- interest cost (pensions) and expected return on assets to be charged in the Net Operating Expenditure section of the Income and Expenditure Account;
- reconciling entries in the Statement of Movement on the General Fund Balance which ensures that FRS17 remains neutral in terms of its impact on Council Tax levels;
- actuarial gains and losses between years being recognised in the Statement of Total Recognised Gains and Losses.

The attributable assets of the LGPS have been measured at fair value. These valuations are either objective (requiring reference to published market information) or based on the opinion of an expert valuer. Assets include current assets, such as debtors and cash, as well as the investment portfolio.

Liabilities largely comprise benefits promised under the formal terms of the pension schemes, but also include any discretionary benefits offered. The attributable liabilities of each scheme have been measured on an actuarial basis using the projected unit method. This method examines all the benefits for pensioners and deferred pensioners, and their dependents and the accrued benefits for current members of the scheme, making allowance for projected scheme member earnings. The valuation has been carried out by an actuary, in accordance with Guidance Note GN26 issued by the Faculty and Institute of Actuaries. Scheme liabilities have been discounted at a rate that reflects the time value of money and the characteristics of the liability. For the 2006/07 accounts, a rate of 5.4% has been used, based on the current rate of return on a high quality corporate bond of equivalent currency and term to scheme liabilities.

The actuarial gains and losses, arising where actual events have not coincided with the actuarial assumptions made for the last valuation or where the actuarial assumptions have been changed, have been taken into account in the pensions liability.

The current service cost has been based on the most recent actuarial valuation at the beginning of the period, with the financial assumptions updated to reflect conditions at that date. Employee contributions during the period have been set off against the current service cost. Discretionary benefits, particularly added years, awarded on early retirement have been treated as past service costs. Where settlements or curtailments have arisen, a calculation has been carried out of the net pension asset/ liability before and after the event to determine the net movement attributable to the changes arising from the settlement or curtailment.

Interest cost was based on the discount rate mentioned above and the present value of scheme liabilities at the beginning of the period, reflecting any changes in the liabilities during the year. Actuarial advice was sought in setting expected rates of return on assets.

Explanations of many of the above terms can be found in the glossary.

Private Finance Initiatives (PFIs)

The authority accounts for Private Finance Initiative contracts in accordance with Application Note F of FRS5, which specifies that properties used to provide services under PFI contracts, should be recognised as an asset by whichever party has access to the risks and benefits of the property. Having assessed existing contracts, the authority has concluded that assets in the contracts do not have to be recognised on its balance sheet. All payments made under the contract are therefore charged to the revenue account.

Those assets which have been contributed to PFI contracts by the Council are accounted for as deferred consideration, which is charged to the revenue account over the life of the contract.

STATEMENT OF ACCOUNTING POLICIES

Those assets which will transfer back to the authority's ownership at the end of the contracts are accounted for by identifying the element of the contract payments which notionally relates to their acquisition and treating it as a prepayment, creating a long term debtor which is built up over the life of the contract. Application Note F of FRS5 requires that the long term debtor balance should be built up to a value which, at the time that the contract is entered into, the Council expects will be the fair value of the assets at time of transfer. In order to arrive at an estimate of this value, the completed assets are valued in line with the Council's revaluation policy and are depreciated on a straight-line basis over the life of the contract. In order to reflect expected price increases during the life of the contract, the depreciated value is then adjusted for inflation using the Treasury's long term inflation target figure. The resulting expected value for assets is built up as a long term debtor in annual equal amounts over the life of the contract, in accordance with the SORP.

If, during the life of the contract the expected transfer value of the assets falls, this would be treated as an impairment and a provision for the fall in value would be created.

Provisions

Provisions have been made in the accounts for liabilities or losses which are likely to be incurred or certain to be incurred, but uncertain as to the amounts or dates on which they will arise. Provisions are charged to the relevant service account and reviewed annually to determine their appropriateness. The main provision is for insurance claims. The insurance provision represents most likely liabilities, determined in light of advice from actuaries.

Provisions for Bad and Doubtful Debts

The carrying amount of debtors is adjusted for provisions for doubtful debts, and known uncollectable debts have been written off in full. The main provisions are for debts relating to Council Tax, Non-Domestic Rates and Housing Rents. 32% of all outstanding debts on Council Tax and 42% of all outstanding debts on Non-Domestic Rates that are less than a year old are provided for, and these factors are increased for every year of outstanding debt until all debts over seven years are fully provided for. The Housing Rents' bad debt provision has been calculated on the basis of 20% of all current tenants' arrears and 90% of all former tenants' arrears being provided for.

Repurchase of Borrowing

As the repurchase of borrowing has been coupled with a restructuring of borrowing with substantially the same overall economic effect, gains or losses are recognised in the Income and Expenditure Account over the life of the replacement borrowing.

Reserves

These are amounts set aside for purposes falling outside the definition of provisions. The Council has both Capital and Revenue Reserves, some of which can be used to support expenditure and others which have been established for other purposes. The Landfill Allowance Trading Reserve and the FRS17 Pensions Reserve cannot be called upon to support spending. The Usable Capital Receipts Reserve is a reserve established for specific statutory purposes. The Major Repairs Reserve is required by statutory provision, established in relation to the HRA. The Earmarked Reserves have been set up to support specific items of capital and revenue expenditure. The General Fund Balance can be used to meet both capital and revenue expenditure.

Stocks and Work in Progress

Stocks are generally shown in the Balance Sheet at historic cost. The main exception to this is Building Services' stocks which are valued at current replacement cost. Work in progress is shown at current cost, including overheads.

Tangible Fixed Assets

Recognition and Measurement -

All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised provided that the asset yields benefits to the Council for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged directly to service revenue accounts.

STATEMENT OF ACCOUNTING POLICIES

Property assets, excluding those of the HRA, are revalued by means of a five year rolling programme which was last completed, with the exception of a few properties, in 2004/05. HRA properties are valued annually. Valuations are carried out on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Assets are classified into the groupings required by the Code and are valued in the Balance Sheet on the following bases:

- Operational assets - the lower of net current replacement cost and net realisable value in existing use
- Investment properties and assets that are surplus to requirements - the lower of net current replacement cost and net realisable value
- Fixed assets under construction - historic cost
- Infrastructure assets - historic cost, net of depreciation
- Community assets - nominal value

Depreciation and Impairment -

Depreciation is provided for on all fixed assets except for freehold land, non-operational investment properties and assets under construction. Assets are depreciated on a straight-line basis over their estimated useful lives. Residual values are taken into account in the calculation of depreciation, where appropriate. Estimated lives for new assets vary but are mainly as follows:

- | | |
|--------------------------------------|--------------|
| • Buildings | 50 years |
| • Infrastructure assets | 20 years |
| • Vehicles and operational equipment | 5 - 10 years |
| • Computer equipment | 3 - 5 years |

Assets have been reviewed for any material impairment loss. Those arising as a result of a consumption of economic benefits have been recognised in service revenue accounts. Other impairments reflecting a general movement in prices are recognised in the Fixed Asset Restatement Account.

Disposals -

Any income (capital receipts), above the de minimis set by regulation (currently £10,000), from the disposal of fixed assets is credited to the Usable Capital Receipts Reserve. A proportion of capital receipts from housing sales is required to be paid over to Central Government. The amount due is charged to the Net Operating Cost section of the Income and Expenditure Account and the same amount appropriated from the Usable Capital Receipts Reserve and the Statement of Movement on the General Fund Balance.

Upon disposal, the net book value of the asset disposed of is written off against the Fixed Asset Restatement Account.

Charges to the Income and Expenditure Account -

All services are charged with depreciation and where required, any related impairment loss, for all fixed assets used in the provision of the service. This includes surplus assets held for disposal, which should be charged to Non Distributed Costs. All expenditure on repairs and maintenance relating to fixed assets are charged to the appropriate service revenue account.

Finance costs, including interest payable, are charged to the Net Operating Costs section of the Income and Expenditure Account. In accordance with FRS4, interest costs of debt have been allocated to financial years over the term of the debt at a constant rate. Any interest accrued has been added to the carrying amount of the loan.

Value Added Tax

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

MAIN FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT

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

| 2005/06 | | Gross | 2006/07 | Net | |
|-------------|---|-------------|---------|-------------|-------|
| Net | | Expenditure | Income | Expenditure | Note |
| Expenditure | | £000s | £000s | £000s | |
| 241,989 | Education | 351,051 | 317,565 | 33,486 | 16/17 |
| 117,757 | Social Services | 166,540 | 51,360 | 115,180 | 2 |
| -10,082 | Housing | 150,027 | 161,559 | -11,532 | |
| 32,214 | Highways, Roads and Transport | 49,642 | 14,869 | 34,773 | |
| 61,195 | Cultural, Environmental and Planning | 105,321 | 37,584 | 67,737 | |
| 6,165 | Central Services to the Public | 38,858 | 31,688 | 7,170 | |
| 357 | Courts | 328 | 0 | 328 | |
| 439 | Other Services | 3,444 | 3,281 | 163 | |
| 7,535 | Corporate and Democratic Core | 8,017 | 1 | 8,016 | |
| -12,874 | Non-distributed costs | 4,294 | 0 | 4,294 | |
| 444,695 | Net cost of services | 877,522 | 617,907 | 259,615 | |
| 3,462 | Gains(-)/ Losses on disposal of fixed assets | | | 2,761 | 3 |
| 410 | Precepts and levies | | | 455 | 4 |
| -1,712 | Net surplus on trading operations | | | -768 | 6 |
| -3,811 | Interest and investment income | | | -5,595 | |
| 26,666 | Interest payable & similar charges | | | 28,312 | |
| 11,931 | Amount payable to the Housing Capital Receipts Pool | | | 9,949 | |
| 5,370 | Pensions interest cost and expected return on pensions assets | | | 480 | 44 |
| 487,011 | Net operating expenditure | | | 295,209 | |
| -200,054 | General grants and contributions | | | -29,634 | 16 |
| -127,036 | Income from the Collection Fund | | | -135,782 | |
| -130,416 | Contribution from Non-Domestic Rate Pool | | | -107,503 | |
| -29,505 | Deficit for year | | | -22,290 | |

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. The Account is prepared in line with proper accounting practices, but is out of line with the statutory provisions that specify how local authorities are required to raise Council Tax. The main differences are:

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

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

The Statement below reconciles the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

| 2005/06 | | 2006/07 |
|---------|---|---------|
| £000s | | £000s |
| -29,505 | Deficit from Income and Expenditure Account | -22,290 |
| 37,650 | Net additional amount required by statute and non-statutory provisions to be debited or credited to the General Fund Balance for the year | 28,961 |
| 8,145 | Increase in the year in the General Fund Balance | 6,671 |
| 15,658 | General Fund Balance brought forward | 23,803 |
| 23,803 | General Fund Balance carried forward | 30,474 |

A detailed breakdown of the additional amounts required by statute and non-statutory provisions to be debited or credited to the General Fund Balance are shown in note 19.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

This statement brings together all gains and losses experienced by the authority during the year, including those not reflected in the Income and Expenditure Account.

| 2005/06 | | 2006/07 |
|---------------|---|----------------|
| £000s | | £000s |
| -29,505 | Deficit on the Income and Expenditure Account for the year | -22,290 |
| 74,395 | Surplus arising from the revaluation of fixed assets | 188,894 |
| 8,734 | Actuarial gains and losses on pension fund assets and liabilities | 67,063 |
| | Other gains and losses - | |
| -988 | Movement on Collection Fund Balance | -1,581 |
| -218 | HRA amortisation of premiums and discounts | -406 |
| 153 | HRA Right to Buy administration expenses | 158 |
| | Adjustments to the Capital Financing Account: | |
| 0 | Transfer of assets to PFI contractor | 5,280 |
| 0 | Transferred debt | -220 |
| 52,571 | Total recognised gains for the year | 236,898 |

MAIN FINANCIAL STATEMENTS

BALANCE SHEET

The Balance Sheet summarises the financial position of the whole Council and shows the value of the Council's assets and liabilities at the year-end.

| 31 March 2006 £000s | | 31 March 2007 £000s | £000s | Note |
|------------------------|---|------------------------|------------------|-------|
| | Fixed Assets - | | | 23-28 |
| 1,006 | Intangible | | 967 | |
| 1,429,853 | Tangible | | 1,647,537 | |
| 59,907 | Deferred Consideration | | 67,691 | |
| 3,825 | Long Term Investments | | 10,812 | 30 |
| 11,449 | Long Term Debtors | | 12,716 | 31 |
| 6,154 | Net Deferred Premiums | | 5,177 | 33 |
| <u>1,512,194</u> | Total Long Term Assets | | <u>1,744,900</u> | |
| | Current Assets - | | | |
| 1,980 | Stocks and Work in Progress | 1,978 | | |
| 57,058 | Debtors | 50,329 | | 32 |
| 2,662 | Landfill Allowances | 3,599 | | 11 |
| 44,775 | Investments | 78,100 | | |
| 11,641 | Cash and Bank | 11,840 | 145,846 | |
| <u>1,630,310</u> | | | <u>1,890,746</u> | |
| | Current Liabilities - | | | |
| -4,420 | Short Term Borrowing | -975 | | 34 |
| -1,155 | Landfill Usage | -1,212 | | 11 |
| -88,830 | Creditors | -92,498 | | |
| 0 | Bank Overdraft | -729 | -95,414 | |
| <u>1,535,905</u> | Total Assets Less Current Liabilities | | <u>1,795,332</u> | |
| -425,653 | Long Term Borrowing | | -486,600 | 34/35 |
| -5,089 | Deferred Liabilities | | -4,869 | 36 |
| -21,428 | Provisions | | -22,204 | 37 |
| -80,912 | Grants-Deferred Account | | -93,470 | 38 |
| -260,970 | Net liability related to defined benefit pension scheme | | -209,438 | 44 |
| <u>741,853</u> | Total Assets Less Liabilities | | <u>978,751</u> | |
| 840,311 | Fixed Asset Restatement Account | | 1,005,454 | 39 |
| 71,523 | Capital Financing Account | | 81,551 | 39 |
| 7,000 | Usable Capital Receipts Reserve | | 7,013 | 39 |
| 240 | Deferred Credits | | 126 | |
| -260,970 | FRS17 Pensions Reserve | | -209,438 | 39 |
| 0 | Major Repairs Reserve | | 25 | |
| 25,836 | Earmarked Reserves | | 31,050 | 39 |
| 23,803 | General Fund Balance | | 30,474 | |
| 32,341 | Housing Revenue Account Balance | | 32,307 | |
| 1,769 | Collection Fund Balance | | 189 | |
| <u>741,853</u> | Net Worth | | <u>978,751</u> | 29 |

MAIN FINANCIAL STATEMENTS

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Note 45 to the Core Financial Statements specifically supports this statement.

| 2005/06 | | 2006/07 | |
|---------|--|---------|---------|
| £000s | | £000s | £000s |
| | <u>Revenue Activities</u> | | |
| | Cash Outflows - | | |
| 433,122 | Cash paid to and on behalf of employees | 452,191 | |
| 243,134 | Other operating cash payments | 260,423 | |
| 28,484 | Housing benefit paid out | 32,723 | |
| 12,175 | Payments to Capital Receipts Pool | 10,066 | |
| 18,423 | Precepts and Collection Fund surplus paid to non-billing authorities | 19,688 | |
| 81,239 | NNDR payments to national pool | 86,022 | |
| 816,577 | Total Payments | | 861,113 |
| | Cash Inflows - | | |
| 33,344 | Rents (after rebates) | 32,435 | |
| 123,097 | Council Tax receipts | 129,336 | |
| 68,269 | Non-domestic rate receipts | 88,004 | |
| 130,222 | NNDR receipts from national pool | 103,988 | |
| 194,272 | Revenue Support Grant | 20,896 | |
| 0 | Dedicated Schools Grant | 219,243 | |
| 77,321 | DWP grants for benefits | 96,088 | |
| 135,352 | Government and other grants | 142,088 | |
| 65,781 | Cash received for goods and services | 70,195 | |
| 23,058 | Other operating cash receipts | 26,141 | |
| 850,716 | Total Receipts | | 928,414 |
| 34,139 | Net cash inflow from Revenue Activities | | 67,301 |
| | <u>Returns on Investments and Servicing of Finance</u> | | |
| | Cash Outflows - | | |
| 24,469 | Interest paid | 26,703 | |
| 25 | Interest element of finance lease rentals | 56 | 26,759 |
| | Cash Inflows - | | |
| 3,851 | Interest and dividends received | | 5,017 |
| 20,643 | Net cash outflow from Investments and Servicing of Finance | | 21,742 |

CASH FLOW STATEMENT (continued)

| 2005/06 £000s | | 2006/07 £000s | 2006/07 £000s |
|------------------|--|------------------|------------------|
| | <u>Capital Activities</u> | | |
| | Cash Outflows - | | |
| 157,401 | Capital expenditure | 114,927 | |
| 1,797 | Premium on early repayment | 758 | |
| 2,000 | Long term investments | 7,000 | |
| 529 | Advances on employee car loans | 627 | 123,312 |
| | Cash Inflows - | | |
| 22,012 | Sale of fixed assets | 21,278 | |
| 23,037 | Capital grants received | 30,933 | |
| 65 | Discount on early repayment | 871 | |
| 906 | Other capital cash receipts | 612 | 53,694 |
| 115,707 | Net cash outflow from Capital Activities | | 69,618 |
| -102,211 | Net cash outflow before Financing | | -24,059 |
| | <u>Management of Liquid Resources</u> | | |
| 2,825 | Net cash inflow/outflow (-) from short term investments | | -33,325 |
| | <u>Financing</u> | | |
| | Cash Outflows - | | |
| 30,098 | Repayments of amounts borrowed (long term) | 102,688 | |
| 146,228 | Repayments of amounts borrowed (short term) | 140,232 | |
| 67 | Finance Lease Principal | 221 | |
| 230 | Repayment of transferred debt | 232 | 243,373 |
| | Cash Inflows - | | |
| 128,081 | New loans raised (long term) | 163,440 | |
| 148,263 | New loans raised (short term) | 136,787 | 300,227 |
| 99,721 | Net cash inflow from Financing | | 56,854 |
| 335 | Increase/ Decrease (-) in Cash | | -530 |

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Prior Period Adjustments

For 2006/07, the statements required by the SORP represent a substantial change from the statements produced in 2005/06 and earlier years. The Consolidated Revenue Account and the Statement of Total Movements in Reserves have been disaggregated into the following new format:

- Income and Expenditure Account – a summary of resources generated and consumed by the authority in the year;
- Statement of Movement on the General Fund Balance – a reconciliation showing how the balance of resources generated/ consumed in the year links in with statutory requirements for raising Council Tax;
- Statement of Total Recognised Gains and Losses – demonstration of how the movement in net worth on the Balance Sheet is identified to the Income and Expenditure Account surplus/ deficit and to other unrealised gains and losses.

