

FOREWORD FROM DONEGAL COUNTY MANAGER

INTRODUCTION

This Annual Financial Statement (Unaudited) including commentary from the Head of Finance together with Accounting Policies, Schedules, Notes and Appendices is a comprehensive view of the Council's position with respect to its Financial Accounts for the year ending 31st December, 2006.

Our accounts as noted in recent years have been prepared on an Income & Expenditure basis and include a Balance Sheet which sets out our Assets and Liabilities as at 31st December 2006.

Such an approach to the determination of our Financial condition gives an unambiguous view of same and is less likely to contain anomalies from one year to another. Every effort is made that all matters of a material nature are disclosed in the accounts and the reader is also provided as indicated with other information regarding policies, notes and appendices to assist in a fuller understanding of the Council's position.

It is not my intention to restate in this foreword what is included subsequently from the Head of Finance's commentary through the actual figures, notes and up to and including the final appendix. However I wish to deal with the overall issues presenting at this time for the key elements of this statement.

REVENUE INCOME & EXPENDITURE

With the achievement of a surplus of €0.778m on this account for 2006 - we had budgeted for €0.800m - our accumulated revenue deficit at 31st December 2006 stood at €11.478m which represents an improvement for the 3rd successive year. The Members will have been aware of difficulties we had in some areas of our operations in 2006 for example failure to achieve additional targeted income in the Water area from new accounts and in this context it is significant we came in very close to the Budgeted target and this reflects the efforts and the work of Management in conjunction with the Elected Members to so achieve.

The revenue deficit of €11.478m at 31/12/2006 (€12.256m at 31/12/05) is 6.8% of total revenue expenditure of €168.017m for 2006. The deficit at 31/12/05 of €12.256m was 8.5% of total revenue expenditure of €144.5m for 2005.

The tabulations on the following page, similar to the one included for 2005 - indicates some key cost and income drivers in the 2006 Income & Expenditure Account alongside similar figures for 2005.

	Expenditure €	Income €	Nett Surplus €
2006	168,016,869	168,795,123	778,255
2005	144,454,321	145,268,159	813,837

*Standard rounding rules have been applied.

Major Elements - Expenditure	2006 €	2005 €
Payroll Expenses	62,417,855	58,156,678
Operational Expenses	75,260,169	59,660,002
Loan Charges	10,067,090	8,915,545
Other Non Pay Expenses	20,271,755	17,722,096
Total	168,016,869	144,454,321

Major Elements - Income	2006 €	2005 €
Grants and Subsidies	64,893,194	54,363,904
Goods and Services	44,734,700	36,388,358
Local Government Fund	38,547,272	35,759,089
Rates	18,186,169	16,483,020
County Charge	2,433,788	2,273,788
Total	168,795,123	145,268,159

Our total Revenue Expenditure in 2006 of €168.017m represents an increase of 16.3% on amount expended in 2005, 235.0% on amount expended in 1999 and 378.3% on amount expended in 1994.

These % increases are indicative of the growth in the Council's Asset Stock requiring upkeep and maintenance. The value of Assets disclosed in the Balance Sheet for Donegal County Council as at 31st December 2006 is €3.4 billion approximately. They are also a reflection of investment in facilities and organisational structures to meet demands from a growing and complex range of services for provision by the Local Authority in a Customer focused manner and includes for it's role as a major player in the Economic development of the County.

CASH FLOW

Again as for 2005 I wish to draw your attention to Appendix 7, of this Statement. It is noteworthy with the exception of Commercial Rates all other items therein show an improvement on the position that pertained at 31st December 2005. Members already this year have been advised of the position with respect to Commercial Rates arrears at the end of 2006, in terms of progress made and other actions in hand at this time. It is important that our billing and revenue collection systems, not just for items included in Appendix 7, - are geared towards receipt of cash in the Bank as early as possible following where relevant the provision/delivery of a service both of a Revenue and Capital nature. We continue to work through all Directorates to achieve this. We currently need to address difficulties in some areas of Capital Expenditure recoupments from Departments of State. For locally generated income we will seek to use our Revenue Collectors backed up with systems and organisation structures to maximise "cash flow" for the Council.

Members will be aware of our requirements for a significant level of overdraft accommodation which you approve every 6 months and which is subsequently agreed with the Department of Environment, Heritage & Local Government.

