Financial Statement
2017-18

31 July 2018



South Tyneside will be an outstanding place to live, invest and bring up families

South Tyneside Council

HELLO TOMORROW
CHANGE IS **HAPPENING**

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Further Information

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

https://www.southtyneside.gov.uk/article/38543/Financial-Statements

Hard copies (for a charge) can be requested by writing to:

Finance Director
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 Members Support on **0191 427 1717**.

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

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1. Introduction

These accounts set out the results of the Council's financial activities for the year ended 31st March 2018 and outline our financial position at that date. The narrative statement provides:

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

South Tyneside Council seeks to make the best possible use of resources available with regard to economy, efficiency and effectiveness. This is a responsibility shared by Members and officers of the Council with the Council's Chief Financial Officer, the Finance Director, having a specific role in ensuring the adequacy of resources and proper financial administration. Our Medium Term Financial Plan (MTFP) sets out how we will do this over a future five-year horizon. The Statement of Accounts looks back at our results over the past financial year. During the year, an independent corporate peer review of the Council judged that "The Council is making every pound count and is making a very challenging financial position work for itself."

2. Revenue Financial Summary for the Year

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

The table on the next page summarises our in-year revenue spending position including schools expenditure. The Council underspent its budget by £0.5m in the year after taking into account transfers to and from earmarked reserves. The overall change in earmarked reserves can be seen in more detail in note 6 to the core Financial Statements.

Section 1 – Narrative Statement by the Finance Director

Revenue financial summary	Original budget £m	Actual outturn £m	Variance from budget £m *Note 1*
Revenue spending			
Children, adults and health group	82.715	85.827	3.112
Business and resources group	18.228	13.850	(4.378)
Economic regeneration group	24.037	24.782	0.745
Net cost of services and operating expenditure	**124.980**	**124.459**	**(0.521)**
Funding sources			
General government grants	(25.169)	(25.169)	-
Non-domestic rates retained and top up grant	(46.605)	(46.605)	-
Contribution from Collection Fund	(1.000)	(1.000)	-
Contribution to earmarked reserves	2.000	2.000	-
Council tax payers	(54.206)	(54.206)	-
Total revenue funding	**(124.980)**	**(124.980)**	**-**
Contribution to General Fund balance for the year	**-**	**(0.521)**	**(0.521)**

Note 1 : reported under and overspending includes movement in earmarked reserves

The actual outturn position is shown in the Statement of Accounts as the net expenditure chargeable to the General Fund and HRA balances column of the expenditure funding analysis. This column also includes the outturn for the Housing Revenue Account (HRA) the results of which are reported in section 8 of the Narrative Statement.

Children, Adults and Health Group

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

The revenue spending highlights during the year were as follows:

- The adult social care service has maintained spend within budget by providing a timely and integrated approach to care and support. Our assessment and targeted investment in supporting the well-being of clients continues to ensure the most appropriate packages of care are provided. The Council continues to work closely with health partners in delivering integrated preventative services which reduce demand on more costly health and social care interventions as well as promotion of information and advice to expand self-serve and self-care taking account of services and support available in the community.

- The cost of looked after children through foster placements, social work staffing levels and out of borough child placements is a cost pressure for the Council with this service exceeding budget by £2.4m in the year. The Council continues to manage these demand-led pressures through pro-active intervention to support families, improved professional practice, adopting a multi-agency approach and aligning expenditure more closely to meet need. This is safely limiting the numbers of looked after children contrary to national trends.

Business and Resources Group

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

The revenue spending highlights during the year were as follows:

- Use of capital receipts to service debt repayments delivered a saving of £2.0m.

- Additional income of £2.6m was received due to a number of late grants awarded by the Government. These included £1.0m additional Better Care Fund Grant and £0.7m additional grants which compensate for a loss in business rate income.

- The Council maintained a strong income collection performance. During the year, 96% of council tax income due was collected in year (96% in 2016/17). The majority of the amounts outstanding will also be received after the year-end. The comparative figure for business rates collection was 99% (98% in 2016/17).

Economic Regeneration Group

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

The revenue spending highlights during the year were as follows:

- The hiring of external refuse collection vehicles caused a cost pressure of £0.5m for the year. A review of fleet operations and a fleet replacement programme is scheduled for 2018/19.

- Gas consumption across the property portfolio fell in year saving £0.5m.

- There was an income shortfall of £0.5m across commercial waste collection, fleet and property management functions.

3. Capital Investment Financial Summary for the Year

The table on the next page summarises capital investment of £59.3m during the year and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2017-22 MTFP, has been revised to reflect the full impact of known contractual commitments from the previous year and new funding approvals received in year. £28.9m of funding has been provisionally carried forward to support ongoing schemes in future years. Investment during the year continued the Council's commitment to apply available capital resources in a targeted manner to regenerate and transform the borough.

Section 1 – Narrative Statement by the Finance Director

Capital investment summary	Revised budget £m	Actual outturn £m	Carry forward £m	Variance from budget £m
Children, adults and health group	3.235	3.294	0.522	0.581
Business and resources group	3.529	0.962	1.427	(1.140)
Economic regeneration group	60.215	37.525	22.025	(0.665)
Public sector housing	22.466	17.507	4.959	-
Total capital investment	**89.445**	**59.288**	**28.933**	**(1.224)**

Capital financing summary	Actual funding £m
Unsupported borrowing	(23.116)
Capital receipts	(3.197)
Funding from the General Fund and Housing Revenue Account	(0.307)
Funding from the major repairs reserve	(17.311)
Government grant and other contributions	(15.357)
Total capital funding	**(59.288)**

The capital investment highlights during the year were as follows:

Children, Adults and Health Group

- £0.9m has been invested in adaptations to private dwellings such as walk in showers and stair lifts. This allows people to live independently for longer within their own home rather than requiring residential care.
- £0.9m was spent during the year on the renovations of Whiteleas Way and Henderson Road children's residential homes as part of providing families in need with a dedicated respite resource to prevent unnecessary admissions into care.
- £1.0m was spent during the year on school improvements funded from devolved formula and other capital grant.

Business and Resources Group

- £1.0m was spent on ICT investment to ensure our computing facilities continue to be effective and resilient.
- £0.5m was spent on neighbourhood improvements to meet the priorities of local communities.
- £1.0m was spent as part of refurbishing community facilities in Jarrow.
- Release of provisions to reflect a reduction in the liabilities facing the Council has offset a large proportion of the costs incurred by this group.

Section 1 – Narrative Statement by the Finance Director

Economic Regeneration Group

- £7.1m has been invested in partnership with Sunderland Council for the acquisition of land to create an international advanced manufacturing park (IAMP) on the site north of the Nissan car manufacturing plant. Incorporating a new enterprise zone, the first phase will create more than 5,200 new jobs.

- £4.6m was invested in the acquisition of property and associated costs as part of the South Shields 365 project. Work will continue in 2018/19 to continue with property acquisitions. £5.7m unspent budget has been provisionally agreed to be transferred into the 2018/19 financial year to support this project going forward.

- £0.7m has been spent in year on the cultural venue 'The Word' (National Centre for the Written Word).

- £2.2m has been spent on measures to remodel the Council's building estate so that it is fit for purpose, allows a reduction in the number of buildings maintained generating savings in running costs, receipts from the sale of any surplus properties and associated land as well as promoting flexible working.

- £2.4m has been spent on a programme of works to maintain and enhance the portfolio of front line service buildings.

- £5.4m has been invested in a variety of infrastructure schemes ranging from road safety measures, flood prevention measures, resurfacing highways, renewal of footbridges and improved footpaths throughout the borough.

- £2.6m and £1.9m has been invested to improve the Lindisfarne and the Arches transport junctions respectively. These are both joint schemes with the North East Combined Authority (NECA) which has provided part of the funding.

- £3.6m has been invested in land at Holborn to support regeneration of the riverside.

- £3.9m has been spent in year on delivering a new transport interchange facility for South Shields. The interchange is due to be completed by summer 2019.

Public Sector Housing

- £10.0m has been spent on improving 851 homes to the South Tyneside decent homes standard with a further £5.0m being carried forward to 2018/19.

- In addition to decent homes, £1.4m was spent on improvements to vacant properties to bring them back into occupation, £0.8m invested in adaptations to properties for tenants with special needs, £1.1m on infrastructure, £1.7m on area redevelopment schemes and £0.8m on local estate improvements.

Section 1 – Narrative Statement by the Finance Director

4. Significant Matters

Government Funding and Strategic Planning

Grant support from the Government has reduced by 50% in cash terms since 2010. Since that date and including the current year, the Council will have delivered efficiencies of £156.0m. This has been achieved through a relentless focus upon value for money, delivering services through new and innovative means and prioritising resources to meet the Council's strategic objectives as set out in its plans.

The Government is reviewing the distribution of funding to councils. Funding changes which arise from this review are expected to be implemented from 2020/21 at the earliest. At the same time, councils will retain a greater proportion of business rates collected (increase from 50% to 75%) rather than repayment to Government. Due to councils retaining more income, Government will reduce funding accordingly. The net financial impact of these changes is at the present time very uncertain but will increase the level of future financial risk faced by councils.

In recognition of the need for longer term planning against a backdrop of declining Government resources, the Council's financial planning horizon has been extended. The renewed planning framework provides for development of plans covering the period 2019/20 to 2021/22. The planning programme is split between business areas within the Council and also by a range of cross-cutting themes. This will support closer integration of services within the Council but also with partners and other organisations. It will also strengthen its commissioning approach to ensure that services meet identified need in the most cost effective manner that maximises benefits for residents and the borough and identify new income streams.

In common with many areas, the Council is facing significant demographic pressures. The number of residents over 85 years old is expected to double in the next twenty years. This places huge pressure upon services such as adult social care especially as Government funding continues to be reduced. The Council recognises that effective demand management of adult social care services is integral to securing financial sustainability and in response is implementing a programme of system change across the whole service. Government is expected to publish plans in the summer of 2018 on the future shape and funding of adult social care services.

The Council will target capital investment to support economic regeneration and attract new business and jobs to the area to support its overarching objective of increasing economic prosperity and over time minimising growth in demand upon services that the Council provides. This will continue to be a priority, especially as Government funding declines and councils become more reliant upon other sources of funding such as growth in business rates. The Council remains fully committed to delivering its vision for South Tyneside to be an outstanding place to live, invest and bring up families.

Defined Benefit Obligation

As at year end the Council had a defined benefit obligation to the Tyne and Wear Pension Fund of £356.1m (£344.7m in 2016/17). If the Council ceased operations, this liability would have to be taken over by the successor body or ultimately funded by Central Government.

South Tyneside Housing Ventures Trust Limited (STHVTL)

In 2013/14, the Council supported the formation of an independent not for profit company (STHVTL) to increase the number of affordable homes in the borough. The Council has minority representation on the board of STHVTL. The Council has provided a loan facility of up to £40.0m to STHVTL which is secured on the value of the sites to be developed or assets acquired. £5.3m was loaned or advanced during the year (£9.5m in 2016/17). The loans allow the company to fund initial build and acquisition costs for dwellings and its cost will be serviced from rental and sales income those assets generate.

5. Material Movements in Assets and Liabilities

The value of Council dwellings has increased by £39.1m or 8%. The primary reason for this is that the decrease in the social housing factor adjusted in the valuation of dwellings last year has now been applied to the service component and a number of beacon valuations in year have replaced valuations done five years ago and are reflecting an upturn in the market since that time. The value of other property plant and equipment has increased by £9.2m primarily reflecting additional investment in road infrastructure and increased valuation for Council land.

Long term loans and receivables have increased by £15.3m, £5.3m of which represents additional loans and advances given to South Tyneside Housing Ventures Trust Limited in year under their £40.0m loan facility agreement. Other new long term debts include £7.5m payment in advance to the Tyne and Wear Pension Fund in relation to the pension liability and £2.8m loan notes issued by the IAMP LLP to cover funding provided by the Council to allow land assembly at the site. These loan notes are secured against the land purchased.

Short term investments have fallen by £9.4m resulting from the Council decision to use cash balances to support its capital programme rather than taking on additional debt.

Cash and cash equivalents have increased by £4.9m primarily due to a timing issue where loan repayments due by the Council on 31st March were taken instead on the 2nd April due to the Easter holidays. This has also resulted in the elimination of the bank overdraft figure of £2.9m.

The value of assets held for sale or disposal has decreased by £24.5m primarily due to Harton Technology College which became an Academy school on 1st September 2017.

Short term borrowing has increased by £7.0m as the Council utilises more short term resource to fund its ongoing expenditure to benefit from low interest rates. Long term borrowing has also increased by £14.0m and this has been used to fund the ongoing regeneration of our town centres, including the new transport interchange for South Shields.

The defined benefit obligation has increased by £11.4m or 3% compared to the previous year. £18.0m was added primarily due to changes in the financial assumptions used to reach this valuation with assumed interest and pay increase rates higher than the previous year. This was partially offset by actual payments exceeding expected payments due to paying the valuation deficit for the next three years rather than just the amount due in year.

Section 1 – Narrative Statement by the Finance Director

6. Reserves and Balances

As at year end the Council held earmarked reserves of £32.0m (£32.2m in 2016/17) of which £1.6m (£4.8m in 2016/17) related to school balances.

Our strategic reserve is intended to cover emergency or unforeseen events and is maintained at no less than 2% of the net budget as part of a risk-based assessment. As at year end the Council held £3.0m in this reserve (£3.0m in 2016/17).

The other key reserve that we hold to deal with our specific risks is the future funding reserve. As at year end the Council held £13.9m in this reserve (£11.6m 2016/17).

As at year end the Council held £2.2m (£2.4m in 2016/17) in capital receipts for the purposes of investing in our assets in future years.

7. Group Results

The Group Accounts fully incorporate the results of South Tyneside Homes Limited (STHL), a subsidiary company of the Council. They also reflect the Council's share as associate of STHVTL. Further details about these relationships can be found in the Group introduction on page 104 of these accounts.

The Group results revealed a deficit for the year of £4.8m (surplus of £19.0m in 2016/17) incorporating a net deficit of £2.5m (£0.9m in 2016/17) from STHL. The net assets of the Group stood at £111.9m at year end (£106.4m in 2016/17).

8. Housing Revenue Account (HRA)

The HRA is ring-fenced, relating to the management and maintenance of the Council's housing stock, and all expenditure must be met from rents and other charges. The HRA achieved a surplus for the year of £1.3m (£3.1m in 2016/17). Revenue reserves at year end stood at £21.8m (£20.4m in 2016/17) which will be used to support future years' expenditure on housing.

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

Expenditure on PFI schemes during the year was £22.6m (£21.6m in 2016/17). Revenue contributions provided funding of £11.5m (£10.5m in 2016/17), or 51%, and the remaining £11.1m (£11.1m in 2016/17) was funded using PFI credits from Government.

10. Borrowing Facilities

The Council has established a set of prudential indicators and developed a measurement and reporting process that highlights any breaches of these indicators. There were no breaches during the year. The Council increased its debt having taken out 5 long term loans totalling £31.0m (£50.0m in 2016/17) from the Public Works Loans Board and had short term debt outstanding of £5.0m (£2.0m in 2016/17) from other local authorities. £16.0m of long term loans were repaid during the year (£19.0m in 2016/17).

Section 1 – Narrative Statement by the Finance Director

11. Hello Tomorrow, Change is Happening

Our vision is for South Tyneside to be **an outstanding place to live, invest and bring up families.** We have ambitious plans to regenerate our towns, homes and communities that will help us to attract investment, create jobs, improve health and support greater opportunity in the borough for years to come. This is being driven through our modernisation programme "Hello Tomorrow, Change is Happening"

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

People

- Better education and skills
- Increasing prosperity
- Protect children and vulnerable adults
- Stable and independent families
- Healthier people

Place

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

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

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

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

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

Section 1 – Narrative Statement by the Finance Director

12. Medium Term Prospects

Our MTFP for 2018 to 2023 was approved by Council and published in March 2018. Our key stakeholders, including our trades union, business sector and voluntary sector partners, members of the public and our own staff helped us to make decisions to ensure that our limited resources are directed to the top priorities for the residents of the borough.

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

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

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

13. Changes to the Statement of Accounts

There have been no major presentational changes to the Statement of Accounts. They have however been prepared earlier in line with legislation such that the unaudited version will be available for inspection on 1st June and the audited version available from 1st August this year.

14. The Statement of Accounts

The Statement of Accounts are set out on pages 16 to 169. They consist of the following statements that are required to be prepared under the Code of Practice:

- **Statement of Responsibilities for the Accounts** (page 16) that explains both the Council's and the Finance Director's responsibilities in respect of the Statement of Accounts.

- **Independent Auditors' Report** (pages 17 to 20) sets out the opinion of our auditors Ernst and Young LLP following their audit of the Statements of Accounts.

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

- **Movement in Reserves Statement** (page 21) reconciles items included in the Comprehensive Income and Expenditure Statement, which by statute are not charged to the council tax payer.

- **Comprehensive Income and Expenditure Statement** (page 22) reports the income and expenditure relating to all services provided by the Council and how the net costs of these services have been financed from general government grants and income from local taxpayers.

- **Balance Sheet** (page 23 shows what assets the Council owns and its level of indebtedness. This statement also details the level of reserves that the Council can call upon to meet future expenditure.

- **Cash Flow Statement** (page 24) summarising the activities during the year in terms of cash inflows and outflows reconciling to the cash and cash equivalent balances held on the Balance Sheet.

- **Expenditure and Funding Analysis (EFA) and Notes** (pages 25 to 95). The EFA shows how annual expenditure is used and funded from resources available to the Council compared to resources consumed or earned in accordance with generally accepted accounting practices.

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

- **Housing Revenue Account Income and Expenditure Statement and Notes** (pages 96 to 101) dealing with the provision and maintenance of Council Housing. There is a statutory requirement to keep this account separately and also consolidate the figures within the Comprehensive Income and Expenditure Statement.

- **Collection Fund Statement and Notes** (pages 102 to 103) showing the income the Council receives from council tax and non-domestic rates and how this income has been distributed to precepting authorities (Police and Crime Commissioner for Northumbria and Tyne and Wear Fire and Civil Defence Authority).

The **Group Financial Statements and Notes in Section 6** (pages 104 to 120) reports the financial picture of all activities conducted by the Council, including those delivered through partnership and separate undertakings owned by the Council.

The **Tyne and Wear Pension Fund Statements and Notes in Section 7** (pages 121 to 169) record the year's activities in relation to the Pension Fund. The Council is required to publish these statements as administering authority for the Fund.

15. The Annual Governance Statement

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

Stuart Reid
Finance Director

27th July 2018

Section 2 – Statement of Responsibilities for the Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of both its financial affairs and those of the Tyne and Wear Pension Fund and to ensure that one of its officers has the responsibility for the administration of those affairs. For South Tyneside Council and the Tyne and Wear Pension Fund, that officer is the Finance Director.
- 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 Finance Director

The Finance Director is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). In preparing the Statement of Accounts, the Finance Director has:

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

The Finance Director has also:

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

Finance Director Certificate

I hereby certify that the Statement of Accounts, set out in pages 17 to 169, gives a true and fair view of the financial position of South Tyneside Council and the Tyne and Wear Pension Fund as at the Balance Sheet date, and their income and expenditure for the year ended 31st March 2018.

Signed: S Reid Date: 27th July 2018

Stuart Reid, Finance Director

Chair of General Purposes Committee Certificate

I can confirm that these accounts were approved by the General Purposes Committee at its meeting held in July 2018.

Signed: Iain Malcolm. Date: 27th July 2018

Councillor Iain Malcolm, Chair of General Purposes Committee

Section 3 – Independent Auditors' Report

Independent auditors' report to the Members of South Tyneside Council

Opinion

We have audited the financial statements of South Tyneside Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow Statement;
- Notes to the Core Financial Statements 1 to 43;
- Housing Revenue Account Income and Expenditure Statement and related notes 1 to 9;
- Collection Fund Statement and the related notes 1 to 2;
- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet;
- Group Cash Flow Statement; and
- Notes to the Group Financial Statements 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of South Tyneside Council and Group as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Finance Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Section 3 – Independent Auditors' Report

Other information

The other information comprises the information included in the Narrative Statement by the Finance Director set out on pages 5-15, other than the financial statements and our auditor's report thereon. The Finance Director is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, South Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Finance Director

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 16, the Finance Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Finance Director is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether South Tyneside Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Tyneside Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

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

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

Section 3 – Independent Auditors' Report

Certificate

Delay in certification of completion of the audit

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

We are also required to give an opinion on the consistency of the financial statements of the pension fund included in the Pension Fund Annual Report of the Tyne and Wear Pension Fund. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not yet prepared the Annual Report we have not yet been able to conclude on the consistency with these financial statements and we have not issued our report on those financial statements.

Until these outstanding matters are resolved, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Nicola Wright
Ernst & Young LLP

Nicola Wright (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Newcastle upon Tyne
31 July 2018

The maintenance and integrity of the South Tyneside Council web site is the responsibility of the directors; 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 web site.

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

Section 4 – Core Financial Statements

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end of the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to taxation (or rents) for the year. The (increase) or decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

	Note	General fund balances (as restated)	Housing revenue account	Capital receipts reserve	Major repairs reserve	Total usable reserves	Unusable reserves	Total Council reserves
		£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2015 brought forward		**(33.766)**	**(15.999)**	**(1.989)**	**(10.577)**	**(62.331)**	**(17.360)**	**(79.691)**
Movement in reserves during 2015/16								
Total comprehensive (income) and expenditure		12.247	15.108	-	-	27.355	(55.758)	(28.403)
Adjustments between accounting basis and funding basis under regulations		(13.971)	(16.426)	(0.352)	10.577	(20.172)	20.172	-
(Increase) or decrease in 2015/16		**(1.724)**	**(1.318)**	**(0.352)**	**10.577**	**7.183**	**(35.586)**	**(28.403)**
Balance at 31st March 2016 carried forward		**(35.490)**	**(17.317)**	**(2.341)**	**-**	**(55.148)**	**(52.946)**	**(108.094)**
Movement in reserves during 2016/17								
Total comprehensive (income) and expenditure		18.076	(38.028)	-	-	(19.952)	(10.967)	(30.919)
Adjustments between accounting basis and funding basis under regulations	3	(15.613)	34.904	(0.098)	(4.844)	14.349	(14.349)	-
(Increase) or decrease in 2016/17		**2.463**	**(3.124)**	**(0.098)**	**(4.844)**	**(5.603)**	**(25.316)**	**(30.919)**
Balance at 31st March 2017 carried forward		**(33.027)**	**(20.441)**	**(2.439)**	**(4.844)**	**(60.751)**	**(78.262)**	**(139.013)**
Movement in reserves during 2017/18								
Total comprehensive (income) and expenditure		31.072	(28.740)	-	-	2.332	(9.323)	(6.991)
Adjustments between accounting basis and funding basis under regulations	3	(31.410)	27.408	0.247	(0.003)	(3.758)	3.758	-
(Increase) or decrease in 2017/18		**(0.338)**	**(1.332)**	**0.247**	**(0.003)**	**(1.426)**	**(5.565)**	**(6.991)**
Balance at 31st March 2018 carried forward		**(33.365)**	**(21.773)**	**(2.192)**	**(4.847)**	**(62.177)**	**(83.827)**	**(146.004)**

Section 4 – Core Financial Statements

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Councils raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2016/17 Gross expenditure £m	2016/17 Gross income £m	2016/17 Net expenditure £m		Note	2017/18 Gross expenditure £m	2017/18 Gross income £m	2017/18 Net expenditure £m
83.053	(36.238)	46.815	Adult social care		83.564	(43.051)	40.513
24.832	(5.850)	18.982	Children and families social care		27.461	(6.246)	21.215
123.210	(118.907)	4.303	Learning and early help		130.625	(114.312)	16.313
14.886	(14.851)	0.035	Public health		14.895	(14.244)	0.651
4.501	(2.166)	2.335	Other children's, adults and health services		5.035	(1.873)	3.162
250.482	**(178.012)**	**72.470**	**Sub total children's, adults and health**		**261.580**	**(179.726)**	**81.854**
61.583	(23.151)	38.432	Asset management and design		60.239	(23.156)	37.083
16.789	(11.844)	4.945	Other economic regeneration services		23.036	(16.039)	6.997
78.372	**(34.995)**	**43.377**	**Sub total economic regeneration**		**83.275**	**(39.195)**	**44.080**
91.993	(85.151)	6.842	Finance		72.517	(89.610)	(17.093)
15.435	(5.659)	9.776	Leisure, libraries and community facilities		9.240	(7.094)	2.146
5.508	(1.287)	4.221	Strategy and performance		5.730	(1.129)	4.601
8.830	(4.618)	4.212	Other business and resources services		6.769	(3.034)	3.735
121.766	**(96.715)**	**25.051**	**Sub total business and resources**		**94.256**	**(100.867)**	**(6.611)**
18.677	**(69.481)**	**(50.804)**	**Local authority housing (HRA)**		**26.207**	**(67.575)**	**(41.368)**
469.297	**(379.203)**	**90.094**	**Cost of services**		**465.318**	**(387.363)**	**77.955**
12.632	(0.392)	12.240	Other operating income and expenditure	8	38.512	(0.381)	38.131
40.812	(4.329)	36.483	Financing and investment income and expenditure	9	40.442	(2.821)	37.621
-	(158.769)	(158.769)	Taxation and non-specific grant income	10	-	(151.375)	(151.375)
522.741	**(542.693)**	**(19.952)**	**(Surplus) or deficit on the provision of services**		**544.272**	**(541.940)**	**2.332**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services				
		(63.299)	Surplus on revaluation of property, plant and equipment				(36.518)
		2.392	Impairment losses on non-current assets charged to the revaluation reserve				8.475
		49.940	Remeasurements of the defined benefit obligation	41			18.720
		(10.967)	**Other comprehensive (income) and expenditure**				**(9.323)**
		(30.919)	**Total comprehensive (income) and expenditure**				**(6.991)**

Section 4 – Core Financial Statements

Balance Sheet

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

31st March 2017 £m		Note	31st March 2018 £m
	Non-current assets		
494.744	Council dwellings	11	533.832
592.340	Other property, plant and equipment	11	601.520
3.492	Heritage assets		3.471
2.300	Investment properties		2.300
2.108	Intangible assets	12	2.065
8.821	Long term investments	13	8.821
33.970	Long term loans and receivables	13	49.306
1,137.775	**Total non-current assets**		**1,201.315**
	Current assets		
9.399	Short term investments	13	-
0.866	Inventories		0.727
38.460	Short term debtors	14	38.636
5.600	Cash and cash equivalents	15	10.525
26.051	Assets held for sale or disposal	16	1.537
80.376	**Total current assets**		**51.425**
	Current liabilities		
(31.761)	Short term creditors	17	(34.285)
(2.989)	Cash and cash equivalents - bank overdraft	15	-
(25.790)	Short term borrowing	13	(32.755)
(4.131)	PFI liability due in less than one year	19	(4.032)
(1.987)	Capital grants receipts in advance	31	(3.858)
(3.431)	Short term provisions	18	(1.293)
(70.089)	**Total current liabilities**		**(76.223)**
10.287	**Total net current assets**		**(24.798)**
	Non-current liabilities		
(0.806)	Long term creditors	13	(0.762)
(0.912)	Long term provisions	18	(1.108)
(558.068)	Long term borrowing	13	(572.065)
(102.629)	Long term PFI liability	19	(98.597)
(344.690)	Liability related to defined benefit obligation	41	(356.090)
(1.944)	Other long term liabilities	13	(1.891)
(1,009.049)	**Total non-current liabilities**		**(1,030.513)**
139.013	**Total net assets**		**146.004**
	Reserves		
(60.751)	Usable reserves	20	(62.177)
(78.262)	Unusable reserves	21	(83.827)
(139.013)	**Total reserves**		**(146.004)**

Section 4 – Core Financial Statements

Cash Flow Statement

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

2016/17 £m		Note	2017/18 £m
19.952	**Cash inflow or (outflow) from the provision of services**		**(2.332)**
36.353	Adjustment to the surplus or deficit on the provision of services for non-cash movements	22	79.389
(51.516)	Adjustment for items included in the surplus or deficit on the provision of services that are investing and financing activities	22	(52.402)
4.789	**Net cash flow from operating activities**		**24.655**
(30.808)	Investing activities	23	(30.324)
29.812	Financing activities	24	13.583
3.793	**Net increase in cash and cash equivalents**		**7.914**
(1.182)	**Cash and cash equivalents at the start of the year**		**2.611**
2.611	**Cash and cash equivalents at the end of the year**		**10.525**

The notes to the core financial statements are presented on pages 25 to 95 and form part of the Statement of Accounts.

