
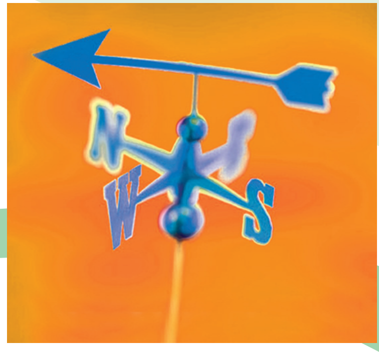


Statement of Accounts

2007/08

South Tyneside Council

2007/08 Statement of Accounts

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Explanatory Foreword by the Head of Finance

1. Introduction

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 three-year horizon. This Statement of Accounts looks back at our results over the past financial year and provides stakeholders with an up to date view of the Council's financial position.

Making the best use of our resources is a responsibility shared by Members and Officers of the Council. As Section 151 Officer, the Head of Finance has a specific role in ensuring the adequacy of resources and proper financial administration.

These accounts set out the results of Council activities for the year ended 31st March 2008 and outline our financial position at that date.

This foreword should allow the reader to:

- Review the Council's financial results and financial standing for 2007/08.
- Understand the activities and significant matters that took place during 2007/08 which had an impact on Council finances.
- Review and understand the principal financial statements.

2. Overview of Financial Position 2007/08

Although the Council has faced significant revenue spending pressures during 2007/08, we have successfully achieved an underspend position of **£0.794m** at the year-end on our revised budget. Our original budget of £221.064m was set assuming a contribution from reserves of £0.618m to balance the budget. Excluding this use of reserves, we have a net underspend for the year of **£0.176m**. This underspend has been transferred to general reserves.

This underspend was brought about through our "one-team" approach, which encouraged us to tackle the budget pressures in a corporate way.

The Council continues to face and manage significant cost pressures relating to demand for adult social care, looked after children, teacher redundancies and the revenue impact of equal pay claims. In recognition of these pressures, we have made additional revenue contributions to our Strategic Risk Reserve and Equal Pay and Job Evaluation Reserve totalling £3.911m. These have been funded through use of one-off grant income and a change to our policy for Minimum Revenue Provision, in line with Government Guidance, to meet the financial commitments facing the Council.

The Council had an approved capital programme of **£74.169m** in 2007/08. During recent years, improvements in the management of our capital programme have improved our ability to deliver projects to budget.

3. Revenue Financial Summary 2007/08

The following table summarises revenue spending during 2007/08 and how this has been financed. Management accounts are reviewed rigorously on a monthly basis and are reported to the Executive Team each month as part of the overall performance-monitoring framework adopted by the Council. The management accounts have been reported to the Cabinet and the Regeneration and Resources Scrutiny Committee on a quarterly basis. For 2008/09 our quarterly Cabinet reporting to Members will be brought forward by a month to provide information on our financial position, on a more timely basis.

We transferred budgets during the year to reflect changes in the management of budgets. These were:

- £0.750m from Regeneration and Resources Directorate to Neighbourhood Services Directorate to address ongoing budget pressures on Adult Social Care.

- A value for money saving target of £0.170m from Regeneration and Resources Directorate to Children and Young People Directorate.

A further budget adjustment was required at the year-end in order to comply with statutory reporting requirements as follows:

- Budget transfer of £1.300m from Children and Young People Directorate to Regeneration and Resources Directorate for ongoing pension payments for teachers in order to comply with the Accounting Code of Practice categorisation of expenditure. The budget for redundancy payments is still held in Children and Young People Directorate.

As part of a further review of our Directorate structures, Regulatory Services transferred from the Neighbourhood Services Directorate to the Regeneration and Resources Directorate in January 2008. The Council's Medium Term Financial Plan for 2008/09 reflects the change in Directorate structures, however the management and financial reporting of Regulatory Services continued within Neighbourhood Service Directorate until the end of 2007/08.

Both types of budget adjustments are incorporated in the revised budget column in the following table:

2007/08 Revenue Financial Summary	Original Budget £m	Revised Budget £m	Actual £m	Variance £m
Chief Executive Office	0.192	0.253	0.152	(0.101)
Children and Young People	115.674	118.807	118.837	0.030
Neighbourhood Services	82.303	84.597	85.050	0.453
Regeneration and Resources	22.895	17.493	16.317	(1.176)
Total Revenue Spending	**221.064**	**221.150**	**220.356**	**(0.794)**
Revenue Support Grant	11.797	11.797	11.797	-
Dedicated Schools Grant	85.911	85.998	85.998	-
National Non-Domestic Rates	70.291	70.291	70.291	-
Contribution from Collection Fund	0.001	-	-	-
Council Tax Payers	52.446	52.446	52.446	-
Contribution to / from Council General Reserves	0.618	0.618	(0.176)	(0.794)
Total Revenue Funding	**221.064**	**221.150**	**220.356**	**(0.794)**

The change to the original total budget reflects the final allocation of Dedicated Schools Grant (DSG), which increased by £0.087m and no contribution from the Collection Fund. This was announced after the 2007/08 budgets had been set.

The most significant **revenue spending variations** during the year were as follows:

Children and Young People Directorate

- Looked after children continue to be a significant pressure for the Council. The number of looked children has risen during the year, however the significant impact on budgets has been the cost of care from agency foster placements and out of borough placements. This is a pressure faced by other Councils across the Tyne and Wear region. The additional cost has been £1.174m.

- The Directorate faced significant cost pressures on teacher redundancies in 2007/08 from the closure of King George V and Brinkburn Comprehensive schools and opening of South Shields Community School. A budget of £1.500m was established in 2007/08 to manage these costs along with a contribution from Dedicated Schools Grant funding. The Council was successful in receiving a capitalisation directive from the Department for Communities and Local Government (DCLG) to allow these exceptional costs to be funded through additional borrowing. This reduced the budget requirement by £1.500m, which has helped to offset the spending pressures on looked after children.

- There were increased Special Educational Needs transport costs of £0.255m due to an increase in demand for this service. A new contract has been negotiated for 2008/09, bringing together all relevant transport from across the Council. The efficiencies from this re-tender will bring these costs in line with budget.

- Remaining cost pressures within the Directorate were managed through a budget recovery plan which resulted in a small overspend at the year-end.

Neighbourhood Services Directorate

- There were significant demand-led cost pressures within Adult Services. This will continue to be an issue for the Council with the ageing population in the Borough and additional budget provision has been built into our Medium Term Financial Plan. Two budget transfers were made during the year to move £0.750m from the Regeneration and Resources Directorate specifically to address these budget pressures, nevertheless a net overspend of £0.453m remained due to the volatile nature of this demand.

- The Streetscape Service experienced cost pressures within the Transport and Environmental Maintenance and Waste Management teams due to additional Blitz It services. This is being reviewed for 2008/09.

- Underspends were achieved on Regulatory Services, Community Services and Cultural Services to offset these spending pressures above. This included holding vacant posts and maximising the use of external grant income.

Regeneration and Resources Directorate

- £0.955m underspend related to investment income where higher than anticipated interest rates have increased income above the budgeted level. This underspend funded the 2007/08 budget transfer to Neighbourhood Services of £0.750m to address adult services cost pressures. It is not anticipated that underspends at this level will be achieved again in 2008/09.

- Reduced insurance claims and reduced costs from new insurance contracts have resulted in a saving in the year of £0.825m.

- The 2007/08 budgets for the Directorate included a £0.618m budget for the revenue costs of job evaluation implementation. This budget was funded through the use of reserves. This budget has not been spent during 2007/08, adding to the savings made by the Regeneration and Resources Directorate. The net underspend is £0.588m for the Regeneration and Resources Directorate taking into account the retention of this reserve.

Chief Executive's Office

- The outturn showed savings of £0.101m from staffing costs and increased income from services provided to other bodies.

4. Capital Investment Financial Summary 2007/08

Expenditure on capital projects during the year was £54.299m of which £37.659m represented net additions to fixed asset values. Receipts of £10.308m from the disposal of assets were used to fund 19% of capital expenditure, grants and contributions of £12.810m funded 24%, Government borrowing approvals of £5.892m funded 11%, unsupported borrowing of £13.537m (in line with the Prudential Code) funded 25%, and the remaining £11.752m of capital expenditure (21%) was funded from revenue contributions. The following table summarises capital investment during 2007/08 and the capital funding the Council has used to finance this spending. The revised budget reflects the full impact of known contractual commitments and funding approvals.

2007/08 Capital Investment Summary	Original Budget £m	Revised Budget £m	Actual Expenditure £m	Carry Forward Element £m	Spend Variance £m
Chief Executive Office	-	-	-	-	-
Children and Young People	7.460	14.545	8.394	6.345	0.194
Neighbourhood Services	12.105	21.442	16.361	5.455	0.374
Regeneration and Resources	20.264	21.669	15.322	6.270	(0.077)
Housing	34.340	14.304	14.222	0.082	-
Total Capital Spending	**74.169**	**71.960**	**54.299**	**18.152**	**0.491**

2007/08 Capital Financing Summary	Original Budget £m	Revised Budget £m	Actual Funding £m	Carry Forward Element £m	Spend Variance £m
Borrowing Approvals from Government	7.707	5.892	5.892	-	-
Unsupported Borrowing	15.223	16.402	13.537	3.354	0.489
Potential Supported ALMO Borrowing	20.004	-	-	-	-
Capital Receipts	7.514	17.404	10.308	7.175	0.079
Funding from Housing Revenue Account	11.110	11.110	11.028	0.082	-
Funding from General Fund Revenue	0.860	0.724	0.724	-	-
Earmarked reserves	0.310	-	-	-	-
Government Grants	1.158	19.362	11.744	7.541	(0.077)
European Grants and Other Contributions	10.283	1.066	1.066	-	-
Total Capital Funding	**74.169**	**71.960**	**54.299**	**18.152**	**0.491**

Improvements made to the management of the Capital programme have ensured that the overspend is the level expected from management reports. The higher level of carry forwards in 2007/08 is attributed to a number of regeneration projects that have been revised from our original programme.

The most significant **capital spending variations** during the year were as follows:

Children and Young People Directorate

- The major overspend on the Council's programme related to a new project to remove asbestos from King George V school. The school was vacated as part of the amalgamation with Brinkburn to create the South Shields Community School. The Council assessed the health and safety risks of a vacant school containing asbestos and agreed an additional scheme of £0.301m on the capital programme. Additional underspends have been found within the existing programme to reduce the reported overspend to £0.194m.

Neighbourhood Services Directorate

There were variances on the following capital projects:

- A new project of £0.185m to repair Marsden Grotto steps to re-open them to public and meet health and safety requirements. This was an addition to the capital programme.

- Additional costs for replacement vehicles and buy out of leases £0.206m.

- Within the Housing Capital Programme there have been overspends on projects for replacing boilers (£0.331m), replacing doors (£0.123m), managing the capital programme (£0.241m) and structural works (£0.176m). Savings in other areas such as demolition and home loss payments and decent homes windows/doors contract offset the overspend in order to stay within the agreed budget.

Regeneration and Resources Directorate

- A saving of £0.077m was achieved by effective use of unringfenced grants to fund existing planned works.

There is £18.152m of funding to carry forward from the 2007/08 capital programme. This is significantly higher than last year's carry forward of £10.400m due mainly to a small number of regeneration schemes which have not been implemented in the timescales envisaged due to external factors.

The most significant **capital carry forwards** arising in 2007/08 were as follows:

Children and Young People

- A £4.181m budget was added to the capital programme in 2007/08 to reflect the capital contribution to the replacement of Cleadon and Whitburn Schools. A balance of £3.005m is carried forward to 2008/09 for the final contribution to Whitburn school costs, to see the scheme through to completion.

- The funding for Schools Devolved Capital commitments is ring fenced and £1.735m will be carried forward. This grant is always intended to be used over more than one financial year.

- School asset conditioning works of £0.385m. Programme commitments are already in place for £0.265m of this total and timing of works in school premises has resulted in the carry forward to 2008/09.

- Primary reorganisation budget of £0.400m. This smaller project has now been encompassed by the Transforming our Primary Schools Project and has been carried forward to spend within that project plan.

Neighbourhood Services

- The most significant carry forward relates to Trow Quarry Reclamation (£1.688m) that will now commence in 2008/09.
- Regeneration projects at Ebchester and Boldon Colliery require carry forwards of £1.417m to meet the costs of known capital commitments.
- Completion of the regeneration of South Marine Park will incur £1.410m in 2008/09.
- Delays in take up of Private Sector Housing Improvement grants has led to a carry forward of £0.351m.

Regeneration and Resources

- The main carry forward projects relate to the regeneration plans for the Borough. £0.300m funding for Green Business Park will not happen until 2008/09 due to reprofiling by the external funder.
- £2.250m has been set aside for acquisitions to achieve the transformation of the Borough, which will now occur in 2008/09.
- Tyne Gateway scheme funding of £0.600m is carried forward to 2008/09 to meet timescales of external funding.
- We have provided for £0.379m from the Major Grants Fund for known commitments.
- There is £0.900m carry forward of capital commitments from the ICT system and E-Government strategy projects.

5. Significant Matters

Pension Liability

As at 31st March 2008 the Council had a pension liability of £131.840m, (£170.970m at 31 March 2007) a decrease of £39.130m on the previous year. This amount represents what the Council would have to pay out at the balance sheet date to meet the full future cost of all employee pensions, in line with the terms and conditions of the Tyne and Wear Pension Fund. Were the Council to cease operations this liability would have to be taken over by the successor body or ultimately funded by Central Government. The reduction in the liability compared to the previous year reflects a change in the financial assumptions underlying the present value of Fund liabilities. The most significant change relates to the discount rate applied, which increased from 5.3% to 6.8%.

Prior Period Adjustment

The Council previously had responsibility for delivering the Magistrates Courts function but on 1st April 2005 responsibility was transferred to Her Majesty's Court Service. The building from which the courts operated was erected by the Council using funding from Central Government and has remained on the fixed asset register. A prior period adjustment has therefore been made to remove this building from the reported assets of the Council. As a result other land and building opening assets have been reduced by £4.922m with a corresponding entry made to the capital adjustment account.

Claims under the Equal Pay Act 1970

The Council has received a significant number of claims under the Equal Pay Act 1970 following a judgement against the Council. We have a policy of seeking to capitalise such payments as they arise. Capitalisation is subject to approval by the Department of Communities and Local Government (DCLG) and only applies to backdated pay settlements. Payments and provisions totalling £8.597m were capitalised in 2007/08 (£6.114m in 2006/07). The full cost of any forward-looking element incurred in 2007/08 (which does not qualify for capitalisation) has been met from the Equal Pay and Job Evaluation revenue provisions.

The Council has continued to negotiate with Union colleagues and those employees pursuing a claim through the employment tribunal in relation to Equal Pay and Equal Value claims to minimise our liability. We have been successful in reaching agreement for areas of the liability and have made provision for our full estimated liability. In 2006/07, we were only able to report the additional liability as a contingent liability in the accounts as at that stage there was not sufficient information to estimate the full provision required. We have now made provision in the accounts for the estimated cost alongside that of backdated implementation of the Job Evaluation structure.

There are a number of entries in the accounts in making this provision. Under Government legislation these costs have been removed under the Statement of Movement on the General Fund Balance and transferred to an Equal Pay Account until the year they become paid.

In line with Government requests, we have applied for a further capitalisation approval to meet the full liability for back pay and additional resources have been set aside in our Equal Pay and Job Evaluation Reserve to meet the revenue costs which cannot be capitalised.
The implementation of our new pay structure based on equality proof job evaluation will help to protect the Council from future equal value claims. We plan to implement our revised offer in 2008/09, with backdating to 1 January 2007. This is subject to trade union and Council approvals and until these are in place the provisions can only be best estimates.

South Tyneside and Gateshead Building Schools for the Future (StaG BSF)

On 21 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 Ltd, between 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 Ltd will deliver the whole BSF build programme and ICT managed service, with exclusivity across the education schemes above £0.1m, if the Local Education Partnership (LEP) demonstrates value for money. This exclusivity, overarched by European legislation, opens up the potential for Inspiredspaces to deliver the primary capital programme, hard and soft facilities management, leisure facilities and various regeneration projects.

The first schools in the BSF scheme are:

- Jarrow School, new build PFI and ICT managed service; and
- Mortimer Comprehensive School, refurbishment and ICT managed service.

The rest of South Tyneside's programme will be delivered through a series of schemes progressed by the LEP in conjunction with each school and the Council.

Strategic Partnership

The Council has embarked on a process to seek a Strategic Partner to deliver “back office” functions and bring jobs and investment to the Borough. This process has reached the competitive dialogue stage and tenders have been submitted. Following evaluation, it is proposed to recommend the preferred bidder and the way forward for the Council in July 2008. This contract would start during 2008/09 and run for 10 years.

Airport Shareholding

The valuation of the holding has been reviewed in 2007/08 in line with Statement of Recommended Practice (SORP) guidance. The valuation has been increased by £3.385m to be held at the assessed current fair value. This valuation is now the original total cost of the investment. The investment had been impaired in 2006/07 following the re-financing exercise.

6. Material Assets and Liabilities Acquired in Year

- At 31st March 2008 the Council held an additional £9.852m in short-term investments. This is primarily due to the investment of cash resources received by the Council in advance of being spent.
- Creditor balances have decreased by £13.582m for 2007/08 due to the inclusion of a number of exceptional creditor items necessary in 2006/07 accounts. These included £5.1m loan interest and an accrual of £2.1m for benefit subsidy.
- Long term borrowing has increased by £19.362m and provisions by £18.501m primarily as a result of the Financing arrangements around for Equal Pay and Job Evaluation.

7. Reserves and Balances

Council agreed a risk based reserves strategy alongside the Medium Term Financial Plan for 2008-2011 and reviews all strategic reserves as part of the budget setting process.

As at the 31st March 2008 the Council held earmarked reserves of £37.701m (£29.300m in 2006/07).

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 in line with CIPFA recommendations. In previous years we have chosen to define net budget as excluding Dedicated Schools Grant (DSG). From 2008/09 our published net budget is inclusive of DSG, and it is now appropriate to bring this reserve in line with that definition. The resulting reduction of £1.455m has been transferred to the Job Evaluation and Equal Pay Reserve and Risk Reserve to provide for risks in the forthcoming years based upon best available information. This will leave a balance of £2.872m for emergency/unforeseen events that are not covered by existing earmarked reserves.

The other key reserves that we hold to deal with our specific risks are:

- Corporate Strategic Financial Risk Reserve; and
- Equal Pay and Job Evaluation Reserve.

We have added to both reserves in recent years to strengthen the Council’s financial position. Prudently, we have again added to both reserves in 2007/08 using one off income from grants including the Local Authority Business Growth Incentive Scheme (LABGI) and the savings from a change to our accounting policy for Minimum Revenue Position and following reviews of other balances held.

We also hold a Structural Change reserve to fund revenue costs of achieving the structural changes facing the Council and forward fund significant “invest to save” projects on an agreed repayment plan.

As at 31st March 2008 the Council held £1.182m (£1.043m in 2006/07) in capital receipts for the purposes of investing in our assets in future years. We also expect to receive £93.614m in Government support for our two Private Finance Initiative (PFI) schemes leaving £63.148m for the Council to fund over the next 24 years. We are currently building up a reserve of up-front Government support as a means of smoothing the required Council funding over the life of the contracts.

8. Group Results

The Group results revealed a deficit for the year of £62.328m (deficit of £21.188 in 2006/07) incorporating a net deficit of £0.782m (£0.745m in 2006/07) from Council subsidiaries and joint ventures. The net assets of the Group stood at £701.687m at 31st March 2008 (£621.934m at 31st March 2007).

9. Housing Revenue Account

The Housing Revenue Account is ringfenced and all expenditure must be met from rents or Government subsidy. After the planned use of balances the Housing Revenue generated a budget surplus of £0.805m against a budgeted deficit of £0.109m, a positive variance of £0.914m (deficit of £0.332m in 2006/07). Revenue balances at 31st March 2008 stood at £3.875m (£3.070m in 2006/07) and this will be used to support future year's expenditure on Housing.

10. Tyne and Wear Pension Fund

The Council is the administering body for the Tyne and Wear Pension Fund. As at 31st March 2008, the Fund's net assets amounted to £3,683m – a fall of £43.5m on the previous year (£3,726.5m in 2006/07). The reduction in value is in equity holdings.

11. Private Finance Initiative Expenditure for the Year

Expenditure on our two Private Finance Initiatives during the year was £4.754m (£3.155m in 2006/07). Revenue contributions provided funding of £1.870m (£1.678m in 2006/07), or 39% and the remaining 61% or £2.884m (£1.477m in 2006/07) was funded using PFI credits from Government.

12. 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 significant deviations from expectations. There were no significant deviations to report during 2007/08.

During the year, the Council was a net borrower having taken out 13 loans totalling £61m (£81m in 2006/07) from the Public Works Loans Board (PWLB). This borrowing was partially offset by the repayment of 7 PWLB loans totalling £43m (£78m in 2006/07).

13. Medium Term Prospects

Our Medium Term Financial Plan for 2008-2011 was approved by Council and published in February 2008. 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 on setting the level of council tax and ensuring that our limited resources are directed to the top priorities for the residents of the Borough.

Our Medium Term Financial Plan for 2008-2011 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. There are significant risks facing the Council over the medium term and these are identified alongside our financial plans. The actions we are taking to minimise these risks are outlined in the Plan.

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.

14. The Main Financial Statements

This booklet contains the Council's financial statements for the year ended 31st March 2008. They have been prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom.

The main statements are as follows:

- A **Statement of Accounting Policies** that explains the relevant bases and policies on which the accounts have been prepared.

- A **Statement of Responsibilities** that identifies the respective responsibilities of the Council and the Head of Finance (the Council's Chief Finance Officer).

- A **Statement of Assurance** from the Leadership of the Council 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, together with the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

- An **Income and Expenditure Account** that reports the net surplus or deficit in the year of the Authority's activities in line with UK accounting practice.

- The **Statement of Movement in the General Fund Balance** that reconciles items included in the Income and Expenditure Account which by statute are not charged to the Council Tax payer.

- The **Statement of Total Recognised Gains and Losses** that reflects specific gains and losses experienced by the Authority that are not reflected in the Income and Expenditure Account.

- The **Balance Sheet** showing what assets the Authority owns and its level of indebtedness. This statement also shows the level of reserves that the Council can call upon to meet future expenditure.

- A **Cash Flow Statement** summarising the activities during the year in terms of cash inflows and outflows reconciling the cash balance held on the Balance Sheet.

- A set of **Group Accounts** and associated notes showing the position of the Council incorporating its related group entities.

- The **Housing Revenue Account** reporting in more detail the activities of this service, our spend and the method of financing.

- The **Collection Fund Revenue Account** where we account for transactions in relation to the local taxes (Council Tax and National Non-Domestic Rates) administered by the Authority.

- The **Tyne and Wear Pension Fund Accounts** are separate to the Council's main accounts and show the assets and liabilities available to meet future pension liabilities. The accounts are produced here as South Tyneside Council acts as the Administering Body for the Fund.

15. Compliance with UK Accounting Practice

The Statement of Recommended Practice 2007 introduced changes, which bring further convergence between Local Authority Accounting and UK General Accepted Accounting Practice. Notable changes are:

- Financial Instruments – introducing new terminology into the accounts. Debtors are referred to as "receivables" and creditors as "payables". Bad debt is now "impairment" and the completion of financial transactions "derecognition".

- Accounting for financial instruments – incorporating assets and liabilities from the balance sheet (investments, loans, "soft loans", financial guarantees and bank deposits).

- Accounting for Fixed Assets – changes to the guidance has introduced two new reserves in the net worth on the balance sheet. The Revaluation Reserve and Capital Adjustment Account now replace the Fixed Asset Restatement Account and the Capital Financing Account.

The implications of these changes are set out in detail in the accounting policies.

16. Changes in Accounting Policies

In addition to SORP changes detailed above the Authority reviewed the position on the revaluation of Council dwellings. In previous years the Council used to apply a percentage uplift to reflect movement in property prices during the year. SORP guidance, whilst allowing for material changes to be reflected in the year, states that all valuations should be based on their position at 1st April 2007. During the year the Council has adopted a rolling programme designed to revalue all of its dwellings over the coming 5 years. This will lead to a more accurate picture of the value of dwellings such that the percentage uplift is no longer considered appropriate.

Further Information

The audited accounts are available on the Council's Website (south tyneside.info) 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**.

17. 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 Statement of Accounts. Please let us have your views by contacting us at the above address.