<u>CAPITAL EXPENDITURES, LOANS & OTHER MATTERS</u>	<u>2006</u>	<u>2005</u>
▪ Capital expenditure (including Transfers)	€147.756m	€138.308m
▪ The total outstanding on Mortgage Related Loans	€16.178m	€24.122m
▪ The total outstanding on Non Mortgage Related Loans for provision of Assets/Grants.	€56.274m	€58.259m
▪ Unfunded Capital Items Deficit	€7.253m	€8.145m
▪ Historic Funding Gap	€2.507m	€5.327m

Again as for the Accumulated Revenue Deficit mentioned earlier some progress is evident in relation to unfunded Capital Balances and the Historical Mortgage Funding Gap.

It is hoped that in 2007 we can make some further inroads into the Unfunded Capital Balances through each Directorate working with Departmental Funding sources. Alternatively we may need to deal with same in the context of the existing Development Contribution Scheme and perhaps in any new scheme the Elected Members may approve.

Members will be aware from the Adopted Budgets for 2006 and 2007 that the proceeds from the Disposal of Assets were agreed to be used to retire both Mortgage Related and Non Mortgage Related Loans. In 2006 this was €2.8m Mortgage related and €2.0m Non Mortgage related. Members at the March 2007 Council meeting approved the application of the proceeds from the sale of certain assets to effect loan retirements of €5.1m to provide savings in Loan Charges as Budgeted for in 2006 of €483,000 and is now reflected in this Annual Financial Statement for 2006. For 2007 the figures for redemption are €3.9m Mortgage related and a balance of €8m to €11m in non Mortgage related loans to be funded from Disposal of Assets in accordance with the 2007 Adopted Budget.

In addition to the savings of loan charges, which allowed the Council to balance its Budgets for 2006 and 2007, the use of Assets proceeds to allow redemption of monies to the O.P.W. in respect of Mortgage related loans has the effect of dealing with the elimination of the Historical Mortgage related Funding Gap in time. At the end of 2006 the redemption and funding of €2.8m has reduced this Funding Gap from €5.327m as at 31/12/2005 to €2.507m as at 31/12/2006 as shown above. This is due to the fact that the Funding Gap originally arose through the non redemption of monies to the Office of Public Works who were the lending agency prior to the establishment of the Housing Finance Agency. These monies retained and otherwise used had been redeemed by borrowers with the Council. The reasons for non redemptions with the lending agency and the use of monies in other manners which

date back perhaps to the 1980's are not definitively available at this point in time but may include use of redeemed amounts as matching monies for old Grant Schemes such as House Improvements, DPG's, etc.

Given the negative connotations of having a Mortgage Related Funding Gap - most Local Authorities did not - is a further reason in addition to saving substantially in respect of loan charges, up to €2.5m perhaps in a full year, why the strategies adopted in the Budgets for both 2006 and 2007 need to be delivered. The alternative would have been to provide from Revenue Sources in the Annual Budget to write down the Funding Gap over a period of 10 years - €0.5m per annum - as we were/are required by the Department of Environment Heritage & Local Government including its Audit service to do. Members will note that not alone is this avoided on foot of this strategy but also by saving loan charges to the extent stated we were making available €3m approximately to the Revenue requirement annually on a recurring basis.

With the likely elimination of the Historical Funding Gap at the end of 2007 together with improvements in the Revenue Deficit - 2006 was the 3rd successive year of improvement - and Unfunded Capital Balances this should have positive benefits for the County Council in its dealings with the Department of Environment, Heritage & Local Government including its Audit Service. At the very least we can point to a solid foundation of improvement in our Finances as the basis for discussions to progress other projects with their agreement and approval.



M. McLoone
COUNTY MANAGER

^{9th} May 2007.

FINANCIAL REVIEW
SEE ALSO THE DETAILS SET OUT IN THE REPORT IN APPENDIX 9

PREPARED BY: AIDAN MCNICHOLAS, HEAD OF FINANCE

INTRODUCTION

This 2006 Annual Financial Statement (AFS) is the prescribed format for the presentation of the Annual Income and Expenditure figures together with a Balance Sheet for Local Authorities. This Statement must reflect up to date Departmental requirements from the Local Authority Accounting and Financial Management Systems. The 2006 AFS represents, as presented, for Donegal County Council such requirements with every effort made to comply fully herein.

The Capital Account items are now shown in Balance Sheet format in accordance with Departmental Guidelines. The Accounting Policies and the "Notes to and forming part of the Accounts" should be read for further information in this regard and indeed for further details of items in the I & E Account and Balance Sheet.