Section 4 – Notes to the Core Financial Statements

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and non-domestic rates) by the Council in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Groups. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17 Net Expenditure Chargeable to the General Fund and HRA balances	2016/17 Adjustments between the funding and accounting basis (note 5)	2016/17 Net expenditure in the Comprehensive Income and Expenditure Statement		Note	2017/18 Outturn as reported to Cabinet	2017/18 Movement in Earmarked Reserves	2017/18 Net Expenditure Chargeable to the General Fund and HRA balances	2017/18 Adjustments between the funding and accounting basis (note 5)	2017/18 Net expenditure in the Comprehensive Income and Expenditure Statement
£m	**£m**	**£m**			**£m**	**£m**	**£m**	**£m**	**£m**
43.551	3.264	46.815	Adult social care		39.669	(0.331)	39.338	1.175	40.513
18.208	0.774	18.982	Children and families social care		19.438	(0.363)	19.075	2.140	21.215
9.759	(5.456)	4.303	Learning and early help		9.186	2.819	12.005	4.308	16.313
14.616	(14.581)	0.035	Public Health		14.980	0.043	15.023	(14.372)	0.651
2.216	0.119	2.335	Other children's, adults and health services		2.554	0.173	2.727	0.435	3.162
88.350	**(15.880)**	**72.470**	**Sub total children's, adults and health**		**85.827**	**2.341**	**88.168**	**(6.314)**	**81.854**
21.233	17.199	38.432	Asset management and design		20.970	0.105	21.075	16.008	37.083
4.379	0.566	4.945	Other economic regeneration services		3.812	(0.483)	3.329	3.668	6.997
25.612	**17.765**	**43.377**	**Sub total economic regeneration**		**24.782**	**(0.378)**	**24.404**	**19.676**	**44.080**
7.761	(0.919)	6.842	Finance		5.164	1.265	6.429	(23.522)	(17.093)
1.990	7.786	9.776	Leisure, libraries and community facilities		1.111	0.060	1.171	0.975	2.146
4.025	0.196	4.221	Strategy and Performance		3.955	0.007	3.962	0.639	4.601
3.339	0.873	4.212	Other business and resources services		3.620	(0.357)	3.263	0.472	3.735
17.115	**7.936**	**25.051**	**Sub total business and resources**		**13.850**	**0.975**	**14.825**	**(21.436)**	**(6.611)**
(3.124)	**(47.680)**	**(50.804)**	**Local authority housing (HRA)**		**-**	**-**	**(1.332)**	**(40.036)**	(41.368)
127.953	**(37.859)**	**90.094**	**Cost of services**		**124.459**	**2.938**	**126.065**	**(48.110)**	**77.955**
-	12.240	12.240	Other operating income and expenditure	8	-	0.018	0.018	38.113	38.131
-	36.483	36.483	Financing and investment income and expenditure	9	-	(0.773)	(0.773)	38.394	37.621
(130.759)	(28.010)	(158.769)	Taxation and non-specific grant income	10	(124.980)	(2.000)	(126.980)	(24.395)	(151.375)
(2.806)	**(17.146)**	**(19.952)**	**(Surplus) or deficit on the provision of services**		**(0.521)**	**0.183**	**(1.670)**	**4.002**	**2.332**

2016/17		2017/18
(17.317)	HRA balance at start of year	(20.441)
(1.189)	General Fund unallocated balance at start of year	(0.871)
(18.506)	**Total balances at start of year**	**(21.312)**
(3.124)	Movement in HRA balance in year	(1.332)
0.318	Movement in General Fund unallocated balance in year	(0.521)
(2.806)	**Total movement in balances for the year**	**(1.853)**
(20.441)	HRA balance at end of year	(21.773)
(0.871)	General Fund unallocated balance at end of year	(1.392)
(21.312)	**Total balances at end of year**	**(23.165)**

Section 4 – Notes to the Core Financial Statements

Note 1. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 43, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are set out below:

Accounting for Assets – Balance Sheet Recognition

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

The table below details the number of schools in each category as at 31st March 2018:

	Nursery, Primary or Special	Secondary
Community	34	4
Voluntary Aided/Controlled	13	0
Academy	5	4
Trust	2	1
	54	**9**

Private Finance Initiatives (PFI)

The Council is deemed to control the services provided under the PFI agreements for three secondary schools, the Council's street lighting and a share of a waste recycling facility on Teesside. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and assets totalling £109.565m (£111.518m in 2016/17) are recognised as property, plant and equipment on the Council's Balance Sheet. Further information can be found in notes 11 and 19.

Leases

The Council constructed a new office facility at Harton Quay, South Shields. The office was leased to British Telecommunications PLC on 29th September 2011 for an initial lease term of 14½ years. The primary purpose of the office facility is to secure new jobs for the borough and facilitate regeneration of the riverside area. Although the asset generates rental income and may result in capital appreciation, these were not the primary purposes of the project. The Council has reviewed the terms of the lease agreement and concluded that this is an operating lease. For this reason, the Council has accounted for this asset as property, plant and equipment on the Balance Sheet with a value at 31st March 2018 of £7.837m (£8.176m in 2016/17).

The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31st March 2018 of £30.098m (£30.810m in 2016/17). Whilst the Council does receive rental income, the primary purpose of holding these assets is job creation and regeneration of the borough. The assets have therefore been accounted for as property, plant and equipment rather than investment properties on the Balance Sheet.

Newcastle Airport Holding

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about what may happen in the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from these assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are described below.

Approach to Fair Value

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

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

Beacon Approach to Valuations

The Council adopts a beacon approach to the valuation of dwellings and sheltered housing units. This involves valuing a single property in an area and then applying that valuation to properties in a similar location and with similar characteristics. The Council has identified 262 (262 in 2016/17) beacon properties to cover the whole borough. Property values are affected by a number of factors and a 1% movement on the assumed valuation would change the reported value of dwellings by £5.338m (£4.947m in 2016/17) and other land and buildings by £4.327m (£4.086m in 2016/17).

Other Land and Property Valuations

For other valuations the Council adopts a rolling programme which results in material assets being revalued at least once every five years. A 1% movement in values since the last valuation date would change the reported value of other land and buildings and surplus assets by £2.299m (£1.822m in 2016/17).

Useful Economic Lives

Property, plant and equipment are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £4.249m (£3.319m in 2016/17) for every year that useful lives had to be reduced.

Section 4 – Notes to the Core Financial Statements

Defined Benefit Obligation

Estimation of the defined benefit obligation to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions applied. The effects on the net defined benefit obligation of changes in individual assumptions can be measured. The results can be found in the sensitivity analysis section of note 41 on pages 73 and 74

However the assumptions interact in complex ways. During 2017/18 the Council's actuaries advised that the defined benefit obligation for funded liabilities had increased by £7.460m (decreased by £39.830m in 2016/17) as a result of estimates being corrected for experience and increased by £17.990m (£180.050m in 2016/17) due to updating of financial assumptions. Remeasurement of Fund assets also led to a £7.320m decrease (£95.500m in 2016/17).

Section 4 – Notes to the Core Financial Statements

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

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

2017/18	Usable reserves				
	General Fund balance £m	Housing revenue account £m	Capital receipts reserve £m	Major repairs reserve £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(29.288)	(23.712)	-	-	53.000
Contribution towards the major repairs reserve	-	17.314	-	(17.314)	-
Revaluation (losses) or gains on property, plant and equipment	(0.865)	34.986	-	-	(34.121)
Amortisation of intangible assets	(0.571)	-	-	-	0.571
Capital grants and contributions applied	15.184	0.173	-	-	(15.357)
Capital receipts not linked to non-current assets	4.091	0.064	(4.296)	-	0.141
Revenue expenditure funded from capital under statute	(9.477)	(0.240)	-	-	9.717
Amounts of current and non-current assets written off as part of the loss on disposal	(26.857)	(7.651)	-	-	34.508
Other movements	(0.003)	-	-	-	0.003
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Provision for the financing of capital investment	11.833	-	-	-	(11.833)
Capital expenditure charged against balances	0.284	0.023	-	-	(0.307)
Adjustments primarily involving the capital receipts reserve and the major repairs reserve:					
Transfer of cash sale proceeds credited as part of the loss on disposal	0.644	6.642	(7.286)	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	3.197	-	(3.197)
Use of the capital receipts reserve in lieu of debt set aside	-	-	2.141	-	(2.141)
Contribution towards administrative costs of non-current asset disposals	-	(0.191)	0.191	-	-
Contribution towards the payments to the Government capital receipts pool	(2.209)	-	2.209	-	-
Movement with deferred capital receipts	-	-	4.091	-	(4.091)
Use of the major repairs reserve to finance new capital expenditure	-	-	-	17.311	(17.311)
Adjustments primarily involving the pensions reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 41)	(29.234)	-	-	-	29.234
Employer's pensions contributions and direct payments to pensioners payable in the year	36.560	-	-	-	(36.560)
Other adjustments to unusable reserves:					
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	(1.270)	-	-	-	1.270
Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements	(0.240)	-	-	-	0.240
Employee benefits accrued during the year	0.008	-	-	-	(0.008)
Total adjustments	**(31.410)**	**27.408**	**0.247**	**(0.003)**	**3.758**

Section 4 – Notes to the Core Financial Statements

The equivalent figures for the previous year are as follows:

2016/17	Usable reserves General Fund balance £m	 Housing revenue account £m	 Capital receipts reserve £m	 Major repairs reserve £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:					
Charges for depreciation and impairment of non-current assets	(28.532)	(21.296)	-	-	49.828
Contribution towards the major repairs reserve	-	15.745	-	(15.745)	-
Revaluation (losses) or gains on property, plant and equipment	(0.393)	41.866	-	-	(41.473)
Amortisation of intangible assets	(0.538)	-	-	-	0.538
Capital grants and contributions applied	13.909	0.030	-	-	(13.939)
Capital receipts not linked to non-current assets	0.099	0.123	(0.254)	-	0.032
Revenue expenditure funded from capital under statute	1.491	(0.512)	-	-	(0.979)
Amounts of current and non-current assets written off as part of the loss on disposal	(1.805)	(6.306)	-	-	8.111
Other movements	-	(0.001)	0.001	-	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:					
Provision for the financing of capital investment	5.205	-	-	-	(5.205)
Capital expenditure charged against balances	0.762	0.016	-	-	(0.778)
Adjustments primarily involving the capital receipts reserve and the major repairs reserve:					
Transfer of cash sale proceeds credited as part of the loss on disposal	1.290	5.495	(6.785)	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	4.769	-	(4.769)
Use of the capital receipts reserve to repay debt	-	-	0.032	-	(0.032)
Contribution towards administrative costs of non-current asset disposals	(0.006)	(0.195)	0.201	-	-
Contribution towards the payments to the Government capital receipts pool	(1.938)	-	1.938	-	-
Use of the major repairs reserve to finance new capital expenditure	-	-	-	10.901	(10.901)
Adjustments primarily involving the pensions reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 41)	(26.344)	-	-	-	26.344
Employer's pensions contributions and direct payments to pensioners payable in the year	21.560	-	-	-	(21.560)
Other adjustments to unusable reserves:					
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	(0.074)	(0.061)	-	-	0.135
Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements	0.558	-	-	-	(0.558)
Employee benefits accrued during the year	(0.857)	-	-	-	0.857
Total adjustments	**(15.613)**	**34.904**	**(0.098)**	**(4.844)**	**(14.349)**

Note 4. Major items of income and expenditure

Last year the social housing factor used in the valuation of dwellings increased from 37% to 44% resulting in a revaluation gain of £69.734m recorded on the Balance Sheet and a credit to the local authority housing (HRA) line of the Comprehensive Income and Expenditure Statement for the reversal of prior year impairment charges of £51.275m.

Section 4 – Notes to the Core Financial Statements

Note 5. Expenditure and Funding Analysis Note

2017/18	Adjustments for capital purposes	Net change for the pension adjustments	Other differences	Total adjustments
	£m	£m	£m	£m
Adult social care	1.212	0.975	(1.012)	1.175
Children and families social care	1.247	0.841	0.052	2.140
Learning and early help	7.200	3.576	(6.468)	4.308
Public health	-	0.064	(14.436)	(14.372)
Other children's, adults and health services	0.017	0.194	0.224	0.435
Sub total children's, adults and health	**9.676**	**5.650**	**(21.640)**	**(6.314)**
Asset management and design	19.013	1.274	(4.279)	16.008
Other economic regeneration services	3.423	0.581	(0.336)	3.668
Sub total economic regeneration	**22.436**	**1.855**	**(4.615)**	**19.676**
Finance	(1.277)	(23.991)	1.746	(23.522)
Leisure, libraries and community facilities	0.556	0.570	(0.151)	0.975
Strategy and performance	0.005	0.422	0.212	0.639
Other business and resources services	0.025	0.322	0.125	0.472
Sub total business and resources	**(0.691)**	**(22.677)**	**1.932**	**(21.436)**
Local authority housing (HRA)	**(40.036)**	**-**	**-**	**(40.036)**
Cost of services	**(8.615)**	**(15.172)**	**(24.323)**	**(48.110)**
Other operating income and expenditure	26.213	-	11.900	38.113
Financing and investment income and expenditure	-	8.150	30.244	38.394
Taxation and non-specific grant income	(6.858)	-	(17.537)	(24.395)
Deficit on the provision of services	**10.740**	**(7.022)**	**0.284**	**4.002**

The adjustments for capital purposes column adds in depreciation, amortisation, impairments and revaluation losses or gains for each of the service lines. In the other operating income and expenditure line it adjusts for capital disposals and the transfer of income on disposal of assets and the amounts written off for those assets. For the financing and investment income and expenditure line it represents the statutory charges for capital financing less revenue contributions as these are not chargeable under generally accepted accounting practices. In the taxation and non-specific grant income line capital grants receivable in the year without conditions or for which conditions were satisfied in the year have been credited.

The net change for the pension adjustments column for service lines represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs. For the financing and investment income and expenditure line it represents the net interest on the defined benefit liability.

The other differences column represents amounts debited or credited to the Comprehensive Income and Expenditure Statement and amounts payable or receivable to be recognised under statute. For the financing and investment income and expenditure it recognises adjustments to the General Fund for the timing differences for premiums and discounts. For the taxation and non-specific grant income line it represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the Collection Fund. Also included in this column is the movement of any costs that report as part of the service lines under management accounts but represent items that are reported below the cost of services line in the Comprehensive Income and Expenditure Statement.

The equivalent table for the previous year is as follows:

2016/17	Adjustments for capital purposes	Net change for the pension adjustments	Other differences	Total adjustments
	£m	£m	£m	£m
Adult social care	1.174	0.661	1.429	3.264
Children and families social care	0.291	0.483	-	0.774
Learning and early help	(5.562)	2.127	(2.021)	(5.456)
Public health	-	0.056	(14.637)	(14.581)
Other children's, adults and health services	0.017	0.097	0.005	0.119
Sub total children's, adults and health	**(4.080)**	**3.424**	**(15.224)**	**(15.880)**
Asset management and design	22.194	0.741	(5.736)	17.199
Other economic regeneration services	1.555	0.367	(1.356)	0.566
Sub total economic regeneration	**23.749**	**1.108**	**(7.092)**	**17.765**
Finance	(3.914)	(9.139)	12.134	(0.919)
Leisure, libraries and community facilities	7.720	0.239	(0.173)	7.786
Strategy and performance	0.004	0.267	(0.075)	0.196
Other business and resources services	1.192	0.330	(0.649)	0.873
Sub total business and resources	**5.002**	**(8.303)**	**11.237**	**7.936**
Local authority housing (HRA)	**(47.680)**	**-**	**-**	**(47.680)**
Cost of services	**(23.009)**	**(3.771)**	**(11.079)**	**(37.859)**
Other operating income and expenditure	1.527	-	10.713	12.240
Financing and investment income and expenditure	-	9.500	26.983	36.483
Taxation and non-specific grant income	(10.610)	-	(17.400)	(28.010)
Surplus on the provision of services	**(32.092)**	**5.729**	**9.217**	**(17.146)**

Section 4 – Notes to the Core Financial Statements

The Council's expenditure and income can be analysed as follows:

2016/17 £m		2017/18 £m
157.452	Employee benefit expenses	138.190
17.357	Support services recharges	16.963
284.442	Other service expenses	290.239
10.457	Depreciation, revaluation loss or gain, amortisation and impairment	20.280
40.792	Interest payments	40.505
8.776	Precepts and levies	8.472
1.938	Payments to housing receipts pool	2.209
1.527	Loss on disposal of current and non-current assets	27.414
522.741	**Total expenditure**	**544.272**
(181.134)	Fees, charges and other service income	(183.437)
(4.099)	Interest and investment income	(2.591)
(97.589)	Income from council tax and non domestic rates (including top up grant)	(101.574)
(259.871)	Other grants and contributions	(254.338)
(542.693)	**Total income**	**(541.940)**
(19.952)	**(Surplus) or deficit on the provision of services**	**2.332**

Note 6. Transfers to or from Earmarked Reserves

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

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

	Balance at 31st March 2016 £m	Transfers out 2016/17 £m	Transfers in 2016/17 £m	Balance at 31st March 2017 £m	Transfers out 2017/18 £m	Transfers in 2017/18 £m	Balance at 31st March 2018 £m
General Fund:							
Strategic reserve	(3.021)	-	-	(3.021)	-	-	(3.021)
School balances	(7.568)	5.015	(2.202)	(4.755)	6.547	(3.421)	(1.629)
Insurance reserve	(1.996)	-	(0.582)	(2.578)	-	(0.357)	(2.935)
Risk capacity and structural change reserve	(4.069)	4.069	-	-	-	-	-
Future funding reserve	(8.331)	3.581	(6.817)	(11.567)	3.000	(5.363)	(13.930)
Other reserves	(9.315)	1.192	(2.112)	(10.235)	5.054	(5.277)	(10.458)
Total earmarked reserves	**(34.300)**	**13.857**	**(11.713)**	**(32.156)**	**14.601**	**(14.418)**	**(31.973)**

Strategic Reserve

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

School Balances

This amount represents the cumulative net unspent element of school budgets, which, in accordance with Government legislation, must be carried forward into the following financial year. The balances are committed to be spent on education. Included in the school balances are twelve schools (fourteen in 2016/17) in a deficit position totalling £1.911m (£1.057m in 2016/17).

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

Risk Capacity and Structural Change Reserve
This reserve was used last year to deal with demand led pressures, particularly for areas such as adult social care and to support budget pressures arising elsewhere.

Future Funding Reserve
This reserve provides cover against the expected continuing funding pressures over the coming few years.

Other Reserves
Amounts set aside for specific expenditure commitments.

Note 7. Events after the Reporting Period

The Statement of Accounts has been certified as giving a true and fair view by the Finance Director on 31st July 2018. 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 2018.

On 4th April 2018 the South Tyneside Credit Union Limited (operating as First for Money Credit Union) went into administration. The Financial Services Compensation Scheme has declared the credit union in default, which means that all savers monies are protected and will receive their funds. The Council has shares in the company valued at £0.025m at 31st March 2018 reported as part of the long term investments on the Balance Sheet. Following this event the Council is unlikely to recover on this investment which will result in a charge to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement once the position becomes clearer.

St Mary's RC Primary School is currently out to consultation as to whether to convert into an academy. As this is a voluntary aided school the Council does not own the assets and therefore if it were to convert there would be no impact on property, plant and equipment balances reported in these accounts.

Note 8. Other Operating Income and Expenditure

Other operating income and expenditure is made up of the following items:

2016/17 £m		2017/18 £m
8.776	Levies	8.472
1.938	Payments to the Government housing capital receipts pool	2.209
(0.001)	(Surplus) or deficit on trading undertakings	0.037
1.527	Loss on the disposal of current and non-current assets	27.413
12.240	**Total other operating income and expenditure**	**38.131**

Section 4 – Notes to the Core Financial Statements

Note 9. Financing and Investment Income and Expenditure

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

2016/17 £m		2017/18 £m
31.312	Interest payable and similar charges	32.292
9.500	Net interest expense of defined benefit liability and interest income on scheme assets	8.150
(1.865)	Interest receivable	(1.845)
(2.234)	Dividends receivable	(0.746)
(0.230)	Income in relation to investment properties	(0.230)
36.483	**Total financing and investment income and expenditure**	**37.621**

Note 10. Taxation and Non-specific Grant Income

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

2016/17 £m		2017/18 £m
(52.177)	Council tax income	(54.966)
(45.410)	Non-domestic rates (grant and retained income)	(46.605)
(50.542)	Unringfenced Government revenue grants	(42.945)
(10.640)	Capital grants and contributions	(6.859)
(158.769)	**Total taxation and non-specific grant income**	**(151.375)**

Note 11. Property, Plant and Equipment

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

2017/18	**Council dwellings**	**Other buildings**	**Other land**	**Vehicles, plant and equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total property, plant and equipment**	**PFI assets included in property, plant and equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2017	**539.728**	**412.847**	**47.515**	**44.836**	**170.298**	**12.192**	**3.869**	**5.070**	**1,236.355**	**125.309**
Additions	13.781	11.261	3.321	1.439	12.629	0.154	0.381	5.963	48.929	-
Revaluation to revaluation reserve	13.081	(9.551)	1.940	-	-	-	(0.058)	-	5.412	(5.382)
Revaluation to Comprehensive Income and Expenditure Statement	34.340	0.848	0.133	-	-	-	(1.200)	-	34.121	-
Impairment to Comprehensive Income and Expenditure Statement	(6.140)	(4.261)	-	(0.015)	(0.087)	-	-	-	(10.503)	-
Sales and other derecognition	(6.360)	(1.493)	(0.875)	(2.310)	-	-	(0.045)	(0.691)	(11.774)	-
Reclassification of assets	(0.608)	0.361	(0.271)	-	-	-	(0.239)	(0.360)	(1.117)	-
At 31st March 2018	**587.822**	**410.012**	**51.763**	**43.950**	**182.840**	**12.346**	**2.708**	**9.982**	**1,301.423**	**119.927**
Depreciation										
At 1st April 2017	**(44.984)**	**(30.056)**	**-**	**(32.374)**	**(38.708)**	**(3.112)**	**(0.037)**	**-**	**(149.271)**	**(13.791)**
Depreciation to Comprehensive Income and Expenditure Statement	(15.001)	(17.648)	-	(3.145)	(6.100)	(0.459)	(0.030)	-	(42.383)	(4.340)
Depreciation to revaluation reserve	5.368	17.199	-	-	-	-	0.058	-	22.625	7.769
Sales and other derecognition	0.602	0.157	-	2.175	-	-	-	-	2.934	-
Reclassification of assets	0.025	(0.001)	-	-	-	-	-	-	0.024	-
At 31st March 2018	**(53.990)**	**(30.349)**	**-**	**(33.344)**	**(44.808)**	**(3.571)**	**(0.009)**	**-**	**(166.071)**	**(10.362)**
Balance sheet amount at 31st March 2017	**494.744**	**382.791**	**47.515**	**12.462**	**131.590**	**9.080**	**3.832**	**5.070**	**1,087.084**	**111.518**
Balance sheet amount at 31st March 2018	**533.832**	**379.663**	**51.763**	**10.606**	**138.032**	**8.775**	**2.699**	**9.982**	**1,135.352**	**109.565**

Section 4 – Notes to the Core Financial Statements

Other land and buildings at 31st March 2018 includes £2.947m in respect of leased assets (£3.080m in 2016/17).

The equivalent movements for the previous year are as follows:

2016/17	Council Dwellings	Other Buildings	Other Land	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2016	**481.137**	**393.795**	**52.872**	**43.777**	**156.366**	**11.078**	**4.126**	**19.259**	**1,162.410**	**109.718**
Additions	17.776	15.167	0.080	2.763	12.988	0.240	1.786	2.217	53.017	0.185
Revaluation to revaluation reserve	14.594	13.178	0.931	-	-	-	(0.042)	-	28.661	12.836
Revaluation to Comprehensive Income and Expenditure Statement	41.860	2.861	(1.221)	-	-	-	(2.046)	-	41.454	2.570
Impairment to Comprehensive Income and Expenditure Statement	(5.188)	(3.245)	-	-	(0.042)	-	-	-	(8.475)	-
Sales and other derecognition	(6.814)	(1.314)	(0.541)	(5.788)	-	-	(0.192)	-	(14.649)	-
Reclassification of assets	(3.637)	(7.595)	(4.606)	4.084	0.986	0.874	0.237	(16.406)	(26.063)	-
At 31st March 2017	**539.728**	**412.847**	**47.515**	**44.836**	**170.298**	**12.192**	**3.869**	**5.070**	**1,236.355**	**125.309**
Depreciation										
At 1st April 2016	**(40.298)**	**(36.613)**	**-**	**(33.850)**	**(33.113)**	**(2.569)**	**(0.042)**	**-**	**(146.485)**	**(11.650)**
Depreciation to Comprehensive Income and Expenditure Statement	(14.405)	(17.354)	-	(3.948)	(5.595)	(0.447)	(0.054)	-	(41.803)	(4.172)
Depreciation to revaluation reserve	8.690	23.509	-	-	-	-	0.048	-	32.247	2.031
Sales and other derecognition	0.771	0.212	-	5.758	-	-	0.011	-	6.752	-
Reclassification of assets	0.258	0.190	-	(0.334)	-	(0.096)	-	-	0.018	-
At 31st March 2017	**(44.984)**	**(30.056)**	**-**	**(32.374)**	**(38.708)**	**(3.112)**	**(0.037)**	**-**	**(149.271)**	**(13.791)**
Balance sheet amount at 31st March 2016	**440.839**	**357.182**	**52.872**	**9.927**	**123.253**	**8.509**	**4.084**	**19.259**	**1,015.925**	**98.068**
Balance sheet amount at 31st March 2017	**494.744**	**382.791**	**47.515**	**12.462**	**131.590**	**9.080**	**3.832**	**5.070**	**1,087.084**	**111.518**

Revaluations, Depreciation and Componentisation

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

Where property, plant or equipment has been revalued the date of the valuation is 1st April 2017 unless significant spending in year has taken place in which case the valuation date is 31st March 2018. Where appropriate, valuations reflect accumulated depreciation. The Council only recognises components where these are considered material.