Eric Fisher,
Interim Head of Finance

23 September 2008

Independent Auditors' Report to the Members of South Tyneside Council

We have audited the financial statements of South Tyneside Council and its Group for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund, the Pension Fund Account and Net Assets Statement, the Group Accounts and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

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

This report, including the opinion, 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure and cash flows for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of South Tyneside Council and its Group as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

30 September 2008

Notes:

a. The maintenance and integrity of South Tyneside Council's 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 financial statements since they were 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.

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

Council's Responsibilities

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

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. 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.

Qualified Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, South Tyneside Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008 except that it did not put in place arrangements to maintain a sound system of internal control.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2007/08 on 30 September 2007. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

We certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

30 September 2008

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice 2008 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

Financial transactions are accounted for in the year in which the associated activity takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.

- Supplies are 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 stock on the balance sheet.

- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

In the preparation of these accounts, the following entries represent exceptions to the statements made above:

- Apportionment of Employee Costs – the last week of wages relating to March 2008 has not been accrued. However, the last week of March 2007 is included in the 2007/08 accounts, which results in wages expenditure of 52 weeks. The effect is a reduction in cost of £0.067m.

- Housing Rents - the Council operates a 48-week 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. 2007/08 was a 49-week year resulting in £0.946m additional rent in 2007/08.

3. Estimation Techniques

Estimation techniques are the methods adopted by accountants to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. As a general principle the estimation technique chosen should be the one that most closely reflects the economic reality of the transaction. These techniques are applied on a case-by-case basis depending on the nature of the transaction and those used in the production of these accounts are discussed more fully in the following notes.

4. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

5. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure. All reserves are reviewed on a regular basis to ensure that they are still relevant and fit for purpose and that adequate balances are maintained to support our future expenditure.

Certain reserves are kept to manage the accounting processes for retirement benefits and tangible fixed assets and that do not represent usable resources for the council. These particular reserves are explained in the relevant accounting policy notes 7 and 11 respectively.

6. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

7. Retirement 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 Children, Schools and Families.

- The Local Government Pension 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 the Council's liabilities for these benefits cannot be separately identified. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

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 and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 6.8% (based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index).

- The assets of the Tyne and Wear Pension Fund attributable to the Council are included in the balance sheet at their fair value:
    - Quoted securities - mid-market value
    - Unquoted securities - professional estimate
    - Unitised securities - average of the bid and offer rates
    - Property - market value.

- The change in the net pensions liability is analysed into seven components:

    - Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of 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 Net Cost of Services in the Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account.

    - 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 Net Operating Expenditure in the Income and Expenditure Account.

    - Gains/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 to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

    - 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 to the Statement of Total Recognised Gains and Losses.

    - Contributions paid to the Tyne and Wear Pension Fund - cash paid as employer's contributions to the Pension Fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the Pension Fund in the year. In the Statement of Movement on the General Fund Balance 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 any amounts payable to the Fund but unpaid at the year-end.

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 (including teachers) 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. The Council has amended the scheme in 2007/08 to limit the circumstances where discretionary awards are made.

8. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

9. 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 Best Value Accounting Code of Practice 2008. 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 the cost associated with surplus assets.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

10. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council. The assets are valued on a cost basis and amortised to the relevant service revenue account over the economic life of the investment.

11. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides are for more than one financial year. Expenditure that secures but does not extend the life or performance of the asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

A de minimis level of £10,000 has been used in the recognition of Council capital expenditure. A lower de minimis level of £2,000 has been used for devolved school capital spending in line with Government guidelines.

Measurement: assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements - lower of net current replacement cost or net realisable value.
- Dwellings, other buildings and land - lower of net current replacement cost or net realisable value in existing use. For Council dwellings, an assessment of housing prices in the Borough has been undertaken and any material variation has been reflected in the valuations stated in these accounts.
- Infrastructure assets, community assets, vehicles, plant and equipment - depreciated historical cost.
- Assets under construction – historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties - existing use value.
- Specialised operational properties - depreciated replacement cost.
- Investment properties and surplus assets - market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise the loss has been charged to the relevant service in the Income and Expenditure Account. Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts 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 Usable 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 (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. Depreciation is not applied to land, community assets or assets under construction.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the life of the property (between 20 to 50 years) as estimated by the valuer.
- Vehicles, plant and equipment – straight-line allocation over 5 years.
- Infrastructure - straight-line allocation over 40 years.

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.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

12. Charges to Revenue for Fixed Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service (less any grants and contributions released).
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisation. However, it is required to agree an annual policy detailing the level of provision to set aside from revenue to contribute towards the reduction in its overall borrowing requirement. For 2007/08 this policy is as follows:

- 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.

- 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. deferred charges.

Depreciation, impairment losses and amortisation are replaced by this revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

13. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year together with any associated external funding. Where the Council has determined to meet the cost of the deferred charges from capital receipts or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

14. Leases

Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned as follows:

- A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset). The liability is written down as the rent becomes payable.
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the assets' estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

The Authority as Lessor

The Authority also acts as lessor in relation to property rentals where the reverse rationale applies.

15. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructure 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instrument Adjustment Account in the Statement of Movement on the General Fund Balance.

16. 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.

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where loans have been made at less than market rates (soft loans), a loss is recorded in the Income and Expenditure Account 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 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

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 Income and Expenditure Account.

Any gains and losses that arise on derecognition of an asset are credited/debited to the Income and Expenditure Account. Under the SORP any premiums incurred on derecognition of external borrowing can be released to revenue over the number of years outstanding of either the loan redeemed or the new loan whichever is the greater. However the Council has decided to accelerate the release of these premiums to either the length outstanding on the loan redeemed or 10 years, whichever is the greater, to bring it in line with the release of any discounts received.

Available-for-sale Assets

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account 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; and

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 Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the 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, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on derecognition of an asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

17. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts.

The group financial statements within these accounts are prepared in accordance with the policies set out above, with the following additions and exceptions:

a. Value Added Tax

VAT paid by other group entities is accounted for in the Group Income and Expenditure Account 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 Fixed Assets

There are no transactions between the Group Income and Expenditure Account and the Capital Adjustment Account in relation to charges for fixed assets held by South Tyneside Homes Limited. Any amounts debited and credited to Income and Expenditure are reflected in the Profit/loss of other Reserves and Group Entities.

18. Stocks and Work in Progress

Stocks, where material, are included in the balance sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works. However, the Council has no material work in progress.

19. Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the Council under a contract are generally charged to revenue to reflect the value of services received in each financial year.

Prepayments

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the Authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement on the General Fund Balance to remove any impact on council tax.

Reversionary/Residual Interests

The Council has passed control of certain land and buildings over to the PFI contractor, but this property will return to the Council at the end of the scheme (reversionary interests). An assessment has been made of the net present value that these assets will have at the end of the scheme (unenhanced) and a reversionary interest asset has been created in the Council's Balance Sheet.
As the asset is stated initially at net present value, over the life of the scheme, the discount will need to be unwound by earmarking (decreasing) part of the unitary payment to ensure the reversionary interest is recorded at current prices when the interests revert to the Council.

PFI credits

Government Grants received for PFI schemes, in excess of current levels of expenditure and agreed Council contribution, are carried forward as an earmarked reserve to fund future contract expenditure.

20. Landfill Allowance Trading Scheme

The value of allowances held and the liability due is recognised in these accounts based on the weighted average value of trading during the year in accordance with CIPFA guidance. Unused allowances have been revalued at current market value.

21. Equal Pay Compensation Payments

The Council has a policy of seeking to capitalise such payments as they arise. Capitalisation is subject to approval by the Secretary of State and currently only applies to backdated pay settlements. The full cost of any forward-looking element has been included in the Income and Expenditure Account.

22. Changes to Accounting Policies

The following changes to accounting policies have been made in these accounts.

- In the valuation of dwellings the Council used to apply a percentage uplift to reflect movement in property prices during the year. SORP guidance, whilst allowing for material changes to be reflected in the year, states that all valuations should be based on their position at 1st April 2007. During the year the Council has adopted a rolling programme designed to revalue all of its dwellings over the coming 5 years. This will lead to a more accurate picture of the value of dwellings such that the percentage uplift is no longer considered appropriate.

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, that officer is the Head of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The responsibilities of the Head of Finance

The Head of Finance is responsible for the preparation of the Authority'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 of Practice').

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

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

The Head of Finance has also:

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2008, set out in the following pages, presents fairly the financial position of South Tyneside Council and the Tyne and Wear Pension Fund at 31st March 2008, and their income and expenditure for the year ended 31st March 2008.

Signed: Date: 23 September 2008

Eric Fisher, Interim Head of Finance

Chair of General Purposes Committee Certificate

I can confirm that these Audited Accounts were approved by the General Purposes Committee at its meeting held in September 2008.

Signed: Date: 25 September 2008

Councillor Iain Malcolm, Chair of General Purposes Committee

South Tyneside Council and Tyne and Wear Pension Fund

Annual Governance Statement 2007/08

Scope of responsibility

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.

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.

CIPFA/SOLACE published an updated framework for Corporate Governance in 2007: '*Delivering Good Governance in Local Government*'. This clearly sets out the fundamental principles of corporate governance as follows:

- Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions that are subject to effective scrutiny and managing risk.

- Developing the capacity and capability of members and officers to be effective.

- Engaging with local people and other stakeholders to ensure robust public accountability.

The Council has adopted and approved a code of corporate governance, which outlines how the Council complies with these principles. A copy of the code is on our website at:

http://www.southtyneside.info/councillorsandcommittees/committeemeeting.aspx?committeeid=521andmeetingid=1511andperiodid=16 or can be obtained from the Head of Corporate Governance.

This statement explains how the Council has complied with the principles of corporate governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and 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.

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 of effectiveness. 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.

The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the Statement of Accounts by the General Purposes Committee, 27th June 2008.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are set out below:

- Extensive consultation with stakeholders and partners has been carried out to identify the vision, priorities and intended outcomes for the citizens and service users of South Tyneside. This is set out in 'Spirit of South Tyneside' the Council's combined Community Strategy, Local Neighbourhood Renewal Strategy and Local Area Agreement. The vision has been communicated to partners, stakeholders and the wider community.
- The Council has established clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
- The Council has established a robust performance management framework to measure the quality of services for users and ensure that services are delivered in accordance with the Council's objectives.
- The Council has a programme of value for money reviews to ensure that services provide best value for money.
- The corporate plan, 'Performing Together' sets out the key actions and performance targets to monitor the Council's contribution to the vision for the Borough. Partner actions are set out and monitored in "theme plans".
- The Council has robust systems for financial planning which is fully integrated into the strategic planning framework ensuring that our financial plans are driven by our agreed corporate objectives. Full details are published in the medium term financial plan.
- The Council has embedded a system of budget monitoring, which ensures that variations against budget are detected and rectified at an early stage. As well as financial information, our monitoring framework includes the reporting of key cost drivers, which are lead indicators of spend and provide a clear focus on any changes in volume and demand.
- The Council's constitution clearly defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols to ensure effective communication.

- The Council has an agreed set of core values that are considered throughout council business.
- The Constitution includes codes of conduct for members and staff that define the standards of behaviour expected.
- The Council's Standards Committee oversees the code of conduct for members.
- The Council has established procedures that clearly define how decisions are taken and the processes and controls required to manage risks. These include standing orders, standing financial instructions a scheme of delegation, a risk management strategy and supporting procedure notes/manuals. Procedures are reviewed and updated where appropriate.
- The Council has agreed a business continuity strategy and has developed business continuity plans for key services to ensure that any disruption to Council services is minimised.
- The Council has established an Audit Committee that complies with best practice outlined in 'CIPFA's: Audit Committees – Practical Guidance for Local Authorities'. The Committee oversees the corporate governance arrangements and receives reports on risk, assurances and control improvements.
- A Pensions Committee has been established that oversees the corporate governance arrangements for the Tyne and Wear Pension fund. The Committee receives reports from Internal Audit on the Pension fund's systems of internal control.
- The Council has an effective Internal Audit function that meets the professional standards as set out in CIPFA's Code of Practice for Internal Audit.
- The Council's Scrutiny arrangements have been streamlined to ensure focus and challenge, with key chairmanships taken by opposition members in line with best practice.
- The Council has put procedures in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer and Section 151 officer are members of the Executive Team and all Cabinet reports are reviewed for legal, financial and other risk implications.
- The Council has an anti-fraud and corruption policy, a whistle blowing policy and a complaints procedure for receiving and investigating complaints from staff and the public.
- The development needs of members and senior officers are identified in relation to their strategic roles. They are recorded on personal development plans and supported by appropriate training.

- The Council has achieved investors in people accreditation for its employees and elected members as One Team, and has also been awarded the Regional Charter for Elected Member Development.
- The Council has identified its key partnerships and has carried out a health check of governance arrangements and has an action plan to continually improve governance arrangements. The Council agrees objectives with its significant partners and monitors financial performance during the year.
- As part of prioritising our priorities, the Council has identified 14 critical 4 star plus projects for the Council for 2008-11 each project directly contributes to the Local Area Agreement Top 10 Priorities. These are subject to robust project monitoring and regular reports are made to the Executive Team.

Review of effectiveness

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 Governance Review Team, which is chaired by the Head of Corporate Governance. The review follows the methodology set out by CIPFA in its publication 'Rough Guide for the Annual Governance Statement'.

The Council has identified sources of assurance to review the governance arrangements, confirm that they are operating adequately or make suggestions for improvements. The assurance framework includes the following:

- The opinion of internal audit
- The findings of external audit and inspection
- Peer reviews
- Scrutiny commissions
- The views of key partners
- The views of Lead Members
- The views of Heads of Service

- The views of Managers of key financial systems
- Regular reports on performance, risk, budget monitoring and progress on the 4 star plus projects
- The work of the Corporate Governance Review Team (including the Monitoring Officer and S151 Officer) in overseeing the code of corporate governance
- The work of the Audit Committee
- The work of the Standards Committee

Significant governance issues

The Audit Committee has advised us on the implications of the review of the effectiveness of the governance framework. The annual review has identified a number of areas that need to be improved. These are set out below.

The Council has identified significant spending pressures over the next few years including the costs of equal pay/value/job evaluation, regeneration, adult social care and looked after children. The Council's financial strategy is being developed further to incorporate funding options around external funding (following the replacement of specific grants with area based grants), fees and charges, invest to save, value for money and efficiency, whilst having regard to the key priority to keep Council Tax increases down.

The Council has made progress on improving value for money and improved its use of resources scores from level 2 to 3 in 2007. However, the Council did not achieve the strategic cost reduction targets for 2007/08 in full. To address this, a dedicated VFM team has been established to manage and deliver to the £2.75m target agreed in 2008/09 and £2.5m per annum in subsequent years in line with the medium term financial plan.

Significant progress has been made in improving the level of controls in financial systems. Dedicated resources continue to be allocated to ensure that all recommended control improvements on the new financial systems are implemented and to ensure that the systems are properly embedded.

The Council has established effective and innovative governance arrangements in partnership with other Councils for building schools for the future and for waste management. These will continue to develop as the project and partnerships progress. The Council will continue to review the governance arrangements of its partnerships and community associations. In particular:

- Governance arrangements of the Local Strategic Partnership are to be developed to ensure that it can take the opportunity to develop pooled funding arrangements and to ensure that priorities are being met.
- South Tyneside Homes is to carry out a review of governance arrangements to ensure they are fit for purpose, reflecting the changing nature of services and the organisational structure since the Company was formed.
- Appropriate governance arrangements will be established for the proposed Strategic Partnership covering many of the Council's central functions and due to be implemented from 1 October 2008.

The Procurement strategy is to be updated embracing the proposed Strategic Partnership to ensure corporate compliance with the contract procedure rules and meeting national best practice standards.

The Council is to update its anti-money laundering procedures and train appropriate staff to ensure compliance with best practice.

The Council is to develop and embed an Information policy.
In conjunction with other Tyne and Wear Authorities the Council plans to encourage the development of business continuity and anti fraud and corruption cultures within key suppliers and partnerships.

A use of resources co-ordinating group has been established to oversee the action plan developed following guidance from PricewaterhouseCoopers to help improve the Council's use of resources performance particularly around asset management, the quality of the Council's accounts, debtor management, partnership working and the sustainability agenda. Action plans have been put in place to improve controls and performance around each of these areas.

The Council plans to develop the assurance framework by obtaining assurance statements from key partners.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Annual Governance Statement 2007/08

Signed: Date: 23 September 2008

Councillor Iain Malcolm, Leader of the Council

Signed: Date: 23 September 2008

Irene Lucas, Chief Executive

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

Previous Year Net Expenditure As restated £m		Gross Expenditure £m	Gross Income £m	Note	Net Expenditure £m
2.497	Central Services to the Public	18.572	(15.788)		2.784
40.233	Cultural, Environmental and Planning Services	68.118	(25.766)		42.352
15.187	Education Services	160.265	(130.851)	10	29.414
8.770	Highways, Roads and Transport Services	11.857	(2.842)		9.015
0.442	Housing Services	109.293	(98.907)		10.386
44.058	Adult Social Services	73.988	(27.580)	18	46.408
18.335	Children's Social Services	23.666	(3.434)		20.232
0.317	Court Services	0.509	(0.297)		0.212
6.481	Corporate and Democratic Core	8.500	(3.103)		5.397
(13.640)	Non Distributed Costs	5.463	(0.683)		4.780
13.621	Exceptional Items - Equal Pay Legislation	19.483	(0.019)	4	19.464
136.301	**Net Cost of Services**	**499.714**	**(309.270)**		**190.444**

Income and Expenditure Account

Previous Year Net Expenditure As restated £m		Gross Expenditure £m	Gross Income £m	Note	Net Expenditure £m
1.072	Loss on the Disposal of Fixed Assets				4.928
9.146	Precepts of other Public Bodies				9.386
(8.115)	(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services			5	(0.066)
13.069	Interest Payable and Similar Charges				12.613
7.370	Contribution of Housing Capital Receipts to Government Pool				5.042
(4.693)	Interest and Investment Income				(6.259)
24.210	Interest on Pension Liabilities			6	27.730
(21.390)	Expected Return on Pension Assets			6	(24.430)
156.970	**Net Operating Expenditure**				**219.388**
(50.633)	Demand on the Collection Fund				(52.446)
(34.845)	General Government Grants				(35.124)
(66.855)	Non-domestic Rates Redistribution				(70.291)
4.637	**Deficit or (Surplus) for the Year**				**61.527**

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the assets are consumed.
- The payment of a share of housing capital receipts from the Government scores as a loss in the Income and Expenditure Account, but is met from the useable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future liabilities are recognised.
- Equal Pay and interest on financial instruments are charged to the General Fund only when they become payable.

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

Statement of Movement on the General Fund Balance

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance

Previous Year £m		Note	Current Year £m
4.637	Deficit or (Surplus) for the Year on the Income and Expenditure Account		61.527
(3.789)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the Year	1	(61.703)
0.848	**(Increase)/ Decrease in general fund balance for the Year**		**(0.176)**
(1.589)	General fund balance brought forward		(0.741)
(0.741)	**General fund balance carried forward**		**(0.917)**

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit or (surplus) generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Previous Year £m		Note	Current Year £m
4.637	Deficit or (Surplus) for the Year on the Income and Expenditure Account		61.527
0.078	Deficit or (Surplus) for the Year on the Collection Fund Account		0.207
(56.556)	Prior Period Adjustment Government Grants Deferred		-
-	Prior Period Adjustment Magistrates Courts		(4.922)
(70.775)	Deficit or (Surplus) arising on Revaluation of Fixed Assets		(80.287)
3.384	Deficit or (Surplus) arising on Revaluation of Available for Sale Financial Assets		(3.389)
(9.600)	Deficit or (Surplus) arising on Unwinding Equal Pay Costs		-
(0.110)	Gain on use of Capital Receipts to Redeem Debt		-
1.900	Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	6	(42.800)
-	Loss on the Disposal of Fixed Assets		(4.709)
(127.042)	Total Recognised (Gains)/Losses for the Year		(74.373)

Balance Sheet

This statement provides a summary of the Council's financial position as at 31st March 2008. It shows the balances and reserves at the Council's disposal, fixed assets and current assets employed in its operations and the Council's long term borrowing position.

31 March 2007 as restated £m		Note	31 March 2008 £m	31 March 2008 £m
1.504	**Intangible Fixed Assets**	25		1.499
	Tangible Fixed Assets			
	Operational Assets			
651.433	Council Dwellings	26,27,28	692.743	
222.935	Other Land and Buildings	26,27,28	229.280	
11.453	Vehicles, Plant, Furniture and Equipment	26,27,28	7.245	
47.585	Infrastructure Assets	26,27,28	52.363	
1.519	Community Assets	26,27,28	2.309	983.940
	Non-Operational Land and Buildings			
0.378	Investment Properties	26,27,28	0.228	
1.204	Assets under Construction	26,27,28	2.257	
46.709	Surplus Assets held for Disposal	26,27,28	50.477	52.962
984.720	**Total Fixed Assets**			**1,038.401**

31 March 2007 as restated £m		Note	31 March 2008 £m	31 March 2008 £m
3.390	Long Term Investments	31		6.776
	Long Term Debtors			
1.200	Airport Loan Notes	32	0.960	
3.925	Other Long Term Debtors	33	4.057	5.017
993.235	**Total Long Term Assets**			**1,050.194**
	Current Assets			
0.491	Stocks and Work in Progress	34	0.500	
30.033	Debtors	35	26.373	
75.350	Investments	36	85.202	
6.250	Cash and Bank	37	9.137	121.212
1,105.359	**Total Assets**			**1,171.406**
	Current Liabilities			
-	Borrowing Repayable within 12 months		-	
(56.463)	Creditors	38	(42.881)	
(0.746)	Bank Overdraft	37	(0.805)	(43.686)
1,048.150	**Total Assets Less Current Liabilities**			**1,127.720**

Balance Sheet

31 March 2007 as restated £m		Note	31 March 2008 £m	31 March 2008 £m
(207.676)	Long-Term Borrowing	39	(227.038)	
(5.672)	Deferred Liabilities	40	(4.513)	
(18.924)	Government Grants Deferred		(26.656)	
(0.218)	Deferred Credits	41	(0.109)	
(8.539)	Provisions	43	(27.040)	
(170.970)	Pension Liability	6	(131.840)	(417.196)
636.151	**Total Assets Less Liabilities**			**710.524**
	Financed By			
-	Fixed Asset Revaluation Reserve	45		(80.720)
(773.986)	Capital Adjustment Account	46		(724.149)
-	Financial Instruments Adjustment Account			(0.792)
(3.378)	Available for Sale Reserve			(6.767)
170.970	Pension Reserve	6		131.840
(1.043)	Usable Capital Receipts Reserve	47		(1.182)
-	Housing Major Repairs Reserve			(0.082)

31 March 2007 as restated £m		Note	31 March 2008 £m	31 March 2008 £m
4.579	Equal Pay Account			13.796
(29.300)	Earmarked Reserves	48		(37.701)
(0.182)	Collection Fund			0.025
(0.741)	General Fund Balances			(0.917)
(3.070)	Housing Revenue Account Balances			(3.875)
(636.151)	**Total Net Worth**	**44**		**(710.524)**

Cash Flow Statement

The Cash Flow Statement provides a summary of the cash received and payments made by the Council to third parties for both revenue and capital purposes.

