

# Financial Statements

2015/16



South Tyneside Council

23 September 2016

## Further Information

The Financial Statements are available on the Council's website at:

[www.southtyneside.gov.uk/article/13968/Financial-statements](http://www.southtyneside.gov.uk/article/13968/Financial-statements)

Hard copies can be requested by writing to:

Head of Finance  
Town Hall and Civic Offices  
Westoe Road  
South Shields  
NE33 2RL

If you know someone who would like this information in a different format, please contact the Communications Unit on **0191 427 1717**.

We are committed to improving the information that we provide to you and would be grateful for any suggestions or comments you may wish to make about our published Financial Statements. Please let us have your views by contacting us at the above address.

| <b>Contents</b>                    | <b>Page</b>   |
|------------------------------------|---|
| <b>Financial Statements</b>        |   |
| Section 1                          | Narrative Statement by the Head of Finance 5                |
| Section 2                          | Statement of Responsibilities for the Accounts 17           |
| <b>Statement of Accounts</b>       |   |
| Section 3                          | Independent Auditors' Report 18                             |
| Section 4                          | Core Financial Statements                                   |
|                                    | Movement in Reserves Statement 21                           |
|                                    | Comprehensive Income and Expenditure Statement 22           |
|                                    | Balance Sheet 23  |
|                                    | Cash Flow Statement 24                                      |
|                                    | Notes to the Core Financial Statements 25                   |
| Section 5                          | Supplementary Financial Statements                          |
|                                    | Housing Revenue Account Income and Expenditure Statement 97 |
|                                    | Collection Fund Statement 103                               |
| Section 6                          | Group Financial Statements                                  |
|                                    | Group Introduction 105                                      |
|                                    | Group Movement in Reserves Statement 108                    |
|                                    | Group Comprehensive Income and Expenditure Statement 109    |
|                                    | Group Balance Sheet 110                                     |
|                                    | Group Cash Flow Statement 111                               |
|                                    | Notes to the Group Financial Statements 112                 |
| Section 7                          | Tyne and Wear Pension Fund Statements 122                   |
| <b>Glossary</b>                    |   |
| Section 8                          | Glossary of Financial Terms 165                             |
| <b>Annual Governance Statement</b> |   |
| Section 9                          | Annual Governance Statement 174                             |

## Notes to the Core Financial Statements

| <b>Note No.</b> | <b>Statement</b>   | <b>Page</b> |
|-----------------|--|-------------|
| 1               | Critical Judgements in Applying Accounting Policies                      | 25          |
| 2               | Assumptions made about the Future and Other Sources of Estimation        | 26          |
| 3               | Adjustments between Accounting Basis and Funding Basis under Regulations | 28          |
| 4               | Transfers to or from Earmarked Reserves                                  | 29          |
| 5               | Events after the Reporting Period  | 30          |
| 6               | Other Operating Expenditure  | 31          |
| 7               | Financing and Investment Income and Expenditure                          | 31          |
| 8               | Taxation and Non-specific Grant Income                                   | 31          |
| 9               | Property, Plant and Equipment  | 31          |
| 10              | Intangible Assets  | 34          |
| 11              | Financial Instruments  | 34          |
| 12              | Short Term Debtors   | 39          |
| 13              | Cash and Cash Equivalents  | 40          |
| 14              | Assets Held for Sale or Disposal   | 40          |
| 15              | Short Term Creditors   | 41          |
| 16              | Long and Short Term Provisions   | 41          |
| 17              | PFI and Other Long Term Contracts  | 42          |
| 18              | Usable Reserves  | 45          |
| 19              | Unusable Reserves  | 46          |
| 20              | Operating Activities   | 48          |
| 21              | Investing Activities   | 49          |
| 22              | Financing Activities   | 49          |
| 23              | Amounts Reported for Resource Allocation Decisions                       | 49          |
| 24              | Trading Operations   | 52          |
| 25              | Pooled Budgets   | 53          |
| 26              | Members' Allowances  | 53          |
| 27              | Council, Schools and Statutory Officers' Remuneration                    | 54          |
| 28              | External Audit Costs   | 56          |
| 29              | Dedicated Schools Grant  | 56          |
| 30              | Government Grant Income  | 58          |
| 31              | Capital Expenditure and Capital Financing                                | 59          |
| 32              | Leases   | 60          |
| 33              | Related Parties  | 61          |
| 34              | Impairment Losses  | 64          |
| 35              | Contingent Liabilities   | 64          |
| 36              | Contingent Assets  | 64          |
| 37              | Financial Instruments Risks  | 65          |
| 38              | Trust Funds  | 69          |
| 39              | Pension Schemes Accounted for as Defined Contribution                    | 70          |
| 40              | Defined Benefit Pension Schemes  | 71          |
| 41              | Accounting Policies  | 77          |

# Section 1 – Narrative Statement by the Head of Finance

## 1. Introduction

These accounts set out the results of the Council's financial activities for the year ended 31<sup>st</sup> March 2016 and outline our financial position at that date. The narrative statement provides:

- A review of the Council's financial results and financial standing for 2015/16.
- Information about the activities and significant matters that took place during 2015/16 that had an impact on Council finances.
- An explanation of the principal financial statements.
- An assessment of the future financial prospects of the Council.

South Tyneside Council seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and officers of the Council with the Council's Chief Financial Officer, the Head of Finance, having a specific role in ensuring the adequacy of resources and proper financial administration. Our Medium Term Financial Plan (MTFP) sets out how we will do this over a future five-year horizon. The Statement of Accounts look back at our results over the past financial year.

## 2. Revenue Financial Summary 2015/16

Revenue expenditure relates to the day-to-day running costs of providing Council services, including pay costs, property running costs and supplies and services. These costs are largely funded by a combination of grants from central Government and local taxation (council tax and non-domestic rates).

The table on the next page summarises our in-year revenue spending position including schools expenditure. The Council overspent on its budget by £0.027m in 2015/16 after taking into account transfers to and from reserves. The overall change in reserves shown in the table can be seen in more detail in note 4 to the core Financial Statements.

## Section 1 – Narrative Statement by the Head of Finance

| 2015/16 Revenue financial summary                                     | Original<br>budget<br>£m | Actual<br>outturn<br>£m | (Underspend)/<br>overspend<br>£m<br><i>Note 2</i> |
|---|--------------------------|-------------------------|---|
| <b>Revenue spending</b>   |                          |                         |   |
| Children, Adults and Health Group                                     | 75.659                   | 87.864                  | 12.205  |
| Business and Resources Group  | 33.602                   | 18.798                  | (14.804)  |
| Economic Regeneration Group   | 26.547                   | 26.863                  | 0.316   |
| <b>Net cost of services and operating expenditure</b>                 | <b>135.808</b>           | <b>133.525</b>          | <b>(2.283)</b>                                    |
| <b>Funding sources</b>  |                          |                         |   |
| General Government grants   | (41.886)                 | (41.883)                | 0.003   |
| Non-domestic rates retained and top up grant                          | (44.572)                 | (44.422)                | 0.150   |
| Contribution from Collection Fund                                     | (0.800)                  | (0.800)                 | -   |
| Council tax payers  | (48.050)                 | (48.050)                | -   |
| Contribution from General Fund balance                                | (0.500)                  | (0.500)                 | -   |
| Contribution to earmarked reserves                                    | -                        | 2.157                   | 2.157   |
| <b>Total revenue funding</b>  | <b>(135.808)</b>         | <b>(133.498)</b>        | <b>2.310</b>                                      |
| <b>Additional contribution from General Fund balance for the year</b> | <b>-</b>                 | <b>0.027</b>            | <b>0.027</b>                                      |

*Note 1*

*Note 2*

### Changes required in the restatement of management accounts to financial accounts

Note 1 : Use of unallocated balances is estimated as part of our strategic planning process. An amount of £0.500m was included within the 2015/16 Medium Term Financial Plan budget of £135.808m.

Note 2 : Reported under and overspending is before transfers to and from earmarked reserves.

### Children, Adults and Health Group

The major services provided by the Children, Adults and Health Group include public health, social care for elderly and vulnerable adults, protection of children at risk from abuse or neglect, support to children and adults with disabilities, as well as a range of educational and support services for young people from early years through school age to youth provision and further learning.

The revenue spending highlights during the year were as follows:

- The adult social care service incurred additional costs of £9.4m as demand exceeded the levels assumed in the budget particularly in the area of commissioned care. Our assessment and targeted investment in supporting the well-being of clients continues to ensure the most relevant packages of care are identified. The Council continues to work closely with health partners in delivering integrated preventative services which reduce demand on more costly health and social care interventions and recognises that greater more transformational change is necessary to effectively manage rising service demand.
- The cost of looked after children through foster placements, social work staffing levels and out of borough placements is a cost pressure for the Council with this service overspending by £1.0m in 2015/16. The Council continues to manage cost pressures in this area through robust gate keeping processes, taking a multi-agency approach and aligning expenditure more closely to meet need.
- The cost of pupil transport exceeded budget by £0.5m. This is due to service demand for this statutory service.

# Section 1 – Narrative Statement by the Head of Finance

## Business and Resources Group

The major services provided by the Business and Resources Group include leisure and libraries and a range of support services to ensure the proper functioning of the Council.

The revenue spending highlights during the year were as follows:

- Re-profiling of the capital investment programme, debt set aside payments and lower interest rates than forecast resulted in improved cash flow and lower debt charges. This delivered a saving of £12.6m.
- Additional income of £1.5m was received from a variety of sources. These included Government funding to compensate the Council for changes in the national business rate system and for bringing empty dwellings back into use as well as improved recovery of benefit overpayments and release of unused contingency budgets.
- The Council maintained an effective income collection performance. During 2015/16, 96% of council tax income due was collected (96% in 2014/15). The majority of the amounts outstanding will also be received after the year-end. The comparative figure for business rates collection was 99% (98% in 2014/15).

## Economic Regeneration Group

The major services provided by the Economic Regeneration Group include waste collection and disposal, street cleaning, maintenance of open spaces, cultural services, encouraging the creation of new jobs through supporting new and existing business, enhancing the skills of local people and management of the Council's land and buildings.

The revenue spending highlights during the year were as follows:

- An overspend of £0.6m was incurred in relation to services covering waste collection and disposal, parking and utilities and bereavement. This arose primarily due to a shortfall in anticipated income across these areas.
- The Council continued to re-model its building estate to ensure it is fit for purpose and cost effective. This involved a complex reorganisation of the building portfolio. A cost pressure of £0.3m arose due to changes in the timing of that reorganisation.
- Savings of £0.4m were achieved in relation to business employment and skills activity. A range of support was still provided during the year such as the youth apprenticeship scheme and grant funding to businesses to support both the creation and retention of jobs.

# Section 1 – Narrative Statement by the Head of Finance

## 3. Capital Investment Financial Summary 2015/16

The following table summarises capital investment of £84.7m during 2015/16 and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2015-20 MTFP, has been revised to reflect the full impact of known contractual commitments from 2014/15 and new funding approvals received in year. £12.5m of funding has been provisionally carried forward to support ongoing schemes in future years. Investment during 2015/16 continued the Council's commitment to apply available capital resources in a targeted manner to regenerate and transform the borough.

| <b>2015/16 Capital investment summary</b> | <b>Revised budget<br/>£m</b> | <b>Actual outturn<br/>£m</b> | <b>Carry forward<br/>£m</b> | <b>(Underspend)/<br/>Overspend<br/>£m</b> |
|---|------------------------------|------------------------------|-----------------------------|---|
| Children, Adults and Health Group         | 3.881                        | 2.652                        | 0.028                       | (1.201)                                   |
| Business and Resources Group              | 1.085                        | (0.822)                      | -                           | (1.907)                                   |
| Economic Regeneration Group               | 53.585                       | 44.695                       | 12.455                      | 3.565                                     |
| Public Sector Housing                     | 35.198                       | 38.144                       | -                           | 2.946                                     |
| <b>Total capital investment</b>           | <b>93.749</b>                | <b>84.669</b>                | <b>12.483</b>               | <b>3.403</b>                              |

| <b>2015/16 Capital financing summary</b> | <b>Actual funding<br/>£m</b> |
|--|------------------------------|
| Unsupported borrowing                    | (40.089)                     |
| Capital receipts                         | (4.684)                      |
| Funding from the General Fund            | (0.131)                      |
| Funding from the major repairs reserve   | (27.756)                     |
| Government grant and other contributions | (12.009)                     |
| <b>Total capital funding</b>             | <b>(84.669)</b>              |

The capital investment highlights during the year were as follows:

### Children, Adults and Health Group

- £0.9m has been invested in adaptations to private houses such as walk in showers and stair lifts. This allows people to live independently for longer within their own home rather than requiring residential care.
- £0.7m was spent during the year on the implementation of a new computerised social care information system within adult social care.
- £0.6m was spent during the year on schools capital projects which was funded from devolved formula capital grant.

### Business and Resources Group

- £0.5m was spent on computer development on various projects.
- £0.5m was spent on neighbourhood improvements to meet the priorities of local communities.



## Section 1 – Narrative Statement by the Head of Finance

- Release of part of the equal pay provision to reflect a reduction in the liability facing the Council has more than offset all of the costs incurred by this Group.

### Economic Regeneration Group

- £2.2m was invested in the acquisition of property and associated costs as part of the South Shields 365 project. Work will continue in 2016/17 to continue with property acquisitions. £4.9m carry forward has been provisionally agreed to support this project going forward.
- £15.0m has been spent in year on the construction of a new central library and community facility 'The Word' which is due to be completed by September 2016. £1.7m carry forward has been agreed to enable completion of the project.
- £1.0m has been spent on further improvements to the foreshore promenade which was externally funded. The scheme will continue in 2016/17 and will be funded through additional external funding and a provisional carry forward of £0.7m.
- £3.7m was invested in Hebburn to complete the construction of the new community hub.
- £1.1m has been spent acquiring properties to further regenerate the Frederick Street and trinity south area of South Shields. A carry forward of £0.6m has been provisionally agreed to allow the project to continue.
- £0.7m has been spent on pre-construction works for a new transport interchange in South Shields. The scheme will continue into 2016/17.
- £2.8m has been spent on measures to remodel the Council's building estate so that it is fit for purpose, allows a reduction in the number of buildings maintained and promotes flexible working. This work is still in progress and will continue into 2016/17.
- £2.3m was spent on a programme of works to maintain and enhance the portfolio of front line service buildings.
- £2.0m was invested in new street lighting technology which will result in a saving on energy usage.
- £2.4m was invested in solar panels on corporate buildings and throughout the housing portfolio again to save on energy usage.
- £7.5m has been invested in a variety of infrastructure schemes ranging from road safety measures, resurfacing highways, renewal of footbridges and improved footpaths throughout the borough. A further £1.7m has been provisionally carried forward into 2016/17 to support ongoing investment in these areas.
- £1.2m has been invested in the Fellgate flood alleviation scheme which will continue into 2016/17. This is a joint scheme with Northumbrian Water Limited who has provided part of the funding.

# Section 1 – Narrative Statement by the Head of Finance

## Public Sector Housing

- £29.4m has been spent on improving 3,404 homes to the South Tyneside decent homes standard.
- In addition to decent homes, £0.8m was spent on improvements to vacant properties to bring them back into occupation, £0.8m invested in adaptations to properties for tenants with special needs, £1.2m on infrastructure, £1.5m on area redevelopment schemes which will be ongoing into 2016/17 and £0.6m on local estate improvements.

## 4. Significant Matters

### Government Funding and Strategic Planning

Grant support from the Government has reduced by 45% in cash terms since 2010. Since that date the Council will have delivered efficiencies totalling over £120m. This has been achieved through a relentless focus upon value for money, delivering services through new and innovative means and prioritising resources to meet the Council's strategic objectives as set out in its plans.

Earlier this year, the Government published its funding settlement for each council for 2016/17. Indicative figures were provided for the period 2017/18 to 2019/20 which highlighted further reductions in Government grant. These figures will be confirmed for each council if they publish an appropriate efficiency plan for that period. It is estimated based upon published figures that Government grant to the Council in 2020 will have fallen by 65% in cash terms compared to the figure in 2010.

In response, the Council's financial planning framework has been re-focussed on a time horizon to align with the end of the current parliamentary term in 2020. This framework provides for a refresh of years 2 to 4 of the planning programme covering 2017/18 to 2019/20; 2016/17 being year 1 for which a budget has already been agreed. The planning programme is split between business areas within the Council and also by a range of cross-cutting themes. This will support closer integration of services within the Council but also with partners and other organisations. It will also strengthen its commissioning approach to ensure that services meet identified need in the most cost effective manner that maximises benefits for residents and the borough.

In common with many areas, the Council is facing significant demographic pressures. The number of residents over 85 years old is expected to double in the next twenty years. This places huge pressure upon services such as adult social care especially as Government funding continues to be reduced. The Council recognises that effective demand management of adult social care services is integral to securing financial sustainability and in response is implementing a programme of transformational change across the whole service.

The Council will target capital investment to support economic regeneration and attract new business and jobs to the area to support its overarching objective of increasing economic prosperity and over time minimising growth in demand upon services that the Council provides. This will continue to be a priority, especially as Government funding declines and councils become more reliant upon other sources of funding such as growth in business rates.

## Section 1 – Narrative Statement by the Head of Finance

The Council remains fully committed to delivering its vision for South Tyneside to be an outstanding place to live, invest and bring up families.

### Claims under the Equal Pay Act 1970

The Council continues to recognise claims under the Equal Pay Act 1970 for which a provision has been made. We have been successful in seeking capitalisation from the Department for Communities and Local Government for backdated pay settlements which allows costs to be spread over a number of years. A provision is held to cover the costs which are reviewed annually to ensure the level is sufficient. The provision at the start of the year was £8.7m. This has been reduced by £2.1m in 2015/16 to take account of claims paid out and a reduction in the number and value of valid claims. The reduction was released to support the capital programme. The balance is held in long term provisions as no further settlements are anticipated in the next twelve months.

### Defined Benefit Obligation

As at 31<sup>st</sup> March 2016 the Council had a defined benefit obligation to the Tyne and Wear Pension Fund of £290.1m (£318.5m in 2014/15). If the Council ceased operations, this liability would have to be taken over by the successor body or ultimately funded by Central Government.

### South Tyneside Housing Ventures Trust Limited (STHVTL)

In 2013/14, the Council supported the formation of an independent not for profit company (STHVTL) to increase the number of affordable homes in the borough. The Council has minority representation on the board of STHVTL. The Council has provided a loan facility of up to £40.0m to STHVTL which is secured on the value of the sites to be developed or assets acquired. £6.9m was loaned or advanced during 2015/16 (£7.2m in 2014/15). The loan will allow the company to fund initial build and acquisition costs for dwellings and its cost will be serviced from rental and sales income those assets generate.

## 5. Material Movements in Assets and Liabilities

The value of other property, plant and equipment has increased by £37.3m or 7.0%. £15.0m of this relates to revaluation gains primarily as a result of valuing surplus assets on a fair value basis. The remainder represents significant capital investment in The Word, Hebburn Hub and energy saving schemes such as street lighting and solar panels.

Long term loans and receivables have increased by £6.8m which represents a change in the length of time the Council has invested cash resources, as at the Balance Sheet date, in order to gain the maximum return on its investment.

Short term investments have fallen by £10.0m and net cash and cash equivalents have reduced by £25.7m. £9.3m of this decrease represents a technical accounting adjustment whereby unpaid bank transfers are now reflected in cash and cash equivalents rather than as short term creditors and £6.8m represents the move to longer term investments. The remaining £19.6m reduction in balances is a combination of an £8.1m increase in the level of under borrowing position compared to the capital financing requirement and reductions in cash from Government grants primarily in relation to decent homes funding.

## Section 1 – Narrative Statement by the Head of Finance

Short term creditors have reduced by £14.9m. As well as the technical adjustment with cash and cash equivalents there has been a significant improvement in the processing of outstanding invoices so they were paid before 31<sup>st</sup> March thus removing the requirement for a creditor accrual. This improvement was part of the Council's dry run attempt at closing the accounts early in preparation for this becoming mandatory for the 2017/18 Statement of Accounts.

Long term borrowing has increased by £16.7m and this has been used to fund the ongoing regeneration of our town centres including construction of The Word and the completion of Hebburn Hub. There has also been continued investment in highways, street lighting and footpaths as well as investment in solar panels to generate revenue savings.

The decrease in the defined benefit obligation of £28.4m or 9% compared to the previous year is primarily due to changes in the financial assumptions used to reach this valuation. This includes assumptions on inflation, salary increases and the value of future payments made to scheme members.

### 6. Reserves and Balances

As at the 31<sup>st</sup> March 2016 the Council held earmarked reserves of £34.3m (£32.0m in 2014/15) of which £7.6m (£8.7m in 2014/15) related to school balances.

Our strategic reserve is intended to cover emergency or unforeseen events and is maintained at no less than 2% of the net budget as part of a risk-based assessment. As at the 31<sup>st</sup> March 2016 the Council held £3.0m in this reserve (£3.0m in 2014/15).

The other key reserves that we hold to deal with our specific risks are the risk capacity and structural change and future funding reserves. As at the 31<sup>st</sup> March 2016 the Council held £4.1m and £8.3m respectively in these reserves (£10.1m and nil in 2014/15).

As at 31<sup>st</sup> March 2016 the Council held £2.3m (£2.0m in 2014/15) in capital receipts for the purposes of investing in our assets in future years.

### 7. Group Results

The Group Accounts fully incorporate the results of South Tyneside Homes Limited (STHL), a subsidiary company of the Council. They also reflect the Council's share as associate of STHVTL. Further details about these relationships can be found in the Group introduction on page 105 of these accounts.

The Group results revealed a deficit for the year of £29.1m (£57.3m in 2014/15) incorporating a net deficit of £1.6m (surplus of £1.1m in 2014/15) from STHL. The net assets of the Group stood at £87.2m at 31<sup>st</sup> March 2016 (£53.6m in 2014/15).

### 8. Housing Revenue Account (HRA)

The HRA is ring-fenced and all expenditure must be met from rents and other charges. The HRA achieved a surplus for the year of £1.3m (£2.8m in 2014/15). Revenue reserves at 31<sup>st</sup> March 2016 stood at £17.3m (£16.0m in 2014/15) which will be used to support future years' expenditure on housing.

# Section 1 – Narrative Statement by the Head of Finance

## 9. Private Finance Initiative (PFI) Expenditure for the Year

Expenditure on PFI schemes during the year was £21.0m (£20.9m in 2014/15). Revenue contributions provided funding of £9.8m (£9.8m in 2014/15), or 47%, and the remaining £11.1m (£11.1m in 2014/15) was funded using PFI credits from Government.

## 10. Borrowing Facilities

The Council has established a set of prudential indicators and developed a measurement and reporting process that highlights any breaches of these indicators. There were no breaches during 2015/16. During the year, the Council increased its debt having taken out 6 loans totalling £30.7m (£61.0m in 2014/15) from the Public Works Loans Board. £20.0m of loans were repaid during the year (£27.0m in 2014/15).

## 11. Shaped to Deliver Our Priorities

Our vision is for South Tyneside to be **an outstanding place to live, invest and bring up families**. We have ambitious plans to regenerate our towns, homes and communities that will help us to attract investment, create jobs, improve health and create greater opportunity in the borough for years to come.

To achieve our overall vision, we have agreed **ten strategic outcomes** with partners under the themes 'People' and 'Place'. These are the things we will achieve over the next twenty years:

### People

- Better education and skills
- Less people in poverty
- Protect children and vulnerable adults
- Stable and independent families
- Healthier people

### Place

- A regenerated South Tyneside with increased business and jobs
- Better transport
- Better housing and neighbourhoods
- A clean and green environment
- Less crime and safer communities

The South Tyneside Council strategy – 'Shaping our Future' identifies four priorities that will make the biggest difference to our residents and will be our focus over the next five years:

- **Stable and independent families**
- **Healthier people**
- **A regenerated South Tyneside with increased business and jobs**
- **Better housing and neighbourhoods**

## Section 1 – Narrative Statement by the Head of Finance

Knowing where we are going, being clear about what needs to be done most urgently and taking tough decisions when we have to – this is how we remain focused on our priorities.

We have continued to strengthen our organisational structure over recent years so that we are shaped to deliver our vision for South Tyneside. We are committed to the delivery of high quality, value for money services but we must do this in a different way, taking a much more integrated approach. With real drive and energy we will work more effectively across services and organisational boundaries, ensuring provision is targeted at a local level where it is most needed and remove inefficiencies by reducing overlap and duplication. The changes we have made are now embedded across the organisation and underpin delivery of our priorities.

### 12. Medium Term Prospects

Our MTFP for 2016 to 2021 was approved by Council and published in March 2016. Our key stakeholders, including our trades union, business sector and voluntary sector partners, members of the public and our own staff helped us to make decisions to ensure that our limited resources are directed to the top priorities for the residents of the borough.

Our MTFP identifies what we need to spend to maintain current services, what our priority-led spending plans are and our plans to redirect current spending from lower priority areas. In addition, the plans include our financial strategy on what level of reserves we plan to hold and how these are to be utilised.

Through its corporate planning process, the Council recognised at an early stage that there would be a significant decline in Government funding over the medium term. Consequently, the Council has implemented organisational changes which have involved a sizeable reduction in staff post numbers. These processes have been managed through continual dialogue with staff and trades unions. Our financial forecasts indicate that further staff reductions, service remodelling and integration between Council services and with major partners will be required in future years to meet the financial challenges and shape a successful and prosperous future for the borough. Reserves have been earmarked to facilitate the funding of these changes.

Our strategic planning is prioritised by a focus on large and high-risk areas of spend, ensuring targeted investment to deal with issues at an early stage to prevent costs escalating into the future. As a result, all significant budgets were reviewed and revised as appropriate. This will ensure that the Council is best placed to manage future pressures and benefit from opportunities through working with a wide range of partners.

### 13. Changes to Statement of Accounts

There are two major changes to the Statement of Accounts in 2015/16:

- The replacement of the explanatory foreword with a narrative statement to sit alongside the Statement of Accounts. Despite the change of name much of the content has remained relatively unchanged.

## Section 1 – Narrative Statement by the Head of Finance

- The adoption of IFRS 13 which introduces the concept that all non-current assets and liabilities would be valued at fair value i.e. the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The main impact this has had on the Statement of Accounts is in the valuation of surplus assets which previously had been valued on existing use prior to becoming surplus which in some cases represented little or no value. The standard has also resulted in additional disclosures around how the Council has arrived at the fair values used in the accounts.

In 2016/17 the valuation method for our infrastructure assets will be changing. Most of this asset group will transfer into a new category of Highways Network Assets and will be valued on the basis of depreciated replacement cost rather than the current depreciated historical cost. Assets that will be reclassified include all highways, carriageways, footways, footpaths and cycleways together with the land that they occupy. Structures, such as bridges, street lighting, traffic management systems and street furniture would also be included in the new asset which, like infrastructure, will all be represented as a single asset on the balance sheet. The Council is expecting the value of these assets to increase significantly as a result of this change primarily from the introduction of a land valuation which currently is valued at nil. The increase in value will be offset by a corresponding increase in the unusable revaluation reserve.

In 2017/18 the Council will be required to prepare its Statement of Accounts earlier than at present. This will mean the unaudited version will be available for inspection on 1<sup>st</sup> June and the audited version available from 1<sup>st</sup> August. We are using 2015/16 and 2016/17 as dry runs to meet these new deadlines in order to identify and rectify any issues we may have in compliance.

### 14. The Statement of Accounts

The Statement of Accounts are set out on pages 17 to 163. They consist of the following statements that are required to be prepared under the Code of Practice:

- **Statement of Responsibilities for the Accounts** (page 17) that explains both the Council's and Head of Finance's responsibilities in respect of the Statement of Accounts.
- **Independent Auditors' Report** (page 18) sets out the opinion of our external auditors Ernst and Young LLP following their audit of the Statement of Accounts.

The **Core Financial Statements** in Section 4 are:

- **Movement in Reserves Statement** (page 21) reconciles items included in the Comprehensive Income and Expenditure Statement, which by statute are not charged to the council tax payer.
- **Comprehensive Income and Expenditure Statement** (page 22) reports the income and expenditure relating to all services provided by the Council and how the net costs of these services have been financed from general government grants and income from local taxpayers.

## Section 1 – Narrative Statement by the Head of Finance

- **Balance Sheet** (page 23) shows what assets the Council owns and its level of indebtedness. This statement also details the level of reserves that the Council can call upon to meet future expenditure.
- **Cash Flow Statement** (page 24) summarising the activities during the year in terms of cash inflows and outflows reconciling to the cash and cash equivalent balances held on the Balance Sheet.

The **Supplementary Financial Statements** in Section 5 are:

- **Housing Revenue Account Income and Expenditure Statement and Notes** (pages 97 to 102) dealing with the provision and maintenance of Council housing. There is a statutory requirement to keep this account separately and also consolidate the figures within the Comprehensive Income and Expenditure Statement.
- **Collection Fund Statement and Notes** (pages 103 to 104) showing the income the Council receives from council tax and non-domestic rates and how this income has been distributed to precepting authorities (Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Civil Defence Authority).

The **Group Financial Statements and Notes in Section 6** (pages 105 to 121) reports the financial picture of all activities conducted by the Council, including those delivered through partnership and separate undertakings owned by the Council.

The **Tyne and Wear Pension Fund Statements and Notes in Section 7** (pages 122 to 164) record the year's activities in relation to the Pension Fund. The Council is required to publish these statements as administering authority for the Fund.

### 15. The Annual Governance Statement

To accompany the Statement of Accounts the leadership of the Council prepares an Annual Governance Statement that sets out the principal arrangements that operate to ensure proper governance of the Council's affairs and the stewardship of resources at its disposal. It also outlines the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

**Stuart Reid**  
Head of Finance

**23<sup>rd</sup> September 2016**



## Section 2 – Statement of Responsibilities for the Accounts

### The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of both its financial affairs and those of the Tyne and Wear Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For South Tyneside Council and the Tyne and Wear Pension Fund, that officer is the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Responsibilities of the Head of Finance

The Head 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/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). In preparing the Statement of Accounts, the Head of Finance has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The Head of Finance has also:

- Kept proper accounting records that were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Head of Finance Certificate

I hereby certify that the Statement of Accounts, set out in pages 18 to 164, gives a true and fair view of the financial position of South Tyneside Council and the Tyne and Wear Pension Fund as at the Balance Sheet date, and their income and expenditure for the year ended 31<sup>st</sup> March 2016.

Signed:



Date: 23<sup>rd</sup> September 2016

Stuart Reid, [Head of Finance](#)

### Chair of General Purposes Committee Certificate

I can confirm that these accounts were approved by the General Purposes Committee at its meeting held in September 2016.

Signed:



Date: 23<sup>rd</sup> September 2016

Councillor Iain Malcolm, [Chair of General Purposes Committee](#)

# Section 3 – Independent Auditors’ Report

## Independent auditors’ report to the Members of South Tyneside Council

### Opinion on the Authority’s financial statements

We have audited the financial statements of South Tyneside Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statements;
- Authority and Group Comprehensive Income and Expenditure Statements;
- Authority and Group Balance Sheets;
- Authority and Group Cash Flow Statements;
- Housing Revenue Account Income and Expenditure Statement; and
- Collection Fund Statement; and
- The related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of South Tyneside Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 17, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Report 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of South Tyneside Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### Opinion on other matters

In our opinion, the information given in the Financial Statements 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Section 3 – Independent Auditors’ Report

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### **Conclusion on South Tyneside Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority’s responsibilities**

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

#### **Auditor’s responsibilities**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether South Tyneside Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Tyneside Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, South Tyneside Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### **Conclusion**

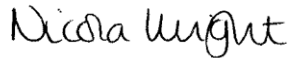
On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, South Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

## Section 3 – Independent Auditors’ Report

### Certificate

We are unable to conclude our audit because there is an outstanding matter in relation to an objection on the 2013/14 financial statements relating to specific costs incurred by the Authority during the year.

Until this outstanding matter is closed down we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



Nicola Wright (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Newcastle upon Tyne  
30 September 2016

## Section 4 – Core Financial Statements

### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The deficit on the provision of services lines show the true economic cost of providing the Council's services rather than the statutory amounts required to be charged. The net (increase) or decrease before transfers to earmarked reserves lines show the statutory General Fund and Housing Revenue Account balances before any discretionary transfers to or from earmarked reserves undertaken by the Council.

|  | Note | General fund<br>balance | Earmarked<br>general fund<br>reserves | Housing<br>revenue<br>account | Capital receipts<br>reserve | Major repairs<br>reserve | Total usable<br>reserves | Unusable<br>reserves | Total Council<br>reserves |
|--|------|-------------------------|---------------------------------------|-------------------------------|-----------------------------|--------------------------|--------------------------|----------------------|---------------------------|
|  |      | £m                      | £m                                    | £m                            | £m                          | £m                       | £m                       | £m                   | £m                        |
| <b>Balance at 31<sup>st</sup> March 2014 carried forward</b>             |      | <b>(1.184)</b>          | <b>(32.009)</b>                       | <b>(13.156)</b>               | <b>(1.730)</b>              | <b>(12.293)</b>          | <b>(60.372)</b>          | <b>(97.364)</b>      | <b>(157.736)</b>          |
| <b>Movement in reserves during 2014/15</b>                               |      |                         |                                       |                               |                             |                          |                          |                      |                           |
| Deficit on the provision of services                                     |      | 49.938                  | -                                     | 8.412                         | -                           | -                        | 58.350                   | -                    | 58.350                    |
| Other comprehensive (income) and expenditure                             |      | -                       | -                                     | -                             | -                           | -                        | -                        | 19.695               | 19.695                    |
| <b>Total comprehensive (income) and expenditure</b>                      |      | <b>49.938</b>           | <b>-</b>                              | <b>8.412</b>                  | <b>-</b>                    | <b>-</b>                 | <b>58.350</b>            | <b>19.695</b>        | <b>78.045</b>             |
| Adjustments between accounting basis and funding basis under regulations | 4    | (50.511)                | -                                     | (11.255)                      | (0.259)                     | 1.716                    | (60.309)                 | 60.309               | -                         |
| <b>Net (increase) or decrease before transfers to earmarked reserves</b> |      | <b>(0.573)</b>          | <b>-</b>                              | <b>(2.843)</b>                | <b>(0.259)</b>              | <b>1.716</b>             | <b>(1.959)</b>           | <b>80.004</b>        | <b>78.045</b>             |
| Transfers to or (from) earmarked reserves                                | 5    | 0.040                   | (0.040)                               | -                             | -                           | -                        | -                        | -                    | -                         |
| <b>(Increase) or decrease in 2014/15</b>                                 |      | <b>(0.533)</b>          | <b>(0.040)</b>                        | <b>(2.843)</b>                | <b>(0.259)</b>              | <b>1.716</b>             | <b>(1.959)</b>           | <b>80.004</b>        | <b>78.045</b>             |
| <b>Balance at 31<sup>st</sup> March 2015 carried forward</b>             |      | <b>(1.717)</b>          | <b>(32.049)</b>                       | <b>(15.999)</b>               | <b>(1.989)</b>              | <b>(10.577)</b>          | <b>(62.331)</b>          | <b>(17.360)</b>      | <b>(79.691)</b>           |
| <b>Movement in reserves during 2015/16</b>                               |      |                         |                                       |                               |                             |                          |                          |                      |                           |
| Deficit on the provision of services                                     |      | 12.247                  | -                                     | 15.108                        | -                           | -                        | 27.355                   | -                    | 27.355                    |
| Other comprehensive (income) and expenditure                             |      | -                       | -                                     | -                             | -                           | -                        | -                        | (55.758)             | (55.758)                  |
| <b>Total comprehensive (income) and expenditure</b>                      |      | <b>12.247</b>           | <b>-</b>                              | <b>15.108</b>                 | <b>-</b>                    | <b>-</b>                 | <b>27.355</b>            | <b>(55.758)</b>      | <b>(28.403)</b>           |
| Adjustments between accounting basis and funding basis under regulations | 4    | (13.971)                | -                                     | (16.426)                      | (0.352)                     | 10.577                   | (20.172)                 | 20.172               | -                         |
| <b>Net (increase) or decrease before transfers to earmarked reserves</b> |      | <b>(1.724)</b>          | <b>-</b>                              | <b>(1.318)</b>                | <b>(0.352)</b>              | <b>10.577</b>            | <b>7.183</b>             | <b>(35.586)</b>      | <b>(28.403)</b>           |
| Transfers to or (from) earmarked reserves                                | 5    | 2.251                   | (2.251)                               | -                             | -                           | -                        | -                        | -                    | -                         |
| <b>(Increase) or decrease in 2015/16</b>                                 |      | <b>0.527</b>            | <b>(2.251)</b>                        | <b>(1.318)</b>                | <b>(0.352)</b>              | <b>10.577</b>            | <b>7.183</b>             | <b>(35.586)</b>      | <b>(28.403)</b>           |
| <b>Balance at 31<sup>st</sup> March 2016 carried forward</b>             |      | <b>(1.190)</b>          | <b>(34.300)</b>                       | <b>(17.317)</b>               | <b>(2.341)</b>              | <b>-</b>                 | <b>(55.148)</b>          | <b>(52.946)</b>      | <b>(108.094)</b>          |

## Section 4 – Core Financial Statements

### Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations with the taxation position shown in the Movement in Reserves Statement.

| 2014/15<br>Gross<br>expenditure<br>£m | 2014/15<br>Gross<br>income<br>£m | 2014/15<br>Net<br>expenditure<br>£m |  | Note | 2015/16<br>Gross<br>expenditure<br>£m | 2015/16<br>Gross<br>income<br>£m | 2015/16<br>Net<br>expenditure<br>£m |
|---------------------------------------|----------------------------------|-------------------------------------|--|------|---------------------------------------|----------------------------------|-------------------------------------|
| 3.103                                 | (1.478)                          | 1.625                               | Central services to the public   |      | 3.145                                 | (1.861)                          | 1.284                               |
| 21.715                                | (4.837)                          | 16.878                              | Cultural and related services  |      | 13.371                                | (5.428)                          | 7.943                               |
| 26.656                                | (7.938)                          | 18.718                              | Environmental services   |      | 22.346                                | (6.388)                          | 15.958                              |
| 10.139                                | (6.590)                          | 3.549                               | Regulatory and planning services   |      | 10.477                                | (6.575)                          | 3.902                               |
| 181.901                               | (127.152)                        | 54.749                              | Education and children's services  |      | 162.346                               | (122.839)                        | 39.507                              |
| 11.578                                | (2.947)                          | 8.631                               | Highways and transport services  |      | 18.194                                | (8.475)                          | 9.719                               |
| 87.401                                | (70.128)                         | 17.273                              | Local authority housing (HRA)  |      | 66.976                                | (70.561)                         | (3.585)                             |
| 75.074                                | (73.536)                         | 1.538                               | Other housing services   |      | 75.896                                | (74.644)                         | 1.252                               |
| 85.324                                | (33.009)                         | 52.315                              | Adult social care services   |      | 84.637                                | (33.310)                         | 51.327                              |
| 13.570                                | (13.059)                         | 0.511                               | Public health services   |      | 15.803                                | (14.073)                         | 1.730                               |
| 3.517                                 | (0.922)                          | 2.595                               | Corporate and democratic core  |      | 3.581                                 | (0.826)                          | 2.755                               |
| 1.413                                 | (0.226)                          | 1.187                               | Non-distributed costs  |      | 2.106                                 | (0.245)                          | 1.861                               |
| <b>521.391</b>                        | <b>(341.822)</b>                 | <b>179.569</b>                      | <b>Cost of services</b>  |      | <b>478.878</b>                        | <b>(345.225)</b>                 | <b>133.653</b>                      |
| 45.423                                | (7.299)                          | 38.124                              | Other operating income and expenditure   | 6    | 28.937                                | (7.055)                          | 21.882                              |
| 43.804                                | (1.493)                          | 42.311                              | Financing and investment income and expenditure  | 7    | 40.887                                | (2.114)                          | 38.773                              |
| -                                     | (201.654)                        | (201.654)                           | Taxation and non-specific grant income   | 8    | -                                     | (166.953)                        | (166.953)                           |
| <b>610.618</b>                        | <b>(552.268)</b>                 | <b>58.350</b>                       | <b>Deficit on the provision of services</b>  |      | <b>548.702</b>                        | <b>(521.347)</b>                 | <b>27.355</b>                       |
|                                       |                                  |                                     | <b>Items that will not be reclassified to the deficit on the provision of services</b> |      |                                       |                                  |                                     |
|                                       |                                  | (15.765)                            | Surplus on revaluation of property, plant and equipment                                |      |                                       |                                  | (27.571)                            |
|                                       |                                  | 0.280                               | Impairment losses on non-current assets charged to the revaluation reserve             |      |                                       |                                  | 5.263                               |
|                                       |                                  | 35.180                              | Remeasurements of the defined benefit obligation                                       | 40   |                                       |                                  | (33.450)                            |
|                                       |                                  | <b>19.695</b>                       | <b>Other comprehensive (income) and expenditure</b>                                    |      |                                       |                                  | <b>(55.758)</b>                     |
|                                       |                                  | <b>78.045</b>                       | <b>Total comprehensive (income) and expenditure</b>                                    |      |                                       |                                  | <b>(28.403)</b>                     |

## Section 4 – Core Financial Statements

### Balance Sheet

This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the usable and unusable reserves. Usable reserves are those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that cannot be used to provide services. They include reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences as shown in the “adjustments between accounting basis and funding basis under regulations” line in the Movement in Reserves Statement.

| 31 <sup>st</sup> March<br>2015<br>£m |   | Note | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|------|--------------------------------------|
|                                      | <b>Non-current assets</b>                       |      |                                      |
| 434.570                              | Council dwellings                               | 9    | 440.839                              |
| 537.764                              | Other property, plant and equipment             | 9    | 575.086                              |
| 3.675                                | Heritage assets                                 |      | 3.553                                |
| 2.300                                | Investment properties                           |      | 2.300                                |
| 1.179                                | Intangible assets                               | 10   | 1.987                                |
| 8.820                                | Long term investments                           | 11   | 8.820                                |
| 17.667                               | Long term loans and receivables                 | 11   | 24.459                               |
| <b>1,005.975</b>                     | <b>Total non-current assets</b>                 |      | <b>1,057.044</b>                     |
|                                      | <b>Current assets</b>                           |      |                                      |
| 39.507                               | Short term investments                          | 11   | 29.473                               |
| 0.735                                | Inventories                                     |      | 0.736                                |
| 44.107                               | Short term debtors                              | 12   | 28.865                               |
| 24.520                               | Cash and cash equivalents                       | 13   | 7.488                                |
| 2.405                                | Assets held for sale                            | 14   | 0.207                                |
| <b>111.274</b>                       | <b>Total current assets</b>                     |      | <b>66.769</b>                        |
|                                      | <b>Current liabilities</b>                      |      |                                      |
| (49.153)                             | Short term creditors                            | 15   | (34.299)                             |
| -                                    | Cash and cash equivalents - bank overdraft      | 13   | (8.670)                              |
| (23.388)                             | Short term borrowing                            | 11   | (22.626)                             |
| (4.076)                              | PFI liability due in less than one year         | 17   | (3.706)                              |
| (2.164)                              | Capital grants receipts in advance              | 30   | (1.870)                              |
| (6.045)                              | Short term provisions                           | 16   | (8.744)                              |
| <b>(84.826)</b>                      | <b>Total current liabilities</b>                |      | <b>(79.915)</b>                      |
| <b>26.448</b>                        | <b>Total net current assets</b>                 |      | <b>(13.146)</b>                      |
|                                      | <b>Non-current liabilities</b>                  |      |                                      |
| (0.196)                              | Long term creditors                             | 11   | (0.828)                              |
| (9.747)                              | Long term provisions                            | 16   | (8.095)                              |
| (511.383)                            | Long term borrowing                             | 11   | (528.070)                            |
| (110.466)                            | Long term PFI liability                         | 17   | (106.760)                            |
| (318.450)                            | Liability related to defined benefit obligation | 40   | (290.060)                            |
| (2.490)                              | Other long term liabilities                     | 11   | (1.991)                              |
| <b>(952.732)</b>                     | <b>Total non-current liabilities</b>            |      | <b>(935.804)</b>                     |
| <b>79.691</b>                        | <b>Total net assets</b>                         |      | <b>108.094</b>                       |
|                                      | <b>Reserves</b>                                 |      |                                      |
| (62.331)                             | Usable reserves                                 | 18   | (55.148)                             |
| (17.360)                             | Unusable reserves                               | 19   | (52.946)                             |
| <b>(79.691)</b>                      | <b>Total reserves</b>                           |      | <b>(108.094)</b>                     |

## Section 4 – Core Financial Statements

### Cash Flow Statement

This statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2014/15         |   | Note | 2015/16         |
|-----------------|---|------|-----------------|
| £m              |   |      | £m              |
| <b>(58.350)</b> | <b>Cash outflow from the provision of services</b>  |      | <b>(27.355)</b> |
| 197.716         | Adjustment to the deficit on the provision of services for non-cash movements                                     | 20   | 115.055         |
| (122.736)       | Adjust for items included in the deficit on the provision of services that are investing and financing activities | 20   | (69.596)        |
| <b>16.630</b>   | <b>Net cash flow from operating activities</b>  |      | <b>18.104</b>   |
| (60.549)        | Investing activities  | 21   | (56.080)        |
| 30.047          | Financing activities  | 22   | 12.274          |
| <b>(13.872)</b> | <b>Net decrease in cash and cash equivalents</b>  |      | <b>(25.702)</b> |
| <b>38.392</b>   | <b>Cash and cash equivalents at the start of the year</b>   |      | <b>24.520</b>   |
| <b>24.520</b>   | <b>Cash and cash equivalents at the end of the year</b>   |      | <b>(1.182)</b>  |

The notes to the core financial statements are presented on pages 25 to 96 and form part of the Statement of Accounts.



## Section 4 – Notes to the Core Financial Statements

### Note 1. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 41, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are set out below:

#### Accounting for Assets – Balance Sheet Recognition

The Council has four types of schools within the borough – community, voluntary aided (VA), trust and academy. The Council would usually only recognise community schools on the Balance Sheet.

During 2015/16, St Wilfrid's secondary school converted to academy status. As this was a VA school the Council does not legally own any assets and there has been no loss on disposal charged to the Comprehensive Income and Expenditure Statement.

The table below details the number of schools in each category as at 31<sup>st</sup> March 2016:

|                            | Nursery, Primary<br>or Special | Secondary |
|----------------------------|--------------------------------|-----------|
| Community                  | 34                             | 5         |
| Voluntary Aided/Controlled | 13                             | 0         |
| Academy                    | 5                              | 3         |
| Trust                      | 2                              | 1         |
|                            | <b>54</b>                      | <b>9</b>  |

#### Private Finance Initiatives (PFI)

The Council is deemed to control the services provided under the PFI agreements for three secondary schools, the Council's street lighting and a share of waste recycling facility on Teesside. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and assets totalling £98.068m (£101.959m in 2014/15) are recognised as property, plant and equipment on the Council's Balance Sheet. Further information can be found in notes 9 and 17.

#### Leases

The Council constructed a new office facility at Harton Quay, South Shields. The office was leased to British Telecommunications PLC on 29<sup>th</sup> September 2011 for an initial lease term of 14½ years. The primary purpose of the office facility is to secure new jobs for the borough and facilitate regeneration of the riverside area. Although the asset generates rental income and may result in capital appreciation, these were not the primary purposes of the project. The Council has reviewed the terms of the lease agreement and concluded that this is an operating lease. For this reason, the Council has accounted for this asset as property, plant and equipment on the Balance Sheet with a value at 31<sup>st</sup> March 2016 of £8.517m (£8.859m in 2014/15).

The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31<sup>st</sup> March 2016 of £31.275m (£29.032m in 2014/15). Whilst the Council does receive rental income, the primary purpose of holding these assets is job creation and regeneration of the borough. The assets have therefore been accounted for as property, plant and equipment rather than investment properties on the Balance Sheet.

## Section 4 – Notes to the Core Financial Statements

### Provisions

The Council is in dispute with one of its contractors. In April 2014 an adjudication panel ruled that the contractor had valid concerns and allowed the claim to move forward. Since that date the Council has been in negotiations with the contractor and resolved some of the issues having paid out £0.146m during the year (£0.821m in 2014/15). Following advice that further payments are likely the Council has retained the remaining provision.

### Newcastle Airport Holding

The Council is one of seven local authorities (the 'LA7') who hold an overall 51% shareholding in Newcastle Airport. Valuation of these shares is based on the sale of the 49% private sector share to AMP Capital Investors Limited on 16<sup>th</sup> November 2012. The Council acts as lead authority for the LA7 and considers each year whether a revaluation of the holding is required. There have been no significant changes in the operations of the airport during the year and hence the Council's investment in Newcastle Airport has remained unchanged.

### Note 2. Assumptions made about the Future and Other Sources of Estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about what may happen in the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from these assumptions and estimates. The items in the Council's Balance Sheet at 31<sup>st</sup> March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are described below.

### Approach to Fair Value

When the fair values of financial assets or liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs) their fair value is measured using valuation techniques. Where possible the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing their fair values. These judgements typically include considerations such as uncertainty and risk. The significant unobservable inputs used include management assumptions regarding rent growth and discount rates adjusted for regional factors. Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for surplus assets and financial instruments.

Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 9 and 11.

### Beacon Approach to Valuations

The Council adopts a beacon approach to the valuation of dwellings and sheltered housing units. This involves valuing a single property in an area and then applying that valuation to properties in a similar location and with similar characteristics. The Council has identified 261 beacon properties to cover the whole borough. Property values are affected by a number of factors and a 1% movement on the assumed valuation would change the reported value of dwellings by £4.408m (£4.346m in 2014/15) and other land and buildings by £3.572m (£3.778m in 2014/15).

## Section 4 – Notes to the Core Financial Statements

### Other Land and Property Valuations

For other valuations the Council adopts a rolling programme which results in material assets being revalued at least once every five years. A 1% movement in values since the last valuation date would change the reported value of other land and buildings and surplus assets by £2.517m (£1.953m in 2014/15).

### Useful Economic Lives

Property, plant and equipment are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £3.132m (£3.004m in 2014/15) for every year that useful lives had to be reduced.

### Provisions

The Council has made a provision of £6.550m (£8.710m in 2014/15) for the settlement of claims arising from the Equal Pay legislation, based on the number of claims received and an average settlement amount. Assumptions have been made on numbers of potential claimants, as it is not certain that the Council has received all valid claims. An increase of 10% in the number of claims would have the effect of adding £0.655m (£0.871m in 2014/15) to the provision needed.

### Defined Benefit Obligation

Estimation of the defined benefit obligation to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions applied. The effects on the net defined benefit obligation of changes in individual assumptions can be measured. The results can be found in the sensitivity analysis section of note 40 on pages 73 and 74

However the assumptions interact in complex ways. During 2015/16 the Council's actuaries advised that the defined benefit obligation for funded liabilities had decreased by £8.200m (£4.920m in 2014/15) as a result of estimates being corrected for experience and decreased by £32.750m (increased by £79.120m in 2014/15) due to updating of financial assumptions. Remeasurement of Fund assets also led to a £8.830m increase (£40.670m decrease in 2014/15).

## Section 4 – Notes to the Core Financial Statements

### Note 3. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2015/16   | Usable reserves            |                               |                                |                             | Movement in unusable reserves<br>£m |
|---|----------------------------|-------------------------------|--------------------------------|-----------------------------|-------------------------------------|
|   | General Fund balance<br>£m | Housing revenue account<br>£m | Capital receipts reserve<br>£m | Major repairs reserve<br>£m |                                     |
| <b>Adjustments primarily involving the capital adjustment account:</b>  |                            |                               |                                |                             |                                     |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>                                       |                            |                               |                                |                             |                                     |
| Charges for depreciation and impairment of non-current assets   | (28.562)                   | (25.375)                      | -                              | -                           | 53.937                              |
| Contribution towards the major repairs reserve  | -                          | 17.179                        | -                              | (17.179)                    | -                                   |
| Revaluation losses on property, plant and equipment   | 9.051                      | (1.273)                       | -                              | -                           | (7.778)                             |
| Amortisation of intangible assets   | (0.605)                    | -                             | -                              | -                           | 0.605                               |
| Capital grants and contributions applied  | 12.009                     | -                             | -                              | -                           | (12.009)                            |
| Capital receipts not linked to non-current assets   | -                          | -                             | (0.019)                        | -                           | 0.019                               |
| Revenue expenditure funded from capital under statute   | 0.912                      | (1.639)                       | -                              | -                           | 0.727                               |
| Amounts of current and non-current assets written off as part of the loss on disposal   | (7.069)                    | (10.318)                      | -                              | -                           | 17.387                              |
| Other movements   | 0.001                      | (0.002)                       | (0.001)                        | -                           | 0.002                               |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>                                  |                            |                               |                                |                             |                                     |
| Provision for the financing of capital investment   | 3.643                      | -                             | -                              | -                           | (3.643)                             |
| Capital expenditure charged against balances  | 0.131                      | -                             | -                              | -                           | (0.131)                             |
| <b>Adjustments primarily involving the capital receipts reserve and the major repairs reserve:</b>  |                            |                               |                                |                             |                                     |
| Transfer of cash sale proceeds credited as part of the loss on disposal   | 1.701                      | 5.244                         | (6.945)                        | -                           | -                                   |
| Use of the capital receipts reserve to finance new capital expenditure  | -                          | -                             | 4.684                          | -                           | (4.684)                             |
| Use of the capital receipts reserve to repay debt   | -                          | -                             | 0.019                          | -                           | (0.019)                             |
| Contribution towards administrative costs of non-current asset disposals  | (0.012)                    | (0.181)                       | 0.193                          | -                           | -                                   |
| Contribution towards the payments to the Government capital receipts pool   | (1.720)                    | -                             | 1.720                          | -                           | -                                   |
| Transfer from deferred capital receipts reserve upon receipt of cash  | -                          | -                             | (0.003)                        | -                           | 0.003                               |
| Use of the major repairs reserve to finance new capital expenditure   | -                          | -                             | -                              | 27.756                      | (27.756)                            |
| <b>Adjustments primarily involving the pensions reserve:</b>  |                            |                               |                                |                             |                                     |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 40) | (27.133)                   | -                             | -                              | -                           | 27.133                              |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | 21.680                     | -                             | -                              | -                           | (21.680)                            |
| <b>Other adjustments to unusable reserves</b>   |                            |                               |                                |                             |                                     |
| Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements               | (0.074)                    | (0.061)                       | -                              | -                           | 0.135                               |
| Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements                    | 0.643                      | -                             | -                              | -                           | (0.643)                             |
| Employee benefits accrued during the year   | 1.433                      | -                             | -                              | -                           | (1.433)                             |
| <b>Total adjustments</b>  | <b>(13.971)</b>            | <b>(16.426)</b>               | <b>(0.352)</b>                 | <b>10.577</b>               | <b>20.172</b>                       |

## Section 4 – Notes to the Core Financial Statements

The equivalent figures for the previous year are as follows:

| 2014/15   | General Fund<br>balance<br>£m | Housing<br>revenue<br>account<br>£m | Usable reserves                   |                                   | Movement in<br>unusable<br>reserves<br>£m |
|---|-------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|---|
|   |                               |                                     | Capital receipts<br>reserve<br>£m | Major<br>repairs<br>reserve<br>£m |   |
| <b>Adjustments primarily involving the capital adjustment account:</b>  |                               |                                     |                                   |                                   |   |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>                                       |                               |                                     |                                   |                                   |   |
| Charges for depreciation and impairment of non-current assets   | (26.407)                      | (19.796)                            | -                                 | -                                 | 46.203                                    |
| Contribution towards the major repairs reserve  | -                             | 16.983                              | -                                 | (16.983)                          | -   |
| Revaluation losses on property, plant and equipment   | (20.711)                      | (30.485)                            | -                                 | -                                 | 51.196                                    |
| Amortisation of intangible assets   | (0.523)                       | -                                   | -                                 | -                                 | 0.523                                     |
| Capital grants and contributions applied  | 12.767                        | 28.102                              | -                                 | -                                 | (40.869)                                  |
| Capital receipts not linked to non-current assets   | -                             | 0.103                               | (0.110)                           | -                                 | 0.007                                     |
| Revenue expenditure funded from capital under statute   | (4.344)                       | (1.097)                             | -                                 | -                                 | 5.441                                     |
| Amounts of current and non-current assets written off as part of the loss on disposal   | (22.915)                      | (9.945)                             | -                                 | -                                 | 32.860                                    |
| Other movements   | 0.002                         | -                                   | -                                 | -                                 | (0.002)                                   |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>                                  |                               |                                     |                                   |                                   |   |
| Provision for the financing of capital investment   | 14.289                        | -                                   | -                                 | -                                 | (14.289)                                  |
| Capital expenditure charged against balances  | 0.224                         | -                                   | -                                 | -                                 | (0.224)                                   |
| <b>Adjustments primarily involving the capital receipts reserve and the major repairs reserve:</b>  |                               |                                     |                                   |                                   |   |
| Transfer of cash sale proceeds credited as part of the loss on disposal   | 1.650                         | 5.107                               | (6.757)                           | -                                 | -   |
| Use of the capital receipts reserve to finance new capital expenditure  | -                             | -                                   | 4.656                             | -                                 | (4.656)                                   |
| Use of the capital receipts reserve to repay debt   | -                             | -                                   | 0.007                             | -                                 | (0.007)                                   |
| Contribution towards administrative costs of non-current asset disposals  | -                             | (0.166)                             | 0.166                             | -                                 | -   |
| Contribution towards the payments to the Government capital receipts pool   | (1.782)                       | -                                   | 1.782                             | -                                 | -   |
| Transfer from deferred capital receipts reserve upon receipt of cash  | -                             | -                                   | (0.003)                           | -                                 | 0.003                                     |
| Use of the major repairs reserve to finance new capital expenditure   | -                             | -                                   | -                                 | 18.699                            | (18.699)                                  |
| <b>Adjustments primarily involving the pensions reserve:</b>  |                               |                                     |                                   |                                   |   |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 40) | (24.926)                      | -                                   | -                                 | -                                 | 24.926                                    |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | 22.060                        | -                                   | -                                 | -                                 | (22.060)                                  |
| <b>Other adjustments to unusable reserves</b>   |                               |                                     |                                   |                                   |   |
| Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements               | (0.075)                       | (0.061)                             | -                                 | -                                 | 0.136                                     |
| Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements                    | 0.802                         | -                                   | -                                 | -                                 | (0.802)                                   |
| Employee benefits accrued during the year   | (0.622)                       | -                                   | -                                 | -                                 | 0.622                                     |
| <b>Total adjustments</b>  | <b>(50.511)</b>               | <b>(11.255)</b>                     | <b>(0.259)</b>                    | <b>1.716</b>                      | <b>60.309</b>                             |

### Note 4. Transfers to or from Earmarked Reserves

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16. Earmarked reserves are held for specific purposes and are not intended to support general Council spending.

The table on the next page shows the movement in earmarked reserve balances for the past two years.

## Section 4 – Notes to the Core Financial Statements

|  | Balance at<br>31 <sup>st</sup> March<br>2014<br>£m | Transfers out<br>2014/15<br>£m | Transfers in<br>2014/15<br>£m | Balance at<br>31 <sup>st</sup> March<br>2015<br>£m | Transfers<br>out 2015/16<br>£m | Transfers<br>in 2015/16<br>£m | Balance at<br>31 <sup>st</sup> March<br>2016<br>£m |
|--|--|--------------------------------|-------------------------------|--|--------------------------------|-------------------------------|--|
| <b>General Fund:</b>                           |  |                                |                               |  |                                |                               |  |
| Strategic reserve                              | (3.021)  | -                              | -                             | (3.021)  | -                              | -                             | (3.021)  |
| School balances                                | (8.885)  | 4.543                          | (4.398)                       | (8.740)  | 4.112                          | (2.940)                       | (7.568)  |
| Insurance reserve                              | (2.268)  | -                              | (1.000)                       | (3.268)  | 1.272                          | -                             | (1.996)  |
| Risk capacity and structural<br>change reserve | (10.695)   | 1.361                          | (0.800)                       | (10.134)   | 6.065                          | -                             | (4.069)  |
| Future funding reserve                         | -  | -                              | -                             | -  | 3.464                          | (11.795)                      | (8.331)  |
| Other reserves                                 | (7.140)  | 4.988                          | (4.734)                       | (6.886)  | 3.047                          | (5.476)                       | (9.315)  |
| <b>Total earmarked reserves</b>                | <b>(32.009)</b>                                    | <b>10.892</b>                  | <b>(10.932)</b>               | <b>(32.049)</b>                                    | <b>17.960</b>                  | <b>(20.211)</b>               | <b>(34.300)</b>                                    |

### Strategic Reserve

This reserve covers emergency events such as unforeseen financial liabilities or natural disasters. This reserve is at least equivalent to 2% of the Council's net revenue budget.

### School Balances

This amount represents the cumulative net unspent element of school budgets, which, in accordance with Government legislation, must be carried forward into the following financial year. The balances are committed to be spent on education. Included in the school balances are nine schools (seven in 2014/15) in a deficit position totalling £0.501m (£0.333m in 2014/15).

### Insurance Reserve

The insurance reserve balance represents funding to pay for future claims over and above the known claims for which we have made provision.

### Risk Capacity and Structural Change Reserve

This reserve covers known financial risks which are both significant and volatile. The reserve has been used to deal with demand led pressures, particularly for areas such as adult social care and to support budget pressures arising elsewhere.

### Future Funding Reserve

This reserve has been created in year to cover the reduction in Government funding expected over the coming few years.

### Other Reserves

Amounts set aside for specific expenditure commitments.

## Note 5. Events after the Reporting Period

The Statement of Accounts have been certified as giving a true and fair view by the Head of Finance on 23<sup>rd</sup> September 2016. They include any events taking place between this date and the date of the Balance Sheet where these events would affect the reported position at 31<sup>st</sup> March 2016.

Harton Technology College are currently in the process of considering transferring to Academy status. If finalised the assets of the school will no longer belong to the Council and £29.284m gross book value and £1.633m depreciation will be removed from property, plant and equipment in the Balance Sheet. This will generate a £27.651m loss on disposal reported in the Comprehensive Income and Expenditure Statement in 2016/17 should the expected date of transfer of 1<sup>st</sup> January 2017 be achieved.

## Section 4 – Notes to the Core Financial Statements

### Note 6. Other Operating Expenditure

Other operating expenditure is made up of the following items:

| 2014/15       |  | 2015/16       |
|---------------|--|---------------|
| £m            |  | £m            |
| 9.246         | Levies   | 9.079         |
| 1.782         | Payments to the Government housing capital receipts pool | 1.720         |
| 0.827         | Deficit on trading undertakings                          | 0.448         |
| 26.269        | Loss on the disposal of current and non-current assets   | 10.635        |
| <b>38.124</b> | <b>Total other operating expenditure</b>                 | <b>21.882</b> |

### Note 7. Financing and Investment Income and Expenditure

Financing and investment income and expenditure is made up of the following items:

| 2014/15       |   | 2015/16       |
|---------------|---|---------------|
| £m            |   | £m            |
| 32.264        | Interest payable and similar charges  | 31.067        |
| 11.540        | Interest expense of defined benefit liability and interest income on assets                 | 9.820         |
| (1.265)       | Interest receivable and similar income  | (1.870)       |
| (0.006)       | Dividends receivable  | (0.006)       |
| (0.222)       | Income and expenditure in relation to investment properties and changes in their fair value | (0.238)       |
| <b>42.311</b> | <b>Total financing and investment income and expenditure</b>                                | <b>38.773</b> |

### Note 8. Taxation and Non-specific Grant Income

Taxation and non-specific grant income is made up of the following items:

| 2014/15          |   | 2015/16          |
|------------------|---|------------------|
| £m               |   | £m               |
| (47.079)         | Council tax income                                  | (49.492)         |
| (43.872)         | Non-domestic rates (grant and retained income)      | (44.422)         |
| (75.016)         | Unringfenced Government revenue grants              | (62.275)         |
| (35.687)         | Capital grants and contributions                    | (10.764)         |
| <b>(201.654)</b> | <b>Total taxation and non-specific grant income</b> | <b>(166.953)</b> |

### Note 9. Property, Plant and Equipment

The table on the next page analyses the movement in property, plant and equipment for the year and identifies the value of assets held under PFI arrangements:

## Section 4 – Notes to the Core Financial Statements

|  | Council Dwellings | Other Buildings | Other Land    | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment | PFI Assets Included in Property, Plant and Equipment |
|--|-------------------|-----------------|---------------|-------------------------------|-----------------------|------------------|----------------|---------------------------|-------------------------------------|--|
| 2015/16  | £m                | £m              | £m            | £m                            | £m                    | £m               | £m             | £m                        | £m                                  | £m   |
| <b>Cost or valuation</b>                                       |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1st April 2015</b>                                       | <b>470.147</b>    | <b>366.904</b>  | <b>46.379</b> | <b>44.682</b>                 | <b>141.418</b>        | <b>10.987</b>    | <b>8.960</b>   | <b>18.504</b>             | <b>1,107.981</b>                    | <b>109.718</b>                                       |
| Additions  | 34.479            | 14.704          | -             | 2.949                         | 12.384                | 0.090            | 1.983          | 16.234                    | 82.823                              | -  |
| Revaluation to revaluation reserve                             | (4.152)           | (2.307)         | 6.669         | -                             | -                     | -                | 0.066          | -                         | 0.276                               | -  |
| Revaluation to Comprehensive Income and Expenditure Statement  | (1.282)           | 10.714          | (0.195)       | -                             | -                     | -                | (1.468)        | -                         | 7.769                               | -  |
| Impairment to Comprehensive Income and Expenditure Statement   | (8.563)           | (4.939)         | -             | -                             | (0.374)               | -                | (0.258)        | -                         | (14.134)                            | -  |
| Sales and other derecognition                                  | (9.119)           | (3.124)         | (0.018)       | (5.517)                       | -                     | -                | (3.795)        | (0.552)                   | (22.125)                            | -  |
| Reclassification of assets                                     | (0.373)           | 11.843          | 0.037         | 1.663                         | 2.938                 | 0.001            | (1.362)        | (14.927)                  | (0.180)                             | -  |
| <b>At 31st March 2016</b>                                      | <b>481.137</b>    | <b>393.795</b>  | <b>52.872</b> | <b>43.777</b>                 | <b>156.366</b>        | <b>11.078</b>    | <b>4.126</b>   | <b>19.259</b>             | <b>1,162.410</b>                    | <b>109.718</b>                                       |
| <b>Depreciation</b>  |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1st April 2015</b>                                       | <b>(35.577)</b>   | <b>(35.317)</b> | <b>-</b>      | <b>(34.551)</b>               | <b>(27.824)</b>       | <b>(2.154)</b>   | <b>(0.224)</b> | <b>-</b>                  | <b>(135.647)</b>                    | <b>(7.759)</b>                                       |
| Depreciation to Comprehensive Income and Expenditure Statement | (13.518)          | (16.286)        | -             | (4.805)                       | (5.037)               | (0.415)          | (0.043)        | -                         | (40.104)                            | (3.891)  |
| Depreciation to revaluation reserve                            | 7.681             | 14.327          | -             | -                             | -                     | -                | 0.048          | -                         | 22.056                              | -  |
| Sales and other derecognition                                  | 1.089             | 0.465           | -             | 5.506                         | -                     | -                | 0.139          | -                         | 7.199                               | -  |
| Reclassification of assets                                     | 0.027             | 0.198           | -             | -                             | (0.252)               | -                | 0.038          | -                         | 0.011                               | -  |
| <b>At 31st March 2016</b>                                      | <b>(40.298)</b>   | <b>(36.613)</b> | <b>-</b>      | <b>(33.850)</b>               | <b>(33.113)</b>       | <b>(2.569)</b>   | <b>(0.042)</b> | <b>-</b>                  | <b>(146.485)</b>                    | <b>(11.650)</b>                                      |
| <b>Balance sheet amount at 31st March 2015</b>                 | <b>434.570</b>    | <b>331.587</b>  | <b>46.379</b> | <b>10.131</b>                 | <b>113.594</b>        | <b>8.833</b>     | <b>8.736</b>   | <b>18.504</b>             | <b>972.334</b>                      | <b>101.959</b>                                       |
| <b>Balance sheet amount at 31st March 2016</b>                 | <b>440.839</b>    | <b>357.182</b>  | <b>52.872</b> | <b>9.927</b>                  | <b>123.253</b>        | <b>8.509</b>     | <b>4.084</b>   | <b>19.259</b>             | <b>1,015.925</b>                    | <b>98.068</b>  |

Other land and buildings at 31<sup>st</sup> March 2016 includes £3.194m in respect of leased assets (£2.112m in 2014/15).

The equivalent movements for the previous year are as follows:

|  | Council Dwellings | Other Buildings | Other Land    | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment | PFI Assets Included in Property, Plant and Equipment |
|--|-------------------|-----------------|---------------|-------------------------------|-----------------------|------------------|----------------|---------------------------|-------------------------------------|--|
| 2014/15  | £m                | £m              | £m            | £m                            | £m                    | £m               | £m             | £m                        | £m                                  | £m   |
| <b>Cost or valuation</b>                                       |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1<sup>st</sup> April 2015</b>                            | <b>472.277</b>    | <b>336.630</b>  | <b>47.989</b> | <b>53.243</b>                 | <b>131.974</b>        | <b>10.768</b>    | <b>5.961</b>   | <b>12.211</b>             | <b>1,071.053</b>                    | <b>56.698</b>  |
| Reclassification of impairment charges                         | (2.845)           | (10.000)        | -             | -                             | (0.563)               | -                | -              | -                         | (13.408)                            | -  |
| <b>Revised at 1<sup>st</sup> April 2015</b>                    | <b>469.432</b>    | <b>326.630</b>  | <b>47.989</b> | <b>53.243</b>                 | <b>131.411</b>        | <b>10.768</b>    | <b>5.961</b>   | <b>12.211</b>             | <b>1,057.645</b>                    | <b>56.698</b>  |
| Additions  | 36.224            | 69.926          | -             | 3.356                         | 10.076                | 0.119            | 3.509          | 12.215                    | 135.425                             | 45.605   |
| Revaluation to revaluation reserve                             | 0.020             | (0.886)         | (0.527)       | -                             | -                     | -                | (0.101)        | -                         | (1.494)                             | 7.415  |
| Revaluation to Comprehensive Income and Expenditure Statement  | (21.098)          | (27.887)        | (2.133)       | -                             | -                     | -                | (0.059)        | -                         | (51.177)                            | -  |
| Impairment to Comprehensive Income and Expenditure Statement   | (5.032)           | (3.472)         | -             | -                             | (0.069)               | -                | (0.069)        | (0.014)                   | (8.656)                             | -  |
| Sales  | (3.325)           | (0.578)         | (0.312)       | (0.128)                       | -                     | -                | (0.197)        | (0.992)                   | (5.532)                             | -  |
| Other derecognition  | (5.713)           | (0.126)         | (0.121)       | (11.789)                      | -                     | -                | (0.003)        | -                         | (17.752)                            | -  |
| Reclassification of assets                                     | (0.361)           | 3.297           | 1.483         | -                             | -                     | 0.100            | (0.081)        | (4.916)                   | (0.478)                             | -  |
| <b>At 31<sup>st</sup> March 2015</b>                           | <b>470.147</b>    | <b>366.904</b>  | <b>46.379</b> | <b>44.682</b>                 | <b>141.418</b>        | <b>10.987</b>    | <b>8.960</b>   | <b>18.504</b>             | <b>1,107.981</b>                    | <b>109.718</b>                                       |
| <b>Depreciation and Impairments</b>                            |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1<sup>st</sup> April 2015</b>                            | <b>(31.429)</b>   | <b>(41.522)</b> | <b>-</b>      | <b>(41.160)</b>               | <b>(25.166)</b>       | <b>(1.742)</b>   | <b>(0.159)</b> | <b>-</b>                  | <b>(141.178)</b>                    | <b>(5.592)</b>                                       |
| Reclassification of impairment charges                         | 2.845             | 10.000          | -             | -                             | 0.563                 | -                | -              | -                         | 13.408                              | -  |
| <b>Revised at 1<sup>st</sup> April 2015</b>                    | <b>(28.584)</b>   | <b>(31.522)</b> | <b>-</b>      | <b>(41.160)</b>               | <b>(24.603)</b>       | <b>(1.742)</b>   | <b>(0.159)</b> | <b>-</b>                  | <b>(127.770)</b>                    | <b>(5.592)</b>                                       |
| Depreciation to Comprehensive Income and Expenditure Statement | (13.211)          | (15.624)        | -             | (5.204)                       | (3.221)               | (0.412)          | (0.132)        | -                         | (37.804)                            | (3.609)  |
| Depreciation to revaluation reserve                            | 5.320             | 11.614          | -             | -                             | -                     | -                | 0.043          | -                         | 16.977                              | 1.442  |
| Sales  | 0.873             | 0.202           | -             | 0.053                         | -                     | -                | 0.024          | -                         | 1.152                               | -  |
| Other derecognition  | -                 | 0.010           | -             | 11.760                        | -                     | -                | -              | -                         | 11.770                              | -  |
| Reclassification of assets                                     | 0.025             | 0.003           | -             | -                             | -                     | -                | -              | -                         | 0.028                               | -  |
| <b>At 31<sup>st</sup> March 2015</b>                           | <b>(35.577)</b>   | <b>(35.317)</b> | <b>-</b>      | <b>(34.551)</b>               | <b>(27.824)</b>       | <b>(2.154)</b>   | <b>(0.224)</b> | <b>-</b>                  | <b>(135.647)</b>                    | <b>(7.759)</b>                                       |
| <b>Balance sheet amount at 31<sup>st</sup> March 2014</b>      | <b>440.848</b>    | <b>295.108</b>  | <b>47.989</b> | <b>12.083</b>                 | <b>106.808</b>        | <b>9.026</b>     | <b>5.802</b>   | <b>12.211</b>             | <b>929.875</b>                      | <b>51.106</b>  |
| <b>Balance sheet amount at 31<sup>st</sup> March 2015</b>      | <b>434.570</b>    | <b>331.587</b>  | <b>46.379</b> | <b>10.131</b>                 | <b>113.594</b>        | <b>8.833</b>     | <b>8.736</b>   | <b>18.504</b>             | <b>972.334</b>                      | <b>101.959</b>                                       |



## Section 4 – Notes to the Core Financial Statements

### Revaluations, Depreciation and Componentisation

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. All valuations are undertaken in-house and approved by the Valuation Team Leader, L. McGuigan (M.R.I.C.S.). The valuations have been made in accordance with the Statements of Valuation Practice and Guidance Notes issued by the Asset Valuation Standards Committee of the Royal Institution of Chartered Surveyors so far as these are consistent with the stated and agreed requirements.

Where property, plant or equipment has been revalued the date of the valuation is 1<sup>st</sup> April 2015 unless significant spending in year has taken place in which case the valuation date is 31<sup>st</sup> March 2016. Where appropriate, valuations reflect accumulated depreciation. The Council only recognises components where these are considered material.

Further details of the Council's depreciation and componentisation policy can be found in note 41 accounting policies.

### Significant Observable Inputs – Level 2

The fair value for the surplus assets has mainly been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the Council area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant.

The following table analyses the value of the property, plant and equipment held, broken down into historic cost or by year of valuation.

|                                | Council dwellings | Other land and buildings | Other assets   | Surplus asset | Total            |
|--------------------------------|-------------------|--------------------------|----------------|---------------|------------------|
|                                | £m                | £m                       | £m             | £m            | £m               |
| Valued at historic cost        | 2.842             | 3.957                    | 160.911        | 0.805         | 168.515          |
| Valued at current value in:    |                   |                          |                |               |                  |
| 2015/16                        | 253.107           | 132.679                  | -              | 0.712         | 386.498          |
| 2014/15                        | 85.756            | 150.406                  | -              | 1.024         | 237.186          |
| 2013/14                        | 35.977            | 29.988                   | -              | 1.524         | 67.489           |
| 2012/13                        | 14.261            | 56.053                   | 0.037          | -             | 70.351           |
| 2011/12 or prior               | 48.896            | 36.971                   | -              | 0.019         | 85.886           |
| <b>Total cost or valuation</b> | <b>440.839</b>    | <b>410.054</b>           | <b>160.948</b> | <b>4.084</b>  | <b>1,015.925</b> |

### Capital Commitments

As at 31<sup>st</sup> March 2016 the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment, in 2015/16 and future years, budgeted to cost £25.160m (£37.670m in 2014/15). Details of commitments over £0.500m under capital contracts as at 31<sup>st</sup> March 2016 are as shown in the table on the next page.

## Section 4 – Notes to the Core Financial Statements

|                                     |                                  | Net commitment<br>at 31st March<br>2016 | Period of<br>commitment |
|-------------------------------------|----------------------------------|---|-------------------------|
| Capital scheme                      |                                  | £m                                      | Years                   |
| South Shields promenade             | Foreshore improvements           | 1.061                                   | 2                       |
| South Shields town hall refit       | Consolidation of civic buildings | 3.985                                   | 1                       |
| Hebburn hub                         | Town centre regeneration         | 0.225                                   | 1                       |
| South Shields central library       | Town centre regeneration         | 4.602                                   | 2                       |
| South Shields transport interchange | Town centre regeneration         | 15.287                                  | 5                       |
| <b>Total</b>                        |                                  | <b>25.160</b>                           |                         |

### Note 10. Intangible Assets

The movement on intangible asset balances during the year is as follows:

| 2014/15                          | 2014/15                   | 2014/15      |  | 2015/16      | 2015/16                   | 2015/16                   | 2015/16      |
|----------------------------------|---------------------------|--------------|--|--------------|---------------------------|---------------------------|--------------|
| Software                         | Assets under construction | Total        |  | Software     | Climate change allowances | Assets under construction | Total        |
| £m                               | £m                        | £m           |  | £m           | £m                        | £m                        | £m           |
| <b>Balance at start of year:</b> |                           |              |  |              |                           |                           |              |
| 5.526                            | 0.587                     | 6.113        | Gross book value                       | 5.978        | -                         | 0.417                     | 6.395        |
| (4.693)                          | -                         | (4.693)      | Accumulated amortisation               | (5.216)      | -                         | -                         | (5.216)      |
| <b>0.833</b>                     | <b>0.587</b>              | <b>1.420</b> | <b>Net book value at start of year</b> | <b>0.762</b> | -                         | <b>0.417</b>              | <b>1.179</b> |
| 0.282                            | -                         | 0.282        | Additions                              | 1.098        | 0.391                     | -                         | 1.489        |
| -                                | -                         | -            | Disposals                              | (1.829)      | -                         | -                         | (1.829)      |
| 0.170                            | (0.170)                   | -            | Reclassification                       | 0.417        | -                         | (0.417)                   | -            |
| -                                | -                         | -            | Amortisation written out on disposal   | 1.753        | -                         | -                         | 1.753        |
| (0.523)                          | -                         | (0.523)      | Amortisation for the period            | (0.605)      | -                         | -                         | (0.605)      |
| <b>0.762</b>                     | <b>0.417</b>              | <b>1.179</b> | <b>Net book value at end of year</b>   | <b>1.596</b> | <b>0.391</b>              | -                         | <b>1.987</b> |
| <b>Comprising:</b>               |                           |              |  |              |                           |                           |              |
| 5.978                            | 0.417                     | 6.395        | Gross book value                       | 5.664        | 0.391                     | -                         | 6.055        |
| (5.216)                          | -                         | (5.216)      | Accumulated amortisation               | (4.068)      | -                         | -                         | (4.068)      |
| <b>0.762</b>                     | <b>0.417</b>              | <b>1.179</b> | <b>Net book value at end of year</b>   | <b>1.596</b> | <b>0.391</b>              | -                         | <b>1.987</b> |

### Note 11. Financial Instruments

This note provides information on financial instruments to help the reader identify, quantify and inform on the exposure to and management of risk, including information on the current fair values of assets and liabilities held by the Council. Definitions of fair value and amortised cost can be found in section 8 of note 41 accounting policies.

## Section 4 – Notes to the Core Financial Statements

The investment, lending and borrowing disclosed in the Balance Sheet are made up of the following categories of financial instruments:

|  | Long term                |                          | Current                  |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | 31st March<br>2015<br>£m | 31st March<br>2016<br>£m | 31st March<br>2015<br>£m | 31st March<br>2016<br>£m |
| <b>Available-for-sale financial assets</b>                   |                          |                          |                          |                          |
| Unquoted equity investment at fair value (Newcastle Airport) | 8.794                    | 8.794                    | -                        | -                        |
| Other available-for-sale financial assets at fair value      | 0.026                    | 0.026                    | -                        | -                        |
| <b>Total available-for-sale financial assets</b>             | <b>8.820</b>             | <b>8.820</b>             | -                        | -                        |
| <b>Loans and receivables</b>                                 |                          |                          |                          |                          |
| Deposits with banks and other financial institutions         | -                        | -                        | 39.507                   | 29.473                   |
| Long and short term debtors                                  | 17.667                   | 24.459                   | 24.675                   | 9.013                    |
| <b>Total loans and receivables</b>                           | <b>17.667</b>            | <b>24.459</b>            | <b>64.182</b>            | <b>38.486</b>            |
| <b>Financial liabilities at amortised cost</b>               |                          |                          |                          |                          |
| Long and short term borrowing                                | (511.383)                | (528.070)                | (23.388)                 | (22.626)                 |
| Long and short term creditors                                | -                        | -                        | (33.234)                 | (20.967)                 |
| PFI liabilities  | (110.466)                | (106.760)                | (4.076)                  | (3.706)                  |
| Finance lease liabilities                                    | (2.051)                  | (1.308)                  | (0.054)                  | (0.060)                  |
| <b>Total financial liabilities at amortised cost</b>         | <b>(623.900)</b>         | <b>(636.138)</b>         | <b>(60.752)</b>          | <b>(47.359)</b>          |

### Available-for-Sale Financial Assets

#### Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4<sup>th</sup> May 2001, the seven local authority shareholders of NIAL (the “LA7”) created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16<sup>th</sup> November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 10.12% interest in NALAHCL, valued at £8.794m (£8.794m in 2014/15). The shares are not held for trading outside of the LA7.

The valuation of the holding is reviewed each year to consider whether any events have occurred which would materially change the valuation. The last valuation is based on the sale of shares to AMP Capital Investors Limited in 2012. As no such events have occurred during 2015/16 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 5.16% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31<sup>st</sup> December 2015 (nil for the year ended 31<sup>st</sup> December 2014).

Members of the LA7 entered into a loan agreement with NIAL Group Limited in 2012/13, issuing £67.665m shareholder loan notes. The loan notes will be repayable in 2032 with interest being received up to that date on a six monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

## Section 4 – Notes to the Core Financial Statements

NIAL Group Limited made a profit before tax of £2.300m and a profit after tax of £4.556m for the year ended 31<sup>st</sup> December 2015. In the previous year, the Group made a profit before tax of £0.496m and a profit after tax of £0.277m.

### Significant Observable Inputs – Level 3

The fair value for Newcastle Airport is based on the value achieved following the last active trading of shares in 2012. A number of unobservable inputs are considered each year to determine whether the value should be amended. These include:

- Any loss of a major carrier without a replacement carrier being put in its place.
- A continual downward trend in passenger numbers over the medium term (five years) from the date of the last valuation.
- Any significant financial failure involving NIAL Group Limited.
- Failure of a bank or financial institution to refinance existing loans and no alternative loan capital identified.

None of these events occurred in 2015/16 so the fair value has remained unchanged. Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares in 2016/17.

### Loans and Receivables

#### Long and Short Term Debtors

These financial assets are carried at cost. An analysis of short term debtors balances can be found in note 12 to these accounts.

#### Financial Liabilities at Amortised Cost

#### Long and Short Term Borrowing

An analysis of borrowing by maturity is as follows:

| 31 <sup>st</sup> March<br>2015<br>£m | Percentage range of<br>interest rate payable<br>% | Loans outstanding               | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|---------------------------------|--------------------------------------|
| (524.449)                            | 1.570 - 9.375                                     | Public Works Loans Board (PWLB) | (535.376)                            |
| -                                    | 0.500   | Other local authorities         | (5.000)                              |
| (10.322)                             | 4.400 - 9.500                                     | Market debt                     | (10.320)                             |
| <b>(534.771)</b>                     |   | <b>Total</b>                    | <b>(550.696)</b>                     |
| (23.388)                             |   | Less than 1 year                | (22.626)                             |
| (14.000)                             |   | Between 1 and 2 years           | (20.000)                             |
| (62.000)                             |   | Between 2 and 5 years           | (62.000)                             |
| (77.328)                             |   | Between 5 and 10 years          | (57.328)                             |
| (358.055)                            |   | More than 10 years              | (388.742)                            |
| <b>(534.771)</b>                     |   | <b>Total</b>                    | <b>(550.696)</b>                     |

The current borrowings include accrued interest as at 31<sup>st</sup> March 2016 of £3.626m (£3.388m in 2014/15).

## Section 4 – Notes to the Core Financial Statements

Market debt comprises of Lender Option Borrower Option (LOBO) loans of which £5.000m was subject to a review of interest in 2015/16. As current interest rates are below the existing rates on these loans, the lender did not seek to revise the rates, in which case the option to pay off the loan early did not arise. Therefore all of the LOBO loans have been shown in the maturity analysis as being held to full maturity.

### Long and Short Term Creditors

These financial liabilities are carried at cost. An analysis of short term creditors, which also includes the short term liabilities in relation to finance lease and other liabilities, can be found in note 15 to these accounts.

### Income, Expense, Gains and Losses

The amounts recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

|  | 2014/15  |                             |               | 2015/16  |                             |               |
|--|--|-----------------------------|---------------|--|-----------------------------|---------------|
|  | Financial liabilities measured at amortised cost<br>£m | Loans and receivables<br>£m | Total<br>£m   | Financial liabilities measured at amortised cost<br>£m | Loans and receivables<br>£m | Total<br>£m   |
| <b>Expenses</b>                          |  |                             |               |  |                             |               |
| Impairment losses                        | -  | 1.029                       | 1.029         | -  | 1.140                       | 1.140         |
| Interest expense                         | 32.264   | -                           | 32.264        | 31.067   | -                           | 31.067        |
| <b>Income</b>                            |  |                             |               |  |                             |               |
| Interest income                          | -  | (1.265)                     | (1.265)       | -  | (1.870)                     | (1.870)       |
| <b>Net loss or (profit) for the year</b> | <b>32.264</b>  | <b>(0.236)</b>              | <b>32.028</b> | <b>31.067</b>  | <b>(0.730)</b>              | <b>30.337</b> |

### Fair Value of Financial Instruments

Financial assets and financial liabilities represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. These investments and borrowings are not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount a net present value approach has been adopted, which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. Our accounting policy uses early repayment rates to discount the future cash flows. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

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

## Section 4 – Notes to the Core Financial Statements

The fair values of long and short term borrowing differ from the carrying amount as follows:

|                              | 31 <sup>st</sup> March 2015 |                  | 31 <sup>st</sup> March 2016 |                  |
|------------------------------|-----------------------------|------------------|-----------------------------|------------------|
|                              | Carrying value<br>£m        | Fair value<br>£m | Carrying value<br>£m        | Fair value<br>£m |
| PWLB                         | (524.449)                   | (605.617)        | (535.376)                   | (721.526)        |
| Other local authorities      | -                           | -                | (5.000)                     | (5.000)          |
| Market debt (LOBOs)          | (10.322)                    | (14.780)         | (10.320)                    | (18.572)         |
| <b>Financial liabilities</b> | <b>(534.771)</b>            | <b>(620.397)</b> | <b>(550.696)</b>            | <b>(745.098)</b> |

The fair value of liabilities as at 31<sup>st</sup> March 2016 are higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. This gap has increased from the previous year as the PWLB interest rates as at 31<sup>st</sup> March 2016 are significantly better than the rates available as at 31<sup>st</sup> March 2015.

The fair value of deposits with banks and other financial institutions is £35.752m (£32.481m in 2014/15). The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate payable is higher than the rates available for similar investments at the Balance Sheet date.

The fair value of other assets and liabilities is deemed to be equivalent to their carrying amount as this is a fair approximation of their value.

## Section 4 – Notes to the Core Financial Statements

### Note 12. Short Term Debtors

An analysis of short term debtors and payments in advance are shown in the following table:

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
|                                      | <b>Amounts falling due in one year</b>       |                                      |
| 13.266                               | Central Government bodies                    | 2.760                                |
| 4.210                                | Other local authorities                      | 2.060                                |
| 1.298                                | NHS bodies                                   | 0.828                                |
| 4.311                                | Housing tenants                              | 5.070                                |
| 8.126                                | Council tax payers                           | 9.374                                |
| 0.623                                | Non-domestic ratepayers                      | 0.987                                |
| 2.327                                | South Tyneside Homes Limited                 | 4.384                                |
| 1.081                                | Tyne and Wear Pension Fund                   | 0.863                                |
| 17.584                               | Other debtors                                | 12.627                               |
| <b>52.826</b>                        | <b>Total amounts falling due in one year</b> | <b>38.953</b>                        |
|                                      | <b>Allowances for bad debts</b>              |                                      |
| (2.460)                              | Housing tenants                              | (3.142)                              |
| (3.512)                              | Council tax payers                           | (4.071)                              |
| (0.297)                              | Non-domestic ratepayers                      | (0.355)                              |
| (2.450)                              | Other debtors                                | (2.520)                              |
| <b>(8.719)</b>                       | <b>Total bad debt allowances</b>             | <b>(10.088)</b>                      |
| <b>44.107</b>                        | <b>Net debtors</b>                           | <b>28.865</b>                        |

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
|                                      | <b>Amounts written off during the year</b>       |                                      |
| 0.554                                | Housing rents (excluding write ons)              | 0.164                                |
| 0.161                                | Council tax (excluding write ons)                | 0.212                                |
| 0.271                                | Non-domestic rates                               | 0.138                                |
| 0.438                                | Other debtors (net of VAT recovered)             | 0.322                                |
| <b>1.424</b>                         | <b>Total amounts written off during the year</b> | <b>0.836</b>                         |

The total non-domestic rate write off for the year was £0.282m (£0.553m in 2014/15) with the balance being met proportionately by the Government and preceptors as defined by the rates retention scheme.

## Section 4 – Notes to the Core Financial Statements

### Note 13. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

| 31 <sup>st</sup> March<br>2015<br>£m |   | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|--------------------------------------|
| 0.055                                | Cash held by the Council                        | 0.082                                |
| 4.391                                | Bank accounts                                   | 3.472                                |
| 20.074                               | Short term deposits with financial institutions | 3.934                                |
| <b>24.520</b>                        | <b>Cash and cash equivalent assets</b>          | <b>7.488</b>                         |
|                                      |   | <hr/>                                |
| -                                    | Bank overdraft facility                         | (8.670)                              |
|                                      | <b>Cash and cash equivalent liabilities</b>     | <b>(8.670)</b>                       |
|                                      |   | <hr/>                                |
| <b>24.520</b>                        | <b>Total cash and cash equivalent</b>           | <b>(1.182)</b>                       |

The short term deposits with financial institutions include £3.934m money market funds (£15.074m in 2014/15).

The Council continues to invest surplus cash in a low interest environment, making use of money market funds and shorter term fixed period deposits with other financial institutions for cash that will be needed in the short term. Any surplus cash not required in the short term is invested in longer fixed period deposits and recorded on the Balance Sheet as short term investments.

### Note 14. Assets Held for Sale or Disposal

Assets held for sale represent surplus or redundant assets that the Council is in the process of disposing and expects that disposal to take place within the next twelve months. Assets held for disposal relate to schools that are expected to transfer to either academy or trust status in the next twelve months. The following table shows the movement in year:

| 2014/15             |                         |   | 2015/16             |
|---------------------|-------------------------|---|---------------------|
| Held for sale<br>£m | Held for disposal<br>£m |   | Held for sale<br>£m |
| <b>2.605</b>        | <b>21.749</b>           | <b>Balance outstanding at start of year</b>           | <b>2.405</b>        |
|                     |                         |   | <hr/>               |
| 0.450               | -                       | Assets transferred from property, plant and equipment | 0.169               |
| -                   | 0.118                   | Additions   | 0.011               |
| -                   | (0.019)                 | Revaluation losses                                    | 0.009               |
| (0.650)             | (21.848)                | Assets sold   | (2.387)             |
| <b>2.405</b>        | -                       | <b>Balance outstanding at end of year</b>             | <b>0.207</b>        |



## Section 4 – Notes to the Core Financial Statements

### Note 15. Short Term Creditors

An analysis of short term creditors and receipts in advance is shown in the following table:

| 31 <sup>st</sup> March<br>2015<br>£m |                              | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|------------------------------|--------------------------------------|
| (7.845)                              | Central Government bodies    | (7.474)                              |
| (0.971)                              | Other local authorities      | (0.675)                              |
| (1.600)                              | NHS bodies                   | (1.562)                              |
| (0.974)                              | Housing tenants              | (1.149)                              |
| (1.316)                              | Council tax payers           | (1.272)                              |
| (5.316)                              | South Tyneside Homes Limited | (3.796)                              |
| (4.003)                              | Council employees            | (2.609)                              |
| (2.763)                              | Tyne and Wear Pension Fund   | (3.162)                              |
| (24.365)                             | All other creditors          | (12.600)                             |
| <b>(49.153)</b>                      | <b>Total creditors</b>       | <b>(34.299)</b>                      |

### Note 16. Long and Short Term Provisions

An analysis of the provisions balances is as follows:

|  | Pay<br>settlement<br>provision<br>£m | Injury and<br>damage<br>compensation<br>claims<br>£m | Other<br>provisions<br>£m | Total<br>£m     |
|--|--------------------------------------|--|---------------------------|-----------------|
| Balance at 1 <sup>st</sup> April 2014        | (9.630)                              | (2.004)  | (6.339)                   | (17.973)        |
| Additional provisions                        | -                                    | (1.314)  | (1.297)                   | (2.611)         |
| Amounts used                                 | 0.062                                | 1.601  | 1.800                     | 3.463           |
| Unused amounts reversed                      | 0.858                                | -  | 0.471                     | 1.329           |
| <b>Balance at 1<sup>st</sup> April 2015</b>  | <b>(8.710)</b>                       | <b>(1.717)</b>                                       | <b>(5.365)</b>            | <b>(15.792)</b> |
| Additional provisions                        | -                                    | (2.157)  | (3.851)                   | (6.008)         |
| Amounts used                                 | 0.002                                | 0.928  | 1.873                     | 2.803           |
| Unused amounts reversed                      | 2.158                                | -  | -                         | 2.158           |
| <b>Balance at 31<sup>st</sup> March 2016</b> | <b>(6.550)</b>                       | <b>(2.946)</b>                                       | <b>(7.343)</b>            | <b>(16.839)</b> |
| Short term provisions                        | -                                    | (1.772)  | (6.972)                   | (8.744)         |
| Long term provisions                         | (6.550)                              | (1.174)  | (0.371)                   | (8.095)         |
| <b>Balance at 31<sup>st</sup> March 2016</b> | <b>(6.550)</b>                       | <b>(2.946)</b>                                       | <b>(7.343)</b>            | <b>(16.839)</b> |

The Council continues to face significant liabilities in relation to equal pay and equal value claims, which are reflected in the pay settlement provision. The major liability relates to an additional period outside of previous settlements reached for which claims could be received. The Council intends to defend any such claims and so settlement is not expected in the short term.

Other provisions relate to a legal challenge in respect of a contractor dispute and potential payments under non-domestic rate appeals and insurance claims. These provisions are primarily expected to be paid in 2016/17.

## Section 4 – Notes to the Core Financial Statements

### Note 17. PFI and other Long Term Contracts

The Council has five operational PFI schemes. Under these agreements, the Council pays an annual sum to the operator, known as a unitary charge, and receives PFI grant to partially offset these costs. The following table summarises the key facts for each scheme.

| PFI details                           | Boldon school             | Street lights      | Jarrow school               | South Shields community school | Joint Waste project |
|---------------------------------------|---------------------------|--------------------|-----------------------------|--------------------------------|---------------------|
| Date of service commencement          | 13/04/2005                | 09/12/2005         | 26/10/2009                  | 06/09/2011                     | 22/04/2014          |
| Current PFI operator                  | Infrared Capital Partners | Balfour Beatty PLC | InspiredSpaces STaG Limited | InspiredSpaces STaG Limited    | SITA UK Limited     |
| Length of contract                    | 25 years                  | 25 years           | 25 years                    | 25 years                       | 25 years            |
| Expiry date                           | 31/10/2031                | 28/02/2031         | 25/10/2034                  | 04/09/2036                     | 31/03/2039          |
| Closing net book value of assets (£m) | 11.264                    | 20.658             | -                           | 16.493                         | 49.653              |
| Unitary charge payments in year (£m)  | 2.566                     | 4.158              | 3.336                       | 4.016                          | 7.014               |
| Additional payments in year (£m)      | 0.473                     | 0.167              | 0.028                       | 0.127                          | 0.058               |
| PFI grant in year (£m)                | (1.502)                   | (2.535)            | (2.535)                     | (2.750)                        | (1.805)             |
| Lifetime unitary charge payments (£m) | 66.704                    | 104.895            | 89.736                      | 109.945                        | 167.482             |
| Lifetime PFI grant (£m)               | (37.545)                  | (63.371)           | (63.363)                    | (68.756)                       | (45.115)            |

Note that the actual level of future payments will depend on inflation rates, the satisfactory contract performance by the operator and any other contract variables.

The equivalent figures for the previous year, where different from above, are as follows:

| PFI details                           | Boldon school | Street lights | Jarrow school | South Shields community school | Joint Waste project |
|---------------------------------------|---------------|---------------|---------------|--------------------------------|---------------------|
| Closing net book value of assets (£m) | 11.617        | 21.556        | -             | 16.979                         | 51.807              |
| Unitary charge payments in year (£m)  | 2.609         | 4.131         | 3.321         | 4.099                          | 6.627               |
| Additional payments in year (£m)      | 0.214         | 0.132         | 0.062         | 0.263                          | 0.047               |

#### Boldon School

This scheme was originally signed with Gleeson Consortium but was acquired by Infrared Capital Partners in December 2011. The asset consists of an extended secondary school with provision for community use of the facilities, which includes a 220 seat theatre and a 25 metre swimming pool. The contract is for the future maintenance and upkeep of both the building and the fixtures and fittings. Additional fees are payable in respect of free school meals and utilities costs. The asset will transfer back to the Council at the end of the contract.

