Financial Statements

2011/12

Economic Regeneration

Children, Adults and Families

Innovation, Efficiency, Delivery

Shaped to deliver

25th September 2012

South Tyneside Council

Contents **Page**

Section 1 – Explanatory Foreword by the Head of Finance

1. Introduction

The Statement of Accounts presents the overall financial performance of the Council and position for the year ended 31st March 2012. The statement has been prepared in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom", published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice constitutes proper accounting practice under the terms of the Accounts and Audit (England) Regulations 2011 and the Local Government and Housing Act 1989.

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

These accounts set out the results of the Council's financial activities for the year ended 31st March 2012 and outline our financial position at that date. The foreword provides:

- A review of the Council's financial results and financial standing for 2011/12.
- Information about the activities and significant matters that took place during 2011/12 that had an impact on Council finances.
- 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. Our Medium Term Financial Plan sets out how we will do this over a five-year horizon. This Statement of Accounts looks back at our results over the past financial year.

Making the best use of our resources is a responsibility shared by Members and officers of the Council. The Council's Chief Financial Officer, the Corporate Director, Business and Area Management, has a specific role in ensuring the adequacy of resources and proper financial administration.

2. Revenue Financial Summary 2011/12

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).

The table over the page summarises our in-year revenue spending position including schools expenditure. The Council achieved an underspend of £0.176m in 2011/12 after taking into account the expected transfers to and from reserves. The overall use of reserves shown in the table can be seen in more detail in note 7 to the Statement of Accounts.

Section 1 – Explanatory Foreword by the Head of Finance

2011/12 Revenue Financial Summary	Original Budget £m *Note 3*	Revised Budget £m *Note 3*	Actual Outturn £m	Variance £m	
Revenue Spending					
Children, Adults and Families Group	91.730	86.226	88.622	2.396	
Business and Area Management Group	42.747	49.333	44.006	(5.327)	*Note 1*
Economic Regeneration Group	17.831	17.078	18.556	1.478	
Strategy and Performance	0.960	0.631	0.563	(0.068)	
Precepts of other public bodies	10.499	10.499	10.275	(0.224)	*Note 1*
Net Cost of Services and Operating Expenditure	**163.767**	**163.767**	**162.022**	**(1.745)**	
Funding Sources					
General Government Grants	(35.412)	(35.412)	(35.412)	-	
National Non-Domestic Rates	(68.793)	(68.793)	(68.793)	-	
Contribution from Collection Fund	(0.400)	(0.400)	(0.400)	-	
Council Tax Payers	(58.005)	(58.005)	(58.005)	-	
Contribution from Eamarked Reserves	(1.157)	(1.157)	(1.157)	-	*Note 2*
Total Revenue Funding	**(163.767)**	**(163.767)**	**(163.767)**	**-**	
Increase in general fund balance before movement in reserves	-	**-**	**(1.745)**	**(1.745)**	
Net transfer to earmarked reserves	-	-	1.569	1.569	*Note 2*
Increase in general fund balance for the year	**-**	**-**	**(0.176)**	**(0.176)**	

Changes required in the restatement of Management Accounts to Financial Accounts

Note 1: Expenditure on precepts and levies have been removed from Business and Area Management Group spending and allocated to Precepts of other public bodies.

Note 2 : Use of Reserves is estimated as part of our Strategic Planning process. We included use of reserves of £1.157m within the 2011-12 budget of £163.767m. The £1.572m transfer to reserves is the amount that was transferred back in year based upon expenditure. This resulted in a net £0.415m transfer to reserves. A further £0.282m was transferred to reserves after the management accounts were closed (see note 29).

Note 3 : The changes from Group Original Budget to Revised Budget are due to budget transfers during the year for the transfer of activities or staff between Groups and the final allocation of some cross cutting savings.

Children, Adults and Families Group

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

The revenue spending highlights during the year were as follows:

- The cost of looked after children through foster placements, social work staffing levels and out of borough placements continue to be a significant pressure for the Council. Savings targets set for the service could not be fully delivered because of a continued high demand. Consequently, safeguarding children has overspent by £2.6m above the sum budgeted in 2011/12. The Council continues to manage cost pressures in this area through reduced dependency upon more expensive external care provision, procurement savings and re-focusing the work of preventative services.

- The Adult Social Care service incurred additional costs of £1.8m as demand exceeded the levels assumed in the budget. Our improved assessment and targeted investment in supporting the well-being of clients has ensured the number of clients in residential care provision has not increased significantly this year. Ongoing demographic pressures will be managed through further expansion of customer choice, re-modelling care provision within the community to better reflect client needs and improved understanding of factors impacting upon customer demand.

- A saving of £2.4m was achieved on savings from vacant posts, supplies and services and training budgets in the provision of information and advice to young people and early years services.

- The Council have continued to address surplus schools' places across the borough in 2011/12 with three schools closing during the year and replaced by the new Forest View School. A total of 29 teaching staff left the Council during the year with a cost pressure to the Council of £0.8m. The Council received approval from Government to allow the cost to be funded through borrowing.

Economic Regeneration Group

The major services provided by the Economic Regeneration Group include encouraging the creation of new jobs through supporting new and existing business and enhancing the skills of local people, provision of a range of leisure and cultural services and management of the Council's land and buildings.

The revenue spending highlights during the year were as follows:

- A £0.7m cost pressure on repairs and maintenance budget due to essential repairs in the Council's premises and schools.

- A shortfall of £0.5m in the letting income on factory units and commercial lets due to challenging economic conditions continuing.

- A £0.4m shortfall in income at leisure facilities due to reduced visitor numbers.

- Savings in Housing Strategy and Regulatory Services from not filling vacant posts have helped to offset other smaller pressures in the Group.

Business and Area Management Group

The major services provided by the Business and Area Management Group include waste collection and disposal, street cleaning, maintenance of open spaces, neighbourhood management and a range of support services to ensure the proper functioning of the Council.

The revenue spending highlights during the year were as follows:

- A reduction of £4.1m was recognised through obtaining Government approval to borrow to fund severance costs and therefore spread payment over a number of years. These costs were initially provided for in the 2010/11 revenue account. The funding of these costs through borrowing allowed the funding to be released back to the revenue account.

- The Council continued its re-organisation programme during 2011/12 to ensure it is “shaped to deliver” to meet changing priorities and operate within significantly reduced Government funding. Detail of the cost of exit packages can be found in note 34 to the accounts. This disclosure shows that 228 council staff left the organisation in 2011/12 at a total cost of £5.3m, the remaining costs relating to school based staff. This total included 67 staff for whom provision of £1.2m had been made in the 2010/11 accounts. This cost includes the full cost of pension payments for staff taking early retirement (‘strain on the fund’). The actual payments for strain on the fund are spread over 3 years and the redundancy costs are capitalised and funded over a number of years. In addition to the £6.1m disclosed in note 34, the Council have made a provision of £1.5m to meet the further redundancy costs expected in 2012/13.

- Re-profiling of the capital investment programme and lower interest rates than forecast resulted in improved cash flow and lower debt charges. This delivered a saving of £2.9m compared to budget.

- Savings of £0.8m in the cost of waste management contracts were offset by additional costs of road maintenance, environmental maintenance and street lighting charges.

3. Capital Investment Financial Summary 2011/12

The following table summarises capital investment of £107.7m during 2011/12 and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2011-16 Medium Term Financial Plan, has been revised to reflect the full impact of known contractual commitments from 2010/11 and new funding approvals received in year. £17.4m of funding has been carried forward to support ongoing schemes in future years.

2011/12 Capital investment summary	**Revised budget £m**	**Actual outturn £m**	**Carry forward £m**	**Spend variance £m**
Children, Adults and Families Group	44.065	40.414	3.946	0.295
Business and Area Management Group	9.063	10.724	0.962	2.623
Economic Regeneration Group	25.918	19.862	5.743	(0.313)
Public Sector Housing	43.467	36.712	6.755	-
Total capital investment	**122.513**	**107.712**	**17.406**	**2.605**

2011/12 Capital financing summary	**Actual £m**
Supported borrowing approvals from government	(19.200)
Unsupported borrowing	(28.606)
Capital receipts	(8.723)
Funding from the housing revenue account	(1.628)
Funding from the major repairs reserve	(12.769)
External funding	(36.786)
Total capital funding	**(107.712)**

Section 1 – Explanatory Foreword by the Head of Finance

The capital investment highlights during the year were as follows:

Children, Adults and Families Group

- £19.5m was invested through the Building Schools for the Future (BSF) programme on a number of secondary schools including Harton Technology College, Hebburn Comprehensive School, St Wilfrid's RC College and St Joseph's RC Comprehensive School. A further £7.6m was invested in the ongoing construction of two new special educational needs facilities.

- £9.1m has been spent on the primary school estate during 2011/12. This includes expenditure on two new schools, Forest View and Stanhope, which opened during 2011/12 and £3.2m on the new Hebburn Lakes School which is due to open in 2012. Hebburn Lakes School will replace two closing schools to further reduce surplus spaces and improve the primary educations estate.

Economic Regeneration Group

- Construction was completed on the new office facility at Harton Quay in October 2011. The building has now been leased to British Telecom (BT) on a commercial rent to house its expanding Local Government operations. The lease terms have been reviewed and accounted for as an operating lease in the Council's accounts and the asset recognised on the Council's Balance Sheet at a valuation of £9.3m. The business centre has created a significant number of new jobs to the borough.

- £2.1m was invested in a variety of regeneration schemes throughout the borough. These included strategic land and property acquisitions to facilitate development on the riverside and Town Centre to complement the new office facility at Harton Quay. A further £2.3m has been carried forward to 2012/13 for completion of these schemes.

- £4.6m has been invested in the construction of the Green Incubator business premises in South Shields, which will promote South Tyneside as a centre for low carbon technology and industry.

- Work has continued on the new leisure facilities on South Shields foreshore, with £4.4m being spent in the year and a further £2.2m carried forward to 2012/13. The facilities are due to open in spring 2013, at which point work will commence on the refurbishment of Temple Park Leisure Centre. A further £1.2m has been invested during the year in the construction of the new Jarrow pool.

Business and Area Management Group

- Investment of £4.0m was made in a variety of infrastructure schemes ranging from road safety measures, resurfacing of highways, and improved footpaths throughout the borough. A further £0.8m has been carried forward to 2012/13 for completion of these schemes.

- £8.5m was spent on severance costs following Government approval for such costs to be funded by borrowing. These costs resulted from a further reorganisation and redundancy programme to meet the challenges of the 2011/12 and 2012/13 budgets. The total includes the cost of staff who have left the Council during the year and a £1.5m provision for redundancy costs of staff who are expected to leave the Council during 2012/13.

- The Council has held a capitalised provision for pay settlements in recent years to meet the estimated liabilities of equal value and equal pay claims as they fall due. The provision is reviewed each year to ensure that an adequate balance is held. As part of the 2011/12 review, £3.7m has been released to capital.

Public Sector Housing

- £36.7m has been invested in council housing during 2011/12. A further £6.8m has been carried forward to 2012/13. £29.2m has been spent on improving 2,791 homes to the decent homes standard. The cost of these schemes has been below budget due to procurement savings and additional external funding from partnerships with energy providers. These factors together with a retendering exercise on the high rise decent homes programme have resulted in the high level of carry forward.

- In addition to decent homes £3.0m was spent on improvements to vacant properties to bring them back into occupation, £1.3m was spent on the construction of new Council Housing at Druridge Crescent and Dorset Avenue and £3.2m was spent on adaptations to properties for tenants with special needs and estate improvements.

4. Significant Matters

Government Funding

The financial settlement for local government announced in December 2010 set out the Government funding for the Council over the following two years. Grant support reduced by 20% in 2011/12 from the previous year and will reduce a further 10% in 2012/13. Funding is expected to continue to reduce in the medium term and the Council is reorganising and changing the way in which services are delivered to shape the borough going forward and meet these financial constraints.

The Council's financial planning framework incorporates a programme of service reviews over a five year time horizon. These reviews will follow a prescribed process considering potential alternative models of service delivery. In conjunction with these reviews, the Council will continue to target capital investment to support economic regeneration and attract new business and jobs to the area with the aim of increasing overall economic prosperity and over time minimising growth in demand upon services that the Council provides. This will complement existing early intervention strategies in the area of social care that minimise the requirement for more expensive provision.

Claims under the Equal Pay Act 1970

The Council continues to have claims under the Equal Pay Act 1970 for which a provision has been made. We have been successful in seeking capitalisation from the Department of Communities and Local Government for backdated pay settlements. A provision is held to cover the costs which is reviewed annually to ensure the level is sufficient. The provision at the start of the year was £17.5m. This has been reduced by £3.7m in 2011/12 to take account of a reduction in the number and value of valid claims. The reduction was released to capital. The majority of this balance is held in long term provisions as settlement is not anticipated in the next 12 months.

Housing Revenue Account Subsidy

In accordance with statute, the Council retains a separate ring-fenced account (Housing Revenue Account) for the income and expenditure of its activities as a landlord of tenanted dwellings. The previous Government housing subsidy system which results in payments to and from local authorities to the Government from this account was abolished on the 31st March 2012. This resulted in the Council making a one–off payment to Government of £60.8m at the end of March 2012 in return for no longer paying annual sums over from the account as required by the housing subsidy system. The payment of £60.8m was funded through prudential borrowing with the associated debt charges being repaid over a number of years through the Housing Revenue Account.

Pension Liability

As at 31st March 2012 the Council had a pension liability to the Tyne and Wear Pension Fund of £320.4m, (£238.3m at 31st March 2011). 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 and Gateshead Building Schools for the Future (STaG BSF)

The Council is part of a public/private partnership, known as InspiredSpaces STaG Limited, to deliver our Building Schools for the Future programme (BSF). This partnership consists of the following parties; Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), South Tyneside Council (5% shareholding) and Gateshead Council (5% shareholding).

InspiredSpaces STaG Limited is delivering the whole BSF build programme and ICT managed service for all education schemes above £0.1m if the Local Education Partnership (LEP) demonstrates value for money. During 2011/12 work was completed on St. Joseph's RC Comprehensive and St. Wilfrid's RC College which both involved a part re-build and part re-modelling of the existing buildings. Work was also completed on Harton Technology College and its new sixth form facility and the new South Shields Community School (PFI scheme). Work is ongoing on the re-modelling of Hebburn Comprehensive School.

The construction of two new special educational needs facilities is ongoing with completion due in September 2012. Keelman's Way School will replace Oakleigh Gardens and Greenfield Schools. The new facility will operate as a Trust School requiring the transfer of the asset from the Council to the School Body within six months of the school opening. Park View School will replace Galsworthy and also provide accommodation for St Mary's pupil referral unit in the new Beacon Centre.

Transforming Our Primary Schools (TOPS)

The Council is creating four new primary schools under the TOPS programme through a similar arrangement with InspiredSpaces STaG Limited. Stanhope Primary and Forest View Schools were completed in 2011/12 following Harton Primary School which was completed in 2010/11. Hebburn Lakes School will be completed in 2012/13.

Joint Waste Partnership Private Finance Initiative (PFI) Project

The South Tyne and Wear Waste Management Partnership was established 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. In April 2011 the partnership, led by Gateshead, signed a £727m PFI funded contract with a consortium led by SITA UK Limited. The contract is focussed on the development of an energy-from-waste facility in Teesside which will treat 190,000 tonnes a year of waste generated by the three councils. The facility is expected to be operational in 2014 so no assets or liabilities are included within the Council's Statement of Accounts in 2011/12. Further information can be found in note 23 to the accounts.

Section 1 – Explanatory Foreword by the Head of Finance

Strategic Partnership

On 1st October 2008, the Council entered into a strategic partnership with British Telecom PLC (BT) to deliver a range of functions such as finance, human resources, ICT and procurement on behalf of the Council. Staff previously employed by the Council in the delivery of these services were transferred over to the newly created company British Telecom South Tyneside Limited (BTSTL). The pension liability for transferring staff remains with the Council as a result of a risk-sharing agreement between the two parties.

Through the partnership, BT has guaranteed the creation of employment opportunities, investment in the borough and service efficiencies. The contract will run for 10 years with a potential 5-year extension. A key element of the contract was the creation of a new business centre in the borough. The development at Harton Quay was opened in October 2011, bringing further job opportunities to people in the borough. Details of transactions between the Council and BTSTL for the year can be found in the Related Parties disclosures (note 40).

Changes in Accounting Policies

The statement includes on page 96 the accounting policies applied which are significant to the understanding of the accounts. In 2011/12 the accounting policies now include a section on heritage assets to meet the requirements of the Code, which can be found on page 104.

Heritage assets have cultural, environmental or historical associations that make their preservation for future generations important and this distinguishes them from other assets. Due to the nature of the items which constitute heritage assets it is unlikely that there would be a market available for valuation purposes. The Code is therefore quite flexible in this area and allows valuation based on the best information available. The Council has used insurance valuations where these are available and cost where the items are not individually insured. Heritage asset buildings have been valued at depreciated replacement cost. Items which are deemed to have an indeterminate life have not been depreciated.

The net book value of property, plant and equipment in the 2010/11 balance sheet contained £1.0m of assets which have been reclassified as heritage assets under the new definition. Note 1 shows the prior period adjustments required to the 2010/11 balance sheet to incorporate heritage assets. The Code requires that authorities bring heritage assets onto the balance sheet with a corresponding increase in the revaluation reserve. The total net book value of non-current assets has increased by £2.5m in relation to heritage assets. Depreciation has increased by £0.1m.

Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the Code does not require that the asset is recognised on the balance sheet. The Council has included such assets, for example statues and war memorials, on the balance sheet at zero valuation.

5. Material Movements in Assets and Liabilities

- Council dwellings have reduced in value by £34.9m since last year. This is due to a number of factors relating to the revaluation of properties. The Council has invested significant resources over recent years to improve the quality of council dwellings for our residents through the Decent Homes programme. This investment does not necessarily increase the valuation of properties in the current economic climate, which results in a revaluation loss. In addition, improvements to our 'beacon' approach to valuing council dwellings were introduced in 2011/12. This revised accounting estimate has resulted in further changes to the valuation of dwellings. More detail on the beacon valuation approach can be found in note 4 to the accounts. In addition to these valuation changes, £3.2m of council dwellings have either been sold or demolished in the period.

- Other property, plant and equipment has increased by £39.3m. The Council has invested significant amounts in building and refurbishing assets, particularly schools, during the year which is reflected in this figure. These assets are revalued when the work is completed and whilst the investment improves the asset, it does not always increase the valuation of the asset to the extent of the expenditure and results in a revaluation loss. £15.3m of capital spend was removed upon valuation in 2011/12.

- At 31st March 2012 the Council held an additional £22.5m in cash and cash equivalents. The Council has taken the decision to hold £20.0m in investments of less than 91 days due to the uncertainty of the markets. These investments are classed as cash equivalents.

- Long and short term borrowing is £126.5m higher at 31st March 2012, this is due to £60.8m of borrowing to fund the housing subsidy debt payment and £65.7m to support the capital programme. The Council had followed a policy in 2010/11 of 'under borrowing' for the capital programme and using cash balances to support the cash flow as this was financially beneficial at the time. As internal balances have reduced, the Council have now taken out the borrowing to fully fund the cash flow arising from the programme.

- Short term debtors has decreased by £8.0m from the 31st March 2011 balance. The level of PCT debt at 31st March 2012 is £2.5m lower than the previous year as a result of closer working with the PCT to resolve queries over contributions to social care packages. At 31st March 2011, the Council held a £3.3m escrow account for the construction costs of Harton Quay. As this building has been completed, the escrow account is no longer held.

- PFI liabilities have increased by £19.9m because of the addition of the new South Shields Community School which became operational in September 2011.

- The increase in the pension liability of £82.1m compared to the previous year is primarily due to the following factors:

    - A reduction in the assumed discount factor to 4.7% (5.4% in 2010/11) has increased the pension liability by £52.9m;
    - Revising assumptions to take account of the higher than anticipated national pension increases (5.2%) has increased the pension liability by £4.5m;

- Changing assumptions to account for lower returns on investments has reduced the pension asset value and therefore increased the pension liability by £25.7m.

6. Reserves and Balances

The Council agreed a risk based reserves strategy alongside the Medium Term Financial Plan for 2012-2017 and reviews all strategic reserves as part of the budget setting process. As at the 31st March 2012 the Council held earmarked reserves of £28.1m (£27.7m in 2010/11) of which £8.1m related to individual school balances.

Our Strategic Reserve is intended to cover emergency/unforeseen events and is maintained at 2% of the net budget as part of a risk-based assessment. As at the 31st March 2012 the Council held £3.0m in this reserve (£2.9m in 2010/11).

The other key reserves that we hold to deal with our specific risks are the Risk Capacity Reserve and the Structural Change Reserve. We have added to these reserves in recent years to strengthen the Council's financial position in the context of further estimated reductions in Government funding.

As at 31st March 2012 the Council held £2.7m (£2.5m in 2010/11) in capital receipts for the purposes of investing in our assets in future years. We are also holding £3.3m in a PFI reserve (£3.9m in 2010/11) to assist in the smoothing out of unitary charge costs over the lifetime of the schemes.

7. Group Results

The Group Accounts fully incorporate the results of South Tyneside Homes Limited, a subsidiary company of the Council. They also reflect the Council's share of the Tyne and Wear Development Company and Beamish Museum which are operated as associates with other local authorities. Further details about these relationships can be found in the Group Introduction on page 128 of these accounts.

The Group results revealed a deficit for the year of £139.9m (£99.1m in 2010/11) incorporating a net deficit of £0.4m (£11.7m in 2010/11) from Council subsidiaries and associates. The net assets of the Group stood at £179.0m at 31st March 2012 (£354.9m at 31st March 2011).

8. Housing Revenue Account

The Housing Revenue Account is ringfenced and all expenditure must be met from rents or Government subsidy. The Housing Revenue Account achieved a surplus of £1.0m (£1.1m in 2010/11). Revenue balances at 31st March 2012 stood at £11.6m (£10.6m in 2010/11) and this will be used to support future years' expenditure on housing.

Due to the end of the housing subsidy system on the 31st March 2012, the Council is developing a longer term business plan on the management of the housing stock. This will consider options for future capital investment, levels of debt and the profile of rent levels.

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

Expenditure on PFI schemes during the year was £12.4m (£9.3m in 2010/11). Revenue contributions provided funding of £4.4m (£2.8m in 20010/11), or 35% and the remaining 65% or £8.0m (£6.5m in 2010/11) was funded using PFI credits from Government.

10. Borrowing Facilities

Section 3 of the Local Government Act 2003 requires the Council to determine its own affordable borrowing requirement necessary to fund capital expenditure. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. We have established a set of prudential indicators and have developed a measurement and reporting process that highlights any breaches of these indicators. There were no breaches during 2011/12.

During the year, the Council increased its debt having taken out 18 loans totalling £90.0m (£55.0m in 2010/11) from the Public Works Loans Board (PWLB). 6 loans totalling £30.0m were repaid during the year (none repaid in 2010/11).

11. Medium Term Prospects

Our Medium Term Financial Plan for 2012-2017 was approved by Council and published in March 2012. 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 Medium Term Financial Plan for 2012-2017 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 Central Government funding over the medium term. Consequently, the Council has implemented an organisational restructure which has involved a sizeable reduction in staff posts. This process has been managed through continual dialogue with staff and trades unions. Our financial forecasts indicate that further staff reductions and service remodelling will be required in future years to meet the financial challenges and shape a successful future for the borough.

Our strategic planning is prioritised by a focus on large and high-risk areas of spend. 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 opportunities through working with a wide range of partners.

12. The Statement of Accounts

The Statement of Accounts are set out on pages 16 to 175. They consist of the following financial statements that are required to be prepared under the Code of Practice:

- **Statement of Responsibilities for the Accounts** (page 15) that explains both the Council's and Corporate Director, Business and Area Management's responsibilities in respect of the Statement of Accounts.

- **Independent Auditors' Report** (page 16) will set out the opinion of our external auditors PricewaterhouseCoopers LLP following their audit of the Statement of Accounts.

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

- **Movement in Reserves Statement** (page 20) 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 21). This statement 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. The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in the Service Reporting Code of Practice 2010/11.

- **Balance Sheet** (page 22) 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 23) 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 115 to 124) 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 125 to 127) showing the income the Council receives from Council Tax and National Non-Domestic Rates and how this income has been distributed to precepting authorities (Northumbria Police Authority and Tyne and Wear Fire and Civil Defence Authority).

Group Financial Statements and Notes in Section 6

- The Council conducts some of its activities through partnerships and separate undertakings. The Code of Practice requires the production of **Group Financial**

Statements (pages 128 to 147) to take account of these relationships in order to provide a full picture of the financial position.

Tyne and Wear Pension Fund Statements and Notes in Section 7

- As lead Authority for the Tyne and Wear Pension Fund (the Fund) the Council is required to publish the accounts for the Fund (pages 148 to 175) as part of its statement of accounts for the year.

13. 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.

14. Further Information

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

www.southtyneside.gov.uk.

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 424 7385**.

Other sources of useful information regarding the finances of the Council include Shaping Our Financial Future: Medium Term Financial Plan 2012-2017. This is also available from the website or the address above.

15. Your Comments

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.

Stuart Reid
Head of Finance

25th September 2012

Section 2 – Statement of Responsibilities for the Accounts

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 Corporate Director of Business and Area Management.
- 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 Corporate Director of Business and Area Management

The Corporate Director of Business and Area Management 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 Corporate Director of Business and Area Management 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 Corporate Director of Business and Area Management has also:

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

Corporate Director of Business and Area Management Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2012, set out in the following pages, gives a true and fair view of the financial position of South Tyneside Council and the Tyne and Wear Pension Fund at 31st March 2012, and their income and expenditure for the year ended 31st March 2012.

Signed: P. Melia Date: 25th September 2012

Patrick Melia, Corporate Director of Business and Area Management

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 2011.

Signed: Iain Malcolm. Date: 25th September 2012

Councillor Iain Malcolm, Chair of General Purposes Committee

Section 3 – Independent Auditors' Report

Independent auditor's report to the Members of South Tyneside Council

We have audited the statement of accounts of South Tyneside Council and its Group for the year ended 31 March 2012 which comprises the Council and Group Comprehensive Income and Expenditure Statement, the Council and Group Movement in Reserves Statement, the Council and Group Balance Sheet as at the end of the period, the Council and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 supported by the CIPFA Service Reporting Code of Practice 2011/12.

Respective responsibilities of the Chief Financial Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 16, the Chief Financial Officer is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the CIPFA Service Reporting Code of Practice 2011/12. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the statement of accounts

An audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and Group; and the overall presentation of the statement of accounts. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited statement of accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on statement of accounts

In our opinion the statement of accounts:

- gives a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice 2011/12, of the state of the Council and Group's affairs as at 31 March

2012 and of the Council's and Group's income and expenditure and cash flows for the year then ended; and

- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the CIPFA Service Reporting Code of Practice 2011/12.

Opinion on other matter

In our opinion, the information given in the explanatory foreword for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the Annual Governance Statement on which the Code of Audit Practice issued by the Audit Commission requires us to report to you if, in our opinion, the Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Paul Woolston

Paul Woolston
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Newcastle upon Tyne

27 September 2012

Opinion on the pension fund accounts

We have audited the pension fund accounting statements for the year ended 31 March 2012 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Chief Financial Officer and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the Chief Financial Officer is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for South Tyneside Council's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Section 3 – Independent Auditors' Report

Scope of the audit of the pension fund accounts

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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements.

Opinion on the pension fund accounting statements

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the Pension Fund during the year ended 31 March 2012, and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matter

In our opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Paul Woolston

Paul Woolston
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Newcastle upon Tyne

27 September 2012

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

Council's responsibilities

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

Auditors' responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report i***f*** significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Section 3 – Independent Auditors' Report

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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, the 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 on the specified criteria published by the Audit Commission in October 2011, 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 ending 31 March 2012.

Certificate

We certify that we have completed the audit of the Council and Group accounts of South Tyneside Council and the Tyne and Wear Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Woolston

Paul Woolston
For and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
Newcastle upon Tyne

27 September 2012

Notes:

(a) The maintenance and integrity of the South Tyneside Council website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the statement of accounts since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Section 4 – Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (surplus) or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The net (increase)/decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Note	General fund balance	Earmarked general fund reserves	Housing revenue account	Capital receipts reserve	Major repairs reserve	Capital grants unapplied	Total usable reserves	Unusable reserves	Total Council reserves
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2010 (as restated)		**(1.369)**	**(29.490)**	**(9.524)**	**(2.468)**	**(5.325)**	**(4.163)**	**(52.339)**	**(434.494)**	**(486.833)**
Movement in reserves during 2010/11										
(Surplus) or deficit on the provision of services (as restated)		(67.251)	-	146.737	-	-	-	79.486	-	79.486
Other comprehensive income and expenditure		-	-	-	-	-	-	-	31.245	31.245
Total comprehensive income and expenditure (as restated)		**(67.251)**	**-**	**146.737**	**-**	**-**	**-**	**79.486**	**31.245**	**110.731**
Adjustments between accounting basis and funding basis under regulations (as restated)	6	68.941	-	(147.801)	(0.027)	3.408	0.869	(74.610)	74.610	-
Net decrease or (increase) before transfers to earmarked reserves (as restated)		**1.690**	**-**	**(1.064)**	**(0.027)**	**3.408**	**0.869**	**4.876**	**105.855**	**110.731**
Transfers (from) or to earmarked reserves	7	(1.779)	1.779	-	-	-	-	-	-	-
(Increase) or decrease in 2010/11 (as restated)		**(0.089)**	**1.779**	**(1.064)**	**(0.027)**	**3.408**	**0.869**	**4.876**	**105.855**	**110.731**
Balance at 31st March 2011 carried forward (as restated)		**(1.458)**	**(27.711)**	**(10.588)**	**(2.495)**	**(1.917)**	**(3.294)**	**(47.463)**	**(328.639)**	**(376.102)**
Movement in reserves during 2011/12										
Deficit on provision of services		5.199	-	135.141	-	-	-	140.340	-	140.340
Other comprehensive income and expenditure		-	-	-	-	-	-	-	56.748	56.748
Total comprehensive income and expenditure		**5.199**	**-**	**135.141**	**-**	**-**	**-**	**140.340**	**56.748**	**197.088**
Adjustments between accounting basis and funding basis under regulations	6	(5.753)	-	(136.106)	(0.246)	0.865	1.252	(139.988)	139.988	-
Net (increase) or decrease before transfers to earmarked reserves		**(0.554)**	**-**	**(0.965)**	**(0.246)**	**0.865**	**1.252**	**0.352**	**196.736**	**197.088**
Transfers to or (from) earmarked reserves	7	0.378	(0.378)	-	-	-	-	-	-	-
(Increase) or decrease in 2011/12		**(0.176)**	**(0.378)**	**(0.965)**	**(0.246)**	**0.865**	**1.252**	**0.352**	**196.736**	**197.088**
Balance at 31st March 2012 carried forward		**(1.634)**	**(28.089)**	**(11.553)**	**(2.741)**	**(1.052)**	**(2.042)**	**(47.111)**	**(131.903)**	**(179.014)**

Section 4 – 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; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11 Gross expenditure (as restated)	2010/11 Gross income	2010/11 Net expenditure (as restated)		Note	2011/12 Gross expenditure	2011/12 Gross income	2011/12 Net expenditure
£m	£m	£m			£m	£m	£m
21.470	(19.177)	2.293	Central services to the public		21.640	(18.955)	2.685
25.235	(5.156)	20.079	Cultural and related services		25.504	(4.090)	21.414
25.084	(7.307)	17.777	Environmental and regulatory services		21.807	(6.122)	15.685
14.789	(4.170)	10.619	Planning services		11.387	(2.301)	9.086
224.725	(165.396)	59.329	Education and children's services		193.451	(130.825)	62.626
13.240	(3.651)	9.589	Highways and transport services		12.894	(4.223)	8.671
100.238	-	100.238	Local authority housing (HRA) - impact of change in discount factor in impairment of non-current assets	8	-	-	-
-	-	-	Local authority housing (HRA) - housing debt subsidy payment	8	60.818	-	60.818
94.084	(54.993)	39.091	Local authority housing (HRA) - other		121.005	(58.390)	62.615
68.705	(63.487)	5.218	Other housing services		73.116	(68.368)	4.748
89.044	(28.108)	60.936	Adult social care services		80.831	(31.462)	49.369
12.437	(4.979)	7.458	Corporate and democratic core		10.866	(4.029)	6.837
2.410	-	2.410	Non distributed costs - equal pay settlements	8	-	(3.654)	(3.654)
(75.630)	-	(75.630)	Non distributed costs - impact of change in inflation factor in retirement benefits	8	-	-	-
1.643	(0.295)	1.348	Non distributed costs - other		1.260	(0.124)	1.136
617.474	**(356.719)**	**260.755**	**Cost of services**		**634.579**	**(332.543)**	**302.036**
12.712	-	12.712	Other operating income and expenditure	9	16.512	-	16.512
32.627	(7.958)	24.669	Financing and investment income and expenditure	10	27.893	(2.337)	25.556
-	(218.650)	(218.650)	Taxation and non-specific grant income	11	-	(203.764)	(203.764)
662.813	**(583.327)**	**79.486**	**Deficit on provision of services**		**678.984**	**(538.644)**	**140.340**
		19.935	Deficit or (surplus) on revaluation of property, plant and equipment				(28.642)
		11.310	Actuarial losses on pension assets and liabilities				85.390
		31.245	**Other comprehensive income and expenditure**				**56.748**
		110.731	**Total comprehensive income and expenditure**				**197.088**

Section 4 – 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 (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are usable reserves, i.e. 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 (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes those that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and those that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31st March 2011 (as restated) £m		Note	31st March 2012 £m
	Non-current assets		
525.680	Council dwellings	12	490.778
472.610	Other property, plant and equipment	12	511.912
3.278	Heritage assets	13	3.500
2.900	Investment properties	14	3.100
2.406	Intangible assets	15	1.807
0.435	Long term investments	16	0.436
1.201	Long term debtors	16	0.949
1,008.510	**Total non-current assets**		**1,012.482**
	Current assets		
19.608	Short term investments	16	19.512
0.699	Inventories	17	0.799
33.482	Short term debtors	18	25.515
40.879	Cash and cash equivalents	19	63.385
2.341	Assets held for sale	20	2.716
97.009	**Total current assets**		**111.927**
	Current liabilities		
(1.474)	Cash and cash equivalents - bank overdraft	19	(0.725)
(52.845)	Short term creditors	21	(50.692)
(31.411)	Short term borrowing	16	(12.110)
(1.310)	PFI liability due in less than 1 year	22	(1.137)
(11.739)	Capital grants receipts in advance	37	(5.806)
(3.882)	Short term provisions	22	(3.181)
(102.661)	**Total current liabilities**		**(73.651)**
(5.652)	**Total net current assets**		**38.276**
	Non-current liabilities		
(0.157)	Long term creditors	16	(0.179)
(16.570)	Long term provisions	22	(14.172)
(313.373)	Long term borrowing	16	(459.189)
(53.966)	Long term PFI liability	23	(74.074)
(238.290)	Liability related to defined benefit pension scheme	47	(320.420)
(4.400)	Other long term liabilities	16	(3.710)
(626.756)	**Total non-current liabilities**		**(871.744)**
376.102	**Total net assets**		**179.014**
	Reserves		
(47.463)	Usable reserves	24	(47.111)
(328.639)	Unusable reserves	25	(131.903)
(376.102)	**Total reserves**		**(179.014)**

Section 4 – Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The 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.