2006/07 as restated £m		Note	2007/08 £m
	Revenue Activities		
	Cash Outflows		
167.267	Cash Paid in relation to Employees		176.872
162.866	Other Operating Cash Payments		174.732
14.447	Council Tax Benefit Paid		14.686
43.353	Housing Benefit Paid		45.598
19.943	National Non-Domestic Rate Payments to Government Pool		24.339
15.315	Precepts Paid		15.777
7.948	Housing Capital Receipt Payments to Government Pool		5.474
431.139			**457.478**
	Cash Inflows		
(49.176)	Rents (after Rebates)		(49.536)
(41.905)	Council Tax Receipts		(42.621)
(66.855)	National Non-Domestic Rate Receipts from Government Pool		(70.291)

2006/07 as restated £m		Note	2007/08 £m
(21.625)	Non-Domestic Rate Receipts		(24.061)
(12.775)	Revenue Support and other General Exchequer Grant		(11.797)
(28.673)	Department for Work and Pensions Revenue Grant for Benefits		(30.351)
(28.618)	Housing Revenue Account Subsidy		(29.256)
(147.923)	Other Government Grants	60	(154.824)
(22.780)	Cash received for Goods and Services		(28.058)
(7.948)	Income from Useable Capital Receipts to meet Pool Payments		(5.042)
(29.502)	Other Operating Cash Receipts		(30.999)
(457.780)			**(476.836)**
(26.641)	**Total Revenue Activities**	**57**	**(19.358)**
	Dividends from Joint Ventures and Associates		
	Cash Inflows		
(8.199)	Newcastle International Airport Limited Dividend		-
	Dividends from Joint Ventures and Associates	**57**	**-**
	Returns on Investment and Servicing of Finance		
	Cash Outflows		
0.002	Finance Lease Interest Paid		0.002
7.651	Other Interest Paid		7.842
	Cash Inflows		
(4.696)	Interest Received		(5.938)
2.957	**Returns on Investment and Servicing of Finance**	**57**	**1.906**

Cash Flow Statement

2006/07 as restated £m		Note	2007/08 £m
	Capital Activities		
	Cash Outflows		
49.434	Purchase of Fixed Assets		37.659
12.012	Other Capital Cash Payments		11.081
61.446			**48.740**
	Cash Inflows		
(13.930)	Sale of Fixed Assets		(9.788)
(15.078)	Capital Grants Received		(13.184)
(2.858)	Other Capital Cash Receipts		(0.456)
(31.866)			**(23.428)**
29.580	**Total Capital Activities**		**25.312**
	Acquisitions and Disposals		
	Cash Inflows		
(0.241)	Sale of Newcastle International Airport Limited Shares		(0.240)
(0.241)	**Acquisitions and Disposals**		**(0.240)**
5.655	**Net Cash Outflow / (Inflow) before Financing**		**7.620**

2006/07 as restated £m		Note	2007/08 £m
	Management of Liquid Resources		
21.979	Net Increase/(Decrease) in Short Term Deposits		7.985
21.979	**Management of Liquid Resources**	**36**	**7.985**
	Financing		
	Cash Outflows		
78.010	Repayments of Amounts Borrowed		42.548
0.018	Capital Element of Finance Lease Rental Payments		0.019
	Cash Inflows		
(84.000)	New Loans Raised		(61.000)
(5.972)	**Financing**	**59**	**(18.433)**
21.662	**Net (Increase) / Decrease in Cash**	**37**	**(2.828)**

Notes to the Core Financial Statements

1. Movement on the General Fund Balance

The following table details the items that reconcile the deficit reported on the Council's Income and Expenditure Account with the movement in General Fund balances.

Previous Year £m		Current Year £m
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the Year.	
(0.836)	Amortisation of Intangible Fixed Assets	(0.476)
(3.976)	Excess Depreciation from Housing Major Repairs Reserve	(10.562)
(7.480)	Other Depreciation and Impairment of Fixed Assets	(31.955)
5.250	Government Grants Deferred Amortisation	5.077
(12.012)	Write downs of Deferred Charges to be Financed from Capital Resources	(16.674)
(0.090)	Amortisation of Street Lighting Stock Residual Value	(0.111)
-	Capital Receipts not linked to Fixed Assets	0.659
(1.072)	Net Loss on Sale of Fixed Assets	(4.928)
-	Difference in amounts payable/receivable under statute and actual payments/receipts in respect of soft loans and early repayment of debt	0.792
(4.579)	Equal Pay Costs due but not yet paid	(9.217)
(6.960)	Net charges made for Retirement Benefits in accordance with FRS17	(23.080)
(31.755)		**(90.475)**

Previous Year £m		Current Year £m
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the Year.	
3.671	Minimum Revenue Provision for Capital Financing	4.456
0.351	Capital Expenditure charged in-year to the General Fund Balance	0.724
(7.370)	Transfer from Usable Capital Receipts to meet Payments to the Housing Capital Receipts Pool	(5.042)
(0.111)	Transfer from Usable Capital Receipts to meet Special Financing Debt Repayment	-
19.710	Employer's Contributions payable to the Tyne and Wear Pension Fund and Retirement Benefits payable direct to Pensioners	19.410
16.251		**19.548**
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the Year.	
(0.435)	Housing Revenue Account Balance	0.805
0.457	Voluntary Revenue provision for Capital Financing	0.018
11.693	Net transfer (to) or from Earmarked Reserves	8.401
11.715		**9.224**
(3.789)	**Net Movement in General Fund Balance**	**(61.703)**

2. Best Value Accounting Code of Practice

The Income and Expenditure Account has been compiled under the 2008 Best Value Accounting Code of Practice. This is the primary publication informing the approach to the use and disclosure of financial information in Best Value Performance Plans and Best Value Reviews.

The main areas covered by the code are:

- Determining the total cost of a service.
- Detailing the requirements for the maintenance of trading accounts and the disclosure of the performance of in-house trading operations.
- Provision of a service expenditure analysis for the accumulation of costs.

3. Prior Period Adjustments

The Council previously had responsibility for delivering the Magistrates Courts function but on 1st April 2005 responsibility was transferred to Her Majesty's Court Service. The building from which the courts operated was erected by the Council using funding from Central Government and has remained on the fixed asset register. A prior period adjustment has therefore been made to remove this building from the reported assets of the Council. As a result other land and building opening assets have been reduced by £4.922m with a corresponding entry made to the capital adjustment account.

In addition to this adjustment, the presentation of certain items in last years statements have been consolidated this year as follows:

- The levies for the Passenger Transport Authority and Environment Agency have been consolidated into a single line.
- Amortisation of premiums and discounts are now included within Interest Paid and Similar Charges.

- The liability for LATS has been reclassified as a provision rather than a creditor in line with Government accounting procedures.
- The Capital Financing Account and the Fixed Asset Restatement Reserve are now reclassified and consolidated in the Capital Adjustment Account in line with SORP guidance.

4. Equal Pay and Equal Value Compensation Payments

The Council has agreements with both our Union colleagues and those employees pursuing a claim through the employment tribunal in relation to Equal Pay Claims. Further negotiations are ongoing to reach agreement on our remaining Equal Pay and Equal Value liabilities.

During 2007/08 payments totalling £2.746m were made in respect of settlements of which £2.588m related to tax and national insurance for claims. The Council was awarded a capitalisation direction of £8.597m in 2007/08 from Department for Communities and Local Government (DCLG). This leaves £5.851m unspent at the year-end. Guidance from DLCG states that authorities are free to use their capitalisation direction to capitalise a provision for costs. The Council have made a provision for costs within the accounts and have used the remaining capitalisation direction against this. This amount is reflected within our capital expenditure for the year, however no asset is created so it has been written out to Income and Expenditure as a deferred charge.

In addition to this, the Council has set aside provisions to meet any outstanding payments and tax liabilities arising from settlement on Equal Pay and Equal Value. Under Government legislation these costs have been removed under the Statement of Movement on the General Fund Balance and transferred to an Equal Pay Account until the year they become paid. In 2006/07 we reported these as contingent liabilities in the accounts as at that stage there was not sufficient information to estimate the full provision required.

Our accounting practice had been to set aside resources to repay capitalisation direction borrowing over a 10-year period. At the time this policy was set, no Government guidance was available on the prudent number of years. Guidance has now been issued that suggests a maximum of 20 years. The Council has amended the policy from 2007/08 onwards to bring our repayment period into line with this guidance. This produces short-term savings that have been ring-fenced for the costs of equal pay, equal value and job evaluation and added to our earmarked reserve.

5. Trading Operations

A summary of the deficit / (surplus) earned by each of our trading services is shown on the next table:

2006/07 (Surplus) / Deficit £m		2007/08 (Surplus) / Deficit £m
0.007	South Shields Open Air Market	0.001
0.077	School Catering	(0.067)
(8.199)	Newcastle Airport Dividend	-
(8.115)	**Actual Trading (Surplus)**	**(0.066)**

The Council operates an open-air market in South Shields town centre. Income is generated from rent received from stallholders.

The School catering service is subject to a buy back arrangement with the Borough's schools. Essentially this means that it has to secure the majority of its income by selling its service to those schools. The loss of £0.077m generated last year was due to the impact of FRS17 pension charges amounting to £0.098m. These costs have now been incorporated within the buy back arrangements. The surplus in 2007/08 is primarily due to the overcharging in the year for energy, insurance and repairs costs, which have been reallocated back to the service in these accounts.

Company dividends paid to the Council arising from its shareholding in Newcastle International Airport Limited Holding Company are also shown. The surplus for 2006/07 includes a special dividend of £7.821m as a result of a refinancing exercise during the year. There were no Company dividends in 2007/08.

6. Local Government Pension Scheme Costs

South Tyneside Council 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.

Components of Defined Benefit Cost

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 Pension Fund in the net cost of services as shown in the following table:

2006/07 £m	Net Cost of Services	2007/08 £m
	Contributions Paid to Pension Fund	
(17.49)	- Funded Liabilities	(17.26)
(2.22)	- Unfunded Liabilities	(2.15)
(19.71)	**Total Contributions Paid**	**(19.41)**
15.46	Current Service Cost	15.60
4.88	Past Service Cost	4.18
(16.20)	Settlement / Curtailments (gains) or losses	-
4.14	**Total Costs FRS17**	**19.78**
(15.57)	**Impact for Net Cost of Services**	**0.37**

The net return on the Funds assets and interest charged against the scheme liabilities are shown under Net Operating Expenditure. The difference between the sum of these charges and the actual amount paid by the Council to the Fund is removed under the Statement of Movement on the General Fund Balance so that there is no impact on the amount to be found from the Council Tax Payer. This is shown in the following table:

2006/07 £m	Pension Movement	2007/08 £m
(15.57)	Impact for Net Cost of Services	0.37
	Other Operating Costs	
(21.39)	- Expected Return on Fund Assets	(24.43)
24.21	- Interest on Pension Scheme Liabilities	27.73
2.82	**Net Operating Costs**	**3.30**
(12.75)	**Pension Movement**	**3.67**

Under the projected unit method adopted by the actuaries, the current service cost will increase as members approach retirement. Demographic assumptions have been taken to be the same as those adopted for the actuarial valuation at March 2007.

In 2007/08, the Council made direct payments to the Pension Fund in respect of early retirements (known as “strain on the fund”). Early retirements result in reduced pension contributions payable to the Fund and the earlier payments of benefits. The sum paid was £0.245m (£1.077m in 2006/07), which the Council elected to pay in the year.

Under FRS17, the Council must show in the accounts its liability to meet the full future cost of all employees’ pensions, in line with the terms and conditions of the Tyne and Wear Pension Fund. The figures disclosed below have been derived by the Fund’s actuary Hewitt Associates Limited using a roll forward of liabilities from the last full actuarial valuation of the Fund at 31st March 2007. Teachers’ liabilities met from the Fund have been fully recalculated in 2007/08.

The Accounting Standards Board (ASB) published an amendment to FRS17 on 2 December 2006. The amendment is effective for accounting periods beginning on or after 6 April 2007. The first adoption for the Council will be for the year ended 31 March 2009 at which point amended 2007/08 comparative figures will be provided.

The main financial assumptions adopted as at 31st March 2008

	1st April 2007 % per annum	31st March 2008 % per annum
Inflation rate	3.2	3.7
Rate of general long-term increase in salaries	4.7	5.2
Rate of increase to pensions in payment	3.2	3.7
Rate of increase to deferred pensions	3.2	3.7
Discount rate	5.3	6.8

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

	At 1st April 2007			At 31st March 2008		
	Actual Market Value £m		Expected Rate of Return % per annum	Estimated Market Value £m		Expected Rate of Return % per annum
Equities	2,493.10	67.0%	7.7%	2,339.00	63.6%	7.6%
Property	373.70	10.1%	6.7%	388.50	10.6%	6.6%
Government Bonds	504.80	13.6%	4.7%	401.70	10.9%	4.6%
Corporate Bonds	281.90	7.6%	5.3%	327.70	8.9%	6.8%
Other Investments	62.90	1.7%	5.6%	220.20	6.0%	6.0%
	3,716.40	100.0%	7.0%	3,677.10	100.0%	7.0%

The following tables explain the movement in the surplus/(deficit) of the Fund:

2006/07 £m		Defined Benefit Cost	2007/08 £m
181.82		**(Surplus) / Deficit in the Fund at 31st March 2007**	**170.97**
(12.75)		Value of Appropriation in Income and Expenditure Account	3.67
1.90		Actuarial (gain) / loss	(42.80)
(10.85)		**Overall Charge / (Income) to Pension Liability**	**(39.13)**
170.97		**(Surplus) / Deficit in the Fund at 31st March 2008**	**131.84**

2003/04	2004/05	2005/06	2006/07		History of Experience Gains and Losses	2007/08 £m
(30.20)	**(10.44)**	**(51.13)**	**(2.09)**		**Difference between expected and actual return on scheme assets**	**(36.36)**
-13.2%	-3.8%	-14.3%	-0.6%		Expressed as a percentage of scheme assets	-10.5%
0.40	**5.09**	**(0.37)**	**(1.27)**		**Experience gains (losses) on scheme liabilities**	**(2.69)**
0.1%	1.1%	-0.1%	-0.2%		Expressed as a percentage of present value of scheme liabilities	-0.6%
4.90	**56.48**	**39.47**	**1.46**		**Change in assumptions**	**81.85**
1.3%	12.1%	7.3%	0.3%		Expressed as a percentage of present value of scheme liabilities	17.2%
(24.90)	**51.13**	**(12.03)**	**(1.90)**		**Total amount recognised in Movement in Reserves**	**42.80**
-6.9%	***10.9%***	***-2.2%***	***-0.4%***		***Expressed as a percentage of present value of scheme liabilities***	***9.0%***

	1st April 2007 £m	31st March 2008 £m
Estimated Funded benefits under the LGPS regulations	(492.26)	(448.50)
Estimated Unfunded discretionary benefit awarded by means of additional benefits under the LGPS regulations	(29.54)	(28.44)
Actuarial Value of Fund liabilities	**(521.80)**	**(476.94)**
South Tyneside Council share of Market Value Assets	350.83	345.10
Surplus (Deficit) in the Fund	**(170.97)**	**(131.84)**

The outstanding liability of the Council for the local government scheme stands at £131.84m at 31st March 2008. This has reduced the reported net worth of the Council by 16% for 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.

7. Teachers' Pension Costs

The Council pays employer's contributions to the Department for Children, Schools and Families in relation to teachers' pensions. It also pays former teachers directly for additional pension costs arising from added years or Pension Increase Act payments. The relevant details are given below:

2006/07			2007/08	
Employer's Contributions	Added Years		Employer's Contributions	Added Years
£6.6m	£1.3m	Amount Paid	£6.9m	£1.4m
14.1%	2.7%	Percentage of Pensionable Pay	14.1%	2.8%

The Teachers' Pension Scheme is a defined benefit scheme, however the Council is unable to identify its share of the underlying assets and liabilities. Hence the employers' contributions are set in relation to the current service period only and no provision has been made in the balance sheet.

8. Minimum Revenue Provision (MRP)

Following the implementation of the Prudential Code for Capital there is no longer a requirement to make a Minimum Revenue Provision (MRP) in respect of the Housing Revenue Account. The following table shows the amount set aside for the repayment of debt in 2007/08. New rules came into effect in calculating MRP for 2007/08 and as a result Council approved a new MRP Policy. This policy incorporates the following exceptions to 4% of the Capital Financing Requirement:

- Directions given by the Secretary of State that allows us to capitalise expenditure that is usually revenue in nature to be repaid over 20 years.
- Equipment and vehicles purchased using borrowing rather than leasing to be repaid over the remaining useful life of the assets concerned (normally 3 to 7 years).
- Finance lease to be repaid in line with repayment schedule.

Following this change in policy there is only a small voluntary set aside relating to former South Tyneside College debt, which will be fully redeemed in 9 years time. The Higher Education Funding Council reimburses the cost of this additional debt set aside.

2006/07 as adjusted £m		2007/08 £m
3.689	Minimum Revenue Provision	4.456
0.328	Other Voluntary Set Aside Provision	0.018
4.035	**Total Debt Set Aside**	**4.474**

9. Long Term Contracts (including PFI)

The Council secured its first two PFI deals during 2005/06. Under such agreements, the Council pays an annual sum to the operator, known as a unitary charge, and receives a Government Grant in the form of PFI credits to partially offset these costs. The SORP requires the Council to provide details about the contracts and the committed revenue resources arising for future financial years.

The Council's first PFI contract was signed on 13th April 2005 with Gleeson Consortium and involves 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 estimated capital value of the new facility is £22m. The contract runs for 25 years, expiring in 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 and payments totalling £2.513m (£0.999m in 2006/07) have been incorporated within the Education line on the Income and Expenditure Account, with PFI credits released of £1.490m (£0.707m in 2006/07). Unitary charge payments over the life of the contract will total £64.7m of which £37.6m will be recovered in the form of PFI credits. 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. At the end of the contract the buildings will transfer to Council ownership.

The second PFI contract was signed on 9th December 2005 with Balfour Beatty Power Networks and involves the replacement and maintenance of the whole of the borough's street lighting stock estimated at a capital value of £2.763m, which will be written out to the Income and Expenditure Account over the life of the contract. The contract runs for 25 years, expiring on 26th February 2031, and involves 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. Ownership of all assets will revert to the Council at the end of the contract.

In 2007/08 unitary charge payments of £2.577m (£2.156m in 2006/07) had been paid out whilst £2.535m (£0.770m in 2006/07) was recovered through PFI credits. The unitary charge includes £0.337 (£0.337m in 2006/07) relating to a prepayment for the future transfer of the assets back to the Council. Over the lifetime of the contract the unitary charge will total £100.3m of which £63.4m will be recovered in the form of PFI credits.

The estimated outstanding contract payments for both PFI contracts are analysed in the following table.

	Unitary Payments £m	PFI Credits £m	Net Cost £m
Within one year (2008/09)	5.184	(4.040)	1.144
2009/10 to 2012/13	24.089	(16.159)	7.930
2013/14 to 2017/18	32.509	(20.198)	12.311
2018/19 to 2022/23	34.389	(20.198)	14.191
2023/24 to 2027/28	36.429	(20.198)	16.231
2028/29 to 2032/33	24.162	(12.821)	11.341
Totals	**156.762**	**(93.614)**	**63.148**

In addition to the basic 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 and is estimated to cost in the region of £0.150m per annum.

On 21 December 2007 the procurement of STaG's private sector partner to delivery the £175m BSF and £21m ICT programme reached financial close. This created the unique public/private partnership, known as inspiredspaces STaG Ltd, 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). This project will deliver new schools to the borough and includes two PFI schools, the first of which will be Jarrow School, a new build PFI and ICT managed service

10. Dedicated Schools Grant

Dedicated Schools Grant (DSG) provided by the Department for Children Schools and Families funds the Council's expenditure on schools. The DSG is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools' budget includes elements for a restricted range of services provided on an Authority-wide basis and for the individual schools budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately

The Schools Forum agreed that the 2006/07 overspend of £0.090m on DSG would be funded from a reduction in individual schools budgets in 2007/08.

Details of the deployment of DSG receivable for 2007/08 are as follows:

The individual schools budget includes contingencies relating to schools of £0.317m. The central expenditure figure includes the Teachers' Threshold Grant of £3.528m.

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £m	Individual Schools Budget £m	Total £m
Original grant allocation to Schools Budget for the year in the Authority's budget	(9.346)	(76.565)	(85.911)
Adjustment to finalised grant allocation		(0.087)	(0.087)
Dedicated Schools Grant receivable for the Year	**(9.346)**	**(76.652)**	**(85.998)**
Over/(underspend) from prior year		0.090	0.090
DSG available for year	**(9.346)**	**(76.562)**	**(85.908)**
Actual expenditure against Dedicated Schools Grant for the Year	9.346	74.490	83.836
(Under) / overspend for the year	**-**	**(2.072)**	**(2.072)**
Addition to school balances carried forward	-	1.918	1.918
(Under) / overspend against DSG carried forward to 2008/09	**-**	**(0.154)**	**(0.154)**

The individual schools budget includes contingencies relating to schools of £0.317m. The central expenditure figure includes the Teachers' Threshold Grant of £3.528m.

In 2007/08, the Council received total DSG of £85.998m. After funding the overspend of £0.090m from 2006/07, the balance of DSG (£85.908m) has been credited against the Education service outturn in the Income and Expenditure Account.

11. Operating Leases

Expenditure in the year on operating leasing by category of asset is as follows:

2006/07 £m		2007/08 £m
0.087	Other Land and Buildings	0.090
0.999	Vehicles and Equipment	0.696
1.086	**Total Expenditure on Operating Leasing**	**0.786**

The Authority was committed at 31st March to making payments of £0.625m (£0.911m in 2006/07) under equipment operating leases against an initial investment of £1.992m (£2.319m in 2006/07). A further £0.613m (£0.783m in 2006/07) is committed on the rental of property.

A breakdown of the commitments in 2008/09 based on the date of expiry of the lease is as follows:

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Lease expires within 1 year	-	0.104
Lease expires in 2 - 5 years	0.025	0.243
Lease expires in more than 5 years	0.061	-
Total Repayable	**0.086**	**0.347**

12. Finance Leases

The Authority is 25 years into a 35-year lease for office accommodation at Landreth House and 2 years into a 20 year lease for office accommodation at 9-10 Charlotte Terrace. In addition, the Council has a finance lease in respect of a refuse collection vehicle.

Expenditure in the year on finance leasing by category of asset is as follows:

2006/07 £m		2007/08 £m
0.110	Other Land and Buildings	0.110
0.021	Vehicles and Equipment	0.021
0.131	**Total Expenditure on Finance Leasing**	**0.131**

The value of fixed assets held by the Authority and funded through finance leases is as follows:

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Gross Value at 1st April 2007	**2.950**	**0.133**
Accumulated Depreciation	(1.260)	(0.075)
Net Value at 1st April 2007	**1.690**	**0.058**
Additions	-	-
Depreciation in Year	(0.110)	(0.022)
Net Value at 31st March 2008	**1.580**	**0.036**

A breakdown of the commitments in 2008/09 based on the date of expiry of the lease is as follows:

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Repayable within 1 year	0.110	0.021
Repayable in 2 - 5 years	0.440	0.021
Repayable in more than 5 years	1.030	-
Total Repayable	**1.580**	**0.042**

The liability for future repayments against other land and buildings is based upon current rental levels. The terms of the Other Land and Buildings leases allow for rent reviews to take place every five years at which point our liability will be recalculated.

The aggregate finance charge paid in the year on Finance Leases was £0.002m (£0.002m in 2006/07).

13. The Authority as Lessor

The Authority has granted a number of short-term leases on commercial premises such as shops and industrial units, which are accounted for as operating leases. In 2007/08 income of £1.963m (£3.238m in 2006/07) has been generated from these leases.

The Authority has not let any properties that would be accounted for as finance leases in 2008/09.

14. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council's expenditure under this power was £0.388m mainly on donations to voluntary bodies working in the local area (£0.379m in 2006/07).

15. Publicity

Publicity expenditure incurred by the Council in the year is as follows:

2006/07 £m		2007/08 £m
0.224	Press and Promotions Team	0.210
0.298	Recruitment Advertising	0.298
0.522	**Total**	**0.508**

16. Building Control Regulations Charging Account

The Building Control (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the income and expenditure of the building regulations function. However, certain activities performed by the Building Control Service cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Service divided between the chargeable and non-chargeable activities. The surplus on the chargeable activity has been transferred to an earmarked reserve held for this purpose.

2006/07 Total £m		2007/08 Chargeable £m	2007/08 Non-Chargeable £m	2007/08 Total £m
0.579	Employees	0.281	0.287	0.568
0.024	Premises	0.011	0.010	0.021
0.012	Transport	0.004	0.009	0.013
0.068	Supplies and Services	0.015	0.011	0.026
0.108	Central and Support Service Charges	0.071	0.068	0.139
0.791	**Total Expenditure**	**0.382**	**0.385**	**0.767**
(0.381)	Building Regulation Charges	(0.405)	-	(0.405)
(0.005)	Miscellaneous Income	-	(0.004)	(0.004)
(0.386)	**Total Income**	**(0.405)**	**(0.004)**	**(0.409)**
0.405	**(Surplus) / Deficit for the Year**	**(0.023)**	**0.381**	**0.359**

17. Local Authority (Goods and Services) Act 1970

Under the provisions of the Local Authority (Goods and Services) Act 1970 the Council is able to provide services to other public bodies. There was no income under these provisions in 2007/08 (nil in 2006/07).

18. Pooled Budgets

The Council has five pooled arrangements with the South Tyneside Primary Care Trust (PCT) under Section 31 of the Health Act 1999 after the Community Learning Disabilities Team arrangement was ended in 2006/07.

- 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 Balgownie Employment and Education Team to provide modernised employment and education services for those with learning disabilities also to meet “Valuing People” objectives.

- An arrangement whereby the Council can commission Nursing and Continuing Care on behalf of the PCT.

- The South Tyneside Art Studio enables the Council and the PCT to provide a therapeutic service for various service users.

- Perth Green enables the Council and the PCT to provide intermediate residential care for service users to ensure the delayed discharge targets from hospital is achieved.