Table 1 on Page 6 sets out the information on Adopted Budget and the Revised Budget which includes amendments for specific extra funding received after the 2006 Budget was adopted and the Actual Gross Expenditure and Income.

This report is required by statute in relation to Donegal County Council's expenditure outturn for 2006 when compared to the Adopted Budget for day to day operational costs. I am stating expenditure in terms of the gross position and the net position which illustrates our performance including income headings. We pursued a prudential strategy in the identification of expenditure liabilities and income assets in arriving at the final figures for year ending 31st December 2006.

The main aspects and outcomes of the Annual Financial Statement for 2006 requiring Members approval will be explained in this Review. Appendix 9 sets out the position for all Programme Groups/Services for the information of the Elected Members.

REVENUE INCOME & EXPENDITURE ACCOUNT

The following Table 1 sets out the outcomes for above for each Programme Group.

TABLE 1

Expenditure					
Programme Group	Adopted Budget	Additional Grants & Fully Recoupable Items	Revised Budget inc. Prog. 9 Adjustment	Gross Expenditure	Variance
	€	€	€	€	€
Housing & Building	17,592,496	3,070,728	20,663,224	19,475,166	1,188,058
Roads Trans. & Safety	51,603,505	11,952,093	63,555,598	63,958,660	(403,062)
Water & Sewerage	18,813,579	(222,084)	18,591,495	19,355,712	(764,216)
Planning	7,288,215	501,862	7,790,077	7,396,099	393,978
Environ. Protection	12,413,264	(6,309)	12,406,955	12,500,710	(93,755)
Recreation & Amenity	7,943,115	213,427	8,156,542	8,080,389	76,153
Agric., Ed., Health & Welfare	12,902,347	630,203	13,532,550	13,585,435	(52,885)
Miscellaneous	20,805,509	1,911,248	22,716,757	23,664,698	(947,940)
Debit Balance Provision	800,000	0	800,000	0	800,000
Total	150,162,030	18,051,169	168,213,199	168,016,869	196,330
Income					
Programme Group	Adopted Budget	Additional Grants & Fully Recoupable Items	Revised Budget inc. Prog. 9 Adjustment	Gross Income	Variance
	€	€	€	€	€
Housing & Building	11,922,984	2,860,452	14,783,436	14,665,185	(118,251)
Roads Trans. & Safety	39,122,570	11,829,804	50,952,374	51,764,173	811,799
Water & Sewerage	7,692,566	8,398	7,700,964	6,704,050	(996,914)
Planning	3,429,110	519,035	3,948,145	4,464,499	516,354
Environ. Protection	6,204,356	(130,832)	6,073,524	6,130,042	56,518
Recreation & Amenity	1,567,110	205,600	1,772,710	1,815,829	43,119
Agric., Ed., Health & Welfare	10,580,938	593,614	11,174,552	11,092,202	(82,350)
Miscellaneous	10,794,551	2,113,098	12,907,649	12,991,914	84,265
Local Government Fund	38,547,272	0	38,547,272	38,547,272	0
County Charge	2,433,788	0	2,433,788	2,433,788	0
Rates	17,866,785	52,000	17,918,785	18,186,169	267,384
Total	150,162,030	18,051,169	168,213,199	168,795,123	581,924
Net Overall Total				778,255	778,225

Note: The Revised Budget is the Adopted Budget plus net additional grants notified plus amounts spent which are fully recoupable

* Standard rounding rules have been applied

In summary at the outset I wish to state in respect of the 2006 Revenue Income & Expenditure Account the Council achieved a surplus of €778,225 for 2006 against a targeted Budgeted surplus of €800,000. Detailed commentary follows.

The total Revised Budget is the Adopted Budget of €150,162,030 plus additional grants notified as well as other amounts spent which are fully recoupable amounting to €18,051,169 giving a total Revised Budget of €168,213,199. This is reflected as originally budgeted plus or minus adjustments in each Programme Group in arriving at the figures shown in Table 1. These adjustments are set out in detail for each Programme Group in Appendix 9 and how above figures both Expenditure and Income for each Programme Group are derived.

Section 104, Part 12 of the Local Government Act 2001 requires Local Authorities to seek the authorisation of the Elected Council to exceed their Budget in certain defined circumstances except in the case of emergencies or where specific extra funding by way of additional grants is made available. In this report Table 1 sets out the income and expenditure for the local financial year ended 31st December 2006.