2010/11 (as restated) £m		Note	2011/12 £m
(79.486)	**Cash outflow from the provision of services**		**(140.340)**
192.717	Adjustment to surplus or deficit on the provision of services for non-cash movements	25	222.783
(60.227)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(135.912)
53.004	**Net cash flow from operating activities**		**(53.469)**
(119.588)	Investing activities	26	(46.641)
52.927	Financing activities	27	123.365
(13.657)	**Net (decrease) or increase in cash and cash equivalents**		**23.255**
53.062	**Cash and cash equivalents at the start of the year**		**39.405**
39.405	**Cash and cash equivalents at the end of the year**		**62.660**

The notes to the core financial statements are presented on pages 24 to 114 and form part of the Statement of Accounts.

Section 4 – Notes to the Core Financial Statements

Note 1. Accounting Standards Adopted - Impact on Prior Years

The Council has adopted FRS 30 heritage assets which has resulted in a new line on the face of the Balance Sheet statement and some amounts presented in the Statement of Accounts being different from the equivalent figures presented in the accounts for 2010/11.

A number of items considered to be classified as heritage assets were already held on the Balance Sheet as other property, plant and equipment. These items have been reclassified to the heritage assets line with a corresponding entry to the revaluation reserve where items have been revalued upwards. Assets which were not previously recognised but which fall into the category of heritage assets have been brought onto the Balance Sheet at current value with a corresponding entry made in the revaluation reserve.

The following tables show the adjustments made to the figures reported in the 2009/10 and 2010/11 financial statements:

Opening 1st April 2010 Balance Sheet	**2009/10 statements £m**	**Adjustments made £m**
Other property plant and equipment	438.461	(0.394)
Heritage assets	-	3.146
Revaluation reserve	(122.164)	(2.752)

Opening 1st April 2011 Balance Sheet	**2010/11 Statements £m**	**Adjustments Made £m**
Other Property, Plant and Equipment	473.564	(0.954)
Heritage Assets	-	3.278
Capital Adjustment Account	(471.949)	(0.010)
Revaluation Reserve	(99.088)	(2.314)

2010/11 Comprehensive Income and Expenditure Statement	**2010/11 Statements £m**	**Adjustments made £m**
Cultural, environmental, regulatory and planning services (gross expenditure)	65.118	(0.010)

Note 2. Accounting Standards Issued, Not Adopted

Amendments have been made to IFRS 7 Financial Instruments: Disclosures in relation to any transfers of financial assets. The change to accounting policies for IFRS 7 is required from 1st April 2013. The entity should disclose information that enables users of its financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities and;
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

A review by the Council has concluded that it does not have any transferred financial assets and as such there will be no impact on the Statement of Accounts in 2012/13.

Note 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 48, 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:

- There have been significant reductions in levels of funding for Local Government in 2011/12. Funding levels for 2012/13 continue that trend and published public expenditure forecasts indicate a likely continual downward trend in the resources available for future years. The Council continues to be committed through its strategic planning process to realise efficiencies through new models of delivery rather than service reduction and has therefore not at this stage identified significant assets which may need to be impaired as a result of a need to close facilities.

- The Council are undertaking a strategic property review to reduce the number of buildings the Council uses to deliver services and thus reduce operating costs. Where buildings have been identified for closure and the plan has been formally agreed, the asset has been impaired in the accounts to reflect the future closure. Two major assets, Wouldhave House and Temple Park Pool, have been impaired in the statement of accounts for this reason. The total impairment was £2.900m.

- The Council is deemed to control the services provided under the Private Finance Initiative (PFI) agreements for three secondary schools and the Council's street lighting. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and the following assets, totalling £70.203m, are recognised as property, plant and equipment on the Council's Balance Sheet.

    - Boldon School valued at £15.034m
    - Jarrow School valued at £14.390m
    - South Shields Community School valued at £17.597m
    - Street Lighting valued at £23.182m

  A further PFI contract for waste management was completed in April 2011. Gateshead Council is the lead authority of a partnership with South Tyneside and Sunderland Councils to procure a 25 year service contract for waste handling and waste disposal. Service commencement is not until April 2014, so the liability will not be included in the balance sheets of the partner councils until 2014/15.

- In 2008/09 the Council entered into a strategic partnership with British Telecom South Tyneside Limited (BTSTL) to deliver a range of back office services. The substance of the relationship between the Council and BTSTL has been reviewed and is not deemed to be an entity controlled by the Council nor a service concession or lease arrangement and as such is treated as a long term contract within the Statement of Accounts.

- The Council has constructed a new office facility at Harton Quay, South Shields. The office was leased to British Telecom PLC on 29th 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 will generate 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 an opening value of £9.250m.

- The Council is one of seven local authorities who hold an overall 51% shareholding in Newcastle Airport. The Council acts as lead authority for this group and has considered whether a revaluation of the holding is required in 2011/12, taking into account any factors which may impact the valuation of the holding. The Council has concluded that no valuation is required for 2011/12 and the Council's holding will continue to be valued at £0.425m. This policy is reviewed annually.

- South Tyneside Homes Limited, a company wholly owned by the Council, delivers the management and maintenance of the Council's housing stock. The Council has concluded that this is a subsidiary and the results have been consolidated into the Council's Group Accounts.

- The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31st March 2012 of £29.388m. 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.

- The Council has continued its redundancy programme to meet the significant reduction in Government funding in 2011/12 and future years. A significant number of employees had either left the Council or had a confirmed leaving date at 31st March 2012 (see note 34) and the cost has been recognised in the Statement of Accounts for these employees. The Council had articulated to employees the scale of reductions required to meet the 2012/13 Budget. As the number of additional post reductions and costs could be reasonably estimated, a provision of £1.500m has been included in the Statement of Accounts. This provision relates to the redundancy element only as accounting policies allow the pension costs to be charged to the General Fund in the year the person leaves.

- The Council acts as guarantor for a number of organisations that have been admitted into the Local Government Pension Scheme. These have been classified as contingent liabilities as no liability will fall due unless such an organisation is wound up.

- Over recent years the Council has received a significant number of claims under the Equal Pay Act 1970. As the potential liability for the Council continues, a provision has been made within the 2011/12 accounts for £13.780m.

Section 4 – Notes to the Core Financial Statements

Note 4. 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 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 the assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets 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 £1.401m for every year that useful lives had to be reduced.
Property land valuation	The Council has previously valued the developed land for specialised assets such as schools and leisure facilities at 10% of the Depreciated Replacement Cost (DRC) of the asset. In the current economic environment, this is no longer seen as an appropriate proxy for the developed land valuation. From 2011/12, the developed land of assets valued using the DRC approach will be based upon market values from recent land sales in the borough. This is in line with the accounting approach to developed land of other Council assets. The revised accounting estimate approach will be applied to DRC assets as they are revalued or when significant spend has been incurred in year, whichever happens earlier.	The impact of introducing this revised accounting estimate in 2011/12 has been an increase in land valuation of £4.172m for the 27 DRC assets which have been revalued during the year. If this percentage increase was applied to the land valuation of the remaining DRC assets, the impact would be a maximum of £8.916m increase. This assumes the same increase in land value.
Valuation of council dwellings	The Council uses the 'beacon valuation' approach to the revaluation of its properties. Houses are identified which are representative of the whole housing stock and are valued on a 5 year rolling programme. These 'beacon' house valuations are used to revalue all houses in	The impact of introducing this revised accounting estimate in 2011/12 has been an increase in the dwelling valuations of £7.060m.

	the Council's housing stock. The beacon valuations have previously been applied to other houses as a percentage increase from net book value to actual valuation. This accounting estimate has been revised in 2011/12 to an approach which is now felt to be more accurate. Rather than using a percentage change, actual valuations are applied to the houses in the beacon group after making an adjustment for the number of bedrooms. The revised accounting estimate approach will be applied to housing assets as they are revalued on the five year rolling programme.	
Provisions	The Council has made a provision of £13.780m for the settlement of claims for back pay arising from the Equal Pay Act 1970, 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.	The assumption on average settlement cost has been updated to reflect most recent settlements. An increase over the forthcoming year of 10% in the number of claims would have the effect of adding £1.378m to the provision needed.
Pensions Liability	Estimation of the net liability 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 pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £63.820m. However the assumptions interact in complex ways. During 2011/12 the Council's actuaries advised that the net pension liability had increased by £4.530m as a result of estimates being corrected for experience and increased by £52.940m due to updating of assumptions.
Arrears	At 31st March 2012 the Council had National Health Service (NHS) debtors of £1.594m and other debtors of £13.102m. A review of these debtors suggested that an impairment charge of £3.440m was appropriate. In the current economic climate it is not certain that such an allowance may be sufficient.	If collection rates were to deteriorate then a 10% increase in impairment of doubtful debts would require an additional £0.939m set aside in the provision for sundry debtors.

Section 4 – Notes to the Core Financial Statements

Note 5. Events after the Reporting Period

The Statement of Accounts have been certified as giving a true and fair view by the Corporate Director of Business and Area Management on 25th September 2012. 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 31st March 2012. There are no such events to report.

Section 4 – Notes to the Core Financial Statements

Note 6. 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.

2011/12	Usable reserves General fund balance £m	Housing revenue account £m	Capital receipts reserve £m	Major repairs reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive						
Charges for depreciation and impairment of non-current assets	(20.756)	(23.005)	-	-	-	43.761
The excess of depreciation charged to HRA services over the major repairs allowance element of housing subsidy	-	11.904	-	(11.904)	-	-
Revaluation losses on property, plant and equipment	(20.575)	(63.249)	-	-	-	83.824
Amortisation of intangible assets	(0.644)	(0.075)	-	-	-	0.719
Capital grants and contributions applied	33.890	1.644	-	-	-	(35.534)
Capital receipts not linked to non-current assets	0.328	0.081	(0.409)	-	-	-
Revenue expenditure funded from capital under statute	(9.672)	(0.581)	-	-	-	10.253
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	(2.846)	(11.943)	-	-	-	14.789
Accumulated gains on investment properties yet to be consumed	0.200	-	-	-	-	(0.200)
Housing subsidy debt payment	-	(60.818)	-	-	-	60.818
Other movements	(0.003)	-	-	-	-	0.003
Insertion of items not debited or credited to the Comprehensive						
Statutory provision for the financing of capital investment	10.324	0.019	-	-	-	(10.343)
Capital expenditure charged against the general fund and HRA balances	-	1.628	-	-	-	(1.628)
Adjustments primarily involving the capital grants unapplied						
Application of grants to capital financing transferred to the capital adjustment account	-	-	-	-	1.252	(1.252)
Adjustments primarily involving the capital receipts reserve:						
Transfer of cash sale proceeds credited as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	1.345	8.389	(9.734)	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	8.724	-	-	(8.724)
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	(0.064)	(0.012)	0.076	-	-	-
Contribution from the capital receipts reserve to finance the payments to the Government capital receipts pool	(1.106)	-	1.106	-	-	-
Transfer from deferred capital receipts reserve upon receipt of cash	(0.005)	-	(0.009)	-	-	0.014
Adjustment primarily involving the major repairs reserve:						
Use of the major repairs reserve to finance new capital expenditure	-	-	-	12.769	-	(12.769)
Adjustment primarily involving the financial instruments						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0.045	(0.082)	-	-	-	0.037
Adjustments primarily involving the pensions reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 47)	(17.334)	(0.018)	-	-	-	17.352
Employer's pensions contributions and direct payments to pensioners payable in the year	21.839	0.012	-	-	-	(21.851)
Adjustments primarily involving the collection fund adjustment						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.110)	-	-	-	-	0.110
Adjustment primarily involving the employee benefits adjustment						
Employee benefits accrued during the Year	(0.609)	-	-	-	-	0.609
Total adjustments	**(5.753)**	**(136.106)**	**(0.246)**	**0.865**	**1.252**	**139.988**

Section 4 – Notes to the Core Financial Statements

The equivalent figures for the previous year are as follows:

2010/11	Usable reserves General fund balance £m	Housing revenue account £m	Capital receipts reserve £m	Major repairs reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive						
Charges for depreciation and impairment of non-current assets (as restated)	(13.691)	(13.328)	-	-	-	27.019
The excess of depreciation charged to HRA services over the major repairs allowance element of housing subsidy	-	3.928	-	(3.928)	-	-
Revaluation losses on property, plant and equipment	(28.595)	(139.596)	-	-	-	168.191
Amortisation of intangible assets	(0.667)	(0.075)	-	-	-	0.742
Capital grants and contributions applied	51.451	2.740	-	-	-	(54.191)
Capital receipts not linked to non-current assets	0.240	0.078	(0.318)	-	-	-
Revenue expenditure funded from capital under statute	(26.848)	(0.936)	-	-	-	27.784
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	(0.085)	(4.476)	-	-	-	4.561
Insertion of items not debited to the Comprehensive Income and						
Statutory provision for the financing of capital investment	8.182	0.018	-	-	-	(8.200)
Capital expenditure charged against the General Fund and HRA balances	0.761	1.377	-	-	-	(2.138)
Adjustments primarily involving the capital grants unapplied						
Application of grants to capital financing transferred to the capital adjustment account	-	-	-	-	0.869	(0.869)
Adjustments primarily involving the capital receipts reserve:						
Transfer of cash sale proceeds credited as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	-	2.552	(2.552)	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	2.197	-	-	(2.197)
Contribution from the capital receipts reserve towards administrative costs of non-current asset disposals	-	(0.004)	0.004	-	-	-
Contribution from the capital receipts reserve to finance the payments to the Government capital receipts pool	(0.651)	-	0.651	-	-	-
Transfer from deferred capital receipts reserve upon receipt of cash	(0.004)	-	(0.009)	-	-	0.013
Adjustment primarily involving the major repairs reserve:						
Use of the major repairs reserve to finance new capital expenditure	-	-	-	7.336	-	(7.336)
Adjustment primarily involving the financial instruments						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0.045	(0.077)	-	-	-	0.032
Adjustments primarily involving the pensions reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 49)	52.525	(0.017)	-	-	-	(52.508)
Employer's pensions contributions and direct payments to pensioners payable in the year	22.125	0.015	-	-	-	(22.140)
Adjustments primarily involving the collection fund adjustment						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.105)	-	-	-	-	0.105
Adjustment primarily involving the equal pay adjustment						
Amount by which amounts charged for equal pay claims to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	3.021	-	-	-	-	(3.021)
Adjustment primarily involving the employee benefits adjustment						
Employee benefits accrued during the year	1.237	-	-	-	-	(1.237)
Total adjustments (as restated)	**68.941**	**(147.801)**	**(0.027)**	**3.408**	**0.869**	**74.610**

Section 4 – Notes to the Core Financial Statements

Note 7. Transfers to/from Earmarked Reserves

This note sets out 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 2011/12. Earmarked reserves are held for specific purposes and are not intended to support general Council spending. They include cash balances held on behalf of schools, which are not for use in other Council services.

The following table shows the movement in earmarked reserve balances for the past two years.

	Balance 1st April 2010	Transfers out 2010/11	Transfers in 2010/11	Balance 31st March 2011	Transfers out 2011/12	Transfers in 2011/12	Balance 31st March 2012
	£m	£m	£m	£m	£m	£m	£m
General fund:							
Strategic reserve	(2.892)	-	(0.057)	(2.949)	-	(0.072)	(3.021)
School balances	(6.992)	3.240	(4.126)	(7.878)	1.852	(2.039)	(8.065)
Structural change reserve	(0.076)	0.076	(1.035)	(1.035)	1.503	(2.844)	(2.376)
Maintenance fund	(1.344)	0.068	-	(1.276)	0.050	-	(1.226)
Insurance reserve	(3.935)	-	-	(3.935)	0.293	(0.060)	(3.702)
Risk capacity reserve	(2.753)	3.049	(2.796)	(2.500)	-	-	(2.500)
Private finance initiative	(3.903)	-	(0.040)	(3.943)	0.657	(0.036)	(3.322)
Partnership working	(0.199)	0.086	-	(0.113)	-	(0.117)	(0.230)
Grant clawback	(0.149)	0.149	-	-	-	-	-
Retained income	(0.469)	0.469	(0.981)	(0.981)	0.822	(0.835)	(0.994)
Other reserves	(6.778)	4.885	(1.208)	(3.101)	0.714	(0.266)	(2.653)
Total earmarked reserves	**(29.490)**	**12.022**	**(10.243)**	**(27.711)**	**5.891**	**(6.269)**	**(28.089)**

The earmarked reserves held at the Balance Sheet date are as follows:

Strategic Reserve

This reserve covers emergency events such as unforeseen financial liabilities or natural disasters without destabilising the budget in the short term. This reserve is held at 2% of the Council's net revenue budget. This is felt to be an appropriate level as separate earmarked reserves are created for identified risks.

School Balances

This amount represents the cumulative net unspent element of school budget, which, in accordance with Government legislation, must be carried forward into the following financial year. The balances include schools capital grant funding (devolved formula capital) awarded but unspent which can be carried forward to future years. Also included within this balance are the unspent balances held by individual schools, unspent contingencies from the individual school budget and school related earmarked reserves. Offset against these balances are school debtors and debt in relation to the building schools for the future programme. The balances are committed to be spent on education. Of the school balances 7 schools (7 in 2010/11) are in deficit totalling £0.121m (£0.155m in 2010/11).

Structural Change Reserve
This reserve is intended to cover the revenue costs of reorganisational change in the Council.

Maintenance Fund
A reserve to cover any revenue liabilities arising from assets transferred to the Council after the Tyne and Wear Urban Development Corporation was wound up. Interest is earned on the reserve and used to support costs during the year. Any deficit is met from a transfer from the reserve.

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. The Council maintains reserves to meet excess payments for claims on liability or fire insurance and to self-fund against losses where this is more economical than procuring from the market. The key self-funded insurance areas are industrial diseases relating to pre 1974 and loss or damage to equipment.

Risk Capacity Reserve
To cover 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 cover the budget risks from the economic downturn. The reserve is also used to support budget pressures arising from the significant cut in central Government funding.

Private Finance Initiative
Grant credits received in advance by the Council and retained to meet future costs under the Private Finance Initiative.

Partnership Working
Relates to receipts in advance from the other Tyne and Wear authorities where the Council takes the lead in the procurement or delivery of a local initiative.

Grant Clawback
Funds held in reserve to offset the cost of any grants or contributions received that subsequently become repayable. The reserve was released in 2010/11 following the Government's decision to unringfence most grants.

Retained Income
Income or unringfenced funding carried forward by specific services to allow that service to deliver a specific project or to break even over the medium term.

Other Reserves
Amounts set aside for specific expenditure commitments within Groups. The largest single reserve in this list relates to the employment reserve set aside to maintain or generate employment opportunities through the economic downturn.

Note 8. Major Items of Income and Expenditure in 2011/12

Non Distributed Cost – Equal Pay Settlements
The Council continues to litigate and to reach settlements in relation to its liability to equal pay and equal value claims. Due to the level of costs involved in recent years this item has been disclosed separately on the face of the Comprehensive Income and Expenditure Statement rather than be subsumed within the specific service lines. As at 31st March 2012 significant commitments still remain however a review of liabilities has identified a reduced number of

valid claims such that the provision could be reduced by £3.740 and credited to the Comprehensive Income and Expenditure Statement.

Housing Subsidy Debt Payment

2011/12 was the last year of the Housing Revenue Account subsidy system. In future years the account will be self funding with the costs being met from rental income and other charges. On the cessation of the system the Government assessed the level of debt arising from the subsidy system and allocated this to individual local authorities. As a result the Council had to pay £60.818m over to the Government on 28th March 2012. The amount was financed through additional borrowing from the PWLB and the costs of those loans will be repaid over the next 30 years.

Actuarial Losses on Pension Assets and Liabilities

The financial assumptions for the Council's pension liabilities are reviewed each year with the Council's Actuary to ensure these are correct. In 2011/12, changes to the assumptions have resulted in a £85.390m charge to the Comprehensive Income and Expenditure Statement.

The key changes to assumptions and the impact are:

- A reduction in the assumed discount factor to 4.7% (5.4% in 2010/11) has increased the pension liability by £52.940m;
- Revising assumptions to take account of the higher than anticipated national pension increases (5.2%) has increased the pension liability by £4.530m;
- Changing assumptions to account for lower returns on investments has reduced the pension asset value by £25.710m.

Major Items of Income and Expenditure in 2010/11

There were two significant charges to the 2010/11 Comprehensive Income and Expenditure Statement which were one off charges and do not factor in the 2011/12 statement:

- Guidance on the stock valuation of council dwellings was issued by the Royal Institute for Chartered Surveyors in December 2010. Included in this guidance was a review of the discount factor used in the determination of the valuation for dwellings in existing use as social housing. The discount factor was last reviewed in 2005 and stood at 49% for the Council however the updated guidance reduced the discount factor to 37%. The value of revaluation loss that could not be absorbed by previous gains in the revaluation reserve was £92.675m in relation to Council dwellings and £7.563m in relation to other land and buildings.

- In 2010/11 the Government announced that future pension increases would be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The former is a lower rate of interest and so this had the effect of significantly reducing the Council's reported pension liability. A gain of £75.630m (after taking into account an estimated normal annual increase in liability of £1.180m) was taken through the Comprehensive Income and Expenditure Statement in 2010/11.

Section 4 – Notes to the Core Financial Statements

Note 9. Other Operating Expenditure

Other operating expenditure is made up of the following items:

2010/11 £m		2011/12 £m
10.048	Levies	10.275
0.651	Payments to the Government housing capital receipts pool	1.106
2.013	Loss on the disposal of non-current assets	5.131
12.712	**Total Other Operating Expenditure**	**16.512**

Note 10. Financing and Investment Income and Expenditure

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

2010/11 £m		2011/12 £m
20.007	Interest payable and similar charges	24.583
6.240	Pensions interest cost and expected return on Pensions assets	3.310
(1.245)	Interest receivable and similar income	(1.171)
0.127	Deficit or (surplus) on trading undertakings and dividends receivable	(0.506)
(0.220)	Income and expenditure in relation to Investment Properties and changes in their fair value	(0.420)
(0.240)	Other investment income	(0.240)
24.669	**Total Financing and Investment Income and Expenditure**	**25.556**

Note 11. Taxation and Non-specific Grant Income

Taxation and Non-Specific Grant income is made up of the following items:

2010/11 £m		2011/12 £m
(57.545)	Council Tax income	(58.295)
(78.838)	National Non-Domestic Rates	(68.793)
(43.647)	Unringfenced Government grants	(45.765)
(38.620)	Capital grants and contributions	(30.911)
(218.650)	**Total Taxation and Non Specific Grant Income**	**(203.764)**

Note 12. Property, Plant and Equipment

The following table analyses the movement in property, plant and equipment for 2011/12 and identifies the value of assets held under PFI arrangements:

Section 4 – Notes to the Core Financial Statements

2011/12	Council dwellings	Other land and buildings	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
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2011	569.337	346.802	50.849	105.470	5.677	16.206	27.498	1,121.839	63.747
Additions	27.131	58.733	4.493	6.476	0.081	-	21.814	118.728	21.630
Revaluation to revaluation reserve	(11.557)	0.740	(0.351)	-	-	(2.607)	-	(13.775)	-
Revaluation to Comprehensive Income and Expenditure Statement	(59.646)	(23.945)	(0.222)	-	-	-	(0.011)	(83.824)	(4.098)
Sales	(0.959)	(0.408)	(0.115)	-	-	(8.912)	-	(10.394)	-
Demolitions	(2.665)	-	(0.723)	-	-	-	-	(3.388)	-
Reclassification of assets	0.256	10.910	-	2.117	0.051	(0.100)	(15.851)	(2.617)	-
At 31st March 2012	**521.897**	**392.832**	**53.931**	**114.063**	**5.809**	**4.587**	**33.450**	**1,126.569**	**81.279**
Depreciation and impairments									
At 1st April 2011	(43.657)	(30.664)	(31.334)	(17.110)	(0.784)	-	-	(123.549)	(9.329)
Depreciation to Comprehensive Income and Expenditure Statement	(12.691)	(10.470)	(4.463)	(2.473)	(0.274)	(0.002)	-	(30.373)	(1.457)
Depreciation to revaluation reserve	32.670	9.069	0.384	-	-	-	-	42.123	-
Impairment to Comprehensive Income and Expenditure Statement	(7.839)	(5.396)	-	(0.080)	-	-	-	(13.315)	-
Sales	0.389	0.011	0.110	-	-	-	-	0.510	-
Demolitions	-	-	0.723	-	-	-	-	0.723	-
Reclassification of assets	0.009	(0.062)	-	0.054	0.001	-	-	0.002	-
At 31st March 2012	**(31.119)**	**(37.512)**	**(34.580)**	**(19.609)**	**(1.057)**	**(0.002)**	**-**	**(123.879)**	**(10.786)**
Net book value at 31st March 2011	**525.680**	**316.138**	**19.515**	**88.360**	**4.893**	**16.206**	**27.498**	**998.290**	**54.418**
Net book value at 31st March 2012	**490.778**	**355.320**	**19.351**	**94.454**	**4.752**	**4.585**	**33.450**	**1,002.690**	**70.493**

The equivalent movements for 2010/11 are as follows:

2010/11	Council Dwellings	Other Land and Buildings	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
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2010	737.348	348.538	40.578	92.651	5.270	17.597	9.890	1,251.872	57.512
Additions	33.985	30.186	10.876	12.493	0.387	-	27.388	115.315	6.235
Revaluation to revaluation reserve	(72.194)	1.701	-	-	0.200	(1.046)	0.032	(71.307)	-
Revaluation to income and expenditure	(131.530)	(35.979)	-	-	-	(0.137)	(0.545)	(168.191)	-
Derecognition - sales	(0.641)	-	(1.153)	-	-	-	-	(1.794)	-
Derecognition - other disposals	(1.545)	(0.001)	(0.353)	-	-	-	-	(1.899)	-
Assets reclassified to held for sale	-	(1.949)	-	-	-	(0.208)	-	(2.157)	-
Other movements / other assets reclassified	3.914	4.306	0.901	0.326	(0.180)	-	(9.267)	-	-
At 31st March 2011	**569.337**	**346.802**	**50.849**	**105.470**	**5.677**	**16.206**	**27.498**	**1,121.839**	**63.747**
Depreciation and impairments									
At 1st April 2010	(72.860)	(30.873)	(28.240)	(14.754)	(0.520)	(2.701)	-	(149.948)	(8.341)
Depreciation charge 2010/11	(11.721)	(7.131)	(4.515)	(2.282)	(0.282)	(0.002)	-	(25.933)	(0.988)
Depreciation to revaluation reserve	40.823	7.849	-	-	-	2.700	-	51.372	-
Impairment charge 2010/11	(0.158)	(0.557)	-	(0.074)	-	-	-	(0.789)	-
Derecognition - sales	0.083	-	1.068	-	-	-	-	1.151	-
Derecognition - other disposals	0.176	-	0.353	-	-	-	-	0.529	-
Assets reclassified to held for sale	-	0.066	-	-	-	0.003	-	0.069	-
Other movements / other assets reclassified	-	(0.018)	-	-	0.018	-	-	-	-
At 31st March 2011	**(43.657)**	**(30.664)**	**(31.334)**	**(17.110)**	**(0.784)**	**-**	**-**	**(123.549)**	**(9.329)**
Balance Sheet amount at 31st March 2010	**664.488**	**317.665**	**12.338**	**77.897**	**4.750**	**14.896**	**9.890**	**1,101.924**	**49.171**
Balance Sheet amount at 31st March 2011	**525.680**	**316.138**	**19.515**	**88.360**	**4.893**	**16.206**	**27.498**	**998.290**	**54.418**

Section 4 – Notes to the Core Financial Statements

Depreciation

Where appropriate, valuations reflect accumulated depreciation. The following principles have been applied in calculating depreciation:

- Dwellings and other buildings – straight-line allocation over the remaining useful life of the property as estimated by the valuer. The useful life of dwellings and other buildings is generally between 9 and 80 years, however there are a small number of older buildings within the borough with significantly longer lives e.g. South Shields town hall.
- Land is not depreciated.
- Vehicles, plant and equipment - straight-line allocation over 3 to 7 years being the estimated remaining useful economic life.
- Infrastructure – straight-line allocation over 40 years (100 years for coastal protection).
- Community assets – straight-line allocation over 20 years.
- Surplus assets – consist of land and other buildings and follow the depreciation policy outlined above for those types of assets.
- Assets under construction are not depreciated.

Componentisation

Where components are recognised they are now depreciated separately. The prospective requirement allowed by the Code means that the Council only recognises components following either a revaluation of the property or significant expenditure on the component. The Council recognises three components in addition to the land values:

- Structure (includes both superstructure and substructure).
- Internals (includes service connections, internal finishes and fixture and fittings).
- Specialist (only to be used for any significant value specialist plant that does not have the same useful economic life of the structure or the internals e.g. the cremators).

The useful economic life (UEL) of the structure is broadly similar to the life assigned to the whole asset in previous accounting periods however the UEL of the internals and the specialist plant are significantly less. In 2011/12 the Council has recognised further internal and specialist plant components to the value of £157.628m. This has increased the depreciation charged to the Comprehensive Income and Expenditure Statement by £6.013m.

Revaluations

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 Estates and Valuation Managers, L. McGuigan and D. Josephs (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 1st April 2011 except if significant spending in year has taken place in which case the valuations date is 31st March 2012. All assets not at historic cost are revalued as part of a five year rolling programme.

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

For **dwellings and other operational assets of a non-specialised nature** the Existing Use Valuation (EUV) method has been adopted. 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 EUV based on their last usage before being declared surplus.

Community assets, assets under construction, equipment and infrastructure are valued at historical cost and are not revalued. 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.

Revaluations reflect all known impairments. 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.

Following a review in 2011/12 the Estates and Valuation Managers made the following recommendations:

- Impairment of Wouldhave House and Temple Park pool to reflect known demolition plans.
- No further impairment in year, including infrastructure assets.

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	Community assets	Infrastructure assets	Vehicles, plant and equipment	Assets under construction	Surplus asset	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Valued at historic cost	99.020	8.276	4.752	94.454	19.351	33.450	-	259.303
Valued at current value in:								-
2011/12	319.263	139.805	-	-	-	-	1.593	460.661
2010/11	13.418	35.156	-	-	-	-	0.100	48.674
2009/10	31.313	62.826	-	-	-	-	-	94.139
2008/09	0.006	58.329	-	-	-	-	2.709	61.044
2007/08 or prior	27.758	50.928	-	-	-	-	0.183	78.869
Total cost or valuation	**490.778**	**355.320**	**4.752**	**94.454**	**19.351**	**33.450**	**4.585**	**1,002.690**

An analysis of the number of properties as at 31st March 2012 is as follows:

	2011	2012		2011	2012
Council Dwellings	16,924	16,809	Youth and Community Centres	27	27
Sheltered Housing Units	1,239	1,249	Sports Stadia	2	2
Garages	2,727	2,727	Children's Homes	3	2
Town Hall and Civic Offices	11	11	Family Centres	3	4
Homes for the Elderly	2	2	Day and other Social Centres	13	13
Leisure Centres and Swimming	2	2	Surestart Facilities	5	5
Museums and Galleries	2	2	Child Protection Units	1	1
Depots	1	1	Special Placement Units	2	2
Parks	14	14	Markets	1	1
Crematorium and Cemeteries	7	7	Industrial Estates	11	11
Libraries	8	8	Managed Workshops	3	3
Schools	48	46	Shops	193	193

The following key movements took place during the year:

- The Council completed construction of 24 new bungalows.
- 102 properties were demolished and 30 properties sold through right to buy.
- 3 primary schools (Temple Park Infants, Temple Park Juniors and Albert Elliot) were replaced by the new Forest View Primary School in 2011/12.
- South Shields Community School was brought into the analysis as a PFI addition replacing the former Brinkburn School site.

The Council holds community assets consisting of 14 general parks and 6 cemeteries, which are included above. These assets are valued at depreciated historical cost and those that were gifted to the Council appear at nil value in the accounts.

The Council is also responsible for the management of 3 industrial estates on behalf of the Tyne and Wear Development Company.

Capital Commitments

As at 31st March 2012 the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13 and future years budgeted to cost £70.000m (£121.000m in 2010/11). Details of commitments over £0.500m under capital contracts as at 31st March 2012 are as follows:

Capital Scheme	Type of Scheme	Net Commitment at 31st March 2012 £m	Period of Commitment Years
Foreshore swimming pool	Building of new swimming pool	13.500	2
Park View School	New school	4.187	1
Hebburn Keelman's Way Special School	New special educational needs facility	3.835	1
Hebburn Lakes Primary School	Creation of a new combined primary school	2.780	1
Jarrow Pool	Building of new swimming pool	2.515	1
Hebburn Comprehensive School	School refurbishment	1.632	1
Building School for the Future ICT provision	ICT equipment	1.435	1
Green Incubator	Building of business centre	0.534	2

Section 4 – Notes to the Core Financial Statements

Note 13. Heritage Assets

The Tyne and Wear Archives and Museums Service (TWAM) have responsibility for the stewardship and management of most of the Council's heritage assets. TWAM operates as a joint committee, the legal status of which does not allow ownership of assets, hence the assets appear on the Council's Balance Sheet.

The following table shows the breakdown of heritage assets for 2011/12:

	Art, sculptures and museums	Other heritage assets	Total heritage assets
	£m	£m	£m
Balance at the 1st April 2011			
Gross book value	1.844	1.541	3.385
Accumulated depreciation	(0.053)	(0.054)	(0.107)
Net book value at start of year	**1.791**	**1.487**	**3.278**
Revaluations	0.015	0.266	0.281
Depreciation written out on revaluation	-	0.014	0.014
Depreciation charges in year	(0.017)	(0.056)	(0.073)
Net book value at 31st March 2011	**1.789**	**1.711**	**3.500**
Comprising			
Gross book value	1.859	1.807	3.666
Accumulated depreciation	(0.070)	(0.096)	(0.166)
Net book value at 31st March 2011	**1.789**	**1.711**	**3.500**

The equivalent figures for the previous year are as follows:

	Art, sculptures and museums	Other heritage assets	Total heritage assets
	£m	£m	£m
Balance at the 1st April 2010			
Gross book value	1.644	1.538	3.182
Accumulated depreciation	(0.036)	-	(0.036)
Net book value at start of year	**1.608**	**1.538**	**3.146**
Additions	0.200	0.003	0.203
Depreciation charges in year	(0.017)	(0.054)	(0.071)
Net book value at 31st March 2011	**1.791**	**1.487**	**3.278**
Comprising			
Gross book value	1.844	1.541	3.385
Accumulated depreciation	(0.053)	(0.054)	(0.107)
Net book value at 31st March 2011	**1.791**	**1.487**	**3.278**

Art, Sculptures and Museums

The Council currently holds 1,403 pieces of artwork, of which 13 oil paintings and watercolours have valuations exceeding the de minimis for asset recognition. These items have been identified separately for insurance purposes and valued individually, usually in advance of a loan-out, by 3 TWAM officers – the Principal Keeper of Art, the Keeper of Fine Art and the Assistant Keeper of Fine and Decorative Art.

Section 4 – Notes to the Core Financial Statements

The value of the remaining pieces of artwork are not included on the Balance Sheet as it is deemed that valuation is not practicable as it would incur a disproportionate cost in relation to the value to be recognised. The artwork collection is considered to have an indeterminate life and a high residual value, hence no depreciation is being charged. The 13 pieces of artwork were valued at £0.490m in 2010/11 and this valuation remains valid for 2011/12.

TWAM also hold a number of diverse artefacts covering archaeology, ethnography, history and natural sciences pieces. These collections are not currently valued due to a number of factors such as the lack of information on purchase price, the unavailability of comparable market values, the diverse nature of the objects and the volume of objects held. The collections are held in the asset register of the Joint Committee.

In addition to the TWAM collections the Council owns several public art sculptures, for example the Conversation Piece at Littlehaven, which have been shown on the Balance Sheet at either cost or insurance valuation.

Other Heritage Assets

Other heritage assets consists of statues, civic regalia and historical buildings. Statues are located throughout the borough however it is not practicable to value them as this would incur a disproportionate cost in relation to the value to be recognised. Civic regalia have been valued by an external valuer for insurance purposes on an annual basis and are not depreciated due to their indeterminate lives and high residual value. Historical buildings are shown at depreciated replacement cost.