The presentation changes required to comply with SORP changes are summarised below:

| | 2005/06 Statement of Accounts | 2006/07 Statement of Accounts |
|--|--|--|
| Transfer to/from HRA Balances, Earmarked Reserves and other statutory funds | Consolidated Revenue Account | Statement of Movement on the General Fund Balance |
| Transfers to/from Capital Financing Account, from Useable Capital Receipts, and Movement on the Pensions Reserve | Consolidated Revenue Account | Disaggregated within the Statement of Movement on the General Fund Balance |
| Deferred Premiums | Bottom half of Consolidated Balance Sheet, net of Deferred Discounts | Top half of the Balance Sheet, under Long Term Assets, net of Deferred Discounts |
| Government Grants Deferred | Bottom half of the Consolidated Balance Sheet | Top half of the Balance Sheet, under Long Term Liabilities |
| Capital Grants Unapplied | Bottom half of the Consolidated Balance Sheet | Top half of the Balance Sheet, included in Current Liabilities as Creditors |

In addition, the SORP includes the following changes in accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts;
- credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts, rather than credited as a corporate income item;
- gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

NOTES TO THE CORE FINANCIAL STATEMENTS

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts:

| | Consolidated Revenue Account 2005/06 | Removal of Capital Financing Charges | Government Grants Deferred Credits | Other Adjustments | 2005/06 Comparatives in Income and Expenditure Account |
|--|---|---|---|----------------------|--|
| | £000s | £000s | £000s | £000s | £000s |
| Education | 256,852 | -12,894 | -1,969 | 0 | 241,989 |
| Social Services | 121,215 | -1,177 | -259 | -2,022 | 117,757 |
| Housing | 17,252 | -26,133 | -67 | -1,134 | -10,082 |
| Highways, Roads and Transport | 27,155 | -5,669 | -1,266 | 11,994 | 32,214 |
| Cultural, Environmental and Planning | 67,309 | -5,050 | -998 | -66 | 61,195 |
| Central Services to the Public | 6,384 | -95 | -124 | 0 | 6,165 |
| Courts | 357 | 0 | 0 | 0 | 357 |
| Other Services | 448 | -78 | 0 | 69 | 439 |
| Corporate and Democratic Core | 7,622 | -85 | -2 | 0 | 7,535 |
| Non-distributed costs | -12,913 | 0 | 0 | 39 | -12,874 |
| Impact on Net Cost of Services | 491,681 | -51,181 | -4,685 | 8,880 | 444,695 |
| Gains(-)/ Losses on disposal of fixed assets | 0 | 0 | 0 | 3,462 | 3,462 |
| Precepts and levies | 12,404 | 0 | 0 | -11,994 | 410 |
| Net surplus(-)/ deficit of trading operations | 16 | -428 | -17 | -1,283 | -1,712 |
| Interest and Investment Income | -3,812 | 0 | 0 | 1 | -3,811 |
| Non-operational Assets | 2,031 | 0 | 0 | -2,031 | 0 |
| Asset Management Revenue Account | -33,194 | 25,590 | 4,702 | 2,902 | 0 |
| Interest payable and similar charges | 0 | 26,666 | 0 | 0 | 26,666 |
| Losses on the repurchase of borrowing | 647 | -647 | 0 | 0 | 0 |
| Contribution of Housing Capital Receipts to Pool | 11,931 | 0 | 0 | 0 | 11,931 |
| Pensions interest cost and expected return on pensions assets | 5,370 | 0 | 0 | 0 | 5,370 |
| Impact on Net Operating Expenditure | 487,074 | 0 | 0 | -63 | 487,011 |

NOTES TO THE CORE FINANCIAL STATEMENTS

The column for adjustments includes:

- the 2006 SORP requires authorities to show gains and losses on asset disposals on the face of the Income and Expenditure Account. The Council had no disposals in 2005/06 which were either above or below market values, except for certain properties that were demolished. These were previously treated as impairments. Adjustments have been made to reverse the impairment entries.
 - the levy for West Yorkshire Passenger Transport Authority has been moved from Precepts within Net Operating Expenditure to the Highways, Roads and Transport line within Net Cost of Services. This is in line with current BVACOP guidelines.
 - minor adjustments on HRA accounting for premiums and Right to Buy administration in order to conform with legislation.
 - the reclassification of Commercial Estates as a Trading Operation.
- 2 The net cost of Social Services shows a decrease from 2005/06 to 2006/07, primarily due to an exceptional charge in 2005/06 of £7.1 million relating to compensation payments arising from Equal pay claims. Non-distributed costs shows an increase of £17.2 million from 2005/06 to 2006/07, primarily due to changes to the Local Government Pension Scheme which took effect on 1 April 2006 and resulted in a £16.9 million credit to Non-distributed costs in 2005/06.

3 Gains and Losses on disposal of fixed assets

The 2006 SORP requires authorities to show gains and losses on asset disposals on the face of the Income and Expenditure Account. The Council had no disposals in 2006/07 which were either above or below market values, except for certain properties that were demolished. This included a special school which was demolished to make way for a new school to be built under the new PFI contract (£1.702 million), and a number of council houses demolished as part of a housing regeneration project at Deighton/Brackenhall (£0.711 million).

4 Precepts and Levies

This represents the following precepts and levies:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--------------------|------------------|
| 383 | Parish Precepts | 415 |
| 27 | Environment Agency | 40 |
| 410 | | 455 |

5 Building Control Charges Regulations

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

| 2005/06 £000s | | 2006/07 £000s |
|------------------|-----------------|------------------|
| | Chargeable | |
| -1,156 | Income | -1,059 |
| 1,079 | Expenditure | 1,015 |
| -77 | | -44 |
| | Non Chargeable | |
| 675 | Net Expenditure | 737 |
| 598 | Total Deficit | 693 |

NOTES TO THE CORE FINANCIAL STATEMENTS

6 Trading Operations

The Council carries out the following trading operations. These operations are deemed function in a competitive environment, that is one in which the user has discretion over whether to procure the service from the in-house provider either as part of a periodic tendering procedure or on a continuous basis.

| 2005/06 | | 2006/07 | | | |
|---|--|--------------------------|----------------------|-----------------|----------------------------------|
| Surplus (-)/ Deficit £000s | Restated Surplus (-)/ Deficit £000s | | Expenditure £000s | Income £000s | Surplus (-)/ Deficit £000s |
| 153 | 153 | Cleaning of Buildings | 6,288 | 6,079 | (*) 209 |
| 149 | 77 | Building Services | 46,316 | 46,447 | (*) -131 |
| -8 | -68 | Highways Direct Services | 19,177 | 19,271 | (*) -94 |
| 36 | 7 | Legal Services | 4,765 | 4,703 | 62 |
| -26 | -73 | Estates Management | 9,170 | 9,016 | 154 |
| -292 | -503 | Transport Services | 12,392 | 12,254 | (*) 138 |
| 0 | -1,283 | Commercial Estates | 1,243 | 2,568 | -1,325 |
| 212 | 212 | Catering | 10,393 | 10,578 | -185 |
| -208 | -234 | Other Services | 5,352 | 4,948 | 404 |
| 16 | -1,712 | | 115,096 | 115,864 | -768 |
| In addition the following trading activities are included within the Net Cost of Services · | | | | | |
| -77 | -77 | Building Control | 1,015 | 1,059 | -44 |
| -126 | 0 | Commercial Estates | 0 | 0 | 0 |
| -98 | -330 | Markets | 2,324 | 2,512 | -188 |
| -301 | -407 | | 3,339 | 3,571 | -232 |

(*) these figures are shown after the following refunds and additional charges:

Highways Direct Services - £0.230 million refund to Highways

Transport Services - £0.350 million refund to the various services

Building Services - £0.350 million refund to the HRA

Cleaning of Buildings - £0.182 million additional charges to various services. These charges reflect the effects of the equal pay issue on this trading service.

7 Local Authority (Goods and Services Act) 1970

The Council is empowered by this Act to provide goods and services to other public bodies. Expenditure and income relating to this work were as follows:

| 2005/06 | | 2006/07 | |
|----------------------|-----------------|----------------------|-----------------|
| Expenditure £000s | Income £000s | Expenditure £000s | Income £000s |
| 290 | 299 | 284 | 301 |
| 1,789 | 2,048 | 2,284 | 2,058 |
| 33 | 37 | 11 | 12 |
| 831 | 972 | 3,081 | 3,273 |
| 2,943 | 3,356 | 5,660 | 5,644 |

NOTES TO THE CORE FINANCIAL STATEMENTS

8 Private Finance Initiative (PFI) Transactions

i) Waste Disposal Services

In April 1998, the Council entered into a twenty five year contract for waste disposal services, with Kirklees Waste Services Ltd (now Sita Kirklees Ltd). The Council incurred costs of £10.8 million under the contract in 2006/07 (2005/06 £9.9 million), of which £1.4 million was outstanding at 31 March 2007 (£0.3 million at 31 March 2006). Total commitments over the remainder of the life of the contract are estimated to be £186.6 million, scheduled as follows:

| | £000s |
|-------------|--------|
| 2007 – 2011 | 57,158 |
| 2012 – 2016 | 58,835 |
| 2017 – 2021 | 58,835 |
| 2022 – 2023 | 11,767 |

ii) Education

(a) In March 2001, the Council entered into a thirty two and a half year contract with Kirklees Schools Services Ltd for the delivery to twenty of the Council's schools of:

- Initial investment to carry out major repairs and improvements.
- Maintenance of the buildings over the contract period.
- Provision of caretaking and cleaning services for the contract period.

The Council incurred costs of £9.8 million under the contract in 2006/07 (2005/06 £9.8 million). At 31 March 2007 an amount of £0.8 million was outstanding to the operator (£0.7 million at 31 March 2006). The Council provided services as a sub-contractor to the operator to the value of £0.3 million (2005/06 £0.7 million). Total payments over the remaining life of the contract are estimated to be £324.2 million, scheduled as follows:

| | £000s |
|-----------------------------|--------|
| April 2007 – March 2012 | 52,260 |
| April 2012 – March 2017 | 55,938 |
| April 2017 – March 2022 | 60,099 |
| April 2022 – March 2027 | 64,808 |
| April 2027 – March 2032 | 70,135 |
| April 2032 – September 2033 | 20,965 |

(b) Commercial close was achieved in March 2005 on a PFI contract for a period until 31 August 2031, for delivery to three of the Council's Special Schools of:

- New build schools at two sites, and major extensions to and full refurbishment of existing buildings at the third.
- Maintenance of the buildings over the contract period.
- Provision of caretaking, cleaning and other premises management functions over the term of the contract.

The Council incurred costs of £1.7 million under the contract in 2006/07. Total payments over the remaining life of the contract are estimated to be £67.8 million, scheduled as follows:

| | £000s |
|--------------------------|--------|
| April 2007 – March 2012 | 14,306 |
| April 2012 – March 2017 | 13,882 |
| April 2017 – March 2022 | 13,677 |
| April 2022 – March 2027 | 13,686 |
| April 2027 – August 2031 | 12,270 |

NOTES TO THE CORE FINANCIAL STATEMENTS

iii) Housing

The Council has received endorsement from Central Government to proceed to the procurement stage on a scheme to build 550 units of HRA housing, of which approximately 150 will be "extra care" units and 40 will be suitable for tenants with physical disabilities. The scheme is currently in procurement, with commercial close planned for 2008.

iv) Treatment of assets under the PFI Transactions

In i) and ii) above, the Council has leased assets to the operator, with consideration being given through an abatement of contract payments. This abatement is effectively a prepayment (Deferred Consideration) by the Council and is being written down over the period of the contract.

In the case of ii), it is anticipated that at the end of the contract there will be a residual value for the assets and this is being built up as a Long Term Debtor over the life of the contract. In the case of the Waste Disposal PFI, it is not known at this stage whether there will be a material residual value at the end of the contract.

9 Section 5 Local Government Act 1986

Section 5 requires expenditure on publicity to be reported. Actual expenditure on publicity was as follows:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|-------------------------|------------------|
| 1,031 | Recruitment Advertising | 659 |
| 487 | Other Advertising | 435 |
| 659 | Other Publicity | 691 |
| <u>2,177</u> | | <u>1,785</u> |

10 Section 137 Local Government Act 1972

Section 137, as amended, empowers Local Authorities to make contributions to certain charitable funds, not for profit bodies providing a public service in the United Kingdom and mayoral appeals.

The Council's expenditure under this power was £16,000 mainly on grants to the community (£26,000 in 2005/06).

11 Landfill Allowances Trading Scheme

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. Consequently, the Landfill Allowances Trading Scheme which was launched on 1 April 2005 requires authorities to hold sufficient allowances to cover the amount of BMW disposed. Where an authority wishes, it can buy and sell allowances, but where insufficient allowances are held an authority is subject to a £150 per tonne penalty. The Council was allocated 125,582 tonnes allowances for the year 2006/07 (2005/06 131,787 tonnes) and it is estimated that it has only landfilled 67,503 tonnes in the year (2005/06 56,872 tonnes). The Council has not traded any allowances in the year. The value of the allowances has been based on the weighted average value of allowances traded in the year (as defined by the Department of Environment Food and Rural Affairs) as £17.95 per tonne (2005/06 £20.20 per tonne). The balance, an amount of £0.9 million, after adjustments for the revaluation of allowances held at 31 March 2006 and actual usage for the year 2005/06, has been transferred to a Landfill Allowances Trading Reserve.

NOTES TO THE CORE FINANCIAL STATEMENTS

12 Pooled Funds

Section 31 of the Health Act 1999 and the NHS Bodies and Local Authorities Partnership Arrangements Regulations 2000 enable the establishment of joint working arrangements between NHS bodies and local authorities. Pooled funds allow health bodies and local authorities to work collaboratively to address specific local health issues.

During 2002/03 the Council, in association with the local Primary Care Trusts, established a development fund for People with Learning Disabilities. The purpose of the fund was to increase the opportunities for adults with learning disabilities to access community facilities, to support people in the development of person centred planning, and to provide advocacy support in the development of services. In 2003/04 the same partners established an Integrated Community Equipment Service. Contributions and expenditure for both funds are detailed below:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| 115 | Balance at 1 April | 413 |
| | <u>Gross Funding</u> | |
| 1,334 | Kirklees MC | 1,405 |
| 342 | North Kirklees Primary Care Trust | 271 |
| 196 | Huddersfield Central Primary Care Trust | 202 |
| 110 | South Huddersfield Primary Care Trust | 114 |
| 11 | Other income | 6 |
| 1,993 | Total Funding | 1,998 |
| | <u>Expenditure</u> | |
| 1,605 | Community Equipment | 1,524 |
| 90 | Learning Disabilities Development Fund | 185 |
| 1,695 | Total Expenditure | 1,709 |
| 413 | Balance at 31 March | 702 |

13 Members Allowances

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--|------------------|
| 1,139 | Total amount of allowances paid, including employers' national insurance and pension contributions | 1,205 |

NOTES TO THE CORE FINANCIAL STATEMENTS

14 Remuneration of Employees

The number of employees whose remuneration was £50,000 or more was as follows:

| 2005/06 Number of employees | Remuneration Band (£) | 2006/07 Number of employees |
|-----------------------------------|-----------------------|-----------------------------------|
| 97 | 50,000 - 59,999 | 150 |
| 26 | 60,000 - 69,999 | 38 |
| 14 | 70,000 - 79,999 | 12 |
| 8 | 80,000 - 89,999 | 8 |
| 1 | 90,000 - 99,999 | 3 |
| 0 | 100,000 - 109,999 | 1 |
| 0 | 110,000 - 119,999 | 6 |
| 1 | 120,000 - 129,999 | 2 |
| 1 | 130,000 - 139,999 | 1 |
| 0 | 210,000 - 219,999 | 1 |

The figures for 2005/06 have been restated as the SORP now requires that the remuneration figures include employee pension contributions, whereas previously these were exempt. The remuneration in the highest band in 2006/07 relates to a compensation payment made for loss of office.

15 Transactions with Related Parties

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

The Council is aware of the following transactions with related parties in 2006/07 not disclosed elsewhere in the Statement of Accounts.

i) Elected Members and Chief Officers

There were no material disclosures to declare for 2006/07 for either Elected Members or Chief Officers. It should be noted that all members' financial and other interests which could conflict with those of the Council are open to public inspection as required by the code of conduct adopted by the Council in accordance with section 51 of the Local Government Act 2000 and the Local Authorities (Model Code of Conduct) (England) Regulations 2001, made under section 50 of that Act. Members are also required to disclose personal and prejudicial interests in matters being considered at meetings at which they are present. Officers also have a duty to declare any interests which could conflict with those of the Council.

ii) Parish Councils

Precepts made by Parish Councils were as follows:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|-----------------------------|------------------|
| 82 | Denby Dale Parish Council | 85 |
| 125 | Holme Valley Parish Council | 153 |
| 96 | Kirkburton Parish Council | 99 |
| 38 | Meltham Town Council | 39 |
| 42 | Mirfield Town Council | 39 |
| 383 | | 415 |

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council currently provides office accommodation for Parish Councils free of charge.