The Council is the lead body for all five of these budgets and the gross costs, together with the income from the PCT, are fully reflected in the Adult Social Services line of the Income and Expenditure Account. Details of the expenditure are shown in the following table:

2006/07 Total Council Share £m		Lead Body	2007/08 Gross Income £m	2007/08 Gross Cost £m	2007/08 Council Share of Net Cost £m
0.585	Joint Equipment Store	Council	(0.462)	1.061	0.599
0.212	Community Learning Disabilities Team	Council	-	-	-
0.210	Balgownie Employment and Education Team	Council	(0.069)	0.284	0.215
0.027	The South Tyneside Arts Studio	Council	(0.055)	0.082	0.027
0.884	Perth Green	Council	(0.194)	0.991	0.797
-	Nursing Care & Continuing Care	Council	(4.529)	4.529	-
1.918	**Totals**		**(5.309)**	**6.947**	**1.638**

In addition to these pooled arrangements the Children and Young People Directorate works in close partnership with the PCT and voluntary health sector on the delivery of Surestart, a Government funded initiative designed to achieve better outcomes for children and parents. Although this is akin to a pooled arrangement virtually all of the funding is directed towards Council projects and included in the Income and Expenditure Account.

19. Members' Allowances

The value of members' allowances paid is as follows:

	2006/07 £m	2007/08 £m
Total Members' Basic and Special Responsibility Allowances paid	0.574	0.593

20. Officers' Emoluments

The number of employees whose remuneration by the Council, excluding pension contributions, was above £50,000 is as follows:

	Number of Employees	
	2006/07	2007/08
£50,000-£59,999	50	65
£60,000-£69,999	18	38
£70,000-£79,999	7	11
£80,000-£89,999	1	9
£90,000-£99,999	3	-
£100,000-£109,999	-	1
£110,000-£119,999	-	-
£120,000-£129,999	1	1

The number of employees within the lower bracket has increased due to a number of teachers progressing through the National Leadership Pay Scale and now exceeding £50,000. In addition, there are 27 cases where combined redundancy payments and salaries paid through the year have exceeded £50,000. This was due to the closure of Brinkburn and King George V Schools to reduce surplus places in the Secondary sector. The two schools were replaced by South Shields Community School. The costs of redundancy are not included in the Income and Expenditure Account because the Authority was successful in receiving a capitalisation directive for these exceptional costs

21. Related Party Transactions

Under FRS8, the Council is required to disclose material transactions with related parties not disclosed elsewhere in these 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.

From examinations of returns completed by Elected Members and Executive Directors, together with details included in the Register of Members Interests, there are no cases where it is felt disclosure is required under the stated Standard.

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. In addition to the Revenue Support Grant, Non-Domestic Rate income and other unringfenced general grants shown in the Income and Expenditure Account, the Council received £169.620m (£162.238m in 2006/07) in respect of Government support for specific activities.

The Authority administers the Tyne and Wear Pension Fund and charged £0.713m (£0.725m in 2006/07) in respect of support services provided – primarily financial, legal and information technology. It also paid to the Fund £0.047m (£0.048m in 2006/07) in respect of treasury management duties. From 1st April 2004, the Fund operated a separate bank account to that of the Authority such that any interest earned on cash balances was taken directly into the Fund's accounts

South Tyneside Homes Limited buys back services from the Authority and were charged £2.771m (£3.154m in 2006/07) in respect of support services provided – primarily financial, legal and information technology. The Authority paid a management fee of £10.370m (£10.052m in 2006/07) and £27.181m (£27.237m in 2006/07) for the provision of construction services.

On 21 December 2007 the procurement of STaG's (South Tyneside and Gateshead Building Schools for the Future) private sector partner to delivery the £175m BSF and £21m ICT programme financially closed. This created the unique public/private partnership, known as Inspiredspaces STaG Ltd, between 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 Ltd will deliver the whole BSF build programme and ICT managed service, with exclusivity across the education schemes above £100k, if the Local Education Partnership (LEP) demonstrates value for money. This exclusivity, overarched by the OJEU, opens up the potential for Inspiredspaces to delivery the primary capital programme, hard and soft facilities management, leisure facilities and various regeneration projects.

The 2008/09 STaG accounts, the first year of operation, will be considered as part of our group accounts requirement.

22. External Audit Fees

The Audit Commission is the regulatory body that controls the financial actions of the Authority. In 2005/06 the Commission appointed PricewaterhouseCoopers LLP to act as the external auditors for the Authority. The following table shows the fees paid for the various services received and chargeable to the Income and Expenditure Account. 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.

2006/07 £m		2007/08 £m
0.243	Fees Payable in respect of External Audit Services	0.234
0.097	Fees Payable in respect of Grant Claim Certification	0.067
0.340	**Total Fees Payable to External Auditors**	**0.301**
0.055	Fees Payable in respect of Statutory Inspection	0.043
-	Non Statutory Services	0.023
0.395	**Total Costs**	**0.367**

In addition to the above, £0.035m (£0.043m in 2006/07) was paid in audit fees in respect of the Tyne and Wear Pension Fund. This amount is reflected in the total cost of services as shown in the relevant statement published in these accounts.

23. Euro

The Council has incurred no material expenditure on the Euro pending clarification of the Government's position with regard to entry to the European Currency.

24. Single Status

As a consequence of the Single Status Agreement reached between National Employers and Trade Unions in 1997, South Tyneside Council has a responsibility to implement harmonised terms and conditions of employment for former APT and C and former Manual Workers. Key elements of this agreement include the requirement to complete local pay and grading reviews and the development of an equal pay proofed structure. Other key provisions within the Single Status agreement will require a review of terms and conditions, such as annual leave entitlements, which will have potential cost implications for the Council.

The approach being adopted to manage this key issue is a partnership with our recognised trade unions for the purposes of local consultation and negotiation to implement the key provisions contained within the original 1997 agreement, as augmented and adjusted by the three-year pay award agreed in 2004.

Following a local agreement, the key issues of harmonising local conditions of service and a revised pay and grading structure will be effective from 1st January 2007. We plan to implement our revised offer for job evaluation structure in 2008/09. Provision has been made in the accounts for the backdating of costs to 1st January 2007.

25. Intangible Fixed Assets

The following tables show the movement in the value and amortisation provision of intangible fixed assets. All intangible assets owned by the Authority at 31st March 2008 relate to software licences, which are amortised to Income and Expenditure on a straight-line basis using an average useful life of 5 years. However in 2007/08 full amortisations have taken place in relation to goodwill paid on extinguishment of businesses as part of local regeneration and assets no longer owned by the Authority.

	Software Licences £m
Gross Book Value 31st March 2007	2.442
Accumulated Amortisation and Impairment	(0.938)
Net Book Value at 31st March 2007	**1.504**
Additions	0.728
Disposals	(0.805)
Amortisation	(0.476)
Impairment	0.548
Net Book Value at 31st March 2008	**1.499**

Amortisation and Impairment Provision	Software Licences £m
Provision at 31st March 2007	(0.938)
Amortisation in Year	(0.476)
Impairment in Year	0.548
Provision at 31st March 2008	**(0.866)**

26. Movement of Tangible Fixed Assets

	Operational Assets Council Dwelling £m	Other Land and Buildings £m	Comm. Assets £m	Infra-structure £m	Vehicles Plant & Equip £m	Non Operational Land and Buildings £m	Total £m
Gross Book Value at 31st March 2007 (as restated)	727.343	247.651	1.519	56.220	29.112	48.557	1,110.402
Accumulated Depreciation and Impairment (as restated)	(75.910)	(24.716)	-	(8.635)	(17.659)	(0.266)	(127.186)
Net Book Value at 31st March 2007 (as restated)	**651.433**	**222.935**	**1.519**	**47.585**	**11.453**	**48.291**	**983.216**
Additions	12.952	8.448	0.790	6.496	0.800	7.445	36.931
Disposals	(10.419)	(6.743)	-	-	(0.672)	(2.526)	(20.360)
Revaluations	39.216	22.030	-	-	-	(0.253)	60.993
Depreciation	(0.801)	(2.520)	-	(1.275)	(4.336)	0.005	(8.927)
Impairment	0.362	(14.870)	-	(0.443)	-	-	(14.951)
Net Book Value at 31st March 2008	**692.743**	**229.280**	**2.309**	**52.363**	**7.245**	**52.962**	**1,036.902**

27. Ownership of Net Assets

The following table shows how net assets are split between the General Fund, Housing Revenue Account and Trading activities:

31st March 2007 (as restated) £m	Net Assets	31st March 2008 £m
84.644	General Fund	131.289
551.825	Housing Revenue Account	579.500
(0.318)	Trading Activities	(0.265)
636.151	**Total Net Assets**	**710.524**

28. Fixed Asset Analysis

An analysis of the number of fixed assets as at 31st March is as follows:

	2007	2008		2007	2008
Council Dwellings	18,615	18,374	Sports Stadia	2	2
Town Hall and Civic Offices	14	14	Children's Homes	4	-
Homes for the Elderly	5	5	Family Centres	2	2
Leisure Centre/Pools	2	2	Day/Social Centres	16	16
Museums/Galleries	2	2	Homes for Adults	4	-
Depots	1	1	Surestart Facilities	6	5
Parks	14	14	Elderly Person's Homes	5	5
Early Years Excellence Centre	1	1	Child Protection Unit	1	1
Crematoriam and Cemeteries	7	7	Special Placement Unit	2	2
Libraries	8	8	Market	1	1
Schools	71	67	Industrial Estates	11	11
Youth and Community Centres	29	28	Managed Workshops	3	3
Shops	187	185			

29. Valuation Details

The valuations have been undertaken in-house and approved by the Acting Estates and Valuation Manager, L. Barclay 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.

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.

For **dwellings and other operational assets of a non-specialised nature** the Existing Use Valuation method has been adopted. This represents the amount that the Authority 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.

Non-operational assets defined as surplus or investments are valued at Market Value whilst those defined as assets under construction are valued at historical cost.

Community Assets, equipment and infrastructure are valued at historical cost. However plant and machinery that would normally be regarded as an integral part of the buildings on letting or sale have been included in the valuation of the building.

Where assets have been valued other than at historical cost the **date of the valuation** is 1st April 2006. The total revaluation for 2007/08 increased asset values by £60.993m (£39.696m increase in 2006/07). In 2005/06, dwellings were revalued in line with new Government guidelines that imposed a downward adjustment factor of 51% on vacant possession values. All assets are revalued as part of a five year rolling programme.

30. Depreciation and Impairment

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

- Land is not depreciated and an estimate of the land value in properties has been calculated.

- A straight-line method of depreciation has been adopted based on the expected remaining useful life. For buildings, this is usually forty years and for equipment and vehicles, five years. A net movement of £31.098m has been made to the accounts for 2007/08 (£18.366m in 2006/07).

The valuations 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. In 2007/08, with the creation of a opening nil Revaluation Reserve, any negative revaluation has also been written off to the Income and Expenditure Account as an impairment.

The following table shows the movement in depreciation and impairment:

	Depreciation Account			Impairment Account		
	Dwellings	Land and Buildings	Other Assets	Dwellings	Land and Buildings	Other Assets
	£m	£m	£m	£m	£m	£m
Opening Balance 1st April 2007	(75.156)	(24.716)	(26.402)	(0.754)	-	(0.158)
Reclassifications	-	-	-	-	-	-
Charges to Revenue	(19.025)	(5.764)	(6.309)	(0.321)	(14.870)	(0.443)
Other Movement in Balances	18.224	3.244	0.703	0.683	-	-
Closing Balance 31st March 2008	**(75.957)**	**(27.236)**	**(32.008)**	**(0.392)**	**(14.870)**	**(0.601)**

31. Long Term Investments

The Council's external investments are shown in the following table:

31st March 2007 £m	Long Term Investments	31st March 2008 £m
3.382	Newcastle Airport Local Authority Holding Company Limited	6.767
0.008	Government Securities	0.009
3.390	**Total Long Term Investments**	**6.776**

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 Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Ltd which the LA7 owned 51%. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities. South Tyneside Council has a material interest in Newcastle Airport Local Authority

Holding Company Ltd. 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 of NIAL Holdings Limited is reviewed annually and any movement in the value of our shareholding is reflected in the Investment Revaluation Reserve.

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings 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 NIAL over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the Council will receive £2.4m.

During 2006, Newcastle Airport Local Authority Holding Company commissioned a refinancing exercise, which resulted in additional income to shareholders. The total income from refinancing was £79.000m and South Tyneside received a 9.9% share of this equating to £7.821m, resulting in a downward revaluation of £3.385m in the Council's shareholding. The valuation of the holding has been reviewed in 2007/08 in line with SORP guidance. The valuation has been increased by £3.385m to be held at the assessed current fair value. This valuation is now the original total cost of the investment.

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

The principal activity of Newcastle International Airport Ltd (Registered No 04184967) 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. There has been no dividend declared for 2007 (2006 £4.000m total dividend). There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Ltd made a loss before tax of £0.605m and a profit after tax of £2.171m.

A request for a copy of NIAL Group Limited accounts should be made in writing to the following address:

Head of Finance, South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

The Council also owns 100% of South Tyneside Homes Limited, which operates the Council's Housing Services. Accounts for the company for the year ended 31st March 2008 reveal a deficit of £0.879m after recognised gains and losses (£15.552m deficit in 2006/07). The main reason for this loss relates to the inclusion of an exceptional item of £0.800m relating to past service pension costs. Net liabilities for the company stood at £0.411m as at 31st March 2008 (£0.452m at 2006/07). The accounts of South Tyneside Homes Limited can be obtained upon application to the Company Secretary, South Tyneside Homes Limited, c/o South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, NE33 2RL. The results of the company have been incorporated into the Group Accounts reported later in these accounts.

32. Airport Loan Notes

As part payment for the sale of a stake in Newcastle Airport, the Authority will receive a further £0.240m in the form of Loan Notes over the next five years.

33. Other Long Term Debtors

An analysis of our other long term debtors:

	At 1st April 2007 £m	Expenditure During Year £m	Repaid, Impaired or Written Off During Year £m	At 31st March 2008 £m
Assisted Vehicle Purchase	0.195	0.089	(0.140)	0.144
Social Care and Health Fees	0.483	0.503	(0.427)	0.559
Housing Advances (including Council Housing)	0.239	-	(0.119)	0.120
Street Lighting Prepayment	3.008	0.226	-	3.234
Total Other Long Term Debtors	**3.925**	**0.818**	**(0.686)**	**4.057**

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

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.

The Council used to provide a mortgage service relating to tenants that wished to purchase their homes through the 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 date of the Accounts.

34. Stock and Work in Progress

With the transfer of the Building Works activity to South Tyneside Homes on 1st April 2006 the Council has no work in progress. An analysis of our stock balances is shown below:

31st March 2007 £m	Stock	31st March 2008 £m
0.347	Home Loan Equipment Centre	0.350
0.073	Catering Service	0.073
0.071	Other Stock	0.077
0.491	**Total Stock**	**0.500**

35. Debtors

An analysis of all debtors is shown below:

31st March 2007 £m			31st March 2008 £m
		Amounts Falling Due in One Year	
14.857		Government Bodies	8.362
0.997		Other Local Authorities	0.726
2.775		Housing Tenants	3.164
3.748		Council Tax Payers	4.113
0.866		National Non-Domestic Rate Payers	0.981
1.472		South Tyneside Homes Limited	3.947
11.784		Sundry Debtors	11.631
36.499		**Total Amounts Falling Due in One Year**	**32.924**
		Provisions for Bad debts	
(1.970)		Housing Rents	(2.052)
(0.969)		Council Tax	(1.308)
(0.441)		National Non-Domestic Rates	(0.549)
(3.086)		All Other Debtors	(2.642)
(6.466)		**Total Bad Debt Provisions**	**(6.551)**
30.033		**Net Debtors**	**26.373**

31st March 2007 £m		Debts Written Off During the Year	31st March 2008 £m
		Amounts Written Off During the Year	
0.550		Housing Rents	0.401
0.075		Council Tax	0.140
0.086		National Non-Domestic Rates	0.336
0.319		All Other Debtors	0.383
1.030		**Total Amounts Written Off During the Year**	**1.260**

36. Management of Liquid Resources

The movement in liquid resources for the year is as follows:

	As at 1st April 2007	As at 31st March 2008	Movement in Year
Short Term Investments	75.350	85.202	9.852

Liquid resources represent short term lending by the Council to banks and other financial institutions repayable within the next financial year.

37. Increase / (Decrease) in Cash

The net movement in cash resources between the balance sheet dates:

	As at 1st April 2007	Movement in Year	As at 31st March 2008
Cash in Hand and at Bank	6.250	2.887	9.137
Bank Overdraft	(0.746)	(0.059)	(0.805)
Net Cash and Bank Position	**5.504**	**2.828**	**8.332**

38. Creditors

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

31st March 2007 (as adjusted) £m		31st March 2008 £m
(22.002)	Government Bodies	(15.520)
(0.694)	Other Local Authorities	(0.854)
(0.543)	Housing Tenants	(0.616)
(1.089)	Council Tax Payers	(0.730)
(0.944)	National Non-Domestic Rates	(0.766)
(4.519)	South Tyneside Homes Limited	(4.788)
(26.672)	All Other Creditors	(19.607)
(56.463)	**Total Creditors**	**(42.881)**

The opening creditors position has been adjusted by £0.869m following the reclassification of the landfill liability as a provision.

39. Long Term Borrowing

An analysis of borrowing in excess of one year is as follows:

	Percentage Range of Interest Rate Payable %	Amounts Outstanding 31st March 2007 £m	 31st March 2008 £m
Public Works Loan Board	3.98 - 9.375	(197.676)	(216.864)
Market Loans	9.4375 - 9.50	(10.000)	(10.174)
Total Long Term Borrowing		**(207.676)**	**(227.038)**

An analysis of loans by maturity is:

31st March 2007 £m			31st March 2008 £m
-		1 - 2 years	-
(0.150)		2 - 5 years	(5.000)
(51.000)		5 - 10 years	(56.800)
(156.526)		Over 10 years	(165.238)
(207.676)		**Total Long Term Borrowing**	**(227.038)**

40. Deferred Liabilities

The following table summarises the Council's deferred liabilities:

31st March 2007 £m		31st March 2008 £m
(3.294)	Secondary School Capital Financing	(3.294)
(1.440)	Newcastle Airport Loan Notes	(1.200)
(0.899)	Overhanging Premiums and Discounts	-
(0.039)	Outstanding Finance Lease	(0.019)
(5.672)	**Total Deferred Liabilities**	**(4.513)**

Secondary School Capital Financing represents capital grants retained by the Council due to be released as part of its Building Schools for the Future programme.

The Newcastle Airport Loan Notes are an amount set aside in lieu of the loan notes described in note 32 being repaid.

The outstanding finance lease relates to funding used to acquire a vehicle that has yet to be repaid.

As at the balance sheet date the Council is confident that all of these liabilities will be cleared in future years.

41. Deferred Credits

This amount relates to the outstanding balance of mortgages granted by the Council for the sale of Council Houses.

42. Financial instruments disclosure

With effect from 1 April 2007, local authorities have had to adopt a major change of accounting policy in order to comply with the requirements of the Statement of Recommended Practice 2007, issued by the CIPFA/ LASAAC Joint Committee. This has been based on major changes in international accounting standards, which have been adopted into new U.K. accounting standards for financial instruments - FRS25, 26 and 29. This has caused major changes in the accounting treatment of financial instruments, soft loans and guarantees, which have been designed to present a higher quality of information on financial instruments, in line with the private sector. In addition, in order to help identify, quantify and inform on the exposure to and management of risk, new “fair value” disclosure requirements have been introduced. The need for this has arisen in recent years through the high profile failure of a number of financial institutions e.g. Barings, Enron, World Com etc.

Amortised Cost

This change in accounting standards has meant that most financial instruments (whether borrowing or investment) have, in 2007/08, to be valued on an amortised costs basis using the effective interest rate (EIR) method. However, it should be noted that figures for 31st March 2007 that appear in these disclosure notes are shown unaltered from those which were published in the 2006/07 accounts. Consequently, the figures for 31st March 2007 and 31st March 2008 are not properly comparable, as they have been produced on two different bases.

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. In line with CIPFA guidance, fair values do not need to be recalculated for 2006/07 so these columns are not completed in the tables below. For the very same reasons, no figures appear under ‘Gains and losses on financial instruments’ for 2006/07.

Compliance

The Council has adopted the CIPFA's Treasury Management in the Public Services: Code of Practice and set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

Accounting regulations require investments and borrowing shown on the balance sheet to be broken down into the different type of financial instruments as follows:

Financial Instrument Balances	Long -Term		Current		TOTAL	
	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m
Financial liabilities at amortised cost	(207.676)	(227.038)	-	-	(207.676)	(227.038)
Financial liabilities at fair value through Income and Expenditure	-	-	-	-	-	-
Total Financial Liabilities	**(207.676)**	**(227.038)**	**-**	**-**	**(207.676)**	**(227.038)**
Loans and receivables	-	-	75.350	85.202	75.350	85.202
Available for sale financial assets	0.008	0.009	-	-	0.008	0.009
Unquoted equity investment at cost (Newcastle Airport)	3.382	6.767	-	-	3.382	6.767
Financial assets at fair value through Income and Expenditure	-	-	-	-	-	-
Total Financial Assets	**3.390**	**6.776**	**75.350**	**85.202**	**78.740**	**91.978**

The gains and losses recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses (STRGL) in relation to financial instruments are made up as follows:

	Liabilities measured at amortised cost £m	Loans and receivables £m	Available for sale assets £m	Total £m
Interest expense	12.613	-	-	12.613
Losses on derecognition	-	-	-	-
Impairment losses	-	0.980	0.004	0.984
Interest payable and similar charges	**12.613**	**0.980**	**0.004**	**13.597**
Interest income	-	(6.258)	(0.001)	(6.259)
Gains on derecognition	-	-	-	-
Interest and investment income	**-**	**(6.258)**	**(0.001)**	**(6.259)**
Gains on revaluation	-	-	(3.385)	(3.385)
Losses on revaluation	-	-	-	-
Amounts recycled to the I&E Account after impairment	-	-	-	-
(Surplus)/deficit arising on revaluation of financial assets	**-**	**-**	**(3.385)**	**(3.385)**
Net (gain)/loss for the year	**12.613**	**(5.278)**	**(3.382)**	**3.953**

Fair Value of Assets and Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities, which are carried in the balance sheet at amortised cost, is disclosed below. We have not calculated fair values as at 31st March 2007 as the regulations did not come into effect until 1st April 2007. There is also no fair value disclosure for items where the carrying amount is a fair approximation of fair value such as short-term trade receivables and payables and cash and bank.

Methods and Assumptions in valuation technique

The fair value of an instrument is determined by calculating the net present value of future cash flows, which provides an estimate of the value of payments in the future in todays terms. 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.

Our treasury management consultants obtained the rates quoted in this valuation from the market on 31st March 2008, using bid prices where applicable.

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per the last transaction in 2008.
- For other market debt and investments the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

	31 March 2007 Carrying amount £m	31 March 2007 Fair value £m	31 March 2008 Carrying amount £m	31 March 2008 Fair value £m
PWLB - maturity	(197.676)	n/a	(216.864)	(236.199)
Lenders Option Borrower's Option (LOBO)	(10.000)	n/a	(10.173)	(10.979)
Short Term borrowing	-	n/a	-	-
Financial Liabilities	**(207.676)**	**n/a**	**(227.038)**	**(247.178)**

The fair value 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 lower than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest below current market rates reduces the amount that the Authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31 March 2007 Carrying amount £m	31 March 2007 Fair value £m	31 March 2008 Carrying amount £m	31 March 2008 Fair value £m
Deposits with banks and building societies	75.350	n/a	85.202	85.245
Government securities	0.008	n/a	0.009	0.009
Airport Loan Notes	1.200	n/a	0.960	0.960
Assisted vehicle purchase	0.195	n/a	0.144	0.144
Housing advances	0.239	n/a	0.120	0.120
Social Care and Health fees	0.483	n/a	0.376	0.376
Financial Assets	**77.475**	**-**	**86.811**	**86.854**

The fair value is higher than the carrying amount because the Council's portfolio of investments 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 guarantee to receive interest above current market rates increases the amount that the Authority would receive if it agreed to early repayment of the loans.

The Council also has an investment in Newcastle Airport that is an equity instrument that does not have a quoted market price. This is carried in the balance sheet at £6.767m (£3.382m in 2006/07) following a revaluation in the year (see note 31 for further information). As the shares are not traded it is not possible to calculate a fair value so this investment has not been included in the above table. The Council has no plans to dispose of this investment in the near future.

Nature and Extent of Risks Arising from Financial Instrument

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 Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written polices and procedures covering specific areas such as credit risk, liquidity risk and market risk.