The contractor has built and operates the school under a license from the Council to use the site. The Council is not permitted to grant any leases, licences or sell parts of the site without the contractor's consent.

## Section 4 – Notes to the Core Financial Statements

### Street Lights

This scheme involves the replacement and maintenance of the whole of the borough's street lighting stock and covers the replacement of outdated lighting columns and street signage, providing new lighting in areas not served before the contract start date and maintaining the stock to a minimum standard. The street lighting assets owned by the Council were transferred to the operator at the commencement of the contract and will return at the end of the contract.

### Jarrow School

This scheme involved the construction of a secondary school and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. Additional fees are payable in respect of utilities costs which are then fully recovered from the school. On 15<sup>th</sup> April 2014 the assets legally transferred from the Council across to Jarrow School Trust which was created on 26<sup>th</sup> March 2010.

### South Shields Community School

This scheme involved the construction of a secondary school and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. Additional fees are payable in respect of free school meals and utilities costs which are then fully recoverable from the school. The asset will transfer back to the Council at the end of the contract.

### Joint Waste Project

The South Tyne and Wear Waste Management Partnership was established on 20<sup>th</sup> April 2011 to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. On the same date, the Partnership, led by Gateshead Council, signed a £726.617m PFI contract with a consortium led by SITA UK Limited (SITA). The Partnership was awarded £137.990m of revenue PFI grant over the life of the project.

The contract has delivered a new energy-from-waste facility on Teesside which will treat approximately 190,000 tonnes of residual waste and the Council is expected to utilise approximately 18% of the total capacity of the facility each year.

Should SITA choose to refinance its debts (subject to the Council's consent), the Council is entitled to a share of any gains of between 50% and 70% depending upon the value. From service commencement, air pollution control residue disposal and haulage costs are subject to market testing and benchmarking exercise every five years and the unitary charge must be adjusted accordingly.

The Council has full rights to use the assets within the contract for the treatment of residual municipal waste up to the maximum tonnage level set out within the contract. An additional fee is payable to SITA for the use of the waste transfer station outside normal operating hours. The energy from waste facility and waste transfer station is under the operational control of SITA during the contract.

The Council retains legal title to the land relating to the waste transfer station and the asset will revert to the Council at the end of the contract period. The energy from waste facility is constructed on land owned by SITA. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the three Councils to operate along with a lease of the underlying land. The contract includes an option to extend for a period of five years beyond the contractual expiry date. It allows the Council to terminate the contract with twenty business days' notice or either party to

## Section 4 – Notes to the Core Financial Statements

terminate on the other party's default or in the event of force majeure (for example: war, strike, riot, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

### Long Term PFI Contract Payments

The following table shows the movement in year for the PFI liabilities held by the Council:

| 2014/15<br>£m    |                                      | 2015/16<br>£m    |
|------------------|--------------------------------------|------------------|
| (72.299)         | Opening balance                      | (114.542)        |
| (45.593)         | Addition of waste recycling facility | -                |
| (8.254)          | Interest and contingent rents        | (7.991)          |
| 11.604           | Repayments                           | 12.067           |
| <b>(114.542)</b> | <b>Closing balance</b>               | <b>(110.466)</b> |
| (4.076)          | Short term liability                 | (3.706)          |
| (110.466)        | Long term liability                  | (106.760)        |
| <b>(114.542)</b> | <b>Closing balance</b>               | <b>(110.466)</b> |

The estimated outstanding unitary charge payments for all long-term PFI contracts in operation at 31<sup>st</sup> March 2016 are analysed in the following table:

| 2015/16                  | Repayment<br>of liability<br>£m | Interest<br>charge<br>£m | Lifecycle<br>costs<br>£m | Contingent<br>rents<br>£m | Service<br>charges<br>£m | Total<br>£m    |
|--------------------------|---------------------------------|--------------------------|--------------------------|---------------------------|--------------------------|----------------|
| Amounts due:             |                                 |                          |                          |                           |                          |                |
| Within one year          | 3.706                           | 7.454                    | 0.590                    | 0.261                     | 8.888                    | 20.899         |
| Two to five years        | 17.211                          | 27.556                   | 3.083                    | 1.187                     | 36.196                   | 85.233         |
| Six to ten years         | 25.341                          | 27.662                   | 5.358                    | 2.222                     | 50.014                   | 110.597        |
| Eleven to fifteen years  | 32.315                          | 17.747                   | 6.654                    | 1.980                     | 56.489                   | 115.185        |
| Sixteen to twenty years  | 24.373                          | 6.410                    | 6.899                    | (0.029)                   | 36.534                   | 74.187         |
| Twenty-one or more years | 7.520                           | 0.358                    | 3.633                    | 0.075                     | 10.837                   | 22.423         |
| <b>Total</b>             | <b>110.466</b>                  | <b>87.187</b>            | <b>26.217</b>            | <b>5.696</b>              | <b>198.958</b>           | <b>428.524</b> |

The above table sets out the future unitary charge payments expected to be paid in relation to the five operational PFI schemes. The expected payments are split into their constituent parts based on the operators' financial models, which predict the future charges on the scheme. Most of the models assume a level of inflation which is represented as contingent rent in the table however no inflation assumption has been assumed for the Waste PFI contact.

The equivalent table showing this analysis for the previous year is as follows:

| 2014/15                  | Repayment<br>of liability<br>£m | Interest<br>charge<br>£m | Lifecycle<br>costs<br>£m | Contingent<br>rents<br>£m | Service<br>charges<br>£m | Total<br>£m    |
|--------------------------|---------------------------------|--------------------------|--------------------------|---------------------------|--------------------------|----------------|
| Amounts due:             |                                 |                          |                          |                           |                          |                |
| Within one year          | 4.076                           | 7.670                    | 0.353                    | 0.227                     | 8.417                    | 20.743         |
| Two to five years        | 16.159                          | 28.522                   | 2.865                    | 1.083                     | 35.936                   | 84.565         |
| Six to ten years         | 24.951                          | 29.330                   | 5.001                    | 2.100                     | 48.283                   | 109.665        |
| Eleven to fifteen years  | 30.933                          | 20.060                   | 6.579                    | 2.275                     | 54.708                   | 114.555        |
| Sixteen to twenty years  | 26.661                          | 8.390                    | 6.819                    | 0.056                     | 43.659                   | 85.585         |
| Twenty-one or more years | 11.762                          | 0.885                    | 4.953                    | 0.182                     | 16.371                   | 34.153         |
| <b>Total</b>             | <b>114.542</b>                  | <b>94.857</b>            | <b>26.570</b>            | <b>5.923</b>              | <b>207.374</b>           | <b>449.266</b> |

## Section 4 – Notes to the Core Financial Statements

### BT South Tyneside Limited (BTSTL)

During 2008/09 the Council entered into a strategic partnership arrangement with British Telecom, creating BTSTL. The strategic partner delivers a range of back-office services to the Council, including finance, payroll, human resources, ICT and procurement. The Partnership became operational on 1<sup>st</sup> October 2008 and the contract runs for ten years. Unitary charge payments of £11.466m were paid in 2015/16 (£12.228m in 2014/15) and the total cost of the contract over ten years is expected to be £125.188m. These figures include additional payments for some major capital investment.

The following table represents amounts due to BTSTL in relation to the remaining term of their contract. As this is purely a service contract no liability has been created on the Balance Sheet.

| 2014/15<br>£m |                          | 2015/16<br>£m |
|---------------|--------------------------|---------------|
|               | Amounts due:             |               |
| 11.099        | Within one year          | 11.711        |
| 28.473        | Within two to five years | 17.917        |
| <b>39.572</b> | <b>Total</b>             | <b>29.628</b> |

In addition to the unitary charge the Council has a contract to procure decent homes capital spending from BTSTL starting in 2014/15 and lasting until the end of the strategic partnership contract. The Council paid out £9.672m in 2015/16 (£13.471m in 2014/15) and expects to pay out £35.000m in relation to this agreement over the four years of operation.

### Other Long Term Contracts

The Council has other long term contracts that fall into more than one accounting year but these are of a recurring supply or service nature. The largest of these is a grounds maintenance contract. This commenced on 1<sup>st</sup> February 2016 and is due to run until 31<sup>st</sup> January 2020 with an ability to extend to 31<sup>st</sup> January 2022. There is an estimated value of £7.843m remaining on this contract.

### Note 18. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and note 4. They are made up of the following balances:

| 31 <sup>st</sup> March<br>2015<br>£m |                                  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|----------------------------------|--------------------------------------|
| (1.717)                              | General Fund balance             | (1.190)                              |
| (32.049)                             | Earmarked reserves               | (34.300)                             |
| (15.999)                             | Housing revenue account balance  | (17.317)                             |
| (1.989)                              | Useable capital receipts balance | (2.341)                              |
| (10.577)                             | Housing major repairs reserve    | -                                    |
| <b>(62.331)</b>                      | <b>Total useable reserves</b>    | <b>(55.148)</b>                      |

## Section 4 – Notes to the Core Financial Statements

### Note 19. Unusable Reserves

The following table lists the unusable reserves held by the Council:

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
| (102.039)                            | Revaluation reserve                              | (116.058)                            |
| (229.001)                            | Capital adjustment account                       | (220.633)                            |
| 319.684                              | Pensions reserve                                 | 291.687                              |
| (8.794)                              | Available-for-sale financial instruments reserve | (8.794)                              |
| 4.072                                | Employee benefits adjustment account             | 2.638                                |
| (0.040)                              | Financial instruments adjustment account         | 0.095                                |
| (1.239)                              | Collection Fund adjustment account               | (1.881)                              |
| (0.003)                              | Deferred capital receipts reserve                | -                                    |
| <b>(17.360)</b>                      | <b>Total unusable reserves</b>                   | <b>(52.946)</b>                      |

#### Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment and heritage assets. The balance is reduced when assets with accumulated gains are revalued downwards, used in the provision of services or disposed of. The reserve contains only revaluation gains accumulated since 1<sup>st</sup> April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

| 2014/15<br>£m    | Revaluation reserve   | 2015/16<br>£m    |
|------------------|---|------------------|
| <b>(90.368)</b>  | <b>Balance at 1<sup>st</sup> April</b>                      | <b>(102.039)</b> |
| (45.172)         | Upward revaluation of non-current assets                    | (27.571)         |
| 29.686           | Valuation impairment charged to reserve                     | 5.263            |
| 0.614            | Accumulated gains on assets sold or scrapped                | 4.418            |
| 3.201            | Other amounts written off to the capital adjustment account | 3.871            |
| <b>(102.039)</b> | <b>Balance at 31<sup>st</sup> March</b>                     | <b>(116.058)</b> |

#### Capital Adjustment Account

The capital adjustment account reflects the difference between the cost of assets consumed and the capital financing set aside to pay for them. It absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Note 3 provides details of the source of all the transactions posted to the account with the exception of those involving the revaluation reserve.

## Section 4 – Notes to the Core Financial Statements

| 2014/15<br>£m    | Capital adjustment account  | 2015/16<br>£m    |
|------------------|---|------------------|
| (282.671)        | <b>Balance at 1<sup>st</sup> April</b>  | (229.001)        |
|                  | <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>                              |                  |
| 46.203           | Charges for depreciation and impairment of non-current assets   | 53.937           |
| 51.196           | Revaluation losses on property, plant and equipment   | (7.778)          |
| 0.523            | Amortisation of intangible assets   | 0.605            |
| 5.441            | Revenue expenditure funded from capital under statute   | 0.727            |
| 32.860           | Amounts of current and non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement | 17.387           |
| (0.001)          | Other movements   | 0.002            |
| 0.007            | Capital receipts not linked to assets   | 0.019            |
| (3.815)          | Adjusting amounts written out of the revaluation reserve  | (8.289)          |
| <b>132.414</b>   | <b>Net written out amount of the cost of non-current assets consumed in the year</b>  | <b>56.610</b>    |
|                  | <b>Capital financing applied in the year</b>  |                  |
| (4.656)          | Use of the capital receipts reserve to finance new capital expenditure  | (4.684)          |
| (18.699)         | Use of the major repairs reserve to finance new capital expenditure   | (27.756)         |
| (40.869)         | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing                     | (12.009)         |
| (14.289)         | Provision for the financing of capital investment charged against the General Fund balance  | (3.643)          |
| (0.007)          | Capital receipts used to repay debt   | (0.019)          |
| (0.224)          | Capital expenditure charged against the General Fund balance  | (0.131)          |
| <b>(78.744)</b>  | <b>Total capital financing applied</b>  | <b>(48.242)</b>  |
| <b>(229.001)</b> | <b>Balance at 31<sup>st</sup> March</b>   | <b>(220.633)</b> |

### Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for benefits as they are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements require benefits earned to be reversed and replaced by employer's contributions to pension funds or any pensions for which it is directly responsible. The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them.

## Section 4 – Notes to the Core Financial Statements

| 2014/15<br>£m  | Pensions reserve  | 2015/16<br>£m  |
|----------------|---|----------------|
| <b>281.638</b> | <b>Balance at 1<sup>st</sup> April</b>  | <b>319.684</b> |
| 35.180         | Actuarial losses or (gains) on pensions assets and defined benefit obligation   | (33.450)       |
| 24.926         | Reversal of items relating to retirement benefits debited or credited to the deficit on the provision of services in the Comprehensive Income and Expenditure Statement | 27.133         |
| (22.060)       | Employers pension contributions and direct payments to pensioners payable in year   | (21.680)       |
| <b>319.684</b> | <b>Balance at 31<sup>st</sup> March</b>   | <b>291.687</b> |

### Note 20. Operating Activities

The deficit on the provision of services as reported in the Comprehensive Income and Expenditure Statement includes a number of adjustments that do not relate to the movement in cash. The adjusting items are summarised in the following table:

| 2014/15<br>£m  |  | 2015/16<br>£m  |
|----------------|--|----------------|
| 46.203         | Depreciation and impairment  | 54.345         |
| 51.196         | Revaluation losses of property, plant and equipment                                    | (7.778)        |
| 0.523          | Amortisation of intangibles  | 0.605          |
| 4.275          | Increase or (decrease) in creditors  | (13.100)       |
| (8.677)        | (Increase) or decrease in debtors  | 6.589          |
| 0.800          | Increase in impairment provision for bad debts   | 1.369          |
| 0.043          | Decrease or (increase) in inventories  | (0.001)        |
| 3.270          | Movement in defined benefit obligation   | 5.453          |
| 107.869        | Carrying amount of current and non-current assets sold or demolished                   | 67.387         |
| (7.786)        | Other non-cash items (charged) or credited to the deficit on the provision of services | 0.186          |
| <b>197.716</b> | <b>Adjustment to the deficit on the provision of services for non-cash movements</b>   | <b>115.055</b> |

To show the net cash flow from operating activities any items charged to the deficit on the provision of services in relation to either investing or financing activities must also be removed. These items are summarised in the following table:

| 2014/15<br>£m    |  | 2015/16<br>£m   |
|------------------|--|-----------------|
| (75.000)         | Proceeds from short term and long term investments   | (50.000)        |
| (6.867)          | Proceeds from sale of property, plant and equipment  | (6.945)         |
| (40.869)         | Capital grants credited to the deficit on the provision of services  | (12.009)        |
| -                | Collection Fund credited to the deficit on the provision of services   | (0.642)         |
| <b>(122.736)</b> | <b>Adjust for items included in the deficit on the provision of services that are investing and financing activities</b> | <b>(69.596)</b> |



## Section 4 – Notes to the Core Financial Statements

The cash flows for operating activities include the following items:

| 2014/15  |                   | 2015/16  |
|----------|-------------------|----------|
| £m       |                   | £m       |
| 2.274    | Interest received | 1.912    |
| (31.664) | Interest paid     | (30.832) |

### Note 21. Investing Activities

The cash flows for investing activities are made up of the following items:

| 2014/15         |  | 2015/16         |
|-----------------|--|-----------------|
| £m              |  | £m              |
| (84.531)        | Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal | (85.069)        |
| (90.025)        | Purchase of short term and long term investments   | (40.012)        |
| 6.768           | Proceeds from the sale of property, plant and equipment and assets held for sale                                   | 6.948           |
| 75.000          | Proceeds from short term and long term investments   | 50.000          |
| 32.239          | Other receipts from investing activities   | 12.053          |
| <b>(60.549)</b> | <b>Net cash flows from investing activities</b>  | <b>(56.080)</b> |

### Note 22. Financing Activities

The cash flows for financing activities are made up of the following items:

| 2014/15       |   | 2015/16       |
|---------------|---|---------------|
| £m            |   | £m            |
| 61.000        | Cash receipts of short and long term borrowing  | 35.690        |
| (3.399)       | Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts | (4.130)       |
| (27.000)      | Repayments of short term borrowing  | (20.000)      |
| (0.554)       | Other (payments) or receipts for financing activities   | 0.714         |
| <b>30.047</b> | <b>Net cash flows from financing activities</b>   | <b>12.274</b> |

### Note 23. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service in the face of the Comprehensive Income and Expenditure Statement is that specified by the 2015/16 Service Reporting Code of Practice (*SeRCOP*). However decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across service Groups. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No allowance is made in the budget for the actual level of capital charges required by the Code.
- No adjustment is made for the actual level of pension costs required by the Code.

## Section 4 – Notes to the Core Financial Statements

The income and expenditure of the Council's principal service Groups recorded in the budget reports for the year is as follows:

| Income and expenditure<br>2015/16 outturn | Business and<br>Resources<br>Group<br>£m | Children, Adult<br>and Health<br>Group<br>£m | Economic<br>Regeneration<br>Group<br>£m | Total<br>£m      |
|---|--|--|---|------------------|
| <b>Income</b>                             | <b>(134.067)</b>                         | <b>(167.802)</b>                             | <b>(36.602)</b>                         | <b>(338.471)</b> |
| Employee expenses                         | 30.376                                   | 95.177                                       | 19.808                                  | 145.361          |
| Third party payments                      | 9.253                                    | 82.561                                       | 0.707                                   | 92.521           |
| Premises costs                            | 1.101                                    | 7.194  | 14.612                                  | 22.907           |
| Transport costs                           | 0.070                                    | 1.876  | 2.069                                   | 4.015            |
| Supplies and services                     | 28.360                                   | 53.117                                       | 25.066                                  | 106.543          |
| Client payments                           | 72.709                                   | 0.712  | -                                       | 73.421           |
| Support services                          | 0.563                                    | 14.838                                       | 1.113                                   | 16.514           |
| Capital charges                           | 10.433                                   | 0.191  | 0.090                                   | 10.714           |
| <b>Total expenditure</b>                  | <b>152.865</b>                           | <b>255.666</b>                               | <b>63.465</b>                           | <b>471.996</b>   |
| <b>Net expenditure</b>                    | <b>18.798</b>                            | <b>87.864</b>                                | <b>26.863</b>                           | <b>133.525</b>   |

### Reconciliation of Income and Expenditure of the Groups to Cost of Service in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of income and expenditure of the Groups on the provision of services relate to the amounts included in the Comprehensive Income and Expenditure Statement.

|   | 2015/16<br>£m  |
|---|----------------|
| Net expenditure in the Group analysis   | 133.525        |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis                    | 11.599         |
| Amounts included in the analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement | (11.471)       |
| <b>Cost of services in Comprehensive Income and Expenditure Statement</b>   | <b>133.653</b> |

### Reconciliation to Subjective Analysis

The reconciliation on the next page shows how the figures in the analysis of the income and expenditure of the Groups relate to a subjective analysis of the deficit on the provision of services in the Comprehensive Income and Expenditure Statement.

## Section 4 – Notes to the Core Financial Statements

| 2015/16  | Group analysis   | Adjustments not reported to management in the analysis | Amounts not included in the Comprehensive Income and Expenditure Statement | Cost of services | Other operating income and expenditure | (Surplus) or deficit on the provision of services |
|--|------------------|--|--|------------------|--|---|
|  | £m               | £m   | £m   | £m               | £m                                     | £m  |
| Fees, charges and other service income                   | (336.771)        | 55.053   | 7.054  | (274.664)        | (7.055)                                | (281.719)   |
| Housing revenue account income                           | -                | (70.561)   | -  | (70.561)         | -                                      | (70.561)  |
| Interest and investment income                           | (1.700)          | -  | 1.700  | -                | (2.114)                                | (2.114)   |
| Income from council tax                                  | -                | -  | -  | -                | (49.492)                               | (49.492)  |
| Income from non-domestic rates (including top up grant)  | -                | -  | -  | -                | (44.422)                               | (44.422)  |
| Grants and contributions                                 | -                | -  | -  | -                | (73.039)                               | (73.039)  |
| <b>Total income</b>                                      | <b>(338.471)</b> | <b>(15.508)</b>  | <b>8.754</b>   | <b>(345.225)</b> | <b>(176.122)</b>                       | <b>(521.347)</b>                                  |
| Employee expenses  | 145.361          | (668.971)  | (3.588)  | (527.198)        | 3.588                                  | (523.610)   |
| Support services recharges                               | 16.514           | (12.487)   | (1.422)  | 2.605            | 1.422                                  | 4.027   |
| Other service expenses                                   | 297.395          | 565.509  | (2.489)  | 860.415          | 2.489                                  | 862.904   |
| Housing revenue account expenditure                      | -                | 66.976   | -  | 66.976           | -                                      | 66.976  |
| Depreciation, amortisation and impairment                | 0.004            | 76.080   | (0.004)  | 76.080           | 0.004                                  | 76.084  |
| Interest payable and net defined benefit obligation cost | -                | -  | -  | -                | 40.887                                 | 40.887  |
| Precepts and levies                                      | 9.079            | -  | (9.079)  | -                | 9.079                                  | 9.079   |
| Provision for debt repayment                             | 3.643            | -  | (3.643)  | -                | -                                      | -   |
| Loss on disposal of current and non-current assets       | -                | -  | -  | -                | 10.635                                 | 10.635  |
| Payments to housing receipts pool                        | -                | -  | -  | -                | 1.720                                  | 1.720   |
| <b>Total expenditure</b>                                 | <b>471.996</b>   | <b>27.107</b>  | <b>(20.225)</b>  | <b>478.878</b>   | <b>69.824</b>                          | <b>548.702</b>                                    |
| <b>Deficit on the provision of services</b>              | <b>133.525</b>   | <b>11.599</b>  | <b>(11.471)</b>  | <b>133.653</b>   | <b>(106.298)</b>                       | <b>27.355</b>                                     |

The equivalent tables for the previous year are as follows:

| Income and expenditure 2014/15 outturn | Business and Resources Group | Children, Adult and Health Group | Economic Regeneration Group | Total            |
|--|------------------------------|----------------------------------|-----------------------------|------------------|
|  | £m                           | £m                               | £m                          | £m               |
| <b>Income</b>                          | <b>(141.398)</b>             | <b>(164.487)</b>                 | <b>(26.152)</b>             | <b>(332.037)</b> |
| Employee expenses                      | 38.026                       | 94.216                           | 14.811                      | 147.053          |
| Third party payments                   | 9.869                        | 78.931                           | 0.191                       | 88.991           |
| Premises costs                         | 5.135                        | 8.527                            | 11.221                      | 24.883           |
| Transport costs                        | 1.797                        | 1.815                            | 0.492                       | 4.104            |
| Supplies and services                  | 37.830                       | 32.862                           | 12.993                      | 83.685           |
| Client payments                        | 72.044                       | 22.599                           | -                           | 94.643           |
| Support services                       | 0.081                        | 10.924                           | 1.270                       | 12.275           |
| Capital charges                        | 21.901                       | 0.258                            | 0.219                       | 22.378           |
| <b>Total expenditure</b>               | <b>186.683</b>               | <b>250.132</b>                   | <b>41.197</b>               | <b>478.012</b>   |
| <b>Net expenditure</b>                 | <b>45.285</b>                | <b>85.645</b>                    | <b>15.045</b>               | <b>145.975</b>   |

## Section 4 – Notes to the Core Financial Statements

|   |                |
|---|----------------|
|   | <b>2014/15</b> |
|   | <b>£m</b>      |
| Net expenditure in the Group analysis   | 145.975        |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis                    | 56.852         |
| Amounts included in the analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement | (23.258)       |
| <b>Cost of services in Comprehensive Income and Expenditure Statement</b>   | <b>179.569</b> |

| 2014/15  | Group analysis   | Adjustments not reported to management in the analysis | Amounts not included in the Comprehensive Income and Expenditure Statement | Cost of services | Other operating income and expenditure | (Surplus) or deficit on the provision of services |
|--|------------------|--|--|------------------|--|---|
|  | £m               | £m   | £m   | £m               | £m                                     | £m  |
| Fees, charges and other service income                   | (330.933)        | 51.940   | 7.299  | (271.694)        | (7.299)                                | (278.993)   |
| Housing revenue account income                           | -                | (70.128)   | -  | (70.128)         | -                                      | (70.128)  |
| Interest and investment income                           | (1.104)          | -  | 1.104  | -                | (1.493)                                | (1.493)   |
| Income from council tax                                  | -                | -  | -  | -                | (47.079)                               | (47.079)  |
| Income from non-domestic rates (including top up grant)  | -                | -  | -  | -                | (43.872)                               | (43.872)  |
| Grants and contributions                                 | -                | -  | -  | -                | (110.703)                              | (110.703)   |
| <b>Total income</b>                                      | <b>(332.037)</b> | <b>(18.188)</b>  | <b>8.403</b>   | <b>(341.822)</b> | <b>(210.446)</b>                       | <b>(552.268)</b>                                  |
| Employee expenses  | 147.053          | 11.849   | (3.626)  | 155.276          | 3.626                                  | 158.902   |
| Support services recharges                               | 12.275           | 1.094  | (1.873)  | 11.496           | 1.873                                  | 13.369  |
| Other service expenses                                   | 295.127          | (155.219)  | (2.605)  | 137.303          | 2.605                                  | 139.908   |
| Housing revenue account expenditure                      | -                | 87.401   | -  | 87.401           | -                                      | 87.401  |
| Depreciation, amortisation and impairment                | 0.022            | 129.915  | (0.022)  | 129.915          | 0.022                                  | 129.937   |
| Interest payable and net defined benefit obligation cost | -                | -  | -  | -                | 43.804                                 | 43.804  |
| Precepts and levies                                      | 9.246            | -  | (9.246)  | -                | 9.246                                  | 9.246   |
| Provision for debt repayment                             | 14.289           | -  | (14.289)   | -                | -                                      | -   |
| Loss on disposal of current and non-current assets       | -                | -  | -  | -                | 26.269                                 | 26.269  |
| Payments to housing receipts pool                        | -                | -  | -  | -                | 1.782                                  | 1.782   |
| <b>Total expenditure</b>                                 | <b>478.012</b>   | <b>75.040</b>  | <b>(31.661)</b>  | <b>521.391</b>   | <b>89.227</b>                          | <b>610.618</b>                                    |
| <b>Deficit on the provision of services</b>              | <b>145.975</b>   | <b>56.852</b>  | <b>(23.258)</b>  | <b>179.569</b>   | <b>(121.219)</b>                       | <b>58.350</b>                                     |

### Note 24. Trading Operations

A summary of the surplus or deficit for each of our trading operations over the last three years is shown on the following table:

|  |                             | 2013/14        | 2014/15        | 2015/16      |
|--|-----------------------------|----------------|----------------|--------------|
|  |                             | £m             | £m             | £m           |
| <b>South Shields open air market</b>                 | Turnover                    | (0.121)        | (0.115)        | (0.097)      |
|  | Expenditure                 | 0.120          | 0.079          | 0.103        |
| <b>Cumulative surplus over last 3 years: £0.031m</b> | <b>(Surplus) or deficit</b> | <b>(0.001)</b> | <b>(0.036)</b> | <b>0.006</b> |
| <b>School and other catering</b>                     | Turnover                    | (6.991)        | (6.965)        | (6.741)      |
|  | Expenditure                 | 6.025          | 7.668          | 7.048        |
| <b>Cumulative deficit over last 3 years: £0.044m</b> | <b>(Surplus) or deficit</b> | <b>(0.966)</b> | <b>0.703</b>   | <b>0.307</b> |
| <b>Building Regulation charging</b>                  | Turnover                    | (0.213)        | (0.219)        | (0.217)      |
|  | Expenditure                 | 0.213          | 0.379          | 0.352        |
| <b>Cumulative deficit over last 3 years: £0.295m</b> | <b>Deficit</b>              | <b>-</b>       | <b>0.160</b>   | <b>0.135</b> |
| <b>Total trading activity</b>                        | Turnover                    | (7.325)        | (7.299)        | (7.055)      |
|  | Expenditure                 | 6.358          | 8.126          | 7.503        |
| <b>Cumulative deficit over last 3 years: £0.279m</b> | <b>(Surplus) or deficit</b> | <b>(0.967)</b> | <b>0.827</b>   | <b>0.448</b> |

## Section 4 – Notes to the Core Financial Statements

### Note 25. Pooled Budgets

The Council has four pooled arrangements with the South Tyneside Clinical Commissioning Group (CCG) under Section 75 of the NHS Act 2006. Pooled funds enable health bodies and local authorities to work collaboratively to address specific health issues. The four projects are as follows:

- The Better Care Fund providing partnership working across a range of health related issues affecting both parties. Perth Green, previously a project reported separately, is now included in the Better Care Fund.
- A joint equipment store that enables the Council and the CCG to provide an integrated equipment service, which operates in line with Department of Health guidance, on a borough wide basis.
- An arrangement whereby the Council can commission nursing and continuing care on behalf of the CCG.
- An arrangement whereby the Council can commission after-care services, provided under Section 117 of the 1983 Mental Health Act, on behalf of the CCG.

The Council is the lead body for these budgets and the gross costs, together with the income from the CCG, are fully reflected in the adult social care services line of the Comprehensive Income and Expenditure Statement. Details of the expenditure are shown in the following table:

| 2014/15                   |                                  | 2015/16                   | 2015/16                            | 2015/16                   |
|---------------------------|----------------------------------|---------------------------|------------------------------------|---------------------------|
| Council share of net cost |                                  | Pooled budgets gross cost | NHS partners income to the Council | Council share of net cost |
| £m                        |                                  | £m                        | £m                                 | £m                        |
| -                         | Better Care Fund                 | 16.174                    | (4.525)                            | 11.649                    |
| 0.731                     | Joint equipment store            | 1.178                     | (0.589)                            | 0.589                     |
| 1.051                     | Perth Green                      | -                         | -                                  | -                         |
| -                         | Nursing care and continuing care | 9.546                     | (9.546)                            | -                         |
| 2.618                     | S117 mental health               | 5.952                     | (2.976)                            | 2.976                     |
| <b>4.400</b>              | <b>Total</b>                     | <b>32.850</b>             | <b>(17.636)</b>                    | <b>15.214</b>             |

### Note 26. Members' Allowances

Included within the corporate and democratic core line on the Comprehensive Income and Expenditure Statement are all remuneration payments to Members before recovery from third parties.

|                                       | 2014/15      | 2015/16      |
|---------------------------------------|--------------|--------------|
|                                       | £m           | £m           |
| Members' allowances                   | 0.819        | 0.799        |
| Other Members' expenses               | 0.020        | 0.042        |
| <b>Total Members' allowances paid</b> | <b>0.839</b> | <b>0.841</b> |

## Section 4 – Notes to the Core Financial Statements

### Note 27. Council, Schools and Statutory Officers' Remuneration

#### Employee Remuneration over £50,000

The number of employees whose remuneration, excluding employer's pension contribution, was £50,000 or more are disclosed, in bands of £5,000, in the table below. It includes staff whose redundancy payments have resulted in a payment in excess of £50,000 for the year (inclusive of basic remuneration). These are noted in the column "leavers in year". The table does not include senior officers which are disclosed in a separate table.

|                       |                        | 2014/15    |                 |                     |                       | 2015/16                |            |                 |  |
|-----------------------|------------------------|------------|-----------------|---------------------|-----------------------|------------------------|------------|-----------------|--|
| Council and Statutory | Community School based | Total      | Leavers in year | Remuneration bands  | Council and Statutory | Community School based | Total      | Leavers in year |  |
| 27                    | 31                     | 58         | 3               | £50,000 - £54,999   | 20                    | 36                     | 56         | 1               |  |
| 10                    | 26                     | 36         | 6               | £55,000 - £59,999   | 11                    | 23                     | 34         | 4               |  |
| 8                     | 6                      | 14         | 4               | £60,000 - £64,999   | 8                     | 13                     | 21         | 3               |  |
| 6                     | 12                     | 18         | 6               | £65,000 - £69,999   | 5                     | 10                     | 15         | 3               |  |
| 6                     | 6                      | 12         | 5               | £70,000 - £74,999   | 3                     | 7                      | 10         | 1               |  |
| 2                     | 3                      | 5          | 1               | £75,000 - £79,999   | 5                     | 1                      | 6          | 2               |  |
| -                     | 3                      | 3          | -               | £80,000 - £84,999   | 1                     | 3                      | 4          | -               |  |
| -                     | 2                      | 2          | -               | £85,000 - £89,999   | 2                     | 6                      | 8          | 2               |  |
| 1                     | -                      | 1          | 1               | £90,000 - £94,999   | -                     | 1                      | 1          | -               |  |
| 1                     | -                      | 1          | 1               | £100,000-£104,999   | -                     | -                      | -          | -               |  |
| 1                     | -                      | 1          | -               | £120,000 - £124,999 | -                     | -                      | -          | -               |  |
| -                     | -                      | -          | -               | £135,000 - £139,999 | 1                     | -                      | 1          | -               |  |
| -                     | 1                      | 1          | -               | £165,000 - £169,999 | -                     | -                      | -          | -               |  |
| -                     | -                      | -          | -               | £170,000 - £174,999 | -                     | 1                      | 1          | -               |  |
| <b>62</b>             | <b>90</b>              | <b>152</b> | <b>27</b>       |                     | <b>56</b>             | <b>101</b>             | <b>157</b> | <b>16</b>       |  |

The Council has continued to revise its structure to ensure that it is shaped to deliver for the future, and as part of this plan, continued with its early retirement and voluntary redundancy programme during 2015/16.

## Section 4 – Notes to the Core Financial Statements

### Senior Officer Remuneration

The following table shows senior officer remuneration in 2014/15 and 2015/16:

| Post title                                      |           | Salary and allowances<br>£ | Pension contribution<br>£ | Total remuneration<br>£ |
|---|-----------|----------------------------|---------------------------|-------------------------|
| <b><u>Officers over £150,000</u></b>            |           |                            |                           |                         |
| Chief Executive - M Swales                      | 2014/15   | 152,813                    | 24,204                    | 177,017                 |
|   | 2015/16   | 152,522                    | 25,303                    | 177,825                 |
| <b><u>Other senior officers</u></b>             |           |                            |                           |                         |
| Corporate Director Children Adults and Families | 2014/15   | 124,364                    | 19,485                    | 143,849                 |
|   | 2015/16 ^ | 51,463                     | 8,119                     | 59,582                  |
|   | 2015/16 ^ | 10,000                     | 1,590                     | 11,590                  |
| Corporate Director Business and Resources       | 2014/15 ^ | 112,823                    | 17,821                    | 130,644                 |
|   | 2015/16   | 116,541                    | 18,451                    | 134,992                 |
| Corporate Director Economic Regeneration        | 2014/15   | 117,435                    | 18,590                    | 136,025                 |
|   | 2015/16   | 121,060                    | 19,080                    | 140,140                 |
| Head of Education Learning and Skills           | 2014/15   | 91,222                     | -                         | 91,222                  |
|   | 2015/16   | 81,682                     | 6,803                     | 88,485                  |
| Head of Enterprise and Regeneration             | 2014/15   | 68,780                     | 10,737                    | 79,517                  |
|   | 2015/16 ^ | 15,280                     | 2,391                     | 17,671                  |
| Head of Children's and Families Social Care     | 2014/15   | 84,408                     | 13,421                    | 97,829                  |
|   | 2015/16   | 85,668                     | 13,621                    | 99,289                  |
| Director of Public Health                       | 2014/15   | 83,985                     | 11,758                    | 95,743                  |
|   | 2015/16   | 85,762                     | 12,305                    | 98,067                  |
| Head of Pensions                                | 2014/15   | 85,235                     | 13,421                    | 98,656                  |
|   | 2015/16   | 85,943                     | 13,621                    | 99,564                  |
| Head of Corporate and Commercial Services       | 2014/15   | 89,888                     | 14,038                    | 103,926                 |
|   | 2015/16   | 97,371                     | 15,234                    | 112,605                 |
| Head of Marketing and Communications            | 2014/15   | 79,341                     | 12,422                    | 91,763                  |
|   | 2015/16   | 80,540                     | 12,656                    | 93,196                  |
| Corporate Lead - Commissioning                  | 2014/15   | 81,879                     | 13,019                    | 94,898                  |
|   | 2015/16 ^ | 35,979                     | 5,676                     | 41,655                  |
| Head of Legal Services                          | 2014/15   | 83,952                     | 12,422                    | 96,374                  |
|   | 2015/16   | 80,854                     | 12,656                    | 93,510                  |
| Head of Finance                                 | 2014/15   | 88,165                     | 12,821                    | 100,986                 |
|   | 2015/16   | 86,631                     | 13,621                    | 100,252                 |
| Head of Adult Social Care                       | 2014/15 ^ | 33,249                     | 5,258                     | 38,507                  |
|   | 2014/15 ^ | 53,297                     | 8,334                     | 61,631                  |
|   | 2015/16 ^ | 33,893                     | 5,273                     | 39,166                  |
| Head of Adult Social Care & Commissioning       | 2015/16 ^ | 35,979                     | 5,676                     | 41,655                  |
| Head of Strategic Development                   | 2014/15   | 31,394                     | 3,776                     | 35,170                  |
| Head of Asset Management                        | 2014/15   | 86,182                     | 13,421                    | 99,603                  |
|   | 2015/16   | 87,194                     | 13,621                    | 100,815                 |
| Head of Development Services                    | 2014/15   | 85,733                     | 13,421                    | 99,154                  |
|   | 2015/16   | 86,829                     | 13,621                    | 100,450                 |
| <b>Total remuneration 2014/15</b>               |           | <b>1,634,145</b>           | <b>238,369</b>            | <b>1,872,514</b>        |
| <b>Total remuneration 2015/16</b>               |           | <b>1,431,191</b>           | <b>219,318</b>            | <b>1,650,509</b>        |

^ Denotes not a full year salary

## Section 4 – Notes to the Core Financial Statements

### Exit Package Cost Disclosure

The numbers of exit packages with total cost per band are set out in the table below:

| 2014 /15            |              |                        | 2015 /16            |              |  |
|---------------------|--------------|------------------------|---------------------|--------------|--|
| Total exit Packages | Total Paid   | Exit package cost band | Total exit Packages | Total Paid   |  |
|                     | £m           |                        |                     | £m           |  |
| 151                 | 1.108        | £0 - £20,000           | 125                 | 1.106        |  |
| 55                  | 1.623        | £20,001 - £40,000      | 43                  | 1.214        |  |
| 13                  | 0.614        | £40,001 - £60,000      | 10                  | 0.476        |  |
| 3                   | 0.202        | £60,001 - £80,000      | 9                   | 0.624        |  |
| 3                   | 0.254        | £80,001 - £100,000     | 3                   | 0.269        |  |
| -                   | -            | £100,001-£140,000      | 4                   | 0.477        |  |
| <b>225</b>          | <b>3.801</b> | <b>Total</b>           | <b>194</b>          | <b>4.166</b> |  |

The exit package costs include payments made to the Local Government Pension Scheme. There were no compulsory redundancies in the year.

### Note 28. External Audit Costs

Ernst and Young LLP act as the external auditors for the Council. The following table shows the fees paid for the various services received and chargeable to the Comprehensive Income and Expenditure Statement. Included in the fees are payments made to the previous external auditors relating to the audit of 2014/15 grant claims totalling £0.021m.

Grant fees are included in the net cost of individual services whilst the other fees are shown as part of the corporate and democratic core costs.

| 2014/15      |   | 2015/16      |
|--------------|---|--------------|
| £m           |   | £m           |
| 0.167        | Fees with regard to external audit services carried out by the appointed auditor for the year | 0.126        |
| 0.020        | Fees for the certification of grant claims and returns for the year                           | 0.028        |
| 0.004        | Fees for other services provided by external auditors during the year                         | -            |
| <b>0.191</b> | <b>Total fees payable to external auditors</b>  | <b>0.154</b> |

### Note 29. Dedicated Schools Grant

Dedicated Schools Grant (DSG) is provided by the Department for Education to fund the Council's expenditure on schools. Following the formation of academy schools a proportion of DSG funding is top sliced by the Government and paid directly to those in the borough. The remaining DSG allocated to the Council is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools budget includes:

- a restricted range of pupil-related services provided on a Council-wide basis (known as central expenditure) and
- 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 2015/16 are shown in the table on the next page.



## Section 4 – Notes to the Core Financial Statements

| 2015/16   | Central<br>expenditure<br>£m | Individual<br>schools<br>budget<br>£m | Total<br>£m     |
|---|------------------------------|---------------------------------------|-----------------|
| Final DSG before academy recoupment                 |                              |                                       | (110.065)       |
| Academy recoupment                                  |                              |                                       | 14.678          |
| <b>Total Council DSG for year</b>                   |                              |                                       | <b>(95.387)</b> |
| Brought forward from previous year                  |                              |                                       | (0.838)         |
| <b>Agreed initial budgeted distribution in year</b> | <b>(11.405)</b>              | <b>(84.820)</b>                       | <b>(96.225)</b> |
| Actual central expenditure                          | 11.405                       | -                                     | 11.405          |
| Actual ISB deployed to schools                      | -                            | 83.767                                | 83.767          |
| Transfer from school balances                       |                              | (0.086)                               | (0.086)         |
| <b>Carry forward to following year</b>              | <b>-</b>                     | <b>(1.139)</b>                        | <b>(1.139)</b>  |

DSG is credited against the education and children's services line in the Comprehensive Income and Expenditure Statement. The level of unspent DSG has been set aside for future spending on schools via the movement in earmarked reserves.

The equivalent table for the previous year is shown below:

| 2014/15   | Central<br>expenditure<br>£m | Individual<br>schools<br>budget<br>£m | Total<br>£m     |
|---|------------------------------|---------------------------------------|-----------------|
| Final DSG before academy recoupment                 |                              |                                       | (109.652)       |
| Academy recoupment                                  |                              |                                       | 13.309          |
| <b>Total Council DSG for year</b>                   |                              |                                       | <b>(96.343)</b> |
| Brought forward from previous year                  |                              |                                       | (0.403)         |
| <b>Agreed initial budgeted distribution in year</b> | <b>(11.335)</b>              | <b>(85.411)</b>                       | <b>(96.746)</b> |
| In year adjustments                                 | -                            | (0.158)                               | (0.158)         |
| <b>Final budget distribution for year</b>           | <b>(11.335)</b>              | <b>(85.569)</b>                       | <b>(96.904)</b> |
| Actual central expenditure                          | 11.335                       | -                                     | 11.335          |
| Actual ISB deployed to schools                      | -                            | 84.731                                | 84.731          |
| <b>Carry forward to following year</b>              | <b>-</b>                     | <b>(0.838)</b>                        | <b>(0.838)</b>  |

## Section 4 – Notes to the Core Financial Statements

### Note 30. Government Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

| 2014/15<br>£m   | 2015/16<br>£m    |
|---|------------------|
| <b>Credited to taxation and non-specific grant income</b>                     |                  |
| (29.439) Non-domestic rates top up grant                                      | (30.002)         |
| (35.687) Capital grants and contributions                                     | (10.764)         |
| (53.991) Revenue support grant  | (39.960)         |
| (11.126) Private finance initiative   | (11.126)         |
| (2.395) Education services grant  | (1.922)          |
| (1.360) Small business rate relief grant                                      | (1.720)          |
| (1.490) New homes bonus grant   | (2.185)          |
| (1.495) Benefits administration grant   | (1.101)          |
| - Transformation challenge award grant  | (1.100)          |
| (3.159) Other unringfenced grants   | (3.161)          |
| <b>(140.142) Total</b>  | <b>(103.041)</b> |
| <b>Credited to services</b>   |                  |
| (96.501) Dedicated schools grant  | (95.387)         |
| (71.980) Housing benefit  | (72.240)         |
| (12.917) Public health grant  | (13.424)         |
| (4.195) NHS Commissioning Board   | -                |
| (6.473) Education and skills funding agencies                                 | (6.640)          |
| (8.127) Pupil premium grant   | (7.953)          |
| (5.182) Grants supporting revenue expenditure funded by capital under statute | (1.245)          |
| (1.706) Other ringfenced grants   | (1.433)          |
| <b>(207.081) Total</b>  | <b>(198.322)</b> |
| <b>(347.223) Total grants</b>   | <b>(301.363)</b> |

## Section 4 – Notes to the Core Financial Statements

### Note 31. Capital Expenditure and Capital Financing

The following table analyses capital expenditure together with the method of financing and the impact on the Council's underlying need to borrow.

| 2014/15<br>£m   |  | 2015/16<br>£m   |
|-----------------|--|-----------------|
| <b>599.334</b>  | <b>Opening capital financing requirement (CFR)</b>   | <b>669.050</b>  |
|                 | <b>Capital investment</b>  |                 |
| 89.832          | Additions to property, plant and equipment   | 82.823          |
| 45.593          | Adjustments for assets held under PFI and finance leases   | (0.209)         |
| 7.160           | Loans treated as capital expenditure   | 6.772           |
| 0.435           | Additions to other long term assets and assets held for sale or disposal                           | 1.117           |
| 5.441           | Revenue expenditure funded from capital under statute  | 0.727           |
| (0.001)         | Other movements  | (0.181)         |
| <b>148.460</b>  | <b>Total capital investment</b>  | <b>91.049</b>   |
|                 | <b>Sources of finance</b>  |                 |
| (4.656)         | Capital receipts   | (4.684)         |
| (40.869)        | Government grants and other contributions  | (12.009)        |
| (18.699)        | Major repairs reserve  | (27.756)        |
|                 | <b>Sums set aside from revenue</b>   |                 |
| (0.224)         | Direct revenue contributions   | (0.131)         |
| (10.891)        | Sums set aside from revenue  | 0.487           |
| (3.398)         | PFI and finance lease repayments   | (4.130)         |
| (0.007)         | Capital receipts used to repay debt  | (0.019)         |
| -               | Depreciation and amortisation of HRA non dwellings   | (1.656)         |
| <b>(78.744)</b> | <b>Total finance and debt set aside</b>  | <b>(49.898)</b> |
| <b>69.716</b>   | <b>Movement in CFR</b>   | <b>41.151</b>   |
| <b>669.050</b>  | <b>Closing CFR</b>   | <b>710.201</b>  |
|                 | <b>Explanation of movement in year</b>   |                 |
| 39.141          | Increase or (decrease) in underlying need to borrow (supported by Government financial assistance) | (3.558)         |
| 30.575          | Increase in underlying need to borrow (unsupported by Government financial assistance)             | 44.709          |
| <b>69.716</b>   | <b>Increase in CFR</b>   | <b>41.151</b>   |

#### Loans treated as Capital Expenditure

The Council has loaned monies to South Tyneside Housing Ventures Trust Limited during the year. This funded the acquisition of land and the construction of new build properties at Saxon Way, West Way, Biddick Hall and Trinity South as well as the purchase of a number of empty properties.

#### Revenue Expenditure Funded from Capital under Statute

Certain expenditure incurred by local authorities does not fall within the Code of Practice definition of assets but is classified as expenditure for capital purposes with respect to capital controls. The charges primarily relate to equal pay compensation, expenditure on third party assets, for example Diocese owned schools and housing grants.

## Section 4 – Notes to the Core Financial Statements

### Significant Items of Capital Additions

The most significant capital additions during 2015/16 are shown in the following table:

|   | £m     |
|---|--------|
| Decent homes                            | 34.283 |
| Central library redevelopment           | 14.725 |
| Hebburn town centre regeneration        | 3.707  |
| Local transport plan including bridges  | 2.675  |
| Maintaining and enhancing our buildings | 2.265  |
| Town centre regeneration                | 2.203  |
| Ocean Road enhancement                  | 2.114  |
| Street lighting                         | 1.982  |
| South Shields town hall redevelopment   | 1.946  |
| Photovoltaic panels                     | 1.761  |
| Other infrastructure                    | 1.211  |
| Fellgate flood alleviation              | 1.185  |
| Frederick Street redevelopment          | 1.145  |
| Foreshore promenade improvements        | 1.056  |

### Note 32. Leases

#### Council as Lessee - Finance Leases

The Council holds two buildings under finance leases:

- A lease for office accommodation at Landreth House which commenced in 1983 and is 34 years into a 35 year lease.
- The lease of Cleadon Park facility which commenced in July 2010 and is 6 years into a 24 year lease. The main use of this facility by the Council is as a library and community centre.