Certain Parish Councils have invested funds with the Council. The amounts held were as follows:

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|-----------------------------|---------------------------|
| 35 | Denby Dale Parish Council | 45 |
| 80 | Holme Valley Parish Council | 60 |
| 82 | Meltham Town Council | 41 |
| 50 | Mirfield Town Council | 50 |
| 247 | | 196 |

Denby Dale Parish Council paid £25,000 (2005/06 £25,000) to the Council in respect of the shared costs of the Denby Dale Parish Countryside Project, and received £3,000 (2005/06 £3,000) from the Council in respect of administrative support for the Project. It also paid the Council £5,500 (2005/06 nil) in respect of a contribution towards the refurbishment of a play area in Lower Cumberworth and £2,900 (2005/06 £1,600) for miscellaneous services and equipment.

The Council provided services to Holme Valley Parish Council to the value of £46,800 (2005/06 £7,200) including the provision for play areas and a youth shelter, office services and equipment, Christmas trees and a contribution towards CCTV upgrade. The Council was owed £25,000 at 31 March 2007 (£2,000 at 31 March 2006).

Kirkburton Parish Council paid £10,400 (2005/06 £8,700) to the Council for goods and services, including hanging baskets, Christmas trees and election services.

Meltham Town Council agreed with the Council that following the sale of an area of land, in 1999/2000, £185,000 would be deposited with the Council to fund jointly agreed projects. The investment detailed above reflects the monies remaining. The Council provided services to the Town Council to the value of £5,400 (2005/06 £21,600), including professional services, the collection of trade waste and the provision of hanging baskets. The Council was owed £2,400 at 31 March 2007 (£19,100 at 31 March 2006).

Mirfield Town Council paid £1,100 (2005/06 £6,700) to the Council for hanging baskets, Christmas trees and office services and equipment.

iii) West Yorkshire Fire Authority

The Council has received the following payments from the West Yorkshire Fire Authority:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|------------------------------------|------------------|
| 196 | Financial support services | 193 |
| 67 | Cleaning services | 77 |
| 45 | Property repairs and capital works | 73 |
| 23 | Other | 23 |
| 331 | | 366 |

As at 31 March 2007, £38,000 was owing to the Council (£39,000 at 31 March 2006).

NOTES TO THE CORE FINANCIAL STATEMENTS

iv) Companies

Kirklees Community Association

The Council manages the Association's properties under a management contract. Services were provided to the amount of £77,200 (2005/06 £76,600). The Council also provided administrative services to the Association for which it was paid £31,700 (2005/06 £34,000).

Kirklees Theatre Trust

The Council makes annual grants to the Trust, which amounted to £402,900 in 2006/07 (2005/06 £428,400). The Trust occupies premises leased to it by the Council at a peppercorn rent. The Council leased part of the refurbished North Wing of the Theatre from the Trust on a short term lease from 1 April 2006 to 30 June 2006 for a rent of £2,800. The Council advanced the Trust a loan of £130,000 during 2006/07 all of which was outstanding at 31 March 2007.

Kirklees Music School

The Council paid contract fees of £723,200 (2005/06 £716,000) to the Music School.

Huddersfield Pride Ltd

The Company was wound up in 2005/06. At 31 March 2006 the Council was owed £217,000 for the reimbursement of expenditure on behalf of the Company. These monies were repaid in 2006/07.

Calderdale and Kirklees Careers Service Partnership Ltd

The Company invoiced the Council for £249,500, mainly for providing adult learning services, (2005/06 £219,900) whilst the Council provided £114,100 of telephone services, IT services and training facilities (2005/06 £111,800) for the Company. The Council was owed £6,200 at 31 March 2007 (nil at 31 March 2006). At 31 March 2007, £30,100 was due from the Council to the Company (£39,500 at 31 March 2006).

Kirklees Media Centre Ltd

The Council leased premises from the Company. Rent and service charges totalled £19,000 (2005/06 £18,400).

The Council has agreed to provide an interest free loan of up to £300,000 to the Company. At 31 March 2007, £217,500 was outstanding (£237,500 at 31 March 2006).

Into Business Scheme

The Council made payments and grants totalling £3,500 (2005/06 £2,200) to the Company.

Intruplas Ltd

The Council agreed to lend up to £400,000 to the Company, pending receipt of funding. The amount outstanding at 31 March 2007 was £78,900 (£74,400 at 31 March 2006).

The Company ceased to lease premises from the Council in 2005/06. At 31 March 2007, there was £16,300 outstanding from previous years.

Kirklees Energy Services Ltd

The Council made grants and payments to the Company totalling £365,000 (2005/06 £88,300).

The Company leased premises from the Council at a cost of £10,200 (2005/06 £12,400).

Kirklees Active Leisure

The Council provided funding of £2.40 million to the Company (£2.28 million in 2005/06). In addition, the Company was paid £150,000 for providing swimming facilities for the Council's Education Service (2005/06 £144,200). The Council also pays salaries on behalf of the company, for which it reimburses the Council.

The Council provided services for the Company to the value of £419,200 (2005/06 £414,400).

The company owed the Council £1.16 million at 31 March 2007 (£0.96 million at March 2006). The Council also advanced the company a loan of £431,000 during 2006/07, all of which was outstanding at 31 March 2007.

NOTES TO THE CORE FINANCIAL STATEMENTS

16 General Grants and Contributions

These grants are grants and contributions that do not relate to the performance of a specific service.

| 2005/06 | | | 2006/07 |
|----------------|-------------------|--|---------------|
| £000s | Restated £000s | | £000s |
| 194,799 | 194,799 | Revenue Support (RSG)* | 20,729 |
| -527 | -527 | Revenue Support – Amending Report adjustment | 167 |
| 1,620 | 1,620 | Local Public Service Agreement (LPSA) Performance Reward | 1,620 |
| 1,651 | 1,651 | Local Authority Business Growth Incentives (LABGI) | 2,607 |
| 0 | 2,511 | Grants and contributions related to capital financing which cannot be identified to particular services or assets. | 4,511 |
| <u>197,543</u> | <u>200,054</u> | | <u>29,634</u> |

*For 2006/07, the arrangements for government support for the funding of schools changed. In 2006/07, the Council has received a specific grant – the Dedicated Schools Grant. £218.3 million has therefore been credited against the Education service line in the Income and Expenditure Account that would have previously been treated as part of the RSG in corporate income.

In line with changes to the 2006 SORP, the figures for 2005/06 have had to be restated to bring in capital grants and contributions, not identifiable to particular services or assets, previously written off directly to the Capital Financing Account.

17 Deployment of Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for Central Expenditure, which covers educational provision for pupils, including that made out of school, and for early years pupils, and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2006/07 are as follows:

| | Central Expenditure £000s | ISB £000s | Total £000s |
|--|---------------------------------|----------------|----------------|
| Original grant allocation to Schools Budget for the current year in the authority's budget | 18,251 | 200,754 | 219,005 |
| Adjustment to finalised grant allocation | 412 | -174 | 238 |
| DSG receivable for the year | <u>18,663</u> | <u>200,580</u> | <u>219,243</u> |
| Actual expenditure for the year (*) | -17,753 | -199,280 | -217,033 |
| Underspend for the year | 910 | 1,300 | 2,210 |
| Contribution to schools balances | 0 | -1,300 | -1,300 |
| Underspend carried forward to 2007/08 | <u>910</u> | <u>0</u> | <u>910</u> |

(*) Excluding FRS 17

NOTES TO THE CORE FINANCIAL STATEMENTS

18 Disclosure of Audit Costs

The fees incurred relating to external audit and inspections were as follows:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--|------------------|
| 279 | Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor | 278 |
| 211 | Fees payable to the Audit Commission for the certification of grant claims and returns | 168 |
| 490 | | 446 |

19 Note to the Statement of Movement on the General Fund Balance

This note shows a detailed breakdown of the additional amounts required by statute and non-statutory provisions to be debited or credited to the General Fund Balance.

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--|------------------|
| | <u>Items required by statute to be excluded when determining the Movement on the General Fund Balance for the year -</u> | |
| 24,056 | Depreciation | 30,383 |
| -14,664 | Grants deferred amortisation | -20,218 |
| 16,950 | Deferred charges and consideration | 14,933 |
| -218 | HRA amortisation of premiums and discounts | -406 |
| 3,462 | Net gain(-)/ loss on disposal of fixed assets | 2,761 |
| 153 | HRA Right to Buy administration expenses | 158 |
| 24,506 | Net charges made for retirement benefits in accordance with FRS17 | 42,641 |
| 54,245 | | 70,252 |
| | <u>Items required by statute to be included when determining the Movement on the General Fund Balance for the year -</u> | |
| -8,937 | Statutory provision for repayment of debt | -10,853 |
| -1,244 | Capital expenditure charged to the General Fund Balance | -6,421 |
| 11,931 | Housing Pool | 9,949 |
| -23,405 | Employer's contributions payable to pension funds and retirement benefits payable direct to pensioners | -27,110 |
| 32,590 | | 35,817 |
| | <u>Transfers to or from General Fund Balance -</u> | |
| -7,147 | Housing Revenue Account | 34 |
| -1,226 | Voluntary provision for the repayment of debt | -1,857 |
| 13,433 | Earmarked Reserves and other statutory funds | -5,033 |
| 37,650 | Net additional amount required to be credited to the General Fund balance for the year | 28,961 |

NOTES TO THE CORE FINANCIAL STATEMENTS

20 Summary of Capital Expenditure and Sources of Finance

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---------------------------------|------------------|
| | <u>Capital Expenditure</u> | |
| 136,923 | Tangible Fixed Assets | 96,273 |
| 454 | Intangible Assets | 458 |
| 16,083 | Deferred Charges | 14,063 |
| 5,084 | Deferred Consideration | 4,903 |
| 158,544 | | 115,697 |
| | <u>Sources of Finance</u> | |
| 108,047 | Borrowing | 51,702 |
| 9,124 | Capital Receipts | 11,158 |
| 25,966 | Capital Grant and Contributions | 32,776 |
| 13,504 | Major Repairs Reserve | 13,581 |
| 1,244 | Revenue | 6,421 |
| 659 | Finance Leases | 59 |
| 158,544 | | 115,697 |

21 Deferred Charges

In line with the current SORP, all deferred charges are written off in the year in which they are incurred.

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--|------------------|
| 0 | Balance at 1 April | 0 |
| | Expenditure: | |
| 4,885 | Improvement Grants - Housing | 5,399 |
| 11,198 | Other Grants, Aided/ PFI Schools and Software | 8,664 |
| -16,083 | Amounts written off to Capital Financing Account | -14,063 |
| 0 | Balance at 31 March | 0 |

22 Capital Commitments

| | £000s |
|--|-------|
| <u>Contractual</u> | |
| New Moorlands Primary School | 5,401 |
| Refurbishment of six storey housing blocks, Huddersfield | 1,861 |
| Dewsbury Market refurbishment | 923 |
| Shelley High School 6 th Form Centre | 737 |
| New Employee Healthcare facility | 695 |
| Decent Homes, Almondbury area, catch-up contract | 639 |
| <u>Planned</u> | |
| New Whitcliffe Road First and Nursery School | 6,070 |
| New Stile Common Primary School | 6,000 |
| New transport depot, Huddersfield | 4,200 |
| Enhancements - St George's Square, Huddersfield | 2,035 |
| Primrose Hill Home Zone | 1,367 |
| Enhancements – St Peter's Gardens, Huddersfield | 1,250 |
| Reconstruction – A643 Lindley Moor Road, Huddersfield | 1,040 |

NOTES TO THE CORE FINANCIAL STATEMENTS

23 Information on Assets

The Council uses the following assets in the provision of its services:

| 31 March 2006 | | 31 March 2007 |
|------------------|---|------------------|
| | <u>Buildings</u> | |
| 3 | Nursery Schools and Annexe | 3 |
| 95 | Primary Schools | 95 |
| 6 | Middle Schools | 6 |
| 20 | High Schools | 19 |
| 8 | Special Schools | 6 |
| 62 | Aided/ Foundation Schools | 63 |
| 12 | Children and Young People Service – Children and Families | 13 |
| 6 | Youth Clubs | 6 |
| 15 | Leisure Centres and Swimming Pools | 15 |
| 12 | Public Halls/ Town Halls | 12 |
| 26 | Community Centres | 25 |
| 15 | Cemeteries and Crematoria | 15 |
| 23 | Libraries | 23 |
| 8 | Museums and Galleries | 8 |
| 13 | Adult Services – Service for Older People | 13 |
| 16 | Adult Services – Other Adult Services | 14 |
| 5 | Adult Services – Leased to Other Agencies | 5 |
| 3 | Adult Services – Other | 2 |
| 10 | Market Halls/ Open Markets | 10 |
| 92 | Car Parks | 92 |
| 29 | Public Conveniences | 20 |
| 24,050 | Council Dwellings | 23,746 |
| | <u>Land</u> | |
| 810 | Acres of Woodland | 810 |
| 1,881 | Allotment Sites | 1,881 |
| 1,136 | Acres of Parkland | 1,136 |
| | <u>Infrastructure</u> | |
| 209 | Km of Principal Roads | 209 |
| 1,784 | Km of Other Roads | 1,784 |
| 342 | Km of Green Lanes | 342 |

24 Finance and Operating Leases

Finance Leases:

The Council acquired £0.059 million of computer equipment in 2006/07 (£0.658 in 2005/06) for a "Home Computer Initiative Scheme" promoted by central government. This was considered to be under the terms of a finance lease. The rental payable in 2006/07 was £0.302 million (£0.090 million in 2005/06), with £0.081 million charged to the Income and Expenditure Account as finance costs (£0.023 million in 2005/06) and £0.221 million charged to the write-down of obligations to the lessor (£0.067 million in 2005/06).

NOTES TO THE CORE FINANCIAL STATEMENTS

These computers are being sub-leased to employees. The Scheme is self-financing with any rentals being paid by the Council offset by contributions from employees or from savings on employer's national insurance contributions. Because the assets are being sub-leased, the Council is not holding the asset value in its Balance Sheet.

Outstanding obligations to make payments under finance leases (excluding finance costs) at 31 March 2007 are as follows:

| | |
|--|------------|
| | £000s |
| Obligations payable in 2007/08 | 249 |
| Obligations payable between 2008/09 to 2011/12 | 181 |
| Total liability at 31 March 2007 | 430 |

Operating Leases:

The Council uses vehicles, wheeled bins, computer and printing equipment financed under terms of an operating lease. The amount paid under these arrangements in 2006/07 was £2.438 million (£3.378 million in 2005/06).

The Council also leases office accommodation, mainly in Huddersfield Town Centre. The rentals payable in 2006/07 were £1.068 million (£1.032 million in 2005/06).

The Council is committed at 31 March 2007 to making payments of £2.336 million under operating leases in 2007/08, comprising the following elements:

| Lease Expiry | Land & Buildings £000s | Vehicles & Equipment £000s | Total £000s |
|-------------------|------------------------------|----------------------------------|----------------|
| 2007/08 | 0 | 562 | 562 |
| 2008/09 – 2011/12 | 570 | 666 | 1,236 |
| 2012/13 onwards | 538 | 0 | 538 |
| Total | 1,108 | 1,228 | 2,336 |

The Council also acts as a lessor of commercial property, land, market stalls and industrial units. Leased income received in 2006/07 amounted to £6.020 million (2005/06 £6.082 million). The gross value of assets leased out was £59.542 million at 31 March 2007, with accumulated depreciation of £1.062 million.

The Council also leases assets under PFI Transactions – see note 8.

25 Fixed Asset Valuation

With the exception of HRA properties, all properties are being revalued on a five year rolling programme. The valuations for non-housing properties for 2006/07 were completed by S D Bell MRICS, Principal Property Management Surveyor, Kirklees Metropolitan Council. The revaluations of council dwellings and other housing assets for 2006/07 were completed by the District Valuer. The valuations were in accordance with RICS guidance and are prepared on the following assumptions:

- that no high alumina cement, concrete or calcium chloride additive or other potentially deleterious material was used in the construction of the properties and that none has subsequently been incorporated.
- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good title can be shown.
- that the properties and their value are unaffected by any matters which would be revealed by a local search or inspection of any register and the use and occupation are both lawful.

NOTES TO THE CORE FINANCIAL STATEMENTS

- that inspection of those parts which have not been inspected would not cause the Appointed Valuer to alter the opinion of value.
- that the land and properties are not contaminated.

Plant and machinery forming part of the building services' installations are included in the valuation of the buildings. A de minimis level of £10,000 has been established for the recording of new assets in the Balance Sheet.