The approval of the Council's Elected Members is sought as appropriate to amended expenditure figure of €168,016,869 when compared to the Revised Budget of €168,213,199 (Adopted Budget as amended by additional funding received for 2006) for all Programme Groups in accordance with Subsection 7 of Section 104 of the Local Government Act, 2001.

The following Table 2 shows the outturn - surplus or (deficit) - for both Expenditure and Income as against the Revised Budget by Programme Group and General Purpose Funding lines. These were shown originally in the variance column of Table 1.

Table 2

Net			
Programme Group	Variance Gross Expenditure	Variance Gross Income	Net
Housing & Building	1,188,058	(118,251)	1,069,807
Roads Trans. & Safety	(403,062)	811,799	408,738
Water & Sewerage	(764,216)	(996,914)	(1,761,130)
Planning	393,978	516,354	910,332
Environ. Protection	(93,755)	56,518	(37,237)
Recreation & Amenity	76,153	43,119	119,272
Agric., Ed., Health & Welfare	(52,885)	(82,350)	(135,235)
Miscellaneous	(947,940)	84,265	(863,675)
Debit Balance Provision	800,000	0	800,000
Local Government Fund		0	0
County Charge		0	0
Rates		267,384	267,384
Total	196,330	581,924	778,255
<i>* Standard rounding rules have been applied</i>			

Specifically the areas of Gross Over Expenditure as against revised Budget as shown on Table 2 requiring Elected Members approval are as follows:-

Programme Group 2 - Roads Transportation & Safety - €403,062

Net over expenditure of approximately €403,000 occurred in the following areas:

Road Maintenance and Improvement	(€519,000)
Private Works	(€263,000)
Under Expenditure:	
General Administration including Pensions & Others	€346,000
Transportation Studies	€33,000
Net Over Expenditure	(€403,000)

Over expenditure of €519,000 occurred on Road Maintenance and Improvements. The headings accounting for this were Winter Maintenance (€162,000), Provision of Salt Depots (€126,000), Public Lighting Maintenance on the National Primary and National Secondary Roads (€135,000) and a net amount saving of €96,000 on various headings in the overall Roadworks Programme.

Programme Group 3 - Water & Sewerage - €764,216

Net over-expenditure of approximately €764,000 occurred in the following areas:

Maintenance of Water Supply Schemes/Maintenance of Waste Water Schemes and Public Conveniences	(€318,500)
Provisions for Bad/Doubtful Debts	(€488,000)
General Administration and Miscellaneous Costs - Varied	(€30,700)
<u>Under Expenditure</u>	
Charges for Water supplied from Northern Ireland	€73,200
TOTAL	(€764,000)

There was net over expenditure of €318,000 under all of the Maintenance headings in this Programme Group. The main area of over expenditure was Water Supply Scheme Maintenance (€454,800). The negative impact of provisions for Bad/Doubtful Debts reflects the ongoing work in the tidy up and verification of the existing Water Charges Database.

Programme Group 5 - Environment Protection - €93,755

Net over-expenditure of approximately €94,000 occurred in the following areas:

Landfill Maintenance & Other Waste Headings including Civic Amenity Sites	(€198,000)
Section 1.01 Environmental Campaign/Awareness/Recycling	€131,000
Loan Charges	€269,000
Sub-Total Waste Management	€202,000
Fire Service - Mainly Payroll Costs	(€290,000)
<u>Over Expenditure</u>	
Water Safety	€11,000
Administration	(€17,000)
TOTAL	(€94,000)

Net savings in expenditure under a number of Waste Management headings, €202,000 as shown above, helps to part mitigate reduced Income in this area. The over expenditure in Fire Services is mainly attributable to an increase in the number of call outs and is offset by additional income.

Programme Group 7 - Agric. Ed., Health & Welfare - €52,885

Net over-expenditure of approximately €53,000 occurred in the following areas:

Maintenance of Piers and Harbours	(€12,900)
Loan Charges Piers & Harbours	(€57,800)
Higher Education Grants	(€19,500)
Under Expenditure:	
Administration & Miscellaneous - Varied	€37,200
Net Over Expenditure	(€53,000)

Programme Group 8 - Miscellaneous - €947,940

Net over-expenditure of approximately €948,000 occurred in the following areas:

Financial Management

Rates Write Offs	(€816,100)
Provision for Bad/Doubtful Debts	(€200,000)
<u>Under Expenditure</u>	
Overdraft Interest	€28,600
Administration Costs	€91,200
Sub Total	(€896,300)
Local Elections	€7,200
Veterinary Service	€36,400
Members Costs - Net of all headings	€67,400
Courthouse Maintenance	(€29,400)
General Administration & Miscellaneous - Payroll (including Superannuation), Advertising, Training etc.	(€133,300)
TOTAL	(€948,000)

Programme Group 8 contains many items of expenditure and is made up of 12 individual Programmes.