Heritage Assets: Five-Year Summary of Transactions

In the five years from 2007/08 to 2011/12 there have been total additions of £0.239m to the heritage assets, £0.226m of which was added in the years 2007/08 to 2008/09. £0.003m of the additions represented donated assets. No disposals were made throughout the period.

Note 14. Investment Properties

The only investment property owned by the Council relates to land that is leased as a terminal for use by the petrochemical industry.

The following income has been accounted for in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement:

	2010/11 Total £m	**2011/12 Total £m**
Rental income from Investment Property	(0.220)	(0.220)
Revaluation gains	-	(0.200)
Total Investment Income	**(0.220)**	**(0.420)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement of existing investments.

The table over the page shows the fair value of investment properties at the year-end:

	2010/11 Total £m	2011/12 Total £m
Balance at start of the year	**2.900**	**2.900**
Revaluation in year	**-**	**0.200**
Balance at end of the year	**2.900**	**3.100**

Note 15. Intangible Assets

The Council accounts for its software as intangible assets with an assigned remaining useful life of five years. The carrying amount is amortised on a straight-line basis. The amortisation of £0.719m charged to the Comprehensive Income and Expenditure Statement (£0.742m in 2010/11) was primarily charged to the information technology administration cost centre and then absorbed as an overhead across all the service headings in the cost of services.

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

	Software £m	Software in development £m	2010/11 Total £m	Software £m	Software in development £m	2011/12 Total £m
Balance at start of year:						
Gross carrying amounts	4.309	0.402	4.711	4.874	0.407	5.281
Accumulated amortisation	(2.133)	-	(2.133)	(2.875)	-	(2.875)
Net carrying amount at start of year	**2.176**	**0.402**	**2.578**	**1.999**	**0.407**	**2.406**
Additions: purchases	0.800	0.005	0.805	0.120	-	0.120
Reclassification of assets	-	-	-	0.407	(0.407)	-
Impairment losses	(0.235)	-	(0.235)	-	-	-
Amortisation for the period	(0.742)	-	(0.742)	(0.719)	-	(0.719)
Net carrying amount at end of year	**1.999**	**0.407**	**2.406**	**1.807**	**-**	**1.807**
Comprising:						
Gross carrying amounts	4.874	0.407	5.281	5.401	-	5.401
Accumulated amortisation	(2.875)	-	(2.875)	(3.594)	-	(3.594)
Net carrying amount at end of year	**1.999**	**0.407**	**2.406**	**1.807**	**-**	**1.807**

Note 16. Financial Instruments

The notes that follow provide 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.

Amortised Cost

Most financial instruments (whether borrowing or investment) have to be valued at "amortised cost" using the effective interest rate method.

Fair Value

Financial instruments are also to be shown at 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.

Section 4 – Notes to the Core Financial Statements

Financial instruments shown on the Balance Sheet need to be further analysed into various defined categories. 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 2011 £m	31st March 2012 £m	31st March 2011 £m	31st March 2012 £m
Available-for-sale financial assets				
Unquoted equity investment at fair value (Newcastle Airport)	0.425	0.425	-	-
Unquoted equity investment at cost (InspiredSpaces)	0.001	0.002	-	-
Other available-for-sale financial assets at fair value	0.009	0.009	-	-
Total available-for-sale financial assets	**0.435**	**0.436**	**-**	**-**
Loans and receivables				
Deposits with banks and other financial institutions	-	-	19.608	19.512
Long and short term debtors	1.201	0.949	33.482	25.515
Total loans and receivables	**1.201**	**0.949**	**53.090**	**45.027**
Financial liabilities at amortised cost				
Long and short term borrowing	(313.373)	(459.189)	(31.411)	(12.110)
Long and short term creditors	(0.157)	(0.179)	(49.857)	(48.552)
PFI liabilities	(53.966)	(74.074)	(1.310)	(1.137)
Finance lease and other liabilities	(4.400)	(3.710)	(2.988)	(2.140)
Total financial liabilities at amortised cost	**(371.896)**	**(537.152)**	**(85.566)**	**(63.939)**

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. In consideration of this transfer the Council received £3.306m worth of shares.

On 4th May 2001, the seven local authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. South Tyneside Council has a shareholding of 990 shares representing a 9.9% interest in the company. The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (9.9% of 51%) was £6.766m. The valuation is reviewed each year to consider whether a full independent valuation of the holding is required. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.425m based upon the discounted cash flow method. There has been no significant change in external factors since this valuation that would materially affect the value of the shareholding.

Section 4 – Notes to the Core Financial Statements

The local authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2002/03, of which the Council will receive £2.4m over the 10 years.

South Tyneside Council's 9.9% shareholding in Newcastle Airport Local Authority Holding Company Limited is an effective shareholding of 5.0% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Limited).

The principal activity of Newcastle International Airport Limited (Registered Number 2077766) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year.

No dividends were payable for the year ended 31st December 2011 (nil for the year ended 31st December 2010).

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Limited made a loss before tax of £2.884m and a profit after tax of £1.404m for the year ended 31st December 2011. In the previous year, the Group made a loss before tax of £4.823m and a loss after tax of £1.786m.

Unquoted Equity at Cost (InspiredSpaces)

The Council owns 500 shares in InspiredSpaces STaG Limited, the company set up to oversee the building schools for the future programme at a cost of £500. Further investments of £500 each have been made in InspiredSpaces STaG (Holdings 2) Limited, the PFI operator set up for South Shields Community School and InspiredSpaces STaG (Holdings 1) Limited, the PFI operator set up for Jarrow School.

Other Available-for-Sale Financial Assets

The small balance relates to the Council's investment in Government war bonds.

Loans and Receivables

Long and Short Term Debtors

An analysis of our total debtors is as follows:

	1st April 2011 £m	Repaid during year £m	Expenditure during year £m	31st March 2012 £m	Short term £m	Long term £m
Assisted vehicle purchase	0.159	(0.167)	0.124	0.116	0.063	0.053
Residential care fees	0.526	(0.527)	0.559	0.558	-	0.558
Equity sub debt	0.269	(0.002)	-	0.267	-	0.267
Housing advances (including Council Housing)	0.037	(0.008)	-	0.029	-	0.029
Airport loan notes	0.480	(0.240)	-	0.240	0.240	-
Tedco finance lease	0.047	(0.005)	-	0.042	-	0.042
Short term debtors	33.165	(7.953)	-	25.212	25.212	-
Total Debtors	**34.683**	**(8.902)**	**0.683**	**26.464**	**25.515**	**0.949**

Section 4 – Notes to the Core Financial Statements

Assisted Vehicle Purchase
The Council offers a loan facility to staff where use of a vehicle is essential for them to fulfil their duties. Recoveries are made via deductions from payroll and include an element of interest charges.

Residential Care Fees
In certain instances the only asset belonging to a client requiring social care is their property. Where the value of this property exceeds certain thresholds, the Council can take a charge against it in lieu of invoicing for the services provided. The Council recovers its monies only once the client has left care and the property concerned has been sold. No interest is charged on the outstanding balance.

Equity Sub Debt
On 21st December 2009 the Council, in partnership with the Local Enterprise Partner (LEP), invested in the PFI operator for South Shields Community School. Part of this arrangement involved the payment of £0.167m for subordinated debt in the new company. Repayment of this will continue throughout the life of the PFI scheme until 2036. In September 2010 a further £0.107m of subordinated debt was invested in the PFI operator of Jarrow School, which will be repaid half-yearly until 2034.

Housing Advances (including Council Housing)
The Council used to provide a mortgage service relating to tenants that wished to purchase their homes through right to buy. The Housing advances represent the outstanding sums due to the Council from this activity. Interest is chargeable based on the base rates on the 31st March each year.

Airport Loan Notes
As part payment for the sale of a stake in Newcastle Airport, the Council will receive the final instalment of £0.240m next year.

TEDCO Finance Lease
The Council has one finance lease when acting as lessor being the managed offices and business units in Jarrow leased to TEDCO.

Short Term Debtors
Short term debtors are carried at cost as this is a fair approximation of their value. An analysis of short term debtors balances can be found in note 18 to these accounts.

Financial Liabilities at Amortised Cost

Long and Short Term Borrowing

An analysis of borrowing by maturity is as follows:

31st March 2011 £m	Percentage range of interest rate payable %	Loans outstanding	31st March 2012 £m
(334.453)	0.650 - 9.375	Public Works Loans Board (PWLB)	(460.968)
(10.331)	2.99 - 9.50	Market debt	(10.331)
(344.784)		**Total**	**(471.299)**
(31.411)		Less than 1 year	(12.110)
(5.000)		Between 1 and 2 years	(21.800)
(63.800)		Between 2 and 5 years	(61.000)
(91.000)		Between 5 and 10 years	(102.000)
(153.573)		More than 10 years	(274.389)
(344.784)		**Total**	**(471.299)**

The current borrowings include accrued interest as at 31st March 2012 of £7.111m (£1.379m in 2010/11). The increase is due to the fact that interest due to the PWLB for 2011/12 was paid on 2nd April 2012 as 31st March 2012 fell on a Saturday.

Market debt comprises of Lending Option Borrowing Option (LOBO) loans of which £5m will be subject to a review of interest in the next 12 months. As current interest rates are below the existing rates on these loans, the lender is unlikely to seek to revise the rates, in which case the option to pay off the loan early will 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

Both long and short term creditors are carried at cost as this is a fair approximation of their value. 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 21 to these accounts.

Other Liabilities

The following table summarises the Council's other liabilities:

	1st April 2011 £m	Additions in year £m	Paid during year £m	31st March 2012 £m	Long term £m	Short term £m
Newcastle Airport loan notes	(0.720)	-	0.240	(0.480)	(0.240)	(0.240)
Deferred pensions strain on the fund	(4.370)	(1.506)	2.744	(3.132)	(1.272)	(1.860)
Finance leases	(2.298)	-	0.060	(2.238)	(2.198)	(0.040)
Total other liabilities	**(7.388)**	**(1.506)**	**3.044**	**(5.850)**	**(3.710)**	**(2.140)**

The Newcastle Airport loan notes represents an amount set aside in lieu of the loan notes debt described earlier in this note being repaid.

The deferred pensions reflect the fact that strain on the fund payable to the Tyne and Wear Pension Fund can be deferred over three years.

The Council has two finance leases when acting as lessee. The first relates to Landreth House, which the Council uses as an office building. The Council has a 35 year lease of which 5 years remain outstanding. The second relates to the Cleadon Park community facility which is used to provide library and recreational and play group services. The Council has an initial lease term of 25 years of which 23 years remain outstanding.

Income, Expense, Gains and Losses

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

	2010/11			2011/12		
	Financial liabilities measured at amortised cost	Loans and receivables	Total	Financial liabilities measured at amortised cost	Loans and receivables	Total
	£m	£m	£m	£m	£m	£m
Interest expense						
Impairment losses	-	1.725	1.725	-	0.628	0.628
Fee expense	15.278	4.729	20.007	18.290	6.293	24.583
Total expense in deficit on the provision of services	**15.278**	**6.454**	**21.732**	**18.290**	**6.921**	**25.211**
Interest income						
Fee income	(0.983)	(0.262)	(1.245)	(0.856)	(0.315)	(1.171)
Total income in deficit on the provision of services	**(0.983)**	**(0.262)**	**(1.245)**	**(0.856)**	**(0.315)**	**(1.171)**
Net loss for the year	**14.295**	**6.192**	**20.487**	**17.434**	**6.606**	**24.040**

Fair Value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the net present value (NPV) of cash flows that will take place over the remaining term of the instruments.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin, which represents the lender's profit as a result of rescheduling the loan. This is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

The following assumptions apply in calculating the net present value of a financial instrument:

- For PWLB debt, the discount rate is the rate for new borrowing.
- 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.
- The Council has calculated fair values for all instruments in the portfolio, but only disclose those that are materially different from the carrying value.

- The fair value of debtors and creditors is taken to be the invoiced or billed amount.

The fair values of financial liabilities and assets differ from the carrying amount as follows:

	31st March 2011		31st March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
PWLB	(334.453)	(328.452)	(460.968)	(477.282)
Market debt (LOBOs)	(10.331)	(13.595)	(10.331)	(12.313)
Financial liabilities	**(344.784)**	**(342.047)**	**(471.299)**	**(489.595)**

The fair value of liabilities as at 31st March 2012 is 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.

	31st March 2011		31st March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Deposits with banks and other financial institutions	19.608	19.699	19.512	19.633
Financial Assets	**19.608**	**19.699**	**19.512**	**19.633**

The fair value of assets 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 equity in South Shields Community and Jarrow Schools is carried at cost. All other available-for-sale assets and unquoted equities are carried in the Balance Sheet at their fair value. The primary unquoted equity relates to the Council investment in Newcastle Airport. This is carried in the Balance Sheet at £0.425m (£0.425m in 2010/11). The valuation has been based on a discounted cash flow approach undertaken in 2009/10. The balance on available for sale relates to Government stock which has been impaired following a sale in 2005/06 of similar stocks where the Council failed to receive cost value.

The Council has no plans to dispose of its available for sale financial assets in the near future.

Note 17. Inventories

An analysis of the Council's inventories is shown below.

31st March 2011		31st March 2012
£m		£m
0.497	Home loan equipment centre	0.480
0.117	Catering services	0.104
0.085	Other inventories	0.215
0.699	**Total**	**0.799**

Section 4 – Notes to the Core Financial Statements

Note 18. Short Term Debtors

An analysis of short term debtors is shown in the following table:

31st March 2011 £m		31st March 2012 £m
	Amounts falling due in one year	
8.309	Central Government bodies	7.750
0.843	Other Local Authorities	0.805
3.480	NHS bodies	1.594
3.263	Housing tenants	2.804
4.887	Council Tax payers	5.463
1.406	South Tyneside Homes Limited	1.750
18.764	Other debtors	13.102
40.952	**Total amounts falling due in one year**	**33.268**
	Allowances for bad debts	
(2.055)	Housing tenants	(1.939)
(2.119)	Council Tax payers	(2.367)
(0.998)	NHS bodies	(0.867)
(2.298)	Other debtors	(2.580)
(7.470)	**Total bad debt allowances**	**(7.753)**
33.482	**Net debtors**	**25.515**

31st March 2011 £m		31st March 2012 £m
	Amounts written off during the year	
0.247	Housing rents (excluding write ons)	0.541
0.181	Council Tax (excluding write ons)	0.123
0.150	Other debtors (net of VAT recovered)	0.114
0.578	**Total amounts written off during the year**	**0.778**

In addition to the above the Council wrote off £0.643m (£0.278m in 2010/11) in National Non-Domestic Rates debtors. The Government met this cost.

Section 4 – Notes to the Core Financial Statements

Note 19. Cash and Cash Equivalents

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

31st March 2011 £m		31st March 2012 £m
0.082	Cash held by the Council	0.100
24.692	Bank current accounts	6.615
16.105	Short term deposits with financial institutions	56.670
40.879	**Cash and Cash Equivalent Assets**	**63.385**
(1.474)	Bank overdraft facility	(0.725)
(1.474)	**Cash and Cash Equivalent Liabilities**	**(0.725)**
39.405	**Total Cash and Cash Equivalents**	**62.660**

The short term deposits with financial institutions is made up of £20.000m lent out, for less than 91 days, to banks and building societies (nil in 2011/11) and £36.670m money market funds (£16.105m in 2010/11).

In 2011/12, due to continued concerns over financial institutions, the lending period for all institutions other than local authorities and semi-nationalised banks was restricted to three months. These restrictions have also resulted in an increase in money market funds which offer an alternative option for short term cash.

Note 20. Assets Held for Sale

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. The following table shows the movement in year:

	2010/11 Total £m	2011/12 Total £m
Balance outstanding at start of year	**2.795**	**2.341**
Assets transferred from property, plant and equipment	2.101	2.615
Revaluation losses	(0.005)	-
Impairment losses	(0.002)	-
Assets sold	(2.548)	(2.240)
Balance outstanding at end of year	**2.341**	**2.716**

Section 4 – Notes to the Core Financial Statements

Note 21. Short Term Creditors

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

31st March 2011 £m		31st March 2012 £m
(8.003)	Central Government bodies	(5.911)
(1.171)	Other local authorities	(0.449)
(0.509)	NHS bodies	(2.103)
(0.841)	Housing tenants	(0.608)
(0.932)	Council Tax payers	(1.020)
(3.820)	South Tyneside Homes Limited	(8.140)
(37.569)	All other creditors	(32.461)
(52.845)	**Total creditors**	**(50.692)**

Note 22. Long and Short Term Provisions

An analysis of the provisions balances is as follows:

	Pay settlement provision	Injury and damage compensation claims	Other provisions	Total
	£m	£m	£m	£m
Balance at 1st April 2011	(17.520)	(1.730)	(1.202)	(20.452)
Additional provisions made in 2011/12	(0.050)	(1.099)	(1.850)	(2.999)
Amounts used in 2011/12	-	1.156	1.202	2.358
Unused amounts reversed in 2011/12	3.740	-	-	3.740
Balance at 31st March 2012	**(13.830)**	**(1.673)**	**(1.850)**	**(17.353)**
Short term provisions	(0.576)	(0.755)	(1.850)	(3.181)
Long term provisions	(13.254)	(0.918)	-	(14.172)
Balance at 31st March 2012	**(13.830)**	**(1.673)**	**(1.850)**	**(17.353)**

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 are being received. The Council intends to defend these claims and so settlement is not expected until 2012/13 at the earliest. The timing of any payment is however uncertain as legal proceedings have been put on hold pending the resolution of all other liabilities for equal pay.

The Council maintains an insurances provision to meet any excess payments applying to claims on liability or fire insurance and to self-fund against losses where this is more economical than procuring from the market. The provision balance is based on the estimated costs for open and accepted claims at the end of the financial year. As at 31st March 2012, the Council faced outstanding claims of £1.673m (£1.730m at 31st March 2011). Based on our past history of claims the Council expects £0.755m to be settled in 2012/13, £0.535m to be settled in 2013/14 and £0.383m to be settled in future years. The fund's financial position is reviewed annually in the light of settled claims and on the basis of the external insurer's assessment of the cost.

The other provisions primarily relate to the set aside of funding for meeting redundancy costs for restructuring Council services to meet planned budget cuts (see note 34). There is also a provision to meet the 2011/12 costs of the Carbon Reduction Commitment (CRC) energy efficiency scheme. Under this scheme, the Council are required to meet charges linked to the level of CO_2 emissions from Council facilities.

Note 23. PFI and Other Long Term Contracts

The Council has four 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 Code requires the Council to provide details about the outstanding payments in relation to these contracts.

Boldon School

The Council's first PFI contract was signed on 13th April 2005 with Gleeson Consortium and involved the construction of a new extended secondary school in Boldon. There is provision for community use of the school facilities, which includes a 220 seat theatre and a 25 metre swimming pool. The contract runs for 25 years, expiring on 31st October 2031 and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. The building became operational on 30th October 2006. The current net book value of the school is £15.0m (£15.6m in 2010/11).

Within the unitary charge for Boldon School the Council has a liability to the PFI contractor in relation to the number of free school meals. The amount due will vary each month depending upon take up rates but is currently costing in the region of £0.075m per annum (£0.070m in 2010/11).

In 2011/12 unitary charge payments, including school meals, of £2.8m (£2.6m in 2010/11) had been paid out whilst £1.5m (£1.5m in 2010/11) was recovered through PFI credits. Unitary charge payments over the whole life of the contract are expected to total £66.1m of which £37.6m will be recovered in the form of PFI grant. The actual level of payments will depend on inflation rates and the satisfactory contract performance by the operator.

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.

Street Lights

The second PFI contract was signed on 9th December 2005 with Balfour Beatty PLC and involves the replacement and maintenance of the whole of the borough's street lighting stock. The current net book value of the infrastructure is £23.2m (£23.8m in 2010/11). The five year capital investment programme ended in February 2011. The contract runs for 25 years, expiring on 28th February 2031, and covers the replacement of outdated lighting columns and street signage, providing new lighting in areas currently not served 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.

In 2011/12 unitary charge payments of £4.0m (£3.7m in 2010/11) had been paid out whilst £2.5m (£2.5m in 2009/10) was recovered through PFI grant. Over the lifetime of the contract the unitary charge is expected to total £100.1m of which £63.4m will be recovered in the form of PFI credits. The actual level of payments will depend on inflation rates and the satisfactory contract performance by the operator.

Section 4 – Notes to the Core Financial Statements

Building Schools for the Future (BSF)

On 21st December 2007 the procurement of STaG's private sector partner to deliver the £175m BSF and £21m ICT programme reached financial close. This created the unique public/private partnership, known as InspiredSpaces STaG Limited, between Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside Council (5% shareholding). Two companies were formed by the Partnership; STaG Project Company 1 to operate Jarrow School, and STaG Project Company 2 to operate South Shields Community School. South Tyneside Council has an investment in each of these companies, our 5% equity costing £0.001m, included in long term investments on the Balance Sheet. The Council also has long term debt in each company; £0.107m in respect of Project Company 1 and £0.167m in respect of Project Company 2 as at the 31st March 2012.

Jarrow School

The contract for Jarrow School was signed on 26th October 2009 and will run for 25 years, expiring on 25th October 2034. The net book value of the school as at 31st March 2012 is £14.4m (£15.0m in 2010/11). In 2011/12 unitary charge payments of £3.3m (£3.0m in 2010/11) were made, with £2.5m (£2.5m in 2010/11) received through PFI grant. Unitary charge payments over the life of the contract are expected to be £88.9m with £63.4m funded from PFI grant. The actual level of payments will depend on inflation rates and the satisfactory contract performance by the operator.

South Shields Community School (SSCS)

The contract for SSCS was signed this year on 6th September 2011 and will run for 25 years, expiring on 4th September 2036. The net book value of the new school as at 31st March 2012 is £17.6m (nil in 2010/11). In 2011/12 unitary charge payments of £2.3m (nil in 2010/11) were made, with £1.5m (nil in 2010/11) received through PFI grant. Unitary charge payments over the life of the contract are expected to be £110.7m with £68.7m funded from PFI grant. The actual level of payments will depend on inflation rates and satisfactory contract performance by the operator.

Long Term PFI Contract Payments

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

	PFI Liabilities £m
Balance at 1st April 2011	(55.276)
Addition of South Shields Community School	(21.390)
Interest	(5.944)
Repayments	7.399
Balance at 31st March 2012	**(75.211)**
Short term liability	(1.137)
Long term liability	(74.074)
Balance at 31st March 2012	**(75.211)**

The estimated outstanding unitary charge payments for all long-term PFI contracts in operation at 31st March 2012 are analysed in the following table:

2011/12	**Repayment of liability £m**	**Interest charge £m**	**Contingent rents £m**	**Service charges £m**	**Total £m**
Amounts due:					
Within one year (2012/13)	1.137	7.121	(0.067)	5.320	13.511
2013/14 to 2016/17	7.103	27.080	0.145	21.087	55.415
2017/18 to 2021/22	12.616	29.770	0.416	29.854	72.656
2022/23 to 2026/27	17.720	22.969	0.816	35.284	76.789
2027/28 to 2031/32	23.517	13.215	(0.292)	38.374	74.814
2032/33 to 2036/37	13.118	3.460	0.289	15.541	32.408
Total	**75.211**	**103.615**	**1.307**	**145.460**	**325.593**

This table sets out the future unitary charge payments expected to be paid in relation to the four 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.

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

2010/11	**Repayment of liability £m**	**Interest charge £m**	**Contingent rents £m**	**Service charges £m**	**Total £m**
Amounts due:					
Within one year (2011/12)	1.310	4.672	(0.029)	3.501	9.454
2012/13 to 2015/16	5.614	17.603	(0.065)	15.679	38.831
2016/17 to 2020/21	9.743	18.986	0.124	22.111	50.964
2021/22 to 2025/26	13.160	14.150	0.320	26.281	53.911
2026/27 to 2030/31	18.663	7.780	(0.203)	30.508	56.748
2031/32 to 2035/36	6.786	1.231	(0.022)	8.056	16.051
Total	**55.276**	**64.422**	**0.125**	**106.136**	**225.959**

Joint Waste (Non-operational) PFI Project

South Tyneside, Gateshead and Sunderland Councils have entered into a PFI agreement with a consortium led by SITA UK Limited to build and operate a facility on Teesside capable of extracting energy from waste. The agreement also requires new and upgraded waste handling facilities to be built in the partner authorities. The contract was financially completed on 20th April 2011 and the facility is expected to be operational from April 2014.

The payment mechanism within the contract will be based on tonnage bands achieved by each Council. South Tyneside's expected unitary charge payments over the 25 year life of the contract are £174m, against which PFI grant of £46m will be forthcoming.

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, personnel, ICT and procurement. The partnership became operational on 1st October 2008 and the contract runs for 10 years. Unitary charge payments of £13.3m were paid in 2011/12 (£13.1m in 2010/11) and the total cost of the contract over 10 years is expected to be £132m.

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.

2011/12	Unitary charge £m
Amounts due:	
Within one year (2012/13)	12.755
2013/14 to 2016/17	53.650
2017/18 to 2021/22	21.570
Total	**87.975**

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

2010/11	Unitary charge £m
Amounts due:	
Within one year (2011/12)	11.651
2012/13 to 2015/16	47.491
2016/17 to 2020/21	32.092
Total	**91.234**

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. None of these contracts exceed a value of £5m.

Note 24. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and Note 6.

31st March 2011 £m		31st March 2012 £m
(1.458)	General fund balance	(1.634)
(27.711)	Earmarked reserves	(28.089)
(10.588)	Housing revenue account balance	(11.553)
(2.495)	Useable capital receipts balance	(2.741)
(1.917)	Housing major repairs reserve	(1.052)
(3.294)	Capital grant unapplied reserve	(2.042)
(47.463)	**Total useable reserves**	**(47.111)**

Section 4 – Notes to the Core Financial Statements

Note 25. Unusable Reserves

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

31st March 2011 (as restated) £m		31st March 2012 £m
(101.402)	Revaluation reserve	(124.898)
(0.425)	Available-for-sale financial instrument reserve	(0.425)
(471.959)	Capital adjustment account	(333.388)
(0.684)	Financial instruments adjustment account	(0.646)
242.661	Pensions reserve	323.552
(0.080)	Deferred capital receipts reserve	(0.067)
(0.330)	Collection Fund adjustment account	(0.220)
3.580	Employee benefits adjustment account	4.189
(328.639)	**Total unusable reserves**	**(131.903)**

Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation or disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1st 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.

31st March 2011 (as restated) £m	Revaluation reserve	31st March 2012 £m
(124.478)	**Balance as at 1st April**	**(101.402)**
(35.967)	Upward revaluation of non-current assets	(30.654)
55.902	Valuation impairment charged to reserve	2.012
1.096	Accumulated gains on assets sold or scrapped	2.213
2.045	Other amounts written off to the capital adjustment account	2.933
(101.402)	**Balance as at 31st March**	**(124.898)**

Available-for-Sale Financial Instruments Reserve

The available-for-sale financial instruments reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are disposed of and the gains are realised or when the investments are revalued downwards or impaired and the gains are lost.

31st March 2011	Available-for-sale financial instruments reserve	31st March 2012
£m		£m
(0.425)	Balance as at 1st April	(0.425)
(0.425)	Balance as at 31st March	(0.425)

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. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairments, amortisations and revaluation losses are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The debt payment of £60.818m made by the Council to the Government on the cessation of the Housing Revenue Account subsidy system is included within the costs of assets consumed.

The capital adjustment account contains accumulated gains and losses on investment properties that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1st April 2007, the date that the revaluation reserve was created to hold such gains.

Note 6 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

31st March 2011 (as restated)	Capital adjustment account		31st March 2012
£m		£m	£m
(622.184)	**Balance as at 1st April**		**(471.959)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
27.019	Charges for depreciation and impairment of non-current assets	43.761	
168.191	Revaluation losses on property, plant and equipment	83.824	
0.742	Amortisation of intangible assets	0.719	
27.784	Revenue expenditure funded from capital under statute	10.253	
3.465	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	14.789	
-	Other movements	0.003	153.349
-	Accumulated gains on investment properties yet to be consumed		(0.200)
-	Housing subsidy debt payment		60.818
(2.045)	Adjusting amounts written out of the revaluation reserve		(5.146)
225.156	**Net written out amount of the cost of non-current assets consumed in the year**		**208.821**
	Capital financing applied in the year		
(2.197)	Use of the capital receipts reserve to finance new capital expenditure	(8.724)	
(7.336)	Use of the major repairs reserve to finance new capital expenditure	(12.769)	
(54.191)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(35.534)	
(0.869)	Application of grants to capital financing from the capital grants unapplied account	(1.252)	
(8.200)	Statutory provision for the financing of capital investment charged against the General Fund and HRA Balances	(10.343)	
(2.138)	Capital expenditure charged against the General Fund and HRA Balances	(1.628)	(70.250)
(471.959)	**Balance as at 31st March**		**(333.388)**

Financial Instruments Adjustment Account

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax.

31st March 2011	Financial instruments adjustment account	31st March 2012
£m		£m
(0.716)	**Balance as at 1st April**	**(0.684)**
0.032	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0.038
(0.684)	**Balance as at 31st March**	**(0.646)**

Pension 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 post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits 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 financed as the Council makes employer's contributions to pension funds or eventually pays 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. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31st March 2011 £m	Pensions reserve	31st March 2012 £m
305.999	**Balance as at 1st April**	**242.661**
11.310	Actuarial losses on pensions assets and liabilities	85.390
(52.508)	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	17.352
(22.140)	Employers pension contributions and direct payments to pensioners payable in year	(21.851)
242.661	**Balance as at 31st March**	**323.552**

Deferred Capital Receipts Reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

31st March 2011 £m	Deferred capital receipts reserve	31st March 2012 £m
(0.093)	**Balance as at 1st April**	**(0.080)**
0.009	Transfer to the capital receipts reserve upon receipt of cash	0.008
0.004	Transfer to the General Fund balance upon receipt of cash	0.005
(0.080)	**Balance as at 31st March**	**(0.067)**

Collection Fund Adjustment Account

The Collection Fund adjustment account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31st March 2011 £m	Collection fund adjustment account	31st March 2012 £m
(0.435)	**Balance as at 1st April**	**(0.330)**
0.105	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	0.110
(0.330)	**Balance as at 31st March**	**(0.220)**

Section 4 – Notes to the Core Financial Statements

Employee Benefits Adjustment Account

The employee benefits adjustment account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences and benefits earned but not taken in the year e.g. annual leave entitlement carried forward at 31st March and long term service award. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

31st March 2011 £m	Employee benefits adjustment account	31st March 2012 £m
4.817	**Balance as at 1st April**	**3.580**
(4.817)	Settlement or cancellation of accrual made at the end of the preceding year	(3.580)
3.580	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4.189
3.580	**Balance as at 31st March**	**4.189**

Note 26. Operating Activities

The net 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:

31st March 2011 £m		31st March 2012 £m
27.019	Depreciation	43.761
168.191	Impairment and revaluation losses of property, plant and equipment	83.824
0.742	Amortisation of intangibles	0.719
-	Revaluation of investment properties	(0.200)
(12.146)	Increase in creditors	(3.541)
5.689	Decrease in debtors	1.525
(0.117)	Increase in inventories	(0.100)
(74.648)	Movement in pension liability	(3.260)
73.465	Carrying amount of current and non-current assets sold or demolished	104.789
4.522	Other non-cash items charged to the deficit on the provision of services	(4.734)
192.717	**Adjustment to surplus or deficit on the provision of services for non-cash movements**	**222.783**

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:

31st March 2011 £m		31st March 2012 £m
(0.240)	Proceeds from short term and long term investments	(90.240)
(5.796)	Proceeds from sale of property, plant and equipment	(10.138)
(54.191)	Capital grants credited to surplus or deficit on the provision of services	(35.534)
(60.227)	**Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities**	**(135.912)**

Section 4 – Notes to the Core Financial Statements

The cash flows for operating activities include the following items:

31st March 2011 £m		31st March 2012 £m
1.338	Interest received	1.517
(23.629)	Interest paid	(19.087)

Note 27. Investing Activities

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

31st March 2011 £m		31st March 2012 £m
(116.866)	Purchase of property, plant and equipment and intangible assets	(97.102)
(55.000)	Purchase of short term and long term investments	(90.000)
1.959	Proceeds from the sale of property, plant and equipment	13.832
0.240	Proceeds from short-term and long-term investments	90.240
50.079	Other receipts from investing activities	36.389
(119.588)	**Net cash flows from investing activities**	**(46.641)**

Note 28. Financing Activities

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

31st March 2011 £m		31st March 2012 £m
55.000	Cash receipts of short and long term borrowing	150.818
(0.489)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(1.369)
-	Repayments of short and long term borrowing	(30.000)
(1.584)	Other payments for financing activities	3.916
52.927	**Net cash flows from financing activities**	**123.365**

Note 29. 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 Service Reporting Code of Practice. 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 adjustment is made for the actual level of capital charges required by the Code and those assumed as part of the original budget setting process.
- No adjustment is made for the actual level of pension costs required by the Code and those assumed as part of the original budget setting process.

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 2011/12 outturn	Business and Area Management Group £m	Strategy and Performance £m	Children, Adult and Families Group £m	Economic Regeneration Group £m	Total £m
Income	**(201.482)**	**(1.766)**	**(176.748)**	**(20.634)**	**(400.630)**
Employee expenses	22.211	1.335	105.775	12.834	142.155
Third party payments	10.875	0.155	66.407	0.743	78.180
Premises costs	9.287	-	10.265	8.944	28.496
Transport costs	5.172	0.004	2.781	0.344	8.301
Supplies and services	36.130	0.282	56.031	4.542	96.985
Client payments	82.661	-	2.302	0.001	84.964
Support services	12.256	0.553	13.454	5.474	31.737
Capital charges	77.171	-	8.355	6.308	91.834
Total expenditure	**255.763**	**2.329**	**265.370**	**39.190**	**562.652**
Net expenditure	**54.281**	**0.563**	**88.622**	**18.556**	**162.022**

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.

	2011/12 £m
Net expenditure in the Group analysis	162.022
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	157.221
Amounts included in the analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement	(17.207)
Cost of services in Comprehensive Income and Expenditure Statement	**302.036**

Included in the amounts in the Comprehensive Income and Expenditure Statement not reported to management line is £0.282m of costs that have been funded by contributions for the structural change and school balances earmarked reserves.