The following statements show the progress of the Council's rolling programme for the revaluation of fixed operational and non-operational assets. The basis for valuation is set out in the statement of accounting policies on page 15.

| Operational Fixed Assets | | | | | | |
|-----------------------------------|-------------------|--------------------------|-------------------------------|------------------------|------------------|------------------|
| | Council Dwellings | Other Land and Buildings | Vehicles, Plant and Equipment | Infra-structure Assets | Community Assets | Total Assets |
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Valued at historical/nominal cost | 0 | 0 | 9,832 | 108,154 | 998 | 118,984 |
| Valued at current value in - | | | | | | |
| 2006/07 | 788,386 | 273,726 | 3,806 | 20,928 | 0 | 1,086,846 |
| 2005/06 | 0 | 110,551 | 0 | 0 | 0 | 110,551 |
| 2004/05 | 0 | 105,134 | 0 | 0 | 0 | 105,134 |
| 2003/04 | 0 | 36,342 | 0 | 0 | 0 | 36,342 |
| Pre 2003/04 | 0 | 94,416 | 0 | 0 | 0 | 94,416 |
| Total | 788,386 | 620,169 | 13,638 | 129,082 | 998 | 1,552,273 |

| Non-Operational Fixed Assets | | | | |
|-------------------------------------|-----------------------|---------------------------|----------------|---------------|
| | Investment Properties | Assets Under Construction | Surplus Assets | Total Assets |
| | £000s | £000s | £000s | £000s |
| Valued at historical cost | 0 | 1,348 | 0 | 1,348 |
| Valued at current value in - | | | | |
| 2006/07 | 8,084 | 0 | 522 | 8,606 |
| 2005/06 | 25,870 | 0 | 4,701 | 30,571 |
| 2004/05 | 8,013 | 0 | 3,417 | 11,430 |
| 2003/04 | 18,214 | 0 | 18 | 18,232 |
| Pre 2003/04 | 21,047 | 0 | 4,030 | 25,077 |
| Total | 81,228 | 1,348 | 12,688 | 95,264 |

NOTES TO THE CORE FINANCIAL STATEMENTS

26 Movement in Tangible Fixed Assets 2006/07: Operational

| | Council Dwellings £000s | Other Land and Buildings £000s | Vehicles, Plant and Equipment £000s | Infra-structure Assets £000s | Community Assets £000s | Total Assets £000s |
|------------------------------------|----------------------------|-----------------------------------|--|---------------------------------|---------------------------|-----------------------|
| <u>Cost or Valuation</u> | | | | | | |
| 1 April 2006 | 727,607 | 528,224 | 16,065 | 166,150 | 998 | 1,439,044 |
| Additions | 39,047 | 28,322 | 3,866 | 20,928 | 646 | 92,809 |
| Revaluations and Adjustments | 50,240 | 105,846 | -137 | -145 | -646 | 155,158 |
| Disposals | -14,902 | -2,489 | -42 | 0 | 0 | -17,433 |
| Assets sub-let | 0 | 0 | -59 | 0 | 0 | -59 |
| 31 March 2007 | 801,992 | 659,903 | 19,693 | 186,933 | 998 | 1,669,519 |
| <u>Depreciation and Impairment</u> | | | | | | |
| 1 April 2006 | 14,752 | 43,719 | 3,314 | 49,345 | 0 | 111,130 |
| Revaluations and Adjustments | -14,752 | -22,299 | -115 | -145 | 0 | -37,311 |
| Charge for Year | 13,606 | 18,314 | 2,856 | 8,651 | 0 | 43,427 |
| 31 March 2007 | 13,606 | 39,734 | 6,055 | 57,851 | 0 | 117,246 |
| <u>Net Book Value</u> | | | | | | |
| 1 April 2006 | 712,855 | 484,505 | 12,751 | 116,805 | 998 | 1,327,914 |
| 31 March 2007 | 788,386 | 620,169 | 13,638 | 129,082 | 998 | 1,552,273 |

Community Assets include parks and numerous museum exhibits, each of which has been given a nominal value of £1.

27 Movement in Tangible Fixed Assets 2006/07: Non-Operational

| | Investment Properties £000s | Assets Under Construction £000s | Surplus Assets £000s | Total Assets £000s |
|------------------------------------|--------------------------------|------------------------------------|-------------------------|-----------------------|
| <u>Cost or Valuation</u> | | | | |
| 1 April 2006 | 84,203 | 12,274 | 5,588 | 102,065 |
| Additions | 323 | 3,140 | 1 | 3,464 |
| Revaluations and Adjustments | 2,631 | -14,066 | 8,114 | -3,321 |
| Disposals | -5,929 | 0 | -644 | -6,573 |
| 31 March 2007 | 81,228 | 1,348 | 13,059 | 95,635 |
| <u>Depreciation and Impairment</u> | | | | |
| 1 April 2006 | 0 | 0 | 126 | 126 |
| Charge for Year | 0 | 0 | 245 | 245 |
| 31 March 2007 | 0 | 0 | 371 | 371 |
| <u>Net Book Value</u> | | | | |
| 1 April 2006 | 84,203 | 12,274 | 5,462 | 101,939 |
| 31 March 2007 | 81,228 | 1,348 | 12,688 | 95,264 |

NOTES TO THE CORE FINANCIAL STATEMENTS

28 Movement in Intangible Assets 2006/07

| | Purchased software licences £000s |
|------------------------------------|--|
| <u>Cost or Valuation</u> | |
| 1 April 2006 | 1,917 |
| Additions | 458 |
| Adjustments | -385 |
| 31 March 2007 | 1,990 |
| <u>Depreciation and Impairment</u> | |
| 1 April 2006 | 911 |
| Adjustments | -385 |
| Charge for Year | 497 |
| 31 March 2007 | 1,023 |
| <u>Net Book Value</u> | |
| 1 April 2006 | 1,006 |
| 31 March 2007 | 967 |

29 Analysis of Net Assets Employed

The net assets of the Council are split between the following categories:

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|-------------------------|---------------------------|
| 292,855 | General Fund | 427,296 |
| 480,810 | Housing Revenue Account | 557,536 |
| -31,812 | Trading Undertakings | -6,081 |
| 741,853 | | 978,751 |

The figures for 2005/06 have been restated following the presentation changes to the Balance Sheet outlined in note 1.

30 Long Term Investments and Companies

The Council holds the following long term investments:

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|--------------------------------------|---------------------------|
| 1,100 | Leeds Bradford International Airport | 1,087 |
| 163 | Kirklees School Services | 163 |
| 555 | Kirklees Henry Boot Partnership | 555 |
| 2,000 | Money Market investment | 9,000 |
| 7 | Other | 7 |
| 3,825 | | 10,812 |

Many of the details of the Council's investments in companies are included in the section on Group Accounts on pages 66 - 76. However, the Council has three further material interests, details of which are included below. Details of any transactions between the Council and these companies are given in disclosure notes 8 or 15.

NOTES TO THE CORE FINANCIAL STATEMENTS

i) Leeds Bradford International Airport Limited

The principal activity of the Company is that of operating a regional and international airport. The Council holds 1 million of ordinary shares out of a total shareholding of 15 million shares of £1 each. In addition, the Council holds £100,280 of 10.25% Loan Stock. The latest published information on the company's financial position is as follows:

| year ending 31/03/05 £000s | Information from published accounts - | year ending 31/03/06 £000s |
|----------------------------------|---------------------------------------|----------------------------------|
| 31,071 | Company net assets | 34,187 |
| 881 | Profit for year before tax | 788 |
| 603 | Profit for year after tax | 571 |
| 195 | Dividend paid | 0 |

Due to the introduction of the FRS17 accounting requirement for private sector companies, the figures for 31 March 2005 have been restated from those previously published. Copies of the accounts of the Company can be obtained from The Company Secretary, Leeds Bradford International Airport Ltd, Leeds, LS19 7TU.

ii) Kirklees Active Leisure

The principal activity of the company is to manage a range of core sports centre and swimming pool facilities. The Company is limited by guarantee with charity status. The board comprises of 8 trustees of which the Council has one representative. The latest published information on the Company's financial position is as follows:

| year ending 31/03/05 £000s | | year ending 31/03/06 £000s |
|----------------------------------|---|----------------------------------|
| 537 | Company net liabilities | 751 |
| 537 | Net movement in Funds (expenditure over income) | 751 |

Due to the introduction of the FRS17 accounting requirement for private sector companies, the figures for 31 March 2005 have been restated from those previously published. The Council is not committed to meeting the accumulated loss of the company, other than any defaults on pension contributions (see first point in note 40). Copies of the accounts can be obtained from the Company Secretary, Stadium Business and Leisure Complex, Stadium Way, Huddersfield, West Yorkshire, HD1 6PG.

iii) QED (KMC) Holdings Ltd

The principal activity of the company is the provision of services under the Private Finance Initiative (PFI) in respect of three Special Education Needs Schools in Kirklees. The Council holds 32,200 'C' ordinary shares out of a total of 230,000 ordinary shares of £1 each. The latest published information on the Company's financial position is as follows:

| year ending 31/12/05 £000s | | year ending 31/12/06 £000s |
|----------------------------------|----------------------------|----------------------------------|
| 230 | Company net assets | 230 |
| 0 | Profit for year before tax | 0 |
| 0 | Profit for year after tax | 0 |
| 0 | Dividend paid | 0 |

Copies of the accounts can be obtained from the Company Secretary, 1st Floor, Tricon House, Old Coffee House Yard, London Road, Sevenoaks, Kent, TN13 1AH.

NOTES TO THE CORE FINANCIAL STATEMENTS

31 Long Term Debtors

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|--|---------------------------|
| 250 | Mortgages | 138 |
| 8,537 | PFI transactions residual value - see note 8 | 10,066 |
| 604 | Waste Management SSA Issue | 529 |
| 637 | Car Purchase Loans | 758 |
| 395 | Home Computer Initiative | 138 |
| 382 | Charges on Property for Residential Care | 481 |
| 854 | Other | 1,173 |
| 11,659 | | 13,283 |
| -210 | Bad Debt Provision | -567 |
| 11,449 | Net Long Term Debtors | 12,716 |

32 Short Term Debtors

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|------------------------|---------------------------|
| | <u>Collection Fund</u> | |
| 26,117 | Debtors | 19,809 |
| -13,888 | Bad Debt Provision | -11,985 |
| 12,229 | | 7,824 |
| | <u>Housing Rents</u> | |
| 3,951 | Debtors | 3,497 |
| -1,672 | Bad Debt Provision | -1,664 |
| 2,279 | | 1,833 |
| | <u>Other</u> | |
| 5,204 | Government Grants | 4,838 |
| 5,619 | VAT | 7,459 |
| 38,396 | Miscellaneous Debtors | 34,909 |
| -6,669 | Bad Debt Provision | -6,534 |
| 42,550 | | 40,672 |
| | <u>Total</u> | |
| 79,287 | Debtors | 70,512 |
| -22,229 | Bad Debt Provision | -20,183 |
| 57,058 | Net Short Term Debtors | 50,329 |

33 Net Deferred Premiums

Certain long term loans have been replaced prematurely and replaced in order to improve the Council's debt portfolio. In accordance with the SORP, premiums and discounts arising on the early settlement of borrowing, coupled with a refinancing with substantially the same overall economic effect, are being written off to revenue over the life of the replacement borrowing. However, premiums and discounts relating to the HRA have to be charged in line with a statutory basis which is not consistent with the SORP. As a result, an adjustment is required to reconcile the timing differences arising from amounts written down.

NOTES TO THE CORE FINANCIAL STATEMENTS

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|---|---------------------------|
| 8,934 | Deferred Premiums | 9,202 |
| -2,359 | HRA share of premiums charged to HRA in advance | -2,794 |
| -440 | Deferred Discounts | -1,280 |
| 19 | HRA share of discounts credited to HRA in advance | 49 |
| 6,154 | Net Premiums | 5,177 |

34 Borrowing

The analysis below shows the Council's borrowing by type and by maturity period:

| 31 March 2006 £000s | | 31 March 2007 £000s |
|--------------------------------------|--|---------------------------|
| Analysis of loans by type | | |
| 322,779 | Public Works Loan Board | 363,531 |
| 6,983 | Stock | 6,983 |
| 100,311 | Banks and other financial institutions | 117,061 |
| 430,073 | Total Borrowing | 487,575 |
| Analysis of loans by maturity | | |
| <u>Short term borrowing</u> | | |
| 21 | Long term loans maturing within one year | 21 |
| 4,399 | Temporary loans | 954 |
| 4,420 | | 975 |
| <u>Long term borrowing</u> | | |
| 0 | Between 1 and 2 years | 0 |
| 23,000 | Between 2 and 5 years | 31,036 |
| 64,593 | Between 5 and 10 years | 61,175 |
| 32,000 | Between 10 and 15 years | 29,000 |
| 210,169 | More than 15 years | 249,303 |
| 95,891 | LOBOs | 116,086 |
| 425,653 | | 486,600 |
| 430,073 | Total Borrowing | 487,575 |

The Council has £116.1 million of debt outstanding in the form of Lender Option Borrower Option loans (LOBOs), which includes £1.1million (2005/06 £0.9 million) of accrued interest as a result of accounting for stepped interest LOBOs at a constant rate. Of the remaining total, £55.0 million is currently exposed to variable rates through lender options, and £60.0 million in a fixed period before lender options become effective. Of those currently in a fixed period, £10 million will become variable in 2007/08, £10 million in 2008/09, £10 million in 2009/10, £10 million in 2010/11 and £20 million in 2015/16. If lenders exercise their option to raise interest rates, then the Council has the option to agree to the new rate or repay the loan (at no extra cost). One LOBO of £10 million has a maximum maturity date of 6 years, one of £5 million 12 years, and the rest in excess of 15 years.

NOTES TO THE CORE FINANCIAL STATEMENTS

35 Capital Instruments

The Council has £6.983 million of redeemable loan stock issued in 1982 with the purpose of financing capital expenditure. The stock is actively traded on the Stock Exchange but has a fixed rate of interest of 11.6%. The stock will be redeemed at par on 1 December 2031, unless previously cancelled by its purchase in the open market or by agreement with stockholders.

The stock and interest thereon is secured on the revenues of the Council and ranks equally with existing and future debt.

36 Deferred Liabilities

These represent liabilities, payable beyond the next year, on finance leases and former Joint Committees' debt where the responsibility for the loan management has been taken on by other local authorities in West Yorkshire.

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|-------------------------------|---------------------------|
| 388 | Finance Lease obligations | 181 |
| 4,701 | Former Joint Committees' debt | 4,688 |
| 5,089 | | 4,869 |

37 Provisions

Provisions have been made for the following issues:

| 31 March 2006 £000s | | Additions £000s | Utilised £000s | 31 March 2007 £000s |
|---------------------------|---|--------------------|-------------------|---------------------------|
| 11,839 | Insurance Claims not underwritten | 4,646 | -3,687 | 12,798 |
| 8,880 | Equal Pay Compensation | 0 | -163 | 8,717 |
| 640 | Section 117 of the Mental Health Act 1983 | 14 | 0 | 654 |
| 69 | Other | 35 | -69 | 35 |
| 21,428 | | 4,695 | -3,919 | 22,204 |

The Insurance provision covers Employers Liability, Public Liability, Motor, Fire and Miscellaneous risks. The main risks that have not been insured and where no provision exists are possible claims for Third Party Asbestos and Environmental Impairment (Pollution).

Provision has been made to meet compensation payments arising from equal pay claims from certain groups of employees.

The House of Lords ruled in 2001 that local authorities do not have the power to charge for aftercare for persons discharged from compulsory detention under Section 117 of the Mental Health Act 1983. The provision relates to likely refunds for care charges dating back to the original legal ruling.

38 Grants-Deferred Account

Grants and contributions relating to assets are credited to a Grants-Deferred Account. Grants and contributions relating to fixed assets are released to service revenue accounts over the useful life of the asset; those relating to expenditure on Deferred Charges are written off to service revenue accounts in the year of expenditure; and those related to capital financing which cannot be identified to particular assets or services are credited in the year of receipt to the Income and Expenditure Account below Net Operating Expenditure.

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| 69,611 | Balance at 1 April | 80,912 |
| 25,965 | Grants and contributions received in year | 32,776 |
| | Grants and contributions written off in year - | |
| -4,702 | Amounts relating to Fixed assets | -5,496 |
| -7,451 | Amounts relating to Deferred Charges | -10,211 |
| -2,511 | Amounts relating to capital expenditure which cannot be identified to particular assets or services | -4,511 |
| 80,912 | Balance at 31 March | 93,470 |

39 Notes on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans. Detailed notes on each reserve follow the summary below unless explicitly stated otherwise.

▪ Summary of Movements on Reserves

| 31 March 2006 £000s | | Net Movement In Year £000s | 31 March 2007 £000s | Main Purpose of Reserve |
|---------------------------|---------------------------------|-------------------------------------|---------------------------|--|
| 840,311 | Fixed Asset Restatement Account | 165,143 | 1,005,454 | Store of gains on revaluation of fixed assets |
| 71,523 | Capital Financing Account | 10,028 | 81,551 | Store of capital resources set aside to meet past expenditure |
| 7,000 | Usable Capital Receipts Reserve | 13 | 7,013 | Proceeds of fixed asset sales available to meet future capital investment |
| -260,970 | FRS17 Pensions Reserve | 51,532 | -209,438 | Balancing account to allow inclusion of Pensions Liability in Balance Sheet |
| 0 | Major Repairs Reserve | 25 | 25 | Resources available to meet capital investment in council housing – note 5 to HRA |
| 32,341 | Housing Revenue Account Balance | -34 | 32,307 | Resources primarily available to meet Decent Homes Programme – see Statement of Movement on HRA Balance |
| 25,836 | Earmarked Reserves | 5,214 | 31,050 | Various uses |
| 23,803 | General Fund Balance | 6,671 | 30,474 | Resources available to meet future running costs for General Fund services – see Statement of Movement on the General Fund Balance |
| 739,844 | | 238,592 | 978,436 | |

NOTES TO THE CORE FINANCIAL STATEMENTS

▪ Fixed Asset Restatement Account

The Fixed Asset Restatement Account principally represents the difference between the valuation of assets under the previous system of capital accounting and subsequent revaluations. The Fixed Asset Restatement Account is not available to meet revenue or capital expenditure.

| 2005/06 | | | 2006/07 |
|---------|-------------------|------------------------------|-----------|
| £000s | Restated £000s | | £000s |
| 790,396 | 790,396 | Balance at 1 April | 840,311 |
| 67,288 | 74,395 | Revaluations and Adjustments | 188,894 |
| -13,911 | -24,480 | Disposals | -23,751 |
| 843,773 | 840,311 | Balance at 31 March | 1,005,454 |

Figures for 2005/06 have been restated due to the 2006 SORP's requirement to recognise gains and losses on disposals in the Income and Expenditure Account. This has meant assets require revaluing at the point of disposal to the actual disposal value, unless in the exceptional circumstance that the Council knowingly sells an asset for more or less than the market value. Previously this was not the case and therefore the figures for 2005/06 have been restated on this basis.

In addition, properties demolished during the year were previously treated as impairments, whereas the SORP suggests that these should be treated as a loss on disposal. Therefore there has been an adjustment for this in 2005/06 between the Capital Financing Account (reducing impairments) and the Fixed Asset Restatement Account (increasing disposals).