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. The Council also has a policy of limiting deposits with institutions to a maximum of £10.000m and a separate limit of £10.000m is also applied to overnight deposits made by the Tyne and Wear Pension Fund.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectablility over the last three financial years adjusted to reflect current market conditions.

Credit Risk of Financial Assets	Amount at 31 March 2008 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2008 %	Estimated maximum exposure to default and uncollectablility £m
	A	B	C	A x C
Deposits with banks and other financial institutions	85.202	0%	0%	-
Customers	26.373	3%	3%	0.791
Airport Loan Notes	0.960	0%	0%	-
Assisted vehicle scheme	0.144	0%	0%	-
Housing Advances	0.120	0%	0%	-
Social care and health fees	0.376	0%	0%	-
	113.175			**0.791**

No credit limits were exceeded during the financial year and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits. There has never been any default on the repayment of Housing Advances or Airport Loan Notes. The majority of the assisted vehicle scheme debt could be recovered from final staff salaries so represent negligible risk. Social Care and Health fees are secured against the client property.

Impairment

The Council has impaired its financial assets by a total of £6.857m and this impairment is included in the reported financial asset figures.

Certain specific financial instruments have been fully impaired:

- £0.127m of Social Care Fees where the Council is statutorily within its rights to recover the fees but where there are local conditions that dictate that the property against which a charge is held should be disregarded. This discretionary allowance will require Member approval before they can be formally written off.
- £0.106m against Chancery Bank, which went into administration. Whilst we are still awaiting the final report on the winding up of the bank the last distribution occurred in October 2003 hence the 100% set aside.
- £0.381m against a business loan issued in 2005/06 that has subsequently defaulted.
- £0.320m against costs awarded for defaulting against Council Tax and National Non Domestic Rates (NNDR) where experience shows recovery is unlikely.

A sum of £0.004m has been impaired against our Government securities following based on the sale value of some of Trust Fund Government Stock in 2005/06.

In relation to customer balances, following the specific balances mentioned above, impairment has been constructed as follows:

- A review for each class of customer such that Housing Rents, Housing Benefits overpaid, Council Tax and NNDR 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. Certain client groups, for example Central Government, where payment is expected, no impairment has been undertaken.

- No impairment has been undertaken for debts due on 31st March 2008 but not formally recognised at that date.
- Impairment factors taken into consideration include the age of debt, past experience of recoverability and in the case of NNDR and Council Tax whether legal proceedings have been initiated.

Collateral

The only form of collateral for any of the reported financial asset relates to the Social Care and Health fees where there is a charge against the clients property.

Whilst payment for other asset types are not yet due the Council does not generally allow credit for customers, such that its full £24.328m of the £26.373m 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 £m
Less than three months		18.957
Three to six months		1.314
Six months to one year		1.663
More than one year		2.394
		24.328

Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meets its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council has limits in place to control the amount of borrowing that matures at any one time in order to mitigate the financial impact of re-borrowing at a time of unfavourable interest rates. The Council's policy is to ensure that not 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 (at nominal value):

31 March 2007 £m	Loans outstanding	31 March 2008 £m
(197.676)	Public Works Loans Board	(216.864)
(10.000)	Market Debt	(10.173)
(207.676)	**Total**	**(227.037)**
-	Less than 1 year	(0.736)
-	Between 1 and 2 years	-
(0.150)	Between 2 and 5 years	(5.000)
(51.000)	Between 5 and 10 years	(56.800)
(156.526)	More than 10 years	(164.501)
(207.676)	**Total**	**(227.037)**

All trade and other payables 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 affect of fluctuations in interest rates on the fair value of an instrument.

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

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.

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

- 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 in the Balance Sheet, which would also be reflected in the STRGL.

- 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. The policy is to aim to limit to keep a maximum of 40% of its borrowings in variable rate loans. 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 ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the authority'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 31 March 2008, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as shown in the following table:

Interest Rate Risk	£m
Increase in interest payable on variable rate borrowings	2.293
Increase in interest receivable on variable rate investments	(1.044)
Increase in Government grant receivable for financing costs	(0.312)
Impact on Income and Expenditure Account	**0.937**
Share of overall impact debited to HRA	**0.870**
Decrease in fair value of 'available for sale' fixed rate investment assets	-
Impact on Statement of Total Recognised Gains and Losses (STRGL)	**1.494**
Decrease in fair value of fixed rate investment assets (no impact on I&E account or STRGL)	(0.430)
Decrease in fair value of fixed rate borrowings liabilities (no impact on I&E account or STRGL)	(30.339)

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 £6.767m in Newcastle Airport. The Authority 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 authority has set aside the full book value of the shares in the available for sale reserve. The £6.767m shares are all classified as ‘available for sale’, meaning that all movements in price will impact on gains and losses recognised in the STRGL. The impact of the 2007/08 movement in valuation can be seen in the STRGL in 2007/08. A general shift of 5% in general share prices would result in a £0.338m gain or loss being recognised in the STRGL.

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.

43. Provisions

The Council's provisions amounting to £27.040m comprise the following:

	Adjusted Balance 1st April 2007 £m	Amount Received During Year £m	Amount Applied During Year £m	Balance 31st March 2008 £m
Insurances	(1.862)	(1.770)	2.198	(1.434)
Landfill Liability	(0.869)	0.869	(0.226)	(0.226)
Pay Settlements (including Equal Pay)	(5.808)	(24.167)	4.595	(25.380)
Total Provisions	**(8.539)**	**(25.068)**	**6.567**	**(27.040)**

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 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 of outstanding claims. As at 31st March 2008, the Council faced outstanding claims of £1.862m. Based on our past history of claims we expect £0.967m to be settled in 2008/09, £0.537m to be settled in 2008/09 and £0.358m to be settled in future years.

The Council is involved in the local authority trading scheme in respect of waste disposal at landfill. The government has set us targets to reduce the amount of waste going to landfill and this represents our liability. This liability was incorrectly shown as a creditor balance in our 2006/007 statement of accounts.

The Council is facing significant liabilities in relation to Equal Pay and Equal Value claims at employment tribunal. In addition we are also in negotiation with the unions to agree a job evaluation exercise that will ensure equal pay for equal value of work across the Council. The costs of this scheme will be backdated to 1st January 2007. Our provision therefore represents estimated costs of reaching settlement on Equal Pay and Equal Value and the additional wage bill from backdated Job Evaluation structure.

44. Net Worth

The net worth of the Authority at the balance sheet date stands at £710.562m, a growth of £69.489m on the previous year. The Statement of Total Recognised Gains and Losses analyses this growth in terms of surplus or deficit on the Income and Expenditure Account and Collection Fund Account, together with any revaluation of assets or liabilities.

	31 March 2007 £m	Movement in Year £m	31 March 2008 £m	Purpose of Reserve
Fixed Assets Revaluation Reserve	-	(80.720)	(80.720)	Store of gains on revaluation of fixed assets
Capital Adjustment Account	(773.986)	49.837	(724.149)	Store of capital resources set aside to meet past expenditure and losses on revalution not met from the Fixed Asset Revaluation Reserve
Usable Capital Receipts Reserve	(1.043)	(0.139)	(1.182)	Proceeds of fixed asset sales available to meet future expenditure
Unequal Back Pay Account	4.579	9.217	13.796	Balancing account to allow recognition of costs only in the year that they are paid
Pension Reserves	170.970	(39.130)	131.840	Balancing account to allow inclusion of Pension Liability in the accounts
Housing Major Repairs Reserve	-	(0.082)	(0.082)	Resources available to meet capital investment in Council Housing
Financial Instrument Adjustment Account	-	(0.792)	(0.792)	Balancing account to allow recognition of costs and income only in the year that they are payable
Available for Sale Reserve	(3.378)	(3.389)	(6.767)	Recognition of revaluation of airport investment in the accounts
Earmarked Reserves	(29.300)	(8.401)	(37.701)	Resources set aside to support specific future cost pressures
Collection Fund	(0.182)	0.207	0.025	Balance available to support future Council Tax
General Fund Balances	(0.741)	(0.176)	(0.917)	Resources available to meet future running costs of non HRA services
Housing Revenue Account Balances	(3.070)	(0.805)	(3.875)	Resources available to meet future running costs of HRA services
Total Net Worth	**(636.151)**	**(74.373)**	**(710.524)**	

45. Fixed Asset Revaluation Reserve

	2007/08 £m
Balance as at 1st April 2007	
Revaluation of Fixed Assets	(88.238)
Impairment of Revaluation	-
Disposal of fixed assets	7.518
Balance as at 31st March 2008	**(80.720)**

46. Capital Adjustment Account

	2007/08 £m
Balance as at 1st April 2007	**(773.986)**
Disposal of fixed assets	14.376
Reversal of Charges made to the Income & Expenditure Account	36.017
Defect or (Surplus) arising on Revaluation of Fixed Assets	(0.556)
Balance as at 31st March 2008	**(724.149)**

47. Usable Capital Receipts Reserve

	2007/08 £m
Balance as at 1st April 2007	**(1.043)**
Net receipts in year	(10.447)
Applied to support capital spending in year	10.308
Balance as at 31st March 2008	**(1.182)**

48. Earmarked Reserves

Earmarked reserves are held for specific commitments 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 lists our Earmarked reserve balances at the start and the end of the 2007/08 financial year.

	As at 1st April 2007 £m	Contribution to Reserves £m	Contribution from Reserves £m	As at 31st March 2008 £m
Strategic Reserve	(4.327)	-	1.455	(2.872)
School Balances	(5.069)	(1.969)	0.878	(6.160)
Structural Change Reserve	(2.000)	-	0.150	(1.850)
Maintenance Fund	(1.359)	(0.024)	-	(1.383)
Insurance Reserve	(2.820)	(1.352)	0.109	(4.063)
Corporate Strategic Financial Risk Reserve	(2.500)	(0.981)	-	(3.481)
Private Finance Initiative	(2.017)	(1.257)	-	(3.274)
Partnership Working	(0.363)	(0.119)	0.226	(0.256)
Grant Clawback	(0.466)	(0.160)	0.466	(0.160)
Equal Pay and Job Evaluation Reserve	(5.920)	(4.434)	1.268	(9.086)
Retained Income	(0.827)	(0.198)	0.427	(0.598)
Other Reserves	(1.632)	(3.427)	0.541	(4.518)
Total Earmarked Reserves	**(29.300)**	**(13.921)**	**5.520**	**(37.701)**

The key earmarked reserves held at the Balance Sheet date are outlined below:

Strategic Reserve – to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is held at 2% of the Council's net revenue budget (excluding Area Based Grant but including Dedicated Schools Grant). This is a change from treatment in 2006/07 where Dedicated Schools grant was also excluded. Release of reserve totalling £1.455m has been transferred to earmarked reserves for Equal Pay and Job Evaluation and the Corporate Strategic Financial Risk Reserve.

School Balances – cash balances held on behalf of schools.

Structural Change – to manage the revenue cost of achieving the structural changes facing the Council. These changes are required to ensure that the Council has sufficient funds to achieve its objectives. Some of the specific change proposals approved by the Council may require significant up-front investment to ensure that they are carried out in an effective, planned way. The fund will also be used to finance significant "invest to save" projects.

Maintenance Fund – to cover any liabilities arising from assets transferring after the winding up of the Tyne and Wear Urban Development Corporation

Insurance Reserve – to cover any potential liabilities over and above known claims

Corporate Strategic Financial Risk Reserve – to cover known financial risks, which are both significant and volatile, such as a potential increase in demand for adult care services, increased costs of care for looked after and vulnerable children, value for money efficiency targets and other significant risks not addressed by other specific earmarked reserves.

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

Equal Pay and Job Evaluation – to finance the revenue cost of fighting and settling potential equal pay claims and to cover the risk that the actual cost of job evaluation is higher than planned.

Other reserves include amounts set aside for specific expenditure commitments within Directorates.

49. School Balances

As at 31st March 2008, the Council was holding £6.160m school balances (£5.069m at 31st March 2007). 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 the estimated cost of backdating job evaluation structure in schools to 1 January 2007. The estimated cost of job evaluation is £0.843m.

50. Capital Finance

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

2006/07 £m		2007/08 £m
181.653	**Opening Capital Financing Requirement**	**194.454**
	Capital Investment	
1.422	Intangible Assets	0.728
32.453	Operational Assets	29.486
15.559	Non Operational Assets	7.445
12.012	Deferred Charges	16.674
61.446	**Total Capital Investment**	**54.333**
	Sources of Finance	
(12.373)	Capital Receipts	(10.308)
(17.936)	Government Grants and other Contributions	(12.847)
(13.858)	Housing Revenue Account	(11.028)
(4.478)	General Fund Revenue	(5.195)
(48.645)	**Total Finance Used**	**(39.378)**
12.801	**Movement in Capital Financing Requirement**	**14.955**
194.454	**Closing Capital Financing Requirement**	**209.409**
	Explanation of Movement in Year	
7.388	Increase in underlying need to borrow (supported by Government)	5.892
5.413	Increase in underlying need to borrow (unsupported by Government)	9.063
12.801	**Increase / (Decrease) in Capital Financing Requirement**	**14.955**

51. Significant Items of Capital Expenditure

The total expenditure on the capital programme was £54.299m (£61.466m in 2006/07). The most significant items during 2007/08, excluding planned maintenance, are shown in the following table.

	£m		£m
Whitburn and Cleadon Schools	1.138	Building Schools for the Future	1.834
South Shields Community School	1.294	Cleadon Park Regeneration	2.545
Simonside Regeneration	0.665	Boldon Colliery Regeneration	1.739
Tyne Gateway	1.140	Redundancies	1.729
Schools Devolved Formula Grant	1.742	Equal Pay Compensation	8.597
Housing Grants	2.348	Cleaner, Greener, Safer projects	0.871
South Shields Registry Office	0.620	Children's Centres	0.720

52. Capital Commitments

Details of commitments over £0.5m under capital contracts as at 31st March 2008:

	£m		£m
South Shields Registry Office	0.600	Whitburn School contribution	3.005
Trow Quarry	1.668	South Marine Park	1.410

53. Deferred Charges

Certain expenditure incurred by Local Authorities does not fall within the Code of Practice definition of fixed assets but is classified as expenditure for capital purposes with respect to capital controls. The charges primarily relate to Equal Pay Compensation, redundancy payments, and Housing Grants e.g. for disabled facilities. The total of deferred charges for the year of £16.932m (£12.012m in 2006/07) have been amortised to the Income and Expenditure Account.

54. Trust Funds

The Council acts as sole trustee for legacies left by inhabitants of the Borough, the value of which at 31st March 2008 was £0.690m (£0.675m in 2006/07).

The largest of these legacies is the Westoe Trust that has investments worth £0.352m as at 31st March 2008 (£0.352m in 2006/07). 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.

	Balance 1st April 2007 £m	Amount Received During Year £m	Amount Applied During Year £m	Balance 31st March 2008 £m
Westoe Trust	(0.352)	(0.020)	0.020	(0.352)
Marine Park Trust	(0.164)	(0.010)	-	(0.174)
Other Trust Funds	(0.158)	(0.019)	0.013	(0.164)
Total Provisions	**(0.674)**	**(0.049)**	**0.033**	**(0.690)**

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 £m	Invested in Council Funds £m	Total £m
Westoe Trust	0.000	0.352	0.352
Marine Park Trust	0.000	0.174	0.174
Other Trust Funds	0.024	0.140	0.164
Total as at 31 March 2008	**0.024**	**0.666**	**0.690**

There were no outstanding liabilities on the trusts at the balance sheet date.

55. 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 2008, the Actuary assessed the deficit at £9.420m. 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.

56. Post Balance Sheet Events

There are no post balance sheet events to disclose.

57. Revenue Cash Flow Activities

The revenue net cash flow can be reconciled to the Income and Expenditure Account

2006/07 £m		2007/08 £m
4.637	**Deficit or (surplus) for the year on the income and expenditure account**	**61.527**
(3.789)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the general fund balance for the year	(61.703)
0.848	**Increase/Decrease in General Fund Balance**	**(0.176)**
	Returns on Investment and Service of Financing	
8.199	Newcastle Airport Dividend	-
(2.957)	Net Interest Payments	(1.906)
5.242	**Total Returns on Investment and Service of Financing**	**(1.906)**
	Non-Cash Transactions	
(4.017)	Debt Set Aside Provisions	(4.474)
5.501	Contributions from / (to) Provisions	(18.501)
(11.693)	Contribution from / (to) Reserves	(8.401)
(2.026)	Revenue Contributions to Capital Outlay	(0.724)
(3.975)	Other Items	4.893
(16.210)	**Total Non-Cash Transactions**	**(27.207)**
	Items on an Accruals Basis	
(0.531)	Stock Increase / (Decrease)	0.009
(2.515)	Debtors Increase / (Decrease)	(3.660)
(13.475)	Creditors (Increase) / Decrease	13.582
(16.521)	**Total Items on an Accruals Basis**	**9.931**
(26.641)	**Net Cash Flow from Revenue Activities**	**(19.358)**

58. Reconciliation of Movement in Cash to Net Debt

The movement in cash balances can be reconciled to the movement in net debt as follows:

	£m
Increase/(Decrease) in Cash during Year	2.828
Inflow from Debt	(12.281)
Net Cash Outflow	**(9.453)**
Net Debt at 1st April 2007	(132.383)
Net Debt at 31st March 2008	(141.836)
Net Cash Inflow	**(9.453)**

59. Financing

The following table analyses cash paid or received during the year in relation to our borrowing:

Financing	As at 1st April 2007	As at 31st March 2008	Movement in Year
Market Loans	(10.000)	(10.000)	-
Public Works Loan Board	(197.676)	(216.128)	(18.452)
Finance Leasing	(0.057)	(0.038)	0.019
	(207.733)	**(226.166)**	**(18.433)**

60. Analysis of Other Government Grants

The Council received the following cash receipts in relation to specific government grants

	£m		£m
Dedicated Schools Fund	(85.998)	Mental Health	(0.604)
Supporting People	(4.979)	School Standards	(3.558)
Access and Systems Capacity	(2.242)	Children's Services	(1.903)
Surestart	(4.623)	Preserved Rights	(0.717)
Single Programme	(1.261)	Private Finance Initiative	(4.025)
Benefits Administration	(2.146)	Performance Reward	(1.531)
Neighbourhood Renewals Fund	(7.697)	Local Enterprise Growth	(5.667)
Carers	(0.731)	Business Rate Growth Incentive	(1.759)
Learning and Skills Council	(4.936)	Other	(4.991)
Standards Fund	(15.456)	**Total**	**(154.824)**

61. Local Area Agreement

The Council is the lead authority and accountable body for the South Tyneside Local Strategic Partnership whose members are South Tyneside Council for Voluntary Services, Primary Care Trust, Government Office North East, TEDCO, Northumbria Police, South Tyneside College, Job Centre Plus, Tyne and Wear Fire and Rescue Service, Business Link Tyne and Wear, South Tyneside NHS Foundation Trust, Learning and Skills Council, North East Chamber of Commerce, Groundwork, Culture and Wellbeing Partnership, Children and Young People Alliance and Blissibility. In addition there is a member on the LSP from both the Business and Ethnic Communities. The LSP partners have agreed a shared vision and ten key priorities to be delivered by the Local Area Agreement.

The Council received £16.597m of grant funding through the Local Area Agreement (LAA) in 2007/08. The grant funding received through the LAA has all been specific grants that the Council would normally have received directly. There have been no partner organisation resources pooled directly into the LAA grant funding. The LAA grant included £7.366m of Neighbourhood Renewal Fund grant, which has been partly paid to external organisations and partners.

62. Authorisation of Accounts

These accounts were authorised for issue on 25 September 2008 by Councillor Iain Malcolm, chair of General Purposes Committee. 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 2008.

Group Accounts

Introduction

Many Local Authorities now provide services through partner organisations that operate under the control of the Authority. The Code of Practice on Local Authority Accounting in accordance with FRS2 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 local authority group and identified the following organisations requiring consolidation into Group Accounts:

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

South Tyneside Homes Limited

South Tyneside Council established an Arms Length Management Organisation registered as South Tyneside Homes Limited on 3 March 2005 and transferred responsibility 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 Authority. South Tyneside Homes Limited accounting policies have been realigned in order to ensure they are consistent with the Group Accounting Policies. The subsidiary has been consolidated into the Group Financial Statements on a line-by-line basis as required by FRS2.

Other Entities

The Tyne and Wear Economic Development Company and the Beamish Museum have each been incorporated as joint ventures using the gross equity method - a basis as the equity method, but requiring the disclosure of the council's share of the gross assets and liabilities and gross turnover and operating costs of the organisations. Due to materiality, the accounts for the North East Consortium for Asylum and Refugee Support are no longer incorporated into the group accounts as a joint venture. This is a change from our accounts for the year ended 31st March 2007.

Group Income and Expenditure Account

2006/07 Net Expenditure £m		2007/08 Gross Expenditure £m	2007/08 Gross Income £m	Note	2007/08 Net Expenditure £m
2.497	Central Services to the Public	18.572	(15.788)		2.784
40.233	Cultural, Environmental and Planning Services	68.118	(25.766)		42.352
15.187	Education Services	160.265	(130.851)		29.414
8.770	Highways, Roads and Transport Services	11.857	(2.842)		9.015
16.596	Housing Services	109.293	(98.946)		10.347
44.058	Adult Social Services	73.988	(27.580)		46.408
18.335	Children's Social Services	23.666	(3.434)		20.232
0.317	Court Services	0.509	(0.297)		0.212
6.481	Corporate and Democratic Core	8.500	(3.103)		5.397
(13.637)	Non Distributed Costs	6.263	(0.683)		5.580
	Share of operating results of Joint Ventures:				
(0.609)	- Turnover	-	(0.310)		(0.310)
0.702	- Cost of sales and operating expenses	0.219	-		0.219
13.621	Exceptional Items - Equal Pay Legislation	19.483	(0.019)		19.464
152.551	**Net Cost of Services**	**500.733**	**(309.619)**		**191.114**

Group Income and Expenditure

2006/07 Net Expenditure £m		2007/08 Gross Expenditure £m	2007/08 Gross Income £m	Note	2007/08 Net Expenditure £m
1.072	Loss on the Disposal of Fixed Assets				4.928
9.146	Precepts of other Public Bodies				9.386
(8.115)	(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services				(0.066)
13.177	Interest Payable and similar Charges				12.221
7.370	Contribution of Housing Capital Receipts to Government pool				5.042
(4.740)	Interest and Investment Income				(5.906)
26.700	Interest on Pension Liabilities			3	30.650
(23.640)	Expected Return on Pension Assets			3	(27.180)
173.521	**Net Operating Expenditure**				**220.189**
(50.633)	Demand on the Collection Fund				(52.446)
(34.845)	General Government Grants				(35.124)
(66.855)	Non-domestic Rates Redistribution				(70.291)
21.188	**Deficit or (Surplus) for the Year**				**62.328**

Reconciliation of the Single Entity Surplus/Deficit to the Group Surplus/Deficit

This statement shows how the group entities have contributed to the overall deficit on the Group Income and Expenditure Account.

2006/07 £m		2007/08 £m
4.637	(Surplus) / deficit for the year on the Authority Income and Expenditure Account	61.527
15.806	Adjustments for the transactions with other Group Entities	0.019
20.443	**(Surplus) / deficit in the Group Income and Expenditure Account attributable to the Authority**	**61.546**
	(Surplus) / deficit in the Group Income and Expenditure Account attributable to Group Entities:	
0.652	Subsidiaries	0.873
0.093	Joint Ventures	(0.091)
21.188	**(Surplus) / deficit for the year on the Group Income and Expenditure Account**	**62.328**

Group Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Group for the year and shows the aggregate increase in net worth. In addition to the deficit or (surplus) generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2006/07 £m		2007/08 £m
21.188	(Surplus) / Deficit for the Year on the Income and Expenditure Account	62.328
0.078	(Surplus) / Deficit for the Year on the Collection Fund Account	0.207
(56.556)	Prior Period Adjustment Government Grants Deferred	-
-	Prior Period Adjustment Magistrates Courts	(4.922)
(70.775)	(Surplus) / Deficit arising on the Revaluation of Fixed Assets	(80.287)
3.384	Deficit or (Surplus) arising on Revaluation of Available for Sale Financial Assets	(3.389)
(9.600)	Deficit or (Surplus) arising on Unwinding Equal Pay Costs	-
(0.110)	Gain on use of Capital Receipts to Redeem Debt	-
0.990	Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities	(49.400)
-	Loss on the Disposal of Fixed Assets	(4.709)
(1.424)	(Surplus) / Deficit arising on other Reserves of Group Entities	0.419
(112.825)	**Total Recognised (Gains) / Losses for the Year**	**(79.753)**

Group Balance Sheet

This statement provides a summary of the Group's financial position as at 31st March 2008. It shows the balances and reserves at the Group's disposal, fixed assets and current assets employed in its operations and the Group's long term borrowing position.