Reconciliation to Subjective Analysis

This reconciliation 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

2011/12	Group analysis	Amounts 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	(399.641)	75.399	50.089	**(274.153)**	-	**(274.153)**
Housing revenue account income	-	(58.390)	-	**(58.390)**	-	**(58.390)**
Surplus on trading undertakings	-	-	-	**-**	(0.506)	**(0.506)**
Interest and investment income	(0.989)	-	0.989	**-**	(1.831)	**(1.831)**
Income from Council Tax	-	-	-	**-**	(58.295)	**(58.295)**
Non-Domestic Rates redistribution	-	-	-	**-**	(68.793)	**(68.793)**
Grants and contributions	-	-	-	**-**	(76.676)	**(76.676)**
Total income	**(400.630)**	**17.009**	**51.078**	**(332.543)**	**(206.101)**	**(538.644)**
Employee expenses	142.155	12.589	(25.562)	**129.182**	-	**129.182**
Support services recharges	31.737	(19.430)	(0.410)	**11.897**	-	**11.897**
Other service expenses	351.369	(66.870)	(4.922)	**279.577**	-	**279.577**
Housing revenue account expenditure	-	97.636	-	**97.636**	-	**97.636**
Depreciation, amortisation and impairment	-	55.469	-	**55.469**	-	**55.469**
Interest payable and net pension cost	18.307	-	(18.307)	**-**	27.893	**27.893**
Precepts and levies	10.275	-	(10.275)	**-**	10.275	**10.275**
Statutory provision for debt repayment	8.809	-	(8.809)	**-**	-	**-**
Loss on disposal of non-current assets	-	-	-	**-**	5.131	**5.131**
Housing subsidy debt payment	-	60.818	-	**60.818**	-	**60.818**
Payments to housing receipts pool	-	-	-	**-**	1.106	**1.106**
Total expenditure	**562.652**	**140.212**	**(68.285)**	**634.579**	**44.405**	**678.984**
Deficit on the provision of services	**162.022**	**157.221**	**(17.207)**	**302.036**	**(161.696)**	**140.340**

The equivalent tables for the previous year are as follows:

Income and Expenditure 2010/11 Outturn	Business and Area Management Group	Strategy and Performance	Children, Adult and Families Group	Economic Regeneration Group	Total
	£m	£m	£m	£m	£m
Income	**(209.304)**	**(3.423)**	**(102.650)**	**(23.580)**	**(338.957)**
Employee expenses	44.419	2.235	60.636	16.966	124.256
Third party payments	10.558	0.088	64.254	0.996	75.896
Premises costs	7.236	0.002	3.363	9.572	20.173
Transport costs	5.259	0.017	2.659	0.351	8.286
Supplies and services	32.435	0.897	29.997	7.321	70.650
Client payments	77.807	-	15.085	0.004	92.896
Support services	14.004	0.723	14.782	6.637	36.146
Capital charges	68.825	0.021	7.271	7.792	83.909
Total expenditure	**260.543**	**3.983**	**198.047**	**49.639**	**512.212**
Net expenditure	**51.239**	**0.560**	**95.397**	**26.059**	**173.255**

Section 4 – Notes to the Core Financial Statements

	2010/11 (as restated) £m
Net expenditure in the Group analysis	173.255
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	82.055
Amounts included in the analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement	5.445
Cost of services in Comprehensive Income and Expenditure Statement	**260.755**

2010/11 (as restated)	Group analysis	Amounts not reported to management in the analysis	Amounts not included in comprehensive income and expenditure	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	(338.957)	(40.076)	77.309	**(301.724)**	-	**(301.724)**
Housing revenue account income	-	(54.995)	-	**(54.995)**	-	**(54.995)**
Deficit on trading activities	-	-	-	**-**	0.127	**0.127**
Interest and investment income	-	-	-	**-**	(8.085)	**(8.085)**
Income from council tax	-	-	-	**-**	(57.545)	**(57.545)**
Non-domestic rates redistribution	-	-	-	**-**	(78.838)	**(78.838)**
Grants and contributions	-	-	-	**-**	(82.267)	**(82.267)**
Total Income	**(338.957)**	**(95.071)**	**77.309**	**(356.719)**	**(226.608)**	**(583.327)**
Employee expenses	124.256	(89.560)	(32.380)	**2.316**	-	**2.316**
Other service expenses	377.908	40.227	(29.436)	**388.699**	-	**388.699**
Housing revenue account expenditure	-	194.322	-	**194.322**	-	**194.322**
Depreciation, amortisation and impairment	-	32.137	-	**32.137**	-	**32.137**
Interest payable and net pension cost	-	-	-	**-**	32.627	**32.627**
Precepts and levies	10.048	-	(10.048)	**-**	10.048	**10.048**
Loss on disposal of non-current assets	-	-	-	**-**	2.013	**2.013**
Payments to housing receipts pool	-	-	-	**-**	0.651	**0.651**
Total expenditure	**512.212**	**177.126**	**(71.864)**	**617.474**	**45.339**	**662.813**
Deficit on the provision of services	**173.255**	**82.055**	**5.445**	**260.755**	**(181.269)**	**79.486**

Note 30. Trading Operations

A summary of the deficit/(surplus) earned by each of our trading services over the last three years is shown on the following table:

		2009/10	2010/11	2011/12
South Shields open air market	Turnover	(0.256)	(0.202)	(0.176)
	Expenditure	0.346	0.143	0.089
Cumulative surplus over last 3 years: £0.056m	**Deficit or (Surplus)**	**0.090**	**(0.059)**	**(0.087)**
School catering	Turnover	(6.102)	(6.238)	(6.220)
	Expenditure	6.373	6.424	5.801
Cumulative deficit over last 3 years: £0.042m	**Deficit or (Surplus)**	**0.271**	**0.186**	**(0.419)**
Total trading activity	Turnover	(6.358)	(6.440)	(6.396)
	Expenditure	6.719	6.567	5.890
	Deficit or (Surplus)	**0.361**	**0.127**	**(0.506)**

The Council operates an open air market in South Shields town centre. Income received is generated by rent received from stallholders. The income received from this rent has fallen sharply from 2010/11 to 2011/12 as a result of the economic downturn. The Council has therefore sought to control costs, mainly through a reduction in the salary bill, in order to maintain a surplus in trading.

The Council provides catering to most borough schools with income generated by the sale of meals. The Council has significantly reduced its salary bill in 2011/12 resulting in a surplus for the traded activity of £0.419m.

Note 31. Road Charging Schemes

Under the provisions of the Transport Act 2000 the Council is able to implement road-charging schemes and/or workplace charging levies, income from which must be ring fenced for transport improvements. The Council received a gross income of £0.266m from utility companies, skip hire and traffic regulation orders under these provisions in 2011/12 (£0.340m in 2010/11), which has been fully invested in transport services.

Note 32. Pooled Budgets

The Council has five pooled arrangements with the South Tyneside Primary Care Trust (PCT) 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 five projects are as follows:

- A joint equipment store enables the Council and the PCT to provide an integrated equipment service, which will operate in line with Department of Health guidance, on a borough wide basis.
- The South Tyneside Arts Studio enables the Council and the PCT to provide a therapeutic service for various service users. This service was withdrawn on 1st July 2012.
- Perth Green enables the Council and the PCT to provide intermediate residential care for service users to help meet delayed discharge targets from hospital.
- An arrangement whereby the Council can commission nursing and continuing care on behalf of the PCT.
- An arrangement whereby the Council can commission after-care services, provided under Section 117 of the 1983 Mental Health Act, on behalf of the PCT.

The Council is the lead body for these budgets and the gross costs, together with the income from the PCT, 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:

Section 4 – Notes to the Core Financial Statements

2010/11 Council share of net cost £m		2011/12 Pooled budgets gross cost £m	2011/12 NHS partners income to the Council £m	2011/12 Council share of net cost £m
0.214	Joint equipment store	1.177	(0.645)	0.532
0.059	The South Tyneside Arts Studio	(0.001)	(0.014)	(0.015)
0.832	Perth Green	1.012	(0.242)	0.770
-	Nursing care and continuing care	6.675	(6.675)	-
1.878	S117 mental health	3.622	(1.811)	1.811
2.983	**Total**	**12.485**	**(9.387)**	**3.098**

Note 33. Members' Allowances

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

	2010/11 £m	2011/12 £m
Members Allowances	0.776	0.761
Other Members expenses	0.086	0.024
Total Members' Allowances paid	**0.862**	**0.785**

Note 34. Officers' Remuneration

Employee Remuneration over £50,000

The number of employees whose remuneration, excluding employer's pension contribution, was £50,000 or more in bands of £5,000 are disclosed in Table 1 below. This disclosure does not include senior officers who are disclosed separately in Table 2.

Table 1

	Number of employees							
	2010/11				2011/12			
Remuneration bands	**Council**	**School based**	**Total**	**Left during year**	**Council**	**School based**	**Total**	**Left during year**
£50,000 - £54,999	37	31	68	19	40	34	74	7
£55,000 - £59,999	17	18	35	15	14	24	38	7
£60,000 - £64,999	8	23	31	18	11	17	28	6
£65,000 - £69,999	9	8	17	12	3	6	9	2
£70,000 - £74,999	3	7	10	6	3	10	13	1
£75,000 - £79,999	5	3	8	7	-	3	3	-
£80,000 - £84,999	2	4	6	5	-	2	2	-
£85,000 - £89,999	3	1	4	4	1	2	3	2
£90,000 - £94,999	2	-	2	2	-	3	3	2
£100,000-£104,999	3	-	3	3	-	-	-	-
£120,000-£124,999	-	2	2	1	-	-	-	-
£125,000 - £129,999	-	-	-	-	-	1	1	-
Total	**89**	**97**	**186**	**92**	**72**	**102**	**174**	**27**

Section 4 – Notes to the Core Financial Statements

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/voluntary redundancy programme during 2011/12. 18 of the Council staff who left through this programme are disclosed in the table on the previous page.

The Council has also continued its programme of removing surplus places in schools, which has resulted in 29 teaching staff redundancies in 2011/12. 9 of these redundancies are disclosed in the table on the previous page.

Table 1 does not include teachers employed by school Governing Bodies whose remuneration, excluding employer's pension contribution, was £50,000 or more in bands of £5,000. These are shown separately in the following table:

Remuneration Bands	Number of Employees	
	2010/11 School based	2011/12 School based
£50,000 - £54,999	7	12
£55,000 - £59,999	8	6
£60,000 - £64,999	4	5
£65,000 - £69,999	1	1
£70,000 - £74,999	3	3
£75,000 - £79,999	1	2
£80,000 - £84,999	1	-
£100,000-£104,999	1	-
£100,000-£104,999	-	1
Total	**26**	**30**

Section 4 – Notes to the Core Financial Statements

Senior Officer Remuneration – salary between £50,000 and £150,000 per year

The following table shows senior officer remuneration in 2011/12:

Table 2

Post title	Salary	Allowances	Termination benefits	Total remuneration excl. pension contribution	Pension contribution	Total 2011/12 remuneration incl. pension contribution
	£	£	£	£	£	£
Corporate Director Children Adults and Families	122,548	1,845	-	124,393	17,524	141,917
Corporate Director Business and Area Management	109,535	1,816	-	111,351	15,664	127,015
Corporate Director Economic Regeneration	111,623	737	-	112,360	15,962	128,322
Head of Education Learning and Skills	93,902	1,528	-	95,430	13,428	108,858
Head of Enterprise and Regeneration	83,988	1,617	-	85,605	12,010	97,615
Head of Culture and Neighbourhoods	83,988	1,652	-	85,640	12,010	97,650
Head of Children's and Families Social Care	83,988	1,935	-	85,923	12,010	97,933
Head of Transition and Wellbeing *	29,042	360	77,315	106,717	4,153	110,870
Head of Pensions	83,988	1,255	-	85,243	12,010	97,253
Head of Health and Social Inclusion *	29,766	446	77,315	107,527	4,257	111,784
Head of Corporate and Commercial Services	89,933	1,245	-	91,178	12,860	104,038
Head of Strategic Partnership *	27,195	350	-	27,545	3,889	31,434
Head of Partnership and Corporate Affairs	83,988	185	-	84,173	12,010	96,183
Head of Marketing and Communications *	35,537	0	-	35,537	5,228	40,765
Head of Legal Services	69,284	1,144	-	70,428	9,908	80,336
Head of Finance	77,738	963	-	78,701	11,116	89,817
Head of Adult Social Care	81,400	289	-	81,689	11,640	93,329
Acting Head of Sustainable Communities *	34,995	483	86,979	122,457	5,004	127,461
Head of Economic Growth *	78,920	-	34,958	113,878	11,286	125,164
Head of Strategic Development *	7,500	-	-	7,500	1,073	8,573
Head of Planning, Housing ,Transport Strategy and Regulatory Services	78,670	788	-	79,458	11,250	90,708
Total remuneration	**1,497,528**	**18,638**	**276,567**	**1,792,733**	**214,292**	**2,007,025**

* Denotes not a full year salary

The Council's reorganisation has included the senior management structure, with 4 Heads of Service leaving in 2011/12 and further reductions planned for 2012/13.

Those senior officers with salaries in excess of £150,000 per annum are disclosed in Table 3.

The comparative information for senior officers earning less than £150,000 relating to 2010/11 is shown in table 2a:

Section 4 – Notes to the Core Financial Statements

Table 2a

Post title	Salary	Allowances	Termination benefits	Total remuneration excl. pension contribution	Pension contribution	Total 2010/11 remuneration incl. pension contribution
	£	£	£	£	£	£
Assistant Chief Executive	94,758	-	-	94,758	14,024	108,782
Corporate Director Children Adults and Families	117,616	2,046	-	119,662	17,407	137,069
Corporate Director Business and Area Management	106,988	1,775	-	108,763	15,834	124,597
Corporate Director Economic Regeneration *	35,039	18	-	35,057	5,186	40,243
Executive Director Neighbourhood Services *	35,375	523	110,797	146,695	5,236	151,931
Head of Social Inclusion and Achievement	94,758	965	-	95,723	14,024	109,747
Head of Enterprise and Regeneration	94,758	1,582	-	96,340	14,024	110,364
Head of Culture and Neighbourhoods	83,988	1,698	-	85,686	12,430	98,116
Head of Early Intervention and Safeguarding	83,988	2,011	-	85,999	12,430	98,429
Head of Transition and Wellbeing	83,988	1,460	-	85,448	12,430	97,878
Head of Sustainable Communities *	28,962	436	80,536	109,934	4,143	114,077
Head of Pensions	83,988	1,531	-	85,519	12,430	97,949
Head of Health and Social Inclusion	83,988	1,517	-	85,505	12,430	97,935
Head of Change Management	83,988	1,356	-	85,344	12,430	97,774
Head of Strategic Partnership	101,688	1,153	-	102,841	15,050	117,891
Head of Partnerships, Corporate Affairs and Communications	83,988	285	-	84,273	12,430	96,703
Acting Head of Legal Services	65,000	1,189	-	66,189	9,620	75,809
Head of Finance	78,037	858	-	78,895	11,550	90,445
Head of Adult Social Care	83,988	657	-	84,645	12,430	97,075
Acting Head of Sustainable Communities	83,988	1,153	-	85,141	12,398	97,539
Head of Economic Growth *	20,320	-	-	20,320	3,007	23,327
Head of Housing Strategy and Regulatory Services	78,037	628	-	78,665	11,550	90,215
Total remuneration	**1,707,228**	**22,841**	**191,333**	**1,921,402**	**252,493**	**2,173,895**

* Denotes not a full year salary

Senior Officer Remuneration - salary above £150,000 per year

Senior Officers receiving more than £150,000 in 2011/12 are shown below:

Table 3

	Salary	Allowances	Total remuneration excl. pension contribution	Pension contribution	Total 2011/12 remuneration incl. pension contribution
	£	£	£	£	£
Chief Executive - M Swales	152,229	506	152,735	21,769	174,504

The comparative information relating to 2010/11 is shown table 3a below:

Table 3a

	Salary	Allowances	Total remuneration excl. pension contribution	Pension contribution	Total 2010/11 remuneration incl. pension contribution
	£	£	£	£	£
Chief Executive - M Swales	152,229	698	152,927	22,530	175,457

Section 4 – Notes to the Core Financial Statements

Senior Officer Remuneration of Local Authority Subsidiaries

The Chief Executive of South Tyneside Homes Limited is Isobel Riley. There are no officers in South Tyneside Homes earning in excess of £150,000. The impact of officers earning more than £50,000 can be seen in note 16 to the Group Accounts.

Exit Package Cost Disclosure

The numbers of exit packages with total cost per band for both compulsory and other redundancies are set out in the table below:

Exit Package cost band	Number of compulsory		Number of other		Total number of exit packages		Total cost of exit packages in each	
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11 £m	2011/12 £m
£0 - £20,000	-	7	276	155	276	162	2.345	1.432
£20,001 - £40,000	-	1	108	61	108	62	3.087	1.844
£40,001 - £60,000	-	-	52	9	52	9	2.539	0.425
£60,001 - £80,000	-	-	15	11	15	11	1.009	0.759
£80,001 - £100,000	-	-	7	4	7	4	0.602	0.342
£100,000 - £150,000	-	-	10	6	10	6	1.121	0.728
£150,000 and above	-	-	1	3	1	3	0.159	0.583
Total	**-**	**8**	**469**	**249**	**469**	**257**	**10.862**	**6.112**

The total cost of £6.112m in the table above includes all exit packages that have been agreed, accrued for and charged to the Council's Comprehensive Income and Expenditure Statement in the current year. The total includes the full cost of 'strain on the fund' payments to Tyne and Wear Pension Fund as they are recognised in full in the Comprehensive Income and Expenditure Statement in 2011/12. However, these costs are actually paid to Tyne and Wear Pension Fund over a 3 year period.

The overall total in 2011/12 includes the cost of 67 employees who left the Council during 2011/12 and for whom a redundancy provision of £1.200m was made in the 2010/11 accounts.

In addition, the Council's Comprehensive Income and Expenditure Statement includes a provision for £1.500m for the estimated redundancy cost of a further 94 employees leaving the Council in 2012/13. This is not included in the above table as it is not possible at this point to slot the employees exit packages into the appropriate bands. No provision is made for additional pension costs for these employees.

The table above includes 8 redundancies which have been classed as compulsory. These relate to employees who have asked the Council to look into re-deployment opportunities for them within the Council. The Council have looked into all options for these employees and only when they have all been exhausted, have the employees left the Council through redundancy.

Note 35. External Audit Costs

The Audit Commission is the regulatory body that oversees the financial actions of the Council. In 2005/06 the Commission appointed PricewaterhouseCoopers LLP (PWC) to 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.

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.

2010/11 £m		2011/12 £m
0.308	Fees with regard to external audit services carried out by the appointed auditor for the year	0.278
0.067	Fees for the certification of grant claims and returns for the year	0.035
0.037	Fees for other services provided by external auditors during the year	0.010
0.412	**Total fees payable to external auditors**	**0.323**

In addition to the above the Council paid £0.057m (£0.057m in 2010/11) to PWC in relation to audit of the Tyne and Wear Pension Fund. These costs were fully recovered from the Fund.

Note 36. Dedicated Schools Grant

Dedicated Schools Grant (DSG) is provided by the Department for Education to fund the Council's expenditure on schools. DSG 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 2011/12 are as shown in the following table:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2011/12	(9.041)	(95.404)	(104.445)
Brought forward from 2010/11	-	(0.131)	(0.131)
Agreed budgeted distribution in 2011/12	**(9.041)**	**(95.535)**	**(104.576)**
Actual central expenditure	9.041	-	9.041
Actual ISB deployed to schools	-	95.505	95.505
Carry forward to 2012/13	**-**	**(0.030)**	**(0.030)**

In 2011/12 the Council received total DSG of £104.445m (£90.285m in 2010/11), which has been credited against the Education and Children's Services line in the Comprehensive Income and Expenditure Statement. The increase in funding is due to the inclusion within the DSG of standards fund previously allocated as a separate grant. The level of unspent DSG from the 2011/12 allocation is £0.030m (£0.131m in 2010/11) and this 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:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2010/11	(4.951)	(85.334)	(90.285)
Brought forward from 2009/10	-	(0.437)	(0.437)
Transfer of 2009/10 balance	(0.279)	0.279	-
Agreed budgeted distribution in 2009/10	**(5.230)**	**(85.492)**	**(90.722)**
Actual central expenditure	5.230	-	5.230
Actual ISB deployed to schools	-	85.361	85.361
Carry forward to 2010/11	**-**	**(0.131)**	**(0.131)**

Note 37. Government Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2010/11 £m	2011/12 £m
Credited to taxation and non specific grant income		
National Non-Domestic Rates	(78.838)	(68.793)
Capital grants and contributions	(38.620)	(30.911)
Revenue support grant	(11.448)	(21.264)
Area based grant	(23.630)	-
Early intervention grant	-	(9.517)
Private finance initiative	(6.571)	(8.062)
Revenue support transition grant	-	(3.182)
Benefits administration grant	(1.733)	(1.659)
Council Tax freeze grant	-	(1.450)
Other unringfenced grants	(0.265)	(0.631)
Total	**(161.105)**	**(145.469)**
Credited to services		
Dedicated schools fund	(90.285)	(104.445)
Surestart	(7.367)	-
Standards fund	(17.748)	(0.050)
Housing benefit	(60.501)	(65.349)
Council Tax benefit	(17.644)	(17.437)
Early intervention grant	-	(0.066)
Young people's learning and skills funding agencies	(11.477)	(7.416)
School standards	(4.871)	-
Pupil premium grant	-	(2.766)
Grants supporting revenue expenditure funded by capital under statute	(15.570)	(4.622)
Other grants	(5.046)	(1.520)
Total	**(230.509)**	**(203.671)**
Total grant	**(391.614)**	**(349.140)**

Section 4 – Notes to the Core Financial Statements

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the funder if conditions are not met. The balances at the year-end are as follows:

	2010/11 £m	2011/12 £m
Revenue Grants		
Young People's Learning Agency	(0.462)	(0.777)
Standards Fund	(0.050)	-
Schools Sports Partnership	(0.043)	-
Housing Subsidy	(0.878)	-
Winter Damage	(0.304)	-
Other grants	(0.057)	(0.138)
Revenue Contributions		
Other contributions	(0.138)	(0.384)
Total	**(1.932)**	**(1.299)**
Capital Grants Receipts in Advance		
Big Lottery	(0.119)	-
Building Schools for the Future	(7.074)	(0.680)
ONE North East Funding	(1.325)	(3.193)
Contaminated Land	(0.032)	(0.019)
Coastal Protection	(0.597)	(0.422)
Section 106 Receipts	(0.470)	(0.129)
Department for Education Capital	(2.013)	(1.363)
Other grants	(0.109)	-
Total	**(11.739)**	**(5.806)**

Note 38. 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.

2010/11 £m		2011/12 £m
367.510	**Opening capital financing requirement (CFR)**	**436.244**
(0.636)	**Adjustment for property finance leases (under IFRS)**	**-**
366.874	**Adjusted opening CFR**	**436.244**
	Capital investment	
107.138	Enhancement of assets	97.339
8.574	Adjustments for assets held under PFI and finance leases	21.390
0.805	Intangible assets	0.120
-	Housing subsidy debt payment	60.818
27.784	Revenue expenditure funded from capital under statute	10.253
-	Other movements	0.001
144.301	**Total capital investment**	**189.921**
	Sources of finance	
(2.197)	Capital receipts	(8.724)
(55.060)	Government grants and other contributions	(36.786)
(8.732)	HRA sums set aside from revenue	(14.415)
(8.942)	General fund sums set aside from revenue	(10.324)
(74.931)	**Total finance used**	**(70.249)**
69.370	**Movement in CFR**	**119.672**
436.244	**Closing CFR**	**555.916**
	Explanation of movement in year	
29.736	Increase in underlying need to borrow (supported by Government financial assistance)	35.633
39.634	Increase in underlying need to borrow (unsupported by Government financial assistance)	84.039
69.370	**Increase in CFR**	**119.672**

Revenue Expenditure Funded from Capital under Statute

Certain expenditure incurred by local authorities does not fall within the Code definition of assets but is classified as expenditure for capital purposes with respect to capital controls. The charges primarily relate to equal pay compensation, redundancy payments, expenditure on third party assets, for example Diocese owned schools and housing grants. The total of revenue expenditure funded from capital for the year £10.254m (£27.784m in 2010/11) has been amortised to the Comprehensive Income and Expenditure Statement. This figure has decreased from the 2010/11 sum due to provisions made for equal pay which have been released in 2011/12. Also the spend on schools owned by the Diocese has reduced due to the completion of a number of the building schools for the future schemes in 2010/11.

Significant Items of Capital Additions

The total additions to non-current assets was £118.849m (£135.727m in 2010/11). The most significant items during 2011/12 are shown in the following table:

	£m
Dwellings decent homes programme	29.154
Building Schools for the Future	27.174
South Shields Community School (PFI)	21.390
Primary schools reorganisation	9.134
Office developments	9.003
Leisure facilities reorganisation - Foreshore & Jarrow Pools	5.604
Other dwelling improvements	5.509
Organisational change compensatory payments	5.087
Road and bridge improvements	1.783
Maintaining and enhancing our buildings	1.562
Road safety schemes	1.368
New build Dwellings	1.329
South Shields regeneration	1.151
Other school improvements	1.062
Housing area redevelopment	0.720
Disabled facilities in private homes	0.683

Note 39. 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 30 years into a 35 year lease.
- The lease of Cleadon Park facility which commenced in July 2010 and is 2 years into a 24 year lease. The main use of this facility is as a library and community centre.

The assets under these leases are carried as property, plant and equipment in the Balance Sheet at the following net amounts:

31st March 2011 £m		31st March 2012 £m
2.405	Other land and buildings	2.351

The Council is committed to making the minimum payments under these leases. This is 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:

31st March 2011 £m		31st March 2012 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.036	- current	0.040
2.237	- non-current	2.197
3.695	Finance costs payable in future years	3.458
5.968	**Minimum lease payments**	**5.695**

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

	Finance lease liabilities		Minimum lease payments	
	31st March 2011	31st March 2012	31st March 2011	31st March 2012
	£m	£m	£m	£m
Not later than one year	0.036	0.040	0.274	0.273
Later than one year and not later than five years	0.246	0.206	1.112	1.093
Later than five years	1.991	1.991	4.582	4.329
Total	**2.273**	**2.237**	**5.968**	**5.695**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, for example changes to rents following a rent review. In 2011/12 £0.102m contingent rents were payable by the Council (£0.035m in 2010/11).

The Council has not sub-let any of the office accommodation held under these finance leases.

Council as Lessee - Operating Leases

The Council has operating leases on some of its administrative buildings and a number of plots of land. All the vehicles leased by the Council are operating leases.

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

31st March 2011		31st March 2012
£m		£m
0.262	Not later than one year	0.226
0.957	Later than one year and not later than five years	0.766
1.967	Later than five years	1.967
3.186	**Minimum lease payments**	**2.959**

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31st March 2011		31st March 2012
£m		£m
0.630	Minimum lease payments	0.403
0.015	Contingent rents	0.015
0.645	**Total**	**0.418**

Council as Lessor - Finance Leases

The Council leases a property at Viking Industrial Park to the Tyneside Economic Development Company Limited (TEDCO) on a finance lease with a remaining term of 7 years.

The Council has a gross investment in this lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts.

31st March 2011 £m		31st March 2012 £m
	Finance lease debtor (net present value of minimum lease payments):	
0.005	- current	0.005
0.047	- non current	0.042
0.025	Unearned finance income	0.020
0.063	Unguaranteed residual value of property	0.064
0.140	**Gross investment in the lease**	**0.131**

The gross investment in these leases and the minimum lease payments will be received over the following periods:

	Gross investment in the lease		**Minimum lease payments**	
	31st March 2011 £m	**31st March 2012 £m**	**31st March 2011 £m**	**31st March 2012 £m**
Not later than one year	0.010	0.010	0.005	0.005
Later than one year and not later than five years	0.048	0.048	0.030	0.025
Later than five years	0.082	0.073	0.017	0.017
Total	**0.140**	**0.131**	**0.052**	**0.047**

The Council has not set aside an allowance for uncollectible amounts in relation to this lease.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into. In 2011/12 £0.002m contingent rents were receivable by the Council (2010/11 £0.002m).

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.

A new lease with British Telecom PLC for the Harton Quay offices was signed on 29th September 2011. The lease is for 14 years and 6 months at commercial rent. A review of this lease has concluded that it is an operating lease primarily because the lease term is not for the majority of the economic life of the building.

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

31st March 2011 £m		31st March 2012 £m
1.779	Not later than one year	2.608
3.001	Later than one year and not later than five years	5.803
8.645	Later than five years	16.544
13.425	**Minimum Lease Payments**	**24.955**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into. In 2011/12 £0.373m contingent rents were receivable by the Council (£0.282m in 2010/11).

Note 40. Related Parties

The Council is required to disclose material transactions with related parties; bodies or individuals that are not disclosed elsewhere in the accounts. 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.

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 £350.785m (£391.614m in 2010/11) in support of its revenue spending as detailed in note 37.

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

- Grants totalling £0.338m (£0.343m in 2010/11) were paid to Boldon Lane and Hebburn Neighbourhood Advice Centres and Bede's World. These are voluntary/third sector organisations in which some Members have an interest. This funding formed a significant proportion of each of these organisations' annual income.

- A Council Member is Chair of the North East Purchasing Organisation (NEPO) Joint Committee. NEPO is used by the twelve Northern Regional Authorities for collaborative contracts and a significant number of South Tyneside Council contracts are procured through the NEPO organisation.

- A Council Member is a Board Member of the Tyneside Economic Development Company (TEDCO). The Council made payments of £0.334m to TEDCO (£0.890m in 2010/11) and also leases a property to TEDCO under a commercial lease arrangement. This has been treated as a finance lease in the accounts.

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

From examination of returns completed by Chief Officers, the following disclosures are necessary.

The Chief Executive holds the position of School Governor of Bamburgh School.

The Corporate Director of Business and Area Management and Section 151 Officer holds the following positions:

- Board member of TEDCO (stepped down July 2011);
- Board member of Groundwork Trust (stepped down July 2011). The Council paid £0.683m (£1.611m in 2010/11) to this organisation;
- Chair of Governors of St Wilfrid's RC Comprehensive;
- Board member for South Tyneside Foundation Hospital Trust.

The Corporate Director Economic Regeneration holds the position of Board Member of TEDCO.

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 note 33 and 34 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.408m (£0.401m in 2010/11) in respect of support services provided – primarily legal services and administrative buildings. Other support services including finance and information technology are delivered through a separate service level agreement with BT South Tyneside Limited which totalled £0.322m (£0.312m in 2010/11). The Council also paid to the Fund £0.051m (£0.050m in 2010/11) in respect of treasury management duties. From 1st April 2004, the Fund has operated a separate bank account to that of the Council such that any interest earned on cash balances was taken directly into the Fund's accounts.

South Tyneside Homes Limited buys services back from the Council and was charged £1.052m (£1.042m in 2010/11) in respect of support services provided – primarily legal, insurance and administrative buildings. Other support services including payroll and information technology are now delivered through a separate service level agreement with BT South Tyneside Limited. The Council paid a management fee of £13.511m (£14.443m in 2010/11) and £39.982m (£46.868m in 2010/11) for the provision of construction services and capital programme management.

Community associations in the borough received indirect financial support from the Council of £1.723m (£2.042m in 2010/11). 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 BT South Tyneside Limited on 1st 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 £13.257m (£13.156m in 2010/11) to BT South Tyneside Limited for the provision of the transferred services.

In order to simplify exit or early termination of the contract, the partnership agreement seeks to manage service delivery assets on the Council's Balance Sheet as far as possible. Therefore the agreement did not transfer Council assets that were used in the delivery of the transferred services prior to 1st October 2008 to BT South Tyneside Limited. The assets remain on the Council's Balance Sheet, with a licence for BT South Tyneside Limited to use the assets namely office accommodation, ICT equipment and service assets.

New assets acquired for the delivery or transformation of transferred services since 1st October 2008 are owned by the Council and reflected on the Council's Balance Sheet with purchase/borrowing costs being fully funded by BT South Tyneside Limited.

On 21st December 2007 the procurement of STaG's (South Tyneside and Gateshead Building Schools for the Future) private sector partner to deliver the £175m Building Schools for the Future and £21m ICT programme reached financial close. This created the unique public/private partnership, known as InspiredSpaces STaG Limited, between Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside

Council (5% shareholding). A copy of the accounts can be obtained by writing to Finance Director, InspiredSpaces STaG Limited, Units 12-14, Lumley Court, Drum Industrial Estate, Chester-le-Street, County Durham, DH2 1AN.

On 21st November 2007 Inspired Spaces STaG Limited set up Inspired Spaces STaG (Holdings 1) Limited to develop and build Jarrow School. The Council paid the company £0.107m in subordinated debt to be repaid over the lifetime of the PFI contract.

On 21st December 2009 Inspired Spaces STaG Limited set up Inspired Spaces STaG (Holdings 2) Limited to develop and build South Shields Community School. The Council paid £500 for a 50% equity in this company and £0.167m in subordinated debt to be repaid over the lifetime of the PFI contract.

The following tables show the related party amounts due to or from the Council as at 31st March 2012.

2010/11 £m	Amount due to the Council	2011/12 £m
8.309	Government bodies	7.750
3.480	NHS bodies	1.594
2.408	Tyne and Wear Pension Fund	1.612
1.406	South Tyneside Homes Limited	1.750
0.269	InspiredSpaces	0.267
15.872	**Total**	**12.973**

2010/11 £m	Amount due from the Council	2011/12 £m
(8.003)	Government bodies	(5.911)
(0.509)	NHS bodies	(2.103)
(4.588)	Tyne and Wear Pension Fund	(4.960)
(3.820)	South Tyneside Homes Limited	(8.140)
(0.414)	InspiredSpaces	(0.427)
(17.334)	**Total**	**(21.541)**

Note 41. Impairments and Revaluation 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 notes 12 and 15 which reconciles the movement over the year in the property, plant and equipment and intangible asset balances. Revaluation losses are also disclosed in the note.

During 2011/12 the Council has recognised impairments and revaluation losses of £72.424m in its dwellings (£131.688m in 2010/11). The majority of this decrease reflects decent homes expenditure incurred in year which, on the advice of our valuers, has not increased the value of the assets and changes to the approach on beacon valuations (see note 4).

Further impairments and revaluation losses of £25.072m have been recognised on other property, plant and equipment (£40.038m in 2010/11). This is also primarily due to new build or refurbishment capital costs incurred in year that have not led to an increase on revaluation.

The primary assets affected by this reduction in value are schools (education and children's services line) and offices (planning services line). Temple Park leisure centre has been revalued in year as the pool is to be demolished. This has also identified that the land on which the centre stands is subject to a number of restrictive covenants and together with the impairment of the pool significantly reduces its value. £5.674m has been charged to the cultural and related services line.

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

	2010/11 £m	2011/12 £m
Central services to the public	0.306	0.141
Cultural and related services	3.461	7.480
Environmental and regulatory services	0.198	0.427
Planning services	1.548	3.345
Education and children's services	21.735	12.412
Highways and transport services	0.074	0.334
Local authority housing (HRA) - impact of change in discount factor in impairment of non-current assets	100.238	-
Local authority housing (HRA) - other	39.515	72.424
Adult social care services	0.069	0.564
Corporate and democratic core	3.933	-
Non distributed cost - other	0.649	0.011
Total	**171.726**	**97.138**

Note 42. Contingent Liabilities

The creation of the ALMO on 1st 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 31st March 2012, the Actuary assessed the deficit at £32.520m (£20.310m in 2010/11). 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.

During 2011/12 a consortium of search providers launched a legal action against all local authorities who make local land charges to recover charges made over the previous six years. The legal action is based upon the original Central Government legislation which enabled the charging, being defective. No date has been set for any hearing and the Local Government Association is coordinating the action on behalf of the local authorities. As the action is based on issues with the original legislation, additional funding has been requested from Central Government to cover any potential costs. Given the early stage of the case and the uncertainty around the litigation, the Council has not recognised any liability in the statement of accounts.

Note 43. Contingent Assets

In 2008/09 the Council appointed consultants to pursue a claim with HMRC in relation to overpaid VAT. The Council was successful in recouping VAT for the period 1st January 1990 to 31st March 1994 in relation to sporting services supplied to individuals and for the period 1st April 1974 to 4th December 1996 in relation to excess parking and library charges. Whilst this claim has 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 (AG) suggested this case should be referred back to the High Court for further consideration. The AG's opinion precedes judgement of the full Court of Justice which has yet to be delivered. The Council have appointed solicitors who have issued a claim for the interest. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

The Council is one of four authorities in ongoing litigation over the VAT treatment of off street car parking charges. Following an unfavourable ruling in the European Courts, HMRC instructed the Council to repay VAT monies it had previously retained. The Council attended a hearing of the VAT Tribunal in May 2012 challenging that decision and await a final decision. If successful the Council stands to gain in excess of £2m plus interest. However there is a possibility that whatever the outcome an appeal will be lodged and for this reason no asset has been reflected in these accounts.