▪ 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, capital receipts and capital grants. It also contains the difference between the amount provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The Capital Financing Account is not available to meet revenue or capital expenditure.

| 2005/06 | | | 2006/07 |
|---------|-------------------|--------------------------------------|---------|
| £000s | Restated £000s | | £000s |
| 77,519 | 77,519 | Balance at 1 April | 71,523 |
| | | Adjustments - | |
| 0 | 0 | Transfer of assets to PFI contractor | 5,280 |
| 0 | 0 | Transferred debt | -220 |
| -27,518 | -24,056 | Depreciation and impairment | -30,383 |
| 10,164 | 10,164 | Provision for repayment of debt | 12,710 |
| 14,664 | 14,664 | Grants deferred amortisation | 20,218 |
| -16,950 | -16,950 | Deferred charges and consideration | -14,933 |
| 9,124 | 9,124 | Capital Receipts applied | 11,158 |
| 1,244 | 1,244 | Direct revenue financing | 6,421 |
| -7 | -7 | Write down of long term debtors | -17 |
| -179 | -179 | Housing Resource Accounting | -206 |
| 68,061 | 71,523 | Balance at 31 March | 81,551 |

The figures for 2005/06 have been restated for the reasons outlined in the last paragraph of the note on the Fixed Asset Restatement Account above.

NOTES TO THE CORE FINANCIAL STATEMENTS

▪ Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after transferring payments to the Government Housing Receipts Pool.

| 2005/06 | | 2006/07 |
|---------|---|---------|
| £000s | | £000s |
| 7,000 | Balance at 1 April | 7,000 |
| 21,055 | Capital receipts received | 21,120 |
| -11,931 | Payments to Government Pool transferred to Income and Expenditure Account | -9,949 |
| 16,124 | | 18,171 |
| -9,124 | Capital receipts applied in year | -11,158 |
| 7,000 | Balance at 31 March | 7,013 |

▪ FRS17 Pensions Reserve

| 2005/06 | | | 2006/07 | | |
|----------|----------|----------|----------|----------|--------------------------------------|
| LGPS | Teachers | Total | LGPS | Teachers | Total |
| £000s | £000s | £000s | £000s | £000s | £000s |
| -233,958 | -34,645 | -268,603 | -222,356 | -38,614 | -260,970 |
| | | | | | Balance at 1 April |
| 20,680 | 2,725 | 23,405 | 24,100 | 3,010 | 27,110 |
| | | | | | Pension cost payable to Pension Fund |
| 10,395 | -1,661 | 8,734 | 66,000 | 1,063 | 67,063 |
| | | | | | Actuarial gain/ loss (-) |
| -19,473 | -5,033 | -24,506 | -37,861 | -4,780 | -42,641 |
| | | | | | Reversal of FRS17 entries |
| -222,356 | -38,614 | -260,970 | -170,117 | -39,321 | -209,438 |
| | | | | | Balance at 31 March |

▪ Earmarked Reserves

The Council has the following earmarked reserves to cover specific areas of expenditure and risk:

| 31 March 2006 | | Net Movement in Year | 31 March 2007 |
|---------------|---|----------------------|---------------|
| £000s | | £000s | £000s |
| 9,212 | Local Management of Schools | 1,300 | 10,512 |
| 5,976 | Standards Fund | 961 | 6,937 |
| 0 | Education Public Private Partnership (PPP) | 465 | 465 |
| 561 | Asylum Seekers | 106 | 667 |
| 2,301 | Insurance Fund | 35 | 2,336 |
| 1,724 | Pensions Reserve | 1035 | 2,759 |
| 1,815 | Local Public Service Agreement (LPSA) Reserve | -1,389 | 426 |
| 684 | Planning Delivery Reserve | 67 | 751 |
| 923 | Equal Pay | 0 | 923 |
| 0 | Single Status | 1,000 | 1,000 |
| 1,507 | Landfill Allowance Trading Reserve | 880 | 2,387 |
| 1,133 | Other | 754 | 1,887 |
| 25,836 | | 5,214 | 31,050 |

NOTES TO THE CORE FINANCIAL STATEMENTS

- The Local Management of Schools Reserve relates to individual school balances/deficits carried forward to following years under the terms of the Education Reform Act 1988. The balance at 31 March 2007 represents 174 schools with cumulative balances of £11.442 million (171 schools and £10.423 million at 31 March 2006) and 21 schools with cumulative deficits amounting to £0.930 million (23 schools and £1.211 million at 31 March 2006).
- The Standards Fund Reserve represents underspendings against Standards Fund allocations for 2006/07 and will be used to supplement future spending on Education.
- The Education PPP Reserve has been set up to pay for future increases in utility and facilities management charges at PFI schools.
- The Asylum Seekers Reserve has been set up with the aid of government funding to fund future expenditure on Asylum Seekers.
- The Insurance Fund covers risks that have not been insured and provides a reserve for worse case scenarios, over and above the Insurance Provision which is based on likely outcomes.
- The Pensions Reserve has been set up to meet the capitalised costs of unfunded pensions.
- The LPSA Reserve represents partner organisations' share of Performance Reward Grant which is to be reinvested to achieve further improved performance by both the Council and the partners.
- The Planning Delivery Reserve has been set up to introduce new systems to deliver high quality cost effective planning services.
- The Equal Pay Reserve has been established to cover further costs arising from the settlement of equal pay claims, including legal and associated staffing costs.
- The Single Status Reserve has been set up for initial costs associated with revised pay, and terms and conditions where implementation was deferred from 2006/07.
- The Landfill Allowance Trading Reserve represents the value of unused allowances allocated by DEFRA under the Landfill Allowance Trading Scheme and will be used to fund future expenditure on waste disposal or alternatively sold to other authorities if not required.

40 Contingent Liabilities

- The Council has given guarantees in respect of a number of bodies that outstanding contributions will be paid to Pension Funds, in the event of default by those bodies.
- The Kirklees Theatre Trust is a charitable company, limited by guarantee, established for the promotion of education through the arts, and in particular, theatre. The Council has guaranteed a loan of £3.0 million to the Trust which the Trust is repaying over a period of 10 years commencing in August 1998. As at 31 March 2007, the balance on the loan was £0.45 million (£0.8 million at 31 March 2006).
- The Council is participating with Huddersfield Sporting Pride Ltd, in the development, construction and running of a sports stadium at Bradley Mills Road, Huddersfield, through Kirklees Stadium Development Ltd (KSDL). The Council originally guaranteed the financing of the construction of the stadium, pending the receipt of funds. The loan has been restructured and the Council has guaranteed the new loan of £7.4 million, to be repaid over twenty years commencing in February 2001. As at 31 March 2007, the balance on the loan was £6.1 million (£6.3 million at 31 March 2006). The Council has also agreed to guarantee English Partnership's investment of £1.7 million in the North Stand development of the project and a loan of £0.9 million to the Company in respect of the construction of an indoor sports facility at Leeds Road Playing Fields. As at 31 March 2007, the balance on the loan was £0.7 million (£0.8 million at 31 March 2006).
- The Council has given an indemnity for direct loss and economic loss up to £2.0 million plus inflation to date to the lessee of a reclaimed site in respect of pollution arising from contaminants on the site at the date of the lease.
- The House of Lords has ruled that claims can be brought to Employment Tribunals for pension rights for part time employees who worked for less than fifteen hours per week, provided that this is done within six months of leaving employment. It is not possible to quantify the financial implications for the Council.

NOTES TO THE CORE FINANCIAL STATEMENTS

- The Council has guaranteed a loan of up to £600,000 to Kirklees Media Centre Ltd to be repaid over fifteen years, commencing in February 2001.
- Municipal Mutual Insurance is running down its business, whilst paying agreed claims in full. It has, however, entered into a Scheme of Arrangement, in case of insolvency, which would involve a levy against claims paid and future payments. The Directors of the Company remain of the opinion that a solvent run-off can be achieved, but in the unlikely event that the Scheme comes into effect, the Council may be liable to clawback of up to £6.5 million, plus an additional £0.8 million for claims still outstanding.
- Independent Insurance, which provided liability cover, ceased trading in 2001. Provision has been made, but it is not yet possible to confirm that this will meet the full financial implications for the Council.
- Claims, which are not covered by insurance, have been made against predecessor authorities of the Council. Provision has been made, but it is not yet possible to confirm that this will meet the full financial implications for the Council.
- The House of Lords ruled in 2001 that local authorities do not have the power to charge for aftercare for persons discharged from compulsory detention under Section 117 of the Mental Health Act 1983. The Council has made provision (note 37) for refunds of care charges dating back to the original ruling, but there is conflicting legal opinion as to whether refunds should also be given for residential charges. If it is ruled that residential charges also have to be refunded, the Council may have to make further payments of up to £0.5 million.
- The main local government pay settlement in 2004 requires local authorities to implement single status pay and conditions arrangements by April 2007. As part of this process, the Council has been holding negotiations on equal pay claims and has made payments in both 2005/06 and 2006/07. However, some claims are still outstanding and although a provision of £8.7 million has been made and reserve of £0.923 million been set aside for future settlements, it is not known at this time, whether this will be sufficient to meet all payments.
- A recent legal judgement has ruled that private fostering arrangements are placements under Section 20 of the Children's Act 1989 and therefore local authorities have responsibilities to provide financial support for such arrangements. The Council has placed children with non-family members without providing financial support and any claims could be back dated to 1991. It is not possible to arrive at a reliable estimate for likely claims but the Council has prudently set aside £0.3 million in an earmarked reserve to help meet any liability.

41 Contingent Asset

The VAT and Duties Tribunal ruled in January 2006 that local authorities should not be required to charge VAT on off street car parking because they operate under a special legal regime. However, HM Revenue & Customs have since lodged an appeal and in February 2007 the case was referred to the European Court of Justice for guidance.

The Council has lodged a protective claim pending the outcome of the appeal. Refunds could potentially be in excess of £5.0 million, but the Council would be required to demonstrate that it had not unjustly benefited in financial terms.

42 Events after the Balance Sheet Date

These accounts were authorised for issue on the date the Director of Finance signed the final version – see Statement of Responsibilities and Certificate on page 5. There was one material event occurring between the Balance sheet date and the date when the accounts were authorised for issue. This was the sale of the Council's interest in Leeds Bradford International Airport Limited at the beginning of May for just over £8.5 million.

NOTES TO THE CORE FINANCIAL STATEMENTS

43 Trust Funds

The Council administers over fifty funds, with by far the biggest being the Deighton Brackenhall Initiative. This Initiative invests a community dividend, received from a housing regeneration project, to improve the lives of and provide long-term benefits to the residents in the area. Other funds held in trust are for such purposes as grants, scholarships and book prizes, or for the benefit and care of particular client groups. The Council is actively considering options for a number of trust funds (including two that are in deficit) to ensure their future viability. This includes continued financial support by the Council and the exploration of the involvement of external parties.

Trust funds do not represent assets of the Council and are not included in its Income and Expenditure Account and Balance Sheet.

Income and Expenditure Account:

| 2005/06 Balance £000s | | Income £000s | 2006/07 Expenditure £000s | Balance £000s |
|-----------------------------|---|-----------------|---------------------------------|------------------|
| | <u>Trust Funds for which Council is sole trustee -</u> | | | |
| 569 | Dewsbury Endowed Schools | 242 | 19 | 792 |
| 83 | Kayes School | 5 | 4 | 84 |
| 47 | Huddersfield Scholarship | 0 | 47 | 0 |
| 37 | Festival of Britain | 2 | 0 | 39 |
| 14 | Wartons Charity | 0 | 0 | 14 |
| 13 | Huddersfield Enclosure Act | 1 | 0 | 14 |
| 19 | Other (8 separate funds each with a balance less than £10,000) | 0 | 3 | 16 |
| 782 | | 250 | 73 | 959 |
| | <u>Trust Funds for which Council is not sole trustee -</u> | | | |
| 3,353 | Deighton Brackenhall Initiative | 574 | 510 | 3,417 |
| 228 | William Henry Coulter | 9 | 2 | 235 |
| 108 | Lockwood Mechanics | 4 | 0 | 112 |
| -153 | William Greenwood Homes | 0 | 14 | -167 |
| -26 | Fletcher Homes | 10 | 5 | -21 |
| 40 | Gilder Hall | 2 | 42 | 0 |
| 26 | Golcar Township | 1 | 1 | 26 |
| 34 | Roebuck Memorial | 16 | 16 | 34 |
| 18 | Huddersfield Orphan Homes | 62 | 3 | 77 |
| 17 | Batley Enclosure Act | 1 | 0 | 18 |
| 10 | Cleckheaton Cemetery | 1 | 1 | 10 |
| 10 | Scissett Baths | 1 | 1 | 10 |
| 102 | Other (27 separate funds each with a balance less than £10,000) | 7 | 12 | 97 |
| 3,767 | | 688 | 607 | 3,848 |
| 4,549 | | 938 | 680 | 4,807 |

NOTES TO THE CORE FINANCIAL STATEMENTS

Balance Sheet:

| 31 March 2006 £000s | | 31 March 2007 | |
|---------------------------|----------------------|---------------|-------|
| | | £000s | £000s |
| 11 | Fixed Assets | | 221 |
| 778 | Investments | | 2,787 |
| | Net Current Assets - | | |
| 3 | Debtors | 3 | |
| 3,763 | Cash | 1,799 | |
| -6 | Less Creditors | -3 | 1,799 |
| 4,549 | | | 4,807 |
| | Represented by - | | |
| 4,348 | Capital Balances | | 4,484 |
| 201 | Revenue Surpluses | | 323 |
| 4,549 | | | 4,807 |

44 Pensions Disclosures

▪ Participation in Pension Schemes

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

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2006/07, the Council paid £15.3 million (2005/06 £15.0 million) to the Pensions Agency in respect of teachers' retirement benefits, representing 13.7% (2005/06 13.5%) of pensionable pay.

Under FRS17, the Council is required to make certain disclosures regarding the following defined benefit pension schemes it is involved in:-

- The Local Government Pension Scheme (LGPS) – a funded scheme administered by the West Yorkshire Pension Fund whereby the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets in the long term.
- Teachers' Discretionary Benefits (Teachers) – unfunded payments made by the Council in respect of added years awarded to teachers who have already retired.

▪ Transactions Relating to Retirement Benefits

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

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2005/06 | | | Income and Expenditure Account | 2006/07 | | |
|---------------|-------------------|----------------|---|---------------|-------------------|----------------|
| LGPS £000s | Teachers £000s | Total £000s | | LGPS £000s | Teachers £000s | Total £000s |
| | | | <i>Net Cost of Services:</i> | | | |
| 32,379 | 0 | 32,379 | Current service cost | 38,036 | 0 | 38,036 |
| -16,852 | 3,236 | -13,616 | Past service gain(-)/cost | 0 | 2,962 | 2,962 |
| 373 | 0 | 373 | Curtailment loss | 1,163 | 0 | 1,163 |
| | | | <i>Net Operating Expenditure:</i> | | | |
| 48,601 | 1,797 | 50,398 | Interest cost | 51,895 | 1,818 | 53,713 |
| -45,028 | 0 | -45,028 | Expected return on assets in the scheme | -53,233 | 0 | -53,233 |
| 19,473 | 5,033 | 24,506 | Net charge to I&E Account | 37,861 | 4,780 | 42,641 |
| | | | <i>Statement of Movement in the General Fund Balance</i> | | | |
| 1,207 | -2,308 | -1,101 | Reversal of net charges | -13,761 | -1,770 | -15,531 |
| 20,680 | 2,725 | 23,405 | Actual amount charged against General Fund Balance for pensions in the year | 24,100 | 3,010 | 27,110 |

The actuary's calculations are based on estimated costs; hence there are slight discrepancies between their figures and the actual costs shown in the Net Cost of Services figures in the Income and Expenditure Account.

▪ **Assets and Liabilities in Relation to Retirement Benefits**

The underlying assets and liabilities for retirement benefits attributable to the Council are as follows:

| 31 March 2006 | | | | 31 March 2007 | | |
|---------------|-------------------|----------------|---------------------------------|---------------|-------------------|----------------|
| LGPS £000s | Teachers £000s | Total £000s | | LGPS £000s | Teachers £000s | Total £000s |
| -1,050,848 | -38,614 | -1,089,462 | Estimated liabilities in scheme | -1,063,763 | -39,321 | -1,103,084 |
| 828,492 | 0 | 828,492 | Estimated assets in scheme | 893,646 | 0 | 893,646 |
| -222,356 | -38,614 | -260,970 | Net pensions liability | -170,117 | -39,321 | -209,438 |

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £209 million has a substantial impact on the net worth of the Council as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy -

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- Funding is only required to be raised to cover Teacher's Discretionary Benefits when the pensions are actually paid.

NOTES TO THE CORE FINANCIAL STATEMENTS

▪ Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the LGPS and Teacher's Unfunded Discretionary Benefits liabilities have been assessed by W Mercer, an independent firm of actuaries, estimates for the LGPS being based on the latest full valuation of the West Yorkshire Pension Fund as at 31 March 2004.

The value of the unfunded liabilities relating to the LGPS is £30.0 million (2005/06 £31.6 million).