The Council is committed to making the minimum payments under these leases. This represents settlement of the long term liability for the interest in the property and finance costs that will be payable by the Council in future years. The minimum lease payments are made up of the following amounts:

| 31 <sup>st</sup> March<br>2015<br>£m |   | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|--------------------------------------|
|                                      | <b>Finance lease liabilities (net present value of minimum lease payments):</b> |                                      |
| 0.054                                | - current   | 0.060                                |
| 2.050                                | - non-current   | 1.991                                |
| 2.772                                | Finance costs payable in future years   | 2.550                                |
| <b>4.876</b>                         | <b>Minimum lease payments</b>   | <b>4.601</b>                         |

## Section 4 – Notes to the Core Financial Statements

The repayment of finance lease liabilities and minimum lease payments will be payable over the following periods:

|   | Finance lease liabilities |                        | Minimum lease payments |                        |
|---|---------------------------|------------------------|------------------------|------------------------|
|   | 31 <sup>st</sup> March    | 31 <sup>st</sup> March | 31 <sup>st</sup> March | 31 <sup>st</sup> March |
|   | 2015                      | 2016                   | 2015                   | 2016                   |
|   | £m                        | £m                     | £m                     | £m                     |
| Not later than one year                           | 0.054                     | 0.060                  | 0.274                  | 0.274                  |
| Later than one year and not later than five years | 0.217                     | 0.221                  | 1.038                  | 1.019                  |
| Later than five years                             | 1.833                     | 1.770                  | 3.564                  | 3.308                  |
|   | <b>2.104</b>              | <b>2.051</b>           | <b>4.876</b>           | <b>4.601</b>           |

The Council has sub-let part of the space at Cleadon Park to a cafe operator and to a private nursery. Landreth House is sublet to South Tyneside Homes Limited.

### Council as Lessee - Operating Leases

The Council has operating leases on some of its administrative buildings and a number of plots of land.

The future minimum lease payments due under non-cancellable leases are:

| 31 <sup>st</sup> March |   | 31 <sup>st</sup> March |
|------------------------|---|------------------------|
| 2015                   |   | 2016                   |
| £m                     |   | £m                     |
| 0.209                  | Not later than one year                           | 0.223                  |
| 0.442                  | Later than one year and not later than five years | 0.384                  |
| 1.008                  | Later than five years                             | 0.495                  |
| <b>1.659</b>           |   | <b>1.102</b>           |

### Council as Lessor - Operating Leases

The Council leases out property and equipment under operating leases primarily for economic development purposes, providing affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

| 31 <sup>st</sup> March |   | 31 <sup>st</sup> March |
|------------------------|---|------------------------|
| 2015                   |   | 2016                   |
| £m                     |   | £m                     |
| 3.820                  | Not later than one year                           | 4.037                  |
| 8.304                  | Later than one year and not later than five years | 7.830                  |
| 15.593                 | Later than five years                             | 17.418                 |
| <b>27.717</b>          |   | <b>29.285</b>          |

### Note 33. Related Parties

The Council is required to disclose material transactions with related parties. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to act freely.

## Section 4 – Notes to the Core Financial Statements

Central Government has effective control over the general operations of the Council, as it is responsible for setting the statutory framework within which the Council operates and for providing the majority of funding. The Council applied £301.363m (£347.223m in 2014/15) in support of its revenue spending as detailed in note 32.

Examination of returns completed by Elected Members, together with details included in the register of Members' interests, has identified the following for disclosure:

- Grants totalling £0.272m (£0.275m in 2014/15) were paid to Bede's World Museum a third sector organisation in which some Members have an interest. This funding formed a significant proportion of the organisation's annual income.

The transactions included above were made with proper consideration of declarations of interest.

There have been no other related party transactions with either Elected Members or Chief Officers other than remuneration for the performance of their duties as detailed in notes 26 and 27 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.531m (£0.340m in 2014/15) in respect of support services provided. Some of the support services are delivered through a separate service level agreement with BTSTL. The Council also paid to the Fund £0.057m (£0.056m in 2014/15) in respect of treasury management duties.

The Council administers the accounts for NALAHCL on behalf of the LA7 and NIAL and charged £0.074m (£0.046m in 2014/15) in relation to officer time and expenses. The Council received £0.672m income from interest on loan notes with the airport (£0.672m in 2014/15) and nil in dividends (nil in 2014/15).

South Tyneside Homes Limited buys services back from the Council and was charged £1.746m (£1.605m in 2014/15) in respect of support services provided. Other support services are delivered through a separate service level agreement with BTSTL. A further £6.168m (£3.972m in 2014/15) was recovered in respect of services such as waste disposal, contributions towards procurement savings and profit sharing arrangements. The Council paid a management fee of £14.393m (£13.500m in 2014/15) and £35.352m (£39.365m in 2014/15) primarily for the provision of construction services and capital programme management.

Community associations in the borough received indirect financial support from the Council of £1.286m (£1.962m in 2014/15). The funding was used to pay for premises costs and Council employed staffing costs. The Council holds reserve powers to take over operation of centres in cases of mismanagement.

The Council entered a strategic partnership with BTSTL on 1<sup>st</sup> October 2008 to deliver "back office" services to the Council, South Tyneside Homes Limited and the Tyne and Wear Pension Fund. The Council paid a unitary charge fee of £11.136m (£11.209m in 2014/15) to BTSTL for the provision of the transferred services. The Council also paid £9.672m (£13.471m in 2014/15) in respect of procurement of decent homes contracts.

## Section 4 – Notes to the Core Financial Statements

InspiredSpaces STaG Limited is the private sector partner delivering our schools PFI contracts. The Council owns shares to the value of £0.002m (£0.002m in 2014/15) in the various companies established to run the contracts. The Council also has 25,000 deferred shares in South Tyneside Credit Union Limited (operating as Bridges Your Community Bank). The credit union exists for individuals living or working within the geographical boundaries of South Tyneside and Sunderland City Councils to have access to affordable loan and banking arrangements. The Council received £0.006m (£0.006m in 2014/15) in dividends as a result of its various shareholdings.

South Tyneside Housing Ventures Trust Limited (STHVTL) was created as a private, limited by guarantee, no share capital company on 26<sup>th</sup> July 2013. STHVTL provides social housing to residents thereby increasing the number of available affordable homes in the borough. The Council has three nominated representatives on the board of this company and has incorporated it as an associate within the Group Accounts. The Council has agreed to a £40.000m loan arrangement with STHVTL to allow them to create and develop their housing stock. These loans are repayable over a maximum of 49 years and no later than 31<sup>st</sup> March 2063. During the year additional loans and advances of £6.987m (£7.160m in 2014/15) were made and £0.107m (£0.088m in 2014/15) principal and interest was repaid.

The following tables show the related party amounts due to or from the Council as at the Balance Sheet date.

| <b>31<sup>st</sup> March<br/>2015<br/>£m</b> | <b>Amount due to the Council</b>              | <b>31<sup>st</sup> March<br/>2016<br/>£m</b> |
|--|---|--|
| 14.564                                       | Central Government                            | 2.760  |
| 1.081  | Tyne and Wear Pension Fund                    | 0.863  |
| 7.815  | NIAL  | 7.815  |
| 2.327  | South Tyneside Homes Limited                  | 4.384  |
| 0.533  | Community associations                        | 0.282  |
| 0.030  | InspiredSpaces STaG Limited                   | 0.241  |
| 8.541  | South Tyneside Housing Ventures Trust Limited | 15.526                                       |
| <b>34.891</b>                                | <b>Total</b>                                  | <b>31.871</b>                                |

| <b>31<sup>st</sup> March<br/>2015<br/>£m</b> | <b>Amount due from the Council</b>            | <b>31<sup>st</sup> March<br/>2016<br/>£m</b> |
|--|---|--|
| (9.445)                                      | Central Government                            | (7.474)                                      |
| (2.763)                                      | Tyne and Wear Pension Fund                    | (3.162)                                      |
| (5.316)                                      | South Tyneside Homes Limited                  | (3.796)                                      |
| (0.008)                                      | Community associations                        | (0.022)                                      |
| (0.086)                                      | InspiredSpaces STaG Limited                   | -  |
| -  | South Tyneside Housing Ventures Trust Limited | (0.093)                                      |
| <b>(17.618)</b>                              | <b>Total</b>                                  | <b>(14.547)</b>                              |

## Section 4 – Notes to the Core Financial Statements

### Note 34. Impairment Losses

The Code requires disclosure by class of assets the impairment losses and impairment reversals charged to the deficit on the provision of services. These disclosures are consolidated in note 9 which reconciles the movement over the year in property, plant and equipment.

During 2015/16 the Council has recognised net impairments of £14.134m (£8.654m in 2014/15). In 2015/16 there was a higher number of planned property demolitions and the impairment of decent homes in year expenditure was higher than the previous year.

The following table shows total impairments losses made to each cost of service line:

| 2014/15<br>£m                                | 2015/16<br>£m |
|--|---------------|
| 0.016 Central services to the public         | -             |
| 0.293 Cultural and related services          | 0.148         |
| 0.440 Environmental services                 | 0.350         |
| 0.494 Regulatory and planning services       | 1.637         |
| 0.984 Education and children's services      | 0.372         |
| 0.201 Highways and transport services        | 0.617         |
| 5.426 Local authority housing (HRA)          | 10.643        |
| 0.438 Adult social care services             | 0.199         |
| 0.031 Corporate and democratic core          | 0.040         |
| 0.249 Non distributed cost                   | 0.082         |
| 0.084 Other operating income and expenditure | 0.046         |
| <b>8.656 Total</b>                           | <b>14.134</b> |

### Note 35. Contingent Liabilities

The creation of the ALMO on 1<sup>st</sup> April 2006 resulted in the transfer of past service pension deficit to South Tyneside Homes Limited. The deficit had accrued as a result of the transfer of former South Tyneside Council employees. For the year ending 31<sup>st</sup> March 2016, the actuary assessed the deficit at £22.430m (£27.550m in 2014/15). In the unlikely event that South Tyneside Homes Limited were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

### Note 36. Contingent Assets

In 2008/09 the Council appointed consultants to pursue a claim with Her Majesty's Revenues and Customs (HMRC) in relation to overpaid VAT. The Council was successful in recouping VAT for the period 1<sup>st</sup> January 1990 to 31<sup>st</sup> March 1994 in relation to sporting services supplied to individuals and for the period 1<sup>st</sup> April 1974 to 4<sup>th</sup> December 1996 in relation to excess parking and library charges. Whilst these claims have been settled the consultants are still pursuing a claim for additional interest however this relies upon a ruling in another ongoing VAT case. In January 2012 the Advocate General suggested this case should be referred back to the High Court for further consideration.



## Section 4 – Notes to the Core Financial Statements

In March 2014 the High Court ruled in favour of the claimant. HMRC have appealed this decision and have issued a business brief which confirms that they will continue to resist claims for compound interest pending final determination of the case. Solicitors acting on behalf of the Council in this matter have advised that the appeal will be heard in the Supreme Court in July 2017 and that final judgement will be handed down later that year. Given the uncertainty around the appeal the Council has not incorporated any potential asset into its closing Balance Sheet.

The Council submitted voluntary disclosures to HMRC for £1.488m in relation to a claim for overpaid VAT on the basis that the provision of sport and leisure services by the Council is a non-business activity and outside the scope of VAT, as opposed to being standard rated. HMRC formally rejected these claims and confirmed that they are prepared to test the issues surrounding a special legal regime for leisure services at the Tribunal. The Council has submitted an appeal in relation to the rejection of the claims and awaits the outcome of ongoing litigation although the Council is not one of the appellants. It is expected that the case will be heard before the Tribunal panel in late 2016. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

### Note 37. Financial Instruments Risks

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The treasury management function of the Council is undertaken within the Pension Service, because of the greater insight this service has on the economic environment and other market related risks. The Council has fully adopted CIPFA's 2011 Treasury Management Code of Practice. These practices cover roles and responsibilities and set out the overall operating procedures for treasury management including specific areas such as credit risk, liquidity risk and market risk. The Council has also fully implemented the national investment guidance of the Department for Communities and Local Government, issued in March 2004 and revised in March 2010.

The Council's Treasury Management Strategy sets out the forecast economic environment and the factors which will affect decision making for each forthcoming year. The strategy also sets out a number of Treasury Management Prudential Indicators that the Council has set in order to help control and monitor treasury management performance. When investing cash balances the prime objectives are the security of the capital sum and the liquidity of investments. Certain key elements of the current Treasury Management Strategy are also dealt with in the sections dealing with credit risk and liquidity risk.

A copy of the Treasury Management Strategy applicable to 2015/16 can be found on the South Tyneside website at the following reference:

[Borough Council | Committee meeting - 26 February 2015 | South Tyneside](#)

The Council's activities expose it to a variety of financial risks, the key risks being:

- Credit risks - The possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risks - The possibility that the Council might not have the funds available to meet its commitments to make payments.

## Section 4 – Notes to the Core Financial Statements

Market risks - The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

### Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Capita PLC) and to restrict lending to a prudent maximum amount for each institution. During 2015/16 five institutions were added to the lending list. All changes were in line with Capita Asset Services' credit rating criteria.

Investments are also made in AAA rated, i.e. highly rated, money market funds. These funds are separate legal entities from the organisations that manage them and have the benefit of diversifying risk. Deposits may also be made with other local authorities and the Debt Management Account Deposit Facility.

As at 31<sup>st</sup> March 2016 the Council limited direct deposits with institutions to a maximum of £25m (£25m in 2014/15) for those institutions which are part owned by the UK Government and £15m (£15m in 2014/15) for all other institutions on the council lending list. In addition a £15m (£15m in 2014/15) limit was applied to investments made into AAA rated money market funds.

No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties. The Council does not have any deposits frozen with Icelandic Banks.

The following analysis summarises the Council's potential maximum exposure to credit risk from:

- Term deposits with institutions on the Council's lending list based on historical experience and current market conditions.
- Customers and other debtors based on historical experience.

There has never been any default on the repayment of deposits with banks and other financial institutions nor any of the other debtors which are due to be repaid in less than one year.

| Credit risk of financial assets                      | Amount at<br>31 <sup>st</sup> March<br>2016<br>£m<br>A | Historical<br>experience<br>adjusted for<br>market<br>conditions at<br>31 <sup>st</sup> March<br>2016<br>% | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability<br>31 <sup>st</sup> March 2016<br>£m | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability<br>31 <sup>st</sup> March 2015<br>£m |
|--|--|--|---|---|
|  |  | B  | A x B   |   |
| Deposits with banks and other financial institutions | 29.473   | 0%   | -   | -   |
| Customers  | 15.306   | 4%   | 0.612   | 0.767   |
| Government debtors                                   | 0.791  | 0%   | -   | -   |
| Other debtors  | 2.888  | 0%   | -   | -   |
| <b>Total</b>   | <b>48.458</b>  |  | <b>0.612</b>  | <b>0.767</b>  |

## Section 4 – Notes to the Core Financial Statements

### Impairment

The Council has impaired its financial assets by a total of £1.140m during 2015/16 (£1.029m in 2014/15) and this impairment is included in the reported financial asset figures.

In relation to customer balances, impairment has been calculated as follows:

- A separate review for each class of customer such that housing rents and housing benefits overpaid have all been separately reviewed.
- For sundry debtors raised at 31<sup>st</sup> March but not yet paid, an impairment review has been made both against individual or client balances and then for debt type.
- Impairment factors taken into consideration include information on the debtor absconding, being in liquidation or declared bankrupt. In the absence of any of these factors the Council considers the age of debt, past experience of recoverability and whether legal proceedings have been initiated.

### Collateral

For financial assets in relation to residential care fees of £0.898m (£0.926m in 2014/15) there is a charge against clients' property which acts as collateral against the debt. The loan facility agreed with STHVTL allows for the Council to take back property assets from the company in the event of any default in repayment of the loans made.

The Council does not generally allow credit for customers and as such the following table shows the level of customer balances which are past due for payment analysed by age:

| 31 <sup>st</sup> March 2015 Credit risk of past due financial assets |                        | 31 <sup>st</sup> March 2016 |
|--|------------------------|-----------------------------|
|  | £m                     | £m                          |
| 10.284   | Less than three months | 5.347                       |
| 0.769  | Three to six months    | 0.741                       |
| 0.669  | Six months to one year | 0.672                       |
| 2.554  | More than one year     | 2.884                       |
| <b>14.276</b>  | <b>Total</b>           | <b>9.644</b>                |

### Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council policy limits the use of market debt to 40% of the overall debt portfolio. The Council has set limits to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The Council's policy is to ensure that no more than 40% of loans are due to mature within any financial year and 75% within any rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

## Section 4 – Notes to the Core Financial Statements

The maturity structure of all financial liabilities, including borrowing, is as follows:

| 31 <sup>st</sup> March<br>2015<br>£m | Liabilities outstanding    | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|----------------------------|--------------------------------------|
| (524.449)                            | Public Works Loans Board   | (535.376)                            |
| (10.322)                             | Market debt                | (10.320)                             |
| -                                    | Other local authorities    | (5.000)                              |
| (449.266)                            | PFI liabilities            | (428.524)                            |
| (33.234)                             | Creditors                  | (20.967)                             |
| (4.876)                              | Finance lease liabilities  | (4.601)                              |
| <b>(1,022.147)</b>                   | <b>Total</b>               | <b>(1,004.788)</b>                   |
| (77.642)                             | Less than one year         | (64.766)                             |
| (35.173)                             | Between one and two years  | (41.316)                             |
| (126.428)                            | Between two and five years | (126.935)                            |
| (188.265)                            | Between five and ten years | (169.198)                            |
| (594.639)                            | More than ten years        | (602.573)                            |
| <b>(1,022.147)</b>                   | <b>Total</b>               | <b>(1,004.788)</b>                   |

### Market Risk

#### Interest rate risk

The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid or received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the deficit on the provision of services or other comprehensive income and expenditure. However changes in interest payable and receivable on variable rate borrowings and investments will be posted to the deficit on the provision of services and affect the General Fund balance.

The Council has a number of strategies for managing interest rate risk. Our treasury management policy sets a maximum of 35% (35% in 2014/15) of borrowings in variable rate loans to reduce risk from variable rates. In assessing this rate the Council looks at what it

## Section 4 – Notes to the Core Financial Statements

already has on variable rate terms, what the borrowing requirement is each year (as this could potentially be taken on variable rate terms) and what may be a reasonable amount of debt which may be converted from fixed to variable. After making this assessment it was considered prudent to reduce the maximum level of debt on variable rate terms. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31<sup>st</sup> March 2016, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the following table:

| <b>2014/15</b> |  | <b>2015/16</b> |
|----------------|--|----------------|
| <b>£m</b>      | <b>Interest rate risk</b>  | <b>£m</b>      |
| 0.200          | Increase in interest payable on variable rate borrowings   | 0.200          |
| (0.625)        | Increase in interest receivable on variable rate investments   | (1.834)        |
| <b>(0.425)</b> | <b>Impact on Comprehensive Income and Expenditure Statement</b>  | <b>(1.634)</b> |
| <b>(0.319)</b> | <b>Share of overall impact on the HRA Income and Expenditure Statement</b>   | <b>(0.279)</b> |
| (8.686)        | Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement)     | (0.590)        |
| (75.768)       | Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement) | (104.696)      |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £8.794m in Newcastle Airport (£8.794m in 2014/15). The Council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Therefore to eliminate any risk the Council has set aside the full book value of the shares in the available-for-sale reserve.

### Note 38. Trust Funds

The Council acts as sole trustee for various legacies left by residents of the borough. These are held either in external investments or as part of internal Council investments as shown in the table on the next page.

## Section 4 – Notes to the Core Financial Statements

|                       | 1 <sup>st</sup> April 2015 | Amount received during year | Amount applied during year | 31 <sup>st</sup> March 2016 | Government stock investments | Invested in Council Funds |
|-----------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|------------------------------|---------------------------|
|                       | £m                         | £m                          | £m                         | £m                          | £m                           | £m                        |
| Westoe trust          | (0.355)                    | (0.002)                     | 0.001                      | (0.356)                     | -                            | 0.356                     |
| Marine park trust     | (0.175)                    | (0.001)                     | -                          | (0.176)                     | -                            | 0.176                     |
| Other trust funds     | (0.143)                    | (0.012)                     | 0.007                      | (0.147)                     | 0.021                        | 0.126                     |
| <b>Total balances</b> | <b>(0.673)</b>             | <b>(0.015)</b>              | <b>0.008</b>               | <b>(0.679)</b>              | <b>0.021</b>                 | <b>0.658</b>              |

Income generated by the Westoe Trust is used to benefit schools and promote the education of individuals in South Tyneside in a manner not normally provided by the Council. The Marine Park Trust represents monies received from the sale of property in the park grounds. This must be invested in perpetuity with any interest earned being spent on improvements to the park. There are 22 other trust funds that are held by the Council primarily to provide financial assistance in the education sector. There were no outstanding liabilities on the Trusts at the Balance Sheet date.

The equivalent balances at 31<sup>st</sup> March 2015 are as follows:

|                       | 1 <sup>st</sup> April 2014 | Amount received during year | Amount applied during year | 31 <sup>st</sup> March 2015 | Government stock investments | Invested in Council Funds |
|-----------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|------------------------------|---------------------------|
|                       | £m                         | £m                          | £m                         | £m                          | £m                           | £m                        |
| Westoe trust          | (0.353)                    | (0.002)                     | -                          | (0.355)                     | -                            | 0.355                     |
| Marine park trust     | (0.174)                    | (0.001)                     | -                          | (0.175)                     | -                            | 0.175                     |
| Other trust funds     | (0.140)                    | (0.010)                     | 0.007                      | (0.143)                     | 0.023                        | 0.120                     |
| <b>Total balances</b> | <b>(0.667)</b>             | <b>(0.013)</b>              | <b>0.007</b>               | <b>(0.673)</b>              | <b>0.023</b>                 | <b>0.650</b>              |

### Note 39. Pension Schemes Accounted for as Defined Contribution

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers Pensions on behalf of the Department for Education.

Public Health staff are members of the NHS Pension Scheme, administered by NHS Pensions on behalf of the Department of Health.

Both schemes provide members with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The schemes are technically defined benefit schemes. However, the schemes are unfunded and both Teachers Pensions and NHS Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of these schemes with sufficient reliability for accounting purposes as Central Government do not release the figures. For the purposes of this Statement of Accounts, they are therefore accounted for on the same basis as a defined contribution scheme i.e. pension costs are payable as they arise.

In 2015/16, the Council paid £6.131m to the Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 15.5% of pensionable pay (£5.584m and 14.1% respectively in 2014/15). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.811m (£0.781m in 2014/15).

## Section 4 – Notes to the Core Financial Statements

In 2015/16, the Council paid £0.055m to NHS Pensions in respect of public health employees' retirement benefits, representing 14.0% of pensionable pay (£0.083m and 14.0% in 2014/15). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.010m (£0.009m in 2014/15).

The Council expects to pay out in the region of £6.300m in the year ending 31<sup>st</sup> March 2017 in respect of these two pension schemes. Information is not available to allow the Council to determine its level of liability in either of these schemes but this is estimated to be minimal as they are national schemes.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of these schemes. These costs are accounted for on a defined benefit basis and detailed in note 40.

### Note 40. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), the Tyne and Wear Pension Fund (the Fund), administered locally by South Tyneside Council. This is a funded defined benefit plan with benefits earned up to 31<sup>st</sup> March 2014 being linked to final salary. Benefits after 31<sup>st</sup> March 2014 are based on a career average revalued earnings scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 which cover pension earned from 1<sup>st</sup> April 2014.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pensions payments as they eventually fall due.

On 1<sup>st</sup> October 2008 the Council entered into a ten-year partnership arrangement for the provision of support services and staff were transferred to a new company BT South Tyneside Limited (BTSTL). However, the pension liability for all staff transferring remains with the Council as a result of a risk-sharing agreement between the two parties. The members have still been included in both the reported asset and liability figures for the Council and contributions made by BTSTL have been added to those paid by the Council.

In 2015/16, the Council made direct payments to the Fund in respect of early retirements (known as "strain on the fund") payable over the next three years. Early retirements result in reduced pension contributions payable to the Fund and earlier payments of benefits. The sum to be paid by the Council in 2015/16 was estimated by the actuary to be £0.702m (£1.109m in 2014/15).

## Section 4 – Notes to the Core Financial Statements

The cost of retirement benefits is recognised in the reported 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 that the real cost of post-employment retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. However whilst there is no direct cost to the council taxpayer in these accounts, increased contributions will be required over the remaining working life of employees, as assessed by the scheme actuary.

The Fund follows a robust risk management process which can be found in note 12 of the Tyne and Wear Pension Fund Accounts (page 145). Assets are not concentrated in any one area and are liquid such that the costs of any large payment can be accommodated. There were no settlements or curtailments during the year.

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

#### Introduction

The funded nature of the LGPS requires the Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure. Information on the framework for calculating contributions to be paid is set out in LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The contributions to be paid until the date of the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate.

The Employer's regular contributions to the Fund for the year ending 31<sup>st</sup> March 2017 are estimated at £19.450m. In addition, strain on the fund contributions may be required.

#### The main financial assumptions adopted as at 31<sup>st</sup> March 2016

The latest actuarial valuation of the Council's liabilities took place as at 31<sup>st</sup> March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were:

|   | 31 <sup>st</sup> March 2015<br>% per annum | 31 <sup>st</sup> March 2016<br>% per annum |
|---|--|--|
| Discount rate                           | 3.20                                       | 3.40                                       |
| Inflation rate (consumer price index)   | 1.80                                       | 1.80                                       |
| Rate of increase to pensions in payment | 1.80                                       | 1.80                                       |
| Rate of increase to deferred pensions   | 1.80                                       | 1.80                                       |
| Pension accounts revaluation rate       | 1.80                                       | 1.80                                       |
| Rate of general increase in salaries    | 3.30                                       | 3.30                                       |

#### The main demographic assumptions adopted as at 31<sup>st</sup> March 2016

The principal assumptions in commutation and retirement mortality rates, which have been based on the recent actual mortality experience of members within the Fund and allowing for expected mortality improvements, are shown in the table on the next page.



## Section 4 – Notes to the Core Financial Statements

| Post retirement mortality                       | 31 <sup>st</sup> March 2015  | 31 <sup>st</sup> March 2016  |
|---|--|--|
| <b>Males</b>                                    |  |  |
| Future lifetime from age 65 (currently aged 65) | 23.1   | 23.2   |
| Future lifetime from age 65 (currently aged 45) | 25.1   | 25.3   |
| <b>Females</b>                                  |  |  |
| Future lifetime from age 65 (currently aged 65) | 24.7   | 24.8   |
| Future lifetime from age 65 (currently aged 45) | 27.0   | 27.1   |
| <b>Commutation</b>                              | Each member was assumed to exchange 20% of the maximum amount permitted of their pre April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post March 2010 pension entitlements, for additional lump sum. | Each member was assumed to exchange 20% of the maximum amount permitted of their pre April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post March 2010 pension entitlements, for additional lump sum. |

Further detail on mortality assumptions can be found in note 25 of the Tyne and Wear Pension Fund Statements (page 161).

### Sensitivity Analysis

The results disclosed in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31<sup>st</sup> March 2016 is set out below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. For inflation, for example, it is assumed this will not change the salary inflation figure and will affect pensions increases only.

| Impact on present value of obligation liability | +0.1%           | Change | -0.1%           | Change |
|---|-----------------|--------|-----------------|--------|
|   | per annum<br>£m |        | per annum<br>£m |        |
| Adjustment to discount rate                     | (831.380)       | -1.9%  | (863.050)       | 1.9%   |
| Adjustment to salary increase rate              | (851.150)       | 0.5%   | (843.040)       | -0.5%  |
| Adjustment to pension increase rate             | (858.940)       | 1.4%   | (835.380)       | -1.4%  |
|   | <b>- 1 Year</b> |        | <b>+ 1 Year</b> |        |
| Adjustment to mortality age rating assumption   | (869.560)       | 2.7%   | (824.500)       | -2.7%  |

A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is one year older than them.

The impact of the same assumptions on the projected service cost chargeable to the Comprehensive Income and Expenditure Statement is given in the table on the next page.

## Section 4 – Notes to the Core Financial Statements

| Impact on projected service cost              | +0.1% per annum<br>£m | Change | -0.1% per annum<br>£m | Change |
|---|-----------------------|--------|-----------------------|--------|
| Adjustment to discount rate                   | 14.910                | -3.3%  | 15.940                | 3.4%   |
| Adjustment to salary increase rate            | 15.420                | 0.0%   | 15.420                | 0.0%   |
| Adjustment to pension increase rate           | 15.940                | 3.4%   | 14.910                | -3.3%  |
|   | <b>- 1 Year</b>       |        | <b>+ 1 Year</b>       |        |
| Adjustment to mortality age rating assumption | 15.950                | 3.4%   | 14.890                | -3.4%  |

### Asset Allocation

The approximate split of assets for the Fund as a whole is shown in the following table. The assets allocated to the employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out below for the purposes of calculating the return to be applied to those notional assets. The Fund is large and largely liquid and as a consequence there will be no significant restriction on realising assets if a large payment is required to be paid (e.g. bulk transfer value payment).

The Council, as administering authority, does not invest in property or assets related to itself. It is possible, however that assets may be invested in shares relating to some of the private sector employers participating in the Fund if it forms part of their balanced investment strategy.

| Asset split at<br>31 <sup>st</sup> March<br>2014 | Asset split at<br>31 <sup>st</sup> March<br>2015 | Asset split at 31 <sup>st</sup> March 2016 |              |              |               |
|--|--|--|--------------|--------------|---------------|
|  |  | Quoted                                     | Unquoted     | Total        |               |
| 66.8%  | 66.4%  | Equities                                   | 57.5%        | 8.6%         | 66.1%         |
| 8.5%   | 9.5%   | Property                                   | -            | 10.4%        | 10.4%         |
| 3.5%   | 3.7%   | Government bonds                           | 3.7%         | -            | 3.7%          |
| 11.5%  | 11.7%  | Corporate bonds                            | 11.6%        | -            | 11.6%         |
| 2.9%   | 2.4%   | Cash                                       | 2.6%         | -            | 2.6%          |
| 6.8%   | 6.3%   | Other investments                          | 3.1%         | 2.5%         | 5.6%          |
| <b>100.0%</b>                                    | <b>100.0%</b>                                    | <b>Total</b>                               | <b>78.5%</b> | <b>21.5%</b> | <b>100.0%</b> |

Other investments may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

The duration of the defined benefit obligation liability is 18.7 years (18.7 years in 2014/15). The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

|                     |     |
|---------------------|-----|
| Active members      | 37% |
| Deferred pensioners | 14% |
| Pensioners          | 49% |

Were an employer to leave the Fund a terminal valuation would be calculated and any liabilities outstanding requested from the employer. Were these liabilities not to be paid then the remaining employers of the Fund, including the Council, would absorb the cost. If a Council was to leave the Fund the Government would delegate the liability to the

## Section 4 – Notes to the Core Financial Statements

replacement council or if there is no replacement council to the other councils remaining in the Fund.

### (b) Local Government Pension Scheme (LGPS) and Teachers unfunded benefits

Unfunded pension arrangements established by the Council represent termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations. They also include costs on the Teachers scheme where no strain on the fund was paid in year. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure.

For the year ending 31<sup>st</sup> March 2017 the Council expects to pay £2.21m directly to beneficiaries.

The latest actuarial valuation of unfunded LGPS benefits took place as at 31<sup>st</sup> March 2011. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method.

### The main financial and demographic assumptions adopted as at 31<sup>st</sup> March 2016

The principal financial and demographic assumptions for unfunded are the same as for funded for 2015/16 however in the previous year the following assumptions were different:

|   | <b>31<sup>st</sup> March 2015</b> |
|---|-----------------------------------|
|   | <b>% per annum</b>                |
| Discount rate                           | 3.10                              |
| Rate of increase to pensions in payment | 1.80                              |

### (c) Impact on accounts of both funded and unfunded benefits

The following table reconciles the liabilities to the Balance Sheet:

| <b>31<sup>st</sup> March 2015</b>                |                 | <b>31<sup>st</sup> March 2016</b>                |                 |
|--|-----------------|--|-----------------|
| <b>Funded</b>                                    | <b>Unfunded</b> | <b>Funded</b>                                    | <b>Unfunded</b> |
| <b>£m</b>  | <b>£m</b>       | <b>£m</b>  | <b>£m</b>       |
| 574.740  | -               | 584.720  | -               |
| (862.850)  | (30.340)        | (847.070)  | (27.710)        |
| <b>(288.110)</b>                                 | <b>(30.340)</b> | <b>(262.350)</b>                                 | <b>(27.710)</b> |
| <b>Liability recognised on the Balance Sheet</b> |                 | <b>Liability recognised on the Balance Sheet</b> |                 |

## Section 4 – Notes to the Core Financial Statements

### Breakdown of amounts recognised in deficit on the provision of services and other comprehensive income and expenditure

The following table shows the net impact of benefits in the Comprehensive Income and Expenditure Statement:

| 2014/15<br>Funded<br>£m | 2014/15<br>Unfunded<br>£m |   | 2015/16<br>Funded<br>£m | 2015/16<br>Unfunded<br>£m |
|-------------------------|---------------------------|---|-------------------------|---------------------------|
|                         |                           | <b>Operating cost</b>   |                         |                           |
| 13.530                  | -                         | Current service cost  | 15.880                  | -                         |
| 0.750                   | -                         | Past service cost   | 1.040                   | -                         |
| (0.490)                 | -                         | Settlement cost   | -                       | -                         |
|                         |                           | <b>Financing cost</b>   |                         |                           |
| 10.340                  | 1.200                     | Interest on net defined benefit obligation                                    | 8.910                   | 0.910                     |
| -                       | 1.144                     | Strain on fund deferred payment   | -                       | 0.796                     |
| <b>24.130</b>           | <b>2.344</b>              | <b>Pension expense recognised</b>   | <b>25.830</b>           | <b>1.706</b>              |
|                         |                           | <b>Remeasurements in other comprehensive income and expenditure</b>           |                         |                           |
| (40.670)                | -                         | Return on plan assets below or (in excess of) that recognised in net interest | 8.830                   | -                         |
| 79.120                  | 1.930                     | Actuarial (gains) or losses due to change in financial assumptions            | (32.750)                | (0.820)                   |
| -                       | -                         | Actuarial gains due to change in demographic assumptions                      | -                       | -                         |
| (4.920)                 | (0.280)                   | Actuarial gains due to liability experience                                   | (8.200)                 | (0.510)                   |
| <b>33.530</b>           | <b>1.650</b>              | <b>Total amount recognised in other comprehensive income and expenditure</b>  | <b>(32.120)</b>         | <b>(1.330)</b>            |
| <b>57.660</b>           | <b>3.994</b>              | <b>Total amount recognised</b>  | <b>(6.290)</b>          | <b>0.376</b>              |

### Changes to the present value of defined benefit liability during the accounting year

| 2014/15<br>Funded<br>£m | 2014/15<br>Unfunded<br>£m |  | 2015/16<br>Funded<br>£m | 2015/16<br>Unfunded<br>£m |
|-------------------------|---------------------------|--|-------------------------|---------------------------|
| <b>(763.020)</b>        | <b>(29.800)</b>           | <b>Opening defined benefit liability</b>                           | <b>(862.850)</b>        | <b>(30.340)</b>           |
| (13.530)                | -                         | Current service cost   | (15.880)                | -                         |
| (32.390)                | (1.200)                   | Interest expense on defined benefit liability                      | (27.310)                | (0.910)                   |
| (4.650)                 | -                         | Contributions by participants                                      | (4.240)                 | -                         |
| (79.120)                | (1.930)                   | Actuarial gains or (losses) on liabilities - financial assumptions | 32.750                  | 0.820                     |
| 4.920                   | 0.280                     | Actuarial gains on liabilities - experience                        | 8.200                   | 0.510                     |
| 24.510                  | 2.310                     | Net benefits paid out  | 23.300                  | 2.210                     |
| (0.750)                 | -                         | Past service cost  | (1.040)                 | -                         |
| 1.180                   | -                         | Settlement cost  | -                       | -                         |
| <b>(862.850)</b>        | <b>(30.340)</b>           | <b>Closing defined benefit liability</b>                           | <b>(847.070)</b>        | <b>(27.710)</b>           |

## Section 4 – Notes to the Core Financial Statements

### Changes to the fair value of assets during the accounting year

| 2014/15<br>Funded<br>£m | 2014/15<br>Unfunded<br>£m |   | 2015/16<br>Funded<br>£m | 2015/16<br>Unfunded<br>£m |
|-------------------------|---------------------------|---|-------------------------|---------------------------|
| <b>512.820</b>          | -                         | <b>Opening fair value of assets</b>       | <b>574.740</b>          | -                         |
| 22.050                  | -                         | Interest income on assets                 | 18.400                  | -                         |
| 40.670                  | -                         | Remeasurement gains or (losses) on assets | (8.830)                 | -                         |
| 19.750                  | 2.310                     | Contributions by the employer             | 19.470                  | 2.210                     |
| 4.650                   | -                         | Contributions by participants             | 4.240                   | -                         |
| (24.510)                | (2.310)                   | Net benefits paid out                     | (23.300)                | (2.210)                   |
| (0.690)                 | -                         | Settlements                               | -                       | -                         |
| <b>574.740</b>          | -                         | <b>Closing fair value of assets</b>       | <b>584.720</b>          | -                         |

### Actual return on assets

| 2014/15<br>Funded<br>£m |   | 2015/16<br>Funded<br>£m |
|-------------------------|---|-------------------------|
| 22.050                  | Interest income on assets                 | 18.400                  |
| 40.670                  | Remeasurement gains or (losses) on assets | (8.830)                 |
| <b>62.720</b>           | <b>Actual return on assets</b>            | <b>9.570</b>            |

## Note 41. Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31<sup>st</sup> March 2016. The Council is required by the Accounts and Audit (England) Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') and the 2015/16 *SeRCOP*, supported by International Financial Reporting Standards (IFRS). The accounting policies as set out in this note have been applied consistently.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of financial instruments and certain categories of non-current assets and liabilities.

### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

## Section 4 – Notes to the Core Financial Statements

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are generally recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Amounts outstanding at the year-end are accounted for as part of the carrying amount of the relevant long term loans or investments.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

In the preparation of these accounts, the following entry represents an exception to the statements made above:

- **Housing Rents** – the Council operates a 48-week rent year for Council house rents. However, given that 31<sup>st</sup> March does not always fall at a weekend, there will be years where there are 49 paying weeks. No income accruals have been made for part weeks. 2015/16 was a 48-week rent year. The average weekly rent receipt for 2015/16 was £1.363m over 52 weeks (£1.249m in 2014/15).

### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or can be accessed in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### 4. Prior Period Adjustments, Errors and Changes in Accounting Policies and Estimates

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

## Section 4 – Notes to the Core Financial Statements

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

### 5. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Impairments and revaluation losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

For the General Fund the Council is not required to raise council tax to fund these charges. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount determined by the Council in accordance with statutory guidance and prudence. The Council has adopted the following policy:

- Debt which was subject to support from the Government via Revenue Support Grant is annuitised over 50 years.
- Repay unsupported borrowing in line with the estimated useful life of the additional asset.
- Repay unsupported borrowing over 20 years where an estimated useful life cannot be established i.e. revenue expenditure funded from capital under statute.
- Repay PFI and finance lease liabilities in line with the principal repayment of that liability made in year.
- Defer repayment until assets under construction are brought into use.
- Utilise loan repayments in lieu of making charges to revenue in the case of loans to STHVTL.
- Consider any other factors that allow for a prudent debt set aside.
- Review these factors on an annual basis to ensure any set aside continues to be prudent.

## Section 4 – Notes to the Core Financial Statements

Depreciation, impairments, amortisations and revaluation losses are therefore replaced by the contribution in the General Fund balance, by way of an adjusting transaction with the capital adjustment account in the Movement in Reserves Statement for the difference between the two.

For the HRA there is no set aside in respect of debt. Under statutory arrangements depreciation charges in relation to dwellings are not met from housing rents and are replaced by a contribution to the major repairs reserve equivalent to a notional major repairs allowance sum. Depreciation charges in relation to HRA non-dwellings assets do impact upon the HRA reserve and are funded from housing rents.

### 6. Employee Benefits

#### 6a) Benefits Payable during Employment

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, paid sick leave and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the current accounting year. The accrual is charged to the deficit on the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### 6b) Termination Benefits

Termination benefits, whether they arise as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### 6c) Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education.
- The National Health Service (NHS) Pension Scheme, administered by NHS Pensions on behalf of the Department of Health.
- The Local Government Pensions Scheme, administered by the Council on behalf of admitted and scheduled bodies in the Tyne and Wear area.



## Section 4 – Notes to the Core Financial Statements

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The education and children's services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to teachers' pensions in the year whilst the public health line includes the contributions payable to the NHS scheme.

### 6d) The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.4% (based on the current rate of return on high quality corporate bonds of equivalent term and currency to the liabilities).
- The assets of Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unlisted securities – current bid price
  - property – market value.
- The change in the defined benefit obligation is analysed as follows:

Service cost comprising:

- *Current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- *Past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to non-distributed costs.
- *Settlements* – the decrease in liabilities arising from significant transfers out of the pension scheme - credited to non-distributed costs.
- *Net interest on the defined benefit liability* – i.e. net interest expense for the Council being the change during the period in the net defined benefit obligation that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure

## Section 4 – Notes to the Core Financial Statements

Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit obligation during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *The return on plan assets* – excluding amounts included in net interest on the defined benefit obligation – charged to the pensions reserve as other comprehensive income and expenditure.
- *Actuarial gains and losses* – changes in the defined benefit obligation that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure.
- Contributions paid to the Tyne and Wear Pension Fund - Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. This includes cash paid by our strategic partner BT South Tyneside Limited on behalf of staff transferring to that organisation.

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Council to the Pension Fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards so as with termination benefits there are appropriations to the pensions reserve to remove notional amounts and replace them with actual accrued payments. The balance that arises on the pensions reserve thereby measures the beneficial impact to the Council of being required to account for retirement benefits on the basis of cash flows rather than as employees earn benefits.

### 6e) Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme. At present the scheme allows for such payments to be made over three financial years from the date at which the employee left the service of the Council.

### 7. Events after the Reporting Period

Events after the reporting period date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period. The Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

## Section 4 – Notes to the Core Financial Statements

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 8. Financial instruments

#### 8a) Valuation

Financial instruments (liabilities and assets) are measured at fair value or amortised cost:

- *Fair Value* - defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the instrument or, in the absence of such a market, the most advantageous market for the instrument.
- *Amortised Cost* - most financial instruments are valued at “amortised cost” using the effective interest rate method.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

The Council uses valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

#### 8b) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

The following assumptions apply in calculating the fair value of a financial liability:

- For PWLB debt, the discount rate is the premature repayment rate.
- For market debt and deposits with banks and other financial institutions the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- The Council has used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.

## Section 4 – Notes to the Core Financial Statements

- The Council has calculated fair values for all instruments in the portfolio, but only disclosed those that are materially different from the carrying value.
- The fair value of creditors is taken to be the invoiced or billed amount.

Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where repurchase or early settlement of borrowing has taken place as part of a restructuring of the loan portfolio any premiums or discounts are respectively deducted from or added to the financial instrument adjustment account. The write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the new loan or ten years whichever is the shortest.

### 8c) Financial Assets

Financial assets are classified into two types:

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

### 8d) Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Definitions of fair value and amortised cost can be found in section 8(a).

Annual credits to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the deposits with banks and other financial institutions that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. For other loans and receivables, such as short term debtors, no interest is charged and the Balance Sheet represents the outstanding amount.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the

## Section 4 – Notes to the Core Financial Statements

financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

### 8e) Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the fair value of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

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

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain or loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets.

### 9. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as short term creditors or capital grants received in

## Section 4 – Notes to the Core Financial Statements

advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement.

### 10. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Expenditure on the development of the Council's website has not been capitalised as it is primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost less amortisation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. The useful life of intangibles is assumed to be five years.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on balances. The gains and losses are therefore reversed out of balances in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £10,000) the capital receipts reserve.

### 11. Heritage Assets

Heritage assets are non-current assets that are held by the Council principally for their contribution to knowledge and culture. This includes collections of art, archaeology, history and natural sciences which are exhibited or stored in local museums or South Shields town hall. The museums where the majority of the Council's heritage assets are exhibited are:

- South Shields Museum and Art Gallery
- Arbeia Roman Fort and Museum, South Shields
- Tyne and Wear Archives (based at the Discovery Museum in Newcastle-upon-Tyne)

Heritage assets are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed as detailed below.

#### 11a) Art Collection

Most of the items in the art collection are valued by the Tyne and Wear Archives and Museum's Principal Keeper of Art. Assets within the art collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

## Section 4 – Notes to the Core Financial Statements

### 11b) Archaeology and other Artefacts

The Council does not consider that reliable cost or valuation information can be obtained for the items held in its archaeology and other artefacts collection. This is because of the diverse nature of the assets held and the lack of comparable market values. Consequently the Council does not recognise these assets on the Balance Sheet.

### 11c) Statues and Sculptures

The Council has a number of sculptures which are held on the Balance Sheet at either cost or insurance valuation. Statues are held on the Balance Sheet at nil valuation. This is because the Council has deemed that the cost of obtaining valuations would outweigh the benefits to the users of the financial statements.

### 11d) Civic Regalia

The Council holds a collection of civic regalia which is held on the Balance Sheet at its insurance valuation. The collection is valued annually by an external valuer and is deemed to have a high residual value so is not subject to depreciation. Revaluation gains or losses are accounted for in the same way as for property, plant and equipment.

## 12. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and associates, requiring it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses. The group financial statements within these accounts are prepared in accordance with the Council policies, with the following additions and exceptions:

### Intra Group Transactions

All transactions between the Council and its subsidiaries have been eliminated from the statements and notes.

### Taxation other than VAT

The charge for taxation is based on the result for the year of subsidiaries and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

### Charges to Income and Expenditure for Non-Current Assets

There are no transactions between the Group Comprehensive Income and Expenditure Statement and the capital adjustment account in relation to charges for non-current assets held by South Tyneside Homes Limited, such that the amounts charged to the account are reflected in the group income and expenditure reserve.

### Actuarial Assumptions on Defined Benefit Obligation

Actuarial assumptions used for the group entities can differ from those used for the Council.

## 13. Inventories

Inventories, where material, are included in the Balance Sheet at the lower of cost and net realisable value. The Council operates a home loan equipment centre that provides disabled aids to the community. As the items are recyclable it is possible, due to technological advances and better procurement techniques that the replacement cost becomes less than their original purchase value. However for administrative purposes the

## Section 4 – Notes to the Core Financial Statements

Council has decided to retain cost value as the measurement for this inventory and has estimated that this may have overstated its value by up to £0.050m.

### 14. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. However, revaluation gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the capital adjustment account.

### 15. Joint Operations

Joint operations are arrangements undertaken by the Council in conjunction with other joint operators that involve the use of the assets and resources of those joint operators rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

### 16. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### 16a) The Council as Lessee

##### Finance Leases

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Contingent rents are charged as expenses in the periods in which they are incurred.



## Section 4 – Notes to the Core Financial Statements

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets (see section 18) with charges to revenue applied as per section 5 of the accounting policies.

### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the appropriate service lines in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease.

### 17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of *SeRCOP*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early and depreciation, impairments and revaluation losses chargeable on assets held for sale and surplus assets.

These two cost categories are defined in *SeRCOP* and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of net expenditure on continuing services.

### 18. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and expected to be used during more than one financial year are classified as property, plant and equipment.

#### 18a) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an

## Section 4 – Notes to the Core Financial Statements

asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

In recognising capital expenditure as acquisition or enhancement of property, plant and equipment the following deminimis level have been used:

- £400 for housing capital expenditure, reflecting the planned approach to improvements to individual dwellings.
- £2,000 for devolved school spending in line with Government guidelines.
- £2,500 for vehicles procured as part of a planned replacement strategy.
- £10,000 per item elsewhere in the programme.

The Council only recognises components following either a revaluation of the property or significant expenditure on the component.

### 18b) Measurement and Revaluation

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cashflows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- **Infrastructure, community assets, assets under construction, vehicles, plant and equipment** – depreciated historical cost. However plant and machinery that would normally be regarded as an integral part of the building on letting or sale have been included as a component value and are revalued alongside the building. These assets are not revalued.
- **Dwellings** – current value, determined using the basis of existing use value for social housing. This represents the amount that the Council could be expected to receive from the sale of that asset having regard to the prospect and viability of the continuance of the current occupancy and use.
- **Surplus assets** are valued at fair value, estimated at highest and best use from a market participant's perspective.
- In the case of **operational assets of a specialised nature**, that is those properties rarely, if ever, sold on the open market in their existing use, the valuation method applied is the depreciated replacement cost (DRC) of the property. The DRC basis of valuation requires an estimate of the value of the land in its existing use together with the current gross replacement costs of the building and its external works from which appropriate deductions have been made to reflect age and condition. The Council uses building cost data from the Building Cost Information Service (BCIS) for DRC

## Section 4 – Notes to the Core Financial Statements

valuations. This is a database of nationally gathered building costs by asset type and area.

- **All other assets** – current value, determined as the amount that would be paid for the asset in its existing use.