Further details of the Council's depreciation and componentisation policy can be found in note 43 accounting policies.

Significant Observable Inputs – Level 2

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

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

	Council dwellings	Other land and buildings	Surplus asset	Other assets	Total
	£m	£m	£m	£m	£m
Valued at historic cost	-	0.122	-	167.395	167.517
Valued at current value in:					-
2017/18	292.982	177.867	-	-	470.849
2016/17	240.850	143.704	0.138	-	384.692
2015/16	-	74.117	0.601	-	74.718
2014/15	-	33.518	0.436	-	33.954
2013/14 or prior	-	2.098	1.524	-	3.622
Total cost or valuation	**533.832**	**431.426**	**2.699**	**167.395**	**1,135.352**

Capital Commitments

As at 31st March 2018 the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment, in 2018/19 and future years, budgeted to cost £29.638m (£17.137m in 2016/17). Details of capital contract commitments over £0.500m as at 31st March 2018 are as shown in the table below.

Capital scheme		Net commitment at 31st March 2018 £m	Period of commitment Years
Jarrow hub	Healthier people	2.760	2
The Word	Town centre regeneration	0.595	1
The Arches junction improvement scheme	A regenerated South Tyneside with increased business and jobs	4.770	2
South Shields transport interchange	Town centre regeneration	21.513	4
Total		**29.638**	

Note 12. Intangible Assets

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

2016/17 Software	2016/17 Climate change allowances	2016/17 Total		2017/18 Software	2017/18 Climate change allowances	2017/18 Total
£m	£m	£m		£m	£m	£m
			Balance at start of year:			
5.664	0.391	6.055	Gross book value	5.829	0.541	6.370
(4.068)	-	(4.068)	Accumulated amortisation	(4.262)	-	(4.262)
1.596	**0.391**	**1.987**	**Net book value at start of year**	**1.567**	**0.541**	**2.108**
0.509	0.450	0.959	Additions	0.558	0.299	0.857
(0.344)	(0.300)	(0.644)	Disposals	(0.081)	(0.264)	(0.345)
-	-	-	Impairment to Comprehensive Income and Expenditure Statement	(0.005)	-	(0.005)
0.344	-	0.344	Amortisation written out on disposal	0.021	-	0.021
(0.538)	-	(0.538)	Amortisation for the period	(0.571)	-	(0.571)
1.567	**0.541**	**2.108**	**Net book value at end of year**	**1.489**	**0.576**	**2.065**
			Comprising:			
5.829	0.541	6.370	Gross book value	6.301	0.576	6.877
(4.262)	-	(4.262)	Accumulated amortisation	(4.812)	-	(4.812)
1.567	**0.541**	**2.108**	**Net book value at end of year**	**1.489**	**0.576**	**2.065**

Section 4 – Notes to the Core Financial Statements

Note 13. Financial Instruments

This note provides information on financial instruments to help the reader identify, quantify and inform on the exposure to and management of risk, including information on the current fair values of assets and liabilities held by the Council. Definitions of fair value and amortised cost can be found in section 8 of note 43 accounting policies.

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

	Long term		Current	
	31st March 2017 £m	31st March 2018 £m	31st March 2017 £m	31st March 2018 £m
Available-for-sale financial assets				
Unquoted equity investment at fair value (Newcastle Airport)	8.794	8.794	-	-
Other available-for-sale financial assets at fair value	0.027	0.027	-	-
Total available-for-sale financial assets	**8.821**	**8.821**	**-**	**-**
Loans and receivables				
Deposits with banks and other financial institutions	-	-	9.399	-
Long and short term debtors	33.970	49.306	16.451	11.406
Total loans and receivables	**33.970**	**49.306**	**25.850**	**11.406**
Financial liabilities at amortised cost				
Long and short term borrowing	(558.068)	(572.065)	(25.790)	(32.755)
Long and short term creditors	-	-	(18.989)	(21.663)
PFI liabilities	(102.629)	(98.597)	(4.131)	(4.032)
Finance lease liabilities	(1.944)	(1.891)	(0.047)	(0.052)
Total financial liabilities at amortised cost	**(662.641)**	**(672.553)**	**(48.957)**	**(58.502)**

Available-for-Sale Financial Assets

Newcastle Airport

Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven local authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. On 4th May 2001, the seven local authority shareholders of NIAL (the "LA7") created NIAL Holdings Limited, which is 51% owned by LA7 and 49% owned by AMP Capital Investors Limited following their purchase on 16th November 2012. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (NALAHCL), a company wholly owned by the seven authorities. NALAHCL has a called up share capital of 10,000 shares with a nominal value of £1 each. The Council holds a 10.12% interest in NALAHCL, valued at £8.794m (£8.794m in 2016/17). The shares are not held for trading outside of the LA7.

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

Through its shares in NALAHCL the Council has an effective shareholding of 5.16% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £0.723m was received for the year ended 31st December 2017 (£2.199m for the year ended 31st December 2016).

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

NIAL Group Limited made a profit before tax of £6.884m and a profit after tax of £4.408m for the year ended 31st December 2017. In the previous year, the Group made a loss before tax of £2.266m and a loss after tax of £0.499m.

Significant Observable Inputs – Level 3

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

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

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

Loans and Receivables

Long and Short Term Debtors

These financial assets are carried at cost. An analysis of short term debtors balances can be found in note 14 to these accounts.

Soft Loans

During the year the Council granted a loan for £4.091m (nil in 2016/17) to IAMP LLP (a company set up In partnership with Sunderland City Council). The loan is at nil interest and therefore the Council has reflected a charge of £1.271m (nil in 2016/17) as part of interest payable and similar charges in the Comprehensive Income and Expenditure Statement to recognise the interest income it has potentially foregone as a result of this transaction. This amount has been reversed out and transferred to the financial instruments adjustment account such that there is no cost to council taxpayers. The value of the charge is based on the Council's borrowing cost plus an allowance for the risk that the loan might not be repaid and assumes it will be repayable in twelve years which is when development by the company is expected to be complete.

The loan has been given to fund the acquisition of land in order to create a site that can be subject to further development. This is the first stage in creating an internationally-recognised destination for advanced manufacturing in the North East, which will create over 5,000 new jobs and attract over £400m of private sector investment into the region.

Section 4 – Notes to the Core Financial Statements

The following table summarises the movements in soft loans for the year.

2016/17 £m	Soft loans	2017/18 £m
-	**Balance at 1st April**	**-**
-	New loans issued	4.091
-	Fair value adjustment on initial recognition	(1.271)
-	**Balance at 31st March**	**2.820**

Financial Liabilities at Amortised Cost

Long and Short Term Borrowing

An analysis of borrowing by maturity is as follows:

31st March 2017 £m	Percentage range of interest rate payable %	Loans outstanding	31st March 2018 £m
(571.627)	1.57 - 9.25	Public Works Loans Board (PWLB)	(590.506)
(2.000)	0.50	Other local authorities	(5.000)
(10.231)	4.40 - 9.50	Market debt	(9.314)
(583.858)		**Total**	**(604.820)**
(25.790)		Less than 1 year	(32.755)
(15.000)		Between 1 and 2 years	(25.000)
(67.000)		Between 2 and 5 years	(52.328)
(47.328)		Between 5 and 10 years	(45.000)
(428.740)		More than 10 years	(449.737)
(583.858)		**Total**	**(604.820)**

The current borrowings include accrued interest as at year end of £6.754m (£3.790m in 2016/17).

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

Long and Short Term Creditors

These financial liabilities are carried at cost. An analysis of short term creditors, which also includes the short term liabilities in relation to finance lease and other liabilities, can be found in note 17 to these accounts.

Income, Expense, Gains and Losses

The amounts recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are shown in the table on the next page.

Section 4 – Notes to the Core Financial Statements

	2016/17			2017/18		
	Financial liabilities measured at amortised cost	Loans and receivables	Total	Financial liabilities measured at amortised cost	Loans and receivables	Total
	£m	£m	£m	£m	£m	£m
Expenses						
Impairment losses	-	1.063	1.063	-	0.427	0.427
Interest expense	31.312	-	31.312	32.292	-	32.292
Income						
Interest income	-	(1.865)	(1.865)	-	(1.845)	(1.845)
Net loss or (profit) for the year	**31.312**	**(0.802)**	**30.510**	**32.292**	**(1.418)**	**30.874**

Fair Value of Financial Instruments

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

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

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

	31st March 2017		31st March 2018	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
PWLB	(571.540)	(836.120)	(590.506)	(853.792)
Other local authorities	(2.000)	(2.000)	(5.000)	(5.000)
Market debt (LOBOs)	(10.318)	(20.920)	(9.314)	(19.706)
Financial liabilities	**(583.858)**	**(859.040)**	**(604.820)**	**(878.498)**

The fair value of liabilities as at the end of the year are higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

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

Note 14. Short Term Debtors

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

31st March 2017 £m		31st March 2018 £m
	Amounts falling due in one year	
3.914	Central Government bodies	4.829
5.719	Other local authorities	1.653
3.389	NHS bodies	1.629
5.155	Housing tenants	5.303
10.251	Council tax payers	11.457
0.846	Non-domestic ratepayers	0.923
4.928	South Tyneside Homes Limited	2.123
1.060	Tyne and Wear Pension Fund	8.309
14.358	Other debtors	14.170
49.620	**Total amounts falling due in one year**	**50.396**
	Allowances for bad debts	
(3.246)	Housing tenants	(3.517)
(4.595)	Council tax payers	(5.126)
(0.385)	Non-domestic ratepayers	(0.424)
(2.934)	Other debtors	(2.693)
(11.160)	**Total bad debt allowances**	**(11.760)**
38.460	**Net debtors**	**38.636**

31st March 2017 £m		31st March 2018 £m
	Amounts written off during the year	
0.400	Housing rents (excluding write ons)	0.204
0.246	Council tax (excluding write ons)	0.249
0.089	Non-domestic rates	0.109
0.287	Other debtors (net of VAT recovered)	0.289
1.022	**Total amounts written off during the year**	**0.851**

The total non-domestic rate write off for the year was £0.220m (£0.180m in 2016/17) with the balance being met proportionately by the Government and preceptors as defined by the rates retention scheme.

Section 4 – Notes to the Core Financial Statements

Note 15. Cash and Cash Equivalents

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

31st March 2017 £m		31st March 2018 £m
0.080	Cash held by the Council	0.093
1.952	Bank accounts	5.431
3.568	Short term deposits with financial institutions	5.001
5.600	**Cash and cash equivalent assets**	**10.525**
(2.989)	Bank overdraft facility	-
(2.989)	**Cash and cash equivalent liabilities**	**-**
2.611	**Total cash and cash equivalent**	**10.525**

The short term deposits with financial institutions include £5.001m money market funds (£3.568m in 2016/17).

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

Note 16. Assets Held for Sale or Disposal

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

2016/17 Held for sale £m	2016/17 Held for disposal £m	2016/17 Total £m		2017/18 Held for sale £m	2017/18 Held for disposal £m	2017/18 Total £m
0.207	**-**	**0.207**	**Balance outstanding at start of year**	**0.690**	**25.361**	**26.051**
0.684	25.361	26.045	Assets transferred from property, plant and equipment	1.093	-	1.093
0.013	-	0.013	Additions	-	-	-
(0.214)	-	(0.214)	Assets sold	(0.246)	(25.361)	(25.607)
0.690	**25.361**	**26.051**	**Balance outstanding at end of year**	**1.537**	**-**	**1.537**

Section 4 – Notes to the Core Financial Statements

Note 17. Short Term Creditors

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

31st March 2017 Creditors	31st March 2017 Receipts in advance	31st March 2017 Total		31st March 2018 Creditors	31st March 2018 Receipts in advance	31st March 2018 Total
£m	£m	£m		£m	£m	£m
(4.641)	(1.097)	(5.738)	Central Government bodies	(4.899)	(1.063)	(5.962)
(0.612)	-	(0.612)	Other local authorities	(0.422)	(0.002)	(0.424)
(1.041)	(0.050)	(1.091)	NHS bodies	(0.840)	-	(0.840)
-	(1.241)	(1.241)	Housing tenants	-	(1.402)	(1.402)
-	(1.335)	(1.335)	Council tax payers	-	(1.433)	(1.433)
(2.225)	-	(2.225)	South Tyneside Homes Limited	(2.463)	-	(2.463)
(3.465)	-	(3.465)	Council employees	(3.415)	-	(3.415)
(2.986)	-	(2.986)	Tyne and Wear Pension Fund	(2.402)	-	(2.402)
(11.855)	(1.213)	(13.068)	All other creditors	(14.922)	(1.022)	(15.944)
(26.825)	**(4.936)**	**(31.761)**	**Total creditors**	**(29.363)**	**(4.922)**	**(34.285)**

Note 18. Long and Short Term Provisions

An analysis of the provisions balances is as follows:

	Pay settlement provision	Injury and damage compensation claims	Other provisions	Total
	£m	£m	£m	£m
Balance at 1st April 2016	(6.550)	(2.946)	(7.343)	(16.839)
Additional provisions	-	(0.547)	(1.132)	(1.679)
Amounts used	0.033	1.392	4.805	6.230
Unused amounts reversed	4.790	0.849	2.306	7.945
Balance at 31st March 2017	**(1.727)**	**(1.252)**	**(1.364)**	**(4.343)**
Additional provisions	-	(0.620)	(1.112)	(1.732)
Amounts used	0.004	0.667	0.921	1.592
Unused amounts reversed	1.723	0.359	-	2.082
Balance at 31st March 2018	**-**	**(0.846)**	**(1.555)**	**(2.401)**
Short term provisions	-	(0.282)	(1.011)	(1.293)
Long term provisions	-	(0.564)	(0.544)	(1.108)
Balance at 31st March 2018	**-**	**(0.846)**	**(1.555)**	**(2.401)**

2017/18 was the final year in which the Council has any liabilities in relation to equal pay and equal value claims. As a result the unused amount set aside in the pay settlement provision has been released back to the capital programme.

Other provisions relate to potential payments under non-domestic rate appeals and insurance claims. These provisions are primarily expected to be paid in 2018/19.

Note 19. PFI and other Long Term Contracts

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

PFI details	Boldon school	Street lights	Jarrow school	South Shields community school	Joint waste project
Date of service commencement	13/04/2005	09/12/2005	26/10/2009	06/09/2011	22/04/2014
Current PFI operator	Infrared Capital Partners	Balfour Beatty PLC	InspiredSpaces STaG Limited	InspiredSpaces STaG Limited	SITA UK Limited
Length of contract	25 years	25 years	25 years	25 years	25 years
Expiry date	31/10/2031	28/02/2031	25/10/2034	04/09/2036	31/03/2039
Closing net book value of assets (£m)	21.810	19.018	-	25.558	43.179
Unitary charge payments in year (£m)	2.664	4.279	3.400	4.090	7.150
Additional payments and (receipts) in year (£m)	0.058	0.074	0.065	0.159	0.623
PFI grant in year (£m)	(1.502)	(2.535)	(2.535)	(2.750)	(1.805)
Lifetime unitary charge payments (£m)	66.545	104.859	89.644	109.878	167.482
Lifetime PFI grant (£m)	(37.546)	(63.371)	(63.363)	(68.756)	(45.115)

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

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

PFI details	Boldon school	Street lights	Jarrow school	South Shields community school	Joint waste project
Closing net book value of assets (£m)	22.356	19.923	-	21.740	47.499
Unitary charge payments in year (£m)	2.580	4.193	3.355	4.039	6.668
Additional payments or (receipts) in year (£m)	0.315	0.078	(0.046)	0.118	0.270

Boldon School

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

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

Street Lights

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

Jarrow School

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

South Shields Community School (SSCS)

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

On 19th December 2017 a refinancing of the SSCS PFI scheme took place. The refinancing was possible due to an improved risk profile in the PFI agreement. The school had been successfully constructed, operating performance was positive and there were more favourable funding market conditions. The amount of unitary charge paid by the Council each year should be relatively unchanged however the Council has secured a refinancing gain of £1.117m for the year which has been reflected in the financing and investing income and expenditure line of the Comprehensive Income and Expenditure Statement.

Joint Waste Project

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

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

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

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

Section 4 – Notes to the Core Financial Statements

The Council retains legal title to the land relating to the waste transfer station and the asset will revert to the Council at the end of the contract period. The energy from waste facility is constructed on land owned by SITA. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the three Councils to operate along with a lease of the underlying land. The contract includes an option to extend for a period of five years beyond the contractual expiry date. It allows the Council to terminate the contract with twenty business days' notice or either party to terminate on the other party's default or in the event of force majeure (for example: war, strike, riot, natural disaster). There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

Long Term PFI Contract Payments

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

2016/17 £m		2017/18 £m
(110.466)	Opening balance	(106.760)
(7.795)	Interest and contingent rents	(7.661)
11.501	Repayments	11.792
(106.760)	**Closing balance**	**(102.629)**
(4.131)	Short term liability	(4.032)
(102.629)	Long term liability	(98.597)
(106.760)	**Closing balance**	**(102.629)**

The estimated outstanding unitary charge payments for all long-term PFI contracts in operation at 31st March 2018 are analysed in the following table:

2017/18	Repayment of liability £m	Interest charge £m	Lifecycle costs £m	Contingent rents £m	Service charges £m	Total £m
Amounts due:						
Within one year	4.032	7.026	0.557	0.191	9.401	21.207
Two to five years	18.503	25.350	3.811	1.566	37.332	86.562
Six to ten years	27.310	24.152	6.432	2.369	52.166	112.429
Eleven to fifteen years	30.888	12.888	6.318	0.694	51.479	102.267
Sixteen to twenty years	19.377	3.002	7.061	0.375	27.248	57.063
Twenty-one or more years	2.519	0.056	0.874	-	3.306	6.755
Total	**102.629**	**72.474**	**25.053**	**5.195**	**180.932**	**386.283**

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

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

2016/17	Repayment of liability £m	Interest charge £m	Lifecycle costs £m	Contingent rents £m	Service charges £m	Total £m
Amounts due:						
Within one year	4.131	7.258	0.574	0.274	8.759	20.996
Two to five years	17.885	26.486	3.281	1.245	36.749	85.646
Six to ten years	25.789	25.954	6.159	2.288	50.971	111.161
Eleven to fifteen years	32.265	15.307	6.338	1.260	54.138	109.308
Sixteen to twenty years	22.195	4.573	7.026	0.269	31.673	65.736
Twenty-one or more years	4.495	0.155	2.250	-	6.609	13.509
Total	**106.760**	**79.733**	**25.628**	**5.336**	**188.899**	**406.356**

BT South Tyneside Limited (BTSTL)

During 2008/09 the Council entered into a strategic partnership arrangement with British Telecom, creating BTSTL. The strategic partner delivers a range of back-office services to the Council, including finance, payroll, human resources, ICT and procurement. The partnership became operational on 1st October 2008 and the contract runs for ten years. Unitary charge payments of £12.341m were paid during the year (£12.475m in 2016/17) and the total cost of the contract over ten years is expected to be £123.800m. These figures include additional payments for some major capital investment.

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

2016/17 £m		2017/18 £m
	Amounts due:	
11.198	Within one year	6.263
5.882	Within two to five years	-
17.080	**Total**	**6.263**

In addition to the unitary charge the Council has a contract to procure decent homes capital spending from BTSTL starting in 2014/15 and lasting until the end of the strategic partnership contract. The Council paid out £12.192m during the year (£7.108m in 2016/17) and expects to pay out £47.000m in relation to this agreement over the four years of operation.

Other Long Term Contracts

The Council has other long term contracts that fall into more than one accounting year but these are of a recurring supply or service nature. The largest of these is a grounds maintenance contract. This commenced on 1st February 2016 and is due to run until 31st January 2020 with an ability to extend to 31st January 2022. There is an estimated value of £4.598m remaining on this contract (£6.220m in 2016/17).

Section 4 – Notes to the Core Financial Statements

Note 20. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and note 6. They are made up of the following balances:

31st March 2017 £m		31st March 2018 £m
(0.871)	General Fund balance	(1.392)
(32.156)	Earmarked reserves	(31.973)
(20.441)	Housing revenue account balance	(21.773)
(2.439)	Useable capital receipts balance	(2.192)
(4.844)	Housing major repairs reserve	(4.847)
(60.751)	**Total useable reserves**	**(62.177)**

Note 21. Unusable Reserves

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

31st March 2017 £m		31st March 2018 £m
(169.169)	Revaluation reserve	(187.238)
(247.996)	Capital adjustment account	(244.298)
346.411	Pensions reserve	357.805
(8.794)	Available-for-sale financial instruments reserve	(8.794)
3.495	Employee benefits adjustment account	3.488
0.230	Financial instruments adjustment account	1.500
-	Deferred capital receipts reserve	(4.091)
(2.439)	Collection Fund adjustment account	(2.199)
(78.262)	**Total unusable reserves**	**(83.827)**

Revaluation Reserve

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

2016/17 £m	Revaluation reserve	2017/18 £m
(116.058)	**Balance at 1st April**	**(169.169)**
(63.299)	Upward revaluation of non-current assets	(36.518)
2.391	Valuation impairment charged to reserve	8.475
1.420	Accumulated gains on assets sold or scrapped	4.721
6.377	Other amounts written off to the capital adjustment account	5.253
(169.169)	**Balance at 31st March**	**(187.238)**

Section 4 – Notes to the Core Financial Statements

Capital Adjustment Account

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

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

2016/17 £m	Capital adjustment account	2017/18 £m
(220.633)	**Balance at 1st April**	**(247.996)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
49.828	Charges for depreciation and impairment of non-current assets	53.000
(41.473)	Revaluation gains on property, plant and equipment	(34.121)
0.538	Amortisation of intangible assets	0.571
(0.979)	Revenue expenditure funded from capital under statute	9.717
8.111	Amounts of current and non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	34.508
0.001	Other movements	0.002
0.032	Capital receipts not linked to assets	0.141
(7.797)	Adjusting amounts written out of the revaluation reserve	(9.974)
8.261	**Net written out amount of the cost of non-current assets consumed in the year**	**53.844**
	Capital financing applied in the year	
(4.769)	Use of the capital receipts reserve to finance new capital expenditure	(3.197)
(10.901)	Use of the major repairs reserve to finance new capital expenditure	(17.311)
(13.939)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15.357)
(5.205)	Provision for the financing of capital investment charged against the General Fund balance	(11.833)
(0.032)	Capital receipts in lieu of debt set aside	(2.141)
(0.778)	Capital expenditure charged against the General Fund and HRA balances	(0.307)
(35.624)	**Total capital financing applied**	**(50.146)**
(247.996)	**Balance at 31st March**	**(244.298)**

Pensions Reserve

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

2016/17 £m	Pensions reserve	2017/18 £m
291.687	**Balance at 1st April**	**346.411**
49.940	Actuarial (gains) or losses on pensions assets and defined benefit obligation	18.720
26.344	Reversal of items relating to retirement benefits debited or credited to the deficit or surplus on the provision of services in the Comprehensive Income and Expenditure Statement	29.234
(21.560)	Employers pension contributions and direct payments to pensioners payable in year	(36.560)
346.411	**Balance at 31st March**	**357.805**

Note 22. Operating Activities

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

2016/17 £m		2017/18 £m
50.385	Depreciation and impairment	53.000
(41.454)	Revaluation gains of property, plant and equipment	(34.121)
0.538	Amortisation of intangibles	0.571
1.614	Increase in creditors	3.133
(6.439)	Increase in debtors	(11.354)
1.072	Increase in impairment provision for bad debts	0.600
(0.130)	(Increase) or decrease in inventories	0.139
4.784	Movement in defined benefit obligation	(7.326)
38.123	Carrying amount of current and non-current assets sold or demolished	63.841
-	Reductions in fair values of soft loans	1.271
-	Issuing of loans resulting in deferred capital receipt	(4.091)
(12.140)	Other non-cash items charged to the deficit or surplus on the provision of services	13.726
36.353	**Adjustment to the surplus or deficit on the provision of services for non-cash movements**	**79.389**

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

Section 4 – Notes to the Core Financial Statements

2016/17 £m		2017/18 £m
(30.012)	Proceeds from short term and long term investments	(30.000)
(7.007)	Proceeds from sale of property, plant and equipment	(7.285)
(13.939)	Capital grants credited to the surplus or deficit on the provision of services	(15.357)
(0.558)	Collection Fund (credited) or debited to the surplus or deficit on the provision of services	0.240
(51.516)	**Adjustment for items included in the surplus or deficit on the provision of services that are investing and financing activities**	**(52.402)**

The cash flows for operating activities include the following items:

2016/17 £m		2017/18 £m
1.768	Interest received	1.572
2.234	Dividends received	0.746
(31.150)	Interest paid	(42.902)

Note 23. Investing Activities

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

2016/17 £m		2017/18 £m
(57.681)	Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal	(59.076)
(10.000)	Purchase of short term and long term investments	(20.000)
6.785	Proceeds from the sale of property, plant and equipment and assets held for sale	7.186
30.012	Proceeds from short term and long term investments	30.000
0.076	Other receipts from investing activities	11.566
(30.808)	**Net cash flows from investing activities**	**(30.324)**

Note 24. Financing Activities

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

2016/17 £m		2017/18 £m
52.000	Cash receipts of short and long term borrowing	155.000
(3.766)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(4.178)
(19.000)	Repayments of short term borrowing	(137.000)
0.578	Other receipts or (payments) for financing activities	(0.239)
29.812	**Net cash flows from financing activities**	**13.583**

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Note 25. Trading Operations

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

		2015/16 £m	2016/17 £m	2017/18 £m
South Shields open air market	Turnover	(0.097)	(0.101)	(0.082)
	Expenditure	0.103	0.102	0.102
Cumulative deficit over last 3 years: £0.027m	**Deficit**	**0.006**	**0.001**	**0.020**
School and other catering	Turnover	(6.741)	(6.591)	(6.603)
	Expenditure	7.048	7.087	7.269
Cumulative deficit over last 3 years: £1.469m	**Deficit**	**0.307**	**0.496**	**0.666**
Building regulation charging	Turnover	(0.217)	(0.291)	(0.299)
	Expenditure	0.352	0.289	0.316
Cumulative deficit over last 3 years: £0.150m	**Deficit or (surplus)**	**0.135**	**(0.002)**	**0.017**
Total trading activity	Turnover	(7.055)	(6.983)	(6.984)
	Expenditure	7.503	7.478	7.687
Cumulative deficit over last 3 years: £1.646m	**Deficit**	**0.448**	**0.495**	**0.703**

Note 26. Pooled Budgets

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

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

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

2016/17 Council share of net cost £m		2017/18 Pooled budgets net cost £m	2017/18 NHS partners income to the Council £m	2017/18 Council share of net cost £m
11.508	Better Care Fund	15.931	(4.475)	11.456
14.553	Learning disabilities	20.863	(6.057)	14.806
0.580	Joint equipment store	1.110	(0.550)	0.560
-	Nursing care and continuing care	12.893	(12.893)	-
3.127	S117 mental health	7.529	(3.765)	3.764
29.768	**Total**	**58.326**	**(27.740)**	**30.586**

Note 27. Members' Allowances

Included within the other business and resources services line on the Comprehensive Income and Expenditure Statement are all remuneration payments to Members before recovery from third parties.