The main assumptions used in the calculations are:

| 2005/06 | | | 2006/07 | |
|-----------|---------------|---|-----------|---------------|
| LGPS % | Teachers % | | LGPS % | Teachers % |
| 2.90 | 2.90 | Rate of inflation | 3.10 | 3.10 |
| 4.65 | n/a | Rate of increase in salaries | 4.85 | n/a |
| 2.90 | 2.90 | Rate of increase in pensions | 3.10 | 3.10 |
| 4.90 | 4.90 | Rate for discounting scheme liabilities | 5.40 | 5.40 |
| 50.00 | n/a | Take up of option to convert annual pension into retirement grant | 50.00 | n/a |

There are no assets to cover the liabilities of Teachers' Discretionary Benefits. Assets in the LGPS are valued at fair value, principally market value for investments, totalling £7,080 million for the Fund as a whole at 31 December 2006 (£6,666 million at 31 December 2005). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

| 2005/06 | | | 2006/07 | |
|----------------------------------|---------------------------------|--------------------|----------------------------------|---------------------------------|
| Split between categories % | Expected rate of return % | | Split between categories % | Expected rate of return % |
| 73.9 | 7.0 | Equity investments | 73.6 | 7.5 |
| 6.9 | 4.3 | Government Bonds | 7.3 | 4.7 |
| 4.8 | 4.9 | Other Bonds | 4.1 | 5.4 |
| 5.1 | 6.0 | Property | 5.3 | 6.5 |
| 6.2 | 4.5 | Cash/ liquidity | 5.2 | 5.3 |
| 3.1 | 7.0 | Other | 4.5 | 7.5 |
| 100.0 | | | 100.0 | |

NOTES TO THE CORE FINANCIAL STATEMENTS

▪ **Actuarial Gains and Losses**

The actuarial gains/ losses identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March.

| | 31 March 2003 | | 31 March 2004 | | 31 March 2005 | | 31 March 2006 | | 31 March 2007 | |
|---|-----------------|--------------|---------------|-------------|-----------------|--------------|---------------|------------|---------------|------------|
| | £000s | % | £000s | % | £000s | % | £000s | % | £000s | % |
| LGPS | | | | | | | | | | |
| Difference between the expected and actual return on assets | -168,011 | -34.4 | 78,745 | 13.2 | 36,187 | 5.5 | 120,259 | 14.5 | 9,764 | 1.1 |
| Difference between actuarial assumptions about liabilities and actual experience | 0 | 0 | 0 | 0 | -25,533 | -2.9 | -23,600 | -2.2 | 0 | 0 |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0 | 0 | 0 | 0 | -155,371 | -17.4 | -86,264 | -8.2 | 56,236 | 5.3 |
| | <u>-168,011</u> | <u>-34.4</u> | <u>78,745</u> | <u>13.2</u> | <u>-144,717</u> | <u>-16.2</u> | <u>10,395</u> | <u>1.0</u> | <u>66,000</u> | <u>6.2</u> |

| | 31 March 2003 | | 31 March 2004 | | 31 March 2005 | | 31 March 2006 | | 31 March 2007 | |
|---|---------------|-------------|---------------|-------------|---------------|--------------|---------------|-------------|---------------|------------|
| | £000s | % | £000s | % | £000s | % | £000s | % | £000s | % |
| Teachers | | | | | | | | | | |
| Difference between actuarial assumptions about liabilities and actual experience | -799 | -2.9 | -831 | -2.8 | -436 | -1.3 | 0 | 0 | 0 | 0 |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0 | 0 | 0 | 0 | -3,712 | -10.7 | -1,661 | -4.3 | 1,063 | 2.7 |
| | <u>-799</u> | <u>-2.9</u> | <u>-831</u> | <u>-2.8</u> | <u>-4,148</u> | <u>-12.0</u> | <u>-1,661</u> | <u>-4.3</u> | <u>1,063</u> | <u>2.7</u> |

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

NOTES TO THE CORE FINANCIAL STATEMENTS

45 Notes to the Cash Flow Statement

▪ Reconciliation of Net Movement on the Income and Expenditure Account to Revenue Activities Net Cash Flow

This reconciliation identifies items included within the Income and Expenditure Account that do not result in cash flows under the revenue activities in the statement.

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| -29,505 | Income and Expenditure Account Deficit for the year | -22,290 |
| -988 | Movement on the Collection Fund Balance | -1,580 |
| 21,533 | Interest | 22,063 |
| | Non-cash transactions - | |
| 1,101 | Movement on Pensions Reserve | 15,531 |
| -1,507 | Movement on Landfill Allowance Trading Reserve | -880 |
| 43,641 | Various capital accounting entries | 41,647 |
| 48 | Provisions including those for bad debts | -912 |
| 75 | Waste Management SSA Issue | 75 |
| 891 | Accounting for LOBOs in line with FRS4 | 195 |
| 429 | Premiums | 458 |
| | Items on an accruals basis - | |
| -241 | Increase(-)/decrease in stock | 2 |
| 2,810 | Decrease in revenue debtors | 8,609 |
| -4,148 | Increase/decrease(-) in revenue creditors | 4,383 |
| 34,139 | Net Cash Inflow from Revenue Activities | 67,301 |

▪ Analysis of Net Cashflow to Movement in Net Debt

| 2005/06 Change £000s | | 2006/07 Change £000s |
|----------------------------|--|----------------------------|
| 335 | Increase/decrease(-) in cash in period | -530 |
| -2,825 | Cash used to increase/decrease(-) liquid resources | 33,325 |
| 176,556 | Cash used to repay debt | 243,152 |
| -276,344 | New loans | -300,227 |
| 67 | Cash used to repay leasing obligations | 221 |
| -102,211 | Change in net debt | -24,059 |
| -658 | Increase in finance leasing obligation/ transferred debt | -280 |
| -102,869 | | -24,339 |
| -275,412 | Net debt at beginning of period | -378,281 |
| -378,281 | Net debt at end of period | -402,620 |

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2005/06 Change £000s | | 1 April 2006 £000s | 31 March 2007 £000s | 2006/07 Change £000s |
|--|--|--------------------------|---------------------------|----------------------------|
| <u>Analysis of changes in net debt</u> | | | | |
| 335 | Cash in Hand/ Bank | 11,641 | 11,840 | 199 |
| 0 | Bank Overdraft | 0 | -729 | -729 |
| -98,874 | Long Term Borrowing | -425,653 | -486,600 | -60,947 |
| 891 | FRS4 adjustment | 891 | 1,086 | 195 |
| -2,035 | Short Term Borrowing | -4,420 | -975 | 3,445 |
| -361 | Deferred Liabilities, including those due in the next 12 months | -5,515 | -5,342 | 173 |
| -2,825 | Investments | 44,775 | 78,100 | 33,325 |
| <u>-102,869</u> | | <u>-378,281</u> | <u>-402,620</u> | <u>-24,339</u> |

▪ **Analysis of Changes in Management of Liquid Resources**

| 2005/06 Change £000s | | 1 April 2006 £000s | 31 March 2007 £000s | 2006/07 Change £000s |
|----------------------------|----------------------------|--------------------------|---------------------------|----------------------------|
| Short Term Investments - | | | | |
| 2,825 | Repayable within 12 months | 44,775 | 78,100 | -33,325 |

The Council's liquid resources consist of Short Term Investments repayable not on demand but within a period of twelve months. These instruments are used to assist in the management of the Council's cashflow.

▪ **Analysis of Changes in Financing**

| 2005/06 Change £000s | | 1 April 2006 £000s | 31 March 2007 £000s | 2006/07 Change £000s |
|----------------------------|--|--------------------------|---------------------------|----------------------------|
| 98,874 | Long Term Borrowing | -425,653 | -486,600 | 60,947 |
| -891 | FRS4 adjustment | 891 | 1,086 | -195 |
| 2,035 | Short Term Borrowing | -4,420 | -975 | -3,445 |
| 361 | Deferred Liabilities, including those due in the next 12 months | -5,515 | -5,342 | -173 |
| -658 | New finance lease obligation | 0 | 280 | -280 |
| <u>99,721</u> | | <u>-434,697</u> | <u>-491,551</u> | <u>56,854</u> |

▪ **Changes in Cash**

| 2005/06 Change £000s | | 1 April 2006 £000s | 31 March 2007 £000s | 2006/07 Change £000s |
|----------------------------|------------------------------|--------------------------|---------------------------|----------------------------|
| 3,788 | Cash in Hand | 6,784 | 2,669 | -4,115 |
| 0 | Bank Overdraft | 0 | -729 | -729 |
| -3,453 | Deposits repayable on demand | 4,857 | 9,171 | 4,314 |
| <u>335</u> | | <u>11,641</u> | <u>11,111</u> | <u>-530</u> |

NOTES TO THE CORE FINANCIAL STATEMENTS

▪ **Government and Other Grants Received**

The actual cash received in respect of Government and other grants is detailed below:

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--|------------------|
| 0 | Local Area Agreement | 15,661 |
| 10,418 | Housing Revenue Account Subsidy | 9,536 |
| 21,794 | Education Standards Fund (*) | 27,025 |
| 10,650 | Supporting People | 10,470 |
| 7,727 | Learning and Skills Council Sixth Form Grant | 8,379 |
| 8,514 | Teachers Pay Reform (**) | 0 |
| 7,682 | School Standards Grant | 10,324 |
| 2,299 | Preserved Rights Grant | 1,979 |
| 1,345 | Children's Social Services Grant (*) | 0 |
| 391 | Single Regeneration Budget | 0 |
| 1,044 | European Community Grants | 74 |
| 9,135 | Private Finance Initiative | 9,135 |
| 1,326 | Promoting Independence | 1,366 |
| 937 | Mental Health | 978 |
| 2,992 | Neighbourhood Renewal Fund | 4,898 |
| 4,120 | Building Care Capacity Grant | 3,852 |
| 1,471 | Residential Allowance | 0 |
| 632 | National Training Strategy | 750 |
| 2,927 | Digital TV/ E-innovations | 18 |
| 1,731 | Asylum Seekers | 1,603 |
| 715 | Neighbourhood Nursery Initiative | 0 |
| 1,620 | Performance Reward Grant | 1,620 |
| 1,651 | Local Authority Business Growth Incentives | 2,607 |
| 430 | Young Peoples Substance Misuse Partnership | 431 |
| 5,795 | General Surestart Grant (*) | 1,080 |
| 1,572 | Job Centre Plus | 942 |
| 3,139 | Housing Benefit and Council Tax Administration | 3,580 |
| 599 | Neighbourhood Management Pathfinder (*) | 0 |
| 22,696 | Other Grants | 25,780 |
| 135,352 | | 142,088 |

(*) These grants have been transferred in full or in part to Local Area Agreement grant.

(**) Teachers Pay Reform grant is included within the Dedicated Schools Grant from 2006/07.

ADDITIONAL FINANCIAL STATEMENTS

HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE ACCOUNT

This statement fulfils the statutory obligation to account separately for local authority housing provision as defined in particular in Schedule 4 of the Local Government and Housing Act 1989.

| Restated (note1) 2005/06 £000s | | 2006/07 £000s | Note |
|--------------------------------------|---|------------------|------|
| | <u>Income</u> | | |
| 59,676 | Dwelling rents (gross) | 61,383 | |
| 618 | Non-dwelling rents (gross) | 608 | |
| 209 | Charges for services and facilities | 56 | |
| 978 | Contributions towards expenditure | 1,871 | |
| 10,939 | HRA subsidy receivable (including the Major Repairs Allowance) | 9,345 | 3 |
| 72,420 | Total Income | 73,263 | |
| | <u>Expenditure</u> | | |
| 19,173 | Repairs and maintenance | 18,839 | |
| 15,494 | Supervision and management | 17,389 | |
| 2,861 | Special services | 2,811 | |
| 132 | Rent, rates, taxes and other charges | 169 | |
| 302 | Rent rebates | 0 | |
| 439 | Increased provision for bad debts | 1,027 | |
| 13,654 | Depreciation (net of grant) | 13,752 | 4 |
| 92 | Debt management costs | 90 | |
| 52,147 | Total Expenditure | 54,077 | |
| -20,273 | Net Cost of Services as included in whole authority Income and Expenditure Account | -19,186 | |
| 0 | HRA share of Corporate & Democratic Core | 373 | |
| 38 | HRA share of Non-distributed costs | 36 | |
| -20,235 | Net Cost of HRA Services | -18,777 | |
| 1,248 | Loss on disposal of assets | 711 | 5 |
| 13,230 | Interest payable and similar charges | 13,766 | |
| 128 | Amortisation of premiums and discounts | 144 | |
| -1,429 | Interest and investment income | -1,623 | |
| 7,058 | Surplus for the year on HRA services | 5,779 | |

ADDITIONAL FINANCIAL STATEMENTS

STATEMENT OF MOVEMENT ON THE HRA BALANCE

The Income and Expenditure Account shows the HRA's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the surplus and deficit for the year on the HRA Balance has to be calculated in accordance with the requirements of the Local Government and Housing Act 1989. The statement below reconciles the outturn on the Income and Expenditure Account and reconciles it to the movement on the HRA Balance.

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| 7,058 | Surplus for the year on the HRA Income and Expenditure Account | 5,779 |
| 89 | Net additional amount required by statute to be credited/ debited(-) to the HRA Balance for the year (see note below) | -5,813 |
| 7,147 | Increase/Decrease(-) in the HRA Balance | -34 |
| 25,194 | HRA surplus brought forward | 32,341 |
| 32,341 | HRA surplus carried forward | 32,307 |

NOTE TO THE STATEMENT OF MOVEMENT ON THE HRA BALANCE

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| | <u>Items included in the HRA Income and Expenditure Account but excluded from the movement on the HRA Balance for the year:</u> | |
| | Difference between amounts charged to Income and Expenditure and the charge for the year determined in accordance with statute: | |
| -218 | Amortisation of premiums and discounts | -406 |
| 153 | Right to Buy administration expenses | 158 |
| 1,248 | Loss on sale of fixed assets | 711 |
| -29 | Grants deferred amortisation | -36 |
| 1,154 | | 427 |
| | <u>Items not included in the HRA Income and Expenditure Account but included in the movement on the HRA Balance for the year:</u> | |
| 179 | Transfer to Major Repairs Reserve | 181 |
| -1,244 | Capital expenditure funded by the HRA | -6,421 |
| 89 | Net additional amount required by statute to be credited/ debited(-) to the HRA Balance for the year | -5,813 |

NOTES TO THE HRA

1 Prior year adjustments

The 2006 SORP has changed the format of the HRA to bring it into line with the new single entity format. The HRA now comprises of a HRA Income and Expenditure Account and a Statement of Movement on the HRA Balance. The figures for 2005/06 have been restated on the new basis.

The SORP has removed the requirement to make a capital financing charge on assets used in the provision of service. The figures for 2005/06 have been restated taking out the cost of capital charge of £26.0 million and removing the related Asset Management Revenue Account entries.

The SORP also requires authorities to show gains and losses on asset disposals on the face of the Income and Expenditure Account. The HRA had no disposals in 2005/06 which were either above or below market values, except certain housing stock that were demolished (£1.2 million). These were previously treated as impairments. Adjustments have been done to reverse the impairment entries.

The Council believes that it is appropriate that HRA should be charged a fair share of the authority's costs on Corporate and Democratic Core, and it has begun to charge this from 2006-07 onwards. There has been no adjustment for previous years.

- 2** The Council acknowledges that it is proper accounting practice to fully recognise the effects of FRS17 in the HRA, but has not included them on the grounds of materiality.

3 Breakdown of HRA Subsidy Received

HRA subsidy is paid to meet any shortfall between expenditure and income on a notional HRA. The calculation is based on annual assumptions covering guideline rents, a number of allowances and other specific items of income and expenditure.

| 2005/06 £000s | | 2006/07 £000s |
|------------------|-----------------------------|------------------|
| 11,339 | Allowance for Management | 11,983 |
| 20,478 | Allowance for Maintenance | 21,820 |
| 13,504 | Allowance for Major Repairs | 13,606 |
| 20,571 | Charges for Capital | 20,021 |
| -54,903 | Guideline Rent Income | -58,057 |
| -50 | Interest on Receipts | -28 |
| 10,939 | Total HRA Subsidy | 9,345 |

4 Depreciation

The Council has adopted the Major Repairs Allowance (MRA) as a measure of depreciation for its dwellings. The MRA equates to the annual cost of maintaining the properties over a thirty year period.

5 Gains and Losses on Asset Disposals

The 2006 SORP requires authorities to show gains and losses on asset disposals on the face of the Income and Expenditure Account. The HRA had no disposals in 2006/07 which were either above or below market values, except for certain properties that were demolished. A number of council houses were demolished as part of a housing regeneration project at Deighton/Brackenhall (£0.711 million).

ADDITIONAL FINANCIAL STATEMENTS

6 Major Repairs Reserve

This reserve records the unspent balance of HRA subsidy paid in the form of major repairs allowance. The main credit to the reserve is an amount equivalent to the charge for depreciation on council dwellings. The reserve can be used to finance capital expenditure on HRA assets or repay HRA debt.

| 2005/06 £000s | | 2006/07 £000s |
|------------------|------------------------------|------------------|
| 0 | Balance at 1 April | 0 |
| -13,504 | Capital Expenditure | -13,581 |
| -179 | Depreciation – non-dwellings | -181 |
| 13,683 | Transfer to the reserve | 13,787 |
| 0 | Balance at 31 March | 25 |

7 Movement in HRA Fixed Assets

| | Council Dwellings £000s | Other Land and Buildings £000s | Non- operational Assets £000s | Total Assets £000s |
|------------------------------------|-------------------------------|--------------------------------------|--|--------------------------|
| <u>Cost or Valuation</u> | | | | |
| 1 April 2006 | 727,607 | 4,275 | 20,314 | 752,196 |
| Additions | 39,047 | 0 | 0 | 39,047 |
| Revaluations and Adjustments | 50,240 | 34 | 1,093 | 51,367 |
| Disposals | -14,902 | 0 | -832 | -15,734 |
| 31 March 2007 | 801,992 | 4,309 | 20,575 | 826,876 |
| <u>Depreciation and Impairment</u> | | | | |
| 1 April 2006 | 14,752 | 214 | 0 | 14,966 |
| Revaluations and Adjustments | -14,752 | -167 | 0 | -14,919 |
| Charge for Year | 13,606 | 181 | 0 | 13,787 |
| Disposals | 0 | 0 | 0 | 0 |
| 31 March 2007 | 13,606 | 228 | 0 | 13,834 |
| <u>Net Book Value</u> | | | | |
| 1 April 2006 | 712,855 | 4,061 | 20,314 | 737,230 |
| 31 March 2007 | 788,386 | 4,081 | 20,575 | 813,042 |

8 Fixed Asset Valuation

A complete revaluation of HRA assets was carried out as at 1 April 2006 by the District Valuer. As at that date, the vacant possession value of dwellings was £1,691.8 million compared with the balance sheet value of £795.1 million. The difference reflects the economic cost to the Government of providing council housing at less than open market rents.