Where **non-property assets** that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current or fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are charged as revaluation losses and accounted for in the same way as impairment (see 18c).

The revaluation reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

### 18c) Impairment

The values of each category of assets and material individual assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Impairment occurs due to economic, functional and environmental obsolescence and other locational factors that might result in the existing property being worth less than its current net book value. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### 18d) Depreciation

Depreciation is provided for on all property, plant and equipment assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. An exception is made for assets without a

## Section 4 – Notes to the Core Financial Statements

determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Depreciation is calculated on the following bases:

- **Dwellings and other buildings** – straight-line allocation over the remaining useful life of the property as estimated by the valuer. The remaining useful life of dwellings and other buildings is between 1 and 73 years.
- **Vehicles, plant, furniture and equipment** - straight-line allocation up to 10 years being the estimated remaining useful economic life.
- **Community Assets** – straight-line allocation over 14 to 38 years.
- **Infrastructure** – straight-line allocation over 25 years (sea defences, open spaces and flood works between 34 and 99 years).
- **Surplus assets** – follow the same depreciation policy as the asset in its former use.

Where an item of property, plant and equipment has major components whose cost is significant in relation to the total cost of the item and the useful economic life is significantly different from the host asset, the components are depreciated separately. The Council has recognised the internal services and fixtures as the only major component for the majority of assets and this is being depreciated between 1 and 20 years on inception. A small number of assets have specialist equipment with whose cost is material to the overall value of the asset and have different useful economic lives e.g. pool equipment at leisure centres or cremators. A further component is recognised for these assets. Componentisation will only be applied where there has been any expenditure in year and/or the asset has been subject to a formal revaluation. The Council has set the following deminimis levels for componentisation:

- General Fund assets – components are recognised when the property is revalued. If the capital expenditure on a component in the year reaches £75,000, components are recognised at this point. If the spend is below £75,000 and no components exist on this asset, it is added to the value of the structure.
- Council dwellings – components are recognised when the property is revalued. Where expenditure on the components is less than £9,300 and no components exist on this asset, this spend is added to the structure. Where the expenditure is over £9,300 components are recognised at cost value. The maximum value of components is limited to £18,600.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the revaluation reserve to the capital adjustment account.

### 18e) Disposals of Non-current Assets

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction (but sometimes through an asset transfer) rather than through its continuing use, it is reclassified as an asset held for sale or disposal. The asset is revalued immediately before reclassification and then carried at the lower of this

## Section 4 – Notes to the Core Financial Statements

amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the deficit on provision of services. Depreciation is not charged on assets held for sale or disposal.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale or disposal but may be subject to impairment. Assets which are expected to be transferred in the next financial year e.g. conversion of schools to academy status are reclassified to current assets.

When an asset is disposed of, decommissioned or transferred out of the Council's control, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale or disposal) is written off to the other operating income and expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals and disposal costs (if any) are transferred to the same line (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. For right to buy sales of dwellings this equates to approximately 36% net of statutory deductions and allowances; however this is subject to a Government share cap. 100% of all receipts in excess of this cap may be retained by the Council provided they are used to part fund the provision of new social housing. 100% of housing land sale income, net of statutory deductions and allowances, can be retained by the Council provided there is an equivalent amount of expenditure on affordable housing or regeneration. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the Movement in Reserves Statement.

### **19. Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of property, plant and equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

## Section 4 – Notes to the Core Financial Statements

Non-current assets recognised on the Balance Sheet under PFI are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **Fair value of the services** received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- **Finance cost** – an interest charge in respect of PFI liabilities - debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.
- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- **Lifecycle replacement costs** – are charged to revenue the year the costs are incurred.

### 20. Carbon Reduction Scheme

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. As carbon dioxide is emitted (i.e. as energy is used), a liability is recognised. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The liability is discharged by surrendering allowances purchased either earlier in the year or at the reporting date. These allowances are shown on the balance sheet as intangible assets. The cost of the liability is recognised and reported in the Council's net cost of services and is apportioned to individual services on the basis of energy consumption.

### 21. Provisions, Contingent Liabilities and Contingent Assets

#### 21a) Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be

## Section 4 – Notes to the Core Financial Statements

acquired (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### **21b) Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. For example, legal claims which are ongoing but have not reached a point where a liability is certain or can be reliably quantified. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### **21c) Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year as part of the deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are known as unusable reserves.

## **23. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the capital adjustment account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **Section 4 – Notes to the Core Financial Statements**

### **24. Accounting for Schools**

Academy schools in the borough are separate legal entities and therefore do not appear in the Council's accounts. Voluntary aided, voluntary controlled and trust schools form part of the individual schools budgets allocated by the Council and funded by dedicated schools grant. These schools are also recognised as entities in their own right but their income and expenditure is fully recorded alongside spending on Council maintained schools due to the funding regime. However as the Council does not control the assets of these schools, other than playing fields they are not included under property, plant and equipment.

### **25. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.



## Section 5 – Housing Revenue Account Income and Expenditure Statement

This statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement in Reserves Statement.

| 2014/15<br>£m   |  | Note | 2015/16<br>£m   |
|-----------------|--|------|-----------------|
|                 | <b>Expenditure</b>   |      |                 |
| 14.938          | Repairs and maintenance  |      | 16.403          |
| 16.967          | Supervision and management   |      | 17.382          |
| 2.414           | Rents, rates, taxes and other charges  |      | 3.045           |
| 14.765          | Depreciation of non-current assets   | 2    | 15.152          |
| 35.887          | Revaluation losses and impairments on property, plant and equipment  | 2    | 11.904          |
| 0.192           | Debt management costs  | 2    | 0.199           |
| 0.742           | Movement in the allowance for bad debts  |      | 0.844           |
| 1.496           | Sums directed by the Secretary of State that are expenditure in accordance with the Code                                 | 2    | 2.047           |
| <b>87.401</b>   | <b>Total expenditure</b>   |      | <b>66.976</b>   |
|                 | <b>Income</b>  |      |                 |
| (64.587)        | Dwelling rents   |      | (65.098)        |
| (0.922)         | Non-dwelling rents   |      | (1.023)         |
| (3.552)         | Charges for services and facilities  |      | (3.472)         |
| (1.067)         | Contributions towards expenditure  |      | (0.968)         |
| <b>(70.128)</b> | <b>Total income</b>  |      | <b>(70.561)</b> |
| <b>17.273</b>   | <b>Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement</b>                        |      | <b>(3.585)</b>  |
| 0.891           | HRA services' share of corporate and democratic core   |      | 0.922           |
| 0.987           | HRA share of other amounts included in the Council's cost of services but not allocated to specific services             |      | 1.022           |
| <b>19.151</b>   | <b>Net expenditure for HRA services</b>  |      | <b>(1.641)</b>  |
|                 | <b>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</b> |      |                 |
| 5.004           | Loss on sale of HRA current and non-current assets   |      | 5.255           |
| 12.520          | Interest and investment expenditure  | 2    | 11.664          |
| (0.161)         | Interest and investment income   | 2    | (0.170)         |
| (28.102)        | Capital grants and contributions   |      | -               |
| <b>8.412</b>    | <b>Deficit for the year on HRA services</b>  |      | <b>15.108</b>   |
| (11.255)        | Adjustments between accounting basis and funding basis under statute   | 1    | (16.426)        |
| <b>(2.843)</b>  | <b>Increase in year on the HRA</b>   |      | <b>(1.318)</b>  |
| <b>(13.156)</b> | <b>Balance on the HRA at the end of the previous year</b>  |      | <b>(15.999)</b> |
| <b>(15.999)</b> | <b>Balance on the HRA at the end of the current year</b>   |      | <b>(17.317)</b> |

## Section 5 – Housing Revenue Account Income and Expenditure Statement

### Note 1. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the HRA income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being chargeable to the HRA balance.

| 2014/15<br>£m   |   | 2015/16<br>£m   |
|-----------------|---|-----------------|
|                 | <b>Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year</b>  |                 |
| (5.402)         | Impairment of non-current assets  | (10.631)        |
| (30.485)        | Revaluation losses on property, plant and equipment   | (1.273)         |
| (14.394)        | Depreciation of non-current assets  | (14.744)        |
| 28.102          | Capital grants applied  | -               |
| (1.097)         | Revenue expenditure funded from capital under statute   | (1.639)         |
| (0.061)         | Difference between amounts charged to the HRA Income and Expenditure Statement for premiums and discounts and the charge for the year determined in accordance with statute | (0.061)         |
| 0.103           | Capital receipts not related to sale of a fixed asset   | -               |
| (9.945)         | Amounts of non current assets written off on sale or disposal   | (10.318)        |
| 5.107           | Cash sale proceeds from the sale or disposal of non-current assets  | 5.244           |
| (0.166)         | Contribution towards administrative costs of disposal of non-current assets   | (0.181)         |
| -               | Other movements   | (0.002)         |
| <b>(28.238)</b> |   | <b>(33.605)</b> |
|                 | <b>Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year</b>  |                 |
| 16.983          | Contribution to major repairs reserve   | 17.179          |
| <b>16.983</b>   |   | <b>17.179</b>   |
| <b>(11.255)</b> | <b>Net additional amount required by statute to be credited to the HRA balance for the year</b>   | <b>(16.426)</b> |

### Note 2. Cost of Capital Charge

The cost of capital charge is determined by the Secretary of State in accordance with the Item 8 Credit and Item 8 Debit (General) Determination 2015/16. It is made up of a number of components as follows:

| 2014/15<br>£m   |   | 2015/16<br>£m   |
|-----------------|---|-----------------|
|                 | <b>Credit items</b>                                 |                 |
| (35.887)        | Impairment and revaluation loss adjustments         | (11.904)        |
| (0.249)         | Interest receivable and similar income              | (0.259)         |
| <b>(36.136)</b> | <b>Total item 8 credit</b>                          | <b>(12.163)</b> |
|                 | <b>Debit items</b>                                  |                 |
| 12.739          | Interest payable and similar charges                | 11.891          |
| 14.765          | Depreciation  | 15.152          |
| 1.496           | Revenue expenditure funded by capital under statute | 2.047           |
| 2.218           | Excess transfer to the major repairs reserve        | 2.027           |
| 35.887          | Impairment and revaluation losses                   | 11.904          |
| <b>67.105</b>   | <b>Total item 8 debit</b>                           | <b>43.021</b>   |

## Section 5 – Housing Revenue Account Income and Expenditure Statement

### Note 3. Housing Stock

The Council was responsible for managing an average of 17,407 dwellings and sheltered units during 2015/16 (17,679 in 2014/15). The variations during the year were:

|   |               |
|---|---------------|
| <b>Opening balance</b>                                      |               |
| Dwellings   | 16,333        |
| Sheltered units   | 1,266         |
| Shared ownership  | 4             |
| Non HRA services  | 8             |
| <b>Opening balance as at 1<sup>st</sup> April 2015</b>      | <b>17,611</b> |
| <b>Reductions</b>   |               |
| Right to Buys   | (139)         |
| Demolitions   | (125)         |
| Leased to charities   | (10)          |
| Leaseholder buy backs                                       | (2)           |
| <b>Net reduction in stock</b>                               | <b>(276)</b>  |
| <b>Closing balance</b>                                      |               |
| Dwellings   | 16,106        |
| Sheltered units   | 1,217         |
| Shared ownership  | 4             |
| Non HRA services  | 8             |
| <b>Closing balance as at 31<sup>st</sup> March 2016</b>     | <b>17,335</b> |
| Houses  | 10,144        |
| Bungalows   | 2,820         |
| Flats and maisonettes                                       | 4,371         |
| <b>Total housing stock as at 31<sup>st</sup> March 2016</b> | <b>17,335</b> |

### Note 4. Property, Plant, Equipment, Intangible Assets and Assets Held for Sale

The following table shows the net book value of assets held by the Housing Revenue Account.

| Net book value<br>31 <sup>st</sup> March 2015 |                               | Net book value<br>31 <sup>st</sup> March 2016 |    |
|---|-------------------------------|---|----|
|   | £m                            |   | £m |
| 434.570                                       | Council dwellings             | 440.839                                       |    |
| 31.364  | Other buildings               | 29.118  |    |
| 5.895   | Other land                    | 6.337   |    |
| 0.446   | Vehicles, plant and equipment | 0.361   |    |
| 3.396   | Infrastructure                | 7.024   |    |
| 1.950   | Surplus                       | 1.851   |    |
| 0.677   | Asset under construction      | 0.009   |    |
| 1.847   | Assets held for sale          | 0.185   |    |
| <b>480.145</b>                                | <b>Closing net book value</b> | <b>485.724</b>                                |    |

## Section 5 – Housing Revenue Account Income and Expenditure Statement

All housing assets have been valued in accordance with the requirements of resource accounting for the HRA. Replacement and renewal of building elements and services are encompassed within the valuation of operational dwellings. The value included for equipment covers items such as information technology, security systems, warden call, sheltered accommodation and disabled adaptations.

### Note 5. Economic Cost to the Government of providing Council Housing

Council dwellings are included in the Balance Sheet at existing use value for social housing. This valuation basis takes into account the fact that the rents of Council house tenants are set below market rents.

A measure of the economic cost to the Government of providing Council dwellings at less than market rents is given by the difference between vacant possession value and existing use social housing value. As at 1<sup>st</sup> April the following values apply:

|  | 1 <sup>st</sup> April 2014<br>£m | 1 <sup>st</sup> April 2015<br>£m |
|--|----------------------------------|----------------------------------|
| Vacant possession value                | 1,174.511                        | 1,191.457                        |
| Existing use social housing value      | (434.570)                        | (440.839)                        |
| <b>Economic cost to the Government</b> | <b>739.941</b>                   | <b>750.618</b>                   |

### Note 6. Depreciation

A breakdown of the movement in depreciation for the year is detailed in the following table:

|  | Council dwellings<br>£m | Other land and buildings<br>£m | Vehicles, plant and equipment<br>£m | Surplus assets<br>£m | Infrastructure assets<br>£m | Total property, plant and equipment<br>£m |
|--|-------------------------|--------------------------------|-------------------------------------|----------------------|-----------------------------|---|
| <b>Balance at 1<sup>st</sup> April 2015</b>  | <b>(35.577)</b>         | <b>(4.365)</b>                 | <b>(3.847)</b>                      | <b>(0.005)</b>       | <b>(0.302)</b>              | <b>(44.096)</b>                           |
| Depreciation charges in year                 | (13.519)                | (1.222)                        | (0.142)                             | -                    | (0.269)                     | (15.152)                                  |
| Reclassification of depreciation charges     | 0.028                   | 0.252                          | -                                   | -                    | (0.252)                     | 0.028                                     |
| Depreciation charges written out             | 8.771                   | 1.061                          | -                                   | 0.005                | -                           | 9.837                                     |
| <b>Balance at 31<sup>st</sup> March 2016</b> | <b>(40.297)</b>         | <b>(4.274)</b>                 | <b>(3.989)</b>                      | <b>-</b>             | <b>(0.823)</b>              | <b>(49.383)</b>                           |

#### Type of asset

Existing use value social housing dwellings  
Existing use value other property  
Vehicles, plant and equipment

#### Basis of depreciation

Useful life for dwellings - straight line depreciation  
40 Year Life - straight line depreciation  
5 Year Life - straight line depreciation

## Section 5 – Housing Revenue Account Income and Expenditure Statement

### Note 7. Major Repairs Reserve

The movement in the major repairs reserve is as follows:

| 2014/15<br>£m  | 2015/16<br>£m   |
|--|-----------------|
| <b>(12.293)</b> Balance at 1 <sup>st</sup> April 2015  | <b>(10.577)</b> |
| (16.983) Contribution from Housing Revenue Account     | (17.179)        |
| 18.699 Applied to finance capital expenditure          | 27.756          |
| <b>(10.577)</b> Balance at 31 <sup>st</sup> March 2015 | <b>-</b>        |

### Note 8. Housing Capital Expenditure Summary

The following table summarises housing capital expenditure and the method of financing that expenditure.

| Spending<br>2014/15<br>£m |   | Spending<br>2015/16<br>£m |
|---------------------------|---|---------------------------|
|                           | <b>Expenditure</b>                                    |                           |
| 36.224                    | Dwellings   | 34.490                    |
| 10.232                    | Other property, plant and equipment                   | 2.015                     |
| 1.097                     | Revenue expenditure funded from capital under statute | 1.639                     |
| <b>47.553</b>             | <b>Total spending</b>                                 | <b>38.144</b>             |

| Funding<br>2014/15<br>£m |                                  | Funding<br>2015/16<br>£m |
|--------------------------|----------------------------------|--------------------------|
|                          | <b>Funding source</b>            |                          |
| (18.699)                 | Major repairs reserve            | (27.756)                 |
| (0.632)                  | Borrowing                        | (10.388)                 |
| (0.120)                  | Capital receipts                 | -                        |
| (28.102)                 | Grants and other external income | -                        |
| <b>(47.553)</b>          | <b>Total funding</b>             | <b>(38.144)</b>          |

The revenue expenditure funded from capital under statute represents home loss compensation payments and decoration allowances to tenants.

### Note 9. Capital Receipts Summary

The table on the next page shows the sources of capital receipts generated by the Housing Revenue Account.

## Section 5 – Housing Revenue Account Income and Expenditure Statement

| 2014/15        |                                    | 2015/16        |
|----------------|------------------------------------|----------------|
| £m             |                                    | £m             |
| (4.469)        | House sales                        | (4.751)        |
| (0.638)        | Land sales                         | (0.493)        |
| (0.003)        | Mortgages                          | (0.003)        |
| (0.102)        | Other receipts                     | -              |
| <b>(5.212)</b> | <b>Total receipts for the year</b> | <b>(5.247)</b> |

### Note 10. Rent Arrears

The estimated arrears (excluding external charges) have been calculated utilising the relative proportion of such charges within the gross rent collectable for the year.

Overall arrears at 31<sup>st</sup> March represented 6.52% of the gross rent collectable (including water and sewerage charges) for the 48 weeks (5.57% in 2014/15).

| 2014/15        |  | 2015/16        |
|----------------|--|----------------|
| £m             |  | £m             |
| 77.358         | Gross rent collectable (including water and sewerage charges)                    | 77.716         |
| 4.311          | Overall arrears at 31 <sup>st</sup> March (including water and sewerage charges) | 5.070          |
| <b>5.57%</b>   | <b>Overall arrears as a percentage of gross rent collectable</b>                 | <b>6.52%</b>   |
| 3.945          | Rent arrears at 31 <sup>st</sup> March (excluding water and sewerage charges)    | 4.638          |
| <b>0.553</b>   | <b>Amounts written off during the year</b>                                       | <b>0.164</b>   |
| <b>(2.460)</b> | <b>Balance Sheet allowance for bad debts</b>                                     | <b>(3.142)</b> |

## Section 5 – Collection Fund Statement

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities, such as the Council, to maintain a separate fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to precepting authorities and the Government of council tax and non-domestic rates.

| 2014/15<br>£m   |  | Note | 2015/16<br>£m   |
|-----------------|--|------|-----------------|
|                 | <b>Income</b>  |      |                 |
| (52.949)        | Council tax  | 1    | (56.142)        |
| (0.044)         | Transfer from General Fund   |      | (0.039)         |
| <b>(52.993)</b> | <b>Total council tax income</b>  |      | <b>(56.181)</b> |
| (31.358)        | Income collectable from non-domestic ratepayers                            | 2    | (31.346)        |
| (0.499)         | Contribution towards previous years NNDR deficit                           |      | (1.401)         |
| (31.857)        | Total non-domestic rates income  |      | (32.747)        |
| <b>(84.850)</b> | <b>Total income</b>  |      | <b>(88.928)</b> |
|                 | <b>Expenditure</b>   |      |                 |
| <b>51.328</b>   | <b>Precept payments - council tax</b>                                      |      | <b>53.997</b>   |
| 14.977          | Shares of non-domestic rates income payable to preceptors                  |      | 15.415          |
| 14.977          | Shares of non-domestic rates income payable as central share to Government |      | 15.415          |
| 0.050           | Transition protection payments   |      | 0.638           |
| 0.151           | Allowable collection costs for non-domestic rates                          |      | 0.151           |
| <b>30.155</b>   | <b>Total non-domestic rates expenditure</b>                                |      | <b>31.619</b>   |
| 0.203           | Council tax written off  |      | 0.208           |
| 0.307           | Transfer to council tax bad debt provision                                 |      | 0.408           |
| 0.543           | Non-domestic rates written off   |      | 0.280           |
| 0.399           | Transfer to non-domestic rates bad debt provision                          |      | 0.751           |
| <b>1.452</b>    | <b>Total bad and doubtful debts</b>  |      | <b>1.647</b>    |
| <b>0.674</b>    | <b>Contribution towards previous years council tax surplus</b>             |      | <b>0.899</b>    |
| <b>83.609</b>   | <b>Total expenditure</b>   |      | <b>88.162</b>   |
| <b>(0.481)</b>  | <b>Surplus for the year - council tax</b>                                  |      | <b>(0.669)</b>  |
| <b>(0.760)</b>  | <b>Surplus for the year - non-domestic rates</b>                           |      | <b>(0.097)</b>  |
| (1.616)         | Balance brought forward from previous year - council tax                   |      | (2.097)         |
| 2.042           | Balance brought forward from previous year - non-domestic rates            |      | 1.282           |
| <b>(0.815)</b>  | <b>Collection Fund balance as at 31st March</b>                            |      | <b>(1.581)</b>  |
| (0.231)         | Surplus relating to other precepting bodies - council tax                  |      | (0.305)         |
| 0.653           | Deficit relating to other precepting bodies - non-domestic rates           |      | 0.603           |
| <b>(1.866)</b>  | <b>Surplus relating to South Tyneside Council - council tax</b>            |      | <b>(2.462)</b>  |
| <b>0.629</b>    | <b>Deficit relating to South Tyneside Council - non-domestic rates</b>     |      | <b>0.581</b>    |
| <b>(1.237)</b>  | <b>Surplus relating to South Tyneside Council - total</b>                  |      | <b>(1.881)</b>  |

## Section 5 – Collection Fund Statement

### Note 1. Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands.

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and adjusted for discounts: 36,493 in 2015/16 (35,367 in 2014/15). Council tax is calculated by multiplying the basic amount of council tax for band D by the proportion for that particular band. In 2015/16 the band D equivalent was £1,479.66 (£1,451.30 in 2014/15).

Council tax bills were based on the following proportions for bands A to H:

| <b>Band</b> | <b>Proportion of band D</b> | <b>Number of dwellings (October 2014)</b> |
|-------------|-----------------------------|---|
| A           | 6/9ths                      | 45,914                                    |
| B           | 7/9ths                      | 9,596                                     |
| C           | 8/9ths                      | 7,933                                     |
| D           | 9/9ths                      | 4,188                                     |
| E           | 11/9ths                     | 1,694                                     |
| F           | 13/9ths                     | 676                                       |
| G           | 15/9ths                     | 321                                       |
| H           | 18/9ths                     | 46  |
|             |                             | <b>70,368</b>                             |

### Note 2. Non-Domestic Rates Income

The non-domestic rate is organised on a national basis. The Government specifies an amount in the pound, and subject to the effects of transition arrangements, local businesses pay rates calculated by multiplying this sum by the rateable value of their property – the latter being determined by the District Valuer. The national poundage for 2015/16 was set at 48.0p for small businesses (47.1p in 2014/15) and 49.3p for all other businesses (48.2p in 2014/15).

The non-domestic rates income, after reliefs and provisions, of £31.346m (£31.358m in 2014/15) was based on a rateable value of £79.752m as at 31<sup>st</sup> March 2016 (£80.002m in 2014/15).



## Section 6 – Group Introduction

### Group Accounts

The Council has considered whether it has interests in any subsidiaries, associates or joint ventures. The key assumption in deciding if a group relationship exists relates to whether the Council has control over the organisation or entity either solely or jointly or has significant influence over that organisation. The definition of control must have all of the following:

- Power over the investee, which is described as having existing rights that give the current ability to direct the activities of the investee that significantly affect the investee's returns (such activities are referred to as the 'relevant activities').
- Exposure, or rights, to variable returns from its involvement with the investee.
- Ability to exert power over the investee to affect the amount of the investor's returns.

In addition for joint control there must be a contractually agreed sharing of control of an arrangement and decisions about the relevant activities require the unanimous consent of the parties sharing control. For the Council to be deemed to have significant influence it must consider a number of factors including voting rights, funding arrangements, rights to financial returns and ability to affect decisions.

Entities that are deemed to be controlled by the Council are incorporated in to the Group Accounts as subsidiaries. Any joint ventures or where significant influence is applicable have been incorporated as associates.

Using this approach the following interests were identified and if appropriate included within the Group Accounts.

#### **Subsidiary - South Tyneside Homes Limited (STHL)**

A wholly owned subsidiary, this Arm's Length Management Organisation (ALMO) was incorporated on 1<sup>st</sup> April 2006 to manage, maintain and improve the Council's housing stock. The Council is the sole shareholder and will be liable for any accumulated deficits or losses upon the cessation or loss of control of the company hence the decision that the Council has full control.

The net liabilities of the company amount to £20.401m at 31<sup>st</sup> March 2016 (£25.721m in 2014/15). The company made a net loss of £1.630m in 2015/16 (surplus of £1.127m in 2014/15).

The Council's accounts include a debtor due from STHL of £4.384m (£2.327m in 2014/15) and a creditor due to STHL of £3.796m (£5.316m in 2014/15).

The creation of the ALMO resulted in the transfer of past service pension deficit to STHL. The deficit had accrued as a result of the transfer of former South Tyneside Council employees. For the year ending 31<sup>st</sup> March 2016, the actuary assessed the deficit at £22.430m (£27.550m in 2014/15). In the unlikely event that STHL were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service defined benefit obligation.

Further information on the accounts presented for audit is available from the Finance Manager, Strathmore House, 11 Rolling Mill Road, Viking Business Park, Jarrow, Tyne and Wear, NE32 3DP.

## Section 6 – Group Introduction

### **Associate – South Tyneside Housing Ventures Trust Limited (STHVTL)**

STHVTL is a private, limited by guarantee, no share capital company created on 26<sup>th</sup> July 2013. Its role is to develop and provide social housing to residents of the borough by building on vacant land sold to the company by the Council and purchasing vacant rented properties from the private and public sector. The Board consists of seven individuals, three of which are nominated by the Council whilst the other four are independents who are neither a Council employee or a tenant or leaseholder of the Council. The three Council nominees act in line with the seven principles of the Nolan Committee such that they have agreed to take all decisions solely in the interest STHVTL. The Company is responsible for the maintenance of all assets acquired by them and any future income streams arising from those assets. The council is a major lender to the company and there is a £40.000m facilities loan agreement in place to allow the company to develop and expand its asset portfolio.

Primarily due to the extent of funding provided the Council does consider it has significant influence over the company and has incorporated it into the Group Accounts as an associate on the basis of 43% being the share of the voting rights of the 3 Council representatives.

As at 31<sup>st</sup> March 2016 the Company owed the Council £15.526m (£8.541m in 2014/15) following loans and other drawdowns advanced. All loans are repayable before 31<sup>st</sup> March 2063.

In 2015/16 the company produced an operating loss of £0.082m (£0.098m in 2014/15) and had net liabilities at 31<sup>st</sup> March 2016 of £0.149m (£0.127m in 2014/15).

Copies of the Company's accounts can be obtained from the Company Secretary, Strathmore Building, 11 Rolling Mill Road, Jarrow, Tyne and Wear, NE32 3DP.

### **Joint Venture - Homes and Communities Agency (HCA)**

In December 2012 the Council entered into a joint venture agreement with the HCA relating to the development of land at Trinity South, South Shields. The joint venture is not an entity in its own right and all payments and receipts will go through the Council and be managed by the regeneration team within the Council. At the end of each financial year any assets and liabilities will be fully reflected in the Council's single entity financial statements. At the end of the development any profits realised and overage will be settled with the HCA.

### **Other Entities and Arrangements**

The Council reviewed all of its partnership arrangements it has with the four other Tyne and Wear authorities. It has concluded that in all cases these are joint operations rather than joint ventures as there is no asset sharing arrangements. As such all of the income and expenditure that represents the Council's share of activities in these arrangements is included in the Council's core Financial Statements.

VA and trust schools are funded from DSG that is provided by the Council. For this reason the Council is deemed to have significant influence over the school entities as the funding represents the majority of funds available to the schools. However the Council has no access to the assets of the school and as such its influence is restricted to the day to day operations. As the Council's core Financial Statements already include income and expenditure in relation to these schools use of DSG awarded to them then no further disclosure is required as part of the Group Accounts.

## **Section 6 – Group Introduction**

There are several community associations that operate from premises provided by the Council. Whilst the Council does not interfere with the day to day operations of these organisations it can step in and take over if it is deemed that the current arrangements were not financially sound. For this reason the Council has significant influence over the entities. There are no reported instances of financial mismanagement as at the Balance Sheet date. In addition the net assets of these entities are not considered material and therefore nothing has been incorporated into the Group Accounts.

The notes included in the Group Accounts represent those notes required from the Council's own core financial statements, except where there are no material additional amounts or details in relation to group entities. The accounting policies on which the statements and notes have been prepared are the same as the Council other than those described in section 12 of the accounting policies note.

The notes to the group financial statements are presented on pages 112 to 121 and form part of the Statement of Accounts.

## Section 6 – Group Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Group, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The deficit on the provision of services line shows the true economic cost of providing the Group's services rather than the statutory amounts required to be charged. The net (increase) or decrease before transfers to earmarked reserves line shows the statutory General Fund balance, Housing Revenue Account balance and the Council's share of usable reserves of Group entities before any discretionary transfers to or from earmarked reserves undertaken by the Group.

| Note   | General fund balance | Earmarked general fund reserves | Housing revenue account reserves | Capital reserves | Usable reserves of subsidiaries and associates | Total usable reserves | Council unusable reserves | Unusable reserves of subsidiaries | Total Group reserves |
|--|----------------------|---------------------------------|----------------------------------|------------------|--|-----------------------|---------------------------|-----------------------------------|----------------------|
|  | £m                   | £m                              | £m                               | £m               | £m   | £m                    | £m                        | £m                                | £m                   |
| <b>Balance at 31<sup>st</sup> March 2014 carried forward</b>             | <b>(1.184)</b>       | <b>(32.009)</b>                 | <b>(13.156)</b>                  | <b>(14.023)</b>  | <b>(1.696)</b>                                 | <b>(62.068)</b>       | <b>(97.364)</b>           | <b>18.851</b>                     | <b>(140.581)</b>     |
| <b>Movement in reserves during 2014/15</b>                               |                      |                                 |                                  |                  |  |                       |                           |                                   |                      |
| Deficit on the provision of services                                     | 49.938               | -                               | 8.412                            | -                | (0.280)  | 58.070                | -                         | (0.870)                           | 57.200               |
| Other comprehensive (income) and expenditure                             | -                    | -                               | -                                | -                | -  | -                     | 19.695                    | 10.010                            | 29.705               |
| <b>Total comprehensive (income) and expenditure</b>                      | <b>49.938</b>        | <b>-</b>                        | <b>8.412</b>                     | <b>-</b>         | <b>(0.280)</b>                                 | <b>58.070</b>         | <b>19.695</b>             | <b>9.140</b>                      | <b>86.905</b>        |
| Adjustments between Group accounts and Council accounts                  | 1                    | -                               | -                                | -                | 0.065  | 0.065                 | -                         | -                                 | 0.065                |
| <b>Net decrease or (increase) before transfers</b>                       | <b>49.938</b>        | <b>-</b>                        | <b>8.412</b>                     | <b>-</b>         | <b>(0.215)</b>                                 | <b>58.135</b>         | <b>19.695</b>             | <b>9.140</b>                      | <b>86.970</b>        |
| Adjustments between accounting basis and funding basis under regulations | (50.511)             | -                               | (11.255)                         | 1.457            | -  | (60.309)              | 60.309                    | -                                 | -                    |
| <b>Net (increase) or decrease before transfers to earmarked reserves</b> | <b>(0.573)</b>       | <b>-</b>                        | <b>(2.843)</b>                   | <b>1.457</b>     | <b>(0.215)</b>                                 | <b>(2.174)</b>        | <b>80.004</b>             | <b>9.140</b>                      | <b>86.970</b>        |
| Transfers to or (from) earmarked reserves                                | 0.040                | (0.040)                         | -                                | -                | -  | -                     | -                         | -                                 | -                    |
| <b>(Increase) or decrease in 2014/15</b>                                 | <b>(0.533)</b>       | <b>(0.040)</b>                  | <b>(2.843)</b>                   | <b>1.457</b>     | <b>(0.215)</b>                                 | <b>(2.174)</b>        | <b>80.004</b>             | <b>9.140</b>                      | <b>86.970</b>        |
| <b>Balance at 31<sup>st</sup> March 2015 carried forward</b>             | <b>(1.717)</b>       | <b>(32.049)</b>                 | <b>(15.999)</b>                  | <b>(12.566)</b>  | <b>(1.911)</b>                                 | <b>(64.242)</b>       | <b>(17.360)</b>           | <b>27.991</b>                     | <b>(53.611)</b>      |
| <b>Movement in reserves during 2015/16</b>                               |                      |                                 |                                  |                  |  |                       |                           |                                   |                      |
| Deficit on the provision of services                                     | 12.247               | -                               | 15.108                           | -                | (0.126)  | 27.229                | -                         | 1.830                             | 29.059               |
| Other comprehensive (income) and expenditure                             | -                    | -                               | -                                | -                | -  | -                     | (55.758)                  | (6.950)                           | (62.708)             |
| <b>Total comprehensive (income) and expenditure</b>                      | <b>12.247</b>        | <b>-</b>                        | <b>15.108</b>                    | <b>-</b>         | <b>(0.126)</b>                                 | <b>27.229</b>         | <b>(55.758)</b>           | <b>(5.120)</b>                    | <b>(33.649)</b>      |
| Adjustments between Group accounts and Council accounts                  | 1                    | -                               | -                                | -                | 0.031  | 0.031                 | -                         | -                                 | 0.031                |
| <b>Net decrease or (increase) before transfers</b>                       | <b>12.247</b>        | <b>-</b>                        | <b>15.108</b>                    | <b>-</b>         | <b>(0.095)</b>                                 | <b>27.260</b>         | <b>(55.758)</b>           | <b>(5.120)</b>                    | <b>(33.618)</b>      |
| Adjustments between accounting basis and funding basis under regulations | (13.971)             | -                               | (16.426)                         | 10.225           | -  | (20.172)              | 20.172                    | -                                 | -                    |
| <b>Net (increase) or decrease before transfers to earmarked reserves</b> | <b>(1.724)</b>       | <b>-</b>                        | <b>(1.318)</b>                   | <b>10.225</b>    | <b>(0.095)</b>                                 | <b>7.088</b>          | <b>(35.586)</b>           | <b>(5.120)</b>                    | <b>(33.618)</b>      |
| Transfers to or (from) earmarked reserves                                | 2.251                | (2.251)                         | -                                | -                | -  | -                     | -                         | -                                 | -                    |
| <b>(Increase) or decrease in 2015/16</b>                                 | <b>0.527</b>         | <b>(2.251)</b>                  | <b>(1.318)</b>                   | <b>10.225</b>    | <b>(0.095)</b>                                 | <b>7.088</b>          | <b>(35.586)</b>           | <b>(5.120)</b>                    | <b>(33.618)</b>      |
| <b>Balance at 31<sup>st</sup> March 2016 carried forward</b>             | <b>(1.190)</b>       | <b>(34.300)</b>                 | <b>(17.317)</b>                  | <b>(2.341)</b>   | <b>(2.006)</b>                                 | <b>(57.154)</b>       | <b>(52.946)</b>           | <b>22.871</b>                     | <b>(87.229)</b>      |

## Section 6 – Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations. The taxation position is shown in the Movement in Reserves Statement.

| 2014/15<br>Gross<br>expenditure | 2014/15<br>Gross income | 2014/15<br>Net expenditure |  | Note | 2014/15<br>Gross<br>expenditure | 2014/15<br>Gross<br>income | 2014/15<br>Net<br>expenditure |
|---------------------------------|-------------------------|----------------------------|--|------|---------------------------------|----------------------------|-------------------------------|
| £m                              | £m                      | £m                         |  |      | £m                              | £m                         | £m                            |
| 3.103                           | (1.478)                 | 1.625                      | Central services to the public   |      | 3.145                           | (1.861)                    | 1.284                         |
| 21.715                          | (4.837)                 | 16.878                     | Cultural and related services  |      | 13.371                          | (5.428)                    | 7.943                         |
| 26.656                          | (7.938)                 | 18.718                     | Environmental services   |      | 22.346                          | (6.388)                    | 15.958                        |
| 10.139                          | (6.301)                 | 3.838                      | Regulatory and planning services   |      | 10.477                          | (6.286)                    | 4.191                         |
| 181.901                         | (127.152)               | 54.749                     | Education and children's services  |      | 162.346                         | (122.839)                  | 39.507                        |
| 11.578                          | (2.947)                 | 8.631                      | Highways and transport services  |      | 18.194                          | (8.475)                    | 9.719                         |
| 87.100                          | (70.128)                | 16.972                     | Local authority housing (HRA)  |      | 67.492                          | (70.561)                   | (3.069)                       |
| 75.074                          | (73.536)                | 1.538                      | Other housing services   |      | 75.896                          | (74.644)                   | 1.252                         |
| 85.324                          | (33.009)                | 52.315                     | Adult social care services   |      | 84.637                          | (33.310)                   | 51.327                        |
| 13.570                          | (13.059)                | 0.511                      | Public health services   |      | 15.803                          | (14.073)                   | 1.730                         |
| 3.517                           | (0.922)                 | 2.595                      | Corporate and democratic core  |      | 3.581                           | (0.826)                    | 2.755                         |
| 1.413                           | (0.226)                 | 1.187                      | Non-distributed costs  |      | 2.106                           | (0.245)                    | 1.861                         |
| <b>521.090</b>                  | <b>(341.533)</b>        | <b>179.557</b>             | <b>Cost of services</b>  |      | <b>479.394</b>                  | <b>(344.936)</b>           | <b>134.458</b>                |
| 45.423                          | (7.299)                 | 38.124                     | Other operating income and expenditure   |      | 28.937                          | (7.055)                    | 21.882                        |
| 43.804                          | (2.543)                 | 41.261                     | Financing and investment income and expenditure  | 2    | 40.887                          | (1.258)                    | 39.629                        |
| -                               | (201.654)               | (201.654)                  | Taxation and non-specific grant income   |      | -                               | (166.953)                  | (166.953)                     |
| <b>610.317</b>                  | <b>(553.029)</b>        | <b>57.288</b>              | <b>Deficit on the provision of services</b>  |      | <b>549.218</b>                  | <b>(520.202)</b>           | <b>29.016</b>                 |
| 0.037                           | (0.060)                 | (0.023)                    | Associates accounted for on an equity basis  |      | 0.214                           | (0.140)                    | 0.074                         |
| <b>610.354</b>                  | <b>(553.089)</b>        | <b>57.265</b>              | <b>Deficit on the provision of Group services</b>                                      |      | <b>549.432</b>                  | <b>(520.342)</b>           | <b>29.090</b>                 |
|                                 |                         |                            | <b>Items that will not be reclassified to the deficit on the provision of services</b> |      |                                 |                            |                               |
|                                 |                         | (15.765)                   | Surplus on revaluation of property, plant and equipment                                |      |                                 |                            | (27.571)                      |
|                                 |                         | 0.280                      | Impairment losses on non-current assets charged to the revaluation reserve             |      |                                 |                            | 5.263                         |
|                                 |                         | 45.190                     | Remeasurements of the defined benefit obligation                                       | 14   |                                 |                            | (40.400)                      |
|                                 |                         | <b>29.705</b>              | <b>Other comprehensive (income) and expenditure</b>                                    |      |                                 |                            | <b>(62.708)</b>               |
|                                 |                         | <b>86.970</b>              | <b>Total comprehensive (income) and expenditure</b>                                    |      |                                 |                            | <b>(33.618)</b>               |

## Section 6 – Group Balance Sheet

This statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group are matched by the reserves. Usable reserves, i.e. those that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the “adjustments between accounting basis and funding basis under regulations” line in the Group Movement in Reserves Statement.

| 31 <sup>st</sup> March<br>2015<br>£m |   | Note | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|------|--------------------------------------|
|                                      | <b>Non-current assets</b>                       |      |                                      |
| 434.570                              | Council dwellings                               | 3    | 440.839                              |
| 537.767                              | Other property, plant and equipment             | 3    | 575.766                              |
| 3.675                                | Heritage assets                                 |      | 3.553                                |
| 2.300                                | Investment properties                           |      | 2.300                                |
| 1.248                                | Intangible assets                               | 5    | 1.991                                |
| 3.683                                | Long term investments - associates              |      | 6.589                                |
| 8.820                                | Other long term investments                     |      | 8.820                                |
| 13.994                               | Long term loans and receivables                 |      | 17.806                               |
| <b>1,006.057</b>                     | <b>Total non-current assets</b>                 |      | <b>1,057.664</b>                     |
|                                      | <b>Current assets</b>                           |      |                                      |
| 39.507                               | Short term investments                          |      | 29.473                               |
| 0.735                                | Inventories                                     |      | 0.736                                |
| 42.455                               | Short term debtors                              | 6    | 25.230                               |
| 27.035                               | Cash and cash equivalents                       | 7    | 12.658                               |
| 2.405                                | Assets held for sale                            |      | 0.207                                |
| <b>112.137</b>                       | <b>Total current assets</b>                     |      | <b>68.304</b>                        |
|                                      | <b>Current liabilities</b>                      |      |                                      |
| (48.628)                             | Short term creditors                            |      | (34.889)                             |
| -                                    | Cash and cash equivalents - bank overdraft      | 8    | (8.670)                              |
| (23.388)                             | Short term borrowing                            |      | (22.626)                             |
| (4.076)                              | PFI liability due in less than one year         |      | (3.706)                              |
| (2.164)                              | Capital grants receipts in advance              |      | (1.870)                              |
| (6.045)                              | Short term provisions                           |      | (8.744)                              |
| <b>(84.301)</b>                      | <b>Total current liabilities</b>                |      | <b>(80.505)</b>                      |
| <b>27.836</b>                        | <b>Total net current assets</b>                 |      | <b>(12.201)</b>                      |
|                                      | <b>Non-current liabilities</b>                  |      |                                      |
| (0.196)                              | Long term creditors                             |      | (0.828)                              |
| (9.747)                              | Long term provisions                            |      | (8.095)                              |
| (511.383)                            | Long term borrowing                             |      | (528.070)                            |
| (110.466)                            | Long term PFI liability                         |      | (106.760)                            |
| (346.000)                            | Liability related to defined benefit obligation | 14   | (312.490)                            |
| (2.490)                              | Other long term liabilities                     |      | (1.991)                              |
| <b>(980.282)</b>                     | <b>Total non-current liabilities</b>            |      | <b>(958.234)</b>                     |
| <b>53.611</b>                        | <b>Total net assets</b>                         |      | <b>87.229</b>                        |
|                                      | <b>Reserves</b>                                 |      |                                      |
| (62.331)                             | Council usable reserves                         |      | (55.148)                             |
| (1.911)                              | Usable reserves of Group entities               | 4    | (2.006)                              |
| 10.631                               | Unusable reserves                               | 9    | (30.075)                             |
| <b>(53.611)</b>                      | <b>Total reserves</b>                           |      | <b>(87.229)</b>                      |

## Section 6 – Group Cash Flow Statement

This statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Groups future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

| 2014/15<br>£m   |   | Note | 2015/16<br>£m   |
|-----------------|---|------|-----------------|
| <b>(57.265)</b> | <b>Cash outflow from the provision of Group services</b>  |      | <b>(29.090)</b> |
| 195.686         | Adjustment to the deficit on the provision of services for non-cash movements                                     |      | 120.173         |
| (122.746)       | Adjust for items included in the deficit on the provision of services that are investing and financing activities |      | (69.600)        |
| <b>15.675</b>   | <b>Net cash flow from operating activities</b>  |      | <b>21.483</b>   |
| (60.539)        | Investing activities  | 10   | (56.804)        |
| 30.047          | Financing activities  |      | 12.274          |
| <b>(14.817)</b> | <b>Net decrease in cash and cash equivalents</b>  |      | <b>(23.047)</b> |
| <b>41.852</b>   | <b>Cash and cash equivalents at the start of the year</b>   |      | <b>27.035</b>   |
| <b>27.035</b>   | <b>Cash and cash equivalents at the end of the year</b>   |      | <b>3.988</b>    |

## Section 6 – Notes to the Group Financial Statements

### Note 1. Adjustment between Group Accounts and Council Accounts

The following adjustments have been made to the reported movement in reserves of South Tyneside Homes Limited in order to align with the Council's accounting policies.

| 2014/15<br>£m |   | 2015/16<br>£m |
|---------------|---|---------------|
| 0.065         | Realignment of depreciation policies for non-current assets | 0.031         |
| <b>0.065</b>  | <b>Total adjustments</b>                                    | <b>0.031</b>  |

### Note 2. Financing and Investment Income and Expenditure

Financing and investment income and expenditure is made up of the following items:

| 2014/15<br>£m |   | 2015/16<br>£m |
|---------------|---|---------------|
| 32.264        | Interest payable and similar charges  | 31.067        |
| 10.500        | Interest expense of defined benefit liability and interest income on assets                 | 10.680        |
| (1.275)       | Interest receivable and similar income  | (1.874)       |
| (0.006)       | Dividends receivable  | (0.006)       |
| (0.222)       | Income and expenditure in relation to investment properties and changes in their fair value | (0.238)       |
| <b>41.261</b> | <b>Total financing and investment income and expenditure</b>                                | <b>39.629</b> |

### Note 3. Property, Plant and Equipment

The following table analyses the movement in property, plant and equipment for the Group for 2015/16.

| 2015/16  | Council Dwellings | Other Buildings | Other Land    | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment | PFI Assets Included in Property, Plant and Equipment |
|--|-------------------|-----------------|---------------|-------------------------------|-----------------------|------------------|----------------|---------------------------|-------------------------------------|--|
|  | £m                | £m              | £m            | £m                            | £m                    | £m               | £m             | £m                        | £m                                  | £m   |
| <b>Cost or valuation</b>                                       |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1st April 2015</b>                                       | <b>470.147</b>    | <b>366.904</b>  | <b>46.379</b> | <b>44.719</b>                 | <b>141.418</b>        | <b>10.987</b>    | <b>8.960</b>   | <b>18.504</b>             | <b>1,108.018</b>                    | <b>109.718</b>                                       |
| Additions  | 34.479            | 14.704          | -             | 3.677                         | 12.384                | 0.090            | 1.983          | 16.234                    | 83.551                              | -  |
| Revaluation to revaluation reserve                             | (4.152)           | (2.307)         | 6.669         | -                             | -                     | -                | 0.066          | -                         | 0.276                               | -  |
| Revaluation to Comprehensive Income and Expenditure Statement  | (1.282)           | 10.714          | (0.195)       | -                             | -                     | -                | (1.468)        | -                         | 7.769                               | -  |
| Impairment to Comprehensive Income and Expenditure Statement   | (8.563)           | (4.939)         | -             | -                             | (0.374)               | -                | (0.258)        | -                         | (14.134)                            | -  |
| Sales and other derecognition                                  | (9.119)           | (3.124)         | (0.018)       | (5.517)                       | -                     | -                | (3.795)        | (0.552)                   | (22.125)                            | -  |
| Reclassification of assets                                     | (0.373)           | 11.843          | 0.037         | 1.663                         | 2.938                 | 0.001            | (1.362)        | (14.927)                  | (0.180)                             | -  |
| <b>At 31st March 2016</b>                                      | <b>481.137</b>    | <b>393.795</b>  | <b>52.872</b> | <b>44.542</b>                 | <b>156.366</b>        | <b>11.078</b>    | <b>4.126</b>   | <b>19.259</b>             | <b>1,163.175</b>                    | <b>109.718</b>                                       |
| <b>Depreciation</b>  |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1st April 2015</b>                                       | <b>(35.577)</b>   | <b>(35.317)</b> | <b>-</b>      | <b>(34.585)</b>               | <b>(27.824)</b>       | <b>(2.154)</b>   | <b>(0.224)</b> | <b>-</b>                  | <b>(135.681)</b>                    | <b>(7.759)</b>                                       |
| Depreciation to Comprehensive Income and Expenditure Statement | (13.518)          | (16.286)        | -             | (4.853)                       | (5.037)               | (0.415)          | (0.043)        | -                         | (40.152)                            | (3.891)  |
| Depreciation to revaluation reserve                            | 7.681             | 14.327          | -             | -                             | -                     | -                | 0.048          | -                         | 22.056                              | -  |
| Sales and other derecognition                                  | 1.089             | 0.465           | -             | 5.506                         | -                     | -                | 0.139          | -                         | 7.199                               | -  |
| Reclassification of assets                                     | 0.027             | 0.198           | -             | (0.003)                       | (0.252)               | -                | 0.038          | -                         | 0.008                               | -  |
| <b>At 31st March 2016</b>                                      | <b>(40.298)</b>   | <b>(36.613)</b> | <b>-</b>      | <b>(33.935)</b>               | <b>(33.113)</b>       | <b>(2.569)</b>   | <b>(0.042)</b> | <b>-</b>                  | <b>(146.570)</b>                    | <b>(11.650)</b>                                      |
| <b>Balance Sheet amount at 31st March 2015</b>                 | <b>434.570</b>    | <b>331.587</b>  | <b>46.379</b> | <b>10.134</b>                 | <b>113.594</b>        | <b>8.833</b>     | <b>8.736</b>   | <b>18.504</b>             | <b>972.337</b>                      | <b>101.959</b>                                       |
| <b>Balance Sheet amount at 31st March 2016</b>                 | <b>440.839</b>    | <b>357.182</b>  | <b>52.872</b> | <b>10.607</b>                 | <b>123.253</b>        | <b>8.509</b>     | <b>4.084</b>   | <b>19.259</b>             | <b>1,016.605</b>                    | <b>98.068</b>  |



## Section 6 – Notes to the Group Financial Statements

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 41 to the single entity statements.