The main issue to emerge from the foregoing list is that there was over-expenditure under the Financial Management heading of €896,300 mainly to do with Irrecoverable Rates (€816,100). This reflects ongoing difficulties with the collection of Rates and the inadequacy of the provisions in the 2006 Budget for Irrecoverable Accounts.

Following meetings/discussions with Revenue Collectors during and at the end of 2006, an opinion was formed that €2.012m was irrecoverable and was duly written off. The write offs may have been in full or in part on customer accounts depending on each individual case and arose for one of the following reasons which were reported on at the April GP meeting.

- (A) Properties closed and up for rent or under repair.
- (b) Charities, Domestic, Hardship, Settlements.
- (c) Other

The net Over Expenditure for all other headings in Programme Group 8 (Economic Development Loan Charges, Machinery & Materials, Elections, Courthouses, Coroners, Veterinary Services and Members' costs) amounts to €51,700.

Expenditure and Income Information for 2006 Financial Year (All Programme Groups)

The following Table 3 sets out in summary form the information on Expenditure and Income for 2006.

Table 3

	Expenditure	Income	Net
Adopted Budget	€150,162,030	€150,162,030	Nil
Revised Budget	€168,213,199	€168,213,199	Nil
Outturn	€168,016,869	€168,795,123	€778,255
Under/Over	<u>€196,330</u>	<u>€581,924</u>	<u>€778,255</u>

* Standard rounding rules have been applied.

In summary the net improvement overall in 2006 was €778,255 (Under Expenditure of €196,330, Additional Income of €581,924). This means that the accumulated debit balance at the 31st December, 2006 is €11,477,838 debit compared to the balance at 31st December, 2005 of €12,256,091 debit. Appendix 9 sets out detailed commentary by Programme Group. Where the reader is looking at the Income and Expenditure Account in this document Fixed Assets Purchases and Provisions are shown as "Transfers to and From Reserves" on the face of the Income and Expenditure Account whereas in Appendix 9 this information is reflected in the Programme Groups to correspond with the format of the Budget adopted by the Elected Members.

Table 4 sets out the Income & Expenditure Account Balance as reported in the Annual Financial Statements over the period 1994 - 2006 inclusive. It also illustrates the balances as a % of overall expenditure each year in the Revenue Income & Expenditure Account. For consistency year on year the expenditure figure of €168,016,869 is inclusive of amounts classified as Income and Expenditure and some items that are now included in the Balance Sheet in accordance with national guidelines since 2003.

Table 4

Income & Expenditure Account Balance over the period 1994 - 2006

Year	Debit Balances as reported at 31/12 each year	Total Revenue Expenditure for year on Adopted Budget Format	Debit Balances as a % of Total Revenue Expenditure
1994	€4,688,232 Dr	€44,413,532	10.56%
1995	€4,370,309 Dr	€50,451,353	8.66%
1996	€4,284,886 Dr	€52,434,123	8.17%
1997	€1,086,832 Dr	€58,707,690	1.85%
1998	€935,603 Dr	€62,270,716	1.50%
1999	€1,746,727 Dr	€71,504,280	2.44%
2000 ^A	€3,383,586 Dr	€82,087,401	4.12%
2001	€9,959,593 Dr	€103,846,590	9.59%
2002	€9,620,599Dr	€114,647,751	8.39%
2003	<u>€14,102,949Dr</u>	<u>€122,865,414</u>	<u>11.48%</u>
2004	€13,069,928Dr	€130,512,865	10.01%
2005	€12,256,091Dr	€144,454,321	8.48%
2006	€11,477,838Dr	€168,016,869	6.83%

Notes to Table 4

- 2003, 2004 and 2005 are shown including for full accrual of all known collectable income as at 31st December each year. All prior years for income are stated on the basis of cash collected.
- 2000 as shown in above table varies with the figures as reported on a cash basis for that year. An allowance of the Local Government Fund Allocation for 2001 was received in 2000 and the above reflects the treatment of such income in 2001 rather than 2000 which we were obliged to do at that time.