ADDITIONAL FINANCIAL STATEMENTS

9 Capital Expenditure and Sources of Finance

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---------------------------|------------------|
| | Capital Expenditure: | |
| 72,454 | Fixed Assets | 39,047 |
| 72,454 | Total Capital Expenditure | 39,047 |
| | Financed by: | |
| 50,000 | Borrowing | 9,449 |
| 13,504 | Major Repairs Reserve | 13,581 |
| 7,670 | Capital Receipts | 9,514 |
| 36 | Capital Grant | 82 |
| 1,244 | Revenue | 6,421 |
| 72,454 | Total Sources of Finance | 39,047 |

10 Capital Receipts

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| | Capital receipts from sales of: | |
| 16,213 | Dwellings (net of sale administration fees) | 13,719 |
| 350 | Land | 832 |
| 523 | Other | 586 |
| 17,086 | | 15,137 |
| -11,931 | Contribution to Housing Pooled Capital Receipts | -9,949 |
| 5,155 | Usable capital receipts | 5,188 |

The HRA is required to pay over a certain proportion of capital receipts into a national pooling arrangement.

11 Housing Stock

The Council's housing stock at 31 March 2007 is analysed below by size and age:

| | | | | | |
|-----------------------------------|-----------|------------|------------|-------------|--------|
| <u>By Size</u> | 1 Bedroom | 2 Bedrooms | 3 Bedrooms | 4+ Bedrooms | Total |
| Houses/ Bungalows | 2,817 | 6,005 | 4,926 | 359 | 14,107 |
| Flats/ Bedsits and Maisonettes | 7,248 | 2,269 | 122 | 0 | 9,639 |
| | 10,065 | 8,274 | 5,048 | 359 | 23,746 |
| <u>By Age</u> | Pre 1945 | 1945-64 | 1965-74 | Post 1974 | Total |
| Houses/ Bungalows | 6,156 | 5,724 | 1,588 | 639 | 14,107 |
| Flats/ Bedsits and Maisonettes | 225 | 2,556 | 4,161 | 2,697 | 9,639 |
| | 6,381 | 8,280 | 5,749 | 3,336 | 23,746 |

ADDITIONAL FINANCIAL STATEMENTS

12 Rent Arrears

Rent arrears have fallen over the year, as follows:

| 31 March 2006 £000s | | 31 March 2007 £000s |
|---------------------------|--------------------|---------------------------|
| 3,951 | Rent Arrears | 3,497 |
| -1,672 | Bad Debt Provision | -1,664 |
| <u>2,279</u> | | <u>1,833</u> |

13 Private Finance Initiative

The Council has received endorsement from Central Government to proceed to the procurement stage on a scheme to build 550 units of HRA housing, of which approximately 150 will be "extra care" units and 40 will be suitable for tenants with physical disabilities. The scheme is currently in procurement, with commercial close planned for 2008.

ADDITIONAL FINANCIAL STATEMENTS

COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

The Collection Fund shows the income received from Council Tax and Non-Domestic Rates and the way in which this has been distributed to precepting authorities and the Council's General Fund.

| 2005/06 | | 2006/07 | | Note |
|---------|--|---------|---------|------|
| £000s | | £000s | £000s | |
| | <u>Income</u> | | | |
| 122,989 | Income from Council Tax | | 130,141 | 1 |
| | Transfers from General Fund - | | | |
| 23,095 | Council Tax Benefits | | 24,378 | |
| 80,868 | Income Collectable from Business Ratepayers | | 85,975 | 2 |
| | Contributions - | | | |
| 1 | Adjustment of previous years' Community Charges | | 1 | |
| 226,953 | Total Income | | 240,495 | |
| | <u>Expenditure</u> | | | |
| | Precepts and demands - | | | |
| 12,977 | West Yorkshire Police Authority | 13,751 | | |
| 5,294 | West Yorkshire Fire Authority | 5,608 | | |
| 125,988 | Kirklees Metropolitan Council | 133,511 | 152,870 | |
| | Business Rate - | | | |
| 80,246 | Payment to national pool | 85,354 | | |
| 622 | Cost of collection | 621 | 85,975 | |
| 1,614 | Contribution to bad debts provision | | 630 | |
| 1,200 | Distribution of previous year's estimated Collection Fund surplus | | 2,600 | |
| 227,941 | Total Expenditure | | 242,075 | |
| -988 | Movement on Fund Balance | | -1,580 | |
| 2,757 | Balance at 1 April | | 1,769 | |
| 1,769 | Balance at 31 March | | 189 | 3 |

ADDITIONAL FINANCIAL STATEMENTS

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

1 Council Tax

The Council Tax is charged on a series of property valuation bands. These bands, the charges due for the year and the average Council Tax are shown below.

| 2005/06 | | Band | | 2006/07 | | |
|--------------------------------|-----------------------------|-----------------------|------------------|--------------------------------|-----------------------------|-----------------------|
| Number of Chargeable Dwellings | Band D Equivalent Dwellings | Average Council Tax £ | | Number of Chargeable Dwellings | Band D Equivalent Dwellings | Average Council Tax £ |
| 74 | 41 | 661.12 | A (5/9)* | 74 | 41 | 694.20 |
| 65,970 | 43,980 | 793.34 | A (6/9) | 65,850 | 43,900 | 833.04 |
| 27,488 | 21,380 | 925.56 | B (7/9) | 27,643 | 21,500 | 971.88 |
| 26,416 | 23,481 | 1,057.79 | C (8/9) | 26,478 | 23,536 | 1,110.72 |
| 13,085 | 13,085 | 1,190.01 | D (9/9) | 13,251 | 13,251 | 1,249.56 |
| 9,731 | 11,894 | 1,454.46 | E (11/9) | 9,834 | 12,019 | 1,527.24 |
| 4,250 | 6,139 | 1,718.90 | F (13/9) | 4,299 | 6,209 | 1,804.92 |
| 1,751 | 2,919 | 1,983.35 | G (15/9) | 1,782 | 2,970 | 2,082.60 |
| 77 | 153 | 2,380.02 | H (18/9) | 75 | 149 | 2,499.12 |
| | 123,072 | | Total | | 123,575 | |
| | -1,846 | | Adjustments ** | | -1,235 | |
| | 121,226 | | Council Tax Base | | 122,340 | |

* Band A disabled ** Estimated losses on collection

2 National Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies a multiplier (42.6p in 2006/07) and, subject to the effects of transitional arrangements and other reliefs, local businesses pay rates calculated by applying the multiplier to their rateable value. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population. The amounts included in the Collection Fund can be analysed as follows:

| 2005/06 | | 2006/07 | |
|---------|---|---------|---------|
| £000s | | £000s | |
| n/a | Non-domestic rate income 2006/07 (average rateable value £239,663,579) | 103,711 | |
| 98,818 | Non-domestic rate income 2005/06 (average rateable value £240,458,213) | | n/a |
| -17,950 | Allowance and other adjustments (net) | | -17,736 |
| 80,868 | Net contribution to NNDR pool | | 85,975 |

The actual non-domestic rateable value at 31 March 2007 was £240,083,973 (£240,325,627 at 31 March 2006).

ADDITIONAL FINANCIAL STATEMENTS

3 Balances

The balance on the Collection Fund relates to both Council Tax and Community Charge. That part of the balance which relates to Community Charge will be paid to the Council in subsequent financial years. That part of the balance which relates to Council Tax will be shared between the Council, the West Yorkshire Police Authority, and the West Yorkshire Fire Authority in proportion to their precepts and demand on the Fund, again in subsequent financial years. The balance is split as follows:

| 2005/06 | | 2006/07 |
|--------------|------------------|------------|
| £000s | | £000s |
| 1,764 | Council Tax | 183 |
| 5 | Community Charge | 6 |
| <u>1,769</u> | | <u>189</u> |

GROUP ACCOUNTS

EXPLANATORY FOREWORD

The increasing diversity of service delivery vehicles used by Local Authorities over recent years has resulted in a requirement to produce Group Accounts. Rather than just using traditional types of service provision many Local Authorities now form or invest in separate companies in the public and private sector. As these companies and investments are separate entities, they are not considered in the accounts of the Authority. This can result in accounts that do not give a full picture of the services provided and the risks, rewards and costs taken on as a result.

The Group Accounts include:

- **An Explanatory Foreword** - provides a guide to the most significant items reported.
- **The Statement of Accounting Policies** - explains the basis of the figures in the financial statements.
- **Income and Expenditure Account** - shows the income and expenditure relating to the Council and its associated companies and demonstrates how this has been financed.
- **Reconciliation of the Single Entity Surplus or Deficit to the Group Surplus or Deficit** - reconciles the surpluses or deficits on the Income and Expenditure Accounts of the single entity and the Group.
- **Statement of Total Recognised Gains and Losses (Group STRGL)** - brings together all gains and losses experienced by the Group during the year, including those not reflected in the Income and Expenditure Account.
- **Balance Sheet** - summarises the financial position of the Council and its associated companies, and shows their assets and liabilities at the year end.
- **Cash Flow Statement** - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Accounts** - adds to and helps the interpretation of the individual statements.

Kirklees Metropolitan Council's Group Accounts are made up of the accounts of the Council, two wholly owned subsidiaries (Kirklees Neighbourhood Housing Limited and Kirklees Metropolitan Development Company) where the Council has control over financial and operational decisions, and three joint ventures (Kirklees Henry Boot Partnership Limited, Kirklees Schools Services Limited and Kirklees Stadium Development Limited). The interest in and level of control over the joint ventures is so significant that omission from the Group Accounts would not give the whole picture of the Council's interests and services.

All of Kirklees Metropolitan Council's subsidiaries and joint venture companies are going concerns. The Council has no commitment to meet any accumulated losses of the companies within the Group, except for defaults on pension contributions related to Kirklees Neighbourhood Housing Limited (see Contingent Liabilities note in the KMC accounts).

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions and balances of the subsidiaries aforementioned. Both subsidiaries are consolidated using "the acquisition method". The other interests introduced above have been incorporated as joint ventures using the "gross equity method". The consolidation has been prepared in accordance with the SORP and CIPFA's Group Accounts in Local Authorities Practitioners' Workbook. Any divergences from these recommended practices are explained in the Group Accounts' Accounting Policies below.

The Subsidiaries and Joint Ventures of Kirklees Metropolitan Council

SUBSIDIARIES

Kirklees Neighbourhood Housing Limited (KNH)

The principal activity of KNH is to manage, maintain and improve the housing stock owned by the Council.

The body is a Company Limited by Guarantee. The Company has fifteen directors, five nominated by the Council, five tenant representatives and five independent representatives. Despite the composition of the board, the Council maintains 100% of the risk, reward and control.

KNH produce their own set of accounts with a year end date of 31 March. Copies of the accounts can be obtained from Kirklees Neighbourhood Housing, 2nd Floor, Perseverance House, St Andrews Road, Aspley, Huddersfield, HD1 6RY.

Due to the timing of the requirement to produce the Group Accounts, unaudited KNH accounts have been used for this consolidation.

Kirklees Metropolitan Development Company Limited (Devco)

The main activity of the company is the letting of properties in the Kirklees area. In the financial year 2006/07, company activities comprised managing the lettings of two industrial estates, Silver Court at Moldgreen and Riverside Way at Ravensthorpe.

The company is 100% controlled by the Council and is Limited by Guarantee.

Devco produces its own set of accounts with a year end date of 31 March. Copies of the accounts can be obtained from the Council's Director of Finance.

Due to the timing of the requirement to produce the Group Accounts, unaudited Devco accounts have been used for this consolidation.

JOINT VENTURES

Kirklees Henry Boot Partnership Limited (KHBP)

KHBP was formed to complete development projects throughout the Kirklees area. Its main schemes include the completion of the Kingsgate Shopping Centre and the disposal of the Yards' buildings. Although construction of the former is complete the company still has an interest in terms of equity participation.

The company has been controlled since commencement of trade in 1989, by the Council and Henry Boot Plc, on a 50/50 basis. The Council own 25% of shares in the company directly and hold 25% indirectly through the subsidiary Kirklees Metropolitan Development Company.

The Company's accounting year ends 31 December. Copies are available from the Council's Director of Finance.

At the time of consolidation of the Group Accounts, the KHBP accounts were still being audited.

Kirklees Schools Services Limited (KSSL)

The principal activity of the Company is the development, funding and construction of schools together with the operation of school services.

At the balance sheet date the Council had a shareholding of 163,140 ordinary shares of £1 each out of a total of 543,800 shares. This gives the Council a holding of 30%. Due to major restructuring over the last two years the remaining share capital of the company has changed hands on a number of occasions. At the KSSL balance sheet date, PFI Investments Limited owned 35% of share capital with IFGP Limited owning the remaining 35%. Both of these companies are ultimately controlled by Starsmif Investments Luxembourg Sàrl.

Draft accounts as at 31 December 2006 have been produced and are used in this consolidation.

Kirklees Stadium Development Limited (KSDL)

The company was formed to carry out the development, construction and running of the sports stadium in Huddersfield.

At the Company's balance sheet date, the Council had a shareholding of 40%, with Huddersfield Sporting Pride Limited holding the other 60%.

The SORP specifies that entities in the Group should share the same year end date as the reporting authority. Where this is not practicable it is recommended that accounts prepared in the three months prior to the Authority's are used. Given the nature of KSDL's business the ideal time for preparing accounts is during the football close season, giving the company a year end date of 31 July. This year, in order to achieve a consolidation consistent with the Council's balance sheet date, the KSDL management have provided management accounts as at 31 March 2007.

STATEMENT OF ACCOUNTING POLICIES

In the 2006 SORP, the introduction of an Income and Expenditure Account and a Statement of Total Recognised Gains and Losses for the single entity accounts means that Group Accounts are no longer required to be prepared according to accounting policies that are a hybrid between those adopted by the Council and those used by the group entities. The single entity Income and Expenditure therefore provides the basis for the Group Income and Expenditure Account without the need for any adjustments, apart from adjustments for intra-group transactions.

However, companies do have some scope to adopt different accounting policies under UK GAAP, and therefore adjustments must be made to the company figures and policies where necessary in order to bring them into line with the reporting authority's policies.

The Accounting Policies used in the Group Accounts are the same as those for the single entity unless otherwise stated.

ADJUSTMENTS TO THE AUTHORITY'S ACCOUNTS TO COMPLY WITH GAAP

Investments

In the single entity balance sheet, investments are shown at cost, estimated or nominal value. Investments that are included as joint ventures in the Group Accounts are deducted from the investments line on the Group Balance Sheet. The value is then shown as the reporting authority's share of the joint ventures' gross assets, liabilities and profit and loss reserve, giving a truer reflection of the value of the investment to the authority. This treatment has been applied to KSSL and KHBP.

Pensions

The Council is required to account for its subsidiaries with defined benefit pension schemes using FRS17. The specific accounting treatments of FRS17 are detailed in the single entity's Accounting Policies.

KNH has a defined benefit scheme and must adhere to FRS17. The SORP requires that the FRS17 entries are consolidated in the Group Accounts. This has an impact on the revenue of the Company as unlike local authorities, companies are not allowed to reverse the effect of FRS17 debits and credits out of their profit and loss accounts. This means that rather than by an appropriation to/from a pensions reserve they must be accounted for in the Group Income and Expenditure Account, adjusting the results of the Company. Balance Sheet entries follow the same principles as those of the Council.

At the time of preparing these accounts the pensions information from KNH's actuary had not been received and as such estimates of the Company's FRS17 entries had to be used. For the purposes of consolidation it has been assumed that the FRS17 movements are the same as for 2005/06.

Tangible Fixed Assets

The SORP requires that the reporting authority and its subsidiaries share the same Accounting Policies in relation to measurement, recognition, valuation and depreciation of fixed assets. These policies are detailed in the single entity Accounting Policies.

The only fixed assets held by the Council's subsidiaries are investment properties owned by Devco. Devco shares the Council's policy of carrying investment properties at the lower of net current replacement cost and net realisable value, so no adjustments to these asset values were required.

The SORP does not specifically require the revaluation of the fixed assets of joint ventures in the Group Account reconciliation. As such the stadium owned by KSDL has not been revalued and is included in the share of gross assets of joint venture line on the balance sheet using the Company's depreciated historical cost valuation. Given the size and unique nature of the stadium any revaluation would be likely to have adverse cost-benefit implications compared to the information it would provide to the users of the accounts.

Prior Year Adjustments

All prior year adjustments from the KMC accounts are also presented in the Group Accounts.

The 2005/06 Group Accounts were partly based on unaudited and management accounts. As such last year's audited company accounts have been studied for any material changes from the figures reported. As no material changes have occurred, the original figures for 2005/06 have been used.