Depreciation charges for STHL have been adjusted upon consolidation for Group accounts to align accounting policies.

The equivalent movements in property, plant and equipment for 2014/15 are as follows:

| 2014/15  | Council Dwellings | Other Buildings | Other Land    | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets Under Construction | Total Property, Plant and Equipment | PFI Assets Included in Property, Plant and Equipment |
|--|-------------------|-----------------|---------------|-------------------------------|-----------------------|------------------|----------------|---------------------------|-------------------------------------|--|
|  | £m                | £m              | £m            | £m                            | £m                    | £m               | £m             | £m                        | £m                                  | £m   |
| <b>Cost or valuation</b>                                       |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1<sup>st</sup> April 2014</b>                            | <b>472.277</b>    | <b>336.630</b>  | <b>47.989</b> | <b>53.280</b>                 | <b>131.974</b>        | <b>10.768</b>    | <b>5.961</b>   | <b>12.211</b>             | <b>1,071.090</b>                    | <b>56.698</b>  |
| Reclassification of impairment charges                         | (2.845)           | (10.000)        | -             | -                             | (0.563)               | -                | -              | -                         | (13.408)                            | -  |
| <b>Revised at 1<sup>st</sup> April 2014</b>                    | <b>469.432</b>    | <b>326.630</b>  | <b>47.989</b> | <b>53.280</b>                 | <b>131.411</b>        | <b>10.768</b>    | <b>5.961</b>   | <b>12.211</b>             | <b>1,057.682</b>                    | <b>56.698</b>  |
| Additions  | 36.224            | 69.926          | -             | 3.356                         | 10.076                | 0.119            | 3.509          | 12.215                    | 135.425                             | 45.605   |
| Revaluation to revaluation reserve                             | 0.020             | (0.886)         | (0.527)       | -                             | -                     | -                | (0.101)        | -                         | (1.494)                             | 7.415  |
| Revaluation to Comprehensive Income and Expenditure Statement  | (21.098)          | (27.887)        | (2.133)       | -                             | -                     | -                | (0.059)        | -                         | (51.177)                            | -  |
| Impairment to Comprehensive Income and Expenditure Statement   | (5.032)           | (3.472)         | -             | -                             | (0.069)               | -                | (0.069)        | (0.014)                   | (8.656)                             | -  |
| Sales  | (3.325)           | (0.578)         | (0.312)       | (0.128)                       | -                     | -                | (0.197)        | (0.992)                   | (5.532)                             | -  |
| Other derecognition  | (5.713)           | (0.126)         | (0.121)       | (11.789)                      | -                     | -                | (0.003)        | -                         | (17.752)                            | -  |
| Reclassification of assets                                     | (0.361)           | 3.297           | 1.483         | -                             | -                     | 0.100            | (0.081)        | (4.916)                   | (0.478)                             | -  |
| <b>At 31<sup>st</sup> March 2015</b>                           | <b>470.147</b>    | <b>366.904</b>  | <b>46.379</b> | <b>44.719</b>                 | <b>141.418</b>        | <b>10.987</b>    | <b>8.960</b>   | <b>18.504</b>             | <b>1,108.018</b>                    | <b>109.718</b>                                       |
| <b>Depreciation and Impairments</b>                            |                   |                 |               |                               |                       |                  |                |                           |                                     |  |
| <b>At 1<sup>st</sup> April 2014</b>                            | <b>(31.429)</b>   | <b>(41.522)</b> | <b>-</b>      | <b>(41.192)</b>               | <b>(25.166)</b>       | <b>(1.742)</b>   | <b>(0.159)</b> | <b>-</b>                  | <b>(141.210)</b>                    | <b>(5.592)</b>                                       |
| Reclassification of impairment charges                         | 2.845             | 10.000          | -             | -                             | 0.563                 | -                | -              | -                         | 13.408                              | -  |
| <b>Revised at 1<sup>st</sup> April 2014</b>                    | <b>(28.584)</b>   | <b>(31.522)</b> | <b>-</b>      | <b>(41.192)</b>               | <b>(24.603)</b>       | <b>(1.742)</b>   | <b>(0.159)</b> | <b>-</b>                  | <b>(127.802)</b>                    | <b>(5.592)</b>                                       |
| Depreciation to Comprehensive Income and Expenditure Statement | (13.211)          | (15.624)        | -             | (5.206)                       | (3.221)               | (0.412)          | (0.132)        | -                         | (37.806)                            | (3.609)  |
| Depreciation to revaluation reserve                            | 5.320             | 11.614          | -             | -                             | -                     | -                | 0.043          | -                         | 16.977                              | 1.442  |
| Sales  | 0.873             | 0.202           | -             | 0.053                         | -                     | -                | 0.024          | -                         | 1.152                               | -  |
| Other derecognition  | -                 | 0.010           | -             | 11.760                        | -                     | -                | -              | -                         | 11.770                              | -  |
| Reclassification of assets                                     | 0.025             | 0.003           | -             | -                             | -                     | -                | -              | -                         | 0.028                               | -  |
| <b>At 31<sup>st</sup> March 2015</b>                           | <b>(35.577)</b>   | <b>(35.317)</b> | <b>-</b>      | <b>(34.585)</b>               | <b>(27.824)</b>       | <b>(2.154)</b>   | <b>(0.224)</b> | <b>-</b>                  | <b>(135.681)</b>                    | <b>(7.759)</b>                                       |
| <b>Balance Sheet amount at 31<sup>st</sup> March 2014</b>      | <b>440.848</b>    | <b>295.108</b>  | <b>47.989</b> | <b>12.088</b>                 | <b>106.808</b>        | <b>9.026</b>     | <b>5.802</b>   | <b>12.211</b>             | <b>929.880</b>                      | <b>51.106</b>  |
| <b>Balance Sheet amount at 31<sup>st</sup> March 2015</b>      | <b>434.570</b>    | <b>331.587</b>  | <b>46.379</b> | <b>10.134</b>                 | <b>113.594</b>        | <b>8.833</b>     | <b>8.736</b>   | <b>18.504</b>             | <b>972.337</b>                      | <b>101.959</b>                                       |

### Note 4. Council Share in Group Entities' Usable Reserves

The following table gives a summary of each group entity's assets and liabilities and the Council's share in each:

|  | South Tyneside Homes Limited | South Tyneside Homes Venture Trust Limited | Total        |
|--|------------------------------|--|--------------|
|  | 100% share                   | 43% share                                  |              |
|  | £m                           | £m   | £m           |
| <b>Reserves as at 1<sup>st</sup> April 2015</b>  | <b>1.901</b>                 | <b>0.010</b>                               | <b>1.911</b> |
| Non-current assets                               | 0.684                        | 7.644                                      | 8.328        |
| Current assets                                   | 9.715                        | 0.606                                      | 10.321       |
| Short term liabilities                           | (8.329)                      | (0.456)                                    | (8.785)      |
| Long term liabilities                            | -                            | (7.858)                                    | (7.858)      |
| <b>Reserves as at 31<sup>st</sup> March 2016</b> | <b>2.070</b>                 | <b>(0.064)</b>                             | <b>2.006</b> |

## Section 6 – Notes to the Group Financial Statements

The equivalent figures for 2014/15 are as follows:

|  | South<br>Tyneside<br>Homes Limited<br>100% share<br>£m | South<br>Tyneside<br>Homes<br>Venture Trust<br>Limited<br>43% share<br>£m | Total<br>£m  |
|--|--|---|--------------|
| <b>Reserves as at 1<sup>st</sup> April 2014</b>  | <b>1.709</b>   | <b>(0.013)</b>  | <b>1.696</b> |
| Non-current assets                               | 0.072  | 3.864   | 3.936        |
| Current assets                                   | 8.447  | 0.152   | 8.599        |
| Short term liabilities                           | (6.618)  | (0.332)   | (6.950)      |
| Long term liabilities                            | -  | (3.674)   | (3.674)      |
| <b>Reserves as at 31<sup>st</sup> March 2015</b> | <b>1.901</b>   | <b>0.010</b>  | <b>1.911</b> |

### Note 5. Intangible Assets

An analysis of Group intangible assets is as follows:

| 2014/15                          |                                    |              | 2014/15                                |                |                                       | 2015/16                            |              |  | 2015/16        |                                       |                                    |             |
|----------------------------------|------------------------------------|--------------|--|----------------|---------------------------------------|------------------------------------|--------------|--|----------------|---------------------------------------|------------------------------------|-------------|
| Software<br>£m                   | Assets under<br>construction<br>£m | Total<br>£m  |  | Software<br>£m | Climate<br>change<br>allowances<br>£m | Assets under<br>construction<br>£m | Total<br>£m  |  | Software<br>£m | Climate<br>change<br>allowances<br>£m | Assets under<br>construction<br>£m | Total<br>£m |
| <b>Balance at start of year:</b> |                                    |              |  |                |                                       |                                    |              |  |                |                                       |                                    |             |
| 6.098                            | 0.587                              | 6.685        | Gross book value                       | 6.550          | -                                     | 0.417                              | 6.967        |  |                |                                       |                                    |             |
| (5.130)                          | -                                  | (5.130)      | Accumulated amortisation               | (5.719)        | -                                     | -                                  | (5.719)      |  |                |                                       |                                    |             |
| <b>0.968</b>                     | <b>0.587</b>                       | <b>1.555</b> | <b>Net book value at start of year</b> | <b>0.831</b>   | <b>-</b>                              | <b>0.417</b>                       | <b>1.248</b> |  |                |                                       |                                    |             |
| 0.281                            | -                                  | 0.281        | Additions                              | 1.098          | 0.391                                 | -                                  | 1.489        |  |                |                                       |                                    |             |
| -                                | -                                  | -            | Disposals                              | (1.829)        | -                                     | -                                  | (1.829)      |  |                |                                       |                                    |             |
| 0.170                            | (0.170)                            | -            | Reclassification                       | 0.417          | -                                     | (0.417)                            | -            |  |                |                                       |                                    |             |
| -                                | -                                  | -            | Amortisation written out on disposal   | 1.753          | -                                     | -                                  | 1.753        |  |                |                                       |                                    |             |
| (0.588)                          | -                                  | (0.588)      | Amortisation for the period            | (0.670)        | -                                     | -                                  | (0.670)      |  |                |                                       |                                    |             |
| <b>0.831</b>                     | <b>0.417</b>                       | <b>1.248</b> | <b>Net book value at end of year</b>   | <b>1.600</b>   | <b>0.391</b>                          | <b>-</b>                           | <b>1.991</b> |  |                |                                       |                                    |             |
| <b>Comprising:</b>               |                                    |              |  |                |                                       |                                    |              |  |                |                                       |                                    |             |
| 6.550                            | 0.417                              | 6.967        | Gross book value                       | 6.236          | 0.391                                 | -                                  | 6.627        |  |                |                                       |                                    |             |
| (5.719)                          | -                                  | (5.719)      | Accumulated amortisation               | (4.636)        | -                                     | -                                  | (4.636)      |  |                |                                       |                                    |             |
| <b>0.831</b>                     | <b>0.417</b>                       | <b>1.248</b> | <b>Net book value at end of year</b>   | <b>1.600</b>   | <b>0.391</b>                          | <b>-</b>                           | <b>1.991</b> |  |                |                                       |                                    |             |

## Section 6 – Notes to the Group Financial Statements

### Note 6. Short Term Debtors

An analysis of Group short term debtors and payments in advance are shown below:

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
|                                      | <b>Amounts falling due in one year</b>       |                                      |
| 13.826                               | Central Government bodies                    | 3.411                                |
| 4.210                                | Other local authorities                      | 2.060                                |
| 1.298                                | NHS bodies                                   | 0.828                                |
| 4.311                                | Housing tenants                              | 5.070                                |
| 8.126                                | Council tax payers                           | 9.374                                |
| 0.623                                | Non-domestic ratepayers                      | 0.987                                |
| 1.081                                | Tyne and Wear Pension Fund                   | 0.863                                |
| 17.699                               | Other debtors                                | 12.725                               |
| <b>51.174</b>                        | <b>Total amounts falling due in one year</b> | <b>35.318</b>                        |
|                                      | <b>Allowances for bad debts</b>              |                                      |
| (2.460)                              | Housing tenants                              | (3.142)                              |
| (3.512)                              | Council tax payers                           | (4.071)                              |
| (0.297)                              | Non-domestic ratepayers                      | (0.355)                              |
| (2.450)                              | Other debtors                                | (2.520)                              |
| <b>(8.719)</b>                       | <b>Total bad debt allowances</b>             | <b>(10.088)</b>                      |
| <b>42.455</b>                        | <b>Net debtors</b>                           | <b>25.230</b>                        |

### Note 7. Cash and Cash Equivalents

Cash and cash equivalents are made up of the following balances:

| 31 <sup>st</sup> March<br>2015<br>£m |   | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|--------------------------------------|
| 0.055                                | Cash held by the Council                        | 0.082                                |
| 6.906                                | Bank accounts                                   | 8.642                                |
| 20.074                               | Short term deposits with financial institutions | 3.934                                |
| <b>27.035</b>                        | <b>Cash and cash equivalent assets</b>          | <b>12.658</b>                        |
| -                                    | Bank overdraft facility                         | (8.670)                              |
| -                                    | <b>Cash and cash equivalent liabilities</b>     | <b>(8.670)</b>                       |
| <b>27.035</b>                        | <b>Total cash and cash equivalent</b>           | <b>3.988</b>                         |

## Section 6 – Notes to the Group Financial Statements

### Note 8. Short Term Creditors

An analysis of Group short term creditors and receipts in advance is shown below:

| <b>31<sup>st</sup> March<br/>2015<br/>£m</b> |                            | <b>31<sup>st</sup> March<br/>2016<br/>£m</b> |
|--|----------------------------|--|
| (9.005)                                      | Central Government bodies  | (9.845)                                      |
| (0.971)                                      | Other local authorities    | (0.675)                                      |
| (1.600)                                      | NHS bodies                 | (1.562)                                      |
| (0.974)                                      | Housing tenants            | (1.149)                                      |
| (1.316)                                      | Council tax payers         | (1.272)                                      |
| (4.444)                                      | Group employees            | (3.050)                                      |
| (3.078)                                      | Tyne and Wear Pension Fund | (3.473)                                      |
| (27.240)                                     | All other creditors        | (13.863)                                     |
| <b>(48.628)</b>                              | <b>Total creditors</b>     | <b>(34.889)</b>                              |

### Note 9. Unusable Reserves

The following table lists the unusable reserves of the Group.

| <b>31<sup>st</sup> March<br/>2015<br/>£m</b> |  | <b>31<sup>st</sup> March<br/>2016<br/>£m</b> |
|--|--|--|
| (102.039)                                    | Revaluation reserve                              | (116.058)                                    |
| (229.001)                                    | Capital adjustment account                       | (220.633)                                    |
| 347.234                                      | Pensions reserve                                 | 314.117                                      |
| (8.794)                                      | Available-for-sale financial instruments reserve | (8.794)                                      |
| 4.513  | Employee benefits adjustment account             | 3.079  |
| (0.040)                                      | Financial instruments adjustment account         | 0.095  |
| (1.239)                                      | Collection Fund adjustment account               | (1.881)                                      |
| (0.003)                                      | Deferred capital receipts reserve                | -  |
| <b>10.631</b>                                | <b>Total unusable reserves</b>                   | <b>(30.075)</b>                              |

### Note 10. Investing Activities

The cash flows for investing activities include the following items:

| <b>2014/15<br/>£m</b> |  | <b>2015/16<br/>£m</b> |
|-----------------------|--|-----------------------|
| (84.531)              | Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal | (85.797)              |
| (90.025)              | Purchase of short term and long term investments   | (40.012)              |
| 6.768                 | Proceeds from the sale of property, plant and equipment and assets held for sale                                   | 6.948                 |
| 75.000                | Proceeds from short-term and long-term investments   | 50.000                |
| 32.249                | Other receipts from investing activities   | 12.057                |
| <b>(60.539)</b>       | <b>Net cash flows from investing activities</b>  | <b>(56.804)</b>       |

## Section 6 – Notes to the Group Financial Statements

### Note 11. Officers' Remuneration

The number of employees, including schools based and statutory positions but excluding senior officers, whose remuneration falls into each pay bracket, shown in multiples of £5,000, and starting at £50,000 is:

| Group               | Number of employees |            |
|---------------------|---------------------|------------|
|                     | 2014/15             | 2015/16    |
| £50,000 - £54,999   | 58                  | 56         |
| £55,000 - £59,999   | 38                  | 39         |
| £60,000 - £64,999   | 17                  | 21         |
| £65,000 - £69,999   | 18                  | 15         |
| £70,000 - £74,999   | 13                  | 11         |
| £75,000 - £79,999   | 5                   | 5          |
| £80,000 - £84,999   | 4                   | 5          |
| £85,000 - £89,999   | 3                   | 10         |
| £90,000 - £94,999   | 1                   | 1          |
| £105,000 - £109,999 | -                   | 1          |
| £120,000 - £124,999 | 1                   | -          |
| £135,000 - £139,999 | 1                   | 1          |
| £165,000 - £169,999 | 1                   | -          |
| £170,000 - £174,999 | 1                   | 1          |
|                     | <b>161</b>          | <b>166</b> |

The numbers of exit packages with total cost per band are set out in the table below:

| 2014/15             |                  |                        | 2015/16             |                  |
|---------------------|------------------|------------------------|---------------------|------------------|
| Total exit Packages | Total Paid<br>£m | Exit package cost band | Total exit Packages | Total Paid<br>£m |
| 162                 | 1.184            | £0 - £20,000           | 140                 | 1.211            |
| 64                  | 1.894            | £20,001 - £40,000      | 48                  | 1.351            |
| 15                  | 0.713            | £40,001 - £60,000      | 13                  | 0.609            |
| 4                   | 0.274            | £60,001 - £80,000      | 11                  | 0.754            |
| 3                   | 0.254            | £80,001 - £100,000     | 4                   | 0.352            |
| -                   | -                | £100,001-£140,000      | 4                   | 0.477            |
| <b>248</b>          | <b>4.319</b>     | <b>Total</b>           | <b>220</b>          | <b>4.754</b>     |

### Note 12. External Audit Costs

The following table outlines the Group spending on external auditors during the year:

| 2014/15<br>£m |   | 2015/16<br>£m |
|---------------|---|---------------|
| 0.186         | Fees with regard to external audit services carried out by the appointed auditor for the year | 0.145         |
| 0.020         | Fees for the certification of grant claims and returns for the year                           | 0.028         |
| 0.004         | Fees for other services provided by external auditors during the year                         | 0.003         |
| <b>0.210</b>  | <b>Total fees payable to external auditors</b>  | <b>0.176</b>  |

## Section 6 – Notes to the Group Financial Statements

### Note 13. Contingent Liabilities

Details of the Council's contingent liabilities can be found in note 35 of the single entity statement. This details a liability in relation to the Council's guarantee of the pension deficit within STHL.

### Note 14. Defined Benefit Pension Schemes

Both South Tyneside Council and STHL employees are entitled to join the Tyne and Wear Pension Fund (the Fund), which is administered by South Tyneside Council under the regulations governing the Local Government Pension Scheme, a defined benefit scheme.

The disclosures below relate to the funded liabilities within the Tyne and Wear Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme (the "LGPS"). The funded nature of the LGPS requires the Group and its employees to pay contributions into the Fund, calculated at a level intended to balance the defined benefit obligation with investment assets.

The Group recognises gains and losses in full immediately through other comprehensive income and expenditure.

The latest actuarial calculation of the Groups liabilities took place as at 31<sup>st</sup> March 2013.

#### Actuarial Assumptions Adopted

The main financial assumptions used by the actuary for STHL in 2015/16, differ from those applied to the Council valuation. The assumptions used for STHL are confirmed in the table below. Note 40 of the Council's core Financial Statements provide the assumptions used by the actuary for the Council.

|   | <b>31<sup>st</sup> March 2015</b> | <b>31<sup>st</sup> March 2016</b> |
|---|-----------------------------------|-----------------------------------|
|   | <b>% per annum</b>                | <b>% per annum</b>                |
| Discount rate                           | 3.30                              | 3.50                              |
| Rate of increase to pensions in payment | 1.90                              | 1.80                              |
| Rate of increase to deferred pensions   | 2.40                              | 1.80                              |
| Rate of general increase in salaries    | 3.40                              | 3.30                              |

The main demographic assumptions used by the actuary are the same for both the Council and STHL.

#### Asset Allocation

Assets for STHL are allocated the same as disclosed for the Council in note 40 of the Council's core financial statements. However STHL employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is the same as disclosed for the Council. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31<sup>st</sup> March 2016.

## Section 6 – Notes to the Group Financial Statements

The following table reconciles the funded status of assets and liabilities to the Group Balance Sheet:

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
| 664.850                              | Fair value of assets                               | 679.590                              |
| (980.510)                            | Present value of funded defined benefit obligation | (964.370)                            |
| <b>(315.660)</b>                     | <b>Liability recognised on the Balance Sheet</b>   | <b>(284.780)</b>                     |

The impact of STHL on the split of the defined benefit obligation at the last valuation compared to that disclosed by the Council in note 40 of the Council's core financial statements is not considered material.

### Breakdown of amounts recognised in deficit on the provision of services and other comprehensive income and expenditure

The following table shows the net impact of funded benefits in the Comprehensive Income and Expenditure Statement:

| 2014/15<br>£m |   | 2015/16<br>£m   |
|---------------|---|-----------------|
|               | <b>Operating cost</b>   |                 |
| 16.340        | Current service cost  | 19.690          |
| 0.880         | Past service cost   | 1.100           |
| (0.490)       | Settlement cost   | -               |
|               | <b>Financing cost</b>   |                 |
| 9.300         | Interest on net defined benefit obligation                                    | 9.770           |
| <b>26.030</b> | <b>Pension expense recognised</b>   | <b>30.560</b>   |
|               | <b>Remeasurements in other comprehensive income and expenditure</b>           |                 |
| (44.990)      | Return on plan assets below or (in excess of) that recognised in net interest | 10.330          |
| 79.120        | Actuarial (gains) or losses due to change in financial assumptions            | (32.750)        |
| -             | Actuarial gains due to change in demographic assumptions                      | -               |
| 9.410         | Actuarial (gains) or losses due to liability experience                       | (16.650)        |
| <b>43.540</b> | <b>Total amount recognised in other comprehensive income and expenditure</b>  | <b>(39.070)</b> |
| <b>69.570</b> | <b>Total amount recognised</b>  | <b>(8.510)</b>  |

### Changes to the present value of defined benefit obligation during the accounting year

The table on the next page explains the history and movements in the present value of liabilities and the fair value of assets together with the actual return on those assets and how this has been reflected in other comprehensive income and expenditure.

## Section 6 – Notes to the Group Financial Statements

| 2014/15<br>£m    |  | 2015/16<br>£m    |
|------------------|--|------------------|
| <b>(860.100)</b> | <b>Opening defined benefit liability</b>                           | <b>(980.510)</b> |
| (16.340)         | Current service cost   | (19.690)         |
| (36.700)         | Interest expense on defined benefit liability                      | (31.200)         |
| (5.590)          | Contributions by participants                                      | (5.250)          |
| (79.120)         | Actuarial gains or (losses) on liabilities - financial assumptions | 32.750           |
| -                | Actuarial gains on liabilities - demographic assumptions           | -                |
| (9.410)          | Actuarial gains or (losses) on liabilities - experience            | 16.650           |
| 26.450           | Net benefits paid out  | 23.980           |
| (0.880)          | Past service cost  | (1.100)          |
| 1.180            | Settlement cost  | -                |
| <b>(980.510)</b> | <b>Closing defined benefit liability</b>                           | <b>(964.370)</b> |

### Changes to the fair value of assets during the accounting year

| 2014/15<br>£m  |   | 2015/16<br>£m  |
|----------------|---|----------------|
| <b>591.490</b> | <b>Opening fair value of assets</b>       | <b>664.850</b> |
| 27.400         | Interest income on assets                 | 21.430         |
| 44.990         | Remeasurement (losses) or gains on assets | (10.330)       |
| 22.520         | Contributions by the employer             | 22.370         |
| 5.590          | Contributions by participants             | 5.250          |
| (26.450)       | Net benefits paid out                     | (23.980)       |
| (0.690)        | Settlements                               | -              |
| <b>664.850</b> | <b>Closing fair value of assets</b>       | <b>679.590</b> |

### Actual return on assets

| 2014/15<br>£m |  | 2015/16<br>£m |
|---------------|--|---------------|
| 27.400        | Interest income on assets              | 21.430        |
| 44.990        | Remeasurement gain or (loss) on assets | (10.330)      |
| <b>72.390</b> | <b>Actual return on assets</b>         | <b>11.100</b> |

### Unfunded Benefits

STHL has no unfunded benefits. Disclosure information relating to unfunded benefits for the Council can be found at note 40 of the core financial statements within this document.

The following table reconciles the defined benefit obligation on the Group Balance sheet between funded and unfunded benefits:

| 31st March 2015    |                        |                   |                                   | 31st March 2016    |                        |                   |
|--------------------|------------------------|-------------------|-----------------------------------|--------------------|------------------------|-------------------|
| Group funded<br>£m | Council unfunded<br>£m | Group total<br>£m |                                   | Group funded<br>£m | Council unfunded<br>£m | Group total<br>£m |
| 664.850            | -                      | 664.850           | Fair value of assets              | 679.590            | -                      | 679.590           |
| (980.510)          | (30.340)               | (1,010.850)       | Present value of liabilities      | (964.370)          | (27.710)               | (992.080)         |
| <b>(315.660)</b>   | <b>(30.340)</b>        | <b>(346.000)</b>  | <b>Defined benefit obligation</b> | <b>(284.780)</b>   | <b>(27.710)</b>        | <b>(312.490)</b>  |



## Section 6 – Notes to the Group Financial Statements

The following table reconciles the interest expense of the defined benefit obligation and interest income on assets as recorded in the Group Comprehensive Income and Expenditure Statement between funded and unfunded benefits:

| 2014/15      | 2014/15          | 2014/15       |  | 2015/16      | 2015/16          | 2015/16       |
|--------------|------------------|---------------|--|--------------|------------------|---------------|
| Group funded | Council unfunded | Group total   |  | Group funded | Council unfunded | Group total   |
| £m           | £m               | £m            |  | £m           | £m               | £m            |
| 36.700       | 1.200            | 37.900        | Interest on defined benefit liability                              | 31.200       | 1.200            | 32.400        |
| (27.400)     | -                | (27.400)      | Interest income on assets  | (21.430)     | -                | (21.430)      |
| <b>9.300</b> | <b>1.200</b>     | <b>10.500</b> | <b>Pension interest cost and interest income on pension assets</b> | <b>9.770</b> | <b>1.200</b>     | <b>10.970</b> |

# Section 7 – Tyne and Wear Pension Fund Statements

## 1. Introduction

The Tyne and Wear Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by South Tyneside Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of South Tyneside Council, four other local authorities within the Tyne and Wear area, scheduled bodies and admitted employers in the Fund. These benefits include retirement pensions, early payment of benefits on medical grounds and the payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1<sup>st</sup> April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index (CPI).

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund is financed by contributions from employees, the Council and all other employers within the Fund, as well as from capital growth and interest and dividends on the Fund's investments. Contributions from active members of the Fund are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31<sup>st</sup> March 2016. Employers pay contributions based on triennial funding valuations carried out by the Fund's Actuary. The last valuation was at 31<sup>st</sup> March 2013, the next will be as at 31<sup>st</sup> March 2016.

As at 31<sup>st</sup> March 2016, there were 230 employers participating in the Fund, including the five district councils and a range of other organisations that provide a public service within the former County Council area. A full list of employers is shown later in this statement. The Fund had 129,222 members, made up of 47,360 active members, 43,859 pensioners and 38,003 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2015/16.

## 2. Legal Framework

The framework for the Scheme is contained in four sets of Regulations made by the Department for Communities and Local Government. These Regulations apply nationally to all administering authorities in England and Wales.

### Investment Regulations

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as amended. These Regulations set out the types of investments that can be made, which include company and government securities, property and unit trusts. The Regulations also set out restrictions on the proportion of a fund that can be held in different types of investment.

In November 2015 the Department of Communities and Local Government issued a consultation on revoking and replacing these regulations. The outcome of this consultation is still awaited.

# Section 7 – Tyne and Wear Pension Fund Statements

## Scheme Regulations from 1<sup>st</sup> April 2014

The Local Government Pension Scheme Regulations 2013, as amended describe how rights accrue and how benefits are calculated with effect from 1<sup>st</sup> April 2014. The Regulations also contain the administrative provisions for the Scheme. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, as amended set out how membership accrued prior to 1<sup>st</sup> April 2014 counts towards benefits. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 set out provisions concerning the management and governance of the Scheme.

### 3. Funding Strategy

The Regulations require that an actuarial valuation is carried out every third year to ensure that the Fund is able to meet its liabilities to past and present contributors. The employers' contributions are adjusted following a valuation to ensure that the Fund will have sufficient assets to cover liabilities.

The strategy for the valuation is set out in the Statement of the Actuary and in the Funding Strategy Statement, which may be viewed on the Fund's website at [www.twpf.info](http://www.twpf.info).

The Fund consulted employers and considered their views in the formulation of the strategy.

### 4. The 2013 Valuation

Rates of contributions paid by the employers during 2015/16 were based on the valuation carried out as at 31<sup>st</sup> March 2013. The value of the Fund at that date was £5,432.3m.

The total rate of employer contribution resulting from the 2013 valuation was 23.6% of pensionable pay, comprised of a future service element of 16.1% and a past service deficiency element of 7.5%. The revised employers' contributions were implemented from April 2014.

At the 2013 valuation, there was a decrease in the discount rates for scheduled and admitted bodies. The Fund used a number of measures to assist employers to afford the cost of benefits. These included:

- Long deficit recovery periods for employers with a suitably strong covenant. Recovery periods for most employers have been set within the range of 22 years for employers with the strongest covenant to average future working lifetime of active members, or an appropriate proxy, for employers with a weaker covenant. For most contractors, this strategy is also subject to a maximum of the remaining contract period from the valuation date.
- The use of up to three annual steps in the deficit payments.
- The grouping of some smaller employers to protect against the risk of high volatility of contribution rates.

## **Section 7 – Tyne and Wear Pension Fund Statements**

The next valuation is being carried out as at 31<sup>st</sup> March 2016. This will lead to revised employers' contributions being implemented from April 2017.

### **5. Investment Strategy and Investment Structure**

The investment strategy in place in 2015/16 was based on an asset liability study carried out in 2013/14 that was based upon the liabilities shown by the 2013 valuation.

Note 10 to the Financial Statements shows the amounts held in each type of investment.

Note 15 shows the amount invested by each manager.

### **6. Investment Reform Criteria and Guidance**

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria for developing proposals were set in November 2015 and administering authorities were required to submit initial proposals by February 2015 and refined and completed submissions by July 2016.

The Fund is currently working with twelve other administering authorities as part of the Border to Coast Pension Partnership and submitted a response in February. Work is progressing to develop these proposals.

# Section 7 – Tyne and Wear Pension Fund Statements

## Tyne and Wear Pension Fund

### Statement of the Actuary for the year ended 31<sup>st</sup> March 2016

#### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The latest full actuarial investigation into the financial position of the Fund was completed as at 31<sup>st</sup> March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

#### Actuarial Position

1. The valuation as at 31<sup>st</sup> March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £5,432.3m) covering 81% of the liabilities in respect of service prior to the valuation date allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1<sup>st</sup> April 2014 was:
  - 16.1% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1<sup>st</sup> April 2014, amounting to £64.1m in 2014/15, and increasing by 3.9% per annum thereafter.
3. In practice, each individual employer's position is assessed separately and contributions are set out in the certificate attached to Aon Hewitt Limited's report dated 28<sup>th</sup> March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.
  4. The funding plan adopted in assessing the contributions for each individual employer was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.
  5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

#### Discount rate for periods in service

|                  |            |
|------------------|------------|
| Scheduled Bodies | 5.15% p.a. |
| Admission Bodies | 5.10% p.a. |

#### Discount rate for periods after leaving service

|                  |            |
|------------------|------------|
| Scheduled Bodies | 5.15% p.a. |
| Admission Bodies | 3.70% p.a. |

## Section 7 – Tyne and Wear Pension Fund Statements

|  |            |
|--|------------|
| Rate of inflationary pay increases (additional allowance made for promotional increases) | 3.90% p.a. |
| Rate of increase to pension accounts   | 2.40% p.a. |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)       | 2.40% p.a. |

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31<sup>st</sup> March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017 were signed on 28<sup>th</sup> March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31<sup>st</sup> March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The actuarial valuation of the Fund as at 31<sup>st</sup> March 2016 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions for the period from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2020 to be signed off by 31<sup>st</sup> March 2017.

8. Reviews to monitor the level of ill-health retirements are periodically carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased.
9. This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31<sup>st</sup> March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, South Tyneside Council, the Administering Authority of the Fund, in respect of this Statement.

10. The actuarial valuation report is available on the Fund's website at the following address:

<http://www.twpf.info/article/11978/Fund-Valuation-Reports>

Aon Hewitt Limited

3<sup>rd</sup> May 2016

# Section 7 – Tyne and Wear Pension Fund Statements

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH TYNESIDE COUNCIL

### **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of South Tyneside Council in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of the Head of Finance's Responsibilities set out on page 17, the Head of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Section 7 – Tyne and Wear Pension Fund Statements

### Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

CAREEN GRAY

*Careen Gray (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Newcastle-upon-Tyne*

*30 September 2016*



## Section 7 – Tyne and Wear Pension Fund Statements

### Fund Account for the year ended

| 31 <sup>st</sup> March 2015<br>£m<br>(as restated) |  | Note | 31 <sup>st</sup> March 2016<br>£m |
|--|--|------|-----------------------------------|
|  | <b>Dealings with members, employers and others directly involved in the Fund</b>           |      |                                   |
| (279.084)  | Contributions  | 4    | (289.446)                         |
| (3.317)  | Transfers in from other pension funds  | 5    | (7.715)                           |
| <b>(282.401)</b>                                   | <b>Total income</b>  |      | <b>(297.161)</b>                  |
| 247.698  | Benefits payable   | 6    | 264.760                           |
| 114.036  | Payments to and on account of leavers  | 7    | 7.377                             |
| <b>361.734</b>                                     | <b>Total costs</b>   |      | <b>272.137</b>                    |
| <b>79.333</b>                                      | <b>Net (income) or expenditure</b>   |      | <b>(25.024)</b>                   |
| <b>41.623</b>                                      | <b>Management Expenses</b>   | 8    | <b>43.049</b>                     |
|  | <b>Returns on investments</b>  |      |                                   |
| (100.999)  | Investment income  | 9    | (89.480)                          |
| 3.837  | Taxes on income  | 9    | 3.146                             |
| (666.389)  | (Profit) and losses on disposals of investments and changes in market value of investments | 10   | 19.263                            |
| <b>(763.551)</b>                                   | <b>Net returns on investments</b>  |      | <b>(67.071)</b>                   |
| <b>(642.595)</b>                                   | <b>Net increase in the net assets available for benefits during the year</b>               |      | <b>(49.046)</b>                   |
| <b>5,735.729</b>                                   | <b>Net assets of the Fund at 1<sup>st</sup> April</b>                                      |      | <b>6,378.324</b>                  |
| <b>6,378.324</b>                                   | <b>Net assets of the Fund at 31<sup>st</sup> March</b>                                     |      | <b>6,427.370</b>                  |

## Section 7 – Tyne and Wear Pension Fund Statements

### Net Assets Statement for the year ended

| 31 <sup>st</sup> March<br>2015<br>£m |  | Note | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|------|--------------------------------------|
| 6,382.493                            | Investment assets                                      | 10   | 6,422.276                            |
| (23.979)                             | Investment liabilities                                 | 10   | (12.298)                             |
| 28.686                               | Current assets   | 13   | 27.816                               |
| (8.876)                              | Current liabilities                                    | 13   | (10.424)                             |
| <b>6,378.324</b>                     | <b>Net assets of the Fund at 31<sup>st</sup> March</b> |      | <b>6,427.370</b>                     |

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is covered in a statement prepared by the Actuary. The financial statements should be read in conjunction with the Actuary's statement. The actuarial present value of the promised retirement benefits is disclosed at Note 25, which has been compiled under IAS26 and, as such, is based on different assumptions.

# Section 7 – Tyne and Wear Pension Fund Statements

## Notes to the Tyne and Wear Pension Fund Financial Statements

### 1. Basis of Preparation

The financial statements summarise the Fund's transactions for the financial year 2015/16 and its position at year end as at 31<sup>st</sup> March 2016. The accounts have been prepared following the "Code of Practice on Local Authority Accounting in the United Kingdom 2015/16" (the Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK local government sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take into account obligations to pay pensions and benefits payable after the end of the financial year.

In 2014/15 following the publication of the Chartered Institute of Public Finance & Accounting (CIPFA) guidance "*Local Government Pension Management Costs*", the Fund has adjusted the way that it accounts for costs deducted directly from pooled funds by including such costs in management expenses.

In 2015/16, CIPFA provided further clarification on this guidance, which has led to the costs of administrative and investment management expenses for the previous year being reduced.

As a result of this the management expenses figure for 2014/15 has been reduced from £58.094m to £41.623m, with a corresponding decrease in the change in market value of investments figure falling from £239.220m to £222.169m. Overall there has been no change to the net assets of the Fund.

### 2. Summary of Significant Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is transfer values which are recognised when cash is transferred.

#### Fund Account – Revenue Recognition

##### a) Contributions

Normal contributions, from both employers and members, are accounted for on an accruals basis in the payroll period for which they relate. The percentage rate payable by the employer is determined by the actuary whilst the rate payable by employees is set within the Local Government Pension Scheme Regulations. Contributions due as at 31<sup>st</sup> March 2016 have been accrued.

Employer deficit funding contributions are accounted for on the due dates set by the Actuary or on receipt if earlier than this date.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Any amount due in the year but still outstanding at the year end has been accrued.

## Section 7 – Tyne and Wear Pension Fund Statements

### b) Transfer Values

Transfer values represent the capital sums either receivable or payable in respect of members who have either joined or left the Fund during the financial year and have been calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers either in or out have been accounted for in the period in which they were received or paid.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis within transfers in.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### c) Investment Income

#### Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

#### Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

#### Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the net assets statement as a current financial asset.

#### Property Rental Income

Property rental income is payable quarterly in advance. Only the proportion of each payment attributable to the Fund from the due date to the 31<sup>st</sup> March 2016 is credited to the Fund Account.

#### Movement in the Market Value of Investments

The figure included under the movement in the market value of investments is derived by taking the opening balance per asset class, and adjusting for purchases and sales during the year, as the closing value of each asset class has been agreed to third party sources, the change in market value is the difference between the adjusted figure and the closing value for each asset class.

## Section 7 – Tyne and Wear Pension Fund Statements

### d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### e) Taxation

The Fund is a registered public sector scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Tax that is irrecoverable is accounted for as a Fund expense as it arises.

### f) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA guidance entitled “*Accounting for Local Government Pension Scheme Management Costs.*”

As a result of clarification of the recommended accounting procedures from CIPFA, investment management expenses for 2014/15 have been restated to reflect the CIPFA guidance. Management expenses have fallen by £16.471m from £58.094m to £41.623m to reflect fees and expenses that are incurred by underlying investment vehicles, investing in other vehicles which the Fund has no control over. This is typically the case with private market fund of fund investments.

### Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

### Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

### Investment Management Expenses

Investment management expenses payable as at 31<sup>st</sup> March 2016 have been accrued. Performance related fees, where applicable, have not been accrued at that date as they are not deemed to be earned until the end of the performance period for which they are calculated and agreed.

## Section 7 – Tyne and Wear Pension Fund Statements

### Net Assets Statement

#### g) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the 31<sup>st</sup> March 2016. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes a party to the purchase of the asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

#### Market Quoted Investments

Quoted securities have been valued at their bid price on 31<sup>st</sup> March 2016.

#### Pooled Investment Vehicles

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31<sup>st</sup> March 2016 as valued by the investment manager responsible for such vehicles.

#### Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned has been accrued within investment income.

#### Unquoted Investments

Unquoted investments have been valued with regard to latest dealings and other appropriate financial information as provided by the investment manager responsible for those investments.

#### Freehold and Leasehold Properties

The Fund's UK properties are shown as valued at 31<sup>st</sup> March 2016 by independent valuers appointed by the Fund. The valuers are Fellows of the Royal Institute of Chartered Surveyors (RICS) from Jones Lang LaSalle.

The market values are based on assumptions made in accordance with The RICS Valuation Standards.

All work is carried out in accordance with the Professional Standards, Valuation Practice Statements and UK Valuation Standards contained in the RICS Valuation – Professional Standards (January 2014) published by the RICS (“the Red Book”), by valuers who conform to the requirements thereof. Valuations may be subject to monitoring by the RICS. The valuations are undertaken by currently Registered RICS Valuers.

Valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including fire regulations, access and use

## Section 7 – Tyne and Wear Pension Fund Statements

by disabled persons, control and remedial measures for asbestos in the workplace, the Energy Performance of Buildings Directive and any applicable bye laws. All buildings are assumed to have Energy Performance Certificates.

Valuations do not take into account any rights, obligations or liabilities, whether prospective or accrued, under the Defective Premises Act 1972, or the Health and Safety at Work etc. Act 1974.

No depreciation is provided on freehold buildings or long leasehold properties, in accordance with the RICS Valuation Standards.

The actual valuation of each property will only be known when the Fund sells the property on the open market.

### **h) Foreign Currency Transactions**

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year end have been valued at the closing exchange rates on 31<sup>st</sup> March 2016.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates on 31<sup>st</sup> March 2016.

### **i) Derivatives**

Futures have been valued at fair value. The fair value is the unrealised profit or loss of the current bid or offer price of the contract. The variation margin is the amount due to or from the broker for this unrealised profit or loss at the period end.

The fair value of forward currency contracts is based on exchange rates at the year end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31<sup>st</sup> March 2016.

### **j) Outstanding Commitments**

The Fund has made commitments to investments which are not included in the fund Accounts until the monies have been drawn down by the relevant manager. These are shown in note 22.

### **k) Cash and Cash Equivalents**

Cash comprises cash in hand and demand deposits and also includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in their valuations.

## Section 7 – Tyne and Wear Pension Fund Statements

### I) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed The Prudential Assurance Company as its current AVC provider. AVCs are paid to The Prudential Assurance Company by employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements during the year.

In accordance with section 42(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) AVCs are not included in the accounts but are disclosed only as a note (note 14).

### 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 2 above, the Fund has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

#### **Pension Fund Liability**

The Pension Fund liability is calculated triennially by the actuary, in accordance with IAS19, whose report can be seen in note 25. The estimate is subject to significant variances based on changes to the underlying assumptions used by the actuary.

#### **Property Valuation**

The Fund's UK property is included at a value derived by the valuers based on assumptions made by them in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9<sup>th</sup> Edition. The actual valuation of each property will only be known when the Fund sells the property on the open market.

#### **Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. The value of private equity at 31<sup>st</sup> March 2016 was £549.325m (£572.709m in 2014/15).



# Section 7 – Tyne and Wear Pension Fund Statements

## 4. Contributions Receivable

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
| (222.019)                            | Employers  | (233.766)                            |
| (55.384)                             | Members  | (55.672)                             |
| <b>(277.403)</b>                     | <b>Total contributions receivable before refunds</b> | <b>(289.438)</b>                     |
| (1.681)                              | Refund of payroll costs                              | (0.008)                              |
| <b>(279.084)</b>                     | <b>Total contributions receivable</b>                | <b>(289.446)</b>                     |

The contributions can be analysed by type of member body, as follows:

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
| (23.766)                             | South Tyneside Council (administering authority)     | (24.399)                             |
| (147.034)                            | Other metropolitan councils                          | (152.817)                            |
| (59.986)                             | Other Part 1 scheduled bodies                        | (62.298)                             |
| (13.906)                             | Part 2 scheduled bodies                              | (13.030)                             |
| (32.711)                             | Admitted bodies                                      | (36.894)                             |
| <b>(277.403)</b>                     | <b>Total contributions receivable before refunds</b> | <b>(289.438)</b>                     |
| (1.681)                              | Refund of payroll costs                              | (0.008)                              |
| <b>(279.084)</b>                     | <b>Total contributions receivable</b>                | <b>(289.446)</b>                     |

The contributions can be further analysed between sources as follows;

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
| (55.384)                             | Employees' normal contributions                      | (55.672)                             |
| (133.160)                            | Employers' normal contributions                      | (135.739)                            |
| (88.859)                             | Employers' deficit recovery contributions            | (98.027)                             |
| <b>(277.403)</b>                     | <b>Total contributions receivable before refunds</b> | <b>(289.438)</b>                     |
| (1.681)                              | Refund of payroll costs                              | (0.008)                              |
| <b>(279.084)</b>                     | <b>Total contributions receivable</b>                | <b>(289.446)</b>                     |

The refund of payroll costs relates to a group transfer of pensioners into the Greater Manchester Pension Fund (GMPF) which took place in 2014/15. For a period of time after the date of the transfer, the Fund paid the payroll costs and was reimbursed for this on a monthly basis, the small figure for 2015/16 relates to an amount of additional costs reimbursed by GMPF.

## Section 7 – Tyne and Wear Pension Fund Statements

### 5. Transfers In

| 31 <sup>st</sup> March<br>2015<br>£m | By Category                     | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---------------------------------|--------------------------------------|
| -                                    | Group transfers                 | (3.960)                              |
| (3.317)                              | Individual transfers            | (3.755)                              |
| <b>(3.317)</b>                       | <b>Total transfers received</b> | <b>(7.715)</b>                       |

During the year, individual transfers in from other schemes amounted to £3.755m (£3.317m in 2014/15). There was one bulk transfer in to the Fund in 2015/16 relating to the transfer from Teesdale Housing Group to Gentoo, although the transfer of staff took place a number of years ago the actuaries only agreed a transfer value during 2015/16, £3.960m has been received for this transfer. There were no payments in relation to group transfers in 2014/15.

A group of employees, deferred and pensioners transferred to the Fund from Worcestershire Pension Fund during 2014/15 in relation to the transfer of Kidderminster College to Newcastle College. At the time of preparation of these Accounts, the Fund did not have a value for the assets to be transferred and, accordingly, has not been able to include an amount in these Accounts.

### 6. Benefits Payable

| 31 <sup>st</sup> March<br>2015<br>£m |   | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---|--------------------------------------|
| 217.297                              | Pensions                                      | 222.902                              |
| 35.565                               | Commutations and lump sum retirement benefits | 47.548                               |
| 6.030                                | Lump sum death benefits                       | 5.206                                |
| (11.194)                             | Recharges out                                 | (10.896)                             |
| <b>247.698</b>                       | <b>Total benefits payable</b>                 | <b>264.760</b>                       |

The £10.896m of recharges relate to monies received from employers in relation to discretionary awards by them to retirees, the Fund has been fully reimbursed for all costs involved.

The payments can be analysed by type of member body as follows:

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
| 23.928                               | South Tyneside Council (administering authority) | 25.071                               |
| 153.565                              | Other metropolitan councils                      | 162.633                              |
| 36.565                               | Other Part 1 scheduled bodies                    | 38.010                               |
| 7.792                                | Part 2 scheduled bodies                          | 8.119                                |
| 25.848                               | Admitted bodies                                  | 30.927                               |
| <b>247.698</b>                       | <b>Total benefits payable</b>                    | <b>264.760</b>                       |

## Section 7 – Tyne and Wear Pension Fund Statements

### 7. Leavers

| 31 <sup>st</sup> March<br>2015<br>£m |                                       | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|---------------------------------------|--------------------------------------|
| 6.140                                | Individual transfers to other schemes | 6.712                                |
| 0.244                                | Refunds to members leaving service    | 0.479                                |
| 107.647                              | Group transfers                       | -                                    |
| 0.005                                | State scheme premiums                 | 0.186                                |
| <b>114.036</b>                       | <b>Total leavers</b>                  | <b>7.377</b>                         |

There were no bulk transfers out of the Fund in 2015/16 there was one in 2014/15 in respect of the transfer of the Probation Trust liabilities and assets to the Greater Manchester Pension Fund.