31 March 2007 (as restated) £m		Note	31 March 2008 £m	31 March 2008 £m
1.608	**Intangible Fixed Assets**	9		1.588
	Tangible Fixed Assets			
	Operational Assets			
651.433	Council Dwellings	10	692.743	
222.935	Other Land and Buildings	10	229.280	
11.469	Vehicles, Plant and Equipment	10	7.269	
47.585	Infrastructure	10	52.363	
1.519	Community Assets	10	2.309	983.964
	Non-Operational Land and Buildings			
0.378	Investment Properties	10	0.228	
1.204	Assets under Construction	10	2.257	
46.709	Surplus Assets Earmarked for Disposal	10	50.477	52.962
984.840	**Total Fixed Assets**			**1,038.514**
	Long Term Investments			
1.976	Long Term Investments: Joint Venture Assets	2	1.881	
(0.645)	Long Term Investments: Joint Venture Liabilities	2	(0.916)	-
3.390	Other Long Term Investments		6.776	7.741

Group Balance Sheet

31 March 2007 (as restated) £m		Note	31 March 2008 £m	31 March 2008 £m
	Long Term Debtors			
1.200	Airport Loan Notes		0.960	
3.925	Other Long Term Debtors		4.057	5.017
994.686	**Total Long Term Assets**			**1,051.272**
	Current Assets			
0.990	Stocks and Work in Progress	11	0.909	
28.561	Debtors	12	22.543	
75.350	Investments		85.202	
6.263	Cash and Bank	13	10.407	119.061
1,105.850	**Total Assets**			**1,170.333**
	Current Liabilities			
-	Borrowing Repayable within 12 months		-	
(55.830)	Creditors	14	(40.914)	
(0.987)	Bank Overdraft	13	(1.116)	(42.030)
1,049.033	**Total Assets Less Current Liabilities**			**1,128.303**
(207.676)	Long-Term Borrowing		(227.038)	
(5.672)	Deferred Liabilities		(4.513)	
(18.924)	Government Grants Deferred Account		(26.656)	
(0.218)	Deferred Credits		(0.109)	
(8.539)	Provisions		(27.040)	
(186.070)	Pension Liability	3	(141.260)	(426.616)
621.934	**Total Assets Less Liabilities**			**701.687**

31 March 2007 (as restated) £m		Note	31 March 2008 £m	31 March 2008 £m
	Financed By			
-	Fixed Asset Revaluation Reserve			(80.720)
(773.986)	Capital Adjustment Account			(724.149)
-	Financial Instruments Adjustment Account			(0.792)
(3.378)	Available for Sale Reserve			(6.767)
186.070	Pension Reserve	3		141.260
(1.043)	Usable Capital Receipts Reserve			(1.182)
-	Housing Major Repairs Reserve			(0.082)
4.579	Equal Pay Account			13.796
(29.300)	Earmarked Reserves			(37.701)
(0.182)	Collection Fund			0.025
(0.741)	General Fund Balances			(0.917)
(2.622)	Housing Revenue Account Balances			(4.423)
(1.331)	Profit / Loss and other Reserves of Group Entities			(0.035)
(621.934)	**Total Net Worth**			**(701.687)**

Group Cash Flow Statement

The Group Cash Flow Statement provides a summary of the cash received and payments made by the Group to third parties for both revenue and capital purposes.

Group 2006/07 £m	Group Cash Flow Statement Revenue Activities	Note	Group 2007/08 £m
	Cash Outflows		
189.690	Cash Paid in relation to Employees		197.481
140.485	Other Operating Cash Payments		177.375
14.447	Council Tax Benefit Paid		14.686
43.353	Housing Benefit Paid		46.078
19.943	National Non-Domestic Rate Payments to Government Pool		23.605
15.315	Precepts Paid		65.131
7.948	Housing Capital Receipt Payments to Government Pool		5.474
431.181			**529.830**
	Cash Inflows		
(49.176)	Rents (after Rebates)		(48.758)
(41.905)	Council Tax Receipts		(41.891)
(66.855)	National Non-Domestic Rate Receipts from Government Pool		(70.291)
(21.625)	Non-Domestic Rate Receipts		(23.831)
(12.775)	Revenue Support Grant		(11.797)
(28.673)	Department for Work and Pensions Revenue Grant for Benefits		(30.351)
(28.618)	Housing Revenue Account Subsidy		(29.256)

Group 2006/07 £m	Group Cash Flow Statement Revenue Activities	Note	Group 2007/08 £m
(147.923)	Other Government Grants		(154.824)
(22.780)	Cash received for Goods and Services		(103.247)
(7.948)	Income from Useable Capital Receipts to meet Pool Payments		(5.042)
(29.502)	Other Operating Cash Receipts		(30.999)
(457.780)			**(550.287)**
(26.599)	**Total Revenue Activities**	**18**	**(20.457)**
	Dividends from Joint Ventures and Associates		
	Cash Inflows		
(8.199)	Newcastle International Airport Limited Dividend		-
(8.199)	**Dividends from Joint Ventures and Associates**		**-**
	Returns on Investment and Servicing of Finance		
	Cash Outflows		
0.002	Finance Lease Interest Paid		0.002
7.651	Other Interest Paid		8.234
	Cash Inflows		
(4.635)	Interest Received		(6.369)
3.018	**Returns on Investment and Servicing of Finance**		**1.867**
	Capital Activities		
	Cash Outflows		
49.434	Purchase of Fixed Assets		37.679
12.012	Other Capital Cash Payments		11.081
61.446			**48.760**

Group Cash Flow Statement

Group 2006/07 £m	Group Cash Flow Statement Revenue Activities	Note	Group 2007/08 £m
	Cash Inflows		
(13.930)	Sale of Fixed Assets		(9.788)
(15.078)	Capital Grants Received		(13.184)
(2.732)	Other Capital Cash Receipts		(0.456)
(31.740)			**(23.428)**
29.706	**Total Capital Activities**		**25.332**
	Acquisitions and Disposals		
	Cash Inflows		
(0.241)	Sale of Newcastle International Airport Limited Shares		(0.240)
(0.241)	**Acquisitions and Disposals**		**(0.240)**
(2.315)	**Net Cash Outflow / (Inflow) before Financing**		**6.502**
	Management of Liquid Resources		
21.979	Net Increase/(Decrease) in Short Term Deposits		7.985
21.979	**Management of Liquid Resources**		**7.985**
	Financing		
	Cash Outflows		
78.010	Repayments of Amounts Borrowed		42.548
0.018	Capital Element of Finance Lease Rental Payments		0.019
	Cash Inflows		
(84.001)	New Loans Raised		(61.070)
(5.973)	**Financing**		**(18.503)**
13.691	**Net (Increase) / Decrease in Cash**	**13**	**(4.016)**

Notes to the Group Financial Statements

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

Tyne and Wear Economic 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.

Beamish Museum. 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.

2. Council Share in Group Entities

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

	South Tyneside Homes Ltd 100% share £m	Tyne & Wear Economic Development Company 14% share £m	Beamish Museum 8% share £m	Total £m
Fixed assets	0.113	1.481	-	1.594
Current assets	1.679	0.400	-	2.079
Liabilities due within one year	(3.133)	(0.781)	(0.117)	(4.030)
Liabilities due after one year	(9.420)	-	(0.019)	(9.439)
Reserves	**(10.761)**	**1.100**	**(0.136)**	**(9.796)**

3. Local Government Pension Scheme Costs (including FRS17 disclosures)

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

Disclosures of pension costs in the accounts are in line with FRS17 and incorporated into the Group Income and Expenditure Account.

Components of Defined Benefit Cost

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 Pension Fund in the net cost of services as shown below:

2006/07 £m	Net Cost of Services	2007/08 £m
	Contributions Paid to Pension Fund	
(20.62)	- Funded Liabilities	(19.95)
(2.22)	- Unfunded Liabilities	(2.15)
(22.84)	**Total Contributions Paid**	**(22.10)**
18.13	Current Service Cost	18.24
4.91	Past Service Cost	4.98
-	Settlement / Curtailments (Gains) or Losses	-
23.04	**Total Costs FRS17**	**23.22**
0.20	**Impact for Net Cost of Services**	**1.12**

The net return on the Funds assets and interest charged against the scheme liabilities are shown under Net Operating Expenditure.

2006/07 £m	Pension Movement	2007/08 £m
0.20	Impact for Net Cost of Services	1.12
	Other Operating Costs	
(23.64)	- Expected Return on Fund Assets	(27.18)
26.70	- Interest on Pension Scheme Liabilities	30.65
3.06	**Net Operating Costs**	**3.47**
3.26	**Pension Movement**	**4.59**

Under the projected unit method adopted by the actuaries, the current service cost will increase as members approach retirement. Demographic assumptions have been taken to be the same as those adopted for the actuarial valuation at March 2007 for both the Council and South Tyneside Homes Limited.

Under FRS17, the Group must show in the accounts its liability to meet the full future cost of all employees' pensions, in line with the terms and conditions of the Tyne and Wear Pension Fund. The figures disclosed below have been derived by the Fund's actuary Hewitt Associates Limited using a roll forward of liabilities from the last full actuarial valuation of the Fund at 31st March 2007 for both the Council and South Tyneside Homes Limited.

The Accounting Standards Board (ASB) published an amendment to FRS17 on 2 December 2006. The amendment is effective for accounting periods beginning on or after 6 April 2007. The first adoption for the Group will be for the year ended 31 March 2009 at which point amended 2007/08 comparative figures will be provided.

The main financial assumptions adopted as at 31st March 2008

The latest actuarial valuation for both the Council and South Tyneside Homes Limited took place on 31st March 2007. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the fund for FRS17 purposes were as shown in the table below.

	31st March 2007 % per annum	31st March 2008 % per annum
Inflation rate	3.2	3.7
Rate of general long-term increase in salaries	4.7	5.2
Rate of increase to pensions in payment	3.2	3.7
Rate of increase to deferred pensions	3.2	3.7
Discount rate	5.3	6.8

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

	At 1st April 2007		At 31st March 2008	
	Actual Market Value £m	Expected Rate of Return % per annum	Estimated Market Value £m	Expected Rate of Return % per annum
Equities	2,493.10	7.7%	2,332.60	7.6%
Property	373.70	6.7%	383.10	6.6%
Government Bonds	504.80	4.7%	401.40	4.6%
Corporate Bonds	281.90	5.3%	327.30	6.8%
Other Investments	62.90	5.6%	220.20	6.0%
	3,716.40	**7.0%**	**3,664.60**	**7.0%**

The following tables explain the movement in the surplus/(deficit) of the Fund:

2006/07 £m	Defined Benefit Cost	2007/08 £m
181.82	**(Surplus) / Deficit in the Fund at 31st March 2007**	**186.07**
3.26	Value of Appropriation in Income and Expenditure Account	4.59
0.99	Actuarial (gain) / loss	(49.40)
4.25	**Overall Charge / (Income) to Pension Liability**	**(44.81)**
186.07	**(Surplus) / Deficit in the Fund at 31st March 2008**	**141.26**

History of Experience Gains and Losses	2007/08 £m
Difference between expected and actual return on scheme assets	**(42.64)**
Expressed as a percentage of scheme assets	-27.0%
Experience gains / (losses) on scheme liabilities	**(0.47)**
Expressed as a percentage of present value of scheme liabilities	4.1%
Change in assumptions	**92.51**
Expressed as a percentage of present value of scheme liabilities	39.7%
Total amount recognised in Movement in Reserves	**49.40**
Expressed as a percentage of present value of scheme liabilities	22.9%

	1st April 2007 £m	31st March 2008 £m
Estimated Funded benefits under the LGPS regulations	(545.94)	(495.97)
Estimated Unfunded discretionary benefit awarded by means of additional benefits under the LGPS regulations	(29.54)	(28.44)
Actuarial Value of Fund liabilities	**(575.48)**	**(524.41)**
Group Share of Market Value Assets	389.41	383.15
Surplus (Deficit) in the Fund	**(186.07)**	**(141.26)**

The outstanding liability of the Group for the local government scheme stands at £141.26m at 31st March 2008.

4. Operating Leases

Group expenditure in the year on operating leasing by category of asset is as follows:

2006/07 £m		2007/08 £m
0.087	Other Land and Buildings	0.311
0.999	Vehicles and Equipment	0.696
1.086	**Total Expenditure on Operating Leasing**	**1.007**

A breakdown of the commitments in 2008/09 based on the date of expiry of the lease is as follows:

	Other Land and Buildings 2007/08 £m	Vehicles, Plant and Equipment 2007/08 £m
Lease expires within 1 year	-	0.104
Lease expires in 2 - 5 years	0.025	0.243
Lease expires in more than 5 years	0.282	-
Total Repayable	**0.307**	**0.347**

5. Publicity

Section 5 (1) of the Local Government Act 1986, requires a record of expenditure on publicity. This is a memorandum item. The actual expenditure incurred is included as service expenditure within the Group Income and Expenditure Account.

2006/07 £m		2007/08 £m
0.269	Press and Promotions	0.254
0.320	Recruitment Advertising	0.395
0.589	**Total**	**0.649**

6. Officers' Emoluments

The number of employees whose remuneration by the Group, excluding pension contributions, was above £50,000 is as follows:

	Number of Employees	
	2006/07	2007/08
£50,000-£59,999	50	68
£60,000-£69,999	18	40
£70,000-£79,999	7	11
£80,000-£89,999	1	9
£90,000-£99,999	3	-
£100,000-£109,999	-	1
£110,000-£119,999	-	-
£120,000-£129,999	1	1

7. Related Party Transactions

Under FRS8, the Council is required to disclose material transactions with related parties not disclosed elsewhere in these 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.

From examinations of returns completed by Elected Members and Executive Directors, together with details included in the Register of Members Interests, there are no cases where it is felt disclosure is required under the stated Standard.

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. In addition to the Revenue Support Grant, Non-Domestic Rate income and other unringfenced general grants shown in the Income and Expenditure Account, the Council received £169.620m (£162.238m in 2006/07) in respect of Government support for specific activities.

The Authority administers the Tyne and Wear Pension Fund and charged £0.713m (£0.725m in 2006/07) in respect of support services provided – primarily financial, legal and information technology. It also paid to the Fund £0.047m (£0.048m in 2006/07) in respect of treasury management duties. From 1st April 2004, the Fund operated a separate bank account to that of the Authority such that any interest earned on cash balances was taken directly into the Fund's accounts.

8. External Audit Fees

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

2006/07 £m		2007/08 £m
0.258	Fees Payable in respect of External Audit Services	0.254
0.097	Fees Payable in respect of Grant Claim Certification	0.067
0.355	**Total Fees Payable to External Auditors**	**0.321**
0.055	Fees Payable in respect of Statutory Inspection	0.043
-	Non Statutory Services	0.028
0.410	**Total Costs**	**0.392**

9. Intangible Fixed Assets

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

	2007/08 £m
Gross Book Value 31st March 2007	2.552
Accumulated Amortisation and Impairment	(0.944)
Net Book Value at 31st March 2007	**1.608**
Additions	0.736
Disposals	(0.805)
Amortisation	(0.499)
Impairment	0.548
Net Book Value at 31st March 2008	**1.588**

	2007/08 £m
Provision at 31st March 2007	(0.944)
Amortisation in Year	(0.499)
Impairment in Year	0.548
Provision at 31st March 2008	**(0.895)**

10. Movement of Tangible Fixed Assets

Group	Council Dwelling £m	Other Land and Buildings £m	Comm. Assets £m	Infra-structure £m	Vehicles Plant & Equip £m	Non Operational Land and Buildings £m	Total £m
	Operational Assets						
Gross Book Value at 31st March 2007	727.343	247.651	1.519	56.220	29.128	48.557	1,110.418
Accumulated Depreciation and Impairment	(75.910)	(24.716)	-	(8.635)	(17.659)	(0.266)	(127.186)
Net Book Value at 31st March 2007	**651.433**	**222.935**	**1.519**	**47.585**	**11.469**	**48.291**	**983.232**
Additions	12.952	8.448	0.790	6.496	0.812	7.445	36.943
Disposals	(10.419)	(6.743)	-	-	(0.672)	(2.526)	(20.360)
Revaluations	39.216	22.030	-	-	-	(0.253)	60.993
Depreciation	(0.801)	(2.520)	-	(1.275)	(4.341)	0.005	(8.932)
Impairment	0.362	(14.870)	-	(0.443)	-	-	(14.951)
Net Book Value at 31st March 2008	**692.743**	**229.280**	**2.309**	**52.363**	**7.269**	**52.962**	**1,036.926**

11. Stock and Work in Progress

An analysis of stock balances for the Group is shown below:

31st March 2007 £m		31st March 2008 £m
0.347	Home Loan Equipment Centre	0.350
0.073	Catering Service	0.073
0.499	South Tyneside Homes Limited	0.409
0.071	Other Stock	0.077
0.990	**Total Stock**	**0.909**

12. Debtors

An analysis of Group debtors is shown below:

31st March 2007 £m		31st March 2008 £m
	Amounts Falling Due in one year	
14.857	Government Bodies	8.362
0.997	Other Local Authorities	0.726
2.775	Housing Tenants	3.164
3.748	Council Tax Payers	4.113
0.866	National Non-Domestic Rate Payers	0.981
-	South Tyneside Homes Limited	0.117
11.784	Sundry Debtors	11.631
35.027	**Total Amounts Falling Due in one year**	**29.094**
	Provisions for Bad debts	
(1.970)	Housing Rents	(2.052)
(0.969)	Council Tax	(1.308)
(0.441)	National Non-Domestic Rates	(0.549)
(3.086)	All Other Debtors	(2.642)
(6.466)	**Total Bad Debt Provisions**	**(6.551)**
28.561	**Net Debtors**	**22.543**

13. Increase / (Decrease) in Cash

The net movement in cash resources between the balance sheet dates is as follows:

	As at 1st April 2007	As at 31st March 2008	Movement in Year
Cash in Hand and at Bank	6.263	10.407	4.144
Bank Overdraft	(0.987)	(1.116)	(0.129)
Net Cash and Bank Position	**5.276**	**9.291**	**4.015**

14. Creditors

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

31st March 2007 £m		31st March 2008 £m
(23.646)	Government Bodies	(16.497)
(0.694)	Other Local Authorities	(0.854)
(0.543)	Housing Tenants	(0.616)
(1.089)	Council Tax Payers	(0.730)
(0.944)	National Non-Domestic Rates	(0.766)
(28.914)	All Other Creditors	(21.451)
(55.830)	**Total Creditors**	**(40.914)**

15. Taxation

HM Revenue and Customs (HMRC) have agreed the taxable status of South Tyneside Homes Limited as non-trading for normal operating activities. However, any surplus or deficit arising from interest receivable and interest payable remains subject to taxation.

16. Net Worth

The net worth of the Group at the Balance Sheet date stands at £701.687m (£621.934m in 2006/07). The Group Statement of Total Recognised Gains and Losses analyses this growth in terms of surplus or deficit on the Group Income and Expenditure Account and the Council Collection Fund Accounts, together with any revaluation of assets or liabilities.

17. Post Balance Sheet Events

There are no post balance sheet events to disclose.

18. Revenue Cash Flow Activities

The revenue net Cash Flow can be reconciled to the Group Income and Expenditure Account

2006/07 £m		Group £m
21.188	**Deficit or (Surplus) for the Year on the Income and Expenditure Account**	**61.469**
(3.355)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the Group Balance for the Year	(61.703)
(16.020)	Removal of Non Cash items from Subsidiaries and Joint Ventures	(0.047)
1.813	**Increase/Decrease in Group Balances**	**(0.281)**
	Returns on Investment and Service of Financing	
8.199	Newcastle Airport Dividend	-
(3.004)	Net Interest Payments	(1.906)
5.195	**Total Returns on Investment and Service of Financing**	**(1.906)**
	Non-Cash Transactions	
(4.017)	Debt Set Aside Provisions	(4.474)
5.501	Contributions from / (to) Provisions	(18.501)
(11.693)	Contribution from / (to) Reserves	(8.401)
(2.026)	Revenue Contributions to Capital Outlay	(0.724)
(4.511)	Other Items	4.893
(16.746)	**Total Non-Cash Transactions**	**(27.207)**
	Items on an Accruals Basis	
(0.032)	Stock Increase / (Decrease)	(0.081)
(3.987)	Debtors Increase / (Decrease)	(3.390)
(12.842)	Creditors (Increase) / Decrease	12.408
(16.861)	**Total Items on an Accruals Basis**	**8.937**
(26.599)	**Net Cash Flow from Revenue Activities**	**(20.457)**

19. Reconciliation of Movement in Cash to Net Debt

The movement in cash balances can be reconciled to the movement in net debt

	Group £m
Increase/(Decrease) in Cash during Year	4.015
Outflow from Debt	(12.281)
Net Cash Outflow	**(8.266)**
Net Debt at 1st April 2007	(132.611)
Net Debt at 31st March 2008	(140.877)
Net Cash Outflow	**(8.266)**

Housing Revenue Account

The Local Government and Housing Act 1989 (Section 74) requires local housing authorities to keep, in accordance with proper practices, an account called the Housing Revenue Account. This account 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.

2006/07 (as restated) £m		Note	2007/08 £m
	Income		
(43.864)	Rent Income from Dwellings		(46.514)
(0.883)	Rent Income from Non-Dwellings		(0.874)
(1.597)	Charges for Services and Facilities		(1.718)
(0.708)	Contributions towards Expenditure		(1.068)
(0.307)	Government Grant Deferred	4	(0.170)
(0.428)	General Fund Contributions (Amenities Shared by the Community)		(0.437)
(47.787)	**Total Income**		**(50.781)**
	Expenditure		
13.008	Repairs & Maintenance		14.319
10.205	Supervision & Management (General)		10.437
4.688	Supervision & Management (Special Services)		4.790
0.885	Rents, Rates, Taxes and Other Charges		1.248
1.482	Negative Subsidy Payable to the Secretary of State	3	1.416
0.587	Increased Provision for Bad or Doubtful Debts		0.452
12.887	Depreciation of Fixed Assets (Dwellings)	11	19.025
2.122	Depreciation of Fixed Assets (Other Assets)	11	2.647
(1.704)	Impairment of Fixed Assets	13	1.774
0.842	Amortisation of Deferred Charges	14	1.159
0.016	Amortisation of Intangible Assets	4	0.038
0.036	Debt Management Costs	4	0.044
45.054	**Total Expenditure**		**57.349**

Housing Revenue Account

2006/07 (as restated) £m		Note	2007/08 £m
(2.733)	**Net Cost of Services per Council Income and Expenditure**		**6.568**
0.258	HRA share of Corporate and Democratic Core		0.248
0.475	HRA share of Non Distributed Cost		0.251
(2.000)	**Net cost of HRA services**		**7.067**
1.312	Loss on the Disposal of Fixed Assets		0.087
5.489	Interest Payable and similar Charges	4	4.346
(0.220)	Interest and Investment Income	4	(0.188)
4.581	**(Surplus) or Deficit for the Year on HRA Services**		**11.312**
2006/07 £m			**2006/07 £m**
4.581	(Surplus) or Deficit for the year on the HRA Income and Expenditure Account		11.312
(2.470)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance for the Year	2	(12.117)
2.111	**(Increase)/Decrease in HRA Balance for the Year**		**(0.805)**
(5.181)	Housing Revenue Account Balance brought forward		(3.070)
(3.070)	**Housing Revenue Account Balance carried forward**	**1**	**(3.875)**

Notes to the Housing Revenue Account

1. Housing Revenue Account Balance

The HRA balances are made up of the following reserves:

31 March 2007 £m		31 March 2008 £m
(0.100)	Tenant Participation Earmarked Reserve	(0.100)
(0.021)	Capital Programme Earmarked Reserve	(0.080)
(0.698)	Housing Repairs Reserve	(0.697)
(1.000)	Housing Revenue Account Strategic Reserve	(1.000)
-	Job Evaluation & Equal Pay Reserve	(0.800)
(1.251)	Housing Revenue Account Working Balance	(1.198)
(3.070)	**Housing Revenue Account Balance carried forward at 31st March**	**(3.875)**

2. Movement on the Housing Revenue Account Balance

The following table details the items that reconciles the deficit reported on the HRA Income and Expenditure Account with the reported movement in the HRA balances:

2006/07 £m		2007/08 £m
	Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the movement on the HRA Balance for the Year	
(0.016)	Amortisation of Intangible Fixed Assets	(0.038)
1.704	Impairment of Fixed Assets	(1.774)
0.307	Government Grants Deferred Amortisation	0.170
(0.842)	Write Downs of Deferred Charges to be Financed from Capital Resources	(1.159)
-	Premiums and Discounts to Financial Instruments Adjustment Account	0.922
-	Capital Receipts not related to sale of a Fixed Asset	0.419
(1.312)	Net Loss on Disposal of Fixed Assets	(0.087)
(0.033)	Net charges made for Retirement Benefits in accordance with FRS17	(0.030)
(0.192)		**(1.577)**
	Transfers to or from the HRA Balance that are required to be taken into account when determining the movement on the HRA Balance for the Year	
(3.976)	Housing Major Repairs Reserve	(10.562)
0.023	Employer's contributions payable to the Tyne and Wear Pension Fund and Retirement Benefits payable direct to Pensioners	0.022
1.675	Capital Expenditure charged in-year to the HRA Balance	-
(2.278)		**(10.540)**
(2.470)	**Total Net Movement**	**(12.117)**

3. 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. In preparation of the final accounts the following estimate of Housing Subsidy entitlement for 2007/08 has been used:

Actual Entitlement 2006/07 £m		Estimated Entitlement 2007/08 £m
	Subsidy Allowances for Expenditure Items	
(9.414)	Management Allowance	(9.800)
(17.536)	Maintenance Allowance	(18.277)
(11.033)	Major Repairs Allowance	(11.110)
(0.028)	Admissible Allowance	-
(7.399)	Charges for Capital	(7.047)
(45.410)	**Total Subsidy Allowance Expenditure Items**	**(46.234)**
	Subsidy Withdrawn for Income Items	
47.835	Rent Income	50.034
0.025	Interest on Receipts	0.016
47.860	**Total Subsidy Withdrawn Income Items**	**50.050**
2.450	**Net Subsidy Withdrawn**	**3.816**
-	Prior Year Adjustment	(0.049)
(0.968)	Rental Constraint Allowance	(2.351)
1.482	**Negative Subsidy Payable to the Secretary of State**	**1.416**

4. 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 2007/08. It is made up of a number of components that are recorded in different sections of the housing revenue account.