CAPITAL ACCOUNT/FIXED ASSET FORMATION ACTIVITY

This account is largely presented on an Income and Expenditure basis with the exception of some Development charges/levies which are shown on a receipts basis and in respect of some over expended old balances, we have not accrued any income because we are not certain such will materialise as cash. As stated last year in this context, application has been made to the Department for funding. This application was submitted some years ago. It may be that such unfunded balances may have to be dealt with through the existing Development Contribution Scheme and/or future schemes. On a prudence basis we are not anticipating any funding from the Department at this stage.

There was gross expenditure of €147,756,276 and gross income of €159,135,399 in 2006 resulting in an overall improvement of €11,379,123. (See Table 5). The overall credit balance at 31st December 2006 is €16,880,310 compared to an overall credit balance of €5,501,187 at 31st December 2005. The improvement in the balance arose mainly in Roads, Water and Environment and increases in credit balances under Development Levies.

TABLE 5

	2006	2005
	€	€
Expenditure including Transfers	147,756,276	138,307,696
Income	159,135,399	132,290,078
Surplus (Deficit)	11,379,123	(6,017,618)
Opening (Credit) Balance at 1st January	5,501,187	11,518,805
Capital Account Credit Balance at 31st December, 2006	16,880,310	5,501,187

*Standard rounding rules have been applied.

The Capital Account as presented in the Balance Sheet sets out the de-aggregation of the Capital Ledger, other than for completed assets transferred without a funding issue to the Asset Register, into the main classes of Assets - WIP/Preliminary Expenses, as well as other balances therein. Until 2003 the Capital Account ledgers also included the Council Loan Book. The following information for 2006 (See Table 6 overleaf) refers only to Capital/Fixed Asset formation activity and is inclusive of brought forward credits and debits.

Table 6 reconciles amounts as shown on the Balance Sheet which are classified in accordance with information to hand in relation to funding, in the make up of the Capital balance of €16,880,310 Credit.

TABLE 6

The Capital Account Balance has been de-aggregated in the Balance Sheet as follows in accordance with the New Accounting Guidelines.

	Notes No. to the Accounts	2006 €	2005 €
* Funded/Unfunded WIP and Preliminary Expenses	Note 2.	(848,650)	(5,633,009)
* Funded Project Balances	Note 11.	(2,942,550)	(6,931,677)
** Unfunded Project Balances	Note 11.	(5,036,306)	(6,271,069)
** Unfunded Non Project Balances	Note 11.	(2,216,430)	(1,873,475)
Funded Non Mortgage Balances	Note 11.	--	(257,462)
Agent Works Recoupable	Note 5.	(5,732,428)	(1,807,513)
Assets	Note 11.	(2,007,999)	--
Sub Total Debits		(18,784,363)	(22,774,205)
General Credit Balances	Note 11.	4,598,329	7,303,889
Development Levies	Note 11.	20,357,574	13,579,153
Tenant Purchase Annuities currently available as Internal Receipts	Note 11.	9,368,960	5,872,062
Funded Non Mortgage Balances	Note 11.	148,855	--
Sub Total Credits		34,473,718	26,755,104
Credit/(Debit) Balance before Future Receipts for Tenant Purchase Annuities		15,689,355	3,980,899
Future receipts from Tenant Purchase Annuities (Not available as Internal Receipts)	Note 11.	1,190,955	1,520,288
Capital Account Credit/(Debit) Balance as at 31st December		16,880,310	5,501,187

It is also noteworthy that the Capital Account is inclusive of many credits (€34,473,718) that when applied for the purposes for which payments were received could have a major impact on our Capital/Fixed Assets and on the Council's cash flow. The Capital Balance includes income of €1,190,955 in respect of the future receipts from repayment of annuities by Tenant Purchasers. Such annuities are used as Internal Receipts when realised. Accordingly these future receipts are not available for current programmes for which such receipts are used. (See also Table 6).

For the benefit of the reader of this review "funded"* can be defined as source(s) of funding have been identified and are still available to meet the balance as shown. Unfunded** means all known sources of income have been exhausted and/or projects have over expended known allocations for same.