GROUP INCOME AND EXPENDITURE ACCOUNT

| 2005/06 | | Gross | 2006/07 | |
|-------------|---|-------------|---------|-------------|
| Net | | Expenditure | Income | Net |
| Expenditure | | £000s | £000s | Expenditure |
| £000s | | £000s | £000s | £000s |
| 243,283 | Education | 351,049 | 316,207 | 34,842 |
| 118,380 | Social Services | 166,528 | 51,142 | 115,386 |
| -11,465 | Housing | 147,382 | 161,911 | -14,529 |
| 32,535 | Highways, Roads and Transport | 49,642 | 14,627 | 35,015 |
| 61,606 | Cultural, Environmental and Planning | 105,486 | 37,550 | 67,936 |
| 6,190 | Central Services to the Public | 38,858 | 31,553 | 7,305 |
| 357 | Courts | 328 | 0 | 328 |
| 439 | Other Services | 3,444 | 3,267 | 177 |
| 7,586 | Corporate and Democratic Core | 8,017 | 1 | 8,016 |
| -12,874 | Non-distributed Costs | 4,294 | 0 | 4,294 |
| | Share of operating results of joint ventures | | | |
| -4,522 | Turnover | 0 | 2,581 | -2,581 |
| 3,541 | Cost of Sales and Operating Expenditure | 2,372 | 0 | 2,372 |
| 445,056 | Net cost of services | 877,400 | 618,839 | 258,561 |
| 3,462 | Gains(-)/ Losses on disposal of fixed assets | | | 2,761 |
| 410 | Precepts and levies | | | 455 |
| -1,685 | Net surplus on trading operations | | | -1,658 |
| 26,666 | Interest payable | | | 28,302 |
| 1,154 | Share of interest payable by joint ventures | | | 1,447 |
| -3,832 | Interest and investment income | | | -5,608 |
| -905 | Share of investment income of joint ventures | | | -1,322 |
| 11,931 | Amount payable to the Housing Capital Receipts Pool | | | 9,949 |
| 5,307 | Pensions interest cost and expected return on pensions assets | | | 302 |
| 0 | Taxation of Group Entities | | | 7 |
| 0 | Share of Taxation of Joint Ventures | | | 7 |
| 487,564 | Net operating expenditure | | | 293,203 |
| -200,054 | General grants and contributions | | | -29,634 |
| -127,036 | Income from the Collection Fund | | | -135,782 |
| -130,416 | Contribution from Non-Domestic Rate Pool | | | -107,503 |
| 30,058 | Deficit for the year | | | 20,284 |

RECONCILIATION OF THE SINGLE ENTITY SURPLUS OR DEFICIT TO THE GROUP SURPLUS OR DEFICIT

| 2005/06 £000s | | 2006/07 £000s |
|------------------|--|------------------|
| -29,505 | Deficit on the Authority's single entity Income and Expenditure Account for the year | -22,290 |
| | Surplus/ Deficit(-) arising from other entities included in the Group Accounts: | |
| -1,285 | Subsidiaries | 1,004 |
| 732 | Joint Ventures | 1,002 |
| -30,058 | Group Account Deficit for the year | -20,284 |

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| 2005/06 £000s | | 2006/07 £000s |
|------------------|---|------------------|
| -30,058 | Deficit for the year | -20,284 |
| | Surplus arising from the revaluation of fixed assets | |
| 74,395 | KMC | 188,894 |
| 150 | Devco | 100 |
| | Actuarial gains and losses on pension fund assets and liabilities | |
| 8,734 | KMC | 67,063 |
| 0 | KNH | -122 |
| 0 | KNH - Past service gains on pension fund assets and liabilities | 427 |
| 0 | KHBP - Reduction in outstanding loans | -915 |
| -1,053 | KMC - Other gains and losses | 3,231 |
| 1,028 | Changes to previous year's Group Account figures | -564 |
| 53,196 | Total recognised gains for the year | 237,830 |

GROUP BALANCE SHEET

| 31 March 2006 | | 31 March 2007 | |
|------------------|--|---------------|------------------|
| £000s | | £000s | £000s |
| | Fixed Assets - | | |
| 1,006 | Intangible Assets | | 967 |
| 1,431,998 | Tangible Assets | | 1,647,537 |
| 59,907 | Deferred Consideration | | 67,691 |
| 3,107 | Long Term Investments | | 12,339 |
| 32,521 | Share in the Assets of Joint Ventures | | 30,403 |
| -27,026 | Share in the Liabilities of Joint Ventures | | -25,042 |
| 11,449 | Long Term Debtors | | 12,716 |
| 6,154 | Net Deferred Premiums | | 5,177 |
| <u>1,519,116</u> | Total Long Term Assets | | <u>1,751,788</u> |
| | Current Assets - | | |
| 1,980 | Stocks and Work in Progress | 1,978 | |
| 56,573 | Debtors | 50,868 | |
| 2,662 | Landfill Allowances | 3,599 | |
| 44,775 | Investments | 78,100 | |
| 11,497 | Cash and Bank | 11,066 | 145,611 |
| <u>1,636,603</u> | | | <u>1,897,399</u> |
| | Current Liabilities - | | |
| -4,420 | Short Term Borrowing | -975 | |
| -1,155 | Landfill Usage | -1,212 | |
| -87,834 | Creditors | -90,446 | |
| 0 | Bank Overdraft | -729 | -93,362 |
| <u>1,543,194</u> | Total Assets Less Current Liabilities | | <u>1,804,037</u> |
| -425,653 | Long Term Borrowing | | -486,600 |
| -5,089 | Deferred Liabilities | | -4,869 |
| -21,551 | Provisions | | -22,340 |
| -80,912 | Grants-Deferred Account | | -93,470 |
| -263,163 | Net liability relating to defined benefit pension scheme | | -212,102 |
| <u>746,826</u> | Total Assets Less Liabilities | | <u>984,656</u> |

GROUP BALANCE SHEET (Continued)

| 31 March 2006 | | 31 March 2007 | |
|----------------|---------------------------------|----------------|-------|
| £000s | | £000s | Notes |
| 841,204 | Fixed Asset Restatement Account | 1,006,447 | 1 |
| 76,296 | Capital Financing Account | 86,324 | 2 |
| 7,000 | Usable Capital Receipts Reserve | 7,013 | |
| 240 | Deferred Credits | 126 | |
| -260,970 | FRS17 Pensions Reserve | -209,438 | |
| 0 | Major Repairs Reserve | 25 | |
| 25,836 | Earmarked Reserves | 31,050 | |
| 23,110 | General Fund Balance | 30,613 | |
| 32,341 | Housing Revenue Account Balance | 32,307 | |
| 1,769 | Collection Fund Balance | 189 | |
| <u>746,826</u> | Total Net Worth | <u>984,656</u> | |

GROUP CASH FLOW STATEMENT

| 2005/06 £000s | | 2006/07 £000s | 2006/07 £000s | Notes |
|------------------|---|------------------|------------------|-------|
| | <u>Revenue Activities</u> | | | |
| 34,169 | Net cash inflow from Revenue Activities | | 67,111 | 3 |
| | <u>Returns on Investments and Servicing of Finance</u> | | | |
| | Cash Outflows - | | | |
| 24,469 | Interest paid | 26,703 | | |
| 25 | Interest element of finance lease rentals | 56 | 26,759 | |
| | Cash Inflows - | | | |
| 3,860 | Interest and dividends received | | 5,047 | |
| 20,634 | Net cash outflow from Investments and Servicing of Finance | | 21,712 | 3 |
| | <u>Capital Activities</u> | | | |
| | Cash Outflows - | | | |
| 157,401 | Capital Expenditure | 114,927 | | |
| 1,797 | Premium on early repayment | 758 | | |
| 2,000 | Long term investments | 7,000 | | |
| 529 | Advances on employee car loans | 627 | 123,312 | |
| | Cash Inflows - | | | |
| 22,012 | Sale of fixed assets | 21,278 | | |
| 23,037 | Capital grants received | 30,933 | | |
| 65 | Premium discount | 871 | | |
| 906 | Other capital cash receipts | 625 | 53,707 | |
| 115,707 | Net cash outflow from Capital Activities | | 69,605 | 3 |
| -102,172 | Net cash outflow before Financing | | -24,206 | |

GROUP CASH FLOW STATEMENT (Continued)

| 2005/06 £000s | | 2006/07 | |
|------------------|---|---------|----------------|
| | | £000s | £000s |
| | <u>Management of Liquid Resources</u> | | |
| 2,825 | Net cash inflow/outflow(-) from short term investments | | <u>-33,325</u> |
| | <u>Financing</u> | | |
| | Cash Outflows: - | | |
| 30,098 | Repayments of amounts borrowed (long term) | 102,688 | |
| 146,228 | Repayments of amounts borrowed (short term) | 140,232 | |
| 67 | Finance Lease Principal | 221 | |
| 230 | Repayment of transferred debt | 232 | 243,373 |
| | Cash Inflows - | | |
| 128,081 | New loans raised (long term) | 163,440 | |
| 148,263 | New loans raised (short term) | 136,787 | 300,227 |
| <u>99,721</u> | Net cash inflow from Financing | | <u>56,854</u> |
| <u>374</u> | Increase/Decrease (-) in Cash | | <u>-677</u> |

NOTES TO THE GROUP ACCOUNTS

1 Fixed Asset Restatement Account

The Account contains £0.993 million in relation to the revaluation reserve of Devco.

2 Capital Financing Account

The Group Capital Financing Account consolidates the following along with the KMC balance:

- £0.600 million in relation to Devco's Capital Funding Account.
- £4.173 million as the Council's share of £10.432 million set aside by KSDL as Capital Funding.

3 Cash Flow Statement

The Group Cash Flow Statement is not substantially different to the single entity's statement, apart from some simplification of presentation (the SORP does not require a break down of Revenue Activity cash flows). The cash flows of KNH and Devco are consolidated into the statement -

KNH - The Company has a Net Revenue Activities outflow of £0.165 million and a returns on investment inflow of £0.012 million, resulting in an reduction in the cash figure of £0.153 million.

Devco - The Company has a Net Revenue Activities outflow of £0.025 million and inflows on returns on investment of £0.018 million and capital of £0.013 million. The cash figure is therefore increased by £0.006 million.

No notes to the Group Cash Flow Statement have been prepared due to the lack of materiality of these flows on the single entity Cash Flow Statement.

4 Related Party Transactions

The notes below disclose the related party transactions between the Council and its Subsidiaries and Joint Ventures, as well as the transactions between the companies and their other related parties.

Kirklees Neighbourhood Housing Limited

During 2006/07, KNH incurred costs of £2.843 million (2005/06 £2.804 million) for Council services including insurance and office accommodation. At 31 March 2007, £0.446 million was outstanding (£0.383 million at 31 March 2006).

The Council incurred costs of £16.283 million (2005/06 £14.866 million) in relation to KNH's management fee. At 31 March 2007, £2.572 million was outstanding (£1.978 million at 31 March 2006).

Kirklees Metropolitan Development Company Limited

Devco paid the Council £0.084 million for service provision in 2006/07 (2005/06 £0.107 million). At 31 March 2007 a balance of £0.047 million was owing to the Council (£0.033 million at 31 March 2006).

During the same period the Council incurred rent and service charges of £0.041 million (2005/06 £0.038 million) in relation to Devco properties. There was an outstanding balance of £0.008 million at the year end (£0.019 million at 31 March 2006).

Kirklees Henry Boot Partnership Limited

At the balance sheet date of KHBP, the Council's investment (including that of Devco) was reflected in equity of £0.250 million and secured loans of £4.231 million. Interest of £0.260 million (2005/06 £0.260 million) was incurred in the year on the outstanding loans. The Council charged the Company £0.024 million (2005/06 £0.126 million) in respect of freeholds transferred and various services. There were no costs relating to the acquisition of properties on the Kingsgate site incurred by Kirklees Metropolitan Council outstanding from the company (£2.658 million at 31 March 2006).

In March 2007 the transfer of land at Healds Road, Dewsbury was completed. The transfer involved the sale of land valued at £2 million from the Council to Henry Boot Plc via KHBP. Due to the size of this transaction the accounts of KHBP were adjusted to include this transaction for consolidation purposes.

At the balance sheet date of KHBP, Henry Boot Plc's investment through certain of its wholly owned subsidiaries was reflected in equity of £0.250 million and secured loans of £1.831 million. However, at the balance sheet date of KMC (31 March 2007) secured loans with Henry Boot plc stood at nil, the indebtedness being cancelled out as part of the land transfer at Healds Road. At the balance sheet date there were no amounts due from KHBP to Henry Boot Group in respect of interest accrued (£0.010 million at 31 March 2006).

Kirklees Schools Service Limited

The Council pays the company an annual Unitary Charge to cover the company's costs. The amount payable in 2006/07 was £9.800 million.

Kirklees Stadium Development Limited

The company occupies land owned by the Council under leases for which a premium of £0.900 million is payable.

The Council pays the company a rental for the use of office space at the stadium. In the year ended 31 March 2007 the Council paid rent of £0.070 million (2005/06 £0.070 million). The Council provided funding of £0.304 million (2005/06 £0.275 million). The Council paid the company a further £0.298 million in various rents and maintenance in year ending 31 March 2007 (2005/06 £0.274 million).

The Council also guarantees loans for the Company. These are detailed in the Contingent Liabilities note in the KMC accounts.

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Account

This account provides a balancing mechanism between the different rates at which assets are depreciated and financed.

Capital Receipts

These are the proceeds from the sale of capital assets and are treated in accordance with statutory provisions of the Local Government and Housing Act 1989.

The Collection Fund

The Collection Fund is a separate statutory fund under the provisions of the Local Government Finance Act 1988. It shows the income received from non-domestic rates and Council Tax, and the way in which these have been distributed to precepting Authorities and the General Fund.

Community Assets

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

Contingent Asset

A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Examples of contingent assets include claims for compensation being pursued through the legal process.

Contingent Liability

A possible obligation which exists at the balance sheet date, whose existence will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Where a material loss can be estimated with reasonable accuracy a liability is accrued in the financial statements. If, however a loss cannot be accurately estimated or its occurrence is not considered sufficiently probable to accrue it, the obligation is disclosed in a note to the balance sheet. Examples of contingent liabilities include legal claims pending settlement.

Corporate and Democratic Core

The Corporate and Democratic Core is concerned with the costs of corporate policy making and all council member-based activities, together with costs that relate to the general running of the Council including those relating to corporate management, public accountability and treasury management.

Current Service (Pensions) Cost

The current service cost is an estimate of the true economic cost of employing people in a financial year, earning years of service that will eventually entitle them to the receipt of a lump sum and pension when they retire. It measures the full liability estimated to have been generated in the year (at today's prices) and is thus unaffected by whether any fund established to meet liabilities is in surplus or deficit.

Deferred Charges

Deferred charges represent expenditure funded from capital resources, which does not represent tangible or intangible fixed assets. An example is grants given for capital works on properties not owned by the Council. Deferred charges are written off to revenue in the year that expenditure is incurred.

Deferred Credits

These are amounts derived from sales of assets which will be received in instalments over agreed periods of time.

Deferred Liabilities

These consist of liabilities which by arrangement are payable beyond next year. Examples include outstanding finance lease obligations and debt taken over from former bodies where the loan management rests with another authority.

Defined Benefit Pension Scheme

Retirement benefits are determined independently of the investments of the scheme and employers have obligations to make contributions where assets are insufficient to meet employee benefits. Accounted for by recognising liabilities as benefits are earned (i.e. employees work qualifying years of service), and matching them with the organisation's attributable share of the scheme's investments.

Deferred Premiums and Discounts

Premiums and discounts are incurred on certain loans that have been repaid prematurely. The premium or discount is equal to the present value of the difference between the remaining payments, which would have been made on the repaid loan, and the amount that could be received if the sum prematurely repaid was re-advanced at the current rate on a new loan for a period equal to the unexpired term of the original loan.

Depreciation

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

Expected Rate of Return on Assets (Pensions)

The expected return is a measure of the return on the investment assets held by the scheme for the year. It is not intended to reflect the actual realised return by the scheme, but a longer-term measure, based on the value of assets at the start of the year (taking into account movement in assets during the year) and an expected return factor.

Fixed Asset Restatement Account

This provides the matching entry when fixed assets are restated, either through revaluation or disposal.

General Fund

This is the account for the major functions for which the Council is responsible excluding the HRA. Credited to the General Fund are charges, Government and other grants, and the Council's demand on the Collection Fund.

Government Grants Deferred Account

This represents the balance of grants applied to the financing of fixed assets, awaiting amortisation to service revenue accounts to match depreciation on the relevant assets.

Housing Revenue Account (HRA)

This fulfils the statutory obligation for Councils to account separately for the provision of Council houses. The Local Government and Housing Act 1989 ring fenced the HRA so that no subsidy can be received from the General Fund.

Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible Assets

Intangible assets are assets which do not have a physical form e.g. externally purchased software.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of scheme liabilities because the benefits are one period closer to settlement.

Leasing

A method of financing capital expenditure which allows the Council to use, but not own an asset. A third party (the lessor) purchases the asset on behalf of the Council (the lessee) which then pays the lessor a rental over the life of the asset. A finance lease substantially transfers the risks and rewards of ownership of a fixed asset to the lessee. An operating lease is any lease other than a finance lease.

Net Current Replacement Cost

The cost of replacing or recreating an asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses of realising the asset.

Non-distributed Costs

These are overheads from which no service now benefits. Costs that may be included are certain pension costs and expenditure on certain unused assets.

Non-Operational Assets

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

Operational Assets

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

Past Service (Pensions) Costs

Past service costs are a non-periodic cost, arising from decisions taken in the current year, but whose financial effect is derived from years of service earned in earlier years. Discretionary benefits, particularly added years, awarded on early retirement are treated as past service costs.

Precept

This is a charge levied by a local authority which is collected on its behalf by another authority. It does this by adding the precept to its own Council Tax and paying over the appropriate cash collected.

Provisions

These are liabilities of uncertain timing or amount.

Related Parties

Two or more parties are related parties when at any time during a financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests

Examples of related parties of an authority include its subsidiary and associated companies, its joint ventures and partners, other bodies precepting or levying demands on the Council Tax, its members and chief officers.

Revenue Expenditure

This is money spent on the day to day running costs of providing services. It is usually of a recurring nature and produces no permanent asset.

Settlements and Curtailments (Pensions)

Settlements and curtailments are non-periodic costs. They are events that change the pensions liabilities but are not normally covered by actuarial assumptions, for example a reduction in employees through a transfer or termination of an operation.

Independent auditor's report to Kirklees Council

Opinion on the financial statements

I have audited the financial statements of Kirklees Metropolitan Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Director of Finance and auditors

The Director of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the *'Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006'* are set out in the *'Statement of Responsibilities'*.

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

I report to you my opinion as to whether the financial statements present fairly the financial position of the council in accordance with applicable laws and regulations and the *'Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006'*.

I 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'* issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the council's corporate governance procedures or its risk and control procedures.

I have 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. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

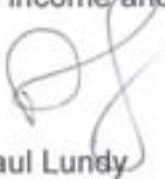
Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my 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 2006, the financial position of the council and its Group as at 31 March 2007 and its income and expenditure for the year then ended.



Paul Lundy
District Auditor
Audit Commission
Kernel House
Killingbeck Drive
Killingbeck
Leeds LS14 6UF

28 September 2007

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

Council's responsibilities

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

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising its 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

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

I am 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:

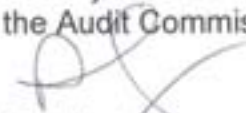
- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local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

Best value performance plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the council and did not make any recommendations on procedures in relation to the plan.

Certificate

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



Paul Lundy
District Auditor
Audit Commission
Kernel House
Killingbeck Drive
Killingbeck
Leeds LS14 6UF

28 September 2007