### 8. Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit costs incurred in connection with the administration of the Fund to be charged against the Fund. A breakdown of the costs is set out in the table below.

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

| 31 <sup>st</sup> March<br>2015<br>(as restated)<br>£m |                                | 31 <sup>st</sup> March<br>2015<br>£m |
|---|--------------------------------|--------------------------------------|
| 2.317   | Administrative costs           | 2.457                                |
| 38.521  | Investment management expenses | 39.689                               |
| 0.785   | Oversight and governance costs | 0.903                                |
| <b>41.623</b>   | <b>Management expenses</b>     | <b>43.049</b>                        |

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance issued during 2015/16.

The investment management expenses can be analysed further, as follows:

| 31 <sup>st</sup> March<br>2015<br>(as restated)<br>£m |   | 31 <sup>st</sup> March<br>2016<br>£m |
|---|---|--------------------------------------|
| 22.024  | Management and custody fees             | 23.513                               |
| 8.792   | Performance fees                        | 8.341                                |
| 5.148   | Transaction costs                       | 4.686                                |
| 2.557   | Expenses charged within pooled vehicles | 3.149                                |
| <b>38.521</b>   | <b>Investment management expenses</b>   | <b>39.689</b>                        |

These costs do not include costs relating to the property portfolio which under IAS 40 “*Investment Property*” should be capitalised and not expensed.

## Section 7 – Tyne and Wear Pension Fund Statements

As a result of clarification of the recommended accounting procedures from CIPFA, investment management expenses for 2014/15 have been restated to reflect the CIPFA guidance. Management expenses have fallen by £16.471m from £58.094m to £41.623m to reflect fees and expenses that are incurred by underlying investment vehicles, investing in other vehicles which the Fund has no control over. This is typically the case with private market fund of fund investments.

### 9. Investment Income

| <b>31<sup>st</sup> March<br/>2015</b> |                                | <b>31<sup>st</sup> March<br/>2016</b> |
|---------------------------------------|--------------------------------|---------------------------------------|
| <b>£m</b>                             |                                | <b>£m</b>                             |
| (1.957)                               | Fixed interest securities      | (1.353)                               |
| (64.450)                              | Equities                       | (52.440)                              |
| (0.362)                               | Index-linked securities        | (0.387)                               |
| (16.948)                              | Pooled investment vehicles     | (17.477)                              |
| (16.158)                              | Net rents from properties      | (16.762)                              |
| (0.348)                               | Cash deposits                  | (0.564)                               |
| (0.750)                               | Securities lending             | (0.495)                               |
| (0.002)                               | Commission recapture           | (0.002)                               |
| (0.024)                               | Underwriting commission        | -                                     |
| <b>(100.999)</b>                      | <b>Sub-total</b>               | <b>(89.480)</b>                       |
| 3.837                                 | Non-recoverable tax            | 3.146                                 |
| <b>(97.162)</b>                       | <b>Total investment income</b> | <b>(86.334)</b>                       |

### Net rents from Properties

Net rents from properties can be analysed further, as follows:

| <b>31<sup>st</sup> March<br/>2015</b> |                                      | <b>31<sup>st</sup> March<br/>2016</b> |
|---------------------------------------|--------------------------------------|---------------------------------------|
| <b>£m</b>                             | <b>Property income</b>               | <b>£m</b>                             |
| (15.610)                              | Rental income                        | (16.989)                              |
| (0.548)                               | Direct operating (income) / expenses | 0.227                                 |
| <b>(16.158)</b>                       | <b>Net income</b>                    | <b>(16.762)</b>                       |

## Section 7 – Tyne and Wear Pension Fund Statements

### 10. Investments

| 31 <sup>st</sup> March<br>2015<br>£m |                                     | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|-------------------------------------|--------------------------------------|
|                                      | <b>Investment assets</b>            |                                      |
| 58.784                               | Fixed interest securities           | 56.115                               |
| 3,008.420                            | Equities                            | 2,234.175                            |
| 55.862                               | Index-linked securities             | 58.342                               |
| 2,824.214                            | Pooled investment vehicles          | 3,618.748                            |
| 303.000                              | Properties                          | 311.425                              |
| 5.480                                | Derivative contracts                | 3.232                                |
| 113.947                              | Cash deposits                       | 128.799                              |
| 12.786                               | Other investment balances           | 11.440                               |
| <b>6,382.493</b>                     | <b>Total investment assets</b>      | <b>6,422.276</b>                     |
|                                      | <b>Investment liabilities</b>       |                                      |
| (2.713)                              | Derivative contracts                | (1.845)                              |
| (21.266)                             | Other investment balances           | (10.453)                             |
| <b>(23.979)</b>                      | <b>Total investment liabilities</b> | <b>(12.298)</b>                      |
| <b>6,358.514</b>                     | <b>Net investment assets</b>        | <b>6,409.978</b>                     |

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

| 2015/16                    | Value at 31 <sup>st</sup><br>March 2015<br>£m | Purchases<br>at cost and<br>derivative<br>payments<br>£m | Sales<br>proceeds and<br>derivative<br>receipts<br>£m | Change in<br>market value<br>£m | Value at 31 <sup>st</sup><br>March 2016<br>£m |
|----------------------------|---|--|---|---------------------------------|---|
| Fixed interest securities  | 58.784  | 236.199  | (239.183)   | 0.315                           | 56.115  |
| Equities                   | 3,008.420                                     | 1,037.983  | (1,775.317)   | (36.911)                        | 2,234.175                                     |
| Index-linked securities    | 55.862  | 128.757  | (127.615)   | 1.338                           | 58.342  |
| Pooled investment vehicles | 2,824.214                                     | 1,873.678  | (1,083.947)   | 4.803                           | 3,618.748                                     |
| Properties                 | 303.000                                       | 32.439   | (33.525)  | 9.511                           | 311.425                                       |
| Derivative contracts       | 2.767   | 7.792  | (10.331)  | 1.159                           | 1.387   |
|                            | <b>6,253.047</b>                              | <b>3,316.848</b>   | <b>(3,269.918)</b>                                    | <b>(19.785)</b>                 | <b>6,280.192</b>                              |
| Cash deposits              | 113.947                                       | 32.367   | (17.890)  | 0.375                           | 128.799                                       |
| Other investment balances  | (8.480)                                       | 11.750   | (2.430)   | 0.147                           | 0.987   |
| <b>Total investments</b>   | <b>6,358.514</b>                              | <b>3,360.965</b>   | <b>(3,290.238)</b>                                    | <b>(19.263)</b>                 | <b>6,409.978</b>                              |

The previous year equivalents are shown in the table on the next page.

## Section 7 – Tyne and Wear Pension Fund Statements

| 2014/15<br>(as restated)   | Value at 31 <sup>st</sup><br>March 2014<br>£m | Purchases<br>at cost and<br>derivative<br>payments<br>£m | Sales<br>proceeds and<br>derivative<br>receipts<br>£m | Change in<br>market value<br>£m | Value at 31 <sup>st</sup><br>March 2015<br>£m |
|----------------------------|---|--|---|---------------------------------|---|
| Fixed interest securities  | 51.221  | 300.869  | (298.817)   | 5.511                           | 58.784  |
| Equities                   | 2,649.607                                     | 1,236.078  | (1,187.378)   | 310.113                         | 3,008.420                                     |
| Index-linked securities    | 47.268  | 141.897  | (143.336)   | 10.033                          | 55.862  |
| Pooled investment vehicles | 2,578.373                                     | 262.290  | (323.232)   | 306.783                         | 2,824.214                                     |
| Properties                 | 263.155                                       | 55.788   | (38.955)  | 23.012                          | 303.000                                       |
| Derivative contracts       | (0.153)                                       | 6.743  | (10.464)  | 6.641                           | 2.767   |
|                            | <b>5,589.471</b>                              | <b>2,003.665</b>   | <b>(2,002.182)</b>                                    | <b>662.093</b>                  | <b>6,253.047</b>                              |
| Cash deposits              | 118.321                                       | 8.722  | (17.460)  | 4.364                           | 113.947                                       |
| Other investment balances  | 5.680   | 1.111  | (15.203)  | (0.068)                         | (8.480)                                       |
| <b>Total investments</b>   | <b>5,713.472</b>                              | <b>2,013.498</b>   | <b>(2,034.845)</b>                                    | <b>666.389</b>                  | <b>6,358.514</b>                              |

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
|                                      | <b>Fixed interest securities</b>                           |                                      |
| 58.784                               | UK public sector   | 56.115                               |
| <b>58.784</b>                        | <b>Total fixed interest securities</b>                     | <b>56.115</b>                        |
|                                      | <b>Equities</b>  |                                      |
| 889.707                              | UK quoted  | 780.963                              |
| 1,739.893                            | Overseas quoted  | 1,074.032                            |
| 378.820                              | Overseas unquoted  | 379.180                              |
| <b>3,008.420</b>                     | <b>Total equities</b>                                      | <b>2,234.175</b>                     |
| <b>55.862</b>                        | <b>Total UK public sector index-linked securities</b>      | <b>58.342</b>                        |
|                                      | <b>Pooled investment vehicles</b>                          |                                      |
| 0.284                                | Unit trusts  | 0.273                                |
| 1,477.167                            | Unitised insurance policies                                | 2,307.286                            |
| 1,346.763                            | Other managed funds  | 1,311.189                            |
| <b>2,824.214</b>                     | <b>Total pooled investment vehicles</b>                    | <b>3,618.748</b>                     |
| <b>2.767</b>                         | <b>Total forward foreign currency derivative contracts</b> | <b>1.387</b>                         |
|                                      | <b>Properties</b>  |                                      |
| 258.500                              | Freehold   | 267.775                              |
| 44.500                               | Long leasehold   | 43.650                               |
| <b>303.000</b>                       | <b>Total properties</b>                                    | <b>311.425</b>                       |
|                                      | <b>Cash deposits</b>                                       |                                      |
| 90.146                               | Sterling   | 122.513                              |
| 23.801                               | Foreign currency   | 6.286                                |
| <b>113.947</b>                       | <b>Total cash deposits</b>                                 | <b>128.799</b>                       |
|                                      | <b>Other investment balances</b>                           |                                      |
| (15.984)                             | Outstanding trades   | (4.642)                              |
| 11.749                               | Outstanding dividends and tax recoveries                   | 9.995                                |
| 1.037                                | Debtors  | 1.445                                |
| (5.282)                              | Creditors  | (5.811)                              |
| <b>(8.480)</b>                       | <b>Total other investment balances</b>                     | <b>0.987</b>                         |
| <b>6,358.514</b>                     | <b>Total investments</b>                                   | <b>6,409.978</b>                     |

## Section 7 – Tyne and Wear Pension Fund Statements

Property related transaction costs are included in the cost of purchases and in sale proceeds. These costs include costs charged directly to the Fund such as commissions, stamp duty, taxes and professional fees associated with property developments and purchases.

### 11. Financial Instruments

#### Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement headings. No financial assets have been reclassified during the financial year.

| 31 <sup>st</sup> March 2015                            |                             |   | 31 <sup>st</sup> March 2016                            |                             |   |
|--|-----------------------------|---|--|-----------------------------|---|
| Designated as fair value through profit and loss<br>£m | Loans and receivables<br>£m | Financial liabilities at amortised cost<br>£m | Designated as fair value through profit and loss<br>£m | Loans and receivables<br>£m | Financial liabilities at amortised cost<br>£m |
| <b>Financial assets</b>                                |                             |   |  |                             |   |
| 58.784   | -                           | -   | 56.115   | -                           | -   |
| 3,008.420  | -                           | -   | 2,234.175  | -                           | -   |
| 55.862   | -                           | -   | 58.342   | -                           | -   |
| 2,824.214  | -                           | -   | 3,618.748  | -                           | -   |
| 5.480  | -                           | -   | 3.232  | -                           | -   |
| 303.000  | -                           | -   | 311.425  | -                           | -   |
| -  | 113.947                     | -   | -  | 128.799                     | -   |
| 11.749   | -                           | -   | 9.995  | -                           | -   |
| -  | 29.723                      | -   | -  | 29.611                      | -   |
| <b>6,267.509</b>                                       | <b>143.670</b>              | -   | <b>6,292.032</b>                                       | <b>158.410</b>              | -   |
| <b>Financial liabilities</b>                           |                             |   |  |                             |   |
| (2.713)  | -                           | -   | (1.845)  | -                           | -   |
| (15.984)   | -                           | -   | (4.642)  | -                           | -   |
| -  | -                           | -   | -  | -                           | -   |
| -  | -                           | (14.158)                                      | -  | -                           | (16.265)                                      |
| <b>(18.697)</b>  | -                           | <b>(14.158)</b>                               | <b>(6.487)</b>   | -                           | <b>(16.265)</b>                               |
| <b>6,248.812</b>                                       | <b>143.670</b>              | <b>(14.158)</b>                               | <b>6,285.545</b>                                       | <b>158.410</b>              | <b>(16.265)</b>                               |

#### Net gains and losses on financial instruments

| 31 <sup>st</sup> March 2015<br>(as restated)<br>£m |                                    | 31 <sup>st</sup> March 2016<br>£m |
|--|------------------------------------|-----------------------------------|
| <b>Financial assets</b>                            |                                    |                                   |
| 662.025  | Fair value through profit and loss | (19.638)                          |
| <b>Financial liabilities</b>                       |                                    |                                   |
| 4.364  | Fair value through profit and loss | 0.375                             |
| <b>666.389</b>                                     | <b>Total</b>                       | <b>(19.263)</b>                   |

## Section 7 – Tyne and Wear Pension Fund Statements

### Valuation of financial instruments carried at fair value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

#### Level 1

Financial instruments are Level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

#### Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where valuation techniques are used to determine fair value and where the techniques use inputs that are based significantly on observable market data. Assets in this level are comprised of UK property valued independently by professional valuers.

#### Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the value on the instrument is not based on observable market data.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Fund's private market investments include private equity, private real estate and private infrastructure funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31<sup>st</sup> March 2016 valuation and a 31<sup>st</sup> December 2015 valuation adjusted for cash flows and rolled forward to 31<sup>st</sup> March 2016 as appropriate.

The tables on the next page provides an analysis of the financial assets and liabilities of the Fund into Levels 1 to 3 at fair value.



## Section 7 – Tyne and Wear Pension Fund Statements

| Value at 31 <sup>st</sup> March 2016                        | Quoted           | Using          | With             | Total            |
|---|------------------|----------------|------------------|------------------|
|   | market price     | observable     | significant      |                  |
|   |                  | inputs         | unobservable     |                  |
|   | Level 1          | Level 2        | Level 3          |                  |
|   | £m               | £m             | £m               | £m               |
| <b>Financial assets</b>                                     |                  |                |                  |                  |
| Financial assets at fair value through profit and loss      | 4,930.514        | 314.657        | 1,046.861        | 6,292.032        |
| Loans and receivables                                       | 158.060          | -              | -                | 158.060          |
| <b>Total financial assets</b>                               | <b>5,088.574</b> | <b>314.657</b> | <b>1,046.861</b> | <b>6,450.092</b> |
| <b>Financial liabilities</b>                                |                  |                |                  |                  |
| Financial liabilities at fair value through profit and loss | -                | (1.845)        | -                | (1.845)          |
| Financial liabilities at amortised cost                     | (20.877)         | -              | -                | (20.877)         |
| <b>Total financial liabilities</b>                          | <b>(20.877)</b>  | <b>(1.845)</b> | <b>-</b>         | <b>(22.722)</b>  |
| <b>Net financial assets</b>                                 | <b>5,067.697</b> | <b>312.812</b> | <b>1,046.861</b> | <b>6,427.370</b> |

| Value at 31 <sup>st</sup> March 2015                        | Quoted           | Using          | With             | Total            |
|---|------------------|----------------|------------------|------------------|
|   | market price     | observable     | significant      |                  |
|   |                  | inputs         | unobservable     |                  |
|   | Level 1          | Level 2        | Level 3          |                  |
|   | £m               | £m             | £m               | £m               |
| <b>Financial assets</b>                                     |                  |                |                  |                  |
| Financial assets at fair value through profit and loss      | 4,931.406        | 308.480        | 1,015.874        | 6,255.760        |
| Loans and receivables                                       | 155.419          | -              | -                | 155.419          |
| <b>Total financial assets</b>                               | <b>5,086.825</b> | <b>308.480</b> | <b>1,015.874</b> | <b>6,411.179</b> |
| <b>Financial liabilities</b>                                |                  |                |                  |                  |
| Financial liabilities at fair value through profit and loss | -                | (2.713)        | -                | (2.713)          |
| Financial liabilities at amortised cost                     | (30.142)         | -              | -                | (30.142)         |
| <b>Total financial liabilities</b>                          | <b>(30.142)</b>  | <b>(2.713)</b> | <b>-</b>         | <b>(32.855)</b>  |
| <b>Net financial assets</b>                                 | <b>5,056.683</b> | <b>305.767</b> | <b>1,015.874</b> | <b>6,378.324</b> |

### 12. Nature and extent of risks arising from Financial Instruments

#### Risk and Risk Management

The Fund's investment objective is:

To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and member contributions, will meet the cost of benefits;

and

to keep contributions as low and as stable as possible through effective management of the assets.

The Fund's primary long term risk is that it will be unable to meet its liability to pay the promised benefits to members from the assets that it holds.

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

## Section 7 – Tyne and Wear Pension Fund Statements

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the Statement of Investment Principles.

The analysis in the tables in this section is on a look through basis. This differs from the analysis in note 10 which is compiled under accounting standards.

### **Market Risk**

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

### **Other Price Risk**

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

### **Other Price Risk – Sensitivity Analysis**

In consultation with its performance and risk advisors and investment advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the movements in market price risk are reasonably possible for the 2016/17 financial year as shown in the table on the next page.

## Section 7 – Tyne and Wear Pension Fund Statements

| Asset type              | Potential market movements (+/-) % |
|-------------------------|------------------------------------|
| UK equities             | 11.4                               |
| Overseas equities       | 11.3                               |
| Global equities         | 10.1                               |
| UK bonds                | 6.1                                |
| Overseas bonds          | 10.7                               |
| Index-linked securities | 9.2                                |
| UK property             | 5.7                                |
| Overseas property       | 8.3                                |
| Private equity          | 12.0                               |
| Infrastructure          | 8.9                                |
| Cash                    | -                                  |

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged.

Had the market price of the Fund's investments increased or decreased in line with the above table, the change in the net assets available to pay benefits is as shown in the following table. The comparable figures for the previous year are also shown in the table on the next page.

| Asset type                    | 31 <sup>st</sup> March 2016 | Percentage change | Value on increase | Value on decrease |
|-------------------------------|-----------------------------|-------------------|-------------------|-------------------|
|                               | £m                          | %                 | £m                | £m                |
| UK equities                   | 1,437.981                   | 11.4              | 1,601.911         | 1,274.051         |
| Overseas equities             | 1,686.881                   | 11.3              | 1,877.499         | 1,496.263         |
| Global equities               | 585.833                     | 10.1              | 645.002           | 526.664           |
| UK bonds                      | 995.754                     | 6.1               | 1,056.495         | 935.013           |
| Overseas bonds                | 37.079                      | 10.7              | 41.046            | 33.112            |
| Index-linked securities       | 143.334                     | 9.2               | 156.521           | 130.147           |
| UK property                   | 311.425                     | 5.7               | 329.176           | 293.674           |
| Overseas property             | 348.889                     | 8.3               | 377.847           | 319.931           |
| Private equity                | 549.325                     | 12.0              | 615.244           | 483.406           |
| Infrastructure                | 155.625                     | 8.9               | 169.476           | 141.774           |
| Active currency               | 0.273                       | -                 | 0.273             | 0.273             |
| Cash and cash equivalents     | 150.839                     | -                 | 150.839           | 150.839           |
| Forward currency contracts    | 1.387                       | -                 | 1.387             | 1.387             |
| Investment income due         | 9.995                       | -                 | 9.995             | 9.995             |
| Amounts due for sales         | 8.603                       | -                 | 8.603             | 8.603             |
| Amounts payable for purchases | (13.245)                    | -                 | (13.245)          | (13.245)          |
| <b>Total</b>                  | <b>6,409.978</b>            |                   | <b>7,028.069</b>  | <b>5,791.887</b>  |

## Section 7 – Tyne and Wear Pension Fund Statements

| Asset type                    | 31 <sup>st</sup> March 2015 | Percentage change | Value on increase | Value on decrease |
|-------------------------------|-----------------------------|-------------------|-------------------|-------------------|
|                               | £m                          | %                 | £m                | £m                |
| UK equities                   | 1,621.791                   | 17.0              | 1,897.495         | 1,346.087         |
| Overseas equities             | 2,051.427                   | 20.0              | 2,461.712         | 1,641.142         |
| UK bonds                      | 991.513                     | 12.0              | 1,110.495         | 872.531           |
| Overseas bonds                | 36.519                      | 10.4              | 40.317            | 32.721            |
| Index-linked securities       | 139.197                     | 7.0               | 148.941           | 129.453           |
| UK property                   | 303.000                     | 15.0              | 348.450           | 257.550           |
| Overseas property             | 310.825                     | 20.0              | 372.990           | 248.660           |
| Private equity                | 572.709                     | 28.0              | 733.068           | 412.350           |
| Infrastructure                | 139.985                     | 15.0              | 160.983           | 118.987           |
| Active currency               | 69.582                      | 20.0              | 83.498            | 55.666            |
| Cash and cash equivalents     | 127.679                     | 1.0               | 128.956           | 126.402           |
| Forward currency contracts    | 2.767                       | -                 | 2.767             | 2.767             |
| Investment income due         | 11.749                      | -                 | 11.749            | 11.749            |
| Amounts due for sales         | 1.037                       | -                 | 1.037             | 1.037             |
| Amounts payable for purchases | (21.266)                    | -                 | (21.266)          | (21.266)          |
| <b>Total</b>                  | <b>6,358.514</b>            |                   | <b>7,481.192</b>  | <b>5,235.836</b>  |

### Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31<sup>st</sup> March 2015 and 31<sup>st</sup> March 2016 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

| Asset type                | 31 <sup>st</sup> March 2015 | 31 <sup>st</sup> March 2016 |
|---------------------------|-----------------------------|-----------------------------|
|                           | £m                          | £m                          |
| Cash and cash equivalents | 127.679                     | 150.839                     |
| Fixed interest securities | 1,028.032                   | 1,032.833                   |
| Index-linked securities   | 139.197                     | 143.334                     |
| <b>Total</b>              | <b>1,294.908</b>            | <b>1,327.006</b>            |

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The table on the following page shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

## Section 7 – Tyne and Wear Pension Fund Statements

| Asset type                | Value at 31 <sup>st</sup> | Change in net asset |                  |
|---------------------------|---------------------------|---------------------|------------------|
|                           | March 2016                | values              |                  |
|                           | £m                        | +1%                 | -1%              |
| Cash and cash equivalents | 150.839                   | 152.347             | 149.331          |
| Fixed interest securities | 1,032.833                 | 1,043.161           | 1,022.505        |
| Index-linked securities   | 143.334                   | 144.767             | 141.901          |
| <b>Total</b>              | <b>1,327.006</b>          | <b>1,340.275</b>    | <b>1,313.737</b> |

| Asset type                | Value at 31 <sup>st</sup> | Change in net asset |                  |
|---------------------------|---------------------------|---------------------|------------------|
|                           | March 2015                | values              |                  |
|                           | £m                        | +1%                 | -1%              |
| Cash and cash equivalents | 127.679                   | 128.956             | 126.402          |
| Fixed interest securities | 1,028.032                 | 1,038.312           | 1,017.752        |
| Index-linked securities   | 139.197                   | 140.589             | 137.805          |
| <b>Total</b>              | <b>1,294.908</b>          | <b>1,307.857</b>    | <b>1,281.959</b> |

### Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The following table shows the Fund's currency exposures as at 31<sup>st</sup> March 2016 and at 31<sup>st</sup> March 2015:

| Asset type                          | Value at 31 <sup>st</sup> | Value at 31 <sup>st</sup> |
|-------------------------------------|---------------------------|---------------------------|
|                                     | March 2015                | March 2016                |
|                                     | (as restated)             |                           |
|                                     | £m                        | £m                        |
| Overseas fixed interest             | 36.519                    | 37.079                    |
| Overseas quoted equities            | 2,051.427                 | 2,221.153                 |
| Overseas unquoted equities          | 378.820                   | 379.180                   |
| Overseas pooled investment vehicles | 591.819                   | 624.433                   |
| Forward currency contracts          | 2.767                     | 1.387                     |
| Overseas currency                   | 31.461                    | 24.587                    |
| <b>Total</b>                        | <b>3,092.813</b>          | <b>3,287.819</b>          |

### Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the Investment Advisor, the Fund considers the likely volatility associated with foreign exchange to be 13%.

The table on the following page shows the impact of a 13% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens. The comparable figures for the previous year are also shown.

## Section 7 – Tyne and Wear Pension Fund Statements

| Asset type                          | Value at 31 <sup>st</sup><br>March 2016 | Change in net asset values |                  |
|-------------------------------------|---|----------------------------|------------------|
|                                     | £m                                      | +13%<br>£m                 | -13%<br>£m       |
| Overseas fixed interest             | 37.079                                  | 41.899                     | 32.259           |
| Overseas quoted equities            | 2,221.153                               | 2,509.903                  | 1,932.403        |
| Overseas unquoted equities          | 379.180                                 | 428.473                    | 329.887          |
| Overseas pooled investment vehicles | 624.433                                 | 705.609                    | 543.257          |
| Forward currency contracts          | 1.387                                   | 1.567                      | 1.207            |
| Overseas currency                   | 24.587                                  | 27.783                     | 21.391           |
| <b>Total</b>                        | <b>3,287.819</b>                        | <b>3,715.234</b>           | <b>2,860.404</b> |

| Asset type                          | Value at 31 <sup>st</sup><br>March 2015 | Change in net asset values |                  |
|-------------------------------------|---|----------------------------|------------------|
|                                     | £m                                      | +13%<br>£m                 | -13%<br>£m       |
| Overseas fixed interest             | 36.519                                  | 41.266                     | 31.772           |
| Overseas quoted equities            | 2,051.427                               | 2,318.113                  | 1,784.741        |
| Overseas unquoted equities          | 378.820                                 | 428.067                    | 329.573          |
| Overseas pooled investment vehicles | 591.819                                 | 668.755                    | 514.883          |
| Forward currency contracts          | 2.767                                   | 3.127                      | 2.407            |
| Overseas currency                   | 31.461                                  | 35.551                     | 27.371           |
| <b>Total</b>                        | <b>3,092.813</b>                        | <b>3,494.879</b>           | <b>2,690.747</b> |

### Manager Risk

Manager risk is the risk that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each investment manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views, relative to their respective benchmarks.

The Pension Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

### Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken into account.

To this end, almost all of the Fund's investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions.

Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

## Section 7 – Tyne and Wear Pension Fund Statements

The Fund's cash holding under its internal treasury management arrangements as at 31<sup>st</sup> March 2016 was £71.050m (£23.690m in 2014/15). The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Capita Asset Services. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Capita Asset Services listing of approved institutions.

The internally managed cash was held with the following institutions:

|                              | Rating | Value at 31 <sup>st</sup><br>March 2015<br>£m | Value at 31 <sup>st</sup><br>March 2016<br>£m |
|------------------------------|--------|---|---|
| <b>Money Market Funds</b>    |        |   |   |
| Federated                    | AAA    | 6.650   | 14.380  |
| Insight                      | AAA    | -   | 14.000  |
| Legal and General            | AAA    | -   | 8.750   |
| Standard Life (Igris )       | AAA    | 14.120  | 10.870  |
| Deutsche Bank                | AAA    | -   | 2.500   |
| <b>Bank Deposit Accounts</b> |        |   |   |
| NatWest                      | A      | 2.920   | 0.550   |
| Santander                    | A      | -   | 5.000   |
| Nationwide Building Society  | A      | -   | 5.000   |
| Lloyds Bank (32 day)         | A+     | -   | 10.000  |
| <b>Total</b>                 |        | <b>23.690</b>                                 | <b>71.050</b>                                 |

### Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. This is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of the 31<sup>st</sup> March 2016.

## Section 7 – Tyne and Wear Pension Fund Statements

### 13. Current Assets and Liabilities

| 31 <sup>st</sup> March<br>2015<br>£m |  | 31 <sup>st</sup> March<br>2016<br>£m |
|--------------------------------------|--|--------------------------------------|
|                                      | <b>Current assets</b>                                |                                      |
| 4.823                                | Contributions due - members                          | 4.745                                |
| 22.675                               | Contributions and recharges due - employers          | 22.421                               |
| 1.172                                | Investment management expenses                       | 0.651                                |
| 0.016                                | Other  | (0.001)                              |
| <b>28.686</b>                        | <b>Total current assets</b>                          | <b>27.816</b>                        |
|                                      | <b>Current liabilities</b>                           |                                      |
| (2.848)                              | Unpaid benefits                                      | (3.287)                              |
| (0.467)                              | Contributions, recharges and refunds due - employers | (1.048)                              |
| (2.439)                              | HMRC - Tax deducted from pensions                    | (2.787)                              |
| (2.664)                              | Investment management expenses                       | (2.320)                              |
| (0.458)                              | Other  | (0.982)                              |
| <b>(8.876)</b>                       | <b>Total current liabilities</b>                     | <b>(10.424)</b>                      |

#### Further analysis of debtors and creditors

Current assets can be further analysed, as follows:

| 31 <sup>st</sup> March<br>2015 |   | 31 <sup>st</sup> March<br>2016 |
|--------------------------------|---|--------------------------------|
| 13.729                         | Other local authorities                     | 16.260                         |
| 0.016                          | NHS bodies                                  | 0.004                          |
| 10.396                         | Public corporations and other trading funds | 10.847                         |
| 4.545                          | Other entities and individuals              | 0.705                          |
| <b>28.686</b>                  | <b>Total current assets</b>                 | <b>27.816</b>                  |

Current liabilities can be further split as follows:

| 31 <sup>st</sup> March<br>2015 |   | 31 <sup>st</sup> March<br>2016 |
|--------------------------------|---|--------------------------------|
| (2.439)                        | Central government bodies                   | (2.786)                        |
| (0.467)                        | Other local authorities                     | (0.007)                        |
| (2.664)                        | Public corporations and other trading funds | (3.568)                        |
| (3.306)                        | Other entities and individuals              | (4.063)                        |
| <b>(8.876)</b>                 | <b>Total current liabilities</b>            | <b>(10.424)</b>                |

### 14. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the Local Government Pension Scheme, with the contributions being invested as part of the Fund's assets.



## Section 7 – Tyne and Wear Pension Fund Statements

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

Equitable Life has experienced financial difficulties that arose from some of its financial products that carry guaranteed returns. With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members, contributions from existing members and transfers. A significant proportion of investors in funds operated by Equitable Life have had their balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2015/16, £1.863m of contribution income was received into the AVC funds provided by The Prudential (£1.359m in 2014/15). As at 31<sup>st</sup> March 2016, these funds were valued at £10.818m (£10.160m in 2014/15).

During 2015/16, £0.001m of contribution income was received into the AVC funds provided by Equitable Life (£0.001m in 2014/15). As at 31<sup>st</sup> March 2016, these funds were valued at £0.086m (£0.095m in 2014/15).

The funds are valued on a bid basis by each of the providers and take no account of accruals.

### 15. Analysis of Investments Over Managers

The Fund employed eleven external investment managers as at 31<sup>st</sup> March 2016. Each manager is a specialist in the market in which they invest. This broadly based management structure seeks to ensure that investment returns are not overly influenced by the performance of any one manager.

The Fund also has investment programmes across the three alternative asset classes of Private Equity, Infrastructure and Global Property.

The Private Equity programme is well diversified across providers, geography, industry and vintage years. The Fund has made commitments to fund of funds provided by HarbourVest and Pantheon, secondary funds managed by HarbourVest, Lexington Partners and Collier Capital and direct funds with HarbourVest, Capital International, Lexington Partners and Partners Group.

The Fund has invested in Infrastructure through funds provided by Partners Group and Infracapital.

Investment in Global Property is through funds provided by Partners Group.

## Section 7 – Tyne and Wear Pension Fund Statements

The market value of the investments with each manager was:

| 31 <sup>st</sup> March 2015<br>£m |               |   | 31 <sup>st</sup> March 2016<br>£m |               |  |
|-----------------------------------|---------------|---|-----------------------------------|---------------|--|
| <b>Investment managers</b>        |               |   |                                   |               |  |
| 303.000                           | 4.8%          | Aberdeen Property Investors             | 311.425                           | 4.9%          |  |
| 287.258                           | 4.5%          | BlackRock                               | 286.454                           | 4.5%          |  |
| 483.117                           | 7.6%          | Henderson Global Investors              | 486.405                           | 7.6%          |  |
| 789.120                           | 12.4%         | JP Morgan Asset Management              | 500.598                           | 7.8%          |  |
| 154.535                           | 2.4%          | Lazard Asset Management                 | 120.970                           | 1.9%          |  |
| 1,027.556                         | 16.2%         | Legal and General Investment Management | 1,854.052                         | 28.9%         |  |
| 566.600                           | 8.9%          | M&G Investments                         | 568.223                           | 8.9%          |  |
| 274.535                           | 4.3%          | Mirabaud Investment Management          | 270.318                           | 4.2%          |  |
| 669.107                           | 10.5%         | Sarasin and Partners                    | 411.256                           | 6.4%          |  |
| 61.286                            | 1.0%          | TT International                        | 58.518                            | 0.9%          |  |
| 591.948                           | 9.3%          | UBS Global Asset Management             | 392.377                           | 6.1%          |  |
| 69.582                            | 1.1%          | Active Currency                         | 0.273                             | 0.0%          |  |
| 572.709                           | 9.0%          | Private Equity                          | 549.325                           | 8.6%          |  |
| 139.985                           | 2.2%          | Infrastructure                          | 155.625                           | 2.4%          |  |
| 310.825                           | 4.9%          | Global Property                         | 348.889                           | 5.4%          |  |
| 57.351                            | 0.9%          | Managed in-house                        | 95.270                            | 1.5%          |  |
| <b>6,358.514</b>                  | <b>100.0%</b> | <b>Total investments</b>                | <b>6,409.978</b>                  | <b>100.0%</b> |  |

MF Global, a broker used for active currency, went into administration on 31<sup>st</sup> October 2011. As at 31<sup>st</sup> March 2015 the Fund had £0.145m outstanding with this company through a position in an active currency fund. This amount is included in the Active Currency Line Above. During the year a further £0.031m has been recovered from this broker, leaving an amount of outstanding of £0.114m as at 31<sup>st</sup> March 2016. In addition, the active currency fund this position relates to has now been closed. Whilst attempts are still being made to recover this amount it is uncertain whether this will be received in full. As the investment this amount relates to is no longer in place this has been excluded from the table above as at 31<sup>st</sup> March 2016.

### 16. Investment Performance

The 2015/16 year produced mixed returns from the major equity markets. The strongest performing market was the US which rose by 4.25% with the next being Japan with a loss of 3.30%. The weakest performing markets were Emerging Markets and Asia Ex Japan which finished the year down by 9.00% and 5.00% respectively.

The Fund's return for the year was 0.30%, which was 0.10% below its benchmark return of 0.40%. Inflation, as measured by the Consumer Price Index, was up 0.50% for the year whilst average earnings increased by 2.00%.

Pension fund returns are generally assessed over at least five-year periods in order to avoid taking too short-term a view of investment performance. The Fund's annual return over the last five years has been 6.50% per annum, which was 0.10% below the benchmark return of 6.60%. The five year return is above both inflation at 1.70% per annum and the increase in average earnings at 1.60% per annum.

## Section 7 – Tyne and Wear Pension Fund Statements

The Fund's annual return over the last ten years has been 5.50% per annum, which was 0.10% below the benchmark return of 5.60%. These returns are above inflation at 2.40% per annum and the increase in average earnings at 3.10% per annum.

### 17. Taxation

#### UK Tax

The Fund is an exempt approved fund and is not liable to income tax or capital gains tax. It is not registered separately from the Council for VAT and therefore can recover its input tax.

All investment income in the accounts has been shown gross of UK income tax and the non-recoverable element has been shown as an expense.

#### Overseas Tax

The Fund is subject to withholding tax in certain overseas countries. In all such cases, the investment income has been grossed up and non-recoverable tax has been shown as an expense.

### 18. Derivatives

The Fund has used a number of derivative instruments as part of its investment strategy and to assist with efficient portfolio management.

#### Futures

The Fund did not hold any Futures contracts as at 31<sup>st</sup> March 2016 and 31<sup>st</sup> March 2015.

#### Forward Currency Contracts

The Fund has used forward currency contracts to hedge the currency exposure on certain overseas investments. As at 31<sup>st</sup> March 2016, the Fund held seventeen positions in foreign currency that together showed an unrealised gain of £1.387m, as shown in the table on the following page.

## Section 7 – Tyne and Wear Pension Fund Statements

### Type of Forward Currency Contracts

| Settlement  | Type of Contract | Currency Bought   | Currency Sold    | Market Value £m |                |
|---|------------------|-------------------|------------------|-----------------|----------------|
| Three month   | Over the Counter | Sterling          | Swiss Franc      | (0.272)         |                |
| Three month   | Over the Counter | Sterling          | Euro             | (0.962)         |                |
| Three month   | Over the Counter | Sterling          | Hong Kong Dollar | (0.020)         |                |
| Three month   | Over the Counter | Sterling          | Yen              | (0.152)         |                |
| Three month   | Over the Counter | Sterling          | Norwegian Krone  | (0.125)         |                |
| Three month   | Over the Counter | Sterling          | Swedish Krona    | (0.101)         |                |
| Three month   | Over the Counter | Sterling          | US Dollar        | (0.085)         |                |
| Three month   | Over the Counter | US Dollar         | Sterling         | (0.128)         |                |
| <b>Loss/Liability Value as at 31<sup>st</sup> March 2016</b>        |                  |                   |                  |                 | <b>(1.845)</b> |
| Three month   | Over the Counter | Sterling          | US Dollar        | 0.089           |                |
| Three month   | Over the Counter | Australian Dollar | Sterling         | 0.828           |                |
| Three month   | Over the Counter | Canadian Dollar   | Sterling         | 0.985           |                |
| Three month   | Over the Counter | Swiss Franc       | Sterling         | 0.252           |                |
| Three month   | Over the Counter | Danish Krone      | Sterling         | 0.081           |                |
| Three month   | Over the Counter | Euro              | Sterling         | 0.248           |                |
| Three month   | Over the Counter | Yen               | Sterling         | 0.329           |                |
| Three month   | Over the Counter | Singapore Dollar  | Sterling         | 0.219           |                |
| Three month   | Over the Counter | US Dollar         | Sterling         | 0.201           |                |
| <b>Profit/Asset Value as at 31<sup>st</sup> March 2016</b>          |                  |                   |                  |                 | <b>3.232</b>   |
| <b>Net Forward Currency Contracts at 31<sup>st</sup> March 2016</b> |                  |                   |                  |                 | <b>1.387</b>   |

The contracts were settled at a profit of £1.893m early in the 2016/17 financial year.

### 19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £136.537m (£204.298m in 2014/15) were out on loan as at 31<sup>st</sup> March 2016. The breakdown of securities on loan was:

| 31 <sup>st</sup> March 2015 |                                 | 31 <sup>st</sup> March 2016 |  |
|-----------------------------|---------------------------------|-----------------------------|--|
| £m                          |                                 | £m                          |  |
| 6.178                       | Fixed interest securities       | 16.386                      |  |
| -                           | Index-linked securities         | 0.040                       |  |
| 65.300                      | UK equities                     | 51.461                      |  |
| 132.820                     | Overseas equities               | 68.650                      |  |
| <b>204.298</b>              | <b>Total securities lending</b> | <b>136.537</b>              |  |

The value of collateral against which the securities were lent out was £145.810m (£224.160m in 2014/15). This collateral consisted of acceptable securities, government debt and obligations issued by supranational entities.

### 20. Property Holdings

| 31 <sup>st</sup> March 2015 |                              | 31 <sup>st</sup> March 2016 |  |
|-----------------------------|------------------------------|-----------------------------|--|
| £m                          |                              | £m                          |  |
| <b>Property holdings</b>    |                              |                             |  |
| 263.155                     | Opening balance              | 303.000                     |  |
| 55.788                      | Additions                    | 32.439                      |  |
| (38.955)                    | Disposals                    | (33.525)                    |  |
| 23.012                      | Net increase in market value | 9.511                       |  |
| <b>303.000</b>              | <b>Closing balance</b>       | <b>311.425</b>              |  |

## Section 7 – Tyne and Wear Pension Fund Statements

There are no restrictions on the realisability of a property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The future minimum lease payments receivable by the Fund are as follows:

| <b>31<sup>st</sup> March<br/>2015</b> |                                | <b>31<sup>st</sup> March<br/>2016</b> |
|---------------------------------------|--------------------------------|---------------------------------------|
| <b>£m</b>                             |                                | <b>£m</b>                             |
| 16.441                                | Within one year                | 17.676                                |
| 61.332                                | Between one and five years     | 61.768                                |
| 145.576                               | Later than five years          | 144.421                               |
| <b>223.349</b>                        | <b>Minimum due from leases</b> | <b>223.865</b>                        |

### 21. Significant Holdings

As at 31<sup>st</sup> March 2016, the Fund had two holdings that each represented more than 5% of the total Fund value. Both holdings are without-profit insurance contracts that provide access to a pool of underlying assets. The values have been determined by reference to the underlying assets using price feeds from markets. These holdings are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund. As at 31<sup>st</sup> March 2016, this was valued at £1,854.052m (£1,027.556m in 2014/15) and represented 28.9% of the total net assets of the Fund. During 2015/16, the insurance contract was limited to ten individual funds, each representing a different asset class, as shown in the following table:

| <b>31<sup>st</sup> March 2015</b> |   | <b>31<sup>st</sup> March 2016</b> |
|-----------------------------------|---|-----------------------------------|
| <b>£m</b>                         |   | <b>£m</b>                         |
| 739.730                           | UK equities                               | 663.996                           |
| -                                 | Asia Pacific (excluding Japan) equities   | 78.903                            |
| 118.698                           | Emerging markets equities                 | 137.418                           |
| 2.067                             | Europe (ex UK) equities                   | 86.573                            |
| -                                 | Japan equities                            | 48.075                            |
| 47.207                            | North America equities                    | 131.175                           |
| -                                 | RAFI global equities                      | 585.833                           |
| 83.335                            | Index-linked gilts                        | 84.991                            |
| 36.519                            | Emerging markets passive Government Bonds | 37.079                            |
| -                                 | Transition                                | 0.009                             |
| <b>1,027.556</b>                  | <b>Total</b>                              | <b>1,854.052</b>                  |

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31<sup>st</sup> March 2016, this was valued at £568.223m (£449.611m in 2014/15) and represented 8.9% of the total net assets of the Fund.

# Section 7 – Tyne and Wear Pension Fund Statements

## 22. Outstanding Commitments

As at the 31<sup>st</sup> March 2016 the fund had fifty-five outstanding commitments as shown below;

| Name of Fund  | Year | Value   | Drawdowns | Commitment Outstanding |               |
|---|------|---------|-----------|------------------------|---------------|
|   |      |         | Made      | m                      | m             |
|   |      | m       | m         | m                      | m             |
| HarbourVest International Private Equity Partners IV                | 2002 | \$55.0  | \$53.6    | \$1.4                  | £1.0          |
| HarbourVest Partners VII Cayman Buyout Fund                         | 2002 | \$46.0  | \$43.4    | \$2.6                  | £1.8          |
| HarbourVest Partners VII Cayman Mezzanine Fund                      | 2002 | \$8.0   | \$7.5     | \$0.5                  | £0.3          |
| HarbourVest Partners VII Cayman Venture Fund                        | 2002 | \$28.0  | \$27.3    | \$0.7                  | £0.5          |
| Capital International Private Equity Fund IV                        | 2004 | \$18.0  | \$17.7    | \$0.3                  | £0.2          |
| HarbourVest International Private Equity Partners V - Partnership   | 2005 | €100.0  | €95.0     | €5.0                   | £4.0          |
| HarbourVest International Private Equity Partners V - Direct        | 2005 | €30.0   | €28.8     | €1.2                   | £1.0          |
| Pantheon Asia Fund IV   | 2005 | €20.0   | €18.8     | €1.2                   | £0.8          |
| Pantheon Europe Fund IV   | 2005 | €25.0   | €23.4     | €1.6                   | £1.3          |
| Pantheon USA Fund VI  | 2005 | \$30.0  | \$28.3    | \$1.7                  | £1.2          |
| Lexington Capital Partners VI-B                                     | 2005 | \$30.0  | \$29.5    | \$0.5                  | £0.3          |
| HarbourVest Partners VIII Cayman Buyout Fund                        | 2006 | \$112.0 | \$102.5   | \$9.5                  | £6.6          |
| HarbourVest Partners VIII Cayman Venture Fund                       | 2006 | \$56.0  | \$54.6    | \$1.4                  | £1.0          |
| Pantheon Europe Fund V  | 2006 | €35.0   | €31.9     | €3.1                   | £2.5          |
| Pantheon USA Fund VII   | 2006 | \$35.0  | \$31.7    | \$3.3                  | £2.3          |
| Coller International Partners V                                     | 2006 | \$30.0  | \$23.5    | \$6.5                  | £4.5          |
| HarbourVest Partners 2007 Direct Fund                               | 2007 | \$30.0  | \$29.1    | \$0.9                  | £0.6          |
| Pantheon Asia Fund V  | 2007 | \$20.0  | \$18.2    | \$1.8                  | £1.3          |
| Pantheon Europe Fund VI   | 2007 | €40.0   | €33.0     | €7.0                   | £5.5          |
| Pantheon USA Fund VIII  | 2007 | \$35.0  | \$28.6    | \$6.4                  | £4.5          |
| Capital International Private Equity Fund V                         | 2007 | \$35.0  | \$29.2    | \$5.8                  | £4.0          |
| Co-Investment Partners Europe                                       | 2007 | €30.0   | €28.5     | €1.5                   | £1.2          |
| Partners Group 2006 Direct Fund                                     | 2007 | €30.0   | €28.8     | €1.2                   | £1.0          |
| Infracapital Partners   | 2007 | £35.0   | £32.8     | £2.2                   | £2.2          |
| Capital International Private Equity Fund VI                        | 2010 | \$35.0  | \$23.3    | \$11.7                 | £8.1          |
| Lexington Capital Partners VII                                      | 2010 | \$30.0  | \$23.3    | \$6.7                  | £4.7          |
| Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP        | 2010 | \$40.0  | \$37.6    | \$2.4                  | £1.7          |
| Partners Group Real Estate Secondary 2009 (EURO)                    | 2010 | €60.0   | €57.2     | €2.8                   | £2.2          |
| Partners Group Global Real Estate 2011 S.C.A., SICAR                | 2010 | €145.0  | €127.9    | €17.1                  | £13.6         |
| Partners Group Global Infrastructure 2009                           | 2010 | €70.0   | €61.2     | €8.8                   | £7.0          |
| Partners Group Direct Infrastructure 2011                           | 2011 | €85.0   | €72.8     | €12.2                  | £9.7          |
| Partners Group Direct Real Estate 2011 S.C.A., SICAR                | 2011 | \$100.0 | \$90.8    | \$9.2                  | £6.4          |
| Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR                | 2011 | \$65.0  | \$50.4    | \$14.6                 | £10.2         |
| HarbourVest International Private Equity Partners VI - Partnership  | 2011 | €50.0   | €38.0     | €12.0                  | £9.5          |
| Coller International Partners VI                                    | 2012 | \$45.0  | \$29.1    | \$15.9                 | £11.1         |
| Pantheon Asia Fund VI   | 2012 | \$40.0  | \$21.7    | \$18.3                 | £12.7         |
| Pantheon Europe Fund VII  | 2012 | €25.0   | €13.2     | €11.8                  | £9.4          |
| Pantheon USA Fund IX  | 2012 | \$30.0  | \$17.8    | \$12.2                 | £8.5          |
| Partners Group Global Infrastructure 2012                           | 2013 | €45.0   | €20.3     | €24.7                  | £19.6         |
| Partners Group Real Estate 2014                                     | 2013 | \$64.0  | \$20.6    | \$43.4                 | £30.2         |
| Partners Group Real Estate Income 2014                              | 2013 | €23.0   | €13.6     | €9.4                   | £7.5          |
| Partners Group Global Real Estate 2013                              | 2013 | \$130.0 | \$71.3    | \$58.7                 | £40.8         |
| Partners Group Real Estate Secondary 2013                           | 2013 | \$65.0  | \$20.1    | \$44.9                 | £31.2         |
| HarbourVest Dover Street VIII Cayman Fund LP                        | 2013 | \$30.0  | \$21.2    | \$8.8                  | £6.1          |
| HarbourVest Partners IX - Cayman Buyout Fund                        | 2013 | \$60.0  | \$32.0    | \$28.0                 | £19.5         |
| HarbourVest Partners IX - Cayman Venture Fund                       | 2013 | \$30.0  | \$22.1    | \$7.9                  | £5.5          |
| HarbourVest Partners 2013 Cayman Direct Fund LP                     | 2014 | \$30.0  | \$21.5    | \$8.5                  | £5.9          |
| Lexington Capital Partners VIII                                     | 2014 | \$30.0  | \$6.4     | \$23.6                 | £16.4         |
| Infracapital Partners II  | 2014 | £20.0   | £6.7      | £13.3                  | £13.3         |
| HarbourVest International Private Equity Partners VII - Partnership | 2014 | \$70.0  | \$13.8    | \$56.2                 | £39.1         |
| Coller International Partners VII                                   | 2015 | \$45.0  | \$1.6     | \$43.4                 | £30.2         |
| HarbourVest Partners X - AIF Buyout Fund                            | 2015 | \$50.0  | \$1.3     | \$48.7                 | £33.9         |
| HarbourVest Partners X - AIF Venture Fund                           | 2015 | \$25.0  | \$0.9     | \$24.1                 | £16.8         |
| Dover Street IX   | 2016 | \$30.0  | \$0.0     | \$30.0                 | £20.9         |
| Partners Group Direct Infrastructure 2015                           | 2016 | \$140.0 | \$4.8     | \$135.2                | £94.1         |
| <b>Total outstanding commitments</b>                                |      |         |           |                        | <b>£595.4</b> |

## Section 7 – Tyne and Wear Pension Fund Statements

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31<sup>st</sup> March 2016.