Following a policy review, HMRC have reclassified the provision of trade waste collection services to be a non-business activity. The Council now no longer charges VAT on trade waste collection and have submitted a claim for overpaid output tax of £0.360m for the previous four years. The Council may be successful in reclaiming output VAT however this will be subject to HMRC interpretation of the regulations surrounding refunds. Given the uncertainty, the Council has not incorporated any potential asset in its Balance Sheet.

A group of 23 local authorities brought a judicial review against the Secretary of State for Communities and Local Government in respect of the amount of the academies funding transfer for 2011/12 and the resulting reduction to local authority funding. The aim of the action was to reduce the amount of the academies funding transfer, as the claimants do not consider that it is a true reflection of the savings that the local authorities will make as a result of some central services now being provided by academies. South Tyneside Council legally joined the action in 2011/12. Council funding had reduced by £0.376m as a result of the academy transfer. A settlement offer has been made for 2011/12 and 2012/13 which the Council are considering. The judicial review is currently on hold while negotiations continue. As the legal action is still ongoing and final agreement has not been reached, no potential asset has been shown in the Balance Sheet.

Note 44. 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.

Section 4 – Notes to the Core Financial Statements

The Council's Treasury Management Strategy sets out the forecast economic environment and the factors which will effect 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 the treasury management function. 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 can be found on the South Tyneside website at the following reference:

http://www.southtyneside.info/applications/2/councillorsandcommittees/viewdocument.aspx?id=20058

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.
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 and to restrict lending to a prudent maximum amount for each institution.

Since 2008/09, the Council has restricted direct lending to UK financial institutions. In addition, investments are 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 31st March 2012 the Council limited direct deposits with institutions to a maximum of £15m and a limit of up to £10m is also applied to investments made into AAA rated money market funds. The Pension Fund has separate limits of £5m for direct deposits and £10m for AAA money market funds.

During 2011/12 two banks were removed from the lending list due to concerns over their credit quality. The Council has continually kept its lending list and credit rating criteria under review in consultation with its treasury management advisor.

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 past experience and current market conditions.
- Customers and other debtors based on past experience.

Credit risk of financial assets	Amount at 31st March 2012 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31st March 2012 %	Estimated maximum exposure to default and uncollectablility 31st March 2012 £m	Estimated maximum exposure to default and uncollectablility 31st March 2011 £m
	A	B	C	A x C	-
Deposits with banks and other financial institutions	19.512	0%	0%	-	-
Customers	17.462	3%	3%	0.524	0.746
Assisted vehicle purchase	0.116	0%	0%	-	-
Residential care fees	0.558	0%	0%	-	-
Equity sub debt	0.267	0%	0%	-	-
Housing advances (including council houses)	0.029	0%	0%	-	-
Airport loan notes	0.240	0%	0%	-	-
Finance lease	0.042	0%	0%	-	-
Government debtors	7.750	0%	0%	-	-
Total	**45.976**			**0.524**	**0.746**

At the end of March 2012 the Council restricted deposits with banks and other financial institutions to UK Institutions which are included on the treasury management advisors approved credit rating list at the date of investment. There has never been any default on the repayment of these deposits nor in relation to housing advances and airport loan notes.

The majority of the assisted vehicle scheme debt could be recovered from final staff salaries so represent negligible risk. Residential Care fees are generally secured against the client property.

Impairment

The Council has impaired its financial assets by a total of £1.204m during 2011/12 (£1.594m in 2010/11) 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, housing benefits overpaid and Council Tax have all been separately reviewed.
- For sundry debtors raised at 31st March but not yet paid, an impairment review has been made both against individual or client balances and then for debt type. There has been impairment of accrued debt for the Primary Care Trust.
- 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 in the case of Council Tax whether legal proceedings have been initiated.

Collateral

The only form of collateral for any of the reported financial asset relates to the residential care fees where there is a charge against clients' property.

The Council does not generally allow credit for customers and as such, £15.875m of the £17.462m customer balance is past its due date for payment. The past due amount can be analysed by age as follows:

Credit risk of past due Financial Assets	Customers 31st March 2011 £m	Customers 31st March 2012 £m
Less than three months	15.446	11.108
Three to six months	2.416	2.243
Six months to one year	1.143	1.113
More than one year	1.277	1.411
Total	**20.282**	**15.875**

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 money 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.

The maturity structure of financial liabilities is as follows:

31st March 2011 £m	Loans outstanding	31st March 2012 £m
(334.453)	Public Works Loans Board	(460.968)
(10.331)	Market debt	(10.331)
(55.276)	PFI liabilities	(75.211)
(50.014)	Creditors	(48.731)
(7.388)	Finance lease and other liabilities	(5.850)
(457.462)	**Total**	**(601.091)**
(85.566)	Less than 1 year	(63.939)
(8.089)	Between 1 and 2 years	(24.841)
(68.752)	Between 2 and 5 years	(66.783)
(101.102)	Between 5 and 10 years	(114.906)
(193.953)	More than 10 years	(330.622)
(457.462)	**Total**	**(601.091)**

£2.140m of the finance lease and other liabilities reported above is reflected in the Balance Sheet as part of short term creditors (£2.988m in 2010/11).

Market debt comprises of Lending Option Borrowing Option (LOBO) loans of which £5m will be subject to a review of interest in the next 12 months. As current interest rates are below the existing rates on these loans, the lender is unlikely to seek to revise the rates, in which case the option to pay off the loan early will not arise. Therefore all of the LOBO loans have been shown in the maturity analysis as being held to full maturity.

All debtors are due to be paid in less than one year.

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/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 credited to the Comprehensive Income and Expenditure Statement.

- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Comprehensive Income and Expenditure Statement.

- 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.

The Council has a number of strategies for managing interest rate risk. Our treasury management policy for 2011/12 set a maximum of 40% of borrowings in variable rate loans to reduce risk from variable rates. 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 or the Council's cost of borrowing 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 31st March 2012, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the following table:

2010/11 £m	Interest Rate Risk	2011/12 £m
0.250	Increase in interest payable on variable rate borrowings	0.300
(0.308)	Increase in interest receivable on variable rate investments	(1.034)
(0.025)	Increase in Government grant receivable for financing costs	(0.030)
(0.083)	**Impact on Comprehensive Income and Expenditure Statement**	**(0.764)**
0.076	**Share of overall impact on the HRA Statement**	**0.029**
(0.084)	Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement)	-
(24.840)	Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement)	(4.119)

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 £0.425m in Newcastle Airport (£0.425m in 2010/11). 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. The £0.425m shares are classified as ‘available for sale’, meaning that all movements in price will impact on gains and losses recognised in other comprehensive income and expenditure.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

Note 45. Trust Funds

The Council acts as sole trustee for legacies left by residents of the borough, the value of which at 31st March 2012 was £0.654m (£0.672m on 31st March 2011).

The largest of these legacies is the Westoe Trust that has investments worth £0.353m as at 31st March 2012 (£0.354m on 31st March 2011). As agreed with the Charity Commission, the income generated from this trust's investments 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.

	Balance 1st April 2011	Amount Received During Year	Amount Applied During Year	Balance 31st March 2012
	£m	£m	£m	£m
Westoe Trust	(0.354)	(0.004)	0.005	(0.353)
Marine Park Trust	(0.168)	(0.002)	-	(0.170)
Other Trust Funds	(0.150)	(0.012)	0.030	(0.132)
Total Balances	**(0.672)**	**(0.018)**	**0.035**	**(0.655)**

Trust Fund assets are invested in the Council's Consolidated Loans Pool and Government Stock. The following table shows the split of these assets:

	Government Stock Investments	Invested in Council Funds	Total
	£m	£m	£m
Westoe Trust	-	0.353	0.353
Marine Park Trust	-	0.170	0.170
Other Trust Funds	0.025	0.107	0.132
Total as at 31st March 2012	**0.025**	**0.630**	**0.655**

There were no outstanding liabilities on the Trusts at the Balance Sheet date.

The equivalent balances at 31st March 2011 are as follows:

	Balance 1st April 2010	Amount Received During Year	Amount Applied During Year	Balance 31st March 2011
	£m	£m	£m	£m
Westoe Trust	(0.356)	(0.005)	0.007	(0.354)
Marine Park Trust	(0.186)	(0.018)	0.036	(0.168)
Other Trust Funds	(0.180)	(0.030)	0.060	(0.150)
Total balances	**(0.722)**	**(0.053)**	**0.103**	**(0.672)**

	Government Stock Investments	Invested in Council Funds	Total
	£m	£m	£m
Westoe Trust	-	0.354	0.354
Marine Park Trust	-	0.168	0.168
Other Trust Funds	0.025	0.125	0.150
Total as at 31st March 2011	**0.025**	**0.647**	**0.672**

Note 46. Pension Schemes Accounted for as Defined Contribution

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers 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 scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses 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 the scheme with sufficient reliability for accounting purposes as Central Government do not release the figures. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme i.e. pension costs are payable as they arise.

In 2011/12, the Council paid £6.675m to Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 14.15% of pensionable pay (£7.124m and 13.83% respectively in 2010/11). There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 47.

Note 47. Defined Benefit Pension Schemes

South Tyneside Council non-teaching 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.

On 1st 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 British Telecom 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. As a result 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 2011/12, the Council made direct payments to the Pension 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 2011/12 was estimated by the actuary to be £2.953m (£2.310m in 2010/11). This figure and the 2010/11 figure are both significantly higher than previous years as a result of the major early retirement and voluntary redundancy programme the Council undertook in both years.

The outstanding liability of the Council for the pension scheme stands at £320.420m at 31st March 2012 (£238.290m in 2010/11). This has decreased the reported total net assets of the Council by £82.130m in the year. Statutory agreements for funding this deficit mean that the financial position of the Council remains healthy. 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.

Participation in 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.

Section 4 – Notes to the Core Financial Statements

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by South Tyneside Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- 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.

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. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year.

(a) Local Government Pension Scheme funded benefits

Introduction

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 South Tyneside Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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

Following the UK Government's announcement on 22nd June 2010, the inflation index used to derive statutory pension increases was changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). CPI is expected to be less than RPI over the long term, which means that the defined benefit obligation reduced. The change was reported on a separate line on the Comprehensive Income and Expenditure Statement. This explains the movement from a (£71.86m) negative cost in 2010/11 to a past service cost of £0.92m in 2011/12.

In accordance with the Code, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

The Employer's regular contributions to the Fund for the accounting period 31st March 2012 are estimated at £19.64m (£19.93m for 31st March 2011). In addition, Strain on the fund contributions may be required.

Sensitivity of the results to key assumptions

The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £63.82m.

However, the assumptions interact in complex ways. During 2011/12, the Council's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £4.53m as a result of estimates being corrected as a result of experience and increased by £52.94m attributable to updating of the assumptions.

The main financial assumptions adopted as at 31st March 2012

The latest actuarial valuation of South Tyneside Council's liabilities took place as at 31st March 2011 with the roll forward method being used for liabilities as at 31st March 2012. 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:

	31st March 2012 % per annum	31st March 2011 % per annum	31st March 2010 % per annum
Discount rate	4.70	5.40	5.50
Inflation rate	2.50	2.80	3.90
Rate of increase to pensions in payment	2.50	2.80	3.90
Rate of increase to deferred pensions	2.50	2.80	3.90
Rate of general increase in salaries	5.00	5.20	5.40

The main demographic assumptions adopted as at 31st March 2012

The table below shows the principal assumptions in retirement mortality rates, which have been based on the recent actual mortality experience of members within the Fund and allowing for expected mortality improvements:

Post retirement mortality	**31st March 2012**	**31st March 2011**
Males		
Future lifetime from age 65 (currently aged 65)	21.6	21.5
Future lifetime from age 65 (currently aged 45)	23.4	23.3
Females		
Future lifetime from age 65 (currently aged 65)	23.8	23.7
Future lifetime from age 65 (currently aged 45)	25.7	25.6

Fund Assets and Expected Rate of Return (for the Fund as a whole)

South Tyneside Council 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 set out in the following table. 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 31st March 2012.

The approximate split of assets for the Fund as a whole (based on data supplied by South Tyneside Council as the administering authority) is shown in the following table, which reconciles the funded status of assets and liabilities to the Balance Sheet. Also shown are the assumed rates of return adopted by the employer for the purposes of IAS 19:

Section 4 – Notes to the Core Financial Statements

	Long-term expected rate of return at 31st March 2012 (% per annum)	Asset split at 31st March 2012 (%)	Long-term expected rate of return at 31st March 2011 (% per annum)	Asset split at 31st March 2011 (%)	Long-term expected rate of return at 31st March 2010 (% per annum)	Asset split at 31st March 2010 (%)
Equities	8.1%	68.5%	8.4%	68.0%	8.0%	67.8%
Property	7.6%	9.2%	7.9%	8.1%	8.5%	7.4%
Government Bonds	3.1%	7.1%	4.4%	7.0%	4.5%	9.3%
Corporate Bonds	3.7%	11.6%	5.1%	11.7%	5.5%	11.4%
Cash	1.8%	1.9%	1.5%	1.2%	0.7%	1.3%
Other Investments	8.1%	1.7%	8.4%	4.0%	8.0%	2.8%
Total	**7.1%**	**100.0%**	**7.6%**	**100.0%**	**7.3%**	**100.0%**

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

	31st March 2012 £m	31st March 2011 £m	31st March 2010 £m
Fair value of assets	444.750	436.590	399.880
Present value of liabilities	(734.710)	(645.950)	(671.210)
Net pension liability	**(289.960)**	**(209.360)**	**(271.330)**

The full cost of retirement benefits for both current and past service employment and any gains or losses on curtailments or settlements has replaced actual amounts paid to the Fund. The following table shows the current and past service costs included in the net cost of services within the Comprehensive Income and Expenditure Statement:

2010/11 £m		2011/12 £m
16.130	Current service cost	14.360
(71.860)	Past service cost	0.920
33.930	Interest on pension scheme liabilities	34.790
(29.250)	Expected return on fund assets	(33.010)
(1.610)	Curtailment cost	-
(52.660)	**(Income)/expense recognised**	**17.060**

The past service cost shown in 2010/11 includes the change from RPI to CPI.

The following tables explain 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 4 – Notes to the Core Financial Statements

Changes to the present value of defined benefit obligation liabilities during the accounting period

2010/11 £m		2011/12 £m
(671.210)	**Opening present value of liabilities**	**(645.950)**
(16.130)	Current service cost	(14.360)
(33.930)	Interest on pension scheme liabilities	(34.790)
(7.420)	Contributions by participants	(5.660)
(12.330)	Actuarial losses on liabilities	(57.470)
21.600	Net benefits paid out	24.440
71.860	Past service cost	(0.920)
1.610	Curtailments	-
(645.950)	**Closing present value of liabilities**	**(734.710)**

Changes to the fair value of assets during the accounting period

2010/11 £m		2011/12 £m
399.880	**Opening fair value of assets**	**436.590**
29.250	Expected return on assets	33.010
1.720	Actuarial losses on assets	(25.710)
19.920	Contributions by the employer	19.640
7.420	Contributions by participants	5.660
(21.600)	Net benefits paid out	(24.440)
436.590	**Closing fair value of assets**	**444.750**

Actual return on assets

2010/11 £m		2011/12 £m
29.250	Expected return on assets	33.010
1.720	Actuarial gain/(loss) on assets	(25.710)
30.970	**Actual return on assets**	**7.300**

Analysis of amount recognised in Other Comprehensive Income and Expenditure

2010/11 £m		2011/12 £m
(10.610)	Total actuarial losses	(83.180)
(10.610)	**Total loss in Other Comprehensive Expenditure**	**(83.180)**

History of asset values, present value of liabilities and (surplus)/deficit

2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m		2011/12 £m
(343.920)	(286.560)	(399.880)	(436.590)	Fair value of assets	(444.750)
448.500	488.890	671.210	645.950	Present value of liabilities	734.710
104.580	**202.330**	**271.330**	**209.360**	**Deficit**	**289.960**

The assets for the current period and the previous two periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2008 and 2009 have been re-measured for this purpose.

History of experience gains and losses

2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m		2011/12 £m
(36.230)	(87.700)	89.560	1.720	Experience (losses)/gains on assets	(25.710)
10.5%	-30.6%	22.4%	0.4%	Percentage of scheme assets	-5.8%
(0.920)	(2.180)	6.420	(13.080)	Experience (losses)/gains on liabilities	(4.530)
0.2%	-0.4%	1.0%	-2.0%	Percentage of the present value of liabilities	-0.6%

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

The disclosures below relate to unfunded pension arrangements established by the Council. These are termination benefits made on a discretionary basis upon early retirement.

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

The note in Section (a) regarding the use of CPI instead of RPI also applies to unfunded benefits. Similar disclosures to those in section (a) are also required for unfunded benefits.

In the accounting period ending 31st March 2013 the Employer expects to pay £2.21m directly to beneficiaries (£2.26m estimated for 31st March 2012).

The latest actuarial valuation of unfunded LGPS benefits took place as at 31st March 2011. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS 19 purposes were as follows:

The main financial assumptions adopted as at 31st March 2012

	31st March 2012 % per annum	31st March 2011 % per annum	31st March 2010 % per annum
Discount rate	4.60	5.50	5.50
Inflation rate	2.40	2.70	3.80
Rate of increase to pensions in payment	2.40	2.70	3.80

Section 4 – Notes to the Core Financial Statements

The main demographic assumptions adopted as at 31st March 2012

The table below shows the principal assumptions in retirement mortality rates:

Post retirement mortality	31st March 2012	31st March 2011
Males		
Future lifetime from age 65 (currently aged 65)	21.6	21.5
Future lifetime from age 65 (currently aged 45)	23.4	23.3
Females		
Future lifetime from age 65 (currently aged 65)	23.8	23.7
Future lifetime from age 65 (currently aged 45)	25.7	25.6

The following table reconciles the liabilities to the Balance Sheet:

	31st March 2012 £m	31st March 2011 £m	31st March 2010 £m
Present value of liabilities	(30.460)	(28.930)	(31.450)
Net pension liability	**(30.460)**	**(28.930)**	**(31.450)**

The full cost of retirement benefits for both current and past service employment and any gains or losses on curtailments or settlements has replaced actual amounts paid to the Fund. The following table shows the expense recognised in the Comprehensive Income and Expenditure Statement:

2010/11 £m		2011/12 £m
(2.590)	Past service cost	-
1.560	Interest on pension scheme liabilities	1.530
4.370	Strain on fund deferred payment	3.130
3.340	**Expense recognised**	**4.660**

The following tables explain 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.

Changes to the present value of liabilities during the accounting period

2010/11 £m		2011/12 £m
(31.450)	**Opening present value of liabilities**	**(28.930)**
(1.560)	Interest on Pension Scheme Liabilities	(1.530)
(0.700)	Actuarial losses on liabilities	(2.210)
2.190	Net benefits paid out	2.210
2.590	Past service cost	-
(28.930)	**Closing present value of liabilities**	**(30.460)**

Section 4 – Notes to the Core Financial Statements

Analysis of amount recognised in Other Comprehensive Income and Expenditure

2010/11 £m		2011/12 £m
(0.700)	Total actuarial losses	(2.210)
(0.700)	**Total loss in Other Comprehensive Expenditure**	**(2.210)**

History of asset values, present value of liabilities and (surplus)/deficit

2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m		2011/12 £m
28.440	29.140	31.450	28.930	Present value of liabilities	30.460
28.440	**29.140**	**31.450**	**28.930**	**Deficit**	**30.460**

History of experience gains and losses

2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m		2011/12 £m
(1.770)	(0.350)	0.970	0.030	Experience (losses)/gains on liabilities	(0.690)
-6.2%	-1.2%	3.1%	0.1%	Percentage of the present value of liabilities	-2.3%

Note 48. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31st March 2012. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the Code') and the *Service Reporting Code of Practice 2010/11*, 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 certain categories of non-current assets and financial instruments.

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.
- 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/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 31st 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. 2011/12 was a 48-week rent year. The average weekly rent receipt for 2011/12 was £1.219m over 52 weeks (£1.128m in 2010/11).

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 in 3 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. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance. A previous example of such material expenditure is the impact of changing the discount factor applied to the valuation of Council dwellings.

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

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.

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.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. 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.

The Council is not required to raise council tax to fund depreciation, impairments, amortisations or revaluation losses. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. The Council has adopted the following policy:

- 4% of the opening capital financing requirement (nil for the HRA) where this debt is subject to support from the Government via Revenue Support Grant or Housing Subsidy.
- To repay unsupported borrowing in line with the estimated useful life of the asset being acquired or enhanced.
- To repay unsupported borrowing over 20 years where an estimated useful life cannot be established i.e. revenue expenditure funded from capital under statute.
- To repay finance lease and other long-term liabilities such as PFI in line with the principal repayment of that liability made in year.
- To defer repayment of MRP until assets under construction are brought into use.

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.

7. Employee Benefits

7a) 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 following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or 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.

7b) 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 is demonstrably committed to the termination of the employment or making an offer to encourage voluntary redundancy.

Where the Council is committed to a programme of redundancy for a future year and the value can be reliably estimated, then a provision will be made for this cost.

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.

7c) Post Employment Benefits

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

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

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted

for as if it 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.

7d) 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 4.7% for funded and 4.6% for unfunded (based on the indicative rate of return on AA corporate bond yield or from yields on Government bonds).

Section 4 – Notes to the Core Financial Statements

- 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
  - unitised securities – current bid price
  - property – market value.

- The change in the net pensions liability is analysed into seven components:
  - 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 the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs. Significant redundancy programmes during a financial year would impact on curtailments.
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited or credited to 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 British Telecom South Tyneside Limited on behalf of staff transferring to that organisation.

In relation to retirement benefits, statutory provisions require the General Fund balance 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. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement 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. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as employees earn benefits.

7e) 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.

8. 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.

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

9. Financial instruments

9a) 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. 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable, up to a maximum of 10 years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

9b) Financial Assets

Financial assets are classified into two types:

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

9c) 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. 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 loans have been made at less than market rates (soft loans) a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

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 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.

9d) 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/loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets. The exception is where impairment losses have been incurred – these are debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the available-for-sale reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

10. 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 creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue 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. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. 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. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at cost less amortisation. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) 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 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 and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

12. 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 the 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
- Tyne and Wear Archives (based at the Discovery Museum)

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:

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

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.

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 zero 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.

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.

13. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require 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:

(a) Value Added Tax

VAT paid by other group entities is accounted for in the Group Comprehensive Income and Expenditure Statement to the extent that it is irrecoverable from HM Revenue and Customs.

(b) Other Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the Balance Sheet date.

(c) 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 initially reflected in the Group Income and Expenditure Reserve. However, a transfer is made from the Revaluation Reserve to the Group Income and Expenditure Reserve for the difference between depreciation charged on the current value of non-current assets held by South Tyneside Homes.

14. 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 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 £50,000.

15. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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. However, revaluation and disposal 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 and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

16. Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers 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.

17. 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.

17a) 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. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation, impairments or revaluation losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue 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.

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).

17b) The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

18. 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 the *CIPFA Service Reporting Code of Practice 2011/12 (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 impairments and revaluation losses chargeable on assets held for sale.

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.

Section 4 – Notes to the Core Financial Statements

19. 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.

19a) 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 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 de minimis 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.

19b) Measurement

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 cash flows 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.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Assets under construction – historical cost.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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 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 accounted for as revaluation losses and accounted for in the same way as impairment.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

19c) 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. 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 line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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.

19d) 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 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).
Deprecation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer. The useful life of dwellings and other buildings is generally between 9 and 80 years, however there are a small number of older buildings within the Borough with significantly longer lives e.g. South Shields Town Hall.
- Vehicles, plant, furniture and equipment - straight-line allocation over 3 to 7 years being the estimated remaining useful economic life.
- Community Assets – straight-line allocation over 20 years.
- Infrastructure – straight-line allocation over 40 years (100 years for coastal protection).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item and the useful economic life (UEL) 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 4 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 de minimis levels for componentisation:

- General Fund Assets – components are recognised on General Fund Assets when the property is revalued. If the capital expenditure on a component in the year reaches £75,000, components are recognised at this point and the relevant component derecognised. 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 on dwellings when the property is revalued. Where expenditure on the components is less than £8,800 and no components exist on this asset, this spend is added to the structure. Where the expenditure is over £8,800 components are recognised at cost value.

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.

19e) Disposals of Non-current Assets

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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 (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. 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.

20. 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.

- For Boldon School, the liability was written down by an initial capital contribution of £7.2m
- For Street Lighting, the liability was written down by an initial capital contribution of £2.8m
- For Jarrow School, the liability was not written down by any initial capital contribution.
- For South Shields Community School the liability was not written down by any additional capital contribution.

Non-current assets recognised on the Balance Sheet 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 of 13.5% for Boldon School, 6.5% for Street Lighting, 9.4% for Jarrow School and 12.4% for South Shields Community School on the outstanding Balance Sheet liability, 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.

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 required (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 where it is probable that there will be an inflow of economic benefits or service potential.

Section 4 – Notes to the Core Financial Statements

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 to score against the Surplus or 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.

24. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Section 5 – Housing Revenue Account Income and Expenditure Statement

The Local Government and Housing Act 1989 (Section 74) requires local housing authorities to keep, in accordance with proper practices, a statement called the Housing Revenue Account. This statement records the income and expenditure transactions relating to the provision of housing by the Council. Items to be included in the accounts are defined by the 1989 Act.

2010/11 £m		Note	2011/12 £m
	Expenditure		
13.422	Repairs and maintenance		12.556
16.150	Supervision and management		17.108
1.252	Rents, rates, taxes and other charges		1.472
9.284	Negative HRA subsidy payable	2	2.395
13.170	Depreciation of non-current assets	3	14.188
139.754	Revaluation losses and impairments on property, plant and equipment	3	72.066
0.075	Amortisation of intangible assets	3	0.075
0.086	Debt management costs	3	0.087
-	Housing subsidy debt payment	3	60.818
0.193	Movement in the allowance for bad debts		0.477
0.936	Sums directed by the Secretary of State that are expenditure in accordance with the Code	3	0.581
194.322	**Total expenditure**		**181.823**
	Income		
(50.259)	Dwelling rents		(54.007)
(0.954)	Non-dwelling rents		(0.948)
(2.658)	Charges for services and facilities		(2.684)
(1.122)	Contributions towards expenditure		(0.751)
(54.993)	**Total income**		**(58.390)**
139.329	**Net Cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**123.433**
0.265	HRA services' share of corporate and democratic core		0.386
0.650	HRA share of other amounts included in the Council's cost of services but not allocated to specific services		0.556
140.244	**Net (income) or expenditure for HRA services**		**124.375**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
1.928	Loss on sale of HRA current and non-current assets		3.566
7.446	Interest and investment expenditure	3	8.966
(0.141)	Interest and investment income	3	(0.122)
(2.740)	Taxation and non specific grant income		(1.644)
146.737	**Deficit for the year on HRA services**		**135.141**
(147.801)	Adjustments between accounting basis and funding basis under statute	1	(136.106)
(1.064)	**Increase in year on the HRA**		**(0.965)**
(9.524)	**Balance on the HRA at the end of the previous year**		**(10.588)**
(10.588)	**Balance on the HRA at the end of the current year**		**(11.553)**

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.

2010/11 £m		2011/12 £m
	Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year	
(0.075)	Amortisation of intangible assets	(0.075)
(0.158)	Impairment of non-current assets	(8.817)
(139.596)	Revaluation losses on property, plant and equipment	(63.249)
-	Housing subsidy debt payment	(60.818)
(13.170)	Depreciation of non-current assets	(14.188)
2.740	Capital grants applied	1.644
(0.936)	Revenue expenditure funded from capital under statute	(0.581)
(0.077)	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	(0.082)
0.078	Capital receipts not related to sale of a fixed asset	0.081
(4.476)	Amounts of non-current assets written off on sale or disposal	(11.943)
2.552	Cash sale proceeds from the sale or disposal of non-current assets	8.389
(0.004)	Contribution towards administrative costs of disposal of non-current assets	(0.012)
(0.017)	Net charges made for retirement benefits in accordance with IAS 19	(0.018)
(153.139)		**(149.669)**
	Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year	
3.928	Excess depreciation charged to the HRA services above the major repairs allowance	11.904
1.377	Housing revenue contribution to capital	1.628
0.015	Employer's contributions payable to the Tyne and Wear Pension Fund	0.012
0.018	Voluntary set aside for debt repayment	0.019
5.338		**13.563**
(147.801)	**Net additional amount required by statute to be credited to the HRA balance for the year**	**(136.106)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 2. Housing Revenue Account Subsidy

Subsidy is based on a 'notional' Housing Revenue Account constructed in accordance with determinations made by the Secretary of State. Subsidy is paid on any 'deficit' shown on the notional account and is received for any 'surplus' shown on the notional account. In preparation of the final accounts the following estimate of Housing Subsidy entitlement for 2011/12 has been used:

Actual entitlement 2010/11 £m		Estimated entitlement 2011/12 £m
	Subsidy allowances for expenditure items	
(10.692)	Management allowance	(10.712)
(19.790)	Maintenance allowance	(19.690)
(3.928)	Major repairs allowance	(11.904)
(8.737)	Charges for capital	(10.405)
(43.147)	**Total subsidy allowance expenditure items**	**(52.711)**
	Subsidy withdrawn for income items	
52.423	Rent income	55.239
0.003	Interest on receipts	0.001
52.426	**Total subsidy withdrawn income items**	**55.240**
9.279	**Net subsidy**	**2.529**
-	Prior year adjustment	(0.134)
9.279	**Negative subsidy payable to the Secretary of State**	**2.395**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 3. 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 2011/12. It is made up of a number of components that are recorded in different sections of the Housing Revenue Account.

	£m	Reference to main statements
Credit items		
Interest adjustments		
Mortgage interest	(0.001)	Operating income and expenditure - interest and investment income
Interest on cash balances	(0.121)	Operating income and expenditure - interest and investment income
Total interest adjustments	**(0.122)**	
Transfer to the major repairs reserve		
Excess depreciation charged to HRA services above the major repairs allowance	(11.904)	Adjustments between accounting basis and funding basis under statute
Total major repairs reserve	**(11.904)**	
Total item 8 credit	**(12.026)**	
Debit items		
Capital asset charges		
Revaluation losses	63.249	Net cost of services - revaluation losses and impairment on property, plant and equipment
Impairment charges	8.817	Net cost of services - revaluation losses and impairment on property, plant and equipment
Revenue expenditure funded by capital under statute	0.581	Net cost of services - revenue expenditure funded by capital under statute
Amortisation of intangible assets	0.075	Net cost of services - amortisation of intangible assets
Total capital charges	**9.473**	
Depreciation charges		
Dwellings	11.096	Net cost of services - depreciation of non-current assets
Other assets	1.497	Net cost of services - depreciation of non-current assets
Total depreciation charges	**12.593**	
Debt repayment and management costs		
Debt management expenses	0.087	Net cost of services - debt management costs
Total debt repayment and management	**0.087**	
Capital asset charges accounting adjustment		
Capital asset charges are reversed so they do not impact on tenant's rents. The adjustment is calculated thus:		
Interest payable on capital financing requirement	8.966	Operating income and expenditure - interest and investment expenditure
Removal of premiums and discounts amortised	(0.082)	Adjustments between accounting basis and funding basis under regulations
Removal of capital asset charges	(9.473)	Adjustments between accounting basis and funding basis under regulations
Total adjustments	**(0.589)**	
Total item 8 debit	**21.564**	

Note 4. HRA Share of Contributions to the Pension Reserve

An apportionment has been made to reflect IAS 19 liability for current pension costs. This has been included in the net cost of services for the HRA under supervision and management costs. Income of £0.012m (£0.015m in 2010/11) has been reversed out in the adjustments between accounting basis and funding basis under regulations so that there is no impact on Council rents.

The HRA is also charged a share of the Council's backdated lump sum pension costs. The contribution in 2011/12 was £0.556m (£0.650m in 2010/11).

Note 5. Rent Income

Rents were increased with effect from Monday 2nd April 2011 by 8.3% to achieve an average actual rent of £63.41 on a 48-week collection. Individual dwelling rents were set based on the Government's rent restructuring formula, which will be fully implemented by 2015/16.

Section 5 – Housing Revenue Account Income and Expenditure Statement

Net income due for the year from all tenanted properties, excluding that with respect to water and sewerage charges, is shown in the account. During the year, rent loss due to empty properties was £1.378m, 1.98% of the total net rent collectable for Housing Revenue Account dwellings (£1.004m and 1.55% in 2010/11).

Note 6. Formation of South Tyneside Homes Limited

The Council set up a wholly owned Arms Length Management Organisation (ALMO) called South Tyneside Homes Limited from 1st April 2006. Approval was received from the Secretary of State under Section 27 of the Housing Act 1985 to delegate housing management functions to the company. The management agreement between the Council and South Tyneside Homes Limited took effect from 1st April 2006. Formation of the company has given access to significant investment support through the Government's decent homes programme.

In 2008/09 the Council received a revised approval from the Government allocating an additional £167m funding from 2008 to 2013, following notification from the Audit Commission that South Tyneside Homes Limited had been rated as a two star service. In January 2011 the company (on behalf of the Council) was required to rebid for the decent homes funding for the period 2011/12 to 2014/15, the outcome of which was not related to any ratings of the company. In March 2011 the Council was re-allocated £71.2m over the 4 years, which equated to a reduction of £15.5m over this period but represented the 6th highest allocation throughout the country. £19.2m funding was received in 2011/12 and £17.0m is confirmed for 2012/13 in the form of a grant. Indicative funding for the remaining 2 years is expected to be in the region of £35m.

During 2011/12 South Tyneside Council paid South Tyneside Homes Limited a total management fee of £13.511m (£14.443m in 2010/11). This included £10.997m (£10.912m in 2010/11) for management of the housing stock and £2.352m (£3.531m in 2010/11) for management of the capital and repairs programme.

Under the housing management function, South Tyneside Homes Limited manages the collection of rents and charges for facilities of £57.639m in 2011/12 (£53.871m in 2010/11), the repairs and maintenance of the homes of £12.556m in 2011/12 (£13.422m in 2010/11) and the delivery of the capital programme of £36.712m in 2011/12 (£43.097m in 2010/11).

The accounts for South Tyneside Homes Limited are not included within the Housing Revenue Account Income and Expenditure Statement.

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 7. Housing Stock

The Council was responsible for managing an average of 18,111 dwellings and sheltered units during 2011/12. The variations during the year were:

	2011/12
Opening balance	
Dwellings	16,912
Sheltered units	1,239
Shared ownership	4
Non HRA services	8
Opening balance as at 1st April 2011	**18,163**
Reductions	
Right to Buys	(30)
Demolitions	(102)
Conversions	-
	(132)
Additions	
Reinstated	3
New build bungalows	24
	27
Net reduction in stock	**(105)**
Closing balance	
Dwellings	16,797
Sheltered units	1,249
Shared ownership	4
Non HRA services	8
Closing balance as at 31st March 2012	**18,058**
Houses	10,606
Bungalows	2,823
Flats and maisonettes	4,629
Total housing stock as at 31st March 2012	**18,058**

Note 8. Movement of Property, Plant, Equipment and Intangible Assets

Property, Plant and Equipment

The following table shows the movement of property, plant and equipment held by the Housing Revenue Account.