	£m	Revenue Account Item
Credit Items		
Interest Adjustments		
Amortised Discounts	(2.314)	Income and Expenditure - Interest Payable and similar Charges
Mortgage Interest	(0.011)	Income and Expenditure - Interest and Investment Income
Interest on Cash Balances	(0.177)	Income and Expenditure - Interest and Investment Income
Total Interest Adjustments	**(2.502)**	
Transfer from the Major Repairs Reserve		
Dwellings Depreciation > Major Repairs Allowance	(7.978)	Statement of Movement - Housing Major Repairs Reserve
Depreciation - Other Assets	(2.584)	Statement of Movement - Housing Major Repairs Reserve
Total Item 8 Credit 2007/08	**(10.562)**	
Debit Items		
Capital Asset Charges		
Impairment Charges	1.774	Net cost of services - Impairment of Fixed Assets
Amortisation of Deferred Charges	1.159	Net cost of services - Amortisation of Deferred Charges
Amortisation of Intangible Assets	0.038	Net cost of services - Amortisation of Intangible Assets
Government Grant Deferred Adjustment	(0.170)	Net cost of services - Government Grant Deferred
Total Capital Charges	**2.801**	
Depreciation Charges		
Dwellings	19.025	Net cost of services - Depreciation of Dwellings
Other Assets	2.647	Net cost of services - Depreciation of other Assets
Total Depreciation Charges	**21.672**	

	£m	Revenue Account Item
Credit Items		
Interest Adjustments		
Debt Repayment and Management Costs		
Debt Management Expenses	0.044	Net cost of services - Debt Management Costs
Amortised Premiums	1.413	Income and Expenditure - Interest Payable and similar Charges
Total Debt Repayment and Management	**1.457**	
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	5.247	Income and Expenditure - Interest Payable and similar Charges
Removal of Premiums and Discounts Amortised	0.922	Statement of Movement on HRA Balances
Removal of Capital Asset Charges	(2.801)	Statement of Movement on HRA Balances
Total Adjustments	**3.368**	
Total Item 8 Debit 2007/08	**29.298**	

5. HRA Share of Contributions to the Pension Reserve

An apportionment has been made to reflect FRS17 liability for current pension costs. This has been included in the net cost of services for the HRA under general management costs. The additional charge of £0.008m (£0.009m in 2006/07) has been reversed out in the Statement of Movement in the HRA balance so that there is no impact on Council rents.

The HRA is also charged a share of the Council's back-dated lump sum pension costs. The contribution in 2007/08 was £0.251m (£0.475m in 2006/07).

6. Rent Income

Rents were increased with effect from Monday 2nd April 2007 to achieve the Government rent guideline of an average of £52.20 per week based on a 49-week collection. Individual dwelling rents were set based on the Government's rent restructuring formula, which will be fully implemented by 2017. 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 £1.019m, 1.70% of the total net rent collectable for Housing Revenue Account dwellings (£1.128m and 2.10% in 2006/07).

7. 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 will give access to significant investment support through the Governments ALMO decent homes programme subject to the organisation receiving a two star inspection rating. In 2007/08 the Council received revised approval from the Government of £167m additional funding from 2008 to 2013.

In 2008 the Council received notification from the Audit Commission that South Tyneside Homes had been rated as a two star service with promising prospects and that notification would be sent to the Government to release the agreed additional funding.

During 2007/08 South Tyneside Council paid South Tyneside Homes a management fee of £10.370m. This was exactly as originally planned. However, there were £0.300m additional costs for the inspection held in March 2008. This was offset by the non-payment of additional costs under the planned job evaluation exercise, which was not completed during 2007/08. It was agreed that the sum of £0.300m would be held in a specific reserve within the Housing Revenue Account until agreement was reached.

Under the housing management function, South Tyneside Homes manages the collection of rents (£49.106m in 2007/08), the repairs and maintenance of the homes (£13.361m in 2007/08) and the delivery of the capital programme (£13.820m in 2007/08).

The accounts for South Tyneside Homes are not included within the accounts for the Housing Revenue Account.

8. Housing Stock

The Council was responsible for managing an average of 18,495 dwellings in 2007/08. The variations during the year were:

		2007/08
Opening Balance		
Housing Revenue Account		18,603
Housing Revenue Account Shared Ownership		4
Other Services		8
Opening Balance as at 1st April 2007		**18,615**

		2007/08
Less Reductions		
Right to Buy Sales		(120)
Demolition / Redevelopment		(122)
		(242)
Additions		
Housing Reinstated		1
Net Reduction in Stock		**(241)**
Closing Balance		
Housing Revenue Account		18,362
Housing Revenue Account Shared Ownership		4
Other Services		8
Closing Balance as at 31st March 2008		**18,374**
		31st March 2008
Houses		10,705
Bungalows		2,843
Flats & Maisonettes		4,826
Total Housing Stock as at 31st March 2008		**18,374**

9. Movement of Fixed Assets 2007/08

	Operational Assets			Non Operational Assets	
	Social Housing Dwellings £m	Other Property £m	Vehicles, Plant and equipment £m	Open Market Value Surplus Land £m	Total £m
Gross book value at 31st March 2007	**727.283**	**6.430**	**12.918**	**35.110**	**781.741**
Accumulated Depreciation and Impairment	(75.909)	(1.147)	(8.344)	-	(85.400)
Net book value at 31st March 2007	**651.374**	**5.283**	**4.574**	**35.110**	**696.341**
Additions	12.796	0.010	0.010	4.261	17.077
Disposals	(10.359)	(0.034)	-	(1.285)	(11.678)
Revaluation	39.217	1.430	-	0.881	41.528
Depreciation	(0.803)	0.012	(2.585)	-	(3.376)
Impairment	0.518	-	-	-	0.518
Net book value at 31st March 2008	**692.743**	**6.701**	**1.999**	**38.967**	**740.410**

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.

Dwellings have been revalued as at April 1st 2007 utilising selected beacon properties. The Guidance issued by the Government in July 2005 recommended that a downward adjustment factor of 51% be applied to vacant possession values to arrive at the existing use social housing values. The factor applying prior to 1st April 2005 was 65%.

The Housing Revenue Account also holds some intangible fixed assets in the form of computer software. In 2007/08, £0.094m (£0.126m in 2006/07) was added to these assets and their net book value at 31st March 2008 stood at £0.182m (£0.126m in 2006/07).

10. Economic Cost to the Government of providing Council Housing

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

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

	1st April 2006 £m	1st April 2007 £m
Vacant Possession Value	1,140.082	1,151.483
Existing Use Social Housing Value	(581.442)	(587.256)
Economic Cost to the Government	**558.640**	**564.227**

11. Depreciation

The Accounting Standards Board and CIPFA have accepted the Major Repairs Allowance as a reasonable estimate for the basis of calculating depreciation for Council dwellings. Due to the increase in average values because of house price inflation for 2007/08, 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:

	Operational Assets			
	Existing Use Value Social Housing Dwellings	Existing Use Value Other Property	Vehicles, Plant and Equipment	Total
	£m	£m	£m	£m
Balance at 1st April 2007	**(75.156)**	**(1.147)**	**(8.343)**	**(84.646)**
Charges in year	(19.025)	(0.062)	(2.585)	(21.672)
Charges written out	18.223	0.073	-	18.296
Balance at 31st March 2008	**(75.958)**	**(1.136)**	**(10.928)**	**(88.022)**

Type of Asset	Basis of Depreciation
Existing Use Value Social Housing Dwellings	Useful Life for Dwellings - Straight Line Depreciation
Existing Use Value Other Property	30 Year Life - Straight line Depreciation
Vehicles, Plant and Equipment	5 Year Life - Straight line Depreciation

12. Major Repairs Reserve

	£m
Balance at 1st April 2007	**-**
Depreciation all HRA assets	(21.672)
Capital expenditure from MRA (Houses)	11.028
Depreciation higher than MRA	10.562
Balance at 31st March 2008	**(0.082)**

13. Impairment Charges

These charges occur where there is a material reduction in the value of a fixed asset during an accounting period.

	£m
Balance at 1st April 2007	**(0.754)**
Additions	(0.321)
Written Off	0.683
Balance at 31st March 2008	**(0.392)**

14. Deferred Charges

Capital expenditure in 2007/08 included the following with respect to deferred charges where no tangible asset was enhanced. The balance on the deferred charge was written down and is charged to cost of services in the HRA Income and Expenditure Account.

	£m
Balance at 1st April 2007	**-**
Additions	1.159
Written Off	(1.159)
Balance at 31st March 2008	**-**

15. Housing Capital Expenditure Summary

Spending 2006/07 £m	Capital Expenditure	Spending 2007/08 £m
	Expenditure	
13.267	Operational Dwellings	12.796
0.371	Demolition and Area Redevelopment	4.417
3.364	Other Assets	0.010
1.934	Equipment and Intangible Assets	0.142
0.842	Deferred Charges	1.118
19.778	**Total Spending Accruals Basis**	**18.483**
Funding 2006/07 £m	**Capital Funding**	**Funding 2007/08 £m**
	Funding Source	
(12.183)	Major Repairs Reserve	(11.028)
(2.326)	Borrowing	(2.792)
(2.990)	Capital Receipts	(4.261)
(1.675)	Revenue Contributions	-
(0.604)	Grants	(0.402)
(19.778)	**Total Funding**	**(18.483)**

16. Capital Receipts Summary

2006/07 Nos.	2006/07 £m		2007/08 Nos.	2007/08 £m
197	(9.900)	House Sales	120	(6.185)
	(0.372)	Land Sales		(1.531)
	(0.127)	Mortgage Principal Repayments		(0.108)
	(0.339)	Discount Repayments		(0.269)
	(10.738)	**Total Receipts for the Year**		**(8.093)**

17. 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.

2006/07 Actual £m		2007/08 Estimate £m
51.855	Gross Rent Collectable (including water and sewerage charges)	54.658
2.880	Overall Arrears as at 31st March (including water and sewerage charges)	3.164
5.55%	**Overall Arrears as a percentage of gross rent collectable**	**5.79%**
2.612	Rent Arrears as at 31st March (excluding water and sewerage rates)	3.173
0.550	**Amounts written off during the year**	**0.397**
(1.970)	**Balance Sheet Provision for Bad Debts**	**(2.052)**

Whilst overall arrears at 31st March represent 5.79% of the Gross Rent Collectable (including water and sewerage charges) monies received on 1st to 4th April 2008 have been excluded. The total amount collected in this period was £0.305m, which would reduce outstanding arrears to £2.859m representing 5.23% of the Gross Rent Collectable for the 49 weeks.

Collection Fund Revenue Account

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 Income and Expenditure Account. The Collection Fund is compiled on an accruals basis and consolidated with other accounts of the billing authority.

2006/07 £m		Note	2007/08 £m
	Income		
(42.223)	Council Tax	1	(44.088)
(14.447)	Transfer from General Fund		(14.686)
(21.796)	Non-Domestic Rate	2	(24.124)
(78.466)	**Total Income**		**(82.898)**
	Expenditure		
50.633	South Tyneside Council Precept		52.446
3.167	Northumbria Police Authority Precept		3.299
3.012	Tyne and Wear Fire and Civil Defence Authority Precept		3.092
56.812	**Total Precepts**		**58.837**

Collection Fund Revenue Account

2006/07 £m		Note	2007/08 £m
21.645	Non-Domestic Rates – Payment to National Pool		23.972
0.151	Non-Domestic Rates – Cost of Collection		0.152
21.796	**Total Non-Domestic Rates**	**2**	**24.124**
0.086	Council Tax Written Off		0.175
(0.150)	Transfer to/(from) Council Tax Bad Debt Provision		(0.028)
(0.064)	**Total Bad and Doubtful Debts**		**0.147**
78.544	**Total Expenditure**		**83.108**
0.078	**(Surplus) / Deficit for the Year**		**0.210**
(0.260)	Balance brought forward from previous year		(0.182)
(0.182)	**Collection Fund Balance as at 31st March**	**3**	**0.028**
	Deficit relating to other Precepting Bodies		0.003
(0.182)	**Deficit relating to South Tyneside Council**		**0.025**

Notes to the Collection Fund Revenue Account

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: 44,220 in 2007/08 (43,977 in 2006/07). Council tax is calculated by multiplying the basic amount of council tax for Band D by the proportion for that particular band. In 2007/08 the Band D equivalent was £1,330.56 (£1,288.17 in 2006/07).

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

Band	Proportion of Band D	Number of Dwellings (October 2007)
A	6/9ths	46,031
B	7/9ths	8,872
C	8/9ths	7,389
D	9/9ths	3,935
E	11/9ths	1,558
F	13/9ths	705
G	15/9ths	316
H	18/9ths	48
		68,854

2. National Non-Domestic Rates

The Non-Domestic Rate is organised on a national basis. The Government specifies an amount in the pound, and subject to the effects of transitionary 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 2007/08 was set at 44.1p for small businesses (42.6p 2006/07) and 44.4p for all other businesses (43.3p 2006/07).

Whilst the Local Authority is responsible for collection of Non-Domestic Rates, the proceeds are pooled on a national basis of an amount per head of population.

The Non-Domestic Rates income, after reliefs and provisions, of £24.124m (£21.796m in 2006/07) was based on an average rateable value of £64.3m as at 31st March 2008 (£64.8m at 31st March 2007).

3. Treatment of the Collection Fund Balance

Any surplus arising in the Collection Fund can be utilised to reduce future years' council tax. Any deficit can be carried forward and must be recovered either from any surplus generated in future years or from increased council tax. Any surplus or deficit is distributed to the billing and precepting authorities pro-rata to their precepts upon the Fund. The SORP requires that the precepting bodies share of the surplus or deficit should be shown as part of the Councils debtors or creditors leaving only the Councils share in the closing balance. The deficit of £0.297m will be dealt with in setting the Council tax requirement for the Council for 2009/10.

Tyne and Wear Pension Fund Accounts

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 2008, there were 130 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 103,762 members, made up of 48,185 active members, 31,881 pensioners and 23,696 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2007/08.

2. Legal Framework

The framework for the Scheme is contained in Regulations made by the Department for Communities and Local Government (CLG). These Regulations apply nationally to all local authorities in England and Wales.

The Local Government Pension Scheme Regulations 1997, as amended, set out the rates of contribution and the method of calculation of benefits.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended, set out the framework for the investment of assets. Note 13 to the Financial Statements contains information on the Fund's investment management arrangements.

3. Employers' Contributions and the 2007 Valuation

The Regulations require that an actuarial valuation is carried out every third year. This is 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.

Rates of contributions paid by the employers during 2007/08 were based on the valuation carried out as at 31st March 2004. The value of the Fund at that date was £2,355.676m.

Contributions from 2008/09 are based on a valuation carried out as at 31st March 2007. The value of the Fund at that date was £3,726.505m. The 2007 valuation has shown that the Fund had assets to cover 79% of the liabilities. This is an improvement of 15% over the position at the 2004 valuation, which is largely due to investment returns being greater than the level assumed in 2004.

The valuation revealed upward pressure on contributions from a number of factors, including improved longevity. The future service rate paid by employers has increased from 14.0% of pensionable pay at the 2004 valuation to 15.1%.

The total employer contribution resulting from the 2007 valuation is 21.1% of pensionable pay, an increase of 1% over the rate of 20.1% that was set by the 2004 valuation. The revised employers' contributions were implemented from 1st April 2008.

4. Funding Strategy

The strategy for the 2007 valuation is set out in the Funding Strategy Statement and in the Actuary's Statement. Both documents may be viewed on the Fund's website www.twpf.info

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

The Fund has used a number of measures to assist employers to afford the cost of benefits, including an extended deficit recovery period 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 1st April 2008.

Other measures were:

- An increase in the discount rate for scheduled bodies.
- 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.

5. Changes to the Regulations

In May 2007, the Local Government Pension Scheme (Amendment) (No.2) Regulations 2007 introduced changes to improve the alignment between the Scheme and the new tax regime and to increase the options available to employers to enhance a member's total service.

In June 2007, the Local Government Pension Scheme (Amendment) (No.3) Regulations 2007 introduced amendments and new provisions in respect of governance and pension fund annual reports. In particular, they introduced a discretion for an administering authority to prepare and publish a pensions administration strategy.

6. Development of the new Scheme

In July 2001, Ministers authorised a review or "Stocktake" of the Scheme to ensure that it operates effectively and efficiently and continues to provide value for money.

In October 2004, the Government issued a Green Paper entitled "Facing the Future – Principles and Propositions for a new-look Local Government Pension Scheme in England and Wales". This document set out a range of suggestions for a new scheme to be introduced from 1st April 2008.

CLG sought views on five options and, after consideration, decided that the new scheme would be final salary based upon a 1/60th accrual rate and no automatic lump sum at retirement. Members may commute pension for lump sum.

The rules for the new scheme are set out in three sets of regulations.

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 describe how rights will accrue and benefits will be calculated in the new scheme. These Regulations were issued in April 2007 and then amended in May 2007.

The Local Government Pension Scheme (Administration) Regulations 2008 carry forward previous provisions into the new scheme. These Regulations were issued in February 2008.

The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 set out how membership in the old scheme will count in the new scheme. These Regulations were also issued in February 2008.

In April 2008, CLG released the Local Government Pension Scheme (Amendment) Regulations 2008 which contain amendments to all three sets of governing regulations. Whilst most of the amendments are minor or technical in nature, a major change to ill health retirement rules is included with the introduction of a third tier ill health benefit.

Some of the guidance from the Government Actuary's Department that is needed to operate the new scheme has been published, but other guidance, including that needed by doctors to make decisions on ill health retirements, is awaited.

During the past year, CLG has also consulted on changes to the "Rule of 85" early retirement rule protections, changes to contractor admission rules and on future cost sharing arrangements for the Scheme.

Statement of the Actuary for the year ended 31 March 2008

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 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2007/08 were based on the actuarial valuation carried out as at 31 March 2004.

2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £3,726.5m) covering 79% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

3. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2008 was as set out below:

    - 15.1% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 6.0% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 22 years from 1 April 2008.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.

- Changes were made consistent with the Finance Act 2004.

- A new scheme has been put in place that came into effect as at 1 April 2008. All existing members transferred to the new scheme as at that date.

4. 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.

5. The rates of contributions payable by each participating Employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 27th March 2008, which is appended to our report of the same date on the actuarial valuation.

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

7. The main actuarial assumptions were as follows:

Discount rate for periods

Scheduled Bodies

Pre-retirement discount rate	6.60% a year
Post-retirement discount rate	5.60% a year

Admitted Bodies

In service discount rate	6.20% a year
Left service discount rate	5.20% a year

Rate of general pay increases	4.70% a year
Rate of increases to pensions in payment	3.20% a year
Valuation of assets	market value

8. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon and Woodrow 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 that was carried out as at 31 March 2007. 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 valuation report which details fully the context and limitations of the actuarial valuation.

Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, the South Tyneside Council, in respect of this statement.

Hewitt Associates Limited
19th May 2008

Tyne and Wear Pension Fund – Fund Account

2006/07 £m		Note	2007/08 £m
	Contributions and Benefits		
(180.298)	Contributions Receivable - Employers	3	(195.342)
(50.929)	Contributions Receivable - Employees	3	(52.576)
(10.398)	Transfers In	4	(11.221)
(241.625)	**Total Contributions**		**(259.139)**
142.255	Benefits Payable	5	159.087
11.760	Transfers Out (Leavers)	6	11.494
2.260	Administrative Expenses	7	2.713
156.275	**Total Benefits**		**173.294**
(85.350)	**Net Additions from Dealings with Members**		**(85.845)**

2006/07 £m		Note	2007/08 £m
	Returns on investments		
(83.802)	Investment Income	8	(88.102)
4.881	Non-Recoverable Tax	8	4.367
(150.525)	Change in Market Value of Investments	9	205.761
7.989	Investment Management Expenses	10	7.102
(221.457)	**Net Returns on Investments**		**129.128**
(306.807)	**Net (Increase) / Decrease in the Fund During the Year**		**43.283**
3,419.698	**Net Assets of the Fund at 1st April**		**3,726.505**
3,726.505	**Net Assets of the Fund at 31st March**		**3,683.222**

Tyne and Wear Pension Fund – Net Assets Statement

31st March 2007 £m		Note	31st March 2008 £m
	Investments	9	
194.175	Fixed Interest Securities		196.999
1,656.063	Equities		1,513.652
36.057	Index-Linked Securities		49.692
1,426.838	Pooled Investment Vehicles		1,570.841
373.675	Properties		340.650
57.347	Cash Deposits		54.667
(31.665)	Other investment balances		(54.689)
3,712.490			**3,671.812**
14.015	**Current Assets and Liabilities**	11	**11.410**
3,726.505	**Net Assets of the Fund at 31st March**		**3,683.222**

Notes to the Tyne and Wear Pension Fund Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (SORP) (Financial Reports of Pension Schemes), revised November 2002, and subject to note 5 follow the 2007 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

An updated version of the Statement of Recommended Practice (Financial Reports of Pension Schemes), revised May 2007, has been produced, the provisions of which will be adopted in the 2008 CIPFA Code of Practice on Local Authority Accounting and will apply to the 2008/09 financial statements. The main change relates to accounting policy where the value of investment assets, including derivatives, will be on a bid or fair value basis rather than on the mid market price. Whilst this revised accounting policy has not been adopted early by the Fund, the impact of this change is stated in note 9. This approach is consistent with guidance from the Council's auditor and CIPFA.

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, which is attached. The financial statements should be read in conjunction with the Actuary's statement.

2. Accounting Policies

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 mid-market closing price on 31st March 2008

Pooled investment vehicles have been included at either the average of their bid and offer price, where a bid offer spread exists, or on the single unit price on 31st March 2008 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 these 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.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2008.

Futures have been valued on the basis of associated economic exposure as at 31st March 2008. This associated economic exposure has been incorporated into the value of the relevant asset class.

Properties are shown as valued at 31st March 2008. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE.

Investment Transactions

Investment transactions that were not settled as at 31st March 2008 have been accrued.

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 2008.

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 2008 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2008.

Investment Management Expenses

Investment management expenses payable as at 31st March 2008 have been accrued.

Debtors and Creditors

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies, resolution bodies or admitted bodies. 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 2008 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 are accounted for on a payments/receipts basis.

3. Contributions Receivable

2006/07 £m		2007/08 £m
	Employers	
(121.323)	Normal	(128.263)
(58.975)	Additional	(67.079)
(180.298)		**(195.342)**
	Members	
(50.207)	Normal	(51.823)
(0.722)	In House Additional Voluntary Contributions	(0.753)
(50.929)		**(52.576)**
(231.227)	**Total Contributions Receivable**	**(247.918)**

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

2006/07 £m		2007/08 £m
(22.661)	South Tyneside Council (Administering Authority)	(22.018)
(139.579)	Other Metropolitan Councils	(147.628)
(42.588)	Other Scheduled Bodies	(47.003)
(9.435)	Resolution Bodies	(10.864)
(16.964)	Admitted Bodies	(20.405)
(231.227)	**Total Contributions Receivable**	**(247.918)**

4. Transfers In

During the year, individual transfers in from other schemes amounted to £11.221m (£10.398m in 2006/07). There were no bulk transfers in during 2007/08 or 2006/07.