Where jobs have a mixture of funded and unfunded elements we have classified such jobs as overall unfunded and this can explain movements in unfunded balance amounts from €8.9m in 2003 to €8.3m in 2004, to €8.1m in 2005 and to €7.2m in 2006 as we clarify exact funding position for each job and/or feasibility, legitimacy of applying a local funding source is determined. See Note 11 - "Notes to and forming part of the accounts". It was possible in 2006 to deal with some old Capital Balances in the Culture & Library area.

Table 7 Trend Analysis Capital Expenditure Trends: 1994-2006

This table shows expenditure for Capital Purposes for 1994-2006.

TABLE 7

Capital Works Expenditure 1994 - 2006	
Year	€m
1994	22.867
1995	28.288
1996	39.508
1997	44.498
1998	50.232
1999	66.821
2000	84.845
2001	113.614
2002	89.612
2003	<u>83.310</u>
2004	104.498
2005	138.308
2006	147.756

FIXED ASSETS

Historical and those purchased/created since Agresso went live.

A total value of €3,387,212,117 is included in the 2006 Accounts under this heading.

With the implementation of the Agresso Financial Management System and the attendant rollout of the New Accounting Code of Practice we have included Fixed Assets in the Council's Balance Sheet in recent years. This initially was those assets purchased/created with "go live" of the Agresso package and in 2003, 2004, 2005 and now in 2006 the progressive inclusion of Assets which the Council created/purchased in the past, which continue to underpin service provision and thus provide continuing value to the organisation. In the inclusion of such assets the Council follows guidelines as laid down by the Minister for Environment, Heritage and Local Government with respect to such matters as Valuation, Depreciation and the like.

The Council continues, the ongoing work, to enumerate all Historical Assets and deal appropriately with issues that may arise on an Inter Local Authority basis within the county. As mentioned in the commentary on the Accounts for 2003, 2004 and 2005 this process of enumeration of Historical Assets in our ownership is a lengthy and often difficult one as we need to trawl through records which are disparate in availability, range and nature.

However, the end result is giving and will give a clearer picture of the Councils options where any such Assets identified may be surplus to requirements or can be used/disposed with appropriate agreements including the Elected Members.

Fixed Assets are, as you can see from the balance sheet, classified as follows:

(1) Operational	€516,942,106	
(2) Infrastructural	€2,850,835,405	
(3) Community	€841,164	
(4) Non Operational	€18,593,441	
Total	€3,387,212,117	(Note 1)

Net additions (assets purchased, additions from Work-In-Progress (W.I.P.), less disposals) to the Fixed Assets amounted to €106,476,826 for the year ending 2006. Additions from W.I.P., as per Department guidelines where a asset has been completed included accruals estimations where necessary where no final account was available. Major additions to Fixed Assets to the value of €86,255,000 came from the Roads Directorate and represented the opening of the Ballyshannon-Bundoran By-pass (€81.5m), N15-R280 Link Road (€4.8m).

You should read the "Notes to and forming Part of the Accounts" for further information on above classifications.

LOAN ACCOUNT

Mortgage Related Loans

When this Council converted its accounts to the new format for the 2002 Financial Year a historical funding gap of €5,847,432 was determined as existing at 01/01/2002. The gap arose in the 1980's or thereabouts from the use of monies, redeemed by borrowers to the Council, for Revenue purposes which cannot definitively be itemised at this stage. Donegal County Council was one of a minority of Local Authorities who had a funding gap as at 01/01/02 on conversion to the new format of accounts. It is and was required that such a funding gap would be written off by annual provisions in the revenue budget.

In 2005 in finalising our accounts for that year it was possible to begin the process of the write down and €520,000 was applied leaving a funding gap balance at 31st December 2005 of €5,327,432. (€5,847,432 less €520,000)

In our Budgetary strategies for 2006 the Elected Members agreed to the redemption of €2,820,000 of high interest rate Mortgage related loans to give loan charges savings of €330,000 in 2006, to be funded by proceeds from Disposal of Surplus Assets, in achieving Budgetary Balance on the Revenue Account. This redemption was duly done to the Office of Public Works and the application of the sale of asset proceeds for this purpose was formally agreed by the Elected Members at the March 2007 ordinary Council meeting.

The application of monies from Asset disposal to this purpose has the effect, in addition to savings on loan charges, of dealing with the historical funding gap to the value of the redemption which means that the funding gap at 31st December 2006 is now €2,507,432. (€5,327,432 less €2,820,000). It is anticipated that this balance will be eliminated on completion of the 2007 Financial Statement when Asset Disposal proceeds are applied in respect of a €3,846,887 further redemption of high fixed rate mortgage loans - agreed in the 2007 Adopted Budget - and when formally agreed by the Elected Members sometime later this year as was done for the €2,820,000 for the 2006 Accounts.