Cost or valuation	Council dwellings £m	Other land and buildings £m	Vehicles, plant and equipment £m	Infrastructure assets £m	Surplus assets £m	Assets under construction £m	Total property, plant and equipment £m
At 1st April 2011	**569.337**	**44.714**	**13.223**	**0.385**	**11.842**	**0.553**	**640.054**
Additions	27.131	8.586	0.070	0.824	-	-	**36.611**
Revaluation to revaluation reserve	(11.557)	(1.505)	-	-	0.193	-	**(12.869)**
Revaluation to HRA Income and Expenditure Statement	(59.646)	(3.603)	-	-	-	-	**(63.249)**
Sales	(0.959)	(0.078)	-	-	(8.632)	-	**(9.669)**
Demolitions	(2.665)	-	-	-	-	-	**(2.665)**
Reclassification of assets	0.256	0.290	-	0.007	(0.500)	(0.553)	**(0.500)**
At 31st March 2012	**521.897**	**48.404**	**13.293**	**1.216**	**2.903**	**-**	**587.713**
Depreciation and impairments							
At 1st April 2011	(43.657)	(5.546)	(12.839)	(0.010)	-	-	**(62.052)**
Depreciation to HRA Income and Expenditure Statement	(12.691)	(1.218)	(0.249)	(0.031)	-	-	**(14.189)**
Depreciation to revaluation reserve	32.670	3.090	-	-	-	-	**35.760**
Impairment to HRA Income and Expenditure Statement	(7.839)	(0.977)	-	-	-	-	**(8.816)**
Sales and demolitions	0.389	0.002	-	-	-	-	**0.391**
Reclassification of assets	0.009	(0.009)	-	-	-	-	**-**
At 31st March 2012	**(31.119)**	**(4.658)**	**(13.088)**	**(0.041)**	**-**	**-**	**(48.906)**
Net book value at 31st March 2011	**525.680**	**39.168**	**0.384**	**0.375**	**11.842**	**0.553**	**578.002**
Net book value at 31st March 2012	**490.778**	**43.746**	**0.205**	**1.175**	**2.903**	**-**	**538.807**

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.

A proportion of dwellings have been revalued as at 1st April 2011 utilising selected beacon properties. Guidance issued by the Government in 2011/12 recommended that a downward adjustment factor of 63% be applied to vacant possession values to arrive at the existing use social housing values (63% in 2010/11). Capital expenditure incurred in year on dwellings valued at 1st April 2011 has been recognised as a revaluation loss on the recommendation of the valuers.

Intangible Assets

The Housing Revenue Account also holds some intangible assets in the form of computer software. In 2011/12, no spend was added to these assets and their net book value at 31st March 2012 stood at £0.075m (£0.150m in 2010/11).

Note 9. 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.

Section 5 – Housing Revenue Account Income and Expenditure Statement

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 1st April the following values apply:

	1st April 2010 £m	1st April 2011 £m
Vacant possession value	1,420.757	1,364.254
Existing use social housing value	(525.680)	(490.778)
Economic cost to the Government	**895.077**	**873.476**

Note 10. Depreciation and Impairment

Due to the increase in average values because of house price inflation in recent years, depreciation based on the major repairs allowance is less than that calculated by depreciating individual dwellings on a straight line basis over their estimated useful lives. The higher value for depreciation has therefore been included in the statement below:

	Council dwellings £m	Other land and buildings £m	Vehicles, plant and equipment £m	Infrastructure assets £m	Total property, plant and equipment £m
Balance at 1st April 2011	**(43.657)**	**(5.546)**	**(12.839)**	**(0.010)**	**(62.052)**
Charges in year - depreciation	(12.691)	(1.218)	(0.249)	(0.031)	(14.189)
Charges in year - impairment	(7.839)	(0.977)	-	-	(8.816)
Charges written out - depreciation	33.068	3.083	-	-	36.151
Balance at 31st March 2012	**(31.119)**	**(4.658)**	**(13.088)**	**(0.041)**	**(48.906)**

Type of asset	**Basis of depreciation**
Existing use value social housing dwellings	Useful life for dwellings - straight line depreciation
Existing use value other property	40 Year Life - straight line depreciation
Vehicles, Plant and Equipment	5 Year Life - straight line depreciation

Note 11. Major Repairs Reserve

The movement in the major repairs reserve is as follows:

2010/11 £m	Major Repairs Reserve	2011/12 £m
(5.325)	**Balance at 1st April**	**(1.917)**
(3.928)	Excess depreciation charged to HRA services above Major Repairs Allowance	(11.904)
7.336	Use of Major Repairs Reserve to finance capital expenditure	12.769
(1.917)	**Balance at 31st March**	**(1.052)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 12. Housing Capital Expenditure Summary

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

Spending 2010/11 £m		Spending 2011/12 £m
	Expenditure	
33.985	Dwellings	27.131
8.176	Other Property, Plant and Equipment	9.480
0.936	Revenue expenditure funded from capital under statute	0.581
43.097	**Total spending**	**37.192**

Funding 2010/11 £m		Funding 2011/12 £m
	Funding source	
(7.336)	Major Repairs Reserve	(12.769)
(31.831)	Borrowing	(20.672)
(0.001)	Capital receipts	(0.479)
(1.213)	Revenue contributions	(1.628)
(2.716)	Grants and other external income	(1.644)
(43.097)	**Total funding**	**(37.192)**

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

Note 13. Capital Receipts Summary

Capital receipts generated by the HRA came from the following sources:

2010/11 £m		2011/12 £m
(0.787)	House sales	(1.540)
(1.623)	Land sales	(6.849)
-	Freehold Reversions	(0.061)
(0.009)	Mortgage principal repayments	(0.009)
(0.078)	Discount repayments	(0.020)
(2.497)	**Total receipts for the year**	**(8.479)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 14. 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 31st March represented 4.32% of the gross rent collectable (including water and sewerage charges) for the 48 weeks.

2010/11 Actual £m		**2011/12 Estimate £m**
59.909	Gross rent collectable (including water and sewerage charges)	64.875
3.263	Overall arrears as at 31st March (including water and sewerage charges)	2.804
5.45%	**Overall arrears as a percentage of gross rent collectable**	**4.32%**
3.310	Rent arrears as at 31st March (excluding water and sewerage rates)	2.540
0.247	**Amounts written off during the year**	**0.541**
(2.055)	**Balance Sheet allowance for Bad Debts**	**(1.939)**

Section 5 – Collection Fund Statement

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administration are accounted for in the Comprehensive Income and Expenditure Statement. The Collection Fund is compiled on an accruals basis and consolidated with other accounts of the billing authority.

2010/11 £m		**Note**	**2011/12 £m**
	Income		
(47.395)	Council Tax	1	(48.406)
(17.475)	Transfer from General Fund		(17.274)
(25.797)	Income Collectable from Business Ratepayers	2	(27.699)
(90.667)	**Total Income**		**(93.379)**
	Expenditure		
64.427	Precept Payments	4	65.049
25.644	Non-Domestic Rates – Payment to National Pool		27.547
0.153	Non-Domestic Rates – Cost of Collection Allowance		0.152
25.797	Total Non-Domestic Rates	2	27.699
0.178	Council Tax Written Off		0.116
0.159	Transfer to Council Tax Bad Debt Provision		0.189
0.337	Total Bad and Doubtful Debts		0.305
0.224	Contribution towards previous years Collection Fund surplus		0.449
90.785	**Total Expenditure**		**93.502**
0.118	**Deficit for the Year**		**0.123**
(0.488)	Balance brought forward from previous year	3	(0.370)
(0.370)	**Collection Fund Balance as at 31st March**	**6**	**(0.247)**
(0.040)	Surplus relating to other Precepting Bodies		(0.027)
(0.330)	**Surplus relating to South Tyneside Council**		**(0.220)**

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: 44,912 in 2011/12 (44,481 in 2010/11). Council tax is calculated by multiplying the basic amount of council tax for Band D by the proportion for that particular band. In 2011/12 the Band D equivalent was £1,448.37 (£1,448.37 in 2010/11).

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

Band	Proportion of Band D	Number of dwellings (November 2010)
A	6/9ths	45,933
B	7/9ths	9,211
C	8/9ths	7,639
D	9/9ths	4,043
E	11/9ths	1,613
F	13/9ths	696
G	15/9ths	322
H	18/9ths	49
		69,506

Note 2. National 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 2011/12 was set at 42.6p for small businesses (40.7p 2010/11) and 43.3p for all other businesses (41.4p 2010/11).

The Non-Domestic Rates income, after reliefs and provisions, of £27.699m (£25.797m in 2010/11) was based on an average rateable value of £81.1m as at 31st March 2012 (£78.5m at 31st March 2011).

Note 3. Distribution of previous year's Collection Fund Surplus

At 31st March 2011 the fund was in surplus by £0.370m. Collection Fund regulations state that by 15th January the Council must make an estimate of what the Collection fund balance will be for the year end. If it is estimated that this will be a surplus, this must be distributed to the Council and the preceptors in the following year. On the 15th January the estimated surplus for the year was expected to be £0.449m and was distributed to the precepting bodies as follows:

Section 5 – Collection Fund Statement

	2011/12 £m
South Tyneside Council	(0.400)
Northumbria Police Authority	(0.026)
Tyne and Wear Fire and Civil Defence Authority	(0.023)
Total contribution share of Collection Fund surplus	**(0.449)**

Note 4. **Precept Payments**

The precept payments can be broken down as follows:

2010/11 £m		2011/12 £m
57.450	South Tyneside Council	58.005
3.723	Northumbria Police Authority	3.758
3.254	Tyne and Wear Fire and Civil Defence Authority	3.286
64.427	**Total Precept Payments**	**65.049**

Note 5. **National Non-Domestic Rates Expenditure**

The occupiers or owners of business properties pay national Non-Domestic Rates. The tax rate is set nationally by the Government and collected by billing authorities. The tax collected is paid over to Central Government, pooled nationally, and then redistributed back to all local authorities in the form of a grant. The amount redistributed to an authority bears no direct relation to the tax collected in that authority's area.

Note 6. **Collection Fund Balance**

Any surplus arising in the Collection Fund can be utilised to reduce future years' council tax. Any deficit can be recovered from the precepting bodies in the following year or carried forward and recovered either from any surplus generated in future years or from increased council tax. Any surplus or deficit to be shared is distributed to the billing and precepting authorities pro-rata to their precepts upon the Fund. The Code requires that the precepting bodies share of the surplus or deficit should be shown as part of the Council's debtors or creditors leaving only the Councils share in the closing balance. The balance is shown in the Council's Balance Sheet in the Collection Fund Adjustment Account.

The Collection Fund surplus is shared between the precepting bodies as follows:

2010/11 £m		2011/12 £m
(0.330)	South Tyneside Council	(0.220)
(0.021)	Northumbria Police Authority	(0.014)
(0.019)	Tyne and Wear Fire and Civil Defence Authority	(0.013)
(0.370)	**Total contribution towards Collection Fund balance**	**(0.247)**

Section 6 – Group Introduction

Group Accounts

Introduction

Many Local Authorities provide services through partner organisations that operate under their control. The Code of Practice on Local Authority Accounting in the United Kingdom in accordance with IAS 27 requires that, where an Authority has material financial interests and a significant level of control over one or more entities, it should prepare Group Accounts. South Tyneside Council has reviewed the relationships it has with its partner organisations to determine the scope of the group and identified the following organisations requiring incorporation into Group Accounts:

- South Tyneside Homes Limited
- Tyne and Wear Development Company
- Beamish Museum.

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 paragraph 13 of the policies (page 105).

South Tyneside Homes Limited (subsidiary company)

South Tyneside Council established an Arms Length Management Organisation (ALMO) registered as South Tyneside Homes Limited on 3rd March 2005 and transferred responsibility for the management and maintenance of its housing stock to the company on 1st April 2006. South Tyneside Homes Limited has no share capital, is limited by guarantee and is wholly owned by the Council. The accounting policies of South Tyneside Homes Limited have been realigned in order to ensure they are consistent with the Group Accounting Policies. Any adjustment as a result of this realignment are captured in the Movement in Reserves Statement and detailed in note 4 to the Group Accounts. Accounts for South Tyneside Homes Limited have been brought together with the Council's single entity accounts on a line-by-line basis to produce a unified set of accounts on consolidation.

The Net Liabilities of the company amount to £31.482m at 31st March 2012 (£19.758m at 31st March 2011). The company made a net surplus of £0.219m in 2011/12 (£9.149m in 2010/11).

The Council's accounts include a debtor due from South Tyneside Homes of £1.750m (£1.406m at 31st March 2011) and a creditor due to South Tyneside Homes of £8.140m (£3.820m at 31st March 2011).

The creation of the ALMO on 1st 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 31st March 2012, the Actuary assessed the deficit at £32.520m (£20.310m at 31st March 2011). 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.

Associate – Tyne and Wear Development Company (TWEDCo)

Tyne and Wear County Council and the five district Councils of Tyne and Wear established TWEDCo in 1986 overseen by the Tyne and Wear Economic Development Joint Committee. TWEDCo is a company limited by guarantee and does not have share capital. TWEDCo owns a subsidiary company; Tyne and Wear Development (Land) Company Limited. The proportion ownership within the Group Accounts is based upon population across Tyne and Wear. TWEDCo and the Tyne and Wear Economic Development Joint Committee have been incorporated as associates using equity accounting, requiring the disclosure of the Council's share of the gross assets and liabilities and gross turnover and operating costs of the organisation.

The Net Assets of TWEDCo and the Joint Committee amount to £16.274m at 31st March 2012 (£16.499m at 31st March 2012) and they held a non-current asset revaluation reserve of £11.120m (£10.943m in 2010/11). Realignment of accounting policies has resulted in a revaluation of non-current assets of TWEDCo in the reported Group Accounts of £0.965m (£5.200m in 2010/11). TWEDCo made a loss of £0.049m in 2011/12 (surplus of £0.197m in 2010/11).

Associate – Beamish Museum Limited

A Joint Committee of Local Authorities runs Beamish Museum Limited. Primarily funded through admission income, the Museum also receives funding from those Local Authorities that are members of the Joint Committee, including South Tyneside. Beamish Museum Limited has been incorporated as an associate using equity accounting, requiring the disclosure of the Council's share of the gross assets and liabilities and gross turnover and operating costs of the organisation.

The Net Assets of Beamish Museum Limited amount to £22.654m at 31st March 2011 (£20.824m at 31st March 2011) and they held earmarked and capital reserves of £22.007m (£20.700m in 2010/11). The company made a surplus of £0.028m in 2010/11 after adjusting between an accounting basis and a funding basis for regulations (£0.009m in 2010/11).

The Council is only liable for the liabilities of Beamish Museum Limited and so only its share of the total liabilities of £1.275m have been incorporated into the Group Accounts (£2.500m in 2010/11).

Other Entities

The Accounting Code of Practice requires information to be shown where the Council has an interest in companies. Apart from the companies disclosed in the Group Accounts, the Council had interests in the following organisations:

- Newcastle Airport Local Authority Holding Company Limited
- North East Consortium for Asylum and Refugee Support
- InspiredSpaces.

Due to materiality, the accounts for the North East Consortium for Asylum and Refugee Support are no longer incorporated into the group accounts as associates.

Full details of the shareholding in Newcastle Airport Local Authority Holding Company Limited and InspiredSpaces can be found in note 16 of the Council's single entity 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 'useable 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, more details of which are shown in the Group Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account Statement for council tax setting and dwellings rent setting purposes. The net increase or (decrease) before transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance 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	Council unusable reserves	Total Council reserves	Usable reserves of subsidiaries and associates	Unusable reserves of subsidiaries	Total group reserves
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2010 (as restated)		**(1.369)**	**(29.490)**	**(9.524)**	**(11.956)**	**(434.494)**	**(486.833)**	**(2.386)**	**32.721**	**(456.498)**
Movement in reserves during 2010/11										
(Surplus) or deficit on provision of services (as restated)		(67.251)	-	146.737	-	-	79.486	(0.043)	(9.040)	70.403
Other comprehensive income and expenditure		-	-	-	-	31.245	31.245	0.004	(2.930)	28.319
Total comprehensive income and expenditure (as restated)		**(67.251)**	**-**	**146.737**	**-**	**31.245**	**110.731**	**(0.039)**	**(11.970)**	**98.722**
Adjustments between group accounts and Council accounts	3	-	-	-	-	-	-	0.571	-	0.571
Net (increase) or decrease before transfers (as restated)		**(67.251)**	**-**	**146.737**	**-**	**31.245**	**110.731**	**0.532**	**(11.970)**	**99.293**
Adjustments between accounting basis and funding basis under regulations		68.941	-	(147.801)	4.250	74.610	-	-	-	-
Net decrease or (increase) before transfers to earmarked reserves (as restated)		**1.690**	**-**	**(1.064)**	**4.250**	**105.855**	**110.731**	**0.532**	**(11.970)**	**99.293**
Transfers (from) or to earmarked reserves		(1.779)	1.779	-	-	-	-	-	-	-
(Increase) or decrease in 2010/11 (as restated)		**(0.089)**	**1.779**	**(1.064)**	**4.250**	**105.855**	**110.731**	**0.532**	**(11.970)**	**99.293**
Balance at 31st March 2011 carried forward (as restated)		**(1.458)**	**(27.711)**	**(10.588)**	**(7.706)**	**(328.639)**	**(376.102)**	**(1.854)**	**20.751**	**(357.205)**
Movement in Reserves during 2010/11										
(Surplus) or deficit on provision of services		5.199	-	135.141	-	-	140.340	(0.675)	0.260	139.925
Other comprehensive income and expenditure		-	-	-	-	56.748	56.748	(0.099)	11.950	68.599
Total comprehensive income and expenditure		**5.199**	**-**	**135.141**	**-**	**56.748**	**197.088**	**(0.774)**	**12.210**	**208.524**
Adjustments between group accounts and Council accounts	3	-	-	-	-	-	-	(0.033)	-	(0.033)
Net (increase) or decrease before transfers		**5.199**	**-**	**135.141**	**-**	**56.748**	**197.088**	**(0.807)**	**12.210**	**208.491**
Adjustments between accounting basis and funding basis under regulations		(5.753)	-	(136.106)	1.871	139.988	-	-	-	-
Net decrease or (increase) before transfers to earmarked reserves		**(0.554)**	**-**	**(0.965)**	**1.871**	**196.736**	**197.088**	**(0.807)**	**12.210**	**208.491**
Transfers to or (from) earmarked reserves		0.378	(0.378)	-	-	-	-	-	-	-
(Increase) or decrease in 2010/11		**(0.176)**	**(0.378)**	**(0.965)**	**1.871**	**196.736**	**197.088**	**(0.807)**	**12.210**	**208.491**
Balance at 31st March 2011 carried forward		**(1.634)**	**(28.089)**	**(11.553)**	**(5.835)**	**(131.903)**	**(179.014)**	**(2.661)**	**32.961**	**(148.714)**

Section 6 – Group Comprehensive Income and Expenditure

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; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves.

2010/11 Gross expenditure (as restated) £m	2010/11 Gross income £m	2010/11 Net expenditure (as restated) £m		Note	2011/12 Gross expenditure £m	2011/12 Gross income £m	2011/12 Net expenditure £m
21.470	(19.177)	2.293	Central services to the public		21.640	(18.955)	2.685
25.235	(5.156)	20.079	Cultural and related services		25.504	(4.090)	21.414
25.084	(7.307)	17.777	Environmental and regulatory services		21.807	(6.122)	15.685
14.789	(4.170)	10.619	Planning services		11.387	(2.301)	9.086
224.725	(165.396)	59.329	Education and children's services		193.451	(130.825)	62.626
13.240	(3.651)	9.589	Highways and transport services		12.894	(4.223)	8.671
100.238	-	100.238	Local authority housing (HRA) - impact of change in discount factor in impairment of non-current assets		-	-	-
-	-	-	Local authority housing (HRA) - housing debt subsidy payment		60.818	-	60.818
94.084	(55.378)	38.706	Local authority housing (HRA) - other		121.005	(58.404)	62.601
68.705	(63.487)	5.218	Other housing services		73.116	(68.368)	4.748
89.044	(28.108)	60.936	Adult social care services		80.831	(31.462)	49.369
12.437	(4.979)	7.458	Corporate and democratic core		10.866	(4.029)	6.837
2.410	-	2.410	Non distributed costs - equal pay settlements		-	(3.654)	(3.654)
(84.930)	-	(84.930)	Non distributed costs - impact of change in inflation factor in retirement benefits		-	-	-
1.643	(0.295)	1.348	Non distributed costs - other		1.260	(0.124)	1.136
608.174	**(357.104)**	**251.070**	**Cost of services**		**634.579**	**(332.557)**	**302.022**
12.712	-	12.712	Other operating income and expenditure		16.512	-	16.512
33.167	(7.962)	25.205	Financing and investment income and expenditure	4	27.893	(2.542)	25.351
-	(218.650)	(218.650)	Taxation and non specific grant income		-	(203.764)	(203.764)
654.053	**(583.716)**	**70.337**	**Deficit on provision of services**		**678.984**	**(538.863)**	**140.121**
0.343	(0.277)	0.066	Associates accounted for on an equity basis		0.031	(0.227)	(0.196)
654.396	**(583.993)**	**70.403**	**Deficit on provision of group services**		**679.015**	**(539.090)**	**139.925**
		19.935	Deficit or (surplus) on revaluation of property, plant and equipment				(28.642)
		0.004	Share of other comprehensive income and expenditure of associates				(0.099)
		8.380	Actuarial losses on pension assets and liabilities				97.340
		28.319	**Other comprehensive income and expenditure**				**68.599**
		98.722	**Total comprehensive income and expenditure**				**208.524**

Section 6 – Group Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group. The net assets of the Group (assets less liabilities) are matched by the reserves. Reserves are reported in two categories. The first category are 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 Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31st March 2011 (as restated) £m		**Note**	**31st March 2012 £m**
	Non-current assets		
525.680	Council dwellings	6	490.778
472.638	Other property, plant and equipment	6	511.931
3.278	Heritage assets		3.500
2.900	Investment properties		3.100
2.692	Intangible assets	7	2.073
1.614	Long term investments: associates assets	8	1.941
(0.341)	Long term investments: associates liabilities	8	(0.373)
0.435	Other long term investments		0.436
1.201	Long term debtors		0.949
1,010.097	**Total non-current assets**		**1,014.335**
	Current assets		
19.608	Short term investments		19.512
1.016	Inventories	9	1.158
32.577	Short term debtors	10	24.380
44.354	Cash and cash equivalents	11	63.654
2.341	Assets held for sale		2.716
99.896	**Total current assets**		**111.420**
	Current liabilities		
(3.034)	Cash and cash equivalents - bank overdraft	11	(0.810)
(54.282)	Short term creditors	12	(49.733)
(31.411)	Short term borrowing		(12.110)
(1.310)	PFI liability due in less than 1 year		(1.137)
(11.739)	Capital grants receipts in advance		(5.806)
(3.882)	Short term provisions		(3.181)
(105.658)	**Total current liabilities**		**(72.777)**
(5.762)	**Total net current assets**		**38.643**
	Non-current liabilities		
(0.221)	Long term creditors		(0.179)
(16.570)	Long term provisions		(14.172)
(313.373)	Long term borrowing		(459.189)
(53.966)	Long term PFI liability		(74.074)
(258.600)	Liability related to defined benefit pension scheme	20	(352.940)
(4.400)	Other long term liabilities		(3.710)
(647.130)	**Total non-current liabilities**		**(904.264)**
357.205	**Total net assets**		**148.714**
	Reserves		
(47.463)	Council usable reserves		(47.111)
(1.854)	Useable reserves of group entities	8	(2.661)
(307.888)	Unusable reserves	13	(98.942)
(357.205)	**Total reserves**		**(148.714)**

Section 4 – Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. The 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.

2010/11 (as restated) £m		**Note**	**2011/12 £m**
(70.403)	**Cash outflow from the provision of services**		**(139.925)**
186.061	Adjustment to surplus or deficit on the provision of services for non-cash movements		220.876
(60.226)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(136.108)
55.432	**Net Cash flow from operating activities**	**14**	**(55.157)**
(119.976)	Investing activities	15	(46.666)
52.927	Financing activities		123.347
(11.617)	**Net increase in cash and cash equivalents**		**21.524**
52.937	**Cash and cash equivalents at the start of the year**		41.320
41.320	**Cash and cash equivalents at the end of the year**		**62.844**

The notes to the group financial statements are presented on pages 134 to 147 and form part of the Statement of Accounts.

Section 6 – Notes to the Group Financial Statements

Note 1. Group Entities

The Council has considered whether it has interests in any subsidiaries, associates or joint ventures. This exercise identified the following interests that have been included within the Group Accounts.

South Tyneside Homes Limited. A fully owned subsidiary, the Arms Length Management Organisation was incorporated on 1st 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 of the company.

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.

Tyne and Wear Development Company. The Council acts in partnership with the other four Tyne and Wear local authorities to promote economic development activities in the region. The major function of the Company is to operate a number of industrial units providing accommodation to local businesses.

Further information on the accounts presented for audit is available from the Finance Department, Sunderland City Council, Civic Centre, Burdon Road, Sunderland, SR2 7DN.

Beamish Museum Limited. Run by a Joint Committee of local authorities in the region. Primarily funded through admission income, the Museum also receives funding from those local authorities that are members of the Joint Committee.

Further information on the accounts presented for audit is available from the Finance Department, Sunderland City Council, Civic Centre, Burdon Road, Sunderland, SR2 7DN.

Note 2. Major Items of Income and Expenditure

As detailed in note 8 of the Single Entity accounts, in 2010/11 the Government announced that future pension increases would be linked to the Consumer Price Index rather than the Retail Price Index. The additional gain in this year shown in the Comprehensive Income and Expenditure Statement as a result of incorporating South Tyneside Homes was £9.300m.

Note 3. 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.

2010/11 £m		2011/12 £m
0.553	Revaluation of non-current assets	-
0.018	Realignment of depreciation policies for non-current assets	(0.033)
0.571	**Total Adjustments to Group Accounts**	**(0.033)**

Section 6 – Notes to the Group Financial Statements

Note 4. Financing and Investment Income and Expenditure

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

2010/11 £m		2011/12 £m
20.007	Interest payable and similar charges	24.583
6.780	Pensions interest cost and expected return on Pensions assets	3.110
(1.249)	Interest receivable and similar income	(1.176)
0.127	Deficit or (surplus) on trading undertakings and dividends receivable	(0.506)
(0.220)	Income and expenditure in relation to Investment Properties and changes in their fair value	(0.420)
(0.240)	Other investment income	(0.240)
25.205	**Total Financing and Investment Income and Expenditure**	**25.351**

Note 5. Taxation

On the basis of HM Revenue and Customs (HMRC) guidance, and due to the relationship between South Tyneside Homes Limited and its parent, South Tyneside Council, the taxable status of South Tyneside Homes Limited is assessed as non-trading for normal operating activities. However, the company remains taxable on any third-party income sources.

South Tyneside Homes Limited is not in receipt of any taxation and non-specific grant income to disclose.

Note 6. Property, Plant and Equipment

The following table analyses the movement in property, plant and equipment for the Group for 2011/12.

Section 6 – Notes to the Group Financial Statements

2011/12	Council dwellings	Other land and buildings	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
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2011	569.337	346.802	51.058	105.470	5.677	16.206	27.498	1,122.048	63.747
Additions	27.131	58.733	4.489	6.476	0.081	-	21.814	118.724	21.630
Revaluation to revaluation reserve	(11.557)	0.740	(0.351)	-	-	(2.607)	-	(13.775)	-
Revaluation to Comprehensive Income and Expenditure Statement	(59.646)	(23.945)	(0.222)	-	-	-	(0.011)	(83.824)	(4.098)
Sales	(0.959)	(0.408)	(0.115)	-	-	(8.912)	-	(10.394)	-
Demolitions	(2.665)	-	(0.723)	-	-	-	-	(3.388)	-
Reclassification of assets	0.256	10.910	-	2.117	0.051	(0.100)	(15.851)	(2.617)	-
At 31st March 2012	**521.897**	**392.832**	**54.136**	**114.063**	**5.809**	**4.587**	**33.450**	**1,126.774**	**81.279**
Depreciation and impairments									
At 1st April 2011	(43.657)	(30.664)	(31.514)	(17.110)	(0.784)	-	-	(123.729)	(9.329)
Depreciation to Comprehensive Income and Expenditure Statement	(12.691)	(10.470)	(4.469)	(2.473)	(0.274)	(0.002)	-	(30.379)	(1.457)
Depreciation to revaluation reserve	32.670	9.069	0.384	-	-	-	-	42.123	-
Impairment to Comprehensive Income and Expenditure Statement	(7.839)	(5.396)	-	(0.080)	-	-	-	(13.315)	-
Sales	0.389	0.011	0.110	-	-	-	-	0.510	-
Demolitions	-	-	0.723	-	-	-	-	0.723	-
Reclassification of assets	0.009	(0.062)	-	0.054	0.001	-	-	0.002	-
At 31st March 2012	**(31.119)**	**(37.512)**	**(34.766)**	**(19.609)**	**(1.057)**	**(0.002)**	**-**	**(124.065)**	**(10.786)**
Net book value at 31st March 2011	**525.680**	**316.138**	**19.544**	**88.360**	**4.893**	**16.206**	**27.498**	**998.319**	**54.418**
Net book value at 31st March 2012	**490.778**	**355.320**	**19.370**	**94.454**	**4.752**	**4.585**	**33.450**	**1,002.709**	**70.493**

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 12 to the Single Entity Financial Statements.

Depreciation charges for South Tyneside Homes Limited have been adjusted upon consolidation for Group Accounts to align accounting policies.

The equivalent movements in property, plant and equipment for **2010/11** are as follows:

2010/11 (as restated)	**Council dwellings**	**Other land and buildings**	**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**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2011	737.348	348.538	40.629	92.651	5.270	17.597	9.890	1,251.923	57.512
Additions	33.985	30.186	11.034	12.493	0.387	-	27.388	115.473	6.235
Revaluation to revaluation reserve	(72.194)	1.701	-	-	0.200	(1.046)	0.032	(71.307)	-
Revaluation to Comprehensive Income and Expenditure Statement	(131.530)	(35.979)	-	-	-	(0.137)	(0.545)	(168.191)	-
Derecognition - sales	(0.641)	-	(1.153)	-	-	-	-	(1.794)	-
Derecognition - other disposals	(1.545)	(0.001)	(0.353)	-	-	-	-	(1.899)	-
Assets reclassified to held for sale	-	(1.949)	-	-	-	(0.208)	-	(2.157)	-
Other assets reclassified	3.914	4.306	0.901	0.326	(0.180)	-	(9.267)	-	-
At 31st March 2011	**569.337**	**346.802**	**51.058**	**105.470**	**5.677**	**16.206**	**27.498**	**1,122.048**	**63.747**
Depreciation and Impairments									
At 1st April 2010	(72.860)	(30.873)	(28.285)	(14.754)	(0.520)	(2.701)	-	(149.993)	(8.341)
Depreciation charge to Comprehensive Income and Expenditure Statement	(11.721)	(7.131)	(4.523)	(2.282)	(0.282)	(0.002)	-	(25.941)	(0.988)
Depreciation to Revaluation Reserve	40.823	7.849	-	-	-	2.700	-	51.372	-
Impairment charge to Comprehensive Income and Expenditure Statement	(0.158)	(0.557)	(0.128)	(0.074)	-	-	-	(0.917)	-
Derecognition - Sales	0.083	-	1.068	-	-	-	-	1.151	-
Derecognition - Other Disposals	0.176	-	0.353	-	-	-	-	0.529	-
Assets reclassified to held for sale	-	0.066	-	-	-	0.003	-	0.069	-
Other assets reclassified	-	(0.018)	-	-	0.018	-	-	-	-
At 31st March 2011	**(43.657)**	**(30.664)**	**(31.515)**	**(17.110)**	**(0.784)**	**-**	**-**	**(123.730)**	**(9.329)**
Net book value at 31st March 2010	**664.488**	**317.665**	**12.343**	**77.897**	**4.750**	**14.896**	**9.890**	**1,101.929**	**49.171**
Net book value at 31st March 2011	**525.680**	**316.138**	**19.543**	**88.360**	**4.893**	**16.206**	**27.498**	**998.318**	**54.418**

Note 7. Intangible Assets

The following table shows the movement in the value and amortisation provision of intangible assets. All intangible assets owned by the Group relate to software licences, which are amortised to the Group Income and Expenditure Statement on a straight-line basis using an average useful life of 5 years.

	Software £m	Software in development £m	2010/11 Total £m	Software £m	Software in development £m	2011/12 Total £m
Balance at start of year:						
Gross book value	4.444	0.402	4.846	5.274	0.407	5.681
Accumulated amortisation	(2.220)	-	(2.220)	(2.989)	-	(2.989)
Net book value at start of year	**2.224**	**0.402**	**2.626**	**2.285**	**0.407**	**2.692**
Additions: purchases	1.065	0.005	1.070	0.182	-	0.182
Reclassification of assets						
Impairment losses recognised in the deficit on the provision of services	(0.235)	-	(0.235)	-	-	-
Amortisation for the period	(0.769)	-	(0.769)	(0.801)	-	(0.801)
Net book value at end of year	**2.285**	**0.407**	**2.692**	**1.666**	**0.407**	**2.073**
Comprising:						
Gross book value	5.274	0.407	5.681	5.456	0.407	5.863
Accumulated amortisation	(2.989)	-	(2.989)	(3.790)	-	(3.790)
Net book value at end of year	**2.285**	**0.407**	**2.692**	**1.666**	**0.407**	**2.073**

Note 8. 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 100% share £m	Tyne & Wear Development Company 14% share £m	Beamish Museum 8% share £m	Total £m
Reserves as at 1st April 2011	**0.581**	**1.481**	**(0.208)**	**1.854**
Non-current assets	0.285	1.470	-	1.755
Current assets	9.383	0.471	-	9.854
Short term liabilities	(8.575)	(0.169)	(0.052)	(8.796)
Long term liabilities	-	(0.099)	(0.053)	(0.152)
Reserves as at 31st March 2012	**1.093**	**1.673**	**(0.105)**	**2.661**

The equivalent figures for 2010/11 are as follows:

	South Tyneside Homes Limited 100% share £m	Tyne and Wear Development Company 14% share £m	Beamish Museum 8% share £m	Total £m
Reserves as at 1st April 2010	**0.495**	**2.002**	**(0.111)**	**2.386**
Non-current assets	0.311	1.471	-	1.782
Current assets	7.041	0.143	-	7.184
Short term liabilities	(6.747)	(0.060)	(0.152)	(6.959)
Long term liabilities	(0.024)	(0.073)	(0.056)	(0.153)
Reserves as at 31st March 2011	**0.581**	**1.481**	**(0.208)**	**1.854**

Note 9. Inventories

An analysis of inventories for the Group is shown below:

31st March 2011 £m		31st March 2012 £m
0.497	Home loan equipment centre	0.480
0.117	Catering service	0.104
0.317	South Tyneside Homes	0.359
0.085	Other inventories	0.215
1.016	**Total**	**1.158**

Section 6 – Notes to the Group Financial Statements

Note 10. Short Term Debtors

An analysis of Group debtors is shown below:

31st March 2011 £m		31st March 2012 £m
	Amounts falling due in one year	
8.309	Central Government bodies	7.750
1.130	Other local authorities	1.266
3.480	NHS bodies	1.594
3.263	Housing tenants	2.804
4.887	Council Tax payers	5.463
18.978	Other debtors	13.256
40.047	**Total amounts falling due in one year**	**32.133**
	Allowances for bad debts	
(2.055)	Housing tenants	(1.939)
(2.119)	Council Tax payers	(2.367)
(0.998)	NHS bodies	(0.867)
(2.298)	Other debtors	(2.580)
(7.470)	**Total bad debt allowances**	**(7.753)**
32.577	**Net debtors**	**24.380**

Note 11. Cash and Cash Equivalents

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

31st March 2011 £m		31st March 2012 £m
0.086	Cash held by the Group	0.104
28.163	Bank current accounts	6.880
16.105	Short term deposits with building societies	56.670
44.354	**Cash and Cash Equivalent Assets**	**63.654**
(3.034)	Bank overdraft facility	(0.810)
(3.034)	**Cash and Cash Equivalent Liabilities**	**(0.810)**
41.320	**Total Cash and Cash Equivalents**	**62.844**

Section 6 – Notes to the Group Financial Statements

Note 12. Short Term Creditors

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

31st March 2011 £m		31st March 2012 £m
(9.370)	Central Government bodies	(7.063)
(1.171)	Other local authorities	(0.449)
(0.509)	NHS bodies	(2.103)
(0.841)	Housing tenants	(0.608)
(0.932)	Council Tax payers	(1.020)
(41.459)	All other creditors	(38.490)
(54.282)	**Total creditors**	**(49.733)**

Note 13. Unusable Reserves

The following table lists the unusable reserves of the Group.