### 23. Related Party Transactions

Under FRS8 “Related Party Disclosures”, it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

#### **Governance – Voting Members of Pensions Committee**

There were two members of the Pensions Committee who were in receipt of pension benefits from the Fund, namely the Chair of the Pensions Committee E. Leask and committee member M. Butler. In addition, Committee members G. Bell, J. Milburn, W. Flynn, P. Hay, J. Perry and R. Goldsworthy were active members of the Fund. The Vice Chair of the Pensions Committee, A. Walsh and Committee member G. Hayley were deferred members of the Fund.

An examination of returns completed by elected members of the Pensions Committee and senior officers involved in the management of the Pension Fund has not identified any other cases where disclosure is required.

#### **Employers**

During 2015/16, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited had related party transactions with the Fund totalling £0.902m, analysed as follows:

- South Tyneside Council charged the Fund £0.531m (£0.490m in 2014/15) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs.
- The Fund charged South Tyneside Council £0.057m (£0.056m in 2014/15) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.314m (£0.294m in 2014/15) in respect of services provided, primarily being financial and information technology.

There were no material contributions due from employer bodies that were outstanding at the year end.

#### **Key Management Personnel**

Paragraph 3.9.4.3 of the “Code of Practice on Local Authority Accounting in the United Kingdom 2015/16” (the Code) exempts local authorities from the key management personnel disclosure requirements of International Accounting Standard 24 (IAS24) on the basis that the disclosure requirements for officer remuneration and members’ allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This also applies to the accounts of Tyne and Wear Pension Fund.

## Section 7 – Tyne and Wear Pension Fund Statements

The disclosures required by Regulation 7(2) - 7(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of South Tyneside Council.

### 24. Impairment Losses

#### Impairment for bad and doubtful debts

During 2015/16, the Fund has recognised an impairment loss of £0.103m (£0.104m in 2014/15) for the possible non-recovery of pensioner death overpayments.

### 25. Pension Fund Disclosures under IAS26

Under IAS26, the Fund is required to disclose the “actuarial present value of the promised retirement benefits”, which were last valued at 31 March 2013 by the actuary at £7,514.5m.

#### Information supplied by the Actuary

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund, which is part of the Local Government Pension Scheme.

|   | Value as at<br>31 <sup>st</sup> March 2013 | Value as at<br>31 <sup>st</sup> March 2010 |
|---|--|--|
|   | £m   | £m   |
| Fair value of net assets                                    | 5,432.300                                  | 4,302.300                                  |
| Actuarial present value of the promised retirement benefits | (7,514.500)                                | (7,037.300)                                |
| Deficit in the Fund as measured for IAS26 purposes          | (2,082.200)                                | (2,735.000)                                |

|  | 31 <sup>st</sup> March 2013<br>(% p.a.) | 31 <sup>st</sup> March 2010<br>(% p.a.) |
|--|---|---|
| Discount rate                            | 4.4                                     | 5.5                                     |
| RPI inflation                            | 3.4                                     | 3.9                                     |
| CPI inflation                            | 2.4                                     | 3.0                                     |
| Rate of increase to pensions in payment* | 2.4                                     | 3.9                                     |
| Rate of increase to deferred pensions*   | 2.4                                     | 3.9                                     |
| Rate of general increase in salaries **  | 3.9                                     | 5.4                                     |

\* In excess of guaranteed minimum pension increases in payment where appropriate

\*\* In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.



## Section 7 – Tyne and Wear Pension Fund Statements

| Post retirement mortality                       | 31 <sup>st</sup> March 2013                                    | 31 <sup>st</sup> March 2010                                    |
|---|--|--|
| <b>Males</b>                                    |  |  |
| Base table                                      | Standard SAPS Normal Health Light Tables (S1NMA_L)             | Standard SAPS Normal Health All Amounts (S1NMA)                |
| Scaling to above base table**                   | 115%   | 110%   |
| Allowance for future improvements               | In line with CMI 2012 with long term improvement of 1.5% p.a.  | In line with CMI 2009 with long term improvement of 1.25% p.a. |
| Future lifetime from age 65 (currently aged 65) | 24.5   | 21.3   |
| Future lifetime from age 65 (currently aged 45) | 26.8   | 23.2   |
| <b>Females</b>                                  |  |  |
| Base table                                      | Standard SAPS Normal Health Light Tables (S1NFA_L)             | Standard SAPS Normal Health All tables (S1NFA)                 |
| Scaling to above base table rates**             | 115%   | 110%   |
| Allowance for future improvements               | In line with CMI 2012 with long term improvement of 1.50% p.a. | In line with CMI 2009 with long term improvement of 1.25% p.a. |
| Future lifetime from age 65 (currently aged 65) | 24.5   | 23.5   |
| Future lifetime from age 65 (currently aged 45) | 26.8   | 25.5   |

\* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

\*\* The scaling factors shown apply to normal health retirements

|                    | 31 <sup>st</sup> March 2013   | 31 <sup>st</sup> March 2010   |
|--------------------|---|---|
| <b>Commutation</b> | Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum. | Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum. |

There have been no changes in benefits during the accounting period. No allowance has been made in our calculations for the new scheme benefits accruing from 1<sup>st</sup> April 2014.

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund – 16<sup>th</sup> May 2014. A full copy is available on request.

For figures relating to individual employers of the Fund, please refer to each employer's final accounts.

# Section 7 – Tyne and Wear Pension Fund Statements

## 26. Policy Documents

The Pension Fund has a number of key policy documents that outline the framework within which the Fund operates. These include:

- Governance Compliance Statement
- Funding Strategy Statement
- Statement of Investment Principles
- Corporate Governance Policy
- The Pension Service Plan
- The Pensions Administration Strategy
- The Fund's Discretions within the Local Government Pension Scheme
- Communications Policy

These documents are reviewed and updated on an ongoing basis. Copies are available on the Fund's website at [www.twpf.info](http://www.twpf.info).

# Section 7 – Tyne and Wear Pension Fund Statements

## Organisations Participating in the Fund as at 31<sup>st</sup> March 2016

### Councils

Gateshead Council  
Newcastle City Council  
North Tyneside Council  
South Tyneside Council  
Sunderland City Council

### Other Part 1 Scheduled Bodies

Academy 360  
Aim High Academy Trust  
All Saints Academies Trust  
Balmoral Learning Trust  
  
Barnes Academy Trust  
  
Barnwell Academy Trust  
Benedict Biscop Church of England Academy  
Biddick Academy Trust  
Brighter Academy Trust  
Cardinal Hume Catholic School  
Castle View Enterprise Academy  
City of Sunderland College  
Dayspring Trust  
Diamond Hall Infant Academy  
Discover Learning Trust  
Discovery Learning Limited  
Eppleton Academy Primary School  
Former North East Regional Airport Committee  
Former Tyne and Wear County Council  
Former Tyne and Wear Residuary Body  
Fulwell Infant School Academy  
Gateshead College  
Gateshead Housing Company  
Gosforth Federated Academies Limited  
Grasmere Academy  
Grindon Hall Christian School  
Holley Park Academy  
Holy Trinity Church of England Academy (South Shields) Trust  
Houghton Kepier Sports College Academy Trust  
Inspire Multi Academy Trust  
Joseph Swan Academy  
Kenton School Newcastle  
Kibblesworth Academy  
Lord Lawson of Beamish Academy  
Monkton Infants School  
Monkton Junior School  
Monkwearmouth College  
Newcastle College  
Newcastle Education Action Zone  
North Tyneside College  
North View Academy Trust  
Northumberland Magistrates Court  
Northumbria Police Authority  
Northumbria University  
Police and Crime Commissioner for Northumbria  
Redby Primary Academy  
Red House Academy  
Riverside Primary Academy  
Ryhope Infant School Academy  
Sacred Heart Catholic High School  
South Tyneside College  
South Tyneside College Academy Trust  
South Tyneside Education Action Zone  
South Tyneside Homes

### Other Part 1 Schedule Bodies (continued)

Southmoor Academy  
St Aidan's Education Trust  
St Anthony's Girls' Catholic Academy  
St Cuthbert's Catholic High School  
St Joseph's Catholic Education Trust  
St Mary's Catholic School Trust  
St Thomas More Roman Catholic Academy (North Tyneside)  
Sunderland Education Action Zone  
The Ascent Academies Trust  
The Cedars Academy Trust  
The Chief Constable for Northumbria  
  
The Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority  
  
The Laidlaw Schools Trust  
The Northern Education Trust  
The Northern Saints Catholic Education Trust  
The St Thomas More Partnership of Schools  
Trinity Academy Newcastle  
Tyne and Wear Fire and Rescue Services  
Tyne Metropolitan College  
Tynemouth College  
University of Sunderland  
Wearmouth Learning Trust  
Wearside College  
West Newcastle Academy  
Whickham School and Sports College  
Whitburn Church of England Academy  
Wise Academies  
Woodard Academies Trust  
Your Homes Newcastle

### Part 2 Scheduled Bodies

Birtley Town Council  
Blakelaw and North Fenham Parish Council  
Blue Square Trading Limited  
  
Care and Support Sunderland Limited  
  
Castle View Fitness Centre  
Learning World  
Nexus  
Northumbria University Nursery Limited  
Sunderland Care and Support Limited (SCSL)  
Sunderland Live Limited  
The Intraining Group Limited  
University of Sunderland London Campus Limited  
Victims First Northumbria  
Zero Carbon Futures (North) Limited

### Admitted Bodies

Age Concern Newcastle  
Assessment and Qualification Alliance  
Association of North East Councils  
Azure Business Centres Limited  
Balfour Beatty Living Places Limited  
Baltic Flour Mills Visual Arts Trust  
Bell Decorating Group Limited  
Benton Grange School  
Benwell Young Peoples Development Project  
Brunswick Young Peoples Development Project  
BT South Tyneside Limited  
Bullough Cleaning Services  
Bullough Contract Services  
Byker Community Trust

## Section 7 – Tyne and Wear Pension Fund Statements

### Admitted Bodies (continued)

|   |   |
|---|---|
| Capita Property and Infrastructure Limited        | North Tyneside City Challenge                                   |
| Carillion Integrated Services Limited             | North Tyneside Disability Advice                                |
| Carillion Services Limited (Jarrow School)        | Northern Arts Association                                       |
| Carillion Services Limited (Lord Lawson Academy)  | Northern Council for Further Education                          |
| Carillion Services Limited (SSCS)                 | Northern Counties School for the Deaf                           |
| Catholic Care North East                          | Northern Grid for Learning                                      |
| CBS Outdoor Limited                               | Northumbria Tourist Board                                       |
| Child Care Enterprise Limited                     | One North East  |
| Churchill Contract Services Limited (ParkHead)    | Ouseburn Trust  |
| Compass Group UK and Ireland                      | Parsons Brinkerhoff   |
| DB Regio Tyne and Wear Limited                    | Passenger Transport Company                                     |
| Disability North                                  | Percy Hedley Foundation   |
| Engie Buildings Limited                           | Port of Tyne Authority  |
| Engie Services Limited (N Tyneside)               | Praxis Service  |
| Engie Services Limited (PB)                       | Property Management Integrated Services and Employment Company  |
| Gateshead Law Centre                              | Raich Carter Sports Centre                                      |
| Gentoo Group Limited                              | RM Education  |
| Groundwork South Tyneside and Newcastle           | Robertson Facilities Management Limited                         |
| Hebburn Neighbourhood Advice Centre               | Robertson Facilities Management Limited (Newcastle Phase 2)     |
| Higher Education Funding Council for England      | S L M Community Leisure Charitable Trust                        |
| Information North (North Regional Library System) | S L M Fitness and Health Limited                                |
| Insitu Cleaning                                   | S L M Food and Beverage Limited                                 |
| International Centre for Life                     | SSE Contracting Limited   |
| Involve North East                                | Saint Mary Magdalene and Holy Jesus Trust                       |
| Jarvis Accommodation Services Limited             | Saint Mary the Virgin Hospital                                  |
| Jarvis Workspace Facilities Management Limited    | Scolarest (Newcastle Schools)                                   |
| Kenton Park Sports Centre                         | Scolarest PFI (Boldon School)                                   |
| KGB Cleaning and Support Services Limited         | Search Project  |
| Kier North Tyneside Limited                       | Simonside Community Centre                                      |
| Lovell Partnership Limited                        | SITA UK Limited (Gateshead)                                     |
| Mears Limited                                     | SITA UK Limited (Sunderland)                                    |
| Mitie Cleaning (North) Limited                    | Sodexo Limited  |
| Mitie PFI Limited (Boldon School)                 | South Tyneside Football Trust                                   |
| Mitie PFI Limited (North Tyneside)                | South Tyneside Victim Support                                   |
| Morrison Facilities Services Limited 1            | Stagecoach Services Limited                                     |
| Morrison Facilities Services Limited 2            | Sunderland City Training and Enterprise Council                 |
| Morse   | Sunderland Empire Theatre Trust                                 |
| Museums Libraries and Archives North East         | Sunderland Outdoor Activities                                   |
| National Car Parks                                | Sunderland People First Co-operative Community Interest Company |
| National Glass Centre                             | Sunderland Street Lighting Limited                              |
| Newcastle Family Service Unit                     | Taylor Shaw   |
| Newcastle Gateshead Initiative Limited            | The Ozanam House Probation Hostel Committee                     |
| Newcastle Healthy City Project                    | Thomas Gaughan Community Association                            |
| Newcastle International Airport                   | TT2 Limited   |
| Newcastle Law Centre                              | Tyne and Wear Development Company Limited                       |
| Newcastle Tenants and Residents Federation        | Tyne and Wear Development Corporation                           |
| Newcastle Tenants Federation                      | Tyne and Wear Enterprise Trust                                  |
| Newcastle Theatre Royal Trust                     | Tyne and Wear Play Association                                  |
| Newcastle West End Partnership                    | Tyne and Wear Small Business Service                            |
| Newcastle Youth Congress                          | Tyne Waste Limited  |
| No Limits Theatre Company                         | Tyneside Deaf Youth Project                                     |
| Norcare   | Tyneside Training and Enterprise Council                        |
| Norland Road Community Centre                     | Valley Citizens Advice Bureau                                   |
| North Country Leisure                             | Walker Profiles (North East) Limited                            |
| North Country Leisure 2                           | Wallsend Citizen Advice Bureau                                  |
| North East Innovation Centre                      | Wallsend Hall Enterprise Limited                                |
| North East Regional Employers Organisation        | Workshops for the Adult Blind                                   |

The schedule includes organisations that are no longer in existence but for which there remains a liability in the Fund.

## Section 8 – Glossary of Financial Terms

### Glossary of Financial Terms

To assist readers, some of the technical terms referred to in the Financial Statements are shown below with a brief description of what they mean.

#### Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

#### Accruals

The concept that income and expenditure are taken into account as they are earned or incurred, not when money is actually received or paid. Accrual accounting covers both revenue and capital transactions.

#### Actuarial Gains or Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.

#### Arm's Length Management Organisation

A procurement option involving the creation of a company to deliver housing services on behalf of the Council. Whilst the Council still retains some management control the company is able to pursue additional funding sources and so deliver more regeneration to the borough.

#### Asset

Something an organisation owns e.g. land or buildings, cash and debtors.

#### Assets Held For Sale or Disposal

Non-current assets such as property actively marketed for disposal and expected to be sold or disposed of within 12 months of the reporting period.

#### Associates

An entity in which the Council has an interest on a long term basis and is jointly controlled with one or more other entities under a contractual or other binding arrangement. Voting is based on a majority decision rather than a unanimous decision.

#### Balance Sheet

A primary financial statement reporting the assets and liabilities of an organisation at a given date.

#### Budgets

A statement of the Council's forecast expenditure, that is, net income and expenditure for the year.

#### Capital Accounting

Ensures that a charge is made to each service to represent the cost of using non-current assets.

## Section 8 – Glossary of Financial Terms

### Capital Expenditure

Spending resulting in the addition or enhancement of a long term asset such as property, plant and equipment, heritage and intangible assets. Other types of expenditure can be capitalised but only with the express permission of the Secretary of State.

The **Capital Adjustment Account** shows the effect of statutory departures from the Code including the financing of capital expenditure from external sources and the impact of depreciation, impairments, amortisations and revaluation losses compared to the debt set aside provision, which the Council has to make.

### Capital Grants Receipts in Advance

Capital funding received but not applied at the Balance Sheet date. This funding has conditions attached meaning it will have to be repaid if not applied.

### Capital Receipts

Income generated by the disposal of non-current assets or classified under statute by the Secretary of State. Part of the monies received can be retained by the Council and used to finance capital expenditure or repay debt. The balance is paid over to Central Government.

### Cash Equivalents

An asset that can readily be turned into cash at short notice and with no penalty on its value held in the accounts.

### Cash Flow Statement

A primary statement reporting the movement in cash and cash equivalents of the Council during the reporting period.

### CIPFA

Chartered Institute of Public Finance and Accountancy the professional body governing how the Statement of Accounts should be prepared.

### Code of Practice (the Code)

The statutory basis on which the statement of accounts are prepared. The Code follows IFRS approved accounting standards and specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position.

### Collection Fund

Section 89 of the Local Government Finance Act 1988 requires each Council with the power to raise council tax bills (a billing authority) to maintain a Collection Fund. Council tax and non-domestic rates are held in this fund and it should be sufficient to cover expenditure relating to the precepts of the Fire and Police Authorities, the Governments share of non-domestic rates and the net expenditure of the billing authority.

### Collection Fund Adjustment Account

A statutory account to reflect the difference between the Collection Fund balance required for budgetary purposes and the actual amount of council tax and non-domestic rates income receivable.

### Community Assets

These are assets that the Council intends to hold in perpetuity, which have no finite useful life and may have restrictions on their disposal. Examples include parks and cemeteries.

## Section 8 – Glossary of Financial Terms

### Component Accounting

If an item of property, plant and equipment comprises two or more significant components with substantially different useful lives, then each component is treated separately for depreciation purposes, as if each component was a separate asset in its own right.

### Comprehensive Income and Expenditure Statement

A primary statement showing the accounting cost in year of providing services rather than the amount to be funded from taxation. This statement includes changes in revaluation surplus, actuarial gains and losses on defined pension schemes and the gains and losses on re-measuring available for sale financial assets.

### Consistency

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

### Contingent Asset or Liability

A contingent asset or liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or (ii) a present obligation from past events where it is not possible that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

### Corporate and Democratic Core

Comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### Corporate Governance

The system by which audited bodies are directed and controlled.

### Council Tax

The Local Government Finance Act 1992 introduced council tax with effect from 1<sup>st</sup> April 1993 and is based upon property values. There are eight valuation bands for chargeable dwellings ranging from band "A" (the lowest valued properties) to band "H" (the highest valued properties). The Council levies the tax based upon band D properties; the actual charge will dependent upon the banding of the individual dwelling – i.e. those properties in bands A to C will pay less council tax whilst those in bands E to H will pay more.

### Creditors

Amounts owed by the Council for goods and services provided where payment has not been made by the Balance Sheet date.

### Current Service Cost (Pensions)

This is the actuarial estimate of the present value of full pension benefits earned by current employees in the year under review.

## **Section 8 – Glossary of Financial Terms**

### **Current Value**

The valuation assigned to operational property, plant and equipment so that measurement is based on service potential rather than fair value.

### **Curtailment**

For a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples including termination of employees service through redundancy or amendment of their terms affecting the future benefits.

### **Debt Set Aside**

The amount of money the Council has set aside to support the repayment of debt. This is in line with the policy adopted by the Council as part of its MTFP.

### **Debtors**

Sums of money due to the Council but not received by the Balance Sheet date.

### **Defined Benefit and Defined Contribution Pension Schemes**

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

### **Defined Benefit Obligation**

Represents the amount of pension payments still to be paid out at the Balance Sheet date as assessed by a qualified actuary.

### **Depreciation**

A method of measuring the wearing out (consumption) of a non-current asset during its useful life.

### **Earmarked Reserves**

Amounts set aside by the Council to meet future financial liabilities.

### **Emoluments**

Payments received in cash and benefits for employment.

### **Employee Benefits Adjustment Account**

Absorbs the differences that would otherwise arise on the general fund balance as a result of accruing for benefits earned but not taken in the year.

### **Existing Use Value – Social Housing**

This is a vacant possession valuation of the Council dwellings adjusted to reflect the continuing occupation by a secure tenant. A further adjustment is made to reflect the difference between open market rented property and social rented property.



## Section 8 – Glossary of Financial Terms

### **Fair Value**

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

### **Finance Lease**

A lease that transfers substantially all of the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred. The payments usually cover the full cost of the asset together with a return for the cost of finance.

### **Financial Instruments**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

### **Financial Instruments Adjustment Account**

Records the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Statement and the accumulated financing costs required in accordance with regulations to be charged to the General Fund balance.

### **Financial Statements**

A wider commentary on the financial position of the Council. The financial statements incorporate the statement of accounts but also include a narrative statement and an annual governance statement.

### **Fund of Funds**

A type of investment involving the investment in a fund which itself invests in other funds.

### **General Fund**

Expenditure and income relating to the services provided by the Council but excluding Housing Revenue Account activities.

### **Going Concern**

An assumption that the Council will continue in operational existence for the foreseeable future.

### **Heritage Assets**

A non-current asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

### **Home and Communities Agency**

The national housing and regeneration delivery agency for England, enabling local authorities and communities to meet the ambition they have for their areas.

### **Housing Revenue Account (HRA)**

The provision, management and maintenance of Council house accommodation is required by law to be accounted for separately in a Housing Revenue Account. The account records the net cost after specific Government subsidy that needs to be met by Council tenants. In general the Council cannot transfer sums between the General Fund and the HRA.

## Section 8 – Glossary of Financial Terms

### **International Financial Reporting Standards (IFRS)**

The nationally recognised set of accounting standards agreed by the Accounting Standards Board. These represent the accounting treatment to be followed by all commercial organisations in the United Kingdom when preparing their accounts. Council accounts are expected to accord with IFRS except where the Government considers their principles to be inappropriate or considers others to be more appropriate to Local Government accounting and reporting.

### **Interest Expense on Defined Benefit Obligation**

The expected increase in the year in the present value of the defined benefit obligation as the benefits are one year closer to settlement.

### **Interest Income on Assets**

This is an actuarially calculated estimate of the return on the pension scheme's investment assets during the year.

### **Inventories**

Assets accounted for as they are released for use rather than when they are purchased.

### **Impairment**

A reduction in value of a non-current asset or financial instruments resulting from causes such as obsolescence, physical damage or non-recoverability of debt.

### **Infrastructure Assets**

These are assets, expenditure on which is recoverable only by continued use of the asset created, examples being highways and footpaths.

### **Intangible Assets**

These are assets that do not have a physical form e.g. computer software.

### **Investment Properties**

This is land and buildings where construction work and development has been completed and the asset is held for its investments potential, any rental income being negotiated at arm's length.

### **Levies**

Similar to precepts these are sums paid to other bodies. However instead of being charged to the Collection Fund, as with precepting bodies, the costs are shown in the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Council are the Tyne and Wear Passenger Transport Authority and Environment Agency.

### **Liability**

A financial obligation, any debt or money owed by the Council.

### **Lifecycle Costs**

Incurred in PFI contracts these represent the cost of an asset, or its part throughout its cycle life, while fulfilling the performance requirements under the contract.

### **Major Repairs Reserve**

Capital resources unspent by the Housing Revenue Account at the Balance Sheet date. By statute this reserve can only be used to fund future capital expenditure on HRA assets.

## Section 8 – Glossary of Financial Terms

### **Materiality**

An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

### **Medium Term Financial Planning (MTFP)**

The process of identifying and aligning service pressure, corporate priorities and objectives as well as available resources over the medium term (5 years) and budgeting accordingly.

### **Money Market Funds**

Mutual funds that invest in a diversified portfolio of short term, high quality debt instruments.

### **Movement in Reserves Statement**

A primary financial statement showing the movement in year on the different reserves held by the Council. It shows the true economic cost of providing the Councils services.

### **Net Book Value**

The amount at which non-current assets are included in the Balance Sheet being the historical cost or current value less the cumulative amounts provided for depreciation and impairment.

### **Non-Current Assets**

Assets that yield benefits to the Council and the services that it provides for a period of more than one year. Examples include property, plant and equipment, land and vehicles.

### **Non-Distributed Costs**

These are overheads for which no user benefits, and accordingly are not apportioned to services expenditure.

### **Non-Domestic Rates (NDR)**

Non-domestic properties must pay these rates and are based upon property valuations, as undertaken by the District Valuer, and a nationally set multiplier figure.

### **Operating Leases**

Leases other than a finance lease.

### **Pension Reserve**

The amount set aside to offset the IAS 19 defined benefit obligation.

### **Post Balance Sheet Events**

Those events occurring between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Head of Finance.

### **Precept**

In the calculation of the council tax and non-domestic rates for a particular year, precepts levied by appropriate bodies must be taken into account. In the case of this Council, the precepting bodies are Northumbria Police Authority, Tyne and Wear Fire and Civic Defence Authority and the Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

## Section 8 – Glossary of Financial Terms

### **Private Finance Initiative (PFI)**

A method of purchasing assets and services over a longer term period, usually 25 years. The financial risks involved are usually shared between the Council and the PFI operator.

### **Provisions**

Provisions are required for any losses that are likely to be incurred, or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise.

### **Public Works Loan Board (PWLB)**

A Government financed body that makes long term money available to Local Authorities who are able to borrow a proportion of their requirements to finance capital spending from this source.

### **Related Party Transactions**

Financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. Most related parties (i.e. precepting bodies, pension funds etc.) already have separate disclosure requirements; the main exception being members and chief officers.

### **Reserves**

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. Expenditure is not charged direct to any reserve.

### **Revaluation Reserves**

Records the accumulated gains on non-current assets held by the Council from increases in value.

### **Revenue Balances**

An expression usually referring to the accumulated surplus on the General Fund. They can be used to avoid borrowing, pay bills in the early part of the year before income is received or to reduce the council tax charge.

### **Revenue Expenditure**

Money spent on the day-to-day running costs of providing the various services. It is usually of a constantly recurring nature and produces no permanent asset.

### **Revenue Expenditure funded from Capital under Statute**

Represents items of expenditure which by definition are not capital but where the Council has statutory powers to treat and fund as capital expenditure.

### **Revenue Support Grant**

A government grant in aid of Council services generally. It is based upon the Government assessment of how much a Council needs to spend.

### **Settlements**

Occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the pension benefits provided under a defined benefit plan. Examples include schools transferring to academy status.

## **Section 8 – Glossary of Financial Terms**

### **Specific Government Grants**

Funding provided by Central Government to aid particular services or projects administered by local authorities.

### **Statement of Accounts**

Made up of all the primary statements, the notes to the accounts and the auditor's report.

### **Subsidiary**

An entity wholly owned or controlled by the Council.

### **Taxation and Non-Specific Grant Income**

Primarily for recording revenue grants received by the Council but not for any specific purpose and capital grants received in respect of funding for the capital programme.

### **Trust Funds**

Funds administered by the Council on behalf of charitable or specific organisations.

### **Unusable Reserves**

Reserves created to hold the differences between accounting for Income and Expenditure under IFRS and the statutory regime governing what can and cannot be charged against usable reserves.

### **Usable Reserves**

Funds available to the Council to support future spending.

### **Useful Economic Life**

The period over which the Council will derive benefits from the use of a non-current asset.

# **Section 9 – Annual Governance Statement**

## **South Tyneside Council and Tyne and Wear Pension Fund**

### **Annual Governance Statement 2015/16**

#### **Introduction**

1. Everything the Council does is focused around delivering our ambitious vision for South Tyneside and to ensure we deliver the best possible services and outcomes for our Community whilst providing good value for our stakeholders.
2. To help achieve our vision it is essential that the Council has effective governance arrangements. This means effective leadership, clear direction and controls to ensure that vision and policy is put into practice. These arrangements will ensure that we are resilient and able to withstand any threats that emerge which impact on the Community, on our business or our reputation.
3. This document is the Council's Annual Governance Statement, which shows how the Council is run and the review that has been carried out to check that arrangements are operating effectively. The Council is required by law to publish this statement and review arrangements. The aim is to demonstrate to the public and stakeholders that the Council is run well.

#### **Scope of responsibility**

4. South Tyneside Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council is also responsible for ensuring that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council 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.
5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
6. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/Solace Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

#### **The purpose of the governance framework**

7. The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the Community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

## Section 9 – Annual Governance Statement

8. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
9. The governance framework has been in place at the Council for the year ended 31<sup>st</sup> March 2016 and up to the date of approval of the Statement of Accounts.

### The governance framework

10. The Council is made up of 54 Councillors who are democratically accountable to residents of the Borough. The full Council appoints the Leader and the Leader appoints the Cabinet and Deputy Leader. The Cabinet is responsible for most day to day decisions. The Council holds the Cabinet to account by appointing scrutiny committees to question decisions and to propose policy changes where appropriate.
11. The Council has restructured to ensure that it is 'Shaped to Deliver' the vision. The Council's objectives are delivered through three strategic groups:
  - Business and Resources
  - Economic Regeneration
  - Children, Adults and Health
12. The Council's overarching governance arrangements at Member level, at strategic and operational level and the monitoring arrangements put in place are illustrated in the diagram on the next page.

# Section 9 – Annual Governance Statement

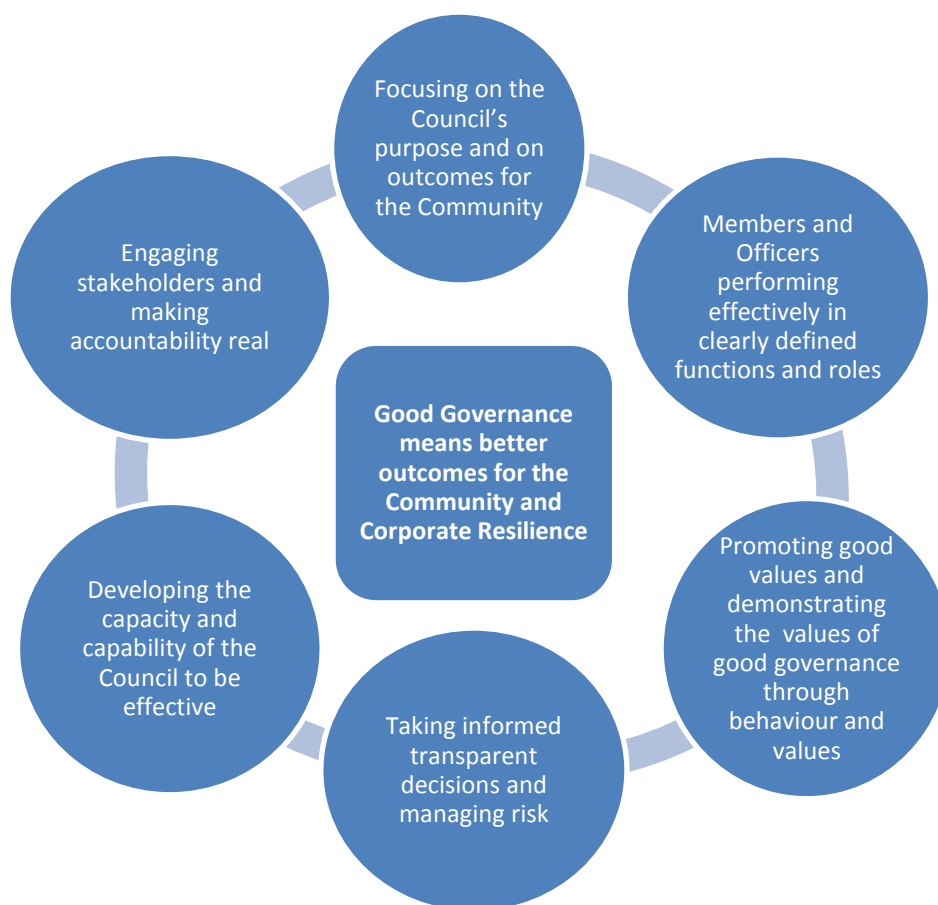
## Governance Arrangements: Shaped to Deliver

|  |  |   |   |   |  |                  |
|--|--|---|---|---|--|------------------|
| <b>Member Governance</b>                   | <p><b>Leadership Meeting</b></p> <ul style="list-style-type: none"> <li>Weekly forum where Leader, Deputy Leader and Chief Executive agree political and managerial leadership of strategic and regional responsibilities.</li> <li>Officers attend to provide information and progress reports when required.</li> </ul> <p>1</p>   | <p><b>Strategic Lead Member Briefing</b></p> <ul style="list-style-type: none"> <li>26 strategic planning meetings per year between Cabinet Members and Senior Officers to plan the delivery of our Shaping Our Future programme.</li> <li>Officers attend to provide information and progress reports when required.</li> </ul> <p>2</p>   | <p><b>Cabinet</b></p> <ul style="list-style-type: none"> <li>Lead Members make strategic and operational decisions that affect all areas of the Council.</li> <li>Officers attend 4 weekly meetings to provide information to support decision making when required.</li> </ul> <p>3</p>  | <p><b>Council</b></p> <ul style="list-style-type: none"> <li>All Members of the Council make strategic and operational decisions that affect all areas of the Council. Meets 9 times a year.</li> </ul> <p>4</p>  |  |                  |
|  | <p><b>Scrutiny Committees</b></p> <ul style="list-style-type: none"> <li>To scrutinise the discharge of any of the Council's executive functions. Meets monthly if required.</li> <li>Power to make recommendations.</li> </ul> <p>5</p>   | <p><b>Performance Panels</b></p> <ul style="list-style-type: none"> <li>Contract and Housing Performance Panels review performance and report direct to Cabinet. Meet bi-monthly.</li> <li>Power to recommend urgent action.</li> </ul> <p>6</p>  | <p><b>Standards Committee</b></p> <ul style="list-style-type: none"> <li>Promote and maintain high standards of conduct by Councillors. Meets quarterly.</li> <li>Deals with allegations of non-compliance with Code of Conduct</li> </ul> <p>7</p>   | <p><b>Audit Committee</b></p> <ul style="list-style-type: none"> <li>Advisory committee to provide independent assurance of risk management and control environment to Council. Meets quarterly.</li> </ul> <p>8</p>  |  |                  |
| <b>Supported by Officer Recommendation</b> | <p><b>Strategic Leadership Group</b></p> <ul style="list-style-type: none"> <li>Chief Executive and Corporate Directors weekly strategic planning meeting for Senior Officers to consider local, regional and national priorities and develop strategy to deliver our Shaping Our Future programme.</li> <li>Acts as a programme board for significant projects.</li> </ul> <p>9</p> | <p><b>Extended Leadership Group</b></p> <ul style="list-style-type: none"> <li>Quarterly planning meeting between Strategic Leadership Group, Heads of Service and Corporate Leads to consider key strategic and operational issues.</li> <li>Two way forum for Heads of Service and Corporate Leads to disseminate key messages across the organisation.</li> </ul> <p>10</p>            | <p><b>Top 100 Managers</b></p> <ul style="list-style-type: none"> <li>Chief Executive quarterly forum for key officers to consider and contribute to the progress of our Shaping Our Future programme.</li> <li>Opportunity to bring a wide range of operational expertise to organisation wide priorities.</li> <li>Two way forum for key officers to disseminate key messages across the organisation.</li> </ul> <p>11</p> | <p><b>Innovation &amp; Efficiency Group</b></p> <ul style="list-style-type: none"> <li>Develops new thinking and implementation plans around new models of service delivery.</li> <li>Leads on Shaping Our Financial Future programme.</li> </ul> <p>12</p> | <p><b>Futures Group</b></p> <ul style="list-style-type: none"> <li>To strategically oversee the planning and delivery of the Council's long term business and financial strategy.</li> </ul> <p>13</p> | <b>Strategic</b> |
|  | <p><b>Corporate Delivery Group</b></p> <ul style="list-style-type: none"> <li>Heads of Service and Corporate Leads focus on day-to-day Council business that requires corporate managerial decision. Meets weekly.</li> <li>Acts as a 'route finder' to keep the operational business of the council moving forward.</li> </ul> <p>14</p>  | <p><b>Group Management Teams</b></p> <ul style="list-style-type: none"> <li>Focuses on day-to-day Council business that requires group managerial decision. Corporate Directors meet with their senior managers on a weekly basis.</li> <li>Monitors group-wide performance (including finances).</li> </ul> <p>15</p>  | <b>Operational</b>  |   |  |                  |
|  | <p><b>Capital Investment Group</b></p> <ul style="list-style-type: none"> <li>Acts as programme board for the 5 Year Capital Spend Programme.</li> <li>Determines necessary interventions in agreement with Strategic Leadership Group.</li> </ul> <p>16</p>   | <p><b>Chief Executive's Performance Meeting</b></p> <ul style="list-style-type: none"> <li>Monitors council-wide performance, including finance, programme and capital dashboards, HR, complaints, indicators and risk. Meets bi-monthly.</li> <li>Separate specific monthly budget meeting held with Corporate Director Business and Resources and Head of Finance.</li> </ul> <p>17</p> | <p><b>Monthly Budget Monitoring</b></p> <ul style="list-style-type: none"> <li>Head of Finance meets individually each month with Heads of Service and Corporate Leads to discuss budget.</li> </ul> <p>18</p>  | <b>Monitoring</b>   |  |                  |



## Section 9 – Annual Governance Statement

13. The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officers in Local Government (2010). CIPFA/SOLACE published '*Delivering Good Governance in Local Government*' in 2007. This sets out the fundamental principles of corporate governance as shown in the following diagram:



14. Underpinning these principles CIPFA have identified the features that need to be in place for Councils to demonstrate that they comply with the framework. The next six diagrams describe how the Council complies with the six principles of good governance. In some cases these principles interrelate. They outline:

- the core principle,
- what the Council is trying to achieve, and
- the **key** policies, procedures and systems that the Council has put in place to ensure that it complies with the principles.

15. The following diagrams reflect the key features of the Council's governance arrangements. The Council has a number of detailed policies and procedures to run its business which are available on the Council's website or on request.

# Section 9 – Annual Governance Statement

**CORE PRINCIPLE 1:**  
Focusing on the Council's purpose and on outcomes for citizens and services



How does the Council demonstrate that this core principle is achieved?

- South Tyneside Vision
- Shaping our Future – South Tyneside Council Strategy
- Shaping our Future – Service Delivery Plans
- South Tyneside Partnership
- Shaping our Financial Future - Medium Term Financial Plan 2016–2021
- Annual Budget Consultation
- Treasury Management Strategy

The function of governance is to ensure that councils fulfil their purpose and achieve the intended outcomes for their citizens and service users and operate in an effective, efficient, economic and ethical manner.

**CORE PRINCIPLE 2:**  
Members and Officers performing effectively in clearly defined functions and roles



How does the Council demonstrate that this core principle is achieved?

- Articles of the Constitution
- Council Procedure Rules
- Executive Procedure Rules
- Proper Officer Roles
- Chief Executive's Performance Meeting
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Financial Management Standards
- Record of Delegated Decisions
- Shaping our Future – Service Delivery Plans
- Employee Performance Management
- South Tyneside Partnership
- External Inspections
- Standards Committee
- Members Induction, Training and PDP's

The full Council has overall responsibility for directing and controlling the organisation

# Section 9 – Annual Governance Statement

**CORE PRINCIPLE 3: Promoting good values and demonstrating the values of good governance through behaviour**

How does the Council demonstrate that this core principle is achieved?



- Members Codes of Conduct
- Procedure for dealing with complaints against members
- Code of Corporate Governance
- Employees Code of Conduct
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Access to Information Procedure Rules
- Information Security Policy
- Counter Fraud Strategy
- Corporate Induction Programme
- Register of Interests, Gifts and Hospitality
- Elected Member Development Strategy
- Speakout Policy
- Human Resources Delivery Plan
- Complaints Procedure
- Standards Committee

Good governance flows from a shared ethos or culture, as well as from systems and structures. It cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements. This spirit or ethos of good governance can be expressed as values and demonstrated in behaviour. A hallmark of good governance is the development of shared values which become a part of the Council's culture, underpinning policy and behaviour throughout the Council from the governing body to all staff. These are in addition to compliance with legal requirements on for example equal opportunities and anti-discrimination.

**CORE PRINCIPLE 4: Taking informed transparent decisions and managing risk**

How does the Council demonstrate that this core principle is achieved?



- Standardised Committee Report Template
- Committee Reports Available on Council Website
- Record of Delegated Decisions
- Risk Management Process
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules/Budget Policy Framework
- Health & Safety
- Training
- Accurate Management Data

Decision making within a good governance framework is complex and challenging. It must further the Council's purpose and strategic direction and be robust in the medium and longer terms. To make decisions Council members must be well informed. Members making decisions need the support of appropriate systems to help ensure that decisions are implemented and that resources are used legally and efficiently.

# Section 9 – Annual Governance Statement

**CORE PRINCIPLE 5:**  
Developing the capacity and capability of the governing body to be effective

How does the Council demonstrate that this core principle is achieved?



- Induction Training
- Members Induction and Training
- Job Descriptions
- Employee Performance Management
- Corporate Training Programme
- Managers Toolkit
- Succession Planning Programme
- Top 100 Managers Programme
- Human Resources Delivery Plan

Effective councils depend on public confidence in Councillors and officers. Good governance strengthens credibility and confidence in our public services

**CORE PRINCIPLE 6:**  
Engaging stakeholders and making accountability real

How does the Council demonstrate that this core principle is achieved?



- South Tyneside Vision
- Shaping our Future – Service Delivery Plans
- Member Surgeries
- External Inspections/Consultations
- Performance Management Arrangements
- Complaints Procedure
- Bi Annual Residents Newsletter
- Published Annual Accounts
- Transparency Code

Elected Council members are democratically accountable to their local area and this gives a clear leadership role in building sustainable communities. All Members must account to their communities for decisions that they have taken. The Council is subject to external audit and is required to publish financial statements and aim to achieve national standards and targets. Members and officers are subject to Codes of Conduct. Additionally where maladministration may have occurred an aggrieved person may appeal either through their local Councillor or directly to the Ombudsman.

## Section 9 – Annual Governance Statement

### Review of effectiveness

16. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness was carried out under the supervision of the Council’s Business and Resources Group Management Team, including senior officers from across the Council and chaired by the Corporate Director Business and Resources.
17. The review follows the methodology set out by CIPFA in its publication ‘Rough Guide for the Annual Governance Statement’ as shown in the following diagram:

#### Annual review of the effectiveness of governance arrangements and systems of internal control

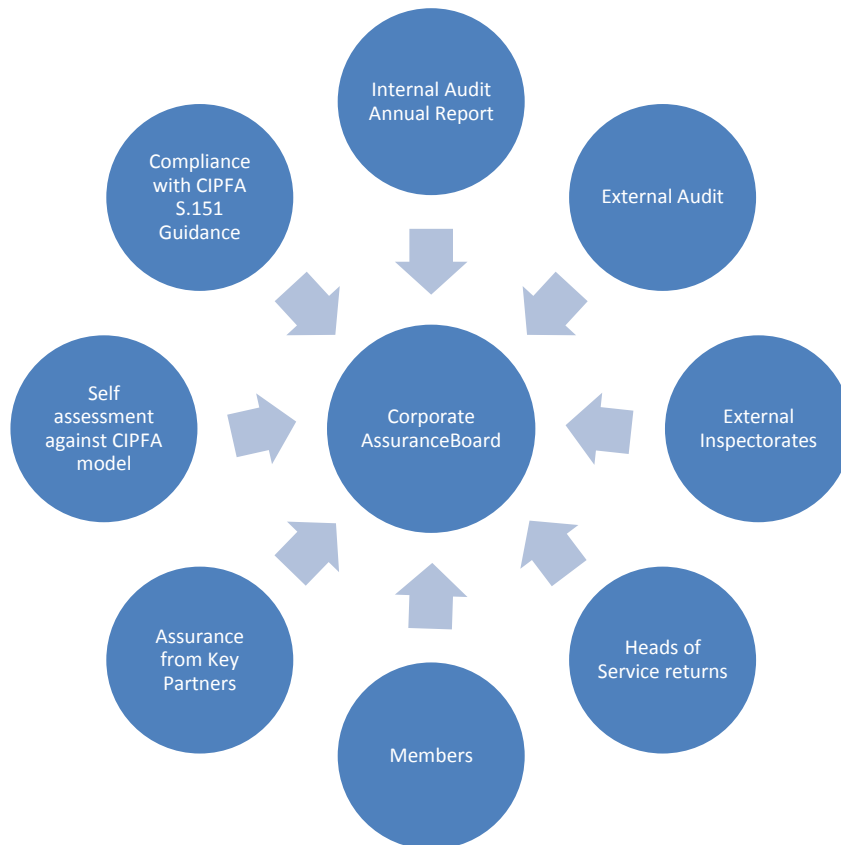
##### Methodology set out in CIPFA’s: Annual Governance Statement, Rough Guide for Practitioners 2008

|             |  |
|-------------|--|
| Objective 1 | Establish the principal statutory obligations and organisational objectives<br>Apply the six CIPFA/SOLACE principles |
| Objective 2 | Identify the principal risks to achievement of objectives  |
| Objective 3 | Identify and evaluate key controls to manage risk  |
| Objective 4 | Obtain assurance on effectiveness of key controls  |
| Objective 5 | Evaluate assurances and identify gaps in controls/assurances   |
| Objective 6 | Action plan to address weaknesses  |
| Objective 7 | Annual Governance Statement  |
| Objective 8 | Report to Audit Committee and General Purposes Committee   |

# Section 9 – Annual Governance Statement

## Sources of assurance

18. The Council has identified sources of assurance to review governance arrangements and confirm that they are operating adequately or where they are found to be falling short, identify areas for improvement. The assurance framework is as follows:



## Section 9 – Annual Governance Statement

### Overall conclusion of the Council’s governance arrangements

19. The annual review of the governance framework found that overall the Council has robust governance arrangements in place. This conclusion is based on the assurances and improvements identified from the review and detailed in the following table.
20. Only those improvements identified which are felt to be **significant** to the delivery of the Council’s objectives are outlined in the table below. The Council has also agreed action plans for other areas felt to be less significant to ensure continual improvement.

### Way forward

21. The steps that have been taken or need to be taken to improve the issues identified are set out in the Action plan that follows.
22. The Audit Committee discussed and approved the audited statement on 19<sup>th</sup> September 2016 and has recommended that the Council adopt it.

| No | Issue  | Action taken/proposed   | Responsible Officer                            | Target Date |
|----|--|---|--|-------------|
| 1  | <b><u>Financial Resilience</u></b><br>The Council has set another challenging budget for 2016-17 with efficiency savings of £22m to be achieved. This is on top of over £100m saved over the last 5 years. | Shaping Our Financial Future 2016-2021 programme established to reshape Council services through cross cutting workstreams. Governance framework in place to support programme with financial management embedded into the process. | Corporate Director Business and Resources.     | Ongoing     |
| 2  | <b><u>Data Management</u></b><br>The quality of CAH performance information is not always consistent.  | Governance framework in place to oversee the implementation of the new system and supporting processes which will improve the quality of performance information.   | Corporate Director Children, Adult and Health  | Ongoing     |
| 3  | <b><u>Children’s Services</u></b><br>Ofsted inspections of the local authority have identified some areas of improvement.  | Arrangements are in place to address the issues highlighted in the previous Ofsted inspection reports and monitor the requirements of current inspection regime.  | Corporate Director Children, Adults and Health | Ongoing     |
| 4  | <b><u>Adult Social Care</u></b><br>Processes within Adult Social Care are not always effective in delivering the best outcome and managing increased demand with reduced resources.                        | The Council has an improvement programme in place to manage the transformation of the service to deliver better outcomes in a more effective and efficient manner.  | Corporate Director Children, Adults and Health | Ongoing     |

## Section 9 – Annual Governance Statement

The annual governance statement was approved at the meeting of the Audit Committee on 19<sup>th</sup> September 2016.

Iain Malcolm

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Councillor Iain Malcolm, Leader of the Council

30<sup>th</sup> September 2016

Martin Swales

.....

Martin Swales, Chief Executive

30<sup>th</sup> September 2016