We have redeemed the €3,846,887 to the Office of Public Works and this amount is currently carried on Overdraft pending the actual receipt of monies from Disposal of Assets proceeds.

Non Mortgage Loans

These loans have been used to finance the Council's Decentralisation Building Programme, Implementation of the Council's Waste Management Plan, Matching funding for State Grants in relation to Marine Work and DPG/ERG Grants, Purchase of Landbanks, development of Letterkenny Theatre, provision of an Economic Development Fund and so forth. Elected Members will be well aware of the significant asset base created/replaced by Donegal County Council from the use of some of these loans. It is the disposal and realisation of such replaced assets in addition to other surplus Assets that is the basis for our Annual Budgetary strategy to effect savings in loan charges to live within available funding sources.

As it was noted earlier under Mortgage Related Loans in 2006, the Elected Members as well agreed for the redemption of some Non Mortgage Loans in 2006 to achieve budgetary balance for the 2006 Adopted Budget. €150,000 was targeted as loan charges savings in 2006 for Non Mortgage Loans. In the event €2,300,000 of Non Mortgage loans were redeemed to achieve savings of €150,000 in 2006 and this was agreed by the Elected Members at the March 2007 meeting.

The balance of principal payable on Non Mortgage loans to be serviced predominantly by the Council's own discretionary Revenue Sources at 31st December 2006 is €56,273,973 (2005 : €58,258,608) .

General

In 2007 the Council Budgetary Strategy includes for the redemption of €3.9m Mortgage Related and €8m to €11m Non Mortgage related loans to achieve Revenue Budget targets in 2007 of €1.6m. savings approx. in loan charges in 2007 Adopted Budget.

As noted earlier in the County Manager's foreword this strategy for the use of asset proceeds for Mortgage and Non Mortgage Related Loans is having and will have a beneficial effect on our revenue requirement to be funded from Commercial Rates and other sources of income on an annual recurring basis, from 2006, 2007 and into future years. This is due to the savings on loan charges of €2.5m approx. on a full year basis as well as in addition the avoidance of having to budget the write down of the funding gap over say 10 years amounting to €0.5m approx. each year.

In balancing the 2007 Requirement €2.1m - €1.6m as above plus €0.5m from 2006 recurring - of the €2.5m has been utilised which leaves €0.4m further savings towards our opening position in 2008 the achievement of all of which is dependent on realising and applying Disposal of Asset proceeds as budgeted in 2006 and 2007. In reporting on the 2007 Revenue Account periodically we will keep the Elected Members informed of progress or otherwise in this regard in terms of achieving the 2007 Budgetary target loan charges savings of €1.6m.

CONCLUSION

In conclusion this review and the related Appendix 9 sets out the principal issues and the financial information with respect to the Draft Unaudited Annual Financial Statement for 2006 for Donegal County Council. The following represents the aggregation of the outcomes on day to day Operational Expenses (Revenue) and the Council's investment in Infrastructure Projects, the provision of long term Financing of social assistance provided to the general public where eligible and required and the creation/purchase of, and improvement in, the Council's Asset Stock (Capital).

Table 8 represents the total expenditure in 2005 and 2006 with the increase year on year in absolute and percentage terms.

Table 8

Expenditure	2006	2005	Increase/ Decrease	% Increase/ Decrease
Revenue	168,016,869	144,454,321	23,562,548	16.31
Capital	147,756,276	138,307,696	9,448,580	6.83
Total	<u>315,773,145</u>	<u>282,762,017</u>	<u>18,405,405</u>	<u>11.67</u>

Table 9 shows aggregated expenditure in tabular and graphical form each year for the period 1994-2006.

The total Expenditure for Revenue and Capital in 2006 amounted to €315.773m (see Table 8) and reflects an increase of 228.3% on the amount expended in 1999 (€138.325m) and 460.6% on the amount expended in 1994 (€68.550m).

Table 9

Revenue & Capital Expenditure Trend

<u>Year</u>	<u>€m</u>
1994	68.550
1995	78.739
1996	91.942
1997	103.206
1998	112.503
1999	138.325
2000	166.932
2001	217.161
2002	204.260
2003	206.175
2004	235.011
2005	282.762
2006	315.773