31st March 2011 (as restated) £m		31st March 2012 £m
(101.402)	Revaluation reserve	(124.898)
(0.425)	Available for sale financial instrument reserve	(0.425)
(471.959)	Capital adjustment account	(333.388)
(0.684)	Financial instruments adjustment account	(0.646)
262.971	Pensions reserve	356.072
(0.080)	Deferred capital receipts reserve	(0.067)
(0.330)	Collection fund adjustment account	(0.220)
4.021	Employee benefits adjustment account	4.630
(307.888)	**Total unusable reserves**	**(98.942)**

Note 14. Operating Activities

The cash flows for operating activities include the following items:

31st March 2011 £m		31st March 2012 £m
1.342	Interest received	1.522
(23.629)	Interest paid	(19.087)

Section 6 – Notes to the Group Financial Statements

Note 15. Investing Activities

The cash flows for investing activities include the following items:

31st March 2011 £m		31st March 2012 £m
(117.258)	Purchase of property, plant and equipment and intangible assets	(97.132)
(55.000)	Purchase of short term and long term investments	(90.000)
1.959	Proceeds from the sale of property, plant and equipment	13.832
0.240	Proceeds from short-term and long-term investments	90.240
50.083	Other receipts from investing activities	36.394
(119.976)	**Net cash flows from investing activities**	**(46.666)**

Note 16. Officers' Remuneration

The number of employees, including teachers, whose remuneration falls into each pay bracket, shown in multiples of £5,000, and starting at £50,000 is:

	Number of Employees	
Remuneration Bands	**2010/11 Total**	**2011/12 Total**
£50,000 - £54,999	68	74
£55,000 - £59,999	40	39
£60,000 - £64,999	32	36
£65,000 - £69,999	17	9
£70,000 - £74,999	10	13
£75,000 - £79,999	8	3
£80,000 - £84,999	9	6
£85,000 - £89,999	4	3
£90,000 - £94,999	2	3
£100,000-£104,999	3	-
£105,000-£109,000	1	1
£120,000-£124,999	2	-
£125,000-£129,999	-	1
	196	**188**

Note 17. External Audit Costs

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

2010/11 £m		2011/12 £m
0.328	Fees with regard to external audit services carried out by the appointed auditor for the year	0.295
0.067	Fees for the certification of grant claims and returns for the year	0.035
0.051	Fees for other services provided by external auditors during the year	0.014
0.446	**Total fees payable to external auditors**	**0.344**

Note 18. Leases

The Group as Lessee

Operating Leases

In addition to the lease arrangements of the Council outlined in note 39 of the single entity statements South Tyneside Homes Limited is into the 6th year of a 15 year lease for office accommodation at Strathmore House.

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

31st March 2011 £m		31st March 2012 £m
0.262	Not later than one year	0.447
0.981	Later than one year and not later than five years	1.650
4.380	Later than five years	3.054
5.623		**5.151**

The Group has not sub-let any of office accommodation in Strathmore House.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31st March 2011 £m		31st March 2012 £m
0.875	Minimum lease payments	0.633
0.015	Contingent rents	0.015
0.890		**0.648**

Note 19. Contingent Liabilities

Details of the Council's contingent liabilities can be found in note 42 of the single entity statement. This details a liability in relation to the Council's guarantee of the Pension Deficit within South Tyneside Homes Limited.

Note 20. Defined Pension Schemes

Both South Tyneside Council and South Tyneside Homes Limited 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 over the page 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 pension liabilities with investment assets.

The Group recognises gains and losses in full immediately through Other Comprehensive Income and Expenditure.

Section 6 – Notes to the Group Financial Statements

In accordance with International Financial Reporting Standards, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

The latest actuarial calculation of the Groups liabilities took place as at 31st March 2010. The Employer's regular contributions to the Fund for the accounting period 31st March 2013 are estimated at £19.93m (£19.93m for 31st March 2012). In addition, strain on the fund contributions may be required.

Actuarial Assumptions Adopted

The main financial assumptions used by the Actuary for South Tyneside Homes Limited in 2011/12, differ from those applied to the South Tyneside Council valuation. The assumptions used for South Tyneside Homes Limited are confirmed in the table below. Note 47 of the Council's Core Financial Statements provide the assumptions used by the Actuary for South Tyneside Council.

	31st March 2012 % per annum	31st March 2011 % per annum	31st March 2010 % per annum
Discount rate	4.80	5.40	5.60
RPI Inflation rate	3.60	3.70	4.00
CPI Inflation rate	2.80	2.80	n/a
Rate of increase to pensions in payment	2.60	2.80	4.00
Rate of increase to deferred pensions	2.60	2.80	4.00
Rate of general increase in salaries	5.10	5.20	5.50

The main demographic assumptions used by the Actuary are the same for both South Tyneside Council and South Tyneside Homes Limited.

Fund Assets and Expected Rate of Return

The long term expected rate of return and percentage asset split is consistent across the Group.

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

	31st March 2012 £m	31st March 2011 £m	31st March 2010 £m
Notional value of assets	508.270	497.440	450.400
Present value of liabilities	(830.750)	(727.110)	(754.010)
Net pension liability	**(322.480)**	**(229.670)**	**(303.610)**

The full cost of retirement benefits for both current and past service employment, and any gains or losses on curtailments or settlements has replaced actual amounts paid to the Fund. The following table shows the expense recognised in the Group Comprehensive Income and Expenditure Statement.

Section 6 – Notes to the Group Financial Statements

2010/11 £m		2011/12 £m
19.320	Current service cost	17.300
(81.160)	Past service cost	0.970
38.240	Interest on pension scheme liabilities	39.230
(33.020)	Expected return on fund assets	(37.650)
(1.610)	Curtailment cost	-
(58.230)	**(Income) or expense recognised**	**19.850**

Changes to the present value of liabilities during the accounting period

The following tables explain 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.

2010/11 £m		2011/12 £m
(754.010)	**Opening present value of liabilities**	**(727.110)**
(19.320)	Current service cost	(17.300)
(38.240)	Interest on Pension Scheme Liabilities	(39.230)
(8.440)	Contributions by participants	(6.650)
(12.920)	Actuarial losses on liabilities	(65.800)
23.050	Net benefits paid out	26.310
81.160	Past service cost	(0.970)
1.610	Curtailments	-
(727.110)	**Closing present value of liabilities**	**(830.750)**

Changes to the fair value of assets during the accounting period

2010/11 £m		2011/12 £m
450.400	**Opening fair value of assets**	**497.440**
33.020	Expected return on assets	37.650
5.240	Actuarial gains on assets	(29.330)
23.390	Contributions by the employer	22.170
8.440	Contributions by participants	6.650
(23.050)	Net benefits paid out	(26.310)
497.440	**Closing fair value of assets**	**508.270**

Actual return on assets

2010/11 £m		2011/12 £m
33.020	Expected return on assets	37.650
5.240	Actuarial gain on assets	(29.330)
(38.260)	**Actual return on assets**	**8.320**

Section 6 – Notes to the Group Financial Statements

Analysis of amount recognised in Other Comprehensive Income and Expenditure

2010/11 £m		2011/12 £m
7.680	Total actuarial losses/(gains)	(95.130)
7.680	**Total loss/(gain) in in other comprehensive expenditure**	**(95.130)**

History of asset values, present value of liabilities and (surplus)/deficit

2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m		2011/12 £m
(381.840)	(320.860)	(450.400)	(497.440)	Fair value of assets	(508.270)
495.970	548.420	754.010	727.110	Present value of liabilities	830.750
114.130	**227.560**	**303.610**	**229.670**	**Deficit**	**322.480**

History of experience gains and losses

2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m		2011/12 £m
(42.500)	(93.970)	100.600	5.240	Experience (losses)/gains on assets	(29.330)
1.300	(2.200)	6.500	(15.610)	Experience (losses)/gains on liabilities	(12.860)

Unfunded Benefits

South Tyneside Homes Limited has no unfunded benefits in their accounts for 2011/12, in line with the Actuarial information provided. Disclosure information relating to unfunded benefits for South Tyneside Council can be found at note 47, section b of the core financial statements within this document.

The following table reconciles the Pension Liability on the Group Balance sheet between funded and unfunded benefits:

31st March 2011				31st March 2012		
Group funded £m	Council unfunded £m	Group total £m		Group funded £m	Council unfunded £m	Group total £m
(497.440)	-	(497.440)	Fair value of assets	(508.270)	-	(508.270)
727.110	28.930	756.040	Present value of liabilities	830.750	30.460	861.210
229.670	**28.930**	**258.600**	**Deficit**	**322.480**	**30.460**	**352.940**

The following table reconciles the Pension Interest Cost and Return on Pension Assets as recorded in the Group Comprehensive Income and Expenditure Statement between funded and unfunded benefits:

2010/11 Group funded £m	2010/11 Council unfunded £m	2010/11 Group total £m		2011/12 Group funded £m	2011/12 Council unfunded £m	2011/12 Group total £m
(38.240)	(1.560)	(39.800)	Interest on pension scheme liabilities	(39.230)	(1.530)	(40.760)
33.020	-	33.020	Expected return on assets	37.650	-	37.650
(5.220)	**(1.560)**	**(6.780)**	**Pension interest cost and expected return on pension assets**	**(1.580)**	**(1.530)**	**(3.110)**

Section 7 – Tyne and Wear Pension Fund Statements

1. Introduction

South Tyneside Council is the administering authority of the Local Government Pension Scheme for the Tyne and Wear County area. The Council has set up a Pensions Committee to deal with all matters concerning the Fund.

As at 31st March 2012, there were 165 employers participating in the Fund, including five district councils and a range of other organisations that provide a public service within the County area. A full list of employers is shown later in this statement. The Fund had 113,616 members, made up of 43,822 active members, 38,422 pensioners and 31,372 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2011/12.

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.

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 describe how rights accrue and how benefits are calculated with effect from 1st April 2008. The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 set out how membership accrued prior to 1st April 2008 counts. The Local Government Pension Scheme (Administration) Regulations 2008 set out the Scheme's administrative provisions.

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. 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.

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 valuations is set out in the Funding Strategy Statement, which may be viewed on the Fund's website at www.twpf.info , and in the Statement of the Actuary.

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

4. The 2010 Valuation

Rates of contributions paid by the employers during 2011/12 were based on the valuation carried out as at 31st March 2010. The value of the Fund at that date was £4,304.9 million.

At a total Fund level the total rate of employer contribution resulting from the 2010 valuation was 21.2% of pensionable pay, comprised of a future service element of 15.3% and a past service deficiency element of 5.9%. Individual employers have their own future service contribution rates. The past service deficiency is recovered from individual employers as a lump sum. The revised employers' contributions were implemented from April 2011.

At the 2010 valuation, the Fund used a number of measures to assist employers to afford the cost of benefits. These included:

- An increase in the discount rate for scheduled bodies.

- 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 six annual steps in the deficit payments.

- The grouping of some smaller employers to protect against the risk of high volatility of contribution rates.

The next valuation of the Fund will be carried out as at 31st March 2013, which will set the employers' contributions from April 2014.

5. Investment Strategy and Investment Structure

The investment strategy in place in 2011/12 was based on an asset liability study carried out in 2007/08 that was based upon the liabilities shown by the 2007 valuation. The recommendations from that study were implemented over an extended period, in the light of the global financial crisis, and were fully in place by 2010/11.

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. Policy Documents

The Pension Fund has a number of key policy documents that outline the framework within which the Fund operates, as follows:

- 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
- Admission of Organisations to the Fund

These documents are reviewed and updated on an ongoing basis. Copies are available on the Fund's website at www.twpf.info.

Section 7 – Tyne and Wear Pension Fund Statements

The Council of the Borough of South Tyneside
Statement of the Actuary for the year ended 31st March 2012

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 last full actuarial investigation into the financial position of the Fund was completed as at 31st March 2010 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 31st March 2010 showed that the funding ratio of the Fund was similar to the previous valuation with the market value of the Fund's assets at that date (of £4,304.9m) covering 79% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

2. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1st April 2011 was as set out below:

- 15.3% of pensionable pay 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 1st April 2011, amounting to £59.7m in 2011/12, and increasing by 5.3% per annum thereafter.

3. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.

4. The rates of contributions payable by each participating Employer over the period 1st April 2011 to 31st March 2014 are set out in a certificate dated 30 March 2011 which is appended to our report of the same date on the actuarial valuation.

5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.

6. The main actuarial assumptions were as follows:

Discount rate	
Scheduled Bodies	6.8% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year
Rate of general pay increases	5.3% a year
Rate of increases to pensions in payment	3.3% a year
Valuation of assets	market value

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

7. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. One such review has been completed since the 2010 valuation of the Fund, in respect of ill-health retirements over the year to 31st March 2011. No employer in the Fund had their contribution rate revised as a result of this review.

8. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31st March 2013.

9. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Council of the Borough of South Tyneside. It provides a summary of the results of the actuarial valuation which was carried out as at 31st March 2010. 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, in respect of this statement.

Aon Hewitt Limited
3rd May 2012

Section 7 – Tyne and Wear Pension Fund Statements

Fund Account

2010/11 £m		Note	2011/12 £m
	Contributions and benefits		
(226.422)	Contributions receivable - employers	3	(229.272)
(62.652)	Contributions receivable - employees	3	(58.324)
(15.721)	Transfers in	4	(10.112)
(304.795)	**Total contributions**		**(297.708)**
194.512	Benefits payable	5	251.015
15.640	Leavers	6	11.164
2.562	Administrative expenses	7	2.238
212.714	**Total benefits**		**264.417**
(92.081)	**Net additions from dealings with members**		**(33.291)**
	Returns on investments		
(82.265)	Investment income	8	(93.025)
3.119	Non-recoverable tax	8	3.758
(276.823)	Change in market value of investments	9	12.994
8.665	Investment management expenses	12	9.824
(347.304)	**Net returns on investments**		**(66.449)**
(439.385)	**Net increase in the Fund during the year**		**(99.740)**
4,302.337	**Net assets of the Fund at 1st April**		**4,741.722**
4,741.722	**Net assets of the Fund at 31st March**		**4,841.462**

Section 7 – Tyne and Wear Pension Fund Statements

Net Assets Statement

31st March 2011 £m		Note	31st March 2012 £m
4,718.102	Investment assets	9	4,841.233
(8.815)	Investment liabilities	9	(10.762)
-	Borrowings		(10.000)
44.530	Current assets	13	36.365
(12.095)	Current liabilities	13	(15.374)
4,741.722	**Net assets of the Fund at 31st March**		**4,841.462**

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 dealt with 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 23 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 follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

2. 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.

Acquisition Cost of Investments

The acquisition cost of investments is based on the purchase price plus any additional costs associated with the purchase.

Valuation of Investments

Quoted securities have been valued at their bid price on 31st March 2012.

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31st March 2012 as valued by the Investment Manager responsible for such vehicles.

Other 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.

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 receivable.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2012.

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 31st March 2012.

Properties are shown as valued at 31st March 2012. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE. No depreciation is provided on freehold buildings or long leasehold properties.

Investment Transactions

Investment transactions that were not settled as at 31st March 2012 have been accrued.

Transaction costs are included in the cost of purchases and in sales proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees.

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.

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 31st March 2012.

With regard to property rental income payable quarterly in advance, only the proportion of each payment attributable to the Fund from the due date to the 31st March 2012 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2012.

Investment Management Expenses

Investment management expenses payable as at 31st March 2012 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 when they are calculated and agreed.

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2012.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2012 have been accrued.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer Values

Transfer values represent the capital sums either receivable in respect of new members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Fund. They are accounted for on a receipts/payments basis.

Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 21.

3. Contributions Receivable

2010/11 £m		2011/12 £m
	Employers	
(146.404)	Normal	(131.212)
(79.778)	Deficit Funding	(98.060)
(0.240)	Augmentation	-
(226.422)		**(229.272)**
	Members	
(62.089)	Normal	(57.789)
(0.563)	In-House Additional Voluntary Contributions	(0.535)
(62.652)		**(58.324)**
(289.074)	**Total Contributions Receivable**	**(287.596)**

The contributions can be analysed by type of member body as follows:

2010/11 £m		2011/12 £m
(25.126)	South Tyneside Council (Administering Authority)	(23.419)
(168.870)	Other Metropolitan Councils	(162.620)
(55.882)	Other Part 1 Scheduled Bodies	(58.936)
(8.905)	Part 2 Scheduled Bodies	(8.811)
(30.291)	Admitted Bodies	(33.810)
(289.074)	**Total Contributions Receivable**	**(287.596)**

4. Transfers In

During the year, individual transfers in from other schemes amounted to £10.112m (£15.721m in 2010/11). There was no bulk transfer during 2011/12. In 2010/11, there was one bulk transfer into the Fund from Durham County Council Pension Fund for the credit of Newcastle College with a value of £0.520m.

5. Benefits Payable

2010/11 £m		2011/12 £m
161.071	Pensions	178.074
39.374	Commutations and Lump Sum Retirement Benefits	78.278
4.812	Lump Sum Death Benefits	5.508
(10.745)	Recharges Out	(10.845)
194.512	**Total Benefits Payable**	**251.015**

The payments can be analysed by type of member body as follows:

2010/11 £m		2011/12 £m
21.736	South Tyneside Council (Administering Authority)	23.077
121.728	Other Metropolitan Councils	157.292
25.503	Other Part 1 Scheduled Bodies	38.477
7.575	Part 2 Scheduled Bodies	7.096
17.970	Admitted Bodies	25.073
194.512	**Total Benefits Payable**	**251.015**

6. Leavers

2010/11 £m		2011/12 £m
15.778	Individual Transfers to Other Schemes	11.143
0.037	Refunds to Members Leaving Service	0.034
(0.175)	State Scheme Premiums	(0.013)
15.640	**Total Leavers**	**11.164**

There were no bulk transfers out of the Fund in 2011/12 or 2010/11.

7. Administrative 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 below:

2010/11 £m		2011/12 £m
1.484	Employee Expenses	1.523
0.489	Support Services Recharge	0.528
0.057	Audit Fees	0.052
0.267	External Computing Costs	0.014
0.080	Printing / Publications	0.077
0.155	Professional Fees	0.027
0.036	Other Expenses	0.037
(0.006)	Income	(0.020)
2.562	**Total Administrative Expenses**	**2.238**

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

Section 7 – Tyne and Wear Pension Fund Statements

8. Investment Income

2010/11 £m		2011/12 £m
(1.218)	Fixed Interest Securities	(1.372)
(41.138)	Equities	(54.793)
(0.642)	Index-Linked Securities	(0.475)
(15.071)	Pooled Investment Vehicles	(15.620)
(23.208)	Net Rents from Properties	(19.958)
(0.239)	Cash Deposits	(0.241)
(0.646)	Securities Lending	(0.553)
(0.010)	Commission Recapture	(0.001)
(0.093)	Underwriting Commission	(0.012)
(82.265)	**Sub-Total**	**(93.025)**
3.119	Non-Recoverable Tax	3.758
(79.146)	**Total Investment Income**	**(89.267)**

9. Investments

31st March 2011 £m		31st March 2012 £m
	Investment assets	
34.743	Fixed interest securities	20.744
2,017.105	Equities	2,118.646
41.241	Index-linked securities	36.655
2,242.777	Pooled investment vehicles	2,245.571
-	Derivative contracts	0.943
345.225	Properties	359.185
23.029	Cash deposits	40.851
13.982	Other investment balances	18.638
4,718.102	**Total investment assets**	**4,841.233**
	Investment liabilities	
(0.907)	Derivative contracts	(2.488)
-	Borrowing	(10.000)
(7.908)	Other investment balances	(8.274)
(8.815)	**Total investment liabilities**	**(20.762)**
4,709.287	**Net investments**	**4,820.471**

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.

Section 7 – Tyne and Wear Pension Fund Statements

2011/12	Value at 1st April 2011 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31st March 2012 £m
Fixed interest securities	34.743	196.578	(215.356)	4.779	20.744
Equities	2,017.105	1,150.001	(966.909)	(81.551)	2,118.646
Index-linked securities	41.241	212.926	(225.868)	8.356	36.655
Pooled investment vehicles	2,242.777	115.206	(195.325)	82.913	2,245.571
Properties	345.225	52.469	(9.350)	(29.159)	359.185
Derivative contracts	(0.907)	6.174	(8.857)	2.045	(1.545)
	4,680.184	**1,733.354**	**(1,621.665)**	**(12.617)**	**4,779.256**
Cash deposits	23.029	18.756		(0.934)	40.851
Other investment balances	6.074	5.341	(11.608)	0.557	0.364
Total investments	**4,709.287**	**1,757.451**	**(1,633.273)**	**(12.994)**	**4,820.471**

2010/11	Value at 1st April 2010 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31st March 2011 £m
Fixed interest securities	30.887	165.886	(162.689)	0.659	34.743
Equities	1,310.835	2,053.319	(1,441.778)	94.729	2,017.105
Index-linked securities	33.363	156.786	(151.339)	2.431	41.241
Pooled investment vehicles	2,537.628	275.369	(735.543)	165.323	2,242.777
Properties	321.235	21.126	(5.450)	8.314	345.225
Derivative contracts	0.209	0.668	(6.926)	5.142	(0.907)
	4,234.157	**2,673.154**	**(2,503.725)**	**276.598**	**4,680.184**
Cash deposits	36.126	-	(16.143)	3.046	23.029
Other investment balances	2.979	6.097	(0.181)	(2.821)	6.074
Total investments	**4,273.262**	**2,679.251**	**(2,520.049)**	**276.823**	**4,709.287**

31st March 2011 £m		31st March 2012 £m
	Fixed interest securities	
33.439	UK public sector	20.744
1.304	Overseas public sector	-
34.743	**Total fixed interest securities**	**20.744**
	Equities	
611.517	UK quoted	637.780
1,287.676	Overseas quoted	1,295.023
6.700	UK unquoted	-
111.212	Overseas unquoted	185.843
2,017.105	**Total equities**	**2,118.646**
41.241	**Total UK public sector index linked securities**	**36.655**
	Pooled investment vehicles	
93.941	Unit trusts	54.550
1,130.345	Unitised insurance policies	1,157.005
1,018.491	Other managed funds	1,034.016
2,242.777	**Total pooled investment vehicles**	**2,245.571**
(0.907)	**Total forward foreign currency derivative contracts**	**(1.545)**
	Properties	
280.125	Freehold	296.525
65.100	Long leasehold	62.660
345.225	**Total properties**	**359.185**
	Cash deposits	
18.065	Sterling	32.396
4.964	Foreign currency	8.455
23.029	**Total cash deposits**	**40.851**
	Other investment balances	
1.323	Outstanding trades	5.168
9.178	Outstanding dividends and tax recoveries	10.800
3.481	Debtors	2.670
-	Borrowing	(10.000)
(7.908)	Creditors	(8.274)
6.074	**Total other investment balances**	**0.364**
4,709.287	**Total investments**	**4,820.471**

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases. Transaction costs incurred during the year amounted to £6.221m (£6.016m in 2010/11). In addition to the transaction costs noted above, costs will be incurred within pooled investment vehicles. The amount of these costs is not provided separately to the Fund.

10. Financial Instruments

a) Classification of financial instruments

Accounting policies describe how different asset cases of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table over the page analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets have been reclassified during the financial year.

31st March 2011				31st March 2012		
Designated as fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m		Designated as fair value through profit and loss £m	Loans and receivables £m	Financial liabilities at amortised cost £m
			Financial assets			
34.743	-	-	Fixed interest securities	20.744	-	-
2,017.105	-	-	Equities	2,118.646	-	-
41.241	-	-	Index-linked securities	36.655	-	-
2,242.777	-	-	Pooled investment vehicles	2,245.571	-	-
-	-	-	Derivative contracts	0.943	-	-
345.225	-	-	Properties	359.185	-	-
-	23.029	-	Cash deposits		40.851	-
10.501	-	-	Other investment balances	15.968	-	-
-	48.011	-	Debtors		39.035	-
4,691.592	**71.040**	**-**	**Total financial assets**	**4,797.712**	**79.886**	**-**
			Financial liabilities			
(0.907)	-	-	Derivative contracts	(2.488)	-	-
-	-	-	Borrowings	-	(10.000)	-
-	-	(20.003)	Creditors	-	-	(23.648)
(0.907)	**-**	**(20.003)**	**Total financial liabilities**	**(2.488)**	**(10.000)**	**(23.648)**
4,690.685	**71.040**	**(20.003)**	**Total assets**	**4,795.224**	**69.886**	**(23.648)**

b) Net gains and losses on financial instruments

31st March 2011 £m		31st March 2012 £m
	Financial assets	
276.598	Fair value through profit and loss	(12.617)
3.046	Loans and receivables	(0.934)
	Financial liabilities	
(2.821)	Fair value through profit and loss	0.557
276.823	**Total**	**(12.994)**

c) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values;

31st March 2011 Carrying value £m	31st March 2011 Fair value £m		31st March 2012 Carrying Value £m	31st March 2012 Fair value £m
		Financial assets		
3,959.498	4,691.592	Fair value through profit and loss	4,073.986	4,797.712
71.040	71.040	Loans and receivables	78.897	79.886
4,030.538	**4,762.632**	**Total financial assets**	**4,152.883**	**4,877.598**
		Financial liabilities		
-	(0.907)	Fair value through profit and loss	-	(2.488)
-	-	Loan and recievables	(10.000)	(10.000)
(20.003)	(20.003)	Financial liabilities at amortised cost	(23.648)	(23.648)
(20.003)	**(20.910)**	**Total financial liabilities**	**(33.648)**	**(36.136)**
4,010.535	**4,741.722**	**Net assets**	**4,119.235**	**4,841.462**

d) 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 comprise of quoted equities, quoted fixed securities and pooled investment vehicles.

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 input that are based significantly on observable market data. Assets in this level comprise of UK Property valued independently by professional valuer's.

Level 3

Financial instruments at this level 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 Tyne and Wear Pension 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 31st March valuation and a 31st December valuation adjusted for cash flows and rolled forward to 31st March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3 at fair value.

Value at 31st March 2012	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,776.443	360.128	661.141	4,797.712
Loans and receivables	79.886	-	-	79.886
Total financial assets	**3,856.329**	**360.128**	**661.141**	**4,877.598**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(2.488)	-	(2.488)
Borrowings	(10.000)	-	-	(10.000)
Financial liabilities at amortised cost	(23.648)	-	-	(23.648)
Total financial liabilities	**(33.648)**	**(2.488)**	**-**	**(36.136)**
Net financial assets	**3,822.681**	**357.640**	**661.141**	**4,841.462**

Value at 31st March 2011	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	3,781.491	345.225	564.876	4,691.592
Loans and receivables	71.040	-	-	71.040
Total financial assets	**3,852.531**	**345.225**	**564.876**	**4,762.632**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(0.907)	-	(0.907)
Financial liabilities at amortised cost	(20.003)	-	-	(20.003)
Total financial liabilities	**(20.003)**	**(0.907)**	**-**	**(20.910)**
Net financial assets	**3,832.528**	**344.318**	**564.876**	**4,741.722**

11. Nature and extent of risks arising from Financial Instruments

Risk and Risk Management

The Fund's primary long term risk is that the Fund will be unable to meet its liabilities from the assets it holds and therefore be unable to pay the promised benefits to members.

Therefore the aim on investment risk management is to invest in assets of appropriate liquidity to produce income and capital growth that together with employer and employee contributions will meet the cost of benefits, whilst minimising the risk of an overall reduction in the value of the Fund and achieving the maximum gains across the whole Fund.

Responsibility for the Fund's management of risk strategy lies with the Pensions Committee. A summary of the Fund approach to monitoring and controlling these risks is set out in the Fund's statement of Investment Principles.

Solvency and Mismatching Risk

These risks are controlled by ongoing monitoring of the suitability of the investment policy in the light of the Fund's developing liabilities and finances. Asset liability modelling studies are carried out to assist in setting the policy and strategic asset allocation. These studies examine the Fund's financial position, the profile of its membership, the nature of its liabilities and include an analysis of the expected ranges of outcomes from differing investment policies. The Fund monitors its ongoing solvency or "funding level" on a quarterly basis, though a model provided by its Actuary, Aon Hewitt called Tracker. The model provides an estimate of the current funding level based on a roll forward of data and assumptions used at the most recent full valuation. This takes account of changes in market pricing and interest rates.

Market Risk

Market risk is the risk of loss caused by changes in the price in the assets invested in.

The strategic asset allocation has been translated into mandates and benchmarks for individual managers that are consistent with the investment policy. The diversification within the strategic asset allocation is designed to control the Fund's exposure to market risk resulting from price movements, interest and foreign exchange rate fluctuations and changes in credit spreads.

The investment policy, the strategic asset allocation and the investment mandates are consistent with the Committee's views on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

A weekly exercise is undertaken to ensure that the Fund is invested in line with its strategic benchmark.

The asset allocation and investment performance is monitored relative to the agreed benchmarks.

The Fund has appointed Portfolio Evaluation as an external risk and performance measurement service provider to assist in the measurement and control of risk at a total Fund and individual manager level.

Manager Risk

Manager risk is that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each 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.

In appointing several investment managers, the Committee has considered the risk of underperformance of any single investment manager.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due and is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Custodian Risk

Custodian risk is controlled through the restrictions set out in the custodian's agreement and through the ongoing monitoring of the custodial arrangements.

Currency and Political Risks

Currency and political risks are controlled through the approach to diversification.

Counterparty Risk

Counterparty risk is controlled through the restrictions followed by the managers and in house with respect to the trading of securities and cash management.

12. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

2010/11 £m		2011/12 £m
8.478	Administration, Management and Custody	9.631
0.078	Performance and Risk Measurement Services	0.082
0.109	Other Advisory Fees	0.111
8.665	**Total Investment Management Expenses**	**9.824**

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

13. Current Assets and Liabilities

31st March 2011 £m		31st March 2012 £m
	Current Assets	
6.050	Contributions and Recharges Due - Employees	6.503
37.593	Contributions and Recharges Due - Employers	29.573
0.006	HM Revenue and Customs	0.057
0.181	Investment Management Expenses	0.205
0.700	Other	0.027
44.530	**Total Current Assets**	**36.365**
	Current Liabilities	
(2.091)	Unpaid Benefits	(6.801)
(0.162)	Contributions, Recharges and Refunds Due - Employers	(0.033)
(1.412)	HM Revenue and Customs	(1.528)
(3.367)	Investment Management Expenses	(4.599)
(5.063)	Other	(2.413)
(12.095)	**Total Current Liabilities**	**(15.374)**

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.

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 2011/12, £1.202m of contribution income was received into the AVC funds provided by The Prudential (£1.413m during 2010/11). As at 31st March 2012, these funds were valued at £8.768m (£9.270m as at 31st March 2011).

During 2011/12, £0.002m contribution income was received into the AVC funds operated by Equitable Life (£0.005m during 2010/11). As at 31st March 2012, these funds were valued at £0.241m (£0.365m as at 31st March 2011).

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 twelve external investment managers as at 31st March 2012. 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 four alternative asset classes of Private Equity, Active Currency, 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 Lexington Partners and Collier Capital and direct funds with HarbourVest, Capital International, Lexington Partners and Partners Group.

The Active Currency programme has been decreased during the year, with the closure of the investment with Record Currency, reducing the number of investments to three namely with Millennium, Investec and BlackRock.

The Fund has invested in infrastructure mainly through an investment with Partners Group but also with Henderson Global Investors and M&G.

Global Property was a new investment programme from 2010/11. Investment in this area will be built up over time through funds provided by Partners Group.

The market value of the investments in the hands of each manager was:

31st March 2011 £m			31st March 2012 £m	
		Investment managers		
345.225	7.3%	Aberdeen Property Investors	359.185	7.4%
175.247	3.7%	BlackRock	206.146	4.3%
143.281	3.0%	Capital International - emerging markets	124.432	2.6%
379.649	8.1%	Henderson Global Investors	393.185	8.1%
470.860	10.0%	JP Morgan Asset Management	484.697	10.1%
106.003	2.2%	Lazard Asset Management	116.847	2.4%
807.614	17.1%	Legal and General Investment Management	818.461	17.0%
402.876	8.6%	M&G Investment Management	396.325	8.2%
176.746	3.8%	Mirabaud Investment Management	205.568	4.3%
483.492	10.3%	Sarasin and Partners	479.969	10.0%
55.375	1.2%	TT International	50.008	1.0%
455.547	9.7%	UBS Global Asset Management	427.529	8.9%
142.587	3.0%	Active currency	101.544	2.1%
469.430	10.0%	Private Equity	487.918	10.1%
50.574	1.1%	Infrastructure	82.204	1.7%
40.874	0.8%	Global Property	87.045	1.8%
3.907	0.1%	Managed in-house	(0.592)	0.0%
4,709.287	**100.0%**	**Total investments**	**4,820.471**	**100.0%**

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2012, the Fund had £0.934m outstanding with the company through a position held within an active currency fund. The full amount is included in the active currency line above. The level of recovery remains uncertain at the time of compiling the Fund Accounts.

16. Investment Performance

It was a mixed performance year for the major world equity markets with three rising and three falling during the period. The best performing equity markets were the US and UK Equities, which rose by 7% and 1% respectively. The worst performing equity markets were Emerging Markets and European ex UK equities which fell 9% and 11% respectively. Property produced a 6% return and Gilts rose by over 14%.

In this environment, the value of UK pension funds is fairly static this year. This followed two years of rises and two years of falls as a result of the credit crisis and global economic slowdown and subsequent recovery.

The Fund's return for the year was 2.0%, which was 0.2% below its benchmark return of 2.2%. Inflation, as measured by the Retail Price Index, rose by 3.6% and average earnings excluding bonuses increased by 2.0%.

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 3.7% per annum, which is 0.2% below the benchmark return of 3.9% per annum. This underperformance is largely attributable to below benchmark returns from certain of the Fund's active equity managers and poor returns from the active currency mandates. The five year returns are above both inflation at 3.6% per annum and the increase in average earnings at 2.9% per annum.

The Fund's annual return over the last ten years has been 6.1% per annum, which is 0.2% below the benchmark return of 6.3%. These returns are above inflation at 3.8% per annum and the increase in average earnings at 3.5% 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 31st March 2012 and 31st March 2011.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2012, the Fund held fourteen positions in foreign currency that together showed an unrealised loss of £1.545m, as shown in the table over the page:

Type of forward foreign currency contracts

Settlement	Type of contract	Currency bought	Currency sold	Market value £m
Three month	Over the counter	Sterling	Euro	(0.072)
Three month	Over the counter	Sterling	Swiss Franc	(0.119)
Three month	Over the counter	Australian Dollar	Sterling	(0.317)
Three month	Over the counter	Canadian Dollar	Sterling	(0.210)
Three month	Over the counter	Singapore Dollar	Sterling	(0.029)
Three month	Over the counter	Euro	Sterling	(0.006)
Three month	Over the counter	Yen	Sterling	(0.226)
Three month	Over the counter	Us Dollar	Sterling	(1.509)
Loss/Liability Value as at 31st March 2012				**(2.488)**
Three month	Over the counter	Swiss Franc	Sterling	0.002
Three month	Over the counter	Swedish Krona	Sterling	0.011
Three month	Over the counter	Norwegian Krone	Sterling	0.029
Three month	Over the counter	Sterling	Yen	0.107
Three month	Over the counter	Sterling	US Dollar	0.362
Three month	Over the counter	Sterling	Hong Kong Dollar	0.432
Profit/Asset Value at 31st March 2012				**0.943**
Net Liability at 31st March 2012				**(1.545)**

These were settled at a loss early in 2012/13 financial year.