2016/17 £m		2017/18 £m
0.792	Members' allowances	0.802
0.045	Other Members' expenses	0.038
0.837	**Total Members' allowances paid**	**0.840**

Note 28. Council, Schools and Statutory Officers' Remuneration

Other Employee Remuneration over £0.050m

The number of other employees whose remuneration, excluding employer's pension contribution, was £0.050m or more is disclosed, in bands of £0.005m, in the table below. It includes staff whose redundancy payments have resulted in a payment in excess of £0.050m for the year (inclusive of basic remuneration). These are noted in the column "leavers in year".

2016/17 Council and Statutory	2016/17 Community School based	2016/17 Total	2016/17 Leavers in year	Remuneration bands	2017/18 Council and Statutory	2017/18 Community School based	2017/18 Total	2017/18 Leavers in year
26	29	55	3	£50,000 - £54,999	25	21	46	3
12	19	31	7	£55,000 - £59,999	11	19	30	1
8	10	18	4	£60,000 - £64,999	4	13	17	-
5	10	15	4	£65,000 - £69,999	5	7	12	1
4	5	9	2	£70,000 - £74,999	1	7	8	-
2	4	6	1	£75,000 - £79,999	1	5	6	-
4	4	8	1	£80,000 - £84,999	1	1	2	1
1	2	3	1	£85,000 - £89,999	-	3	3	-
-	-	-	-	£90,000 - £94,999	-	1	1	-
-	-	-	-	£100,000 - £104,999	-	1	1	1
1	-	1	1	£115,000 - £119,999	-	-	-	-
1	-	1	-	£125,000 - £129,999	1	-	1	-
-	1	1	-	£150,000 - £154,999	-	-	-	-
64	**84**	**148**	**24**		**49**	**78**	**127**	**7**

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

Senior Officer Remuneration

The following table shows senior officer remuneration:

Post title		Salary and allowances £	Pension contribution £	Total remuneration £
Officers over £150,000				
Chief Executive - M Swales	2016/17	154,194	24,418	178,612
	2017/18	155,770	27,797	183,567
Other senior officers				
Corporate Director Children Adults and Families	2016/17 ^	131,538	19,271	150,809
	2017/18	123,646	20,889	144,535
Corporate Director Business and Resources	2016/17 ^	63,451	10,089	73,540
	2017/18 ^	70,073	5,370	75,443
Corporate Director Economic Regeneration	2016/17	122,787	19,271	142,058
	2017/18 ^	128,313	17,789	146,102
Head of Learning and Early Help	2016/17 ^	30,846	4,905	35,751
	2017/18 ^	71,565	12,732	84,297
Head of Regeneration	2016/17	78,561	12,491	91,052
	2017/18	81,304	14,534	95,838
Head of Children's and Families Social Care	2016/17 ^	86,753	13,789	100,542
	2017/18	89,701	16,057	105,758
Director of Public Health and Head of Commissioning	2016/17	98,674	13,542	112,216
Director of Public Health	2017/18	90,514	15,465	105,979
Head of Integrated Commissioning	2017/18 ^	50,815	9,080	59,895
Head of Pensions	2016/17 ^	95,596	14,142	109,738
	2017/18	88,153	13,750	101,903
Operations Director	2016/17	102,588	16,059	118,647
	2017/18	102,187	18,079	120,266
Head of Marketing and Communications	2016/17	81,011	12,783	93,794
	2017/18	81,483	14,534	96,017
Head of Legal Services	2016/17	81,642	12,783	94,425
	2017/18	82,799	14,534	97,333
Finance Director	2016/17	87,488	13,758	101,246
	2017/18	91,505	16,207	107,712
Head of Adult Social Care	2016/17 ^	41,351	6,546	47,897
	2017/18	87,737	15,643	103,380
Head of Asset Management	2016/17	88,504	13,758	102,262
	2017/18	94,109	16,588	110,697
Head of Development Services	2016/17	88,248	13,758	102,006
	2017/18	88,525	15,643	104,168
Total remuneration 2016/17		**1,433,232**	**221,363**	**1,654,595**
Total remuneration 2017/18		**1,578,199**	**264,691**	**1,842,890**

^ Denotes not a full year salary

Exit Package Cost Disclosure

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

2016 /17			2017 /18	
Total exit Packages	Total Paid	Exit package cost band	Total exit Packages	Total Paid
	£m			£m
154	1.216	£0 - £20,000	174	1.229
34	0.935	£20,001 - £40,000	44	1.209
9	0.480	£40,001 - £60,000	9	0.455
3	0.227	£60,001 - £80,000	3	0.199
-	-	£80,001 - £100,000	1	0.083
4	0.434	£100,001 - £150,000	4	0.454
1	0.167	£150,001 - £200,000	-	-
205	**3.459**	**Total**	**235**	**3.629**

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

Note 29. External Audit Costs

Ernst and Young LLP act as the external auditors for the Council. The following table shows the fees paid for the various services received and chargeable to the Comprehensive Income and Expenditure Statement.

2016/17		2017/18
£m		£m
0.126	Fees with regard to external audit services carried out by the appointed auditor for the year	0.126
0.021	Fees for the certification of grant claims and returns for the year	0.018
0.147	**Total fees payable to external auditors**	**0.144**

Note 30. Dedicated Schools Grant

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

- a restricted range of pupil-related services provided on a Council-wide basis (known as central expenditure) and
- the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Variances in spend compared to allocations for the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2017/18 are shown in the table on the next page.

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2017/18	**Central expenditure £m**	**Individual schools budget £m**	**Total £m**
Final DSG before academy recoupment			(115.364)
Academy recoupment and direct funding of high needs places			23.825
Total Council DSG for year			**(91.539)**
Brought forward from previous year			(1.187)
Agreed initial budgeted distribution in year	**(11.449)**	**(81.277)**	**(92.726)**
In year adjustments	-	0.112	0.112
Final budget distribution for year	**(11.449)**	**(81.165)**	**(92.614)**
Actual central expenditure	11.449	-	11.449
Actual ISB deployed to schools	-	80.288	80.288
Carry forward to following year	**-**	**(0.877)**	**(0.877)**

DSG is credited against the learning and early help line in the Comprehensive Income and Expenditure Statement. The level of unspent DSG has been set aside for future spending on schools via the movement in earmarked reserves.

The equivalent table for the previous year is shown below:

2016/17	**Central expenditure £m**	**Individual schools budget £m**	**Total £m**
Final DSG before academy recoupment			(111.340)
Academy recoupment and direct funding of high needs places			18.737
Total Council DSG for year			**(92.603)**
Brought forward from previous year			(1.139)
Agreed initial budgeted distribution in year	**(11.324)**	**(82.418)**	**(93.742)**
In year adjustments	-	(0.182)	(0.182)
Final budget distribution for year	**(11.324)**	**(82.600)**	**(93.924)**
Actual central expenditure	11.324	-	11.324
Actual ISB deployed to schools	-	81.413	81.413
Carry forward to following year	**-**	**(1.187)**	**(1.187)**

Section 4 – Notes to the Core Financial Statements

Note 31. Government Grant Income

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

2016/17 £m		2017/18 £m
	Credited to taxation and non-specific grant income	
(30.249)	Non-domestic rates top up grant	(32.620)
(10.640)	Capital grants and contributions	(6.686)
(31.980)	Revenue support grant	(24.677)
(11.126)	Private finance initiative	(11.126)
(1.683)	Education services grant	(0.492)
(1.388)	Small business rate relief grant	(2.141)
(2.599)	New homes bonus grant	(2.296)
(0.957)	Benefits administration grant	(0.876)
(0.809)	Other unringfenced grants	(1.337)
(91.431)	**Total**	**(82.251)**
	Credited to services	
(92.785)	Dedicated schools grant	(91.427)
(69.983)	Housing benefit	(67.194)
(14.481)	Public health grant	(14.124)
(7.278)	Education and skills funding agencies	(5.584)
(7.699)	Pupil premium grant	(7.459)
-	Better care fund grants	(5.307)
-	Adult social care support grant	(0.919)
(3.299)	Grants supporting revenue expenditure funded by capital under statute	(8.498)
(3.233)	Other ringfenced grants	(4.026)
(198.758)	**Total**	**(204.538)**
(290.189)	**Total grants**	**(286.789)**

The following amounts were held as receipts in advance at the 31st March.

2016/17 £m		2017/18 £m
	Revenue grants	
(1.097)	Education and skills funding agencies	(0.898)
(0.050)	Other grants	(0.165)
(1.147)	**Total**	**(1.063)**
	Capital grants	
(0.509)	Department for Education schools	(2.145)
(1.478)	Other grants and contributions	(1.713)
(1.987)	**Total**	**(3.858)**

Section 4 – Notes to the Core Financial Statements

Note 32. Capital Expenditure and Capital Financing

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

2016/17 £m		2017/18 £m
710.201	**Opening capital financing requirement (CFR)**	**736.111**
	Capital investment	
52.832	Additions to property, plant and equipment	48.929
0.185	Adjustments for assets held under PFI and finance leases	11.515
9.498	Loans treated as capital expenditure	5.327
0.568	Additions to other long term assets and assets held for sale or disposal	0.642
(0.979)	Revenue expenditure funded from capital under statute	9.717
0.006	Other movements	0.003
62.110	**Total capital investment**	**76.133**
	Sources of finance	
(4.769)	Capital receipts	(3.197)
(13.939)	Government grants and other contributions	(15.357)
(10.901)	Major repairs reserve	(17.311)
	Sums set aside from revenue	
(0.778)	Direct revenue contributions	(0.307)
(2.479)	Sums set aside from revenue	(8.081)
(2.726)	PFI and finance lease repayments	(3.752)
(0.032)	Capital receipts in lieu of debt set aside	(2.141)
(0.576)	Depreciation, impairment and revaluation loss of HRA non dwellings	-
(36.200)	**Total finance and debt set aside**	**(50.146)**
25.910	**Movement in CFR**	**25.987**
736.111	**Closing CFR**	**762.098**
	Explanation of movement in year	
(5.134)	Decrease in underlying need to borrow (supported by Government financial assistance)	(4.891)
31.044	Increase in underlying need to borrow (unsupported by Government financial assistance)	30.878
25.910	**Increase in CFR**	**25.987**

Loans treated as Capital Expenditure

The Council has loaned monies to South Tyneside Housing Ventures Trust Limited during the year. This funded the acquisition of land and the construction of new build properties at River Drive, College Mews, the Lakes Estate, Salcombe Avenue and Trinity South as well as the purchase of a number of empty properties.

Revenue Expenditure Funded from Capital under Statute

Certain expenditure incurred by local authorities does not fall within the Code of Practice definition of assets but is classified as expenditure for capital purposes with respect to capital controls. The charges primarily relate to expenditure on third party assets, for example the international advanced manufacturing park, town centre regeneration and housing grants.

Section 4 – Notes to the Core Financial Statements

Significant Items of Capital Additions

The most significant capital additions during the year are shown in the following table:

	£m
Highways infrastructure and footpaths	11.184
Decent homes	9.970
South Shields 365	9.218
International advanced manufacturing park	7.050
Asset maintenance	6.989
Other housing	6.431
Holborn riverside development	3.559
Social care works	2.252
IT development	1.223
Schools and education	1.052
Flood alleviation	0.986

Note 33. Leases

Council as Lessee - Finance Leases

The Council holds the lease of Cleadon Park facility which commenced in July 2010 and is 8 years into a 24 year lease. The main use of this facility by the Council is as a library and community centre.

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

31st March 2017 £m		31st March 2018 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.047	- current	0.052
1.944	- non-current	1.892
2.338	Finance costs payable in future years	2.130
4.329	**Minimum lease payments**	**4.074**

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

	Finance lease liabilities		Minimum lease payments	
	31st March 2017 £m	31st March 2018 £m	31st March 2017 £m	31st March 2018 £m
Not later than one year	0.047	0.052	0.255	0.255
Later than one year and not later than five years	0.244	0.269	1.019	1.018
Later than five years	1.700	1.623	3.055	2.801
	1.991	**1.944**	**4.329**	**4.074**

The Council has sub-let part of the space at Cleadon Park to a private nursery.

Council as Lessee - Operating Leases

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

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

31st March 2017 £m		31st March 2018 £m
0.126	Not later than one year	0.111
0.052	Later than one year and not later than five years	0.052
0.170	Later than five years	0.160
0.348		**0.323**

Council as Lessor - Operating Leases

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

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

31st March 2017 £m		31st March 2018 £m
4.213	Not later than one year	4.527
7.899	Later than one year and not later than five years	8.385
17.690	Later than five years	17.135
29.802		**30.047**

Note 34. Related Parties

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

Central Government has effective control over the general operations of the Council, as it is responsible for setting the statutory framework within which the Council operates and for providing the majority of funding. The Council applied £286.789m (£290.123m in 2016/17) in support of its revenue spending as detailed in note 31.

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

- One member is the Chair of the International Advanced Manufacturing Park LLP and one member is the Chair of South Tyneside Homes Board.
- There are eleven members who Chair a school Governing Body (11 in 2016/17). All of these schools receive allocations as part of the individual schools budget funded by Dedicated Schools Grant.
- One member is a Managing Director of a training company which delivered services to South Tyneside Council and South Tyneside Homes receiving net income of £0.025m.

- The Finance Director is a director of Inspired Spaces Stag (Project Co1) Limited and Inspired Spaces Stag (Project Co2) Limited. The directorship is delivered from the Council's shareholding in these companies. The companies received contractual payments from the Council of £7.714m (£7.467m in 2016/17) in respect of construction and facilities management costs of Jarrow and South Shields Schools which were funded through a PFI arrangement.

The transactions included in this disclosure were made with proper consideration of declarations of interest.

There have been no other related party transactions with either Elected Members or Chief Officers other than remuneration for the performance of their duties as detailed in notes 27 and 28 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.631m (£0.548m in 2016/17) in respect of support services provided. Additional support services of £0.319m (£0.376m in 2016/17) were charged in respect of services delivered by BTSTL and £2.657m (£2.324m in 2016/17) recovered in respect of pay costs for pensions staff, associated overheads and other costs. The Council also paid to the Fund £0.061m (£0.059m in 2016/17) in respect of treasury management duties.

The Leader of the Council serves as a member of the North East Combined Authority (NECA) leadership board alongside the six other constituent authorities. During the year the Council paid grants and other sums totalling £0.191m (£0.099m in 2016/17) to the organisation, together with a transport levy of £8.352m (£8.658m in 2016/17) (see note 8). It also recovered £0.030m (£0.019m in 2016/17) for services provided and received funding of £5.776m (£2.868m in 2016/17) towards capital and revenue projects.

The Council administers the accounts for NALAHCL on behalf of the LA7 and NIAL and charged £0.075m (£0.120m in 2016/17) in relation to officer time and expenses. The Council received £0.673m income from interest on loan notes with the airport (£0.673m in 2016/17) and £0.723m in dividends (£2.199m in 2016/17) and paid nil (£0.020m in 2016/17) towards the expenses incurred by the Company.

South Tyneside Homes Limited buys services back from the Council and was charged £1.881m (£1.739m in 2016/17) in respect of support services provided. Other support services are delivered through a separate service level agreement with BTSTL. A further £5.201m (£5.110m in 2016/17) was recovered in respect of services such as waste disposal, fleet maintenance and profit sharing arrangements. The Council paid a management fee of £15.996m (£13.922m in 2016/17) and a further £25.714m (£27.684m in 2016/17) primarily for the provision of housing repairs, construction services and programme management.

Most community associations were passed over to the voluntary sector during 2017/18 meaning they are no longer under Council control. Any remaining control is no longer material to the accounts.

The Council entered a strategic partnership with BTSTL on 1st October 2008 to deliver "back office" services to the Council, South Tyneside Homes Limited and the Tyne and Wear Pension Fund. The Council paid a unitary charge fee of £9.723m (£9.641m in 2016/17) to BTSTL for the provision of the transferred services. The Council also paid £12.192m (£7.108m in 2016/17) in respect of novated contracts, primarily for the procurement of decent homes.

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InspiredSpaces STaG Limited is the private sector partner delivering our schools PFI contracts. The Council owns shares to the value of £0.002m (£0.002m in 2016/17) in the various companies established to run the contracts. The Council also has 25,000 deferred shares in South Tyneside Credit Union Limited (operating as First for Money Credit Union). The credit union exists for individuals living or working within the geographical boundaries of South Tyneside and Sunderland City Councils to have access to affordable loan and banking arrangements. The Council received £0.023m (£0.035m as restated in 2016/17) in dividends as a result of these shareholdings.

South Tyneside Housing Ventures Trust Limited (STHVTL) was created as a private, limited by guarantee, no share capital company on 26th July 2013. STHVTL provides social housing to residents thereby increasing the number of available affordable homes in the borough. The Council has three nominated representatives on the board of this company and has incorporated it as an associate within the Group Accounts. The Council has agreed to a £40.000m loan arrangement with STHVTL to allow them to create and develop their housing stock. These loans are repayable over a maximum of 49 years and no later than 31st March 2063. During the year additional loans and advances of £5.350m (£9.638m in 2016/17) were made and £0.163m (£0.197m in 2016/17) principal repaid. A further £1.025m was recovered from the company primarily in relation to interest on the loans.

In partnership with Sunderland Council a limited liability partnership, IAMP LLP, was incorporated in England and Wales on 11th July 2016 in order to develop an international advanced manufacturing park which is located in both boroughs. The purpose of the company is to take land and funds from the Councils and be governed by a board of six council representatives (three from each authority). IAMP LLP will enter into a development agreement with a “partner” to deliver the development. The Company is part funded by the Government with the two councils each taking a 50% share of any other funding required and any assets or liabilities held. Any loans given to the company are secured against the land being purchased.

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

31st March 2017 £m	Amount due to the Council	31st March 2018 £m
3.914	Central Government	4.829
1.060	Tyne and Wear Pension Fund	15.849
7.815	NIAL	9.266
4.928	South Tyneside Homes Limited	2.123
0.192	Community associations	-
0.237	InspiredSpaces STaG Limited	0.238
2.999	North East Combined Authority	1.036
-	IAMP LLP	2.820
24.968	South Tyneside Housing Ventures Trust Limited	30.679
46.113	**Total**	**66.840**

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

31st March 2017 £m	Amount due from the Council	31st March 2018 £m
(5.738)	Central Government	(5.962)
(2.986)	Tyne and Wear Pension Fund	(2.992)
(2.225)	South Tyneside Homes Limited	(2.463)
(0.014)	Community associations	-
(0.037)	North East Combined Authority	-
(0.050)	South Tyneside Housing Ventures Trust Limited	(0.087)
(11.050)	**Total**	**(11.504)**

Note 35. Impairment Losses

The Code requires disclosure by class of assets the impairment losses and impairment reversals charged to the deficit on the provision of services. These disclosures are consolidated in note 11 which reconciles the movement over the year in property, plant and equipment.

During 2017/18 there were a higher number of planned property demolitions in relation to the new transport interchange and the development of Martin Hall and Nolan Hall sites for new housing.

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

2016/17 £m		2017/18 £m
0.224	Children and families social care	-
0.458	Adult social care	0.553
0.060	Education, learning and skills	0.097
1.221	Asset management and design	3.228
0.961	Other economic regeneration services	-
-	Finance	0.021
-	Leisure, libraries and community facilities	0.212
5.551	Local authority housing (HRA)	6.397
8.475	**Cost of services**	**10.508**

Note 36. 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 2018, the actuary assessed the deficit at £36.330m (£34.550m in 2016/17). In the unlikely event that South Tyneside Homes Limited were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council’s guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

20 NHS Foundation Trusts have begun a legal action against 49 local authorities with regards to claiming 80% charitable rate relief on business rates. The Council is not one of the defendants in the case however, if successful, the ruling would apply to trust premises within the borough. The Council refutes the claim that charitable status applies in this instance and the Local Government Association is backing the defence. As legal proceedings are still at an early stage, with an initial hearing held on 12th April 2018, no liability has been reflected in the Balance Sheet. Should the case be successful the Council has estimated a liability in the region of £5.000m of which approximately £2.000m would fall as a cost to the Council with the remainder falling on the Government and preceptors.

Note 37. Contingent Assets

The Council submitted voluntary disclosures to HMRC for £1.488m in relation to a claim for overpaid VAT on the basis that the provision of sport and leisure services by the Council is a non-business activity and outside the scope of VAT, as opposed to being standard rated. HMRC formally rejected these claims and confirmed that they are prepared to test the issues surrounding a special legal regime for leisure services at the Tribunal. The Council has submitted an appeal in relation to the rejection of the claims and awaits the outcome of ongoing litigation although the Council is not one of the appellants. In a separate case the Court of Justice of the European Union ruled in December 2017 that sport and leisure services were exempt of VAT under EU law or standard rated under UK law. This outcome is not beneficial to the Council and we continue to pursue the argument that the activity should be non-business for VAT purposes. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

Litigation by the Council and others in respect of the VAT treatment of off street car parking, with the Council arguing that such supplies should be outside the scope of VAT as a non-business activity was concluded in December 2015 in favour of HMRC. One of the questions posed by the original litigation was whether the overpayment of parking tariff, when the customer received no additional parking time, was consideration for a supply. This question was addressed in another legal case which dealt specifically with this issue where the decision went against HMRC. The Council has therefore employed consultants to submit a claim to be stayed behind ongoing litigation around whether the voluntary disclosure made in the original case includes overpaid parking fees where VAT can be recovered. This litigation allows the Council to potentially reclaim back to the commencement of the original litigation rather than capped at four years as would apply under current legislation. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

Note 38. Financial Instruments Risks

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

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

A copy of the Treasury Management Strategy can be found on the agenda for the Borough Council meeting held on 23rd February 2017 which can be accessed via the following link:

Borough Council | Committee meeting - 23 February 2017 | South Tyneside

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

Credit risks	-	The possibility that other parties might fail to pay amounts due to the Council.
Liquidity risks	-	The possibility that the Council might not have the funds available to meet its commitments to make payments.
Market risks	-	The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Link Asset Services) and to restrict lending to a prudent maximum amount for each institution.

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

As at 31st March 2018 the Council limited direct deposits with institutions to a maximum of £25.000m (£25.000m in 2016/17) for those institutions which are part owned by the UK Government and £15.000m (£15.000m in 2016/17) for all other institutions on the council lending list. In addition a £15.000m (£15.000m in 2016/17) limit was applied to investments made into AAA rated money market funds.

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

The analysis on the next page summarises the Council's potential maximum exposure to credit risk from:

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

- Customers and other debtors based on historical experience.

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

Credit risk of financial assets	Amount at 31st March 2018 £m	Historical experience adjusted for market conditions at 31st March 2018 %	Estimated maximum exposure to default and uncollectablility 31st March 2018 £m	Estimated maximum exposure to default and uncollectablility 31st March 2017 £m
	A	B	A x B	
Customers	16.779	2%	0.336	0.512
Government debtors	3.003	0%	-	-
Other debtors	3.282	0%	-	-
Total	**23.064**		**0.336**	**0.512**

Impairment

The Council has impaired its financial assets by a total of £0.427m during the year (£1.063m in 2016/17) and this impairment is included in the reported financial asset figures.

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

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

Collateral

For financial assets in relation to residential care fees of £0.961m (£1.046m in 2016/17) there is a charge against clients' property which acts as collateral against the debt. The loan facility agreed with STHVTL allows for the Council to take back property assets from the company in the event of any default in repayment of the loans made. The loan notes for IAMP LLP are secured against the land purchased.

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

31st March 2017 £m	Credit risk of past due financial assets	31st March 2018 £m
6.544	Less than three months	6.064
0.873	Three to six months	0.869
0.642	Six months to one year	0.689
2.845	More than one year	2.946
10.904	**Total**	**10.568**

Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board (PWLB). There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council policy limits the use of market debt to 40% (40% in 2016/17) of the overall debt portfolio. The Council has set limits to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

The Council's policy is to ensure that no more than 40% (40% in 2016/17) of loans are due to mature within any financial year and 75% (75% in 2016/17) 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 all financial liabilities, including borrowing, is as follows:

31st March 2017 £m	Liabilities outstanding	31st March 2018 £m
(571.627)	Public Works Loans Board	(590.506)
(10.231)	Market debt	(9.314)
(2.000)	Other local authorities	(5.000)
(406.356)	PFI liabilities	(386.283)
(18.989)	Creditors	(21.663)
(4.329)	Finance lease liabilities	(4.074)
(1,013.532)	**Total**	**(1,016.840)**
(66.030)	Less than one year	(75.880)
(36.411)	Between one and two years	(46.622)
(132.254)	Between two and five years	(118.286)
(159.762)	Between five and ten years	(158.704)
(619.075)	More than ten years	(617.348)
(1,013.532)	**Total**	**(1,016.840)**

Market Risk

Interest rate risk

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

The current interest rate risk for the Council is summarised as follows:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income.

- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense.

- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the Balance Sheet for those assets held at fair value.

- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the Balance Sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

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

The Council has a number of strategies for managing interest rate risk. Our treasury management policy sets a maximum of 35% (35% in 2016/17) of borrowings in variable rate loans to reduce risk from variable rates. In assessing this rate the Council looks at what it already has on variable rate terms, what the borrowing requirement is each year (as this could potentially be taken on variable rate terms) and what may be a reasonable amount of debt which may be converted from fixed to variable. After making this assessment it was considered prudent to reduce the maximum level of debt on variable rate terms. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher costs.

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

According to this assessment strategy, at 31st March 2018, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the following table:

2016/17		**2017/18**
£m	**Interest rate risk**	**£m**
0.150	Increase in interest payable on variable rate borrowings	0.140
(1.809)	Increase in interest receivable on variable rate investments	(0.430)
(1.659)	**Impact on Comprehensive Income and Expenditure Statement**	**(0.290)**
(0.170)	**Share of overall impact on the HRA Income and Expenditure Statement**	**(0.169)**
(0.656)	Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement)	-
(107.071)	Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement)	(111.952)

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

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £8.794m in Newcastle Airport (£8.794m in 2016/17). The Council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Therefore to eliminate any risk the Council has set aside the full book value of the shares in the available-for-sale reserve.