5. Benefits Payable

2006/07 £m		2007/08 £m
123.713	Pensions	131.132
27.289	Commutations and Lump Sum Retirement Benefits	35.741
2.009	Lump Sum Death Benefits	2.559
(10.756)	Recharges out	(10.345)
142.255	**Total Benefits Payable**	**159.087**

The analysis of benefits by type of member body is not available. In this respect the accounts do not comply with the 2007 Code of Practice on Local Authority Accounting.

6. Payments To and On Account of Leavers

2006/07 £m		2007/08 £m
11.323	Individual Transfers to Other Schemes	11.462
0.329	Bulk Transfers to Other Schemes	-
0.105	Refunds to Members Leaving Service	0.048
0.003	State Scheme Premiums	(0.016)
11.760	**Total Payments To and On Account of Leavers**	**11.494**

7. Administration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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:

2006/07 £m		2007/08 £m
1.456	Employee Expenses	1.509
0.473	Support Services Recharge	0.437
0.043	Audit Fees	0.035
0.085	External Computing Costs	0.356
0.131	Printing / Publications	0.086
0.072	Professional Fees	0.255
0.052	Other Expenses	0.041
(0.052)	Income	(0.006)
2.260	**Total Administration Expenses**	**2.713**

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

8. Investment Income

2006/07 £m		2007/08 £m
(8.898)	Fixed Interest Securities	(7.360)
(50.067)	Equities	(50.640)
(0.714)	Index-Linked Securities	(0.941)
(3.335)	Pooled Investment Vehicles	(6.964)
(17.707)	Net Rents from Properties	(18.413)
(2.476)	Cash Deposits	(2.955)
(0.567)	Securities Lending	(0.746)
(0.033)	Commission Recapture	(0.083)
(0.005)	Underwriting Commission	-
(83.802)	**Sub-Total**	**(88.102)**
4.881	Non-Recoverable Tax	4.367
(78.921)	**Total Investment Income**	**(83.735)**

9. Investments

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.

	Value at 1st April 2007 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31st March 2008 £m
Fixed Interest Securities	194.175	889.475	(889.896)	3.245	196.999
Equities	1,656.063	994.215	(966.178)	(170.448)	1,513.652
Index-Linked Securities	36.057	43.596	(45.406)	15.445	49.692
Pooled Investment Vehicles	1,426.838	522.396	(386.060)	7.667	1,570.841
Properties	373.675	19.945	(0.500)	(52.470)	340.650
	3,686.808	**2,469.627**	**(2,288.040)**	**(196.561)**	**3,671.834**
Cash Deposits	57.348	5.649	(8.645)	0.316	54.668
Other Investment Balances	(31.666)	664.154	(677.662)	(9.516)	(54.690)
Total Investments	**3,712.490**	**3,139.430**	**(2,974.347)**	**(205.761)**	**3,671.812**

31st March 2007		31st March 2008
	Fixed Interest Securities	
107.312	UK Public Sector	79.038
50.347	UK Gilt Futures	40.736
-	UK Other	3.930
51.454	Overseas Public Sector	55.532
(14.938)	Overseas Bond Futures	17.763
194.175	**Total Fixed Interest Securities**	**196.999**
	Equities	
610.861	UK Quoted	536.782
1,034.723	Overseas Quoted	953.109
10.479	Overseas Unquoted	23.761
1,656.063	**Total Equities**	**1,513.652**

31st March 2007		31st March 2008
	Index Linked Securities	
30.422	UK Quoted	33.471
5.635	Overseas Quoted	16.221
36.057	**Total Index-Linked Securities**	**49.692**
	Pooled Investment Vehicles	
130.852	Unit Trusts	106.507
873.666	Unitised Insurance Policies	921.029
422.320	Other Managed Funds	543.305
1,426.838	**Total Pooled Investment Vehicles**	**1,570.841**
	Properties	
342.875	Freehold	311.850
30.800	Long Leasehold	28.800
373.675	**Total Properties**	**340.650**
	Cash Deposits	
40.725	Sterling	32.081
16.623	Foreign Currency	22.587
57.348	**Total Cash Deposits**	**54.668**
	Other Investment Balances	
(35.409)	Cash Backing Fixed Interest Futures	(58.499)
-	Currency Hedging	(1.804)
18.047	Debtors	19.956
(14.304)	Creditors	(14.343)
(31.666)	**Total Other Investment Balances**	**(54.690)**
3,712.490	**Total Investments**	**3,671.812**

The value of investments shown in the tables is on a mid basis, in accordance with the current Statement of Recommended Practice (SORP) (Financial Reports of Pension Schemes). Had the Fund revised its accounting policy and changed the valuation of the assets to a bid or fair value basis, in accordance with the May 2007 revised version of the SORP, the total value of the Funds investments as at 31st March 2008 would be reduced in value by £5.531m, from £3,672.640m to £3,667.109m.

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 £5.560m. 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. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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:

2006/07 £m		2007/08 £m
7.781	Administration, Management and Custody	6.869
0.075	Performance and Risk Measurement Services	0.093
0.133	Other Advisory Fees	0.140
7.989	**Total Investment Management Expenses**	**7.102**

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have been charged.

11. Current Assets and Liabilities

31st March 2007 £m		31st March 2008 £m
4.277	Contributions and Recharges Due - Employees	4.434
16.065	Contributions and Recharges Due - Employers	20.406
(0.918)	Inland Revenue	(1.120)
(2.653)	Investment Management Expenses	(2.803)
(2.756)	Other	(9.507)
14.015	**Total Current Assets and Liabilities**	**11.410**

12. 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 a part of the Fund's assets.

In addition, the Pensions Committee has 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 Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) these amounts are not credited to the Pension Fund and as such are excluded from the Fund's accounts.

Equitable Life has been experiencing financial difficulties in recent years, which 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 2007/08, £0.908m of contribution income was received into the AVC funds provided by The Prudential (£0.813m during 2006/07). As at 31st March 2008 these funds were valued at £7.490m (£6.776m as at 31st March 2007).

During 2007/08, £0.006m of contribution income was received into the AVC funds operated by Equitable Life (£0.005m during 2006/07). As at 31st March 2008 these funds were valued at £0.663m (£0.743m as at 31st March 2007).

The funds are valued on a bid basis by each of the providers and take no account of accruals.

13. Analysis of Investments Over Managers

The Fund employs eight specialist external investment managers over a total of fourteen investment mandates. Each manager is a specialist in the market in which they invest. This broadly based management structure ensures that investment returns are not overly influenced by the performance of any one manager.

Two investments have been made in active currency funds managed by Barclays Global Investors and Record Currency Management.

A number of investments have been made in Private Equity funds. The Private Equity investment programme is well diversified across providers, geography, industry and vintage years. The Fund has made commitments to fund of funds managed by HarbourVest and Pantheon, secondary funds managed by Lexington Partners and Coller Capital and direct funds with HarbourVest, Capital International, Lexington Partners and Partners Group.

In addition, investments have been made in two infrastructure funds managed by Henderson Global Investors and Prudential MandG.

The market values of investments in the hands of each manager were:

31st March 2007 £m			31st March 2008 £m	
		Investment Managers		
373.675	10.1%	Goodman Property Investors	340.650	9.3%
385.103	10.4%	Capital International - Global Equities	358.596	9.8%
110.417	3.0%	Capital International - Emerging Markets	95.724	2.6%
418.582	11.3%	Fidelity Pensions Management	383.752	10.4%
296.736	8.0%	Henderson Global Investors	311.383	8.5%
646.103	17.3%	Legal and General Investment Management	659.727	18.0%
294.324	7.9%	M&G	310.562	8.5%
304.518	8.2%	Schroder Investment Management	294.459	8.0%
614.599	16.5%	UBS Global Asset Management	532.894	14.5%
123.515	3.3%	Active Currency	100.401	2.7%
113.907	3.1%	Private Equity	216.411	5.9%
13.949	0.4%	Infrastructure	49.380	1.3%
17.062	0.5%	Managed In-House	17.873	0.5%
3,712.490	**100.0%**	**Total Investments**	**3,671.812**	**100.0%**

14. Investment Performance

The steady rise in global equity markets from March 2003 came to a halt in May 2007 and was followed by a period of high volatility. The UK Equity market fell by 7.7% during 2007/08. This was worse than the fall suffered by most other markets, which fell, on average, by 4.5%. However, Emerging Market Equities produced strong returns.

The volatility in markets was triggered by uncertainty created by the sub-prime crisis in the US. There are concerns over the size of losses and the impact this is having on the real economy.

In this environment, investors sought the safe haven of government bonds. During the year, Gilts rose by over 7% and Index-Linked Gilts rose by over 13%.

Property had been a strong performer for over a decade but it also suffered a market correction, with a fall of nearly 11% in the year.

The value of UK pension fund assets fell during the year, ending a run of four years of positive returns.

The Fund's return for the year was –3.5%, which was –1.7% below its benchmark return of –1.8%. Inflation, as measured by the Retail Price Index (RPI), rose by 3.8% and average earnings increased by 4.3%.

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. The Fund's annual return over the last five years has been 12.1% per annum. This return is 0.4% below the benchmark return for the period of 12.5% per annum, which is largely attributable to below benchmark returns from certain of the Fund's active equity managers. This return is, however, significantly above both inflation at 3.3% per annum and the increase in average earnings at 4.2% per annum.

15. 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.

16. Derivatives

The Fund has used a number of futures instruments as part of its investment strategy and to assist with efficient portfolio management.

As at 31st March 2008, the Fund held 366 June 2008 Long Gilt Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £40.260m and a market value of £40.736m. The net variation margin received on these outstanding contracts as at 31st March 2008 was £0.476m.

As at 31st March 2008, the Fund held 22 June 2008 Short US Bond Futures and 226 June 2008 Long US Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £10.735m and a market value of £11.151m. The net variation margin received on these outstanding contracts as at 31st March 2008 was £0.416m.

As at 31st March 2008, the Fund held 99 June 2008 Short Euro Bond Futures and 299 June 2008 Long Euro Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £19.587m and a market value of £19.399m. The net variation margin paid on these outstanding contracts as at 31st March 2008 was £0.188m.

As at 31st March 2008, the Fund held 18 June 2008 Short Japanese Yen Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of -£12.681m and a market value of -£12.786m. The net variation margin paid on these outstanding contracts as at 31st March 2008 was £0.105m.

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments and to take strategic foreign currency positions. As at 31st March 2008, the Fund held a range of positions that together showed an unrealised loss of £1.804m. As at 31st May 2008, two of the positions had been settled showing an overall loss of £0.970m, whilst the five that remained open were showing an unrealised profit of £2.232m.

17. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £207.701m were out on loan as at 31st March 2008, against collateral of £225.140m. The breakdown of securities on loan as at 31st March 2008 is set out below:

31st March 2007 £m		31st March 2008 £m
80.229	Fixed Interest Securities	29.910
3.003	Index-Linked Securities	10.095
103.720	UK Equities	116.309
49.748	Overseas Equities	51.387
236.700	**Total Securities Lending**	**207.701**

The value of collateral against which the securities were lent out as at 31st March 2008 is set out below:

31st March 2007 £m		31st March 2008 £m
39.005	Cash	11.637
150.584	Fixed Interest	141.460
59.990	Equities	72.043
249.579	**Total Collateral**	**225.140**

18. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2008, no commitments were outstanding.

19. Significant Holdings

As at 31st March 2008, the Fund had two holdings that represented more than 5% of the total Fund value. Both of these 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 2008, this was valued at £659.727m and represented 17.9% of the total net assets of the Fund. This insurance contract can be split into five individual funds, representing five different asset classes, as follows:

31st March 2007		31st March 2008
£m	Fund Type	£m
329.035	UK Equities	390.960
127.473	North American Equities	113.102
35.994	UK Gilts	38.725
56.402	AAA Fixed Interest	27.107
97.199	Index-Linked Gilts	89.833

- Prudential Pensions Limited – Corporate Bond All Stocks Fund. As at 31st March 2008, this was valued at £261.303m and represented 7.1% of the total net assets of the Fund.

20. Outstanding Commitments

As at 31st March 2008 the Fund had twenty-six outstanding commitments to investments:

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
HarbourVest International Private Equity Partners IV	2002	$55.0m	$45.1m	$9.9m	£5.0m
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0m	$30.6m	$15.4m	£7.7m
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0m	$4.8m	$3.2m	£1.6m
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0m	$17.2m	$10.8m	£5.4m
Capital North East	2002	£1.5m	£1.2m	£0.3m	£0.3m
HarbourVest Partners 2004 Direct Fund	2004	$30.0m	$29.3m	$0.7m	£0.4m
Capital International Private Equity Fund IV	2004	$18.0m	$16.2m	$1.8m	£0.9m
HarbourVest International Private Equity Partners V – Partnership	2005	€100.0m	€34.5m	€65.5m	£52.2m

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
HarbourVest International Private Equity Partners V – Direct	2005	€30.0m	€17.4m	€12.6m	£10.0m
Pantheon Asia Fund IV	2005	$20.0m	$6.0m	$14.0m	£7.0m
Pantheon Europe Fund IV	2005	€25.0m	€10.6m	€14.4m	£11.5m
Pantheon USA Fund VI	2005	$30.0m	$16.3m	$13.7m	£6.9m
Lexington Capital Partners VI-B	2005	$30.0m	$15.2m	$14.8m	£7.4m
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0m	$28.0m	$84.0m	£42.3m
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0m	$11.8m	$44.2m	£22.2m
Pantheon Europe Fund V	2006	€35.0m	€7.3m	€27.7m	£22.1m
Pantheon USA Fund VII	2006	$35.0m	$5.8m	$29.2m	£14.7m
Coller International Partners V	2006	$30.0m	$5.2m	$24.8m	£12.5m

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$5.4	£24.6m	£12.4m
Pantheon Asia Fund V	2007	$20.0m	$0.0m	$20.0m	£10.1m
Pantheon Europe Fund VI	2007	€40.0m	€0.0m	€40.0m	£31.9m
Pantheon USA Fund VIII	2007	$35.0m	$0.7m	$34.3m	£17.3m
Capital International Private Equity Fund V	2007	$35.0m	$10.2m	$24.8m	£12.5m
Co-Investment Partners Europe	2007	€30.0m	€12.0m	€18.0m	£14.4m
Partners Group 2006 Direct Fund	2007	€30.0m	€21.1m	€8.9m	£7.1m
Infracapital	2007	£35.0m	£30.1m	£4.9m	£4.9m
Total Outstanding Commitments					**£340.7m**

The Sterling figures for these outstanding commitments are based on the exchange rate at the close of business on 31st March 2008.

21. Related Party Transactions

Under FRS8 “Related Party Disclosures”, it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

Examinations of returns completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Pension Fund have not identified any cases where disclosure is required.

During 2007/08, South Tyneside Council charged the Fund £0.713m (£0.725m in 2006/07) in respect of services provided, primarily financial, legal and information technology. The Fund charged South Tyneside Council £0.047m (£0.048m in 2006/07) in respect of Treasury Management services.

There were no material contributions due from employer bodies that were outstanding at the year-end.

22. Policy Documents

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

- Governance Policy Statement
- Funding Strategy Statement
- Statement of Investment Principles
- Communications Policy Statement

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

Organisations Participating in the Fund as at 31st March 2008

Councils
City of Sunderland Council
Gateshead Council
Newcastle City Council
North Tyneside Council
South Tyneside Council

Other Scheduled Bodies
City of Sunderland College
Excelsior Academy
Former North East Regional Airport
Former Tyne and Wear County Council
Former Tyne and Wear Residuary Body
Gateshead College
Gateshead Housing Company
Monkwearmouth College
National Probation Service - Northumbria
Newcastle College
Newcastle Education Action Zone
North Tyneside College
Northumbria Magistrates Court
Northumbria Police Authority
Northumbria University
South Tyneside College
South Tyneside Education Action Zone
South Tyneside Homes
Sunderland Education Action Zone
Tyne and Wear Fire and Rescue Service
Tyne and Wear Passenger Transport Authority
Tyne Metropolitan College
Tynemouth College
University of Sunderland
Wearside College
Your Homes Newcastle

Resolution Bodies
Birtley Town Council
Blakelaw and North Fenham Parish Council
Blue Square Trading
Learning World
Nexus

Admitted Bodies
Age Concern Newcastle
Assessment and Qualifications Alliance
Association of North East Councils
Balfour Beatty
Baltic Arts Flour Mills Visual Arts Trust

Admitted Bodies

Benton Grange School
Benwell Young Peoples Development Group
Bovis Lend Lease (BLL)
Brunswick Young Peoples Project
Bullough Contracts Services
Catholic Care North East
CBS Outdoor Limited
Community Action on Health
Compass Group UK and Ireland Limited
Disability North
Gateshead Law Centre
Gentoo
Hebburn Neighbourhood Advice Centre
Higher Education Funding Council for England
Information North (Northern Regional Library System)
Insitu Cleaning
International Centre for Life
Jarvis Accommodation Services Limited
Jarvis-Sandhill View
Kenton Park Sports Centre
Managed Business Space Limited
Mitie Cleaning (North) Limited
Mitie PFI (Boldon)
Mitie PFI Limited
Morrison Facilities Services Limited 1
Morrison Facilities Services Limited 2
Museums Libraries and Archives North East
National Car Parks Limited
National Glass Centre
Newcastle Family Service Unit
Newcastle Healthy City Project
Newcastle International Airport Company Limited
Newcastle Law Centre
Newcastle Tenants Federation
Newcastle Theatre Royal Trust Limited
Newcastle West End Partnership
Newcastle Youth Congress
No Limits Theatre
Norcare
Norland Road Community Centre
North East Innovation Centre Company Limited
North East Regional Employers Organisation
Northern Arts Association
Northern Council for Further Education
Northern Counties School
Northern Grid For Learning
North Tyneside Child Care Enterprise

Admitted Bodies

North Tyneside City Challenge
North Tyneside Disability Advice Centre
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 Complex
Saint Mary Magdalene and Holy Jesus Trust
Saint Mary the Virgin Estate Management Charity
Scolarest
Scolarest PFI Boldon
Search Project
Simonside Community Centre
Southern Electric Contracting Limited
South Tyne Football Trust
South Tyneside Groundwork Trust
South Tyneside Victim Support
Stagecoach Travel Services (Busways)
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust Limited
Sunderland Outdoor Activities Association
Sunderland Streetlighting Limited
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 Limited
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Tyne Waste Limited
Valley Citizens Advice Centre
Walker Profiles (North East) Limited
Wallsend Citizens Advice Centre
Wallsend Peoples Centre
Workshops for the Adult Blind (Palatine Products)

Glossary of Financial Terms

To assist readers, some of the technical terms referred to in the Statement of Accounts are shown below with a brief description of what they mean.

Accounting Code of Practice

The Accounting Code of Practice on Local Authority Accounting in Great Britain: A Statement of Recommended Practice defines proper accounting practices for Local Authorities in England, Wales and Scotland.

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

Procurement option whereby a company is created 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.

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 showing a snapshot of the assets and liabilities of an organisation at a given point in time.

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 Account to represent the cost of using the assets.

Capital Expenditure
Spending on the acquisition of a tangible 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 Financing Account** shows the effect of financing capital expenditure from external sources and the impact of depreciation and impairment charges compared to the Minimum Revenue Provision, which the Council has to make. This has now been replaced by the **Capital Adjustment Account.**

Capital Financing Requirement
The level of outstanding liability of the Council in relation to the financing of the capital programme up to the balance sheet date.

Capital Receipts
These receipts are generated by the disposal of fixed assets. Part of the monies received can be retained by the Authority 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 certain expenditure that would not normally fall within capital definition. This has included exceptional redundancy costs and the back pay elements of Equal Pay and Equal Value settlements.

Central Establishment Charges
Certain sections of the Authority are concerned with the whole range of the Council's services, e.g. Finance, Legal and Personnel. These costs are recharged to the Council services they support to reflect the full cost of providing that service.

CIPFA
Chartered Institute of Public Finance and Accountancy.

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 Revenue Support Grant.

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.

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 Liability
A contingent liability is wither (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 audited bodies are directed and controlled.

Council Tax
The Local Government Finance Act 1992 introduced the Council Tax, which replaced the Community Charge, 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 depending upon the banding of the individual dwelling – i.e. those properties in Bands A to C will pay less Council Tax whilst those in bands E to H will pay more.

Creditors
Amounts owed by the Council for goods and services provided where payment has not been made by the balance sheet date.

Current Service Cost
This is the actuarially estimate of the present value of full pensions benefits earned b 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 being 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.

Deferred Charges
Items of capital expenditure that do not result in, or remain matched by, tangible or intangible fixed assets.

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 fixes 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 fixed asset during its useful life.

Earmarked Reserves
Amounts set aside by the Council to meet future financial liabilities.

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.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance.

Financial Instruments
Any contract that gicves rise to a financial asset of one entity and a financial liability or equity instrument of another.

Financial Reporting Standards (FRS)
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. Local Authority accounts are expected to accord with FRS except where the Government considers their principles to be inappropriate or considers others to be more appropriate to Local Government accounting and reporting.

Fixed Assets
Assets that yield benefits to the Council and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles.

Fixed Asset Restatement Account
This account reflects the amount by which the value of the Council's assets have been revised following revaluation and disposal. This has now been replaced by the **Revaluation Reserve.**

General Fund
The General Fund includes the expenditure and income relating to the services provided by the Authority. 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 Authority will continue in operational existence for the foreseeable future.

The **Government Grant Deferred Account** represents the balance of external funding received by the Council in support of its expenditure on the enhancement and acquisition of fixed assets. Each year an amount is written out of this account in line with the depreciation of those assets as well as an amount to reflect external funds in respect of capital expenditure that did not add to the value of assets.

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.

Impairment
A diminution in value of a fixed asset resulting from causes such as obsolescence or physical damage.

Infrastructure Assets
These are inalienable assets, expenditure on which is recoverable only by continued use of the asset created, examples being highways and footpaths.

Intangible Fixed Assets
Capital expenditure relating to the procurement of computer software. The value is written out to the Income and Expenditure Account 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.

The **Investment Revaluation Reserve** reflects the Council's share capital in Newcastle Airport at cost as well as any difference in open market value of our investments at the balance sheet date, when this is less than cost price. The opening balance of this reserve has been restated to reflect the new advice regarding the valuation of our shareholding in Newcastle Airport. This is now known as the **Assets available for Sale Reserve.**

Joint Venture
An entity in which the Authority 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

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 Income and Expenditure Account. 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.

The **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
The process of identifying and aligning service pressure, corporate priorities and objectives as well as available resources over the medium term (3 years) and budgeting accordingly.

Minimum Revenue Provision
The minimum revenue provision in any year is 4% of the Authority's non-housing capital financing requirement outstanding. The HRA is no longer required to set aside a minimum revenue provision.

National Non-Domestic Rates
Non-domestic properties must pay these Rates (NNDR) and they are based upon property valuations, as undertaken by the District Valuer, and a nationally set multiplier figure. The Local Authority 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 fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation.

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.

The **Pension Reserve** is the amount set aside to offset the FRS17 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 Head of Finance.

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 Authority, 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
A method of procuring 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 concepts 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.

Public Works Loan Board
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. Such disclosures in respect of members and chief officers are required as a result of the incorporation of FRS8 into the Local Authority SORP.

Repurchase of Borrowing
FRS4 on Capital Investments states “Gains or losses arising on the repurchase or early settlement of debts should be recognised in the profit and loss accounts in the period during which the repurchase or early settlement is made”.

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 the fixed assets held by the Authority 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 Support Grant
A Government Grant in aid of Local Authority services generally. It is based upon the Government assessment of how much a Local Authority needs to spend to provide an average level of service.

The **Secondary Schools Capital Financing Account** contains an amount of capital resources set aside to meet any Council contribution required towards the Building Schools for the Future programme.

Specific Ring-fenced Government Grants
Designed to aid particular services or projects administered by Local Authorities.

Statement of Recommended Practice (SORP)
Statements prepared by the Accounting Standards Committee (established by the major accountancy bodies) setting out the current best accounting practice.

Subsidy
An entity wholly owned or controlled by the Authority.

Trust Funds
Funds administered by the Council on behalf of charitable or specific organisations.

The **Useable Capital Receipts Reserve** comprises monies from the sale of capital assets which are available for financing capital expenditure or repaying debt but which have not yet been applied.