19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £138.461m were out on loan as at 31st March 2012, against collateral of £152.487m. The breakdown of securities on loan was:

31st March 2011 £m		31st March 2012 £m
8.740	Fixed Interest Securities	16.097
5.058	Index-Linked Securities	-
18.434	UK Equities	49.447
33.670	Overseas Equities	72.917
65.902	**Total Securities Lending**	**138.461**

The value of the collateral against which the securities were lent out is shown below:

31st March 2011 £m		31st March 2012 £m
1.736	Cash	1.317
55.255	Fixed Interest	81.858
3.062	Index Linked	6.692
10.993	Equities	62.620
71.046	**Total Collateral**	**152.487**

20. Significant Holdings

As at 31st March 2012, 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 31st March 2012, this was valued at £818.461m and represented 17.0% of the total net assets of the Fund. During 2011/12 the insurance contract was limited to four individual funds, each representing a different asset class, as follows:

31st March 2011		31st March 2012
£m		£m
641.414	UK Equities	651.083
22.067	Europe (ex UK) Equities	19.580
49.818	North America Equities	33.560
94.315	Index-Linked Gilts	114.238
807.614	**Total**	**818.461**

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2011, this was valued at £338.543m (£322.731m as at 31st March 2011) and represented 7.0% of the total net assets of the Fund.

21. Outstanding Commitments

As at 31st March 2012 the Fund had thirty-six outstanding commitments to investments, these are shown over the page:

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
		m	m	m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$52.3	$2.7	£1.7
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$40.3	$5.7	£3.6
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.1	$0.9	£0.6
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$25.3	$2.7	£1.7
HarbourVest Partners 2004 Direct Fund	2004	$30.0	$29.6	$0.4	£0.3
Capital International Private Equity Fund IV	2004	$18.0	$17.5	$0.5	£0.3
HarbourVest International Private Equity Partners V - Partnership	2005	€ 100.0	€ 79.5	€ 20.5	£17.1
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.3	€ 1.7	£1.4
Pantheon Asia Fund IV	2005	$20.0	$14.4	$5.6	£3.5
Pantheon Europe Fund IV	2005	€ 25.0	€ 20.6	€ 4.4	£3.7
Pantheon USA Fund VI	2005	$30.0	$24.9	$5.1	£3.2
Lexington Capital Partners VI-B	2005	$30.0	$28.1	$1.9	£1.2
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$71.4	$40.6	£25.4
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$41.7	$14.3	£9.0
Pantheon Europe Fund V	2006	€ 35.0	€ 23.8	€ 11.2	£9.3
Pantheon USA Fund VII	2006	$35.0	$23.0	$12.0	£7.5
Coller International Partners V	2006	$30.0	$23.2	$6.8	£4.3
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$25.2	$4.8	£3.0
Pantheon Asia Fund V	2007	$20.0	$12.7	$7.3	£4.6
Pantheon Europe Fund VI	2007	€ 40.0	€ 18.8	€ 21.2	£17.7
Pantheon USA Fund VIII	2007	$35.0	$17.7	$17.3	£10.8
Capital International Private Equity Fund V	2007	$35.0	$28.4	$6.6	£4.1
Co-Investment Partners Europe	2007	€ 30.0	€ 23.9	€ 6.1	£5.1
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 27.9	€ 2.1	£1.8
Infracapital	2007	£35.0	£31.2	£3.8	£3.8
Capital International Private Equity Fund VI	2010	$35.0	$3.9	$31.1	£19.5
Lexington Capital Partners VII	2010	$30.0	$11.8	$18.2	£11.4
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$20.6	$19.4	£12.1
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 26.0	€ 34.0	£28.3
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 38.4	€ 106.6	£88.7
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 34.6	€ 35.4	£29.5
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 17.8	€ 67.2	£56.0
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$22.3	$77.7	£48.5
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$5.8	$59.2	£37.1
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 7.3	€ 42.7	£35.6
Coller International Partners VI	2012	$45.0	$0.0	$45.0	£28.2
Total Outstanding Commitments					**£539.6**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2012.

22. Related Party Transactions

The Council is required to disclose material transactions of the Fund with related parties; bodies or individuals that are not disclosed elsewhere in the accounts. Disclosure of these transactions allows readers to assess the extent to which the Fund 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.

An examination of returns completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Fund has not identified any cases where disclosure is required.

Section 7 – Tyne and Wear Pension Fund Statements

During 2011/12 two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.781m split as follows:

- South Tyneside Council charged the Fund £0.408m (£0.401m in 2010/11) in respect of services provided, being primarily legal and building costs.
- The Fund charged South Tyneside Council £0.051m (£0.050m in 2010/11) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.322m (£0.312m in 2010/11) in respect of services provided, being primarily financial and information technology.

There were no material contributions due from employer bodies that were outstanding at the year-end.

23. Pension Fund Disclosures under IAS 26

Under IAS 26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits", which were last valued at 31st March 2010 by the Actuary at £7,037.300m. This figure was calculated using the following information supplied by the Actuary.

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 31st March 2011 £m
Fair value of net assets	4,302.300
Actuarial present value of the promised retirement benefits	(7,037.300)
Deficit in the Fund as measured for IAS 26 purposes	(2,735.000)

The principal assumptions used by the Actuary were:

	31st March 2011 (% p.a.)
Discount rate	5.5
RPI inflation rate	3.9
CPI inflation rate	3.0
Rate of increase to pensions in payment*	3.9
Rate of increase to deferred pensions*	3.9
Rate of general increase in salaries **	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 31st March 2010.*

Section 7 – Tyne and Wear Pension Fund Statements

Principal demographic assumptions

Post retirement mortality	**31st March 2011**
Males	
Base table	Standard SAPS Normal Health All Amounts (S1NMA)
Scaling to above base table rates***	110%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	21.3
Future lifetime from age 65 (currently aged 45)	23.2
Females	
Base table	Standard SAPS Normal Health All tables (S1NFA)
Scaling to above base table rates***	110%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	23.5
Future lifetime from age 65 (currently aged 45)	25.5

*** The scaling factors shown apply to normal health retirements

Commutation

- 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.

These are taken from the report: Whole of Pension Fund Disclosures under IAS 26 – Tyne and Wear Pension Fund 27th May 2011. A full copy of which 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

Organisations Participating in the Fund as at 31st March 2012

Councils

Gateshead Council
Newcastle City Council
North Tyneside Council
South Tyneside Council
Sunderland City Council

Other Part 1 Scheduled Bodies

Academy 360
Benedict Biscop Church of England Academy
Bexhill and Town End Academies
Cardinal Hume Catholic School
Castle View Academy
City of Sunderland College
Excelsior Academy
Former North East Regional Airport Committee
Former Tyne and Wear County Council
Former Tyne and Wear Residuary Body
Gateshead College
Gateshead Housing Company
Gosforth Federated Academies
Houghton Kepier Sports College Academy
Joseph Swan Academy
Lord Lawson of Beamish Academy
Monkwearmouth College
Newcastle College
Newcastle Education Action Zone
North Tyneside College
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria Probation Trust
Redby Primary Academy
Redhouse Academy
Sacred Heart Catholic High School
South Tyneside College
South Tyneside Education Action Zone
South Tyneside Homes
St Cuthbert's Catholic High School
St Thomas More Catholic School (Gateshead)
St Thomas More Roman Catholic Academy (North Tyneside)
Sunderland Education Action Zone
The Intraining Group Limited
Tyne and Wear Fire and Rescue Services
Tyne and Wear Passenger Transport Authority
Tyne Metropolitan College
Tynemouth College
University of Northumbria
University of Sunderland
Wearside College
Whickham School and Sports College
Whitburn Church of England Academy
Your Homes Newcastle

Part 2 Scheduled Bodies

Birtley Town Council
Blakelaw and North Fenham Parish Council
Blue Square Trading Limited
Care and Support Sunderland
Castle View Community Centre
Charge Your Car Limited
Learning World
Nexus

Admitted Bodies

Age Concern Newcastle
Assessment and Qualification Alliance
Association of North East Councils
Balfour Beatty
Balfour Beatty (PB)
Baltic Arts Flour Mills
Benton Grange School
Benwell Young Peoples Development Project
Bovis Lend Lease
Brunswick Young Peoples Project
BT South Tyneside Limited
Bullough Cleaning Services
Carillion Services Limited (Jarrow School)
Carillion Services Limited (Lord Lawson Academy)
Catholic Care North East
CBS Outdoor Limited
Community Action on Health
Compass Group UK and Ireland
DB Regio Tyne and Wear Limited
Disability North
Gateshead Law Centre
Gentoo Group Limited
Hebburn Neighbourhood Advice Centre
Higher Education Funding Council for England
Information North (North Regional Library System)
Insitu Cleaning
International Centre for Life
Jarvis Accommodation Services Limited
Jarvis Workspace Facilities Management Limited
John Laing Integrated Services
Kenton Park Sports Centre
Kier North Tyneside Limited
Managed Business Space Ltd
Maxim Cleaning Services
Mitie Cleaning (North) Limited
Mitie PFI Limited (Boldon School)
Mitie PFI Limited (North Tyneside)
Morrison Facilities Services Limited 1
Morrison Facilities Services Limited 2
Morse

Section 7 – Tyne and Wear Pension Fund Statements

Admitted Bodies

Museums Libraries and Archives North East
National Car Parks
National Glass Centre
Newcastle Law Centre
Newcastle Family Service Unit
Newcastle Health City Project
Newcastle International Airport
Newcastle Tenants Federation
Newcastle Theatre Royal Trust
Newcastle West End Partnership
Newcastle Youth Congress
No Limits Theatre Company
Norcare
Norland Road Community Centre
North East Innovation Centre
North East Regional Employers Association
North Tyneside Child Care Enterprise
North Tyneside City Challenge
North Tyneside Disability Advice
Northern Arts Association
Northern Council for Further Education
Northern Counties School for the Deaf
Northern Grid for Learning
Northumbria Tourist Board
One North East
Ouseburn Trust
Parsons Brinkerhoff
Passenger Transport Company
Percy Hedley Foundation
Port of Tyne Authority
Praxis Service
Raich Carter Sports Centre
RM Education
Robertson Facilities Management Limited
Robertson Facilities Management Limited (Newcastle Phase 2)
Saint Mary Magdalene and Holy Jesus Trust
Saint Mary the Estate Management Charity
Scolarest (Newcastle Schools)
Scolarest PFI (Boldon School)
Search Project
Simonside Community Centre
Sodexo Limited
South Tyne Football Trust
South Tyneside Groundwork Trust
South Tyneside Victim Support
Southern Electric Contracting Limited
Stagecoach Travel Services
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust
Sunderland Outdoor Activities
Sunderland Streetlighting Limited
Taylor Shaw
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
TT2 Limited
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyne Waste Limited
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Valley Citizens Advice Bureau
Walker Profiles (North East) Limited
Wallsend Citizen Advice Bureau
Wallsend Peoples Centre
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.

Arms Length Management Organisation
A procurement option involving the creation of a company to deliver the housing service 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
Non-current assets such as property actively marketed for disposal and expected to be sold 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.

Audit Commission
An independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to Local Authorities.

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
The Chartered Institute of Public Finance and Accountancy (CIPFA) having recognised the need to amend the accounting practices for capital in Local Authority accounts introduced a

new system of accounting for Local Authority assets with effect from 1st April 1994. The essential feature of the system is that a charge is made to each service Income and Expenditure to represent the cost of using the assets.

Capital Expenditure
Spending on the acquisition of Property, Plant and Equipment or intangible asset, or which enhances the value of an existing asset. 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 IFRS Code including the financing of capital expenditure from external sources and the impact of depreciation, impairments, amortisations and revaluation losses compared to the Minimum Revenue Provision, which the Council has to make.

Capital Grants Receipts in Advance
Capital grants received in advance that have conditions attached but have not yet been applied.

Capital Receipts
Receipts 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.

Capitalisation Directions
These are approvals issued by Department for Communities and Local Government (DCLG) that allow authorities to capitalise costs that would not normally fall within the definition of capital expenditure. This has included exceptional redundancy costs and the back pay elements of Equal Pay and Equal Value settlements.

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 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 is held in this fund and it should be sufficient to cover expenditure relating to the precepts of the Fire and Police Authorities and the net expenditure of the billing authority, after taking account of Business Rate income and General Government Grants.

Section 8 – Glossary of Financial Terms

Collection Fund Adjustment Account
A statutory account to reflect the difference between the balance of the collection fund required for budgetary purposes and the actual amount of Council Tax 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.

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 (that is, as if each component was a separate asset in its own right) and depreciated over its individual useful life.

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
The 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 unaudited bodies are directed and controlled.

Council Tax
The Local Government Finance Act 1992 introduced Council Tax with effect from 1st 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.

Section 8 – Glossary of Financial Terms

Current Service Cost (Pensions)
This is the actuarial estimate of the present value of full pensions benefits earned by current employees in the year under review.

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.

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.

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
The Employee Benefits Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from 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.

Expected Return on Pensions Assets
This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.

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.

Section 8 – Glossary of Financial Terms

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
The reserve 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 an explanatory foreword 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
The General Fund includes the expenditure and income relating to the services provided by the Council but excluding Housing Revenue Account activities. The net expenditure on the General Fund is compared to the charge levied upon the Collection Fund and results in a surplus or deficit that will increase or decrease the reserves of the Council. The General Fund's expenditure includes the Passenger Transport Authority's levy.

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.

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 Housing Revenue Account.

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.

Section 8 – Glossary of Financial Terms

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
Capital expenditure relating to the procurement of computer software. The value is written out to the Comprehensive Income and Expenditure Statement over a five year period.

Investment Properties
Interest in 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 arms 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.

Major Repairs Reserve represents Government funding unspent by the Housing Revenue Account at 31st March. By statute this reserve can only be used to fund future capital expenditure on HRA assets.

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.

Minimum Revenue Provision (MRP)
The amount of money the Council must statutorily set aside in line with the MRP policy adopted by the Council as part of its Medium Term Financial Plan to support the repayment of debt.

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.

Section 8 – Glossary of Financial Terms

National Non-Domestic Rates (NNDR)
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. The Council is responsible for the collection of NNDR although all proceeds are paid into a national pool and redistribution is made to Local Authorities based upon population.

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.

Operating Leases
Leases other than a finance lease.

Pension Interest Cost
The expected increase in the year in the present value of the scheme liabilities as the benefits are one year closer to settlement.

Pension Reserve
The amount set aside to offset the IAS 19 Pension Liability.

Post Balance Sheet Events
Those events that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Corporate Director of Business and Area Management.

Precept
In the calculation of the Council Tax 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 Borough Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

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.

Prudence
This accounting concept requires that income is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.

Section 8 – Glossary of Financial Terms

Public Works Loan Board (PWLB)
The Public Works Loans Board is 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 a 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 to provide an average level of service.

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 auditors 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.

Section 8 – Glossary of Financial Terms

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 useable reserves.

Useable 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 2011/12

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 ensuring that we provide good value for our stakeholders.

2. To help achieve our vision it is essential that the Council has effective governance arrangements, in other words have 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 on our reputation.

3. This document is the Council's Annual Governance Statement, which shows how the Council runs itself 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, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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 Annual Governance Statement explains how the Council has complied with the principles of corporate governance and also meets the requirements of regulation 4(2) of the English Accounts and Audit Regulations 2011. The Council has also adopted and approved a code of corporate governance, which sets out in more detail the Council's arrangements.

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.

8. The system of internal control is a significant part of that 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 31st March 2012 and up to the date of approval of the Statement of Accounts.

The governance framework

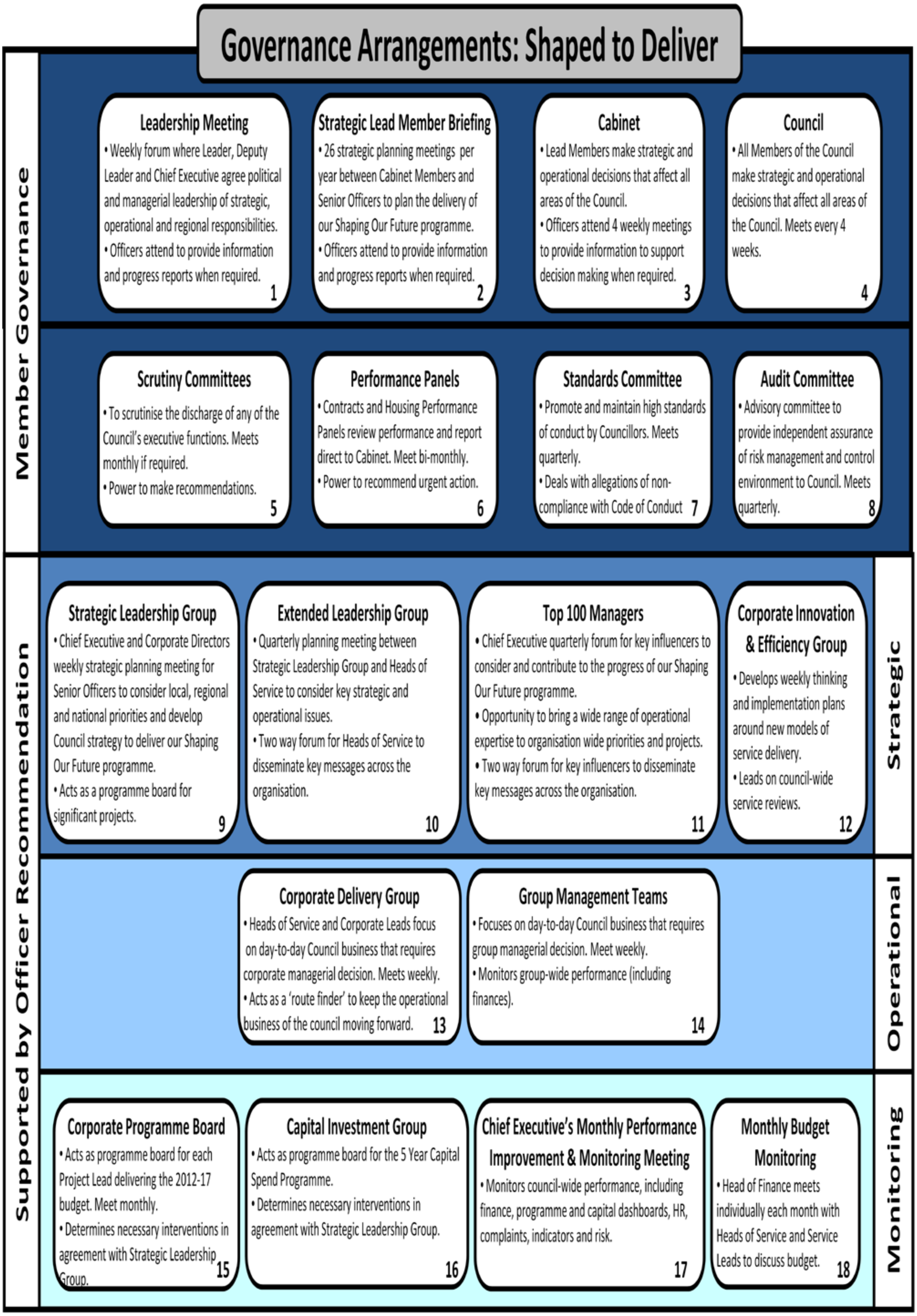
10. The Council is made up of 54 Councillors who are democratically accountable to residents of the Borough. The full Council appoints the Leader and the Leader appoints the Cabinet and Deputy Leader. The Cabinet is responsible for most day to day decisions. The Council holds the Cabinet to account by 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 Area Management
    - Economic Regeneration
    - Children, Adults and Families

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 following diagram.

Section 9 – Annual Governance Statement



Version: 16/07/12

Section 9 – Annual Governance Statement

13. 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:

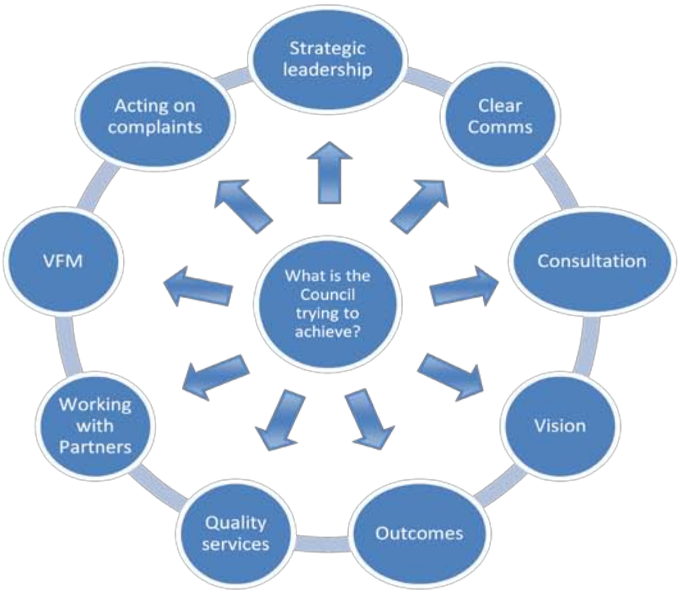
- the core principle,
- the features that should be put in place, i.e. what the Council is trying to achieve, and
- the **key** policies, procedures and systems that the Council has put in place to ensure that it complies with the principles.

15. These 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 for example how to safeguard adults and children or how to ensure the security of data, 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?

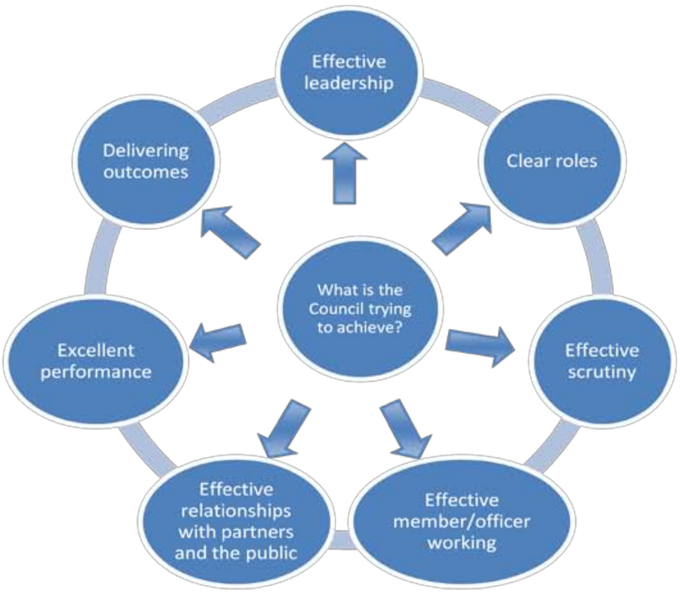


- Shaping our Future – South Tyneside Council Strategy
- Shaping our Future – Service Delivery Plans
- A Stronger Voice through Opportunity - Our Community Involvement Strategy
- South Tyneside Partnership
- South Tyneside Vision 2011-31
- Shaping our Financial Future - Medium Term Financial Plan 2012 – 17
- Treasury Management Strategy
- Chief Executive Monthly Performance Improvement & Monitoring Meeting
- Towards Resilience, South Tyneside Council's Business Continuity Strategy
- Shaped to Deliver
- Innovation Efficiency Group
- Complaints procedure and Speakout Policy
- Statement of Accounts
- Cabinet
- Overview and Scrutiny Coordinating and Call-in Committee
- Strategic Lead Member Briefings
- Strategic Leadership Group
- Contracts & Housing Performance Panels

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?



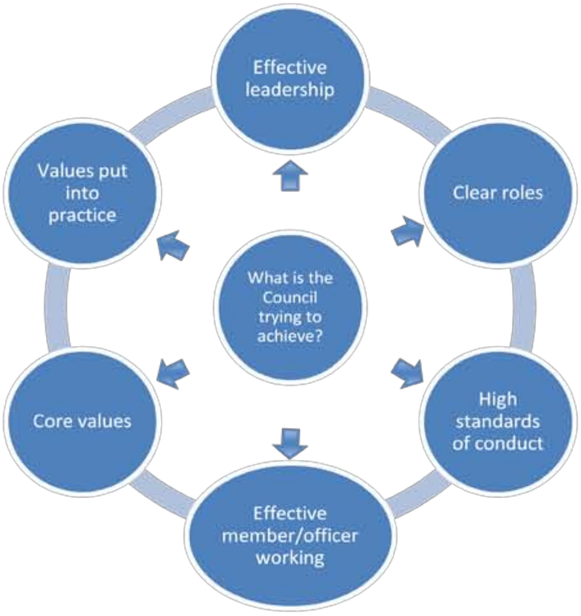
- Cabinet
- Constitution
- Code of Corporate Governance
- Record of delegated decisions
- Statutory Officers
- Shaping our Future Performance Management
- South Tyneside Partnership Performance Management Arrangements
- Protocol for Member/Officer relations
- Independent member remuneration panel
- Shaping our Future – Service Delivery Plans
- Contracts & Housing Performance Panels
- Personal Development Plans
- External Inspections
- Members Induction and Training
- Standards Committee
- Scrutiny Committees
- Internal Audit

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?

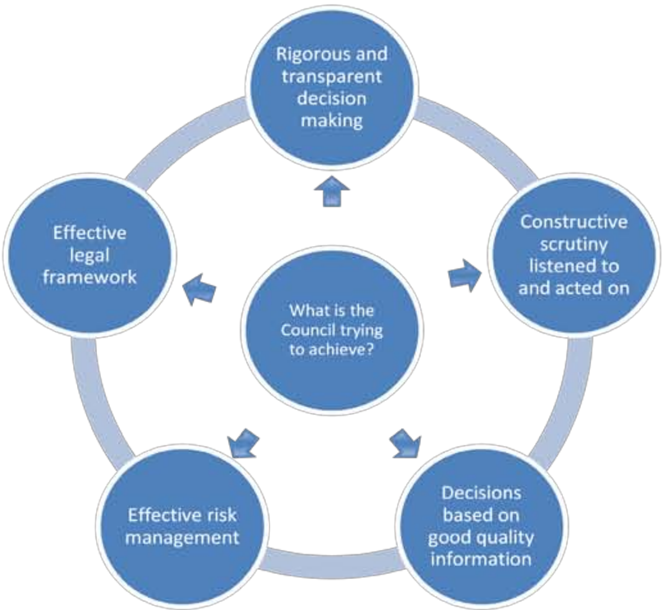


- Constitution
- Members Codes of Conduct
- Employees Codes of Conduct
- Protocol for Member/Officer relations
- Code of Conduct and Members' Interests Arrangements
- Counter Fraud Policy
- Corporate Induction Programme
- Register of Interests, Gifts and Hospitality
- Standards Committee
- Elected Members guide to Training and Development
- Speakout policy
- Annual Governance Statement
- Delivering our Future – South Tyneside Council's Organisation & Development Strategy
- Code of Corporate Governance
- Audit 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?



- Cabinet
- Committees
- Scheme of Delegation
- Internal controls to ensure accuracy of data
- Members Codes of Conduct
- Employees Codes of Conduct
- Training
- Complaints Procedure
- Creating a risk thinking organisation, our risk management strategy
- Financial Management Standards
- Senior Leadership Group
- Speakout Policy
- Corporate Clearance
- Standardised Committee report template
- Committee reports available on Council website
- Council spend > £500 published on Council website

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

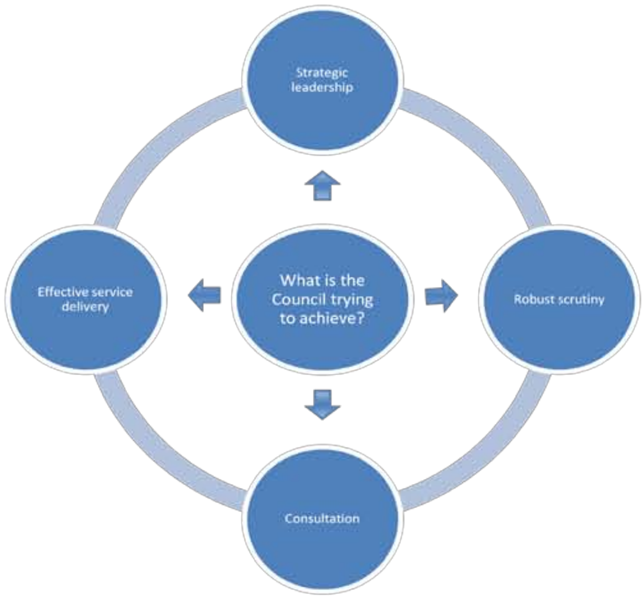
How does the Council demonstrate that this core principle is achieved?

- Induction Training
- Members Induction and Training
- Personal Development Plans
- Corporate Training Programme
- Management Development – The Managers Toolkit
- Investors in People
- Succession planning
- Top 100 Managers programme
- Delivering our Future – South Tyneside Council's Organisation & Development Strategy
- Leadership Development

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
- Constitution
- Shaping our Future – Service Delivery Plans
- A Stronger Voice through Opportunity - Our Community Involvement Strategy
- Annual Budget Consultation
- Community Area Forums
- Scrutiny Committees
- Contracts & Housing Performance Panels
- Ofsted Inspections
- Member Surgeries
- Performance Management Arrangements
- Communications

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 Corporate Assurance and Risk Review Board, including senior officers from across the Council and is chaired by the Corporate Director Business and Area Management.

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:

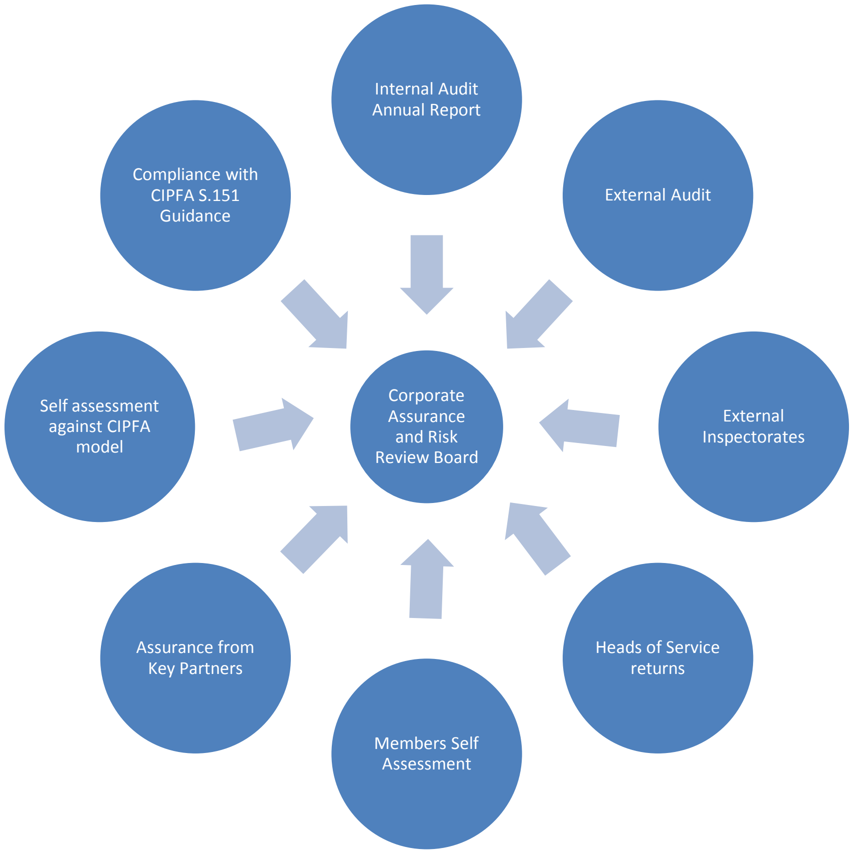
Annual review of the effectiveness of governance arrangements and systems of internal control

Methodology set out in CIPFA's: Annual Governance Statement, Rough Guide for Practitioners 2008	
Objective 1	Establish the principal statutory obligations and organisational objectives 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 24^{th} September 2012 and has recommended that the Council adopt it.

No	Issue	Action taken/proposed	Responsible Officer	Target Date
1	**Business Continuity** During rapid organisational change there is a risk that business continuity arrangements are not kept up to date. Improvements are required in some service areas to ensure business continuity plans are maintained, communicated and tested.	Identification of and training for new site co-ordinators and other officers to take key roles and responsibilities in emergency and business continuity plans. Service areas to ensure business continuity plans are maintained, communicated and tested.	Partnerships and Corporate Affairs Lead All Corporate Directors and Heads of Service	Ongoing Ongoing
2	**New Oracle Financial System** Whilst on the whole the implementation of the system has been a success, a small number of embedding issues remain, these were expected with a system of this size: • Users have experienced some difficulties with user friendliness and ease of navigation. • Difficulties have been experienced in extracting management information from the system. • The value of duplicate payments has increased.	Project ongoing led by the Head of Finance to review P2P process. Reports required for the final accounts have been produced. All duplicates have either been recovered or action is underway.	Head of Finance Head of Finance Invoice Management Team – BTST	30^{th} September 2012 Ongoing Ongoing

3	**Public Health** From 1st April 2013 local authorities are to be given public health responsibilities which will include the transfer of budgets and staff from the PCT.	A number of working groups are in place to project manage the transition of services, budget and staff.	Corporate Director Children, Adults and Families	31st March 2013
4	**Adult Social Care** The Council does not have in place signed agreements with the PCT for some Adult Social Care pooled budgets. The arrangements to identify and recover money from the PCT for joint services are not always effective.	Discussions with the PCT are ongoing to progress this matter. Some agreements have been signed but a small number still remain outstanding. The PCT have continued to pay money owed. Retrospective reconciliations have been ongoing to ensure all money owed are recovered from the PCT. Improvements to the processes to ensure money are identified and recovered on a timely basis have been made but are not fully embedded.	Corporate Lead – Commissioning Business Manager	30th September 2012 30th September 2012
5	**Health and Safety** The Council reported two issues to the HSE. A review of the issues highlighted some non-compliance with procedures.	A review has been undertaken and training provided to staff members to reinforce procedures.	Corporate Director Business and Area Management	Complete
6	**Academy Schools** A number of schools are considering the option to become academy status. This could have a significant impact on the Council's budget.	Through Local Authority Governors LEA able to monitor schools considering academy status and are able to make representations on the advantages and disadvantages of academy conversion. Where the DfE are seeking schools to convert, the Head of Education, Learning and Skills will be in attendance where the DfE academy broker meets with the head and chair of governors. The LEA will seek to create a local academy solution.	Head of Education, Learning and Skills	Ongoing

		Council officers will present the co-operative model to schools that have decided to convert.		
7	**Procurement** Scoring documentation to support the awarding of a challenged procurement contract could have been improved.	Procurement training is being provided for all Council officers who are regularly involved with the awarding of contracts.	Procurement Client Manager/ Principal Solicitor	30th September 2012
8	**Financial Management** The Council has set another challenging budget for 2012-13 with efficiency savings of £20m to be achieved. This is on top of the £20m saved in 2010/11 and £35m 2011/12.	Improved governance and oversight through establishment of Corporate Programme Board and Capital Investment Group. Monthly budget meetings between the Head of Finance and the Head of Service continue to be undertaken.	All Corporate Directors and Heads of Service	Ongoing
9	**Ofsted Inspection – safeguarding and looked after children services** The inspection identified a small number of areas for improvement including the following governance issues: • improve management decision making so that it operates to clear thresholds, follows an identified pathway and incorporates management sign off. • Ensure child protection plans are specific and contain measurable outcomes.	Arrangements are in place to address all of the issues highlighted in the inspection report.	Corporate Director Children, Adults and Families	31st December 2012
10	**Payment Processes** A number of payment schedules bypass the standard payment process. The controls within these systems are poor and lack a segregation of duties.	Review of arrangements ongoing to ensure in the short term controls are robust and in the medium term the process follows the standard payment process.	Corporate Director Business and Area Management	30th September 2012