Note 39. Trust Funds

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

2017/18	1st April 2017	Amount received during year	Amount applied during year	31st March 2018	Government stock investments	Invested in Council Funds
	£m	£m	£m	£m	£m	£m
Westoe trust	(0.359)	(0.001)	0.003	(0.357)	-	0.357
Marine park trust	(0.177)	(0.001)	-	(0.178)	-	0.178
Other trust funds	(0.152)	(0.009)	0.008	(0.153)	0.021	0.132
Total balances	**(0.688)**	**(0.011)**	**0.011**	**(0.688)**	**0.021**	**0.667**

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

The equivalent movements for the previous year are as follows:

2016/17	1st April 2016	Amount received during year	Amount applied during year	31st March 2017	Government stock investments	Invested in Council Funds
	£m	£m	£m	£m	£m	£m
Westoe trust	(0.356)	(0.005)	0.002	(0.359)	-	0.359
Marine park trust	(0.176)	(0.001)	-	(0.177)	-	0.177
Other trust funds	(0.147)	(0.014)	0.010	(0.152)	0.021	0.131
Total balances	**(0.679)**	**(0.020)**	**0.012**	**(0.688)**	**0.021**	**0.667**

Note 40. Pension Schemes Accounted for as Defined Contribution

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

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

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

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

During the year, the Council paid £5.769m to the Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 16.5% of pensionable pay (£6.207m and 16.5% respectively in 2016/17). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.725m (£0.814m in 2016/17).

During the year, the Council paid £0.020m to NHS Pensions in respect of public health employees' retirement benefits, representing 14.4% of pensionable pay (£0.056m and 14.3% in 2016/17). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.002m (£0.008m in 2016/17).

The Council expects to pay out in the region of £5.800m in the year ending 31st March 2019 in respect of these two pension schemes. Information is not available to allow the Council to determine its level of liability in either of these schemes but this is estimated to be minimal as they are national schemes.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of these schemes. These costs are accounted for on a defined benefit basis and detailed in note 41.

Note 41. Defined Benefit Pension Schemes

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

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme (LGPS), the Tyne and Wear Pension Fund (the Fund), administered locally by South Tyneside Council. This is a funded defined benefit plan with benefits earned up to 31st March 2014 being linked to final salary. Benefits after 31st March 2014 are based on a career average revalued earnings scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 which cover pension earned from 1st April 2014.

- Arrangements for the award of discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pensions payments as they eventually fall due.

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

During the year, the Council made direct payments to the Fund in respect of early retirements (known as “strain on the fund”) payable over the next three years. Early retirements result in reduced pension contributions payable to the Fund and earlier payments of benefits. The sum to be paid by the Council in the year was estimated by the actuary to be £0.560m (£0.367m in 2016/17).

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year so that the real cost of post-employment retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. However whilst there is no direct cost to the council taxpayer in these accounts, increased contributions will be required over the remaining working life of employees, as assessed by the scheme actuary.

The Fund follows a robust risk management process which can be found in note 13 of the Tyne and Wear Pension Fund Accounts (page 147). Assets are not concentrated in any one area and are liquid such that the costs of any large payment can be accommodated. There were no settlements or curtailments during the year.

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

Introduction

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

The Employer’s regular contributions to the Fund for the year ending 31st March 2019 are estimated at £11.690m. In addition, strain on the fund contributions may be required.

The main financial assumptions adopted as at 31st March 2018

The latest actuarial valuation of the Council’s liabilities took place as at 31st March 2016. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were:

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31st March 2017 % per annum		31st March 2018 % per annum
2.60	Discount rate	2.60
2.00	Inflation rate (consumer price index)	2.10
2.00	Rate of increase to pensions in payment	2.10
2.00	Rate of increase to deferred pensions	2.10
2.00	Pension accounts revaluation rate	2.10
3.50	Rate of general increase in salaries	3.60

The main demographic assumptions adopted as at 31st March 2018

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

31st March 2017	Post retirement mortality	31st March 2018
	Males	
22.8	Future lifetime from age 65 (currently aged 65)	22.9
25.0	Future lifetime from age 65 (currently aged 45)	25.1
	Females	
26.3	Future lifetime from age 65 (currently aged 65)	26.4
28.6	Future lifetime from age 65 (currently aged 45)	28.7
Each member was assumed to exchange 20% of the maximum amount permitted of their pre April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post March 2010 pension entitlements, for additional lump sum.	**Commutation**	Each member was assumed to exchange 20% of the maximum amount permitted of their pre April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post March 2010 pension entitlements, for additional lump sum.

Further detail on mortality assumptions can be found in note 25 of the Tyne and Wear Pension Fund Statements (page 163).

Sensitivity Analysis

The results disclosed in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31st March 2018 is set out on the next page.

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

Section 4 – Notes to the Core Financial Statements

Impact on present value of obligation liability	+0.1% per annum £m	Change	-0.1% per annum £m	Change
Adjustment to discount rate	(1,033.970)	-1.9%	(1,073.990)	1.9%
Adjustment to salary increase rate	(1,058.420)	0.4%	(1,049.210)	-0.4%
Adjustment to pension increase rate	(1,069.320)	1.5%	(1,038.510)	-1.4%
	- 1 Year		**+ 1 Year**	
Adjustment to mortality age rating assumption	(1,084.890)	3.0%	(1,022.880)	-2.9%

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

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

Impact on projected service cost	+0.1% per annum £m	Change	-0.1% per annum £m	Change
Adjustment to discount rate	21.210	-3.0%	22.560	3.1%
Adjustment to salary increase rate	21.880	0.0%	21.880	0.0%
Adjustment to pension increase rate	22.560	3.1%	21.210	-3.0%
	- 1 Year		**+ 1 Year**	
Adjustment to mortality age rating assumption	22.660	3.6%	21.100	-3.5%

Asset Allocation

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

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

Asset split at 31st March 2016	Asset split at 31st March 2017		Asset split at 31st March 2018		
			Quoted	**Unquoted**	**Total**
66.1%	66.9%	Equities	60.7%	6.3%	67.0%
10.4%	9.2%	Property	-	8.5%	8.5%
3.7%	3.9%	Government bonds	4.0%	-	4.0%
11.6%	11.5%	Corporate bonds	11.7%	-	11.7%
2.6%	2.6%	Cash	3.7%	-	3.7%
5.6%	5.9%	Other investments	3.5%	1.6%	5.1%
100.0%	**100.0%**	**Total**	**83.6%**	**16.4%**	**100.0%**

Section 4 – Notes to the Core Financial Statements

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

The duration of the defined benefit obligation liability is 19.0 years (19.0 years in 2016/17). The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

Active members	34%
Deferred pensioners	16%
Pensioners	50%

Were an employer to leave the Fund a terminal valuation would be calculated and any liabilities outstanding requested from the employer. Were these liabilities not to be paid then the remaining employers of the Fund, including the Council, would absorb the cost. If a Council was to leave the Fund the Government would delegate the liability to the replacement council or if there is no replacement council to the other councils remaining in the Fund.

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

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

For the year ending 31st March 2019 the Council expects to pay £2.160m directly to beneficiaries.

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

The main financial and demographic assumptions adopted as at 31st March 2018

The principal financial and demographic assumptions for unfunded are the same as for funded except that the last full actuarial valuation took place on 31st March 2011.

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

The following table reconciles the liabilities to the Balance Sheet:

31st March 2017 Funded £m	31st March 2017 Unfunded £m		31st March 2018 Funded £m	31st March 2018 Unfunded £m
695.170	-	Fair value of assets	726.580	-
(1,010.210)	(29.650)	Present value of funded defined benefit obligation	(1,053.790)	(28.880)
(315.040)	**(29.650)**	**Liability recognised on the Balance Sheet**	**(327.210)**	**(28.880)**

Section 4 – Notes to the Core Financial Statements

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

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

2016/17 Funded £m	2016/17 Unfunded £m		2017/18 Funded £m	2017/18 Unfunded £m
		Operating cost		
15.840	-	Current service cost	20.520	-
0.910	-	Past service cost	0.570	-
		Financing cost		
8.600	0.900	Interest on net defined benefit obligation	7.410	0.740
-	0.944	Strain on fund deferred payment	-	1.059
25.350	**1.844**	**Pension expense recognised**	**28.500**	**1.799**
		Remeasurements in other comprehensive income and expenditure		
(95.500)	-	Return on plan assets in excess of that recognised in net interest	(7.320)	-
180.050	3.180	Actuarial losses due to change in financial assumptions	17.990	0.310
1.980	0.280	Actuarial losses due to change in demographic assumptions	-	-
(39.830)	(0.220)	Actuarial (gains) or losses due to liability experience	7.460	0.280
46.700	**3.240**	**Total amount recognised in other comprehensive income and expenditure**	**18.130**	**0.590**
72.050	**5.084**	**Total amount recognised**	**46.630**	**2.389**

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

2016/17 Funded £m	2016/17 Unfunded £m		2017/18 Funded £m	2017/18 Unfunded £m
(847.070)	**(27.710)**	**Opening defined benefit liability**	**(1,010.210)**	**(29.650)**
(15.840)	-	Current service cost	(20.520)	-
(28.400)	(0.900)	Interest expense on defined benefit liability	(25.900)	(0.740)
(4.130)	-	Contributions by participants	(4.330)	-
(180.050)	(3.180)	Actuarial losses on liabilities - financial assumptions	(17.990)	(0.310)
(1.980)	(0.280)	Actuarial losses on liabilities - demographic assumptions	-	-
39.830	0.220	Actuarial gains on liabilities - experience	(7.460)	(0.280)
28.340	2.200	Net benefits paid out	29.830	2.100
(0.910)	-	Past service cost	(0.570)	-
-	-	Net decrease in liabilities from disposals	3.360	-
(1,010.210)	**(29.650)**	**Closing defined benefit liability**	**(1,053.790)**	**(28.880)**

Changes to the fair value of assets during the accounting year

2016/17 Funded £m	2016/17 Unfunded £m		2017/18 Funded £m	2017/18 Unfunded £m
584.720	**-**	**Opening fair value of assets**	**695.170**	**-**
19.800	-	Interest income on assets	18.490	-
95.500	-	Remeasurement gains on assets	7.320	-
19.360	2.200	Contributions by the employer	34.460	2.100
4.130	-	Contributions by participants	4.330	-
(28.340)	(2.200)	Net benefits paid out	(29.830)	(2.100)
-	-	Net decrease in assets from disposals	(3.360)	-
695.170	**-**	**Closing fair value of assets**	**726.580**	**-**

Actual return on assets

2016/17 Funded £m		2017/18 Funded £m
19.800	Interest income on assets	18.490
95.500	Remeasurement gains on assets	7.320
115.300	**Actual return on assets**	**25.810**

Note 42. Accounting Standards Issued not yet Adopted

IFRS9 introduces changes to the recognition and accounting for financial instrument assets with effect from 1st April 2018. The main impact will see all assets currently held as available-for-sale financial instruments being reclassified.

The Council currently recognises £8.821m on its Balance Sheet in respect of assets falling under this category. As none of these assets give rise to repayments of principal on specified dates they will be reclassified as assets with fair value through profit and loss under IFRS9. As a result the Council will no longer be able to hold an available-for-sale reserve and so this balance of £8.794m would be released into the Comprehensive Income and Expenditure Statement as a credit to the financing and investment income and expenditure line. The Council would then also have to consider whether any of these assets need to be revalued with any gain or loss on revaluation also being taken to this line. It is not known at this time the potential financial impact of any revaluation. It is also not known whether there will be any statutory override that will mitigate the impact of any entries to the Comprehensive Income and Expenditure Statement such that there is no impact on housing rents or local taxation. Without any statutory override the Council would expect to retain most, if not all, of any balance in order to mitigate any future losses in the fair value of these assets.

IFRS15 introduces new requirements from 1st April 2018 regarding the recognition and reporting of revenues in the financial year. Revenues exclude income from Government grants and taxation sources and so represent about a third of all income received by the Council.

The major change which will be implemented by IFRS15 is that for each contractual arrangement, all performance obligations need to be identified and revenues split according to those obligations and then only recognised in the year that those obligations are delivered. The Council revenues come from a wide variety of contracts, the majority of which are simple in nature. The major source of revenues arises from property rentals (including dwelling rents) where the obligation is simply to provide premises for a contracted period of time. As the Council already only recognises the income for periods falling within the financial year this is compliant with IFRS15 principles.

Whilst all revenues contracts have not been reviewed at this time the Council expects that there will be nothing materially impacted by IFRS15 and no changes will be required in the 2018/19 accounts.

Note 43. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31st March 2018. The Council is required by the Accounts and Audit (England) Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') supported by International Financial Reporting Standards (IFRS). The accounting policies as set out in this note have been applied consistently.

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

2. Accruals of Income and Expenditure

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

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

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

- **Housing Rents** – the Council operates a 48-week rent year for Council house rents. However, given that 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. 2017/18 was a 48-week rent year. The average weekly rent receipt for the year was £1.205m over 52 weeks (£1.233m in 2016/17).

3. Cash and Cash Equivalents

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

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

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

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

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

5. Charges to Revenue for Non-Current Assets

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

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

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

- Debt which was subject to support from the Government via Revenue Support Grant is annuitised over 50 years.
- Repay unsupported borrowing in line with the estimated useful life of the additional asset.
- Repay unsupported borrowing over 20 years where an estimated useful life cannot be established i.e. revenue expenditure funded from capital under statute.
- Repay PFI and finance lease liabilities in line with the remaining useful life of the asset acquired under the PFI contract.
- Defer repayment until assets under construction are brought into use.
- Utilise loan repayments in lieu of making charges to revenue in the case of loans to STHVTL.

- Consider any other factors that allow for a prudent debt set aside.
- Review these factors on an annual basis to ensure any set aside continues to be prudent.

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

For the HRA there is no set aside in respect of debt. Depreciation on all HRA assets is charged to the Comprehensive Income and Expenditure Statement and is met from housing rents.

6. Employee Benefits

6a) Benefits Payable during Employment

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

6b) Termination Benefits

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

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

6c) Post-Employment Benefits

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

- The Teachers’ Pension Scheme, administered by Teachers’ Pensions on behalf of the Department for Education.
- The National Health Service (NHS) Pension Scheme, administered by NHS Pensions on behalf of the Department of Health.

- The Local Government Pensions Scheme, administered by the Council on behalf of admitted and scheduled bodies in the Tyne and Wear area.

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

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

6d) The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the current rate of return on high quality corporate bonds of equivalent term and currency to the liabilities).
- The assets of Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

- The change in the defined benefit obligation is analysed as follows:

Service cost comprising:

- *Current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- *Past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the finance service line.
- *Net interest on the defined benefit liability* – i.e. net interest expense for the Council being the change during the period in the net defined benefit obligation that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the

defined benefit obligation at the beginning of the period – taking into account any changes in the net defined benefit obligation during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- *The return on plan assets* – excluding amounts included in net interest on the defined benefit obligation – charged to the pensions reserve as other comprehensive income and expenditure.
- *Actuarial gains and losses* –changes in the defined benefit obligation that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure.

Contributions paid to the Tyne and Wear Pension Fund

- Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. This includes cash paid by our strategic partner BT South Tyneside Limited on behalf of staff transferring to that organisation.

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

6e) Discretionary Benefits

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

7. Events after the Reporting Period

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

- Those that provide evidence of conditions that existed at the end of the reporting period. The Statement of Accounts is adjusted to reflect such events.

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

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

8. Financial instruments

8a) Valuation

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

- *Fair Value* - defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the instrument or, in the absence of such a market, the most advantageous market for the instrument.

- *Amortised Cost* - most financial instruments are valued at "amortised cost" using the effective interest rate method.

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

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

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

8b) Financial Liabilities

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

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

- For PWLB debt, the discount rate is the premature repayment rate.
- For market debt and deposits with banks and other financial institutions the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- The Council has used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- The Council has calculated fair values for all instruments in the portfolio, but only disclosed those that are materially different from the carrying value.
- The fair value of creditors is taken to be the invoiced or billed amount.

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

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

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

8c) Financial Assets

Financial assets are classified into two types:

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

8d) Loans and Receivables

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

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

Where loans have been made at less than market rates (soft loans) a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and

Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

8e) Available-for-Sale Assets

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

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

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

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

9. Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as short term creditors or capital grants received in advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and capital grants) in the Comprehensive Income and Expenditure Statement.

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

10. Intangible Assets

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

Minimal expenditure on the development of the Council’s website has been capitalised as it is primarily intended to promote or advertise the Council’s goods or services.

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

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on balances. The gains and losses are therefore reversed out of balances in the Movement in Reserves Statement and posted to the capital adjustment account and (for any sale proceeds greater than £0.010m) the capital receipts reserve.

11. Heritage Assets

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

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

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

11a) Art Collection

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

11b) Archaeology and other Artefacts

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

11c) Statues and Sculptures

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

11d) Civic Regalia

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

12. Interests in Companies and Other Entities

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

Intra Group Transactions

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

Charges to Income and Expenditure for Non-Current Assets

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

Actuarial Assumptions on Defined Benefit Obligation

Actuarial assumptions used for the group entities can differ from those used for the Council and are prepared under FRS102 principles rather than IAS19.

13. Inventories

Inventories, where material, are included in the Balance Sheet at the lower of cost and net realisable value. The Council operates a home loan equipment centre that provides disabled aids to the community. As the items are recyclable it is possible, due to technological advances and better procurement techniques, that the replacement cost becomes less than their original purchase value. However for administrative purposes the Council has decided to retain cost value as the measurement for this inventory and has estimated that this may have overstated its value by up to £0.050m.

14. Investment Property

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

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

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

15. Joint Operations

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

16. Leases

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

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

16a) The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

Operating Leases

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

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

17. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Councils arrangements for accountability and financial performance. In most cases the segment lines as reported do not include any apportionment of overheads.

18. Property, Plant and Equipment

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

18a) Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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

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

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

18b) Measurement and Revaluation

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

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

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

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

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

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

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

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

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

18c) Impairment

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

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

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

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

18d) Depreciation

Depreciation is provided for on all property, plant and equipment assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain community assets) and assets that are not yet available for use (i.e. assets under construction). Deprecation is calculated on the following bases:

- ***Dwellings and other buildings*** – straight-line allocation over the remaining useful life of the property as estimated by the valuer. The remaining useful life of dwellings and other buildings is between nil and 72 years.
- ***Vehicles, plant, furniture and equipment*** - straight-line allocation up to 20 years being the estimated remaining useful economic life.
- ***Community Assets*** – straight-line allocation over 11 to 41 years.
- ***Infrastructure*** – straight-line allocation over 25 years (sea defences, open spaces and flood works between 32 and 95 years).
- ***Surplus assets*** – follow the same depreciation policy as the asset in its former use.

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

- General Fund assets – components are recognised when the property is revalued. If the capital expenditure on a component in the year reaches £75,000, components are recognised at this point. If the spend is below £75,000 and no components exist on this asset, it is added to the value of the structure.

- Council dwellings – where expenditure on the components is less than £9,300 and no components exist on this asset, this spend is added to the structure. Where the expenditure is over £9,300 components are recognised at cost value. The maximum value of components is limited to £18,600.

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

18e) Disposals of Non-current Assets

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction (but sometimes through an asset transfer) rather than through its continuing use, it is reclassified as an asset held for sale or disposal. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the deficit on provision of services. Depreciation is not charged on assets held for sale or disposal.

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

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

Amounts received for a disposal in excess of £0.010m are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. For right to buy sales of dwellings this equates to approximately 30% net of statutory deductions and allowances; however this is subject to a Government share cap. 100% of all receipts in excess of this cap may be retained by the Council provided they are used to part fund the provision of new social housing. 100% of housing land sale income, net of statutory deductions and allowances, can be retained by the Council provided there is an equivalent amount of expenditure on affordable housing or regeneration. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

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

19. Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

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

20. Carbon Reduction Scheme

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

21. Provisions, Contingent Liabilities and Contingent Assets

21a) Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

21b) Contingent Liabilities

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

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

21c) Contingent Assets

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

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

22. Reserves

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

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

23. Revenue Expenditure Funded from Capital under Statute

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

24. Accounting for Schools

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

25. VAT

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

2016/17 £m		Note	2017/18 £m
	Expenditure		
15.066	Repairs and maintenance		14.736
18.318	Supervision and management		16.140
2.560	Rents, rates, taxes and other charges		3.320
16.302	Depreciation of non-current assets	6	17.315
(36.296)	Revaluation gains and impairments on property, plant and equipment	6	(28.589)
0.018	Debt management costs	2	0.045
0.506	Movement in the allowance for bad debts		0.458
0.989	Sums directed by the Secretary of State that are expenditure in accordance with the Code	2	0.829
17.463	**Total expenditure**		**24.254**
	Income		
(64.091)	Dwelling rents		(62.683)
(0.985)	Non-dwelling rents		(1.121)
(3.223)	Charges for services and facilities		(2.558)
(1.182)	Contributions towards expenditure		(1.213)
(69.481)	**Total income**		**(67.575)**
(52.018)	**Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**(43.321)**
0.099	HRA services' share of corporate and democratic core		0.101
1.115	HRA share of other amounts included in the Council's cost of services but not allocated to specific services		1.852
(50.804)	**Net expenditure for HRA services**		**(41.368)**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
1.006	Loss on sale of HRA current and non-current assets		1.200
11.916	Interest and investment expenditure	2	11.665
(0.116)	Interest and investment income	2	(0.064)
(0.030)	Capital grants and contributions		(0.173)
(38.028)	**Surplus for the year on HRA services**		**(28.740)**
34.904	Adjustments between accounting basis and funding basis under statute	1	27.408
(3.124)	**Increase in year on the HRA**		**(1.332)**
(17.317)	**Balance on the HRA at the end of the previous year**		**(20.441)**
(20.441)	**Balance on the HRA at the end of the current year**		**(21.773)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

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

2016/17 £m		2017/18 £m
	Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year	
(5.551)	Impairment of non-current assets	(6.397)
41.866	Revaluation gains on property, plant and equipment	34.986
(15.745)	Depreciation of non-current assets	(17.315)
0.030	Capital grants applied	0.173
(0.512)	Revenue expenditure funded from capital under statute	(0.240)
(0.061)	Difference between amounts charged to the HRA Income and Expenditure Statement for premiums and discounts and the charge for the year determined in accordance with statute	-
0.123	Capital receipts not related to sale of a fixed asset	0.064
(6.306)	Amounts of non current assets written off on sale or disposal	(7.651)
5.495	Cash sale proceeds from the sale or disposal of non-current assets	6.642
(0.195)	Contribution towards administrative costs of disposal of non-current assets	(0.191)
(0.001)	Other movements	-
19.143		**10.071**
	Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year	
0.016	Contributions towards funding the capital programme	0.023
15.745	Contribution to major repairs reserve	17.314
15.761		**17.337**
34.904	**Net additional amount required by statute to be debited to the HRA balance for the year**	**27.408**

Note 2. Cost of Capital Charge

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

2016/17 £m		2017/18 £m
	Credit items	
(41.847)	Net revaluation gain adjustments	(34.986)
(5.532)	Impairment and net revaluation losses removed	(6.397)
(0.205)	Interest receivable and similar income	(0.092)
(47.584)	**Total item 8 credit**	**(41.475)**
	Debit items	
11.962	Interest payable and similar charges	11.738
16.302	Depreciation	17.315
0.989	Revenue expenditure funded by capital under statute	0.829
41.847	Net revaluation gains removed	34.986
5.551	Impairment and net revaluation losses adjustments	6.397
76.651	**Total item 8 debit**	**71.265**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 3. Housing Stock

The Council was responsible for managing an average of 16,934 dwellings and sheltered units during the year (17,107 in 2016/17). The variations during the year can be seen in the table below:

Opening balance	
Dwellings	15,833
Sheltered units	1,176
Opening balance as at 1st April 2017	**17,009**
Reductions	
Right to buys	(146)
Other sales	(1)
Demolitions	(3)
Leased to external organisations	(3)
Conversions	(1)
Additions	3
Net reduction in stock	**(151)**
Closing balance	
Dwellings	15,683
Sheltered units	1,175
Closing balance as at 31st March 2018	**16,858**
Houses	9,884
Bungalows	2,397
Flats and maisonettes	3,402
Shelters	1,175
Total housing stock as at 31st March 2018	**16,858**

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

Property, Plant and Equipment

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

Net book value 31st March 2017 £m		**Net book value 31st March 2018 £m**
494.744	Council dwellings	533.832
28.466	Other buildings	27.684
7.268	Other land	7.151
3.063	Vehicles, plant and equipment	2.845
8.464	Infrastructure	9.862
1.705	Surplus	1.653
0.043	Asset under construction	0.063
0.690	Assets held for sale	1.078
544.443	**Closing net book value**	**584.168**

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

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

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

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

1st April 2016 £m		1st April 2017 £m
1,124.418	Vacant possession value	1,213.255
(494.744)	Existing use social housing value	(533.832)
629.674	**Economic cost to the Government**	**679.423**

Note 6. Depreciation, Impairment and Revaluations

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

2017/18	Council dwellings £m	Other land and buildings £m	Vehicles, plant and equipment £m	Infrastructure assets £m	Total property, plant and equipment £m
Balance at 1st April 2017	**(44.983)**	**(4.304)**	**(4.522)**	**(1.163)**	**(54.972)**
Depreciation charges in year	(15.002)	(1.608)	(0.293)	(0.412)	(17.315)
Reclassification of depreciation charges	0.024				0.024
Depreciation charges written out	5.970	0.359			6.329
Balance at 31st March 2018	**(53.991)**	**(5.553)**	**(4.815)**	**(1.575)**	**(65.934)**

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

The equivalent table for the previous year:

2016/17	Council dwellings	Other land and buildings	Vehicles, plant and equipment	Infrastructure assets	Total property, plant and equipment
	£m	£m	£m	£m	£m
Balance at 1st April 2016	**(40.297)**	**(4.274)**	**(3.989)**	**(0.823)**	**(49.383)**
Depreciation charges in year	(14.405)	(1.264)	(0.293)	(0.340)	(16.302)
Reclassification of depreciation charges	0.258	-	(0.240)	-	0.018
Depreciation charges written out	9.461	1.234	-	-	10.695
Balance at 31st March 2017	**(44.983)**	**(4.304)**	**(4.522)**	**(1.163)**	**(54.972)**

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

A breakdown of the impairment charge and revaluation gains to the Comprehensive Income and Expenditure Statement is as follows:

2017/18	Council dwellings	Other buildings	Other Land	Total property, plant and equipment
	£m	£m	£m	£m
Revaluation gains	(34.340)	(0.420)	(0.226)	(34.986)
Impairment	6.139	0.258	-	6.397
Total income	**(28.201)**	**(0.162)**	**(0.226)**	**(28.589)**

The equivalent table for the previous year:

2016/17	Council dwellings	Other buildings	Other Land	Total property, plant and equipment
	£m	£m	£m	£m
Revaluation (gains) or losses	(41.860)	0.847	(0.834)	(41.847)
Impairment	5.188	0.363	-	5.551
Total (income) or charges	**(36.672)**	**1.210**	**(0.834)**	**(36.296)**

A revaluation gain occurred in dwellings last year due to the social housing factor having increased from 37% to 44%. Further details can be found in note 4 of the core financial statements.

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 7. Housing Capital Expenditure Summary

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

Spending 2016/17 £m		Spending 2017/18 £m
	Expenditure	
17.778	Dwellings	13.779
2.386	Other property, plant and equipment	3.488
0.512	Revenue expenditure funded from capital under statute	0.240
20.676	**Total spending**	**17.507**

Funding 2016/17 £m		Funding 2017/18 £m
	Funding source	
(10.901)	Major repairs reserve	(17.311)
(9.729)	Borrowing	-
(0.016)	Revenue contributions	(0.023)
(0.030)	Grants and other external income	(0.173)
(20.676)	**Total funding**	**(17.507)**

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

Note 8. Capital Receipts Summary

The following table shows the sources of capital receipts generated by the HRA.

2016/17 £m		2017/18 £m
(5.405)	House sales	(5.854)
(0.064)	Discount repayments	(0.050)
(0.059)	Freehold reversions	(0.014)
(0.090)	Development agreements and land sales	(0.788)
(5.618)	**Total receipts for the year**	**(6.706)**

Note 9. Rent Arrears

The estimated arrears (excluding external charges) have been calculated utilising the relative proportion of such charges within the gross rent collectable for the year. Overall arrears at 31st March represented 7.12% of the gross rent collectable (including water and sewerage charges) for the 48 weeks (6.77% in 2016/17).

2016/17 £m		2017/18 £m
76.131	Gross rent collectable (including water and sewerage charges)	74.448
5.155	Overall arrears at 31st March (including water and sewerage charges)	5.303
6.77%	**Overall arrears as a percentage of gross rent collectable**	**7.12%**
4.703	Rent arrears at 31st March (excluding water and sewerage charges)	4.815
0.400	**Amounts written off during the year**	**0.204**
(3.246)	**Balance Sheet allowance for bad debts**	**(3.517)**

Section 5 – Collection Fund Statement

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

2016/17 £m		Note	2017/18 £m
	Income		
(59.270)	Council tax	1	(62.975)
(0.040)	Transfer from General Fund		(0.034)
(59.310)	**Total council tax income**		**(63.009)**
(31.580)	Income collectable from non-domestic ratepayers	2	(30.068)
(0.531)	Contribution towards previous years non-domestic rates deficit		(0.759)
(32.111)	Total non-domestic rates income		(30.827)
(91.421)	**Total income**		**(93.836)**
	Expenditure		
56.885	**Precept payments - council tax**		**60.846**
15.736	Shares of non-domestic rates income payable to preceptors		14.649
15.736	Shares of non-domestic rates income payable as central share to Government		14.649
0.034	Transition protection payments		1.975
0.154	Allowable collection costs for non-domestic rates		0.150
31.660	**Total non-domestic rates expenditure**		**31.423**
0.240	Council tax written off		0.243
0.424	Transfer to council tax bad debt provision		0.437
0.178	Non-domestic rates written off		0.217
0.299	Transfer to non-domestic rates bad debt provision		0.307
1.141	**Total bad and doubtful debts**		**1.204**
1.124	**Contribution towards previous years council tax surplus**		**1.124**
90.810	**Total expenditure**		**94.597**
(0.637)	**Surplus for the year - council tax**		**(0.359)**
0.026	**Deficit for the year - non-domestic rates**		**1.120**
(2.765)	Balance brought forward from previous year - council tax		(3.403)
1.184	Balance brought forward from previous year - non-domestic rates		1.209
(2.192)	**Collection Fund balance at 31st March**		**(1.433)**
(0.371)	Surplus relating to other precepting bodies - council tax		(0.422)
0.616	Deficit relating to other precepting bodies - non-domestic rates		1.188
(3.032)	**Surplus relating to South Tyneside Council - council tax**		**(3.340)**
0.593	**Deficit relating to South Tyneside Council - non-domestic rates**		**1.141**
(2.439)	**Surplus relating to South Tyneside Council - total**		**(2.199)**

Section 5 – Collection Fund Statement

Note 1. Council Tax

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

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a band D equivalent and adjusted for discounts: 37,736 in 2017/18 (36,982 in 2016/17). Council tax is calculated by multiplying the basic amount of council tax for band D by the proportion for that particular band. In 2017/18 the band D equivalent was £1,612.42 (£1,538.16 in 2016/17).

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

Band	Proportion of band D	Number of dwellings (October 2016)
A	6/9ths	45,952
B	7/9ths	9,828
C	8/9ths	8,247
D	9/9ths	4,364
E	11/9ths	1,746
F	13/9ths	696
G	15/9ths	330
H	18/9ths	43
		71,206

Note 2. Non-Domestic Rates Income

The non-domestic rate is organised on a national basis. The Government specifies an amount in the pound, and subject to the effects of transition arrangements, local businesses pay rates calculated by multiplying this sum by the rateable value of their property – the latter being determined by the District Valuer. The national poundage for the year was set at 46.6p for small businesses (48.4p in 2016/17) and 47.9p for all other businesses (49.7p in 2016/17).

The non-domestic rates income, after reliefs and provisions, of £30.068m (£31.580m in 2016/17) was based on a rateable value of £78.517m as at 31st March 2018 (£79.572m in 2016/17).

Section 6 – Group Introduction

Group Accounts

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

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

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

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

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

Subsidiary - South Tyneside Homes Limited (STHL)

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

The net liabilities of the company amount to £33.553m at the year end (£32.005m in 2016/17). The company made a net loss of £2.487m for the year (£0.874m in 2016/17).

The Council's accounts include a debtor due from STHL of £2.123m (£4.928m in 2016/17) and a creditor due to STHL of £2.463m (£2.225m in 2016/17).

The creation of the ALMO resulted in the transfer of past service pension deficit to STHL. The deficit had accrued as a result of the transfer of former South Tyneside Council employees. The actuary assessed the deficit at the year end to be £36.330m (£34.550m in 2016/17). In the unlikely event that STHL were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service defined benefit obligation.

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

Associate – South Tyneside Housing Ventures Trust Limited (STHVTL)

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

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

As at the year end the Company owed the Council £30.679m (£24.968m in 2016/17) following loans and other drawdowns advanced. All loans are repayable before 31st March 2063. The Council was due to pay £0.087m (£0.050m in 2016/17) to the company.

The company produced an operating loss of £0.134m for the year (£0.092m in 2016/17) and had net liabilities at year end of £0.204m (£0.262m in 2016/17).

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

Joint Venture - Homes and Communities Agency (HCA)

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

Other Entities and Arrangements

In partnership with Sunderland Council a new limited liability partnership was incorporated in England and Wales on 11th July 2016 in order to develop the international advanced manufacturing park (IAMP) which is located in both boroughs. The purpose of the company is to take land and funds from the Councils and be governed by a board of six council representatives (three from each authority). IAMP LLP will enter into a development agreement with a "partner" to deliver the development. The Company is part funded by the Government with the two councils each taking a 50% share of any other funding required and any assets or liabilities held. Any loans given to the company are secured against the land being purchased.

As at the year end the Company owed the Council £4.091m (nil in 2016/17) following loans issued to cover the cost of land purchases. The company produced an operating loss of £0.002m for the year (nil in 2016/17) and had net assets at year end, excluding council loans, of £8.181m (nil in 2016/17).

Copies of the Company's accounts can be obtained from Finance Manager, Sunderland City Council, Civic Offices, Sunderland, Tyne and Wear, SR6 7LB.

Section 6 – Group Introduction

On 30th March 2017 the Council registered a new subsidiary company Centaurea Homes Limited. The purpose of the company is to buying, developing and selling real estate. As at the date of presentation of these accounts the company has not traded or undertaken any activity.

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

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

Previously the Council had the power to step in and take over the running of community associations if it deemed that the current arrangements were not financially sound. This arrangement ended on 1st April 2018 with most community associations placed on a formal lease arrangement for the premises they occupy and a normal landlord and tenant relationship established. As such these entities are no longer deemed to be group entities however there is no impact on the financial statements as balances were not deemed to be material for reporting purposes.

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

The notes to the group financial statements are presented on pages 111 to 120 and form part of the Statement of Accounts.

Section 6 – Group Movement in Reserves Statement

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

	Note	General fund balances (as restated)	Housing revenue account reserves	Capital reserves	Usable reserves of subsidiaries and associates	Total usable reserves	Council unusable reserves	Unusable reserves of subsidiaries	Total Group reserves
		£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2015 brought forward		**(33.766)**	**(15.999)**	**(12.566)**	**(1.911)**	**(64.242)**	**(17.360)**	**27.991**	**(53.611)**
Movement in reserves during 2015/16									
Total comprehensive (income) and expenditure		12.247	15.108	-	(0.126)	27.229	(55.758)	(5.120)	(33.649)
Adjustments between Group accounts and Council accounts		-	-	-	0.031	0.031	-	-	0.031
Net decrease or (increase) before transfers		**12.247**	**15.108**	**-**	**(0.095)**	**27.260**	**(55.758)**	**(5.120)**	**(33.618)**
Adjustments between accounting basis and funding basis under regulations		(13.971)	(16.426)	10.225	-	(20.172)	20.172	-	-
(Increase) or decrease in 2015/16		**(1.724)**	**(1.318)**	**10.225**	**(0.095)**	**7.088**	**(35.586)**	**(5.120)**	**(33.618)**
Balance at 31st March 2016 carried forward		**(35.490)**	**(17.317)**	**(2.341)**	**(2.006)**	**(57.154)**	**(52.946)**	**22.871**	**(87.229)**
Movement in reserves during 2016/17									
Total comprehensive (income) and expenditure		18.076	(38.028)	-	(0.467)	(20.419)	(10.967)	12.120	(19.266)
Adjustments between Group accounts and Council accounts	1	-	-	-	0.042	0.042	-	-	0.042
Net decrease or (increase) before transfers		**18.076**	**(38.028)**	**-**	**(0.425)**	**(20.377)**	**(10.967)**	**12.120**	**(19.224)**
Adjustments between accounting basis and funding basis under regulations		(15.613)	34.904	(4.942)	-	14.349	(14.349)	-	-
(Increase) or decrease in 2016/17		**2.463**	**(3.124)**	**(4.942)**	**(0.425)**	**(6.028)**	**(25.316)**	**12.120**	**(19.224)**
Balance at 31st March 2017 carried forward		**(33.027)**	**(20.441)**	**(7.283)**	**(2.431)**	**(63.182)**	**(78.262)**	**34.991**	**(106.453)**
Movement in reserves during 2017/18									
Total comprehensive (income) and expenditure		31.072	(28.740)	-	(0.253)	2.079	(9.323)	1.780	(5.464)
Adjustments between Group accounts and Council accounts	1	-	-	-	-	-	-	-	-
Net decrease or (increase) before transfers		**31.072**	**(28.740)**	**-**	**(0.253)**	**2.079**	**(9.323)**	**1.780**	**(5.464)**
Adjustments between accounting basis and funding basis under regulations		(31.410)	27.408	0.244	-	(3.758)	3.758	-	-
(Increase) or decrease in 2017/18		**(0.338)**	**(1.332)**	**0.244**	**(0.253)**	**(1.679)**	**(5.565)**	**1.780**	**(5.464)**
Balance at 31st March 2018 carried forward		**(33.365)**	**(21.773)**	**(7.039)**	**(2.684)**	**(64.861)**	**(83.827)**	**36.771**	**(111.917)**

Section 6 – Group Comprehensive Income and Expenditure Statement

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

2016/17 Gross expenditure £m	2016/17 Gross income £m	2016/17 Net expenditure £m		Note	2017/18 Gross expenditure £m	2017/18 Gross income £m	2017/18 Net expenditure £m
83.053	(36.238)	46.815	Adult social care		83.564	(43.051)	40.513
24.832	(5.850)	18.982	Children and families social care		27.461	(6.246)	21.215
123.210	(118.907)	4.303	Education, learning and skills		130.625	(114.312)	16.313
14.886	(14.851)	0.035	Public health		14.895	(14.244)	0.651
4.501	(2.166)	2.335	Other children's, adults and health services		5.035	(1.873)	3.162
250.482	**(178.012)**	**72.470**	**Sub total children's, adults and health**		**261.580**	**(179.726)**	**81.854**
61.583	(22.862)	38.721	Asset management and design		60.239	(23.156)	37.083
16.789	(11.844)	4.945	Other economic regeneration services		23.036	(16.039)	6.997
78.372	**(34.706)**	**43.666**	**Sub total economic regeneration**		**83.275**	**(39.195)**	**44.080**
91.993	(85.151)	6.842	Finance		72.517	(89.610)	(17.093)
15.435	(5.659)	9.776	Leisure and libraries		9.240	(7.094)	2.146
5.508	(1.287)	4.221	Strategy and performance		5.730	(1.129)	4.601
8.830	(4.618)	4.212	Other business and resources services		6.769	(3.034)	3.735
121.766	**(96.715)**	**25.051**	**Sub total business and resources**		**94.256**	**(100.867)**	**(6.611)**
18.569	**(69.481)**	**(50.912)**	**Local authority housing (HRA)**		**27.834**	**(67.575)**	**(39.741)**
469.189	**(378.914)**	**90.275**	**Cost of services**		**466.945**	**(387.363)**	**79.582**
12.632	(0.392)	12.240	Other operating income and expenditure		38.512	(0.381)	38.131
40.812	(3.594)	37.218	Financing and investment income and expenditure	2	41.302	(2.821)	38.481
-	(158.769)	(158.769)	Taxation and non-specific grant income		-	(151.375)	(151.375)
522.633	**(541.669)**	**(19.036)**	**(Surplus) or deficit on the provision of services**		**546.759**	**(541.940)**	**4.819**
0.428	(0.379)	0.049	Associates accounted for on an equity basis		0.649	(0.669)	(0.020)
523.061	**(542.048)**	**(18.987)**	**Group (surplus) or defict on the provision of services**		**547.408**	**(542.609)**	**4.799**
			Items that will not be reclassified to the (surplus) or deficit on the provision of services				
		(63.299)	Surplus on revaluation of property, plant and equipment				(36.518)
		2.392	Impairment losses on non-current assets charged to the revaluation reserve				8.475
		60.670	Remeasurements of the defined benefit obligation	14			17.780
		(0.237)	**Other comprehensive (income) and expenditure**				**(10.263)**
		(19.224)	**Total comprehensive (income) and expenditure**				**(5.464)**

Section 6 – Group Balance Sheet

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

31st March 2017 £m		Note	31st March 2018 £m
	Non-current assets		
494.744	Council dwellings	3	533.832
592.836	Other property, plant and equipment	3	606.794
3.492	Heritage assets		3.471
2.300	Investment properties		2.300
2.108	Intangible assets	5	2.065
10.572	Long term investments - associates		12.773
8.821	Other long term investments		8.821
23.285	Long term loans and receivables		32.349
1,138.158	**Total non-current assets**		**1,202.405**
	Current assets		
9.399	Short term investments		-
0.866	Inventories		0.727
33.910	Short term debtors	6	36.629
12.460	Cash and cash equivalents	7	13.621
26.051	Assets held for sale or disposal		1.537
82.686	**Total current assets**		**52.514**
	Current liabilities		
(32.464)	Short term creditors		(33.390)
(2.989)	Cash and cash equivalents - bank overdraft	7	-
(25.790)	Short term borrowing		(32.755)
(4.131)	PFI liability due in less than one year		(4.032)
(1.987)	Capital grants receipts in advance		(3.858)
(3.431)	Short term provisions		(1.293)
(70.792)	**Total current liabilities**		**(75.328)**
11.894	**Total net current assets**		**(22.814)**
	Non-current liabilities		
(0.806)	Long term creditors		(0.762)
(0.912)	Long term provisions		(1.108)
(558.068)	Long term borrowing		(572.065)
(102.629)	Long term PFI liability		(98.597)
(379.240)	Liability related to defined benefit obligation	14	(392.420)
(1.944)	Other long term liabilities		(2.722)
(1,043.599)	**Total non-current liabilities**		**(1,067.674)**
106.453	**Total net assets**		**111.917**
	Reserves		
(60.751)	Council usable reserves		(62.177)
(2.431)	Usable reserves of Group entities	4	(2.684)
(43.271)	Unusable reserves	9	(47.056)
(106.453)	**Total reserves**		**(111.917)**

Section 6 – Group Cash Flow Statement

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

2016/17 £m		Note	2017/18 £m
18.987	**Cash inflow or (outflow) from the provision of services**		**(4.799)**
39.008	Adjustment to the surplus or deficit on the provision of services for non-cash movements		78.092
(51.521)	Adjustment for items included in the surplus or deficit on the provision of services that are investing and financing activities	**10**	(52.402)
6.474	**Net cash flow from operating activities**		**20.891**
(30.803)	Investing activities		(30.324)
29.812	Financing activities		13.583
5.483	**Net increase in cash and cash equivalents**		**4.150**
3.988	**Cash and cash equivalents at the start of the year**		**9.471**
9.471	**Cash and cash equivalents at the end of the year**		**13.621**

Section 6 – Notes to the Group Financial Statements

Note 1. Adjustment between Group Accounts and Council Accounts

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

2016/17 £m		2017/18 £m
0.005	Realignment of depreciation policies for non-current assets	-
0.037	Prior year adjustments	-
0.042	**Total adjustments**	**-**

Note 2. Financing and Investment Income and Expenditure

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

2016/17 £m		2017/18 £m
31.312	Interest payable and similar charges	32.292
10.240	Net interest expense of defined benefit liability and interest income on scheme assets	9.010
(1.870)	Interest receivable	(1.845)
(2.234)	Dividends receivable	(0.746)
(0.230)	Income in relation to investment properties	(0.230)
37.218	**Total financing and investment income and expenditure**	**38.481**

Note 3. Property, Plant and Equipment

The following table analyses the movement in property, plant and equipment for the Group for the year.

2017/18	**Council dwellings**	**Other buildings**	**Other land**	**Vehicles, plant and equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total property, plant and equipment**	**PFI assets included in property, plant and equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2017	**539.728**	**412.847**	**47.515**	**45.601**	**170.298**	**12.192**	**3.869**	**5.070**	**1,237.120**	**125.309**
Additions	13.781	16.185	3.321	1.439	12.629	0.154	0.381	5.963	53.853	-
Revaluation to revaluation reserve	13.081	(9.551)	1.940	-	-	-	(0.058)	-	5.412	(5.382)
Revaluation to Comprehensive Income and Expenditure Statement	34.340	0.848	0.133	-	-	-	(1.200)	-	34.121	-
Impairment to Comprehensive Income and Expenditure Statement	(6.140)	(4.261)	-	(0.015)	(0.087)	-	-	-	(10.503)	-
Other derecognition	(6.360)	(1.493)	(0.875)	(2.310)	-	-	(0.045)	(0.691)	(11.774)	-
Reclassification of assets	(0.608)	0.361	(0.271)	-	-	-	(0.239)	(0.360)	(1.117)	-
At 31st March 2018	**587.822**	**414.936**	**51.763**	**44.715**	**182.840**	**12.346**	**2.708**	**9.982**	**1,307.112**	**119.927**
Depreciation and Impairments										
At 1st April 2017	**(44.984)**	**(30.056)**	**-**	**(32.643)**	**(38.708)**	**(3.112)**	**(0.037)**	**-**	**(149.540)**	**(13.791)**
Depreciation to Comprehensive Income and Expenditure Statement	(15.001)	(17.648)	-	(3.291)	(6.100)	(0.459)	(0.030)	-	(42.529)	(4.340)
Depreciation to revaluation reserve	5.368	17.199	-	-	-	-	0.058	-	22.625	7.769
Other derecognition	0.602	0.157	-	2.175	-	-	-	-	2.934	-
Reclassification of assets	0.025	(0.001)	-	-	-	-	-	-	0.024	-
At 31st March 2018	**(53.990)**	**(30.349)**	**-**	**(33.759)**	**(44.808)**	**(3.571)**	**(0.009)**	**-**	**(166.486)**	**(10.362)**
Balance Sheet amount at 31st March 2017	**494.744**	**382.791**	**47.515**	**12.958**	**131.590**	**9.080**	**3.832**	**5.070**	**1,087.580**	**111.518**
Balance Sheet amount at 31st March 2018	**533.832**	**384.587**	**51.763**	**10.956**	**138.032**	**8.775**	**2.699**	**9.982**	**1,140.626**	**109.565**

Section 6 – Notes to the Group Financial Statements

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 43 to the single entity statements.

Depreciation charges for STHL for the previous year have been adjusted upon consolidation for Group accounts to align accounting policies. No adjustment has been made in the current year on the grounds of materiality.

The equivalent movements in property, plant and equipment for the previous year are as follows:

2016/17	**Council Dwellings**	**Other Buildings**	**Other Land**	**Vehicles, Plant and Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets Under Construction**	**Total Property, Plant and Equipment**	**PFI Assets Included in Property, Plant and Equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2016	**481.137**	**393.795**	**52.872**	**44.542**	**156.366**	**11.078**	**4.126**	**19.259**	**1,163.175**	**109.718**
Additions	17.776	15.167	0.080	2.763	12.988	0.240	1.786	2.217	53.017	0.185
Revaluation to revaluation reserve	14.594	13.178	0.931	-	-	-	(0.042)	-	28.661	12.836
Revaluation to Comprehensive Income and Expenditure Statement	41.860	2.861	(1.221)	-	-	-	(2.046)	-	41.454	2.570
Impairment to Comprehensive Income and Expenditure Statement	(5.188)	(3.245)	-	-	(0.042)	-	-	-	(8.475)	-
Other derecognition	(6.814)	(1.314)	(0.541)	(5.788)	-	-	(0.192)	-	(14.649)	-
Reclassification of assets	(3.637)	(7.595)	(4.606)	4.084	0.986	0.874	0.237	(16.406)	(26.063)	-
At 31st March 2017	**539.728**	**412.847**	**47.515**	**45.601**	**170.298**	**12.192**	**3.869**	**5.070**	**1,237.120**	**125.309**
Depreciation and Impairments										
At 1st April 2016	**(40.298)**	**(36.613)**	**-**	**(33.935)**	**(33.113)**	**(2.569)**	**(0.042)**	**-**	**(146.570)**	**(11.650)**
Depreciation to Comprehensive Income and Expenditure Statement	(14.405)	(17.354)	-	(4.132)	(5.595)	(0.447)	(0.054)	-	(41.987)	(4.172)
Depreciation to revaluation reserve	8.690	23.509	-	-	-	-	0.048	-	32.247	2.031
Other derecognition	0.771	0.212	-	5.758	-	-	0.011	-	6.752	-
Reclassification of assets	0.258	0.190	-	(0.334)	-	(0.096)	-	-	0.018	-
At 31st March 2017	**(44.984)**	**(30.056)**	**-**	**(32.643)**	**(38.708)**	**(3.112)**	**(0.037)**	**-**	**(149.540)**	**(13.791)**
Balance Sheet amount at 31st March 2016	**440.839**	**357.182**	**52.872**	**10.607**	**123.253**	**8.509**	**4.084**	**19.259**	**1,016.605**	**98.068**
Balance Sheet amount at 31st March 2017	**494.744**	**382.791**	**47.515**	**12.958**	**131.590**	**9.080**	**3.832**	**5.070**	**1,087.580**	**111.518**

Note 4. Council Share in Group Entities' Usable Reserves

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

	South Tyneside Homes Limited	**South Tyneside Homes Venture Trust Limited**	**IAMP LLP**	**Total**
	100% share	**43% share**	**50% share**	
	£m	**£m**	**£m**	**£m**
Reserves as at 1st April 2017	**2.544**	**(0.113)**	**-**	**2.431**
Non-current assets	0.352	16.055	4.923	21.330
Current assets	6.651	0.304	-	6.955
Short term liabilities	(4.226)	(0.392)	(0.001)	(4.619)
Long term liabilities	-	(16.060)	(4.922)	(20.982)
Reserves as at 31st March 2018	**2.777**	**(0.093)**	**-**	**2.684**

Section 6 – Notes to the Group Financial Statements

The equivalent figures for the previous year are as follows:

	South Tyneside Homes Limited 100% share £m	South Tyneside Homes Venture Trust Limited 43% share £m	Total £m
Reserves as at 1st April 2016	**2.070**	**(0.064)**	**2.006**
Non-current assets	0.496	12.756	13.252
Current assets	9.784	0.436	10.220
Short term liabilities	(7.736)	(0.441)	(8.177)
Long term liabilities	-	(12.864)	(12.864)
Reserves as at 31st March 2017	**2.544**	**(0.113)**	**2.431**

Note 5. Intangible Assets

An analysis of Group intangible assets is as follows:

2016/17 Software £m	2016/17 Climate change allowances £m	2016/17 Total £m		2017/18 Software £m	2017/18 Climate change allowances £m	2017/18 Total £m
			Balance at start of year:			
6.236	0.391	6.627	Gross book value	6.401	0.541	6.942
(4.636)	-	(4.636)	Accumulated amortisation	(4.834)	-	(4.834)
1.600	**0.391**	**1.991**	**Net book value at start of year**	**1.567**	**0.541**	**2.108**
0.509	0.450	0.959	Additions	0.558	0.299	0.857
(0.344)	(0.300)	(0.644)	Disposals	(0.081)	(0.264)	(0.345)
-	-	-	Impairment to Comprehensive Income and Expenditure Statement	(0.005)	-	(0.005)
0.344	-	0.344	Amortisation written out on disposal	0.021	-	0.021
(0.542)	-	(0.542)	Amortisation for the period	(0.571)	-	(0.571)
1.567	**0.541**	**2.108**	**Net book value at end of year**	**1.489**	**0.576**	**2.065**
			Comprising:			
6.401	0.541	6.942	Gross book value	6.873	0.576	7.449
(4.834)	-	(4.834)	Accumulated amortisation	(5.384)	-	(5.384)
1.567	**0.541**	**2.108**	**Net book value at end of year**	**1.489**	**0.576**	**2.065**

Section 6 – Notes to the Group Financial Statements

Note 6. Short Term Debtors

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

31st March 2017 £m		31st March 2018 £m
	Amounts falling due in one year	
3.914	Central Government bodies	4.829
5.719	Other local authorities	1.653
3.389	NHS bodies	1.629
5.155	Housing tenants	5.303
10.251	Council tax payers	11.457
0.846	Non-domestic ratepayers	0.923
1.060	Tyne and Wear Pension Fund	8.309
14.736	Other debtors	14.286
45.070	**Total amounts falling due in one year**	**48.389**
	Allowances for bad debts	
(3.246)	Housing tenants	(3.517)
(4.595)	Council tax payers	(5.126)
(0.385)	Non-domestic ratepayers	(0.424)
(2.934)	Other debtors	(2.693)
(11.160)	**Total bad debt allowances**	**(11.760)**
33.910	**Net debtors**	**36.629**

Note 7. Cash and Cash Equivalents

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

31st March 2017 £m		31st March 2018 £m
0.080	Cash held by the Council	0.093
8.812	Bank accounts	8.527
3.568	Short term deposits with financial institutions	5.001
12.460	**Cash and cash equivalent assets**	**13.621**
(2.989)	Bank overdraft facility	-
(2.989)	**Cash and cash equivalent liabilities**	**-**
9.471	**Total cash and cash equivalent**	**13.621**

Section 6 – Notes to the Group Financial Statements

Note 8. Short Term Creditors

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

31st March 2017				31st March 2018		
Creditors	Receipts in advance	Total		Creditors	Receipts in advance	Total
£m	£m	£m		£m	£m	£m
(5.865)	(1.097)	(6.962)	Central Government bodies	(5.656)	(1.063)	(6.719)
(0.612)	-	(0.612)	Other local authorities	(0.422)	(0.002)	(0.424)
(1.041)	(0.050)	(1.091)	NHS bodies	(0.840)	-	(0.840)
-	(1.241)	(1.241)	Housing tenants	-	(1.402)	(1.402)
-	(1.335)	(1.335)	Council taxpayers	-	(1.433)	(1.433)
(3.906)	-	(3.906)	Group employees	(3.856)	-	(3.856)
(3.295)	-	(3.295)	Tyne and Wear Pension Fund	(2.705)	-	(2.705)
(12.809)	(1.213)	(14.022)	All other creditors	(14.989)	(1.022)	(16.011)
(27.528)	**(4.936)**	**(32.464)**	**Total creditors**	**(28.468)**	**(4.922)**	**(33.390)**

Note 9. Unusable Reserves

The following table lists the unusable reserves of the Group.

31st March 2017 £m		31st March 2018 £m
(169.169)	Revaluation reserve	(187.238)
(247.996)	Capital adjustment account	(244.298)
380.961	Pensions reserve	394.135
(8.794)	Available-for-sale financial instruments reserve	(8.794)
3.936	Employee benefits adjustment account	3.929
0.230	Financial instruments adjustment account	1.500
-	Deferred capital receipts reserve	(4.091)
(2.439)	Collection Fund adjustment account	(2.199)
(43.271)	**Total unusable reserves**	**(47.056)**

Note 10. Operating Activities

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

2016/17 £m		2017/18 £m
50.531	Depreciation and impairment	53.146
(41.454)	Revaluation gains of property, plant and equipment	(34.121)
0.538	Amortisation of intangibles	0.571
1.021	Increase or (decrease) in creditors	(0.377)
(4.818)	Increase in debtors	(11.984)
1.072	Increase in impairment provision for bad debts	0.600
(0.130)	(Increase) or decrease in inventories	0.139
4.784	Movement in defined benefit obligation	(7.326)
38.123	Carrying amount of current and non-current assets sold or demolished	63.841
-	Reductions in fair values of soft loans	1.271
-	Issuing of loans resulting in deferred capital receipt	(4.091)
(10.659)	Other non-cash items charged to the deficit or surplus on the provision of services	16.423
39.008	**Adjustment to the surplus or deficit on the provision of services for non-cash movements**	**78.092**

Note 11. Officers' Remuneration

The number of employees, including schools based and statutory positions but excluding senior officers, whose remuneration falls into each pay bracket, shown in multiples of £0.005m, and starting at £0.050m is:

	Number of employees	
Group	**2016/17**	**2017/18**
£50,000 - £54,999	57	46
£55,000 - £59,999	31	32
£60,000 - £64,999	21	19
£65,000 - £69,999	15	12
£70,000 - £74,999	9	8
£75,000 - £79,999	6	7
£80,000 - £84,999	9	2
£85,000 - £89,999	4	4
£90,000 - £94,999	-	1
£95,000 - £99,999	1	1
£105,000 - £109,999	1	-
£115,000 - £119,999	1	-
£120,000 - £124,999	-	1
£125,000 - £129,999	-	1
£150,000 - £154,999	1	-
	156	**134**

Section 6 – Notes to the Group Financial Statements

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

2016/17			2017/18	
Total exit Packages	Total Paid	Exit package cost band	Total exit Packages	Total Paid
	£m			£m
180	1.525	£0 - £20,000	194	1.434
49	1.348	£20,001 - £40,000	50	1.368
11	0.590	£40,001 - £60,000	11	0.536
3	0.227	£60,001 - £80,000	6	0.400
-	-	£80,001 - £100,000	2	0.166
4	0.434	£100,001 - £150,000	4	0.454
1	0.167	£150,001 - £200,000	-	-
248	**4.291**	**Total**	**267**	**4.358**

Note 12. External Audit Costs

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

2016/17		2017/18
£m		£m
0.145	Fees with regard to external audit services carried out by the appointed auditor for the year	0.145
0.021	Fees for the certification of grant claims and returns for the year	0.018
0.003	Fees for other services provided by external auditors during the year	0.003
0.169	**Total fees payable to external auditors**	**0.166**

Note 13. Contingent Liabilities

Details of the Council’s contingent liabilities can be found in note 36 of the single entity statement. This details a liability in relation to the Council’s guarantee of the pension deficit within STHL.

Note 14. Defined Benefit Pension Schemes

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

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

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

The latest actuarial calculation of the Groups liabilities took place as at 31st March 2016.

Section 6 – Notes to the Group Financial Statements

Actuarial Assumptions Adopted

The main financial assumptions used by the actuary for STHL in 2017/18, differ from those applied to the Council valuation. The assumptions used for STHL are confirmed in the table below. Note 41 of the Council's core Financial Statements provide the assumptions used by the actuary for the Council.

31st March 2017 % per annum		**31st March 2018 % per annum**
2.00	Inflation rate (consumer price index)	2.00
2.00	Rate of increase to pensions in payment	2.00
2.00	Rate of increase to deferred pensions	2.00
2.00	Rate of general increase in salaries	2.10

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

Assets for STHL are allocated the same as disclosed for the Council in note 41 of the Council's core financial statements. However STHL employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is the same as disclosed for the Council. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31st March 2018.

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

31st March 2017 £m		**31st March 2018 £m**
815.590	Fair value of assets	850.730
(1,165.180)	Present value of funded defined benefit obligation	(1,214.270)
(349.590)	**Liability recognised on the Balance Sheet**	**(363.540)**

The impact of STHL on the split of the defined benefit obligation at the last valuation compared to that disclosed by the Council in note 41 of the Council's core financial statements is not considered material.

Section 6 – Notes to the Group Financial Statements

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

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

2016/17 £m		2017/18 £m
	Operating cost	
19.270	Current service cost	25.030
0.970	Past service cost	0.890
	Financing cost	
9.340	Interest on net defined benefit obligation	8.270
29.580	**Pension expense recognised**	**34.190**
	Remeasurements in other comprehensive income and expenditure	
(116.540)	Return on plan assets below or (in excess of) that recognised in net interest	(8.720)
180.050	Actuarial losses due to change in financial assumptions	17.990
1.980	Actuarial losses due to change in demographic assumptions	-
(8.060)	Actuarial gains due to liability experience	7.920
57.430	**Total amount recognised in other comprehensive income and expenditure**	**17.190**
87.010	**Total amount recognised**	**51.380**

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

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

2016/17 £m		2017/18 £m
(964.370)	**Opening defined benefit liability**	**(1,165.180)**
(19.270)	Current service cost	(25.030)
(32.480)	Interest expense on defined benefit liability	(29.880)
(5.110)	Contributions by participants	(5.250)
(180.050)	Actuarial losses on liabilities - financial assumptions	(17.990)
(1.980)	Actuarial losses on liabilities - demographic assumptions	-
8.060	Actuarial gains on liabilities - experience	(7.920)
30.990	Net benefits paid out	34.510
(0.970)	Past service cost	(0.890)
-	Net decrease in liabilities from disposals	3.360
(1,165.180)	**Closing defined benefit liability**	**(1,214.270)**

Section 6 – Notes to the Group Financial Statements

Changes to the fair value of assets during the accounting year

2016/17 £m		2017/18 £m
679.590	**Opening fair value of assets**	**815.590**
23.140	Interest income on assets	21.610
116.540	Remeasurement gains on assets	8.720
22.200	Contributions by the employer	37.430
5.110	Contributions by participants	5.250
(30.990)	Net benefits paid out	(34.510)
-	Net decrease in assets from disposals	(3.360)
815.590	**Closing fair value of assets**	**850.730**

Actual return on assets

2016/17 £m		2017/18 £m
23.140	Interest income on assets	21.610
116.540	Remeasurement gains on assets	8.720
139.680	**Actual return on assets**	**30.330**

Unfunded Benefits

STHL has no unfunded benefits. Disclosure information relating to unfunded benefits for the Council can be found at note 41 of the core financial statements within this document.

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

31st March 2017				31st March 2018		
Group funded £m	Council unfunded £m	Group total £m		Group funded £m	Council unfunded £m	Group total £m
815.590	-	815.590	Fair value of assets	854.090	-	854.090
(1,165.180)	(29.650)	(1,194.830)	Present value of liabilities	(1,217.630)	(28.880)	(1,246.510)
(349.590)	**(29.650)**	**(379.240)**	**Defined benefit obligation**	**(363.540)**	**(28.880)**	**(392.420)**

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

2016/17 Group funded £m	2016/17 Council unfunded £m	2016/17 Group total £m		2017/18 Group funded £m	2017/18 Council unfunded £m	2017/18 Group total £m
32.480	0.900	33.380	Interest on defined benefit liability	29.880	0.740	30.620
(23.140)	-	(23.140)	Interest income on assets	(21.610)	-	(21.610)
9.340	**0.900**	**10.240**	**Pension interest cost and interest income on pension assets**	**8.270**	**0.740**	**9.010**

Section 7 – Tyne and Wear Pension Fund Statements

1. Introduction

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

The Fund is governed by the Public Services Pensions Act 2013 and the LGPS Regulations 2013 (as amended), the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions from employees, the Council and all other employers within the Fund, as well as from capital growth and interest and dividends on the Fund's investments. Contributions from active members of the Fund are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31st March 2018. Employers pay contributions based on triennial funding valuations carried out by the Fund's Actuary. For the financial year 2017/18 these were based on the valuation which took place as at 31st March 2016. The next valuation as at 31st March 2019 will set the employer contribution rates for 2020/21 and the following two years.

As at 31st March 2018, there were 260 employers participating in the Fund, including the five district councils and a range of other organisations that provide a public service within the former Tyne and Wear County Council area. A full list of employers is shown later in this statement. The Fund had 134,035 members, made up of 45,464 active members, 47,487 pensioners and 41,084 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2017/18.

2. Legal Framework

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

Investment Regulations

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These Regulations set out the types of investments that can be made, which include company and government securities, property and unit trusts.

Scheme Regulations from 1st April 2014

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

3. Funding Strategy

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

The strategy for the valuation is set out in the Statement of the Actuary and in the Funding Strategy Statement, which may be viewed on the Fund's website at

www.twpf.info/CHttpHandler.ashx?id=32981&p=0

and

http://www.twpf.info/CHttpHandler.ashx?id=11986&p=0 respectively.

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

4. The 2016 Valuation

Rates of contributions paid by the employers during 2017/18 were based on the valuation carried out as at 31st March 2016. The value of the Fund at that date was £6,427.4m.

The total rate of employer contribution resulting from the 2016 valuation was 25.2% of pensionable pay, comprised of a future service element of 18.3% and a past service deficiency element of 6.9%. The revised employers' contributions were implemented from April 2017.

At the 2016 valuation, there was a decrease in the discount rates for scheduled and admitted bodies. The Fund used a number of measures to assist employers to afford the cost of benefits. These included:

- Long deficit recovery periods for employers with a suitably strong covenant. Recovery periods for most employers have been set within the range of 20 years for employers with the strongest covenant to average future working lifetime of active members, or an appropriate proxy, for employers with a weaker covenant. For most contractors, this strategy is also subject to a maximum of the remaining contract period from the valuation date.

- The use of up to three annual steps in the deficit payments.

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

5. Investment Strategy and Investment Structure

The investment strategy in place in 2017/18 was informed by an asset liability review carried out in 2016/17 that was based upon the liabilities assessed through the 2016 Valuation. The outcome of this review was implemented in 2017/18.

Note 11 to the financial statements shows the amounts held in each type of investment.

Note 17 shows the amount invested by each manager.

6. Investment Reform Criteria and Guidance

In the July 2015 Budget, the Chancellor announced the Government's intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria for developing proposals were set in November 2015.

Having considered a number of options the Fund has decided to work with eleven other administering authorities as part of the Border to Coast Pension Partnership (BCPP). All of the administering authorities in BCPP are considered to have a like-minded approach to investment. The Fund and BCPP submitted proposals in 2016 and Government gave its approval later in the same year.

All of the administering authorities in BCPP had formally approved arrangements for joining by the end of the 2016/17 financial year. South Tyneside Council, as administering authority of the Tyne and Wear Pension Fund agreed to join at its Council meeting on 9th March 2017. This is a major strategic collaboration between the funds, with the aim of delivering improved performance as well as cost savings over the medium to long term.

During 2017/18 Border to Coast Pensions Partnership Limited has been established and registered as a company limited by shares, with each of the twelve administering authorities as equal shareholders. The company has recruited staff and acquired offices and the many other arrangements required to operate as an investment management company are well developed. The transfer of investments to the company is expected to take place over a number of years, commencing in the final quarter of 2018.

At the end of March 2018 the overall value of assets in the partnership was approximately £46 billion.

A Joint Committee comprising of the Chairs of each Pensions Committee has an oversight role over the arrangements of BCPP Limited.

7. Shared Services Arrangement with Northumberland County Council Pension Fund

One of the biggest initiatives for the Fund in 2017/18 has been the creation of a pensions administration shared service with Northumberland County Council Pension Fund.

Section 7 – Tyne and Wear Pension Fund Statements

The combined service is being delivered from the Tyne and Wear Pension Fund offices in South Shields and based on the systems, process and procedures operating at the Tyne and Wear Fund. The implementation of this arrangement will provide greater resilience to the service as well as operating efficiencies.

Section 7 – Tyne and Wear Pension Fund Statements

Tyne and Wear Pension Fund
Statement of the Actuary for the year ended 31st March 2018

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31st March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31st March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £6,427.4m) covering 85% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre-1st April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1st April 2017 was:

- 18.3% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate).

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1st April 2017 (the secondary rate), equivalent to 6.9% of pensionable pay (or £60.1m in 2017/18, and increasing by 3.5% per annum. thereafter).

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in the certificate attached to Aon's report dated 31st March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

4. The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer, were agreed with the administering authority reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as shown on the next page.

In-service discount rate Scheduled body / subsumption funding target Orphan body funding target	 4.5% per annum 4.5% per annum
Left-service discount rate Scheduled body / subsumption funding target Orphan body funding target	 4.5% per annum 2.4% per annum
Rate of inflationary pay increases (additional allowance made for promotional increases)	3.5% per annum
Rate of increase to pension accounts	2.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum

In addition, the discount rate for orphaned liabilities (i.e. employers with no active members and where there is no scheme employer responsible for funding the non-active liabilities) was 2.1% per annum in-service and left-service.

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% per annum. The resulting assumed life expectancies at age 65 were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.7	26.2
Future pensioners aged 45 at the valuation date	24.9	28.5

The assets were valued at market value.

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31st March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1st April 2017 to 31st March 2020 were signed on 31st March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31st March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. Since the date the valuation report was signed, HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, has made an announcement to extend the indexation of GMPs to those reaching State Pension Age on or before 5th April 2021 (previously 5th December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off before the announcement, but the increase in liability is not expected to be material.

9. Reviews to monitor the level of ill-health retirements are periodically carried out in respect of participating employers and, where appropriate, employer contribution rates may be increased.

10. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31st March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

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

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

Aon Hewitt Limited

20th April 2018

Section 7 – Tyne and Wear Pension Fund Statements

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

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Finance Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Financial Statement 2017/18, set out on pages 122 to 128, other than the financial statements and our auditor's report thereon. The Finance Director is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Section 7 – Tyne and Wear Pension Fund Statements

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Finance Director

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 16, the Finance Director is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Finance Director is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Ernst & Young LLP

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
31 July 2018

The maintenance and integrity of South Tyneside Council's web site is the responsibility of the directors; 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 web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Section 7 – Tyne and Wear Pension Fund Statements

Fund Account for the year

2016/17 £m		Note	2017/18 £m
	Dealings with members, employers and others directly involved in the Fund		
(290.158)	Contributions	5	(344.866)
(7.022)	Transfers in from other pension funds	6	(13.209)
(297.180)	**Total income**		**(358.075)**
293.602	Benefits payable	7	286.251
14.745	Payments to and on account of leavers	8	22.271
308.347	**Total costs**		**308.522**
11.167	**Net expenditure or (income) from dealings with members**		**(49.553)**
36.568	Management expenses	9	48.660
47.735	**Net expenditure or (income) including fund management expenses**		**(0.893)**
	Returns on investments		
(91.042)	Investment income	10	(88.872)
0.944	Taxes on income	10	0.778
(1,480.911)	Profits on disposals of investments and changes in the market value of investments	12	(234.857)
(1,571.009)	**Net returns on investments**		**(322.951)**
(1,523.274)	**Net increase in the net assets available for benefits during the year**		**(323.844)**
6,427.370	**Net assets of the Fund at 1st April**		**7,950.644**
7,950.644	**Net assets of the Fund at 31st March**		**8,274.488**

Section 7 – Tyne and Wear Pension Fund Statements

Net Assets Statement for the year ended

31st March 2017 £m		Note	31st March 2018 £m
7,943.190	Investment assets	11	8,282.188
(9.106)	Investment liabilities	11	(8.371)
7,934.084	**Total net investments**		**8,273.817**
25.820	Current assets	14	23.056
(9.260)	Current liabilities	14	(22.385)
7,950.644	**Net assets of the Fund available to fund benefits as at 31st March**		**8,274.488**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits that fall due after the year end. The actuarial position of the Fund, which does take account of such obligations

The actuarial present value of promised retirement benefits is disclosed at note 25 which has been compiled under IAS26 and, as such, is based on different assumptions.

Section 7 – Tyne and Wear Pension Fund Statements

Notes to the Tyne and Wear Pension Fund Financial Statements

1. Basis of Preparation

The financial statements summarise the Fund's transactions for the financial year 2017/18 and its position as at 31st March 2018. The accounts have been prepared following the "*Code of Practice on Local Authority Accounting in the United Kingdom 2017/18"* (The Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take into account obligations to pay pensions and benefits payable after the end of the financial year.

2. Summary of Significant Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values which are recognised when cash is transferred.

Fund Account – Revenue Recognition

a. Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis in the payroll period for which they relate. The percentage rate payable by the employers is determined by the Actuary, whilst the rate payable by employees is set within the LGPS Regulations. Contributions due as at 31st March 2018 have been accrued.

Employer deficit funding contributions are accounted for on the due dates set by the Actuary or on receipt if earlier than this date.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Any amount due in the year but still outstanding at the year-end has been accrued.

b. Transfer Values

Transfer values represent the amounts receivable or payable in respect of members who have either joined or left the Fund during the financial year these have been calculated in accordance with the LGPS Regulations 2013.

Individual transfers either in or out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis within Transfers In.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c. Investment Income

Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

Interest Income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Property-related Income

Property-related income consists primarily of rental income.

Rental income from operating lease on properties owned by the Fund is recognised on a straight line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

d. Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e. Taxation

The Fund is a registered public sector scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any tax that is irrecoverable is accounted for as a fund expense as it arises.

f. Management Expenses

Section 6.5 of the Code requires a breakdown of pension fund administrative expenses. The Fund discloses its pension fund management expenses in accordance with CIPFA guidance "*Accounting for Local Government Pension Scheme Management Expenses (2016).*"

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses

Investment management expenses payable as at 31st March 2018 have been accrued. Performance related fees, where applicable, have not been accrued at that date as they are not deemed to be earned until the end of the performance period when they are calculated and agreed.

Net Assets Statement

g. Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes a party to the purchase of the asset. From this date, any gains and losses arising from changes in the fair value of assets are recognised in the Fund Account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note 11). For the purposes of disclosing levels of fair value hierarchy, the Fund has used the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h. Freehold and Leasehold Properties

Properties are shown as valued at the year-end date. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Savills. No depreciation is provided on freehold buildings or long leasehold properties, in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition.

i. Foreign Currency Transactions

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates at the year-end date.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates at the year-end date.

j. Derivatives

The Fund uses derivative financial instruments to manage it exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

k. Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 22.

l. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and also includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in their valuations.

m. Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and other relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement. (Note 25).

n. Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVCs) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed The Prudential Assurance Company as its current AVC provider. AVCs are paid to The Prudential Assurance Company by employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements during the year.

In accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, AVCs are not included in the accounts but are disclosed only as a note (Note 16).

3. Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The Pension Fund liability is calculated triennially by the Actuary, in accordance with IAS19, whose report can be seen in note 25. The estimate is subject to significant variances based on changes to the underlying assumptions used by the Actuary.

Property Valuation

The Fund's UK property is included at a value derived by the valuers based on assumptions made by them in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 9th Edition. The actual valuation of each property will only be known when the Fund sells the property on the open market.

Unquoted Private Equity Investments

Private equity investments are valued at fair value in accordance with guidelines issued by the British Venture Capital Association. As none of these are publicly listed, there is some estimation involved in the valuation, the total of which will only be completely known on the sale of the asset. As a result, there is a risk that current valuations may be under or over stated in the accounts.

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary. Assumptions underpinning the valuations are agreed with the actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty and Critical Judgements in Applying Accounting Policies

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. As actual results cannot be predicted with certainty, they could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31st March 2018 for which there is significant risk of material adjustment in the forthcoming year are as shown on the next page.

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Private Equity, infrastructure and global property (Note 17 and Note 13)	Private equity, infrastructure and global property investments are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £534.220m included for private equity, £141.073m for infrastructure and £343.424m for global property investments. Based on the sensitivity numbers included in note 13 there is a possibility that this could be under or over stated in the accounts by £64.060m, £14.954m and £36.746m respectively.
Actuarial Present Value of Promised Retirement Benefits (Note 25)	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review. Therefore there is a possibility that the valuation of £8,657.300m in Note 25 for the "actuarial present value of the promised retirement benefits" could be under or overstated.
Freehold and leasehold property	Valuation techniques are used to determine the carrying amount of directly held freehold and leasehold property. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the value of property.	Based on the sensitivity number included in note 13 there is a possibility that the fair value for property of £382.502m could increase or decrease by £13.388m.

5. Contributions Receivable

2016/17 £m	By category	2017/18 £m
(53.748)	Employees' normal contributions	(53.781)
	Employers' contributions	
(129.847)	Normal contributions	(147.929)
(106.563)	Deficit recovery contributions	(143.156)
(236.410)	**Total employers contributions**	**(291.085)**
(290.158)	**Total contributions**	**(344.866)**

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

2016/17 £m	By authority	2017/18 £m
(23.518)	South Tyneside Council (administering authority)	(40.197)
(154.882)	Other metropolitan councils	(186.269)
(64.391)	Other Part 1 scheduled bodies	(79.041)
(13.782)	Part 2 scheduled bodies	(8.142)
(33.585)	Admitted bodies	(31.217)
(290.158)	**Total contributions receivable**	**(344.866)**

6. Transfers In from Other Pension Funds

2016/17 £m	By category	2017/18 £m
(7.022)	Individual transfers	(13.209)
(7.022)	**Total transfers in from other pension funds**	**(13.209)**

During the year, individual transfers in from other schemes amounted to £13.209m (£7.022m in 2016/17).

There was no bulk transfer received during 2016/17 or 2017/18.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the 2014/15 financial year, in relation to the transfer of Kidderminster College to Newcastle College. Similarly a group of employees, deferred and actual pensions transferred to the Fund from Cumbria Pension Fund during the 2017/18 financial, in relation to the transfer of Carlisle College to Newcastle College. The Fund at this time does not have a value for the assets to be transferred and has not included an amount in the accounts accordingly.

Section 7 – Tyne and Wear Pension Fund Statements

7. Benefits Payable

2016/17 £m	By category	2017/18 £m
232.756	Pensions	242.172
63.603	Commutations and lump sum retirement benefits	48.531
7.859	Lump sum death benefits	5.936
(10.616)	Recharges out	(10.388)
293.602	**Total benefits payable**	**286.251**

The recharges out figure relates to pension enhancements approved by employers over the years which the Fund pays on the employers' behalf and reclaims on a regular basis from the employer. Details of the payments made can be found in note 15.

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

2016/17 £m	By authority	2017/18 £m
26.376	South Tyneside Council (administering authority)	27.411
177.930	Other metropolitan councils	170.117
45.670	Other Part 1 scheduled bodies	46.886
10.472	Part 2 scheduled bodies	9.248
33.154	Admitted bodies	32.589
293.602	**Total benefits payable**	**286.251**

8. Leavers

2016/17 £m		2017/18 £m
13.849	Individual transfers to other schemes	19.459
0.665	Refunds to members leaving service	0.565
-	Group transfers	2.201
0.231	State scheme premiums	0.046
14.745	**Total leavers**	**22.271**

There was a group transfer of some staff from Newcastle College to Manchester College totalling £2.201m. There was no bulk transfer out of the Fund 2016/17.

9. Management Expenses

Office expenses and other overheads have also been charged. The table on the next page shows a breakdown of the management expenses incurred during the year:

2016/17 £m		2017/18 £m
3.033	Administrative costs	2.686
32.624	Investment management expenses	44.936
0.911	Oversight and governance costs	1.038
36.568	**Management expenses**	**48.660**

This analysis of the costs of managing the Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses can be further analysed, as follows:

2016/17 £m		2017/18 £m
21.263	Management and custody fees	20.630
3.132	Performance fees	9.003
3.970	Expenses charged within pooled vehicles	11.666
4.259	Transaction costs	3.637
32.624	**Investment management expenses**	**44.936**

These costs do not include costs relating to the property portfolio which under IAS 40 “*Investment Property”* should be capitalised and not expensed.

10. Investment Income

Net Rents from Properties

2016/17 £m		2017/18 £m
(50.475)	Income from equities	(45.912)
(2.058)	Income from bonds	(1.722)
(19.719)	Net income from properties	(19.620)
(17.670)	Pooled investments - unit trusts and other managed funds	(19.419)
(0.601)	Interest on cash deposits	(1.540)
(0.519)	Other	(0.659)
(91.042)	**Sub total**	**(88.872)**
0.944	Non-recoverable Tax	0.778
(90.098)	**Total investment income**	**(88.094)**

Net rents from properties can be analysed further, as follows

2016/17 £m		2017/18 £m
	Net income from properties	
(19.353)	Rental income	(19.558)
(0.366)	Direct operating income net of expenses	(0.062)
(19.719)	**Net income**	**(19.620)**

11. Investments

31st March 2017 £m		31st March 2018 £m
	Investment assets	
55.122	Bonds	65.921
2,256.412	Equities	1,705.179
87.459	Index-linked securities	80.233
5,018.045	Pooled investment vehicles	5,771.295
340.300	Properties	366.230
1.456	Derivative contracts	1.066
169.341	Cash deposits	276.564
15.055	Other investment balances	15.700
7,943.190	**Total investment assets**	**8,282.188**
	Investment liabilities	
(2.698)	Derivative contracts	(2.580)
(6.408)	Other investment balances	(5.791)
(9.106)	**Total investment liabilities**	**(8.371)**
7,934.084	**Net investment assets**	**8,273.817**

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.

2017/18	Market value 1st April 2017 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value during the year £m	Market value 31st March 2018 £m
Bonds	55.122	252.471	(240.339)	(1.333)	65.921
Equities	2,256.412	714.701	(1,348.568)	82.634	1,705.179
Index-linked securities	87.459	221.314	(229.724)	1.184	80.233
Pooled investment vehicles	5,018.045	1,034.001	(422.681)	141.930	5,771.295
Properties	340.300	31.947	(35.225)	29.208	366.230
Derivative contracts	(1.242)	7.911	(2.384)	(5.799)	(1.514)
	7,756.096	**2,262.345**	**(2,278.921)**	**247.824**	**7,987.344**
Cash deposits	169.341	119.842	-	(12.619)	276.564
Other investment balances	8.647	6.677	(5.067)	(0.348)	9.909
Total investments	**7,934.084**	**2,388.864**	**(2,283.988)**	**234.857**	**8,273.817**

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2016/17	Market value 1st April 2016 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value during the year £m	Market value 31st March 2017 £m
Bonds	56.115	303.239	(305.703)	1.471	55.122
Equities	2,234.175	920.663	(1,334.076)	435.650	2,256.412
Index-linked securities	58.342	203.089	(188.249)	14.277	87.459
Pooled investment vehicles	3,618.748	871.799	(487.933)	1,015.431	5,018.045
Properties	311.425	33.210	(13.000)	8.665	340.300
Derivative contracts	1.387	5.919	(17.854)	9.306	(1.242)
	6,280.192	**2,337.919**	**(2,346.815)**	**1,484.800**	**7,756.096**
Cash deposits	128.799	65.667	(21.926)	(3.199)	169.341
Other investment balances	0.987	8.965	(0.615)	(0.690)	8.647
Total investments	**6,409.978**	**2,412.551**	**(2,369.356)**	**1,480.911**	**7,934.084**

31st March 2017 £m		31st March 2018 £m
	Fixed interest securities	
55.122	UK public sector	65.921
55.122	**Total fixed interest securities**	**65.921**
	Equities	
869.405	UK quoted	734.288
998.534	Overseas quoted	689.029
388.473	Overseas unquoted	281.862
2,256.412	**Total equities**	**1,705.179**
87.459	**Total UK public sector index-linked securities**	**80.233**
	Pooled investment vehicles	
0.295	Unit trusts	0.287
3,394.769	Unitised insurance policies	4,122.476
1,622.981	Other managed funds	1,648.532
5,018.045	**Total pooled investment vehicles**	**5,771.295**
(1.040)	Forward foreign currency derivative contracts	(1.514)
(0.202)	Futures	-
(1.242)	**Total forward foreign currency derivative contracts**	**(1.514)**
	Properties	
306.550	Freehold	359.330
33.750	Long leasehold	6.900
340.300	**Total properties**	**366.230**
	Cash deposits	
100.587	Sterling	179.777
68.754	Foreign currency	96.787
169.341	**Total cash deposits**	**276.564**
	Other investment balances	
(1.178)	Outstanding trades	5.021
9.546	Outstanding dividends and tax recoveries	8.615
5.509	Debtors	2.064
(5.230)	Creditors	(5.791)
8.647	**Total other investment balances**	**9.909**
7,934.084	**Total investments**	**8,273.817**

12. Financial Instruments

Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities. The tables also include current assets and liabilities which are not included in note 11. No financial assets have been reclassified during the financial year.

31st March 2017				31st March 2018		
Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£m
			Financial assets			
55.122	-	-	Bonds	65.921	-	-
2,256.412	-	-	Equities	1,705.179	-	-
87.459	-	-	Index-linked securities	80.233	-	-
5,018.045	-	-	Pooled investment vehicles	5,771.295	-	-
340.300	-	-	Properties	366.230	-	-
1.456	-	-	Derivative contracts	1.066	-	-
-	169.341	-	Cash deposits	-	276.564	-
-	9.546	-	Other investment balances	-	13.636	-
-	31.329	-	Debtors	-	25.120	-
7,758.794	**210.216**	**-**	**Total financial assets**	**7,989.924**	**315.320**	**-**
			Financial liabilities			
(2.698)	-	-	Derivative contracts	(2.580)	-	-
-	-	(1.178)	Other investment balances	-	-	-
-	-	(14.490)	Creditors	-	-	(28.176)
(2.698)	**-**	**(15.668)**	**Total financial liabilities**	**(2.580)**	**-**	**(28.176)**
7,756.096	**210.216**	**(15.668)**	**Total assets**	**7,987.344**	**315.320**	**(28.176)**

Net Gains and Losses on Financial Instruments

31st March 2017		31st March 2018
£m		£m
	Financial assets	
1,484.110	Fair value through profit and loss	249.157
	Financial liabilities	
(3.199)	Fair value through profit and loss	(14.300)
1,480.911	**Total**	**234.857**

Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments are level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example where valuation techniques are used to determine fair value and where the techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the value on the instrument is not based on observable market data.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Within this level are UK Property valued independently by professional valuers' and instruments which represent the Fund's private market investments, these are valued using various valuation techniques that require significant judgement in determining assumptions. The Fund's private markets investments include private equity, private real estate and private infrastructure funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken using a mixture of a 31st March 2018 valuation and a 31st December 2017 valuation adjusted for cash flows and rolled forward to 31st March 2018 as appropriate.

The table on the next page provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3 at fair value.

Value at 31st March 2018	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	1,598.386	5,002.170	1,023.138	7,623.694
Non-financial assets at fair value through profit and loss	-	-	366.230	366.230
Loans and receivables	315.320	-	-	315.320
Total financial assets	**1,913.706**	**5,002.170**	**1,389.368**	**8,305.244**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(2.580)	-	(2.580)
Financial liabilities at amortised cost	(28.176)	-	-	(28.176)
Total financial liabilities	**(28.176)**	**(2.580)**	**-**	**(30.756)**
Net financial assets	**1,885.530**	**4,999.590**	**1,389.368**	**8,274.488**

Value at 31st March 2017	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	2,032.353	4,210.790	1,175.351	7,418.494
Non-financial assets at fair value through profit and loss	-	-	340.300	340.300
Loans and receivables	210.216	-	-	210.216
Total financial assets	**2,242.569**	**4,210.790**	**1,515.651**	**7,969.010**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(2.698)	-	(2.698)
Financial liabilities at amortised cost	(15.668)		-	(15.668)
Total financial liabilities	**(15.668)**	**(2.698)**	**-**	**(18.366)**
Net financial assets	**2,226.901**	**4,208.092**	**1,515.651**	**7,950.644**

Reconciliation of Fair Value Measurement within Level 3

2017/18	Market value at 1st April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Unrealised gains / (losses)	Realised gains	Market value at 31st March 2018
Asset type	£m	£m	£m	£m	£m	£m
Private equity	605.190	75.028	(187.619)	(65.123)	94.893	522.369
Infrastructure	179.673	12.612	(87.751)	20.555	15.984	141.073
Global property	376.883	27.853	(78.126)	14.378	2.436	343.424
UK residential property	13.605	1.377	-	1.290	-	16.272
UK direct property	340.300	31.947	(35.225)	26.736	2.472	366.230
Total	**1,515.651**	**148.817**	**(388.721)**	**(2.164)**	**115.785**	**1,389.368**

Sensitivity of assets valued at level 3

In consultation with its performance and risk advisors, the Fund has carried out an analysis of historic data and current movements in expected investment returns during the financial year. It has been determined that the asset values are likely to be accurate to within the following ranges and the Fund has set out on the next page the consequent potential impact on the closing values of investment held at 31st March 2018.

Asset type	Assessed Valuation Range £m	Value at 31st March 2018 £m	Value on increase £m	Value on decrease £m
Private equity	12.0	522.369	585.053	459.685
Infrastructure	10.6	141.073	156.027	126.119
Global property	10.7	343.424	380.170	306.678
UK residential property	3.5	16.272	16.842	15.702
UK direct property	3.5	366.230	379.048	353.412
Total		**1,389.368**	**1,517.140**	**1,261.596**

13. Nature and Extent of Risks Arising from Financial Instruments

The Fund's investment objective is:

- **To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits;** and

- **To keep contributions as low and as stable as possible through effective management of the assets.**

The Fund's primary long term risk is that it will be unable to meet its liability to pay the promised benefits to members from the assets that it holds.

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well-diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the Investment Strategy Statement.

The analysis in the tables in this section is on a "look through" basis. This differs from the analysis in note 11 which is compiled under accounting standards.

Market Risk

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

Other Price Risk

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

Other Price Risk – Sensitivity Analysis

In consultation with its performance and risk advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the following movements in market price risk are reasonably possible for the 2018/19 financial year. The equivalent movements from 2017/18 are also shown.

Asset type	Potential market movements in 2017/18 (+/-) %	Potential market movements in 2018/19 (+/-) %
UK equities	8.9	9.3
Overseas equities	11.2	11.7
Global equities	10.2	10.3
UK bonds	6.3	6.5
Overseas bonds	14.1	13.6
Index-linked securities	12.5	12.8
UK property	3.2	3.5
Overseas property	9.4	10.7
Private equity	12.5	12.0
Infrastructure	10.7	10.6
Cash	-	-

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged.

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Had the market price of the Fund's investments increased or decreased in line with the above table, the change in the net assets available to pay benefits is as shown in the table on the next page. The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	1,782.425	9.3	1,948.191	1,616.659
Overseas equities	2,377.208	11.7	2,655.341	2,099.075
Global equities	768.874	10.3	848.068	689.680
UK bonds	1,362.632	6.5	1,451.203	1,274.061
Overseas bonds	82.858	13.6	94.127	71.589
Index-linked securities	184.727	12.8	208.372	161.082
UK property	382.502	3.5	395.890	369.114
Overseas property	343.424	10.7	380.170	306.678
Private equity	534.220	12.0	598.326	470.114
Infrastructure	141.073	10.6	156.027	126.119
Active currency	0.287	-	0.287	0.287
Cash and cash equivalents	301.465	-	301.465	301.465
Forward currency contracts	(1.514)	-	(1.514)	(1.514)
Investment income due	8.615	-	8.615	8.615
Amounts due for sales	48.183	-	48.183	48.183
Amounts payable for purchases	(43.162)	-	(43.162)	(43.162)
Total	**8,273.817**		**9,049.589**	**7,498.045**

Asset type	Value at 31st March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
UK equities	1,720.292	8.9	1,873.398	1,567.186
Overseas equities	2,218.444	11.2	2,466.910	1,969.978
Global equities	758.589	10.2	835.965	681.213
UK bonds	1,275.718	6.3	1,356.088	1,195.348
Overseas bonds	45.241	14.1	51.620	38.862
Index-linked securities	191.157	12.5	215.052	167.262
UK property	353.905	3.2	365.230	342.580
Overseas property	376.883	9.4	412.310	341.456
Private equity	615.604	12.5	692.555	538.654
Infrastructure	179.673	10.7	198.898	160.448
Active currency	0.294	-	0.294	0.294
Cash and cash equivalents	191.158	-	191.158	191.158
Forward currency contracts	(1.040)	-	(1.040)	(1.040)
Futures	(0.202)	-	(0.202)	(0.202)
Investment income due	9.546	-	9.546	9.546
Amounts due for sales	1.960	-	1.960	1.960
Amounts payable for purchases	(3.138)	-	(3.138)	(3.138)
Total	**7,934.084**		**8,666.604**	**7,201.565**

The analysis in the two tables above is on a look through basis. This differs from the analysis in note 11 and the tables on the next page which are compiled under accounting standards.

Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31st March 2017 and 31st March 2018 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

31st March 2017		31st March 2018
£m		£m
191.158	Cash and cash equivalents	301.465
1,320.959	Fixed interest securities	1,445.490
191.157	Index-linked securities	184.727
1,703.274	**Total**	**1,931.682**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall.

The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2018	Value on increase	Value on decrease
		+1%	-1%
	£m	£m	£m
Cash and cash equivalents	301.465	304.480	298.450
Fixed interest securities	1,445.490	1,459.945	1,431.035
Index-linked securities	184.727	186.574	182.880
Total	**1,931.682**	**1,950.999**	**1,912.365**

Asset type	Value at 31st March 2017	Value on increase	Value on decrease
		+1%	-1%
	£m	£m	£m
Cash and cash equivalents	191.158	193.070	189.246
Fixed interest securities	1,320.959	1,334.169	1,307.749
Index-linked securities	191.157	193.069	189.245
Total	**1,703.274**	**1,720.308**	**1,686.240**

The table on the next page shows the Fund's asset values that have direct exposure to these rate movements. It also shows the reasonable change predicted on the net asset value of a 1% movement in interest rates up or down. The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2018	Reasonable change predicted	Value on increase	Value on decrease
			-1% rate change	+1% rate change
	£m	%	£m	£m
Cash and cash equivalents	301.465	-	301.465	301.465
Fixed interest securities	1,445.490	8.3	1,565.466	1,325.514
Index-linked securities	184.727	10.1	203.384	166.070
Total	**1,931.682**		**2,070.315**	**1,793.049**

Asset type	Value at 31st March 2017	Reasonable change predicted	Value on increase	Value on decrease
			-1% rate change	+1% rate change
	£m	%	£m	£m
Cash and cash equivalents	191.158	-	191.158	191.158
Fixed interest securities	1,320.959	8.1	1,427.957	1,213.961
Index-linked securities	191.157	11.5	213.140	169.174
Total	**1,703.274**		**1,832.255**	**1,574.293**

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The following table shows the Fund's currency exposures as at 31st March 2017 and at 31st March 2018:

Value at 31st March 2017	Asset type	Value at 31st March 2018
£m		£m
45.241	Overseas fixed interest	82.858
2,910.243	Overseas quoted equities	3,146.082
388.473	Overseas unquoted equities	281.862
711.000	Overseas pooled investment vehicles	628.662
(1.040)	Forward currency contracts	(1.514)
77.414	Overseas currency	113.880
4,131.331	**Total**	**4,251.830**

Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the investment advisor, the Fund considers the likely volatility associated with foreign exchange to be 13%, up from 11% in 2016/17.

The table on the next page shows the impact of a 13% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens. The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2018	Potential change	Potential market movement	Value on increase	Value on decease
	£m	%	£m	£m	£m
Overseas fixed interest	82.858	13.0	10.772	93.630	72.086
Overseas quoted equities	3,146.082	13.0	408.991	3,555.073	2,737.091
Overseas unquoted equities	281.862	13.0	36.642	318.504	245.220
Overseas pooled investment vehicles	628.662	13.0	81.726	710.388	546.936
Forward currency contracts	(1.514)	13.0	(0.197)	(1.711)	(1.317)
Overseas currency	113.880	13.0	14.804	128.684	99.076
Total	**4,251.830**		**552.738**	**4,804.568**	**3,699.092**

Asset Type	Value at 31st March 2017	Potential change	Potential market movement	Value on increase	Value on decease
	£m	%	£m	£m	£m
Overseas fixed interest	45.241	11.0	4.977	50.218	40.264
Overseas quoted equities	2,910.243	11.0	320.127	3,230.370	2,590.116
Overseas unquoted equities	388.473	11.0	42.732	431.205	345.741
Overseas pooled investment vehicles	711.000	11.0	78.210	789.210	632.790
Forward currency contracts	(1.040)	11.0	(0.114)	(1.154)	(0.926)
Overseas currency	77.414	11.0	8.516	85.930	68.898
Total	**4,131.331**		**454.448**	**4,585.779**	**3,676.883**

Manager Risk

Manager risk is the risk that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views, relative to their respective benchmarks.

The Pension Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken into account.

To this end, almost all of the Fund's investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions. In addition to these the Fund also lends money to local authorities which it deems to be rated at AA the same as the UK Government which is the guarantor should any local authority fail to meet its obligations. Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2018 was £141.220m (£56.250m as at 31st March 2017). The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Capita Asset Services. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Capita Asset Services listing of approved institutions.

The internally managed cash was held with the following institutions:

	Rating	Value at 31st March 2017 £m	Value at 31st March 2018 £m
Money market funds			
Legal and General	AAA	14.500	14.500
Standard Life (Ignis)	AAA	14.870	14.500
Federated	AAA	7.300	12.010
Insight	AAA	-	10.600
Bank deposit accounts			
Lloyds Bank	A+	14.000	6.610
Bank of Scotland	A+	-	10.000
Santander Bank	A	-	5.000
Sumitomo Bank	A		5.000
Goldman Sacs Bank	A		5.000
Leeds Building Society	A-	5.000	-
NatWest Bank	BBB+	0.580	-
Local authorities			
Leeds City Council		-	15.000
Thurrock Borough Council		-	10.000
Plymouth City Council		-	5.000
North Lincolnshire Council		-	5.000
Redcar and Cleveland Borough Council		-	5.000
Cherwell District Council		-	5.000
Birmingham City Council		-	5.000
Isle of Anglesey County Council		-	5.000
Gwent County Council		-	3.000
Total		**56.250**	**141.220**

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. This is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

Section 7 – Tyne and Wear Pension Fund Statements

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of the 31st March 2018.

14. Current Assets and Liabilities

31st March 2017 £m		31st March 2018 £m
	Current assets	
4.702	Contributions - members	4.812
20.461	Contributions and recharges due - employers	16.623
0.013	HM Revenue and Customs	0.014
0.485	Investment management expenses	1.246
0.159	Other	0.361
25.820	**Total current assets**	**23.056**
	Current liabilities	
(3.261)	Unpaid benefits	(1.859)
(0.081)	Contributions, recharges and refunds due - employers	(13.705)
(2.914)	HM Revenue and Customs - tax deducted from pensions	(3.000)
(2.901)	Investment management expenses	(2.825)
(0.103)	Other	(0.996)
(9.260)	**Total current liabilities**	**(22.385)**

The current assets and liabilities can be split under Whole of Government requirements as follows:

Current Assets

31st March 2017 £m		31st March 2018 £m
0.013	Central government bodies	0.017
15.967	Other local authorities	8.217
0.003	NHS bodies	0.003
9.223	Public corporations and other trading funds	8.350
0.614	Other entities and individuals	6.469
25.820	**Total current assets**	**23.056**

Current Liabilities

31st March 2017 £m		31st March 2018 £m
(2.177)	Central government bodies	(3.001)
(0.913)	Other local authorities	(12.216)
(2.807)	Public corporations and other trading funds	(2.006)
(3.363)	Other entities and individuals	(5.162)
(9.260)	**Total current liabilities**	**(22.385)**

15. Agency Services

The Fund pays discretionary awards to the former employees of a number of employers. The amounts paid are included in the Fund Account paid line in Note 9 and then deducted as a recharge as these amounts are fully reclaimed from the employer bodies. The sums for each employer are disclosed below.

2016/17 £m	Payments on behalf of:	2017/18 £m
2.529	Newcastle City Council	2.487
2.148	Sunderland City Council	2.099
1.978	Gateshead Council	1.951
1.834	North Tyneside Council	1.793
0.830	South Tyneside Council	0.806
0.404	Nexus	0.374
0.240	Newcastle International Airport	0.237
0.232	Police and Crime Commissioner for Northumbria	0.228
0.074	Tyne and Wear Residuary Body	0.071
0.055	Tyne and Wear Fire and Rescue Service	0.055
0.051	The Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority	0.049
0.049	University of Sunderland	0.049
0.041	Northumbria University	0.039
0.017	Workshops for the Adult Blind	0.017
0.015	Assessment and Qualifications Alliance	0.015
0.010	Newcastle College	0.010
0.010	Northern Council for Further Education	0.010
0.008	Association of North East Councils	0.008
0.008	Newcastle Theatre Royal Trust	0.008
0.007	One North East	0.007
0.007	Wearside College	0.007
0.006	Northumbria Tourist Board	0.007
0.007	Benton Grange School	0.006
0.006	Gateshead Magistrates' Courts	0.006
0.005	Gateshead College	0.005
0.004	Sunderland Magistrates' Courts	0.004
0.004	North Tyneside Disability Advice	0.004
0.004	South Tyneside Magistrates' Courts	0.004
0.004	Sunderland Empire Theatre Trust	0.004
0.004	Higher Education Funding Council for England	0.003
0.003	Monkwearmouth College	0.003
0.003	North East Regional Employers Organisation	0.003
0.003	South Tyneside Homes Limited	0.003
0.003	Tyne and Wear Development Company Limited	0.003
0.003	City of Sunderland College	0.003
0.002	Catholic Care North East	0.002
0.002	North Tyneside College	0.002
0.002	North Tyneside Magistrates' Courts	0.002
0.002	Wallsend Hall Enterprises Limited	0.002
0.001	Age Concern Newcastle	0.001
0.001	Tyne and Wear Enterprise Trust	0.001
10.616	**Total agency services**	**10.388**

In addition to this service for employers within the Fund, from February 2018 the Fund has taken over the administration of the Northumberland County Pension Fund, the agreement is that the Fund is reimbursed for all pension costs it pays out on their behalf.

16. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the LGPS, with the contributions being invested as part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the LGPS (Management and Investment of Funds) Regulations 2009, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

Equitable Life has experienced financial difficulties arising 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 own balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2017/18, £2.224m of contribution income was received into the AVC funds provided by The Prudential (£2.012m during 2016/17). As at 31st March 2018, these funds were valued at £12.313m (£11.877m as at 31st March 2017).

During 2017/18, £0.001m of contribution income was received into the AVC funds provided by Equitable Life (£0.001m during 2016/17). As at 31st March 2018, these funds were valued at £0.055m (£0.055m as at 31st March 2017).

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

17. Analysis of Investments Over Managers

The Fund employed nine external investment managers as at 31st March 2018. Each manager is a specialist in the market in which they invest. This broad based management structure seeks to ensure that investment returns are not overly influenced by the performance of any one manager.

The Fund also has investment programmes across the three alternative asset classes of Private Equity, Infrastructure and Global Property.

The Private Equity programme is well diversified across providers, geography, industry and vintage years. The Fund has made commitments to fund of funds provided by HarbourVest and Pantheon, secondary funds managed by HarbourVest, Lexington

Partners and Coller Capital and direct funds with HarbourVest, Capital International, Lexington Partners and Partners Group.

The Fund has invested in Infrastructure through funds provided by Partners Group, Infracapital and Pantheon.

Investment in Global Property is through funds provided by Partners Group.

The market value of the investments in the hands of each manager was:

31st March 2017 £m			31st March 2018 £m	
		Investment managers		
353.905	4.5%	Aberdeen Property Investors	382.502	4.7%
337.127	4.2%	BlackRock	340.016	4.1%
627.564	7.9%	Henderson Global Investors	658.385	8.0%
680.156	8.6%	JP Morgan Asset Management	704.221	8.5%
171.220	2.2%	Lazard Asset Management	190.197	2.3%
2,812.994	35.5%	Legal and General Investment Management	3,495.464	42.3%
728.173	9.2%	M&G Investments	787.819	9.5%
331.591	4.2%	Mirabaud Investment Management	342.205	4.1%
85.473	1.1%	TT International	100.655	1.2%
500.636	6.3%	UBS Global Asset Management	-	0.0%
0.295	0.0%	Active Currency	0.287	-
614.681	7.7%	Private Equity	533.838	6.5%
179.673	2.2%	Infrastructure	141.073	1.6%
376.883	4.8%	Global Property	343.424	4.2%
133.713	1.6%	Managed in-house	253.731	3.0%
7,934.084	**100.0%**	**Total investments**	**8,273.817**	**100.0%**

18. Derivatives

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

Futures

The Fund did not hold any future contracts as at 31st March 2018, if held these would be to assist Investment Managers in their asset allocation. Outstanding exchange traded futures contracts from the previous year are as shown on the next page.

Type	Expires	Economic exposure	Market value at 31st March 2017	Market value at 31st March 2018
Assets		**£m**	**£m**	**£m**
Overseas equity	Less than one year	1.348	0.005	-
Total assets		**1.348**	**0.005**	**-**
Liabilities				
UK equity	Less than one year	1.164	(0.011)	-
Overseas equity	Less than one year	6.340	(0.123)	-
UK fixed interest	Less than one year	(4.848)	(0.073)	-
Total liabilities		**2.656**	**(0.207)**	**-**
Net futures		**4.004**	**(0.202)**	**-**

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2018, the Fund held twenty-one positions in foreign currency that together showed an unrealised loss of £1.514m, as shown in the table below:

Type of forward currency contracts

Settlement	Type of contract	Currency bought	Currency sold	Market value £m	
Three month	Over the Counter	Sterling	Norwegian Krone	0.015	
Three month	Over the Counter	Sterling	Euro	0.541	
Three month	Over the Counter	Sterling	Hong Kong Dollar	0.034	
Three month	Over the Counter	Sterling	Singapore Dollar	0.069	
Three month	Over the Counter	Sterling	US Dollar	0.074	
Three month	Over the Counter	Sterling	Yen	0.074	
Three month	Over the Counter	Euro	Sterling	0.008	
Three month	Over the Counter	Yen	Sterling	0.161	
Three month	Over the Counter	US Dollar	Sterling	0.090	
Loss/liability value as at 31st March 2018					**1.066**
Three month	Over the Counter	Sterling	Hong Kong Dollar	(0.001)	
Three month	Over the Counter	Sterling	Euro	(0.007)	
Three month	Over the Counter	Sterling	Yen	(0.117)	
Three month	Over the Counter	Sterling	US Dollar	(0.031)	
Three month	Over the Counter	Danish Krone	Sterling	(0.030)	
Three month	Over the Counter	Australian Dollar	Sterling	(0.521)	
Three month	Over the Counter	Canadian Dollar	Sterling	(0.369)	
Three month	Over the Counter	Swiss Franc	Sterling	(0.234)	
Three month	Over the Counter	Hong Kong Dollar	Sterling	(0.167)	
Three month	Over the Counter	Norwegian Krone	Sterling	(0.023)	
Three month	Over the Counter	US Dollar	Sterling	(1.064)	
Three month	Over the Counter	Singapore Dollar	Sterling	(0.016)	
Profit/asset value as at 31st March 2018					**(2.580)**
Net forward currency contracts at 31st March 2018					**(1.514)**

These were settled at a loss of £2.150m early in the 2018/19 financial year.

19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £173.769m were out on loan as at 31st March 2017. The breakdown of securities on loan was:

31st March 2017 £m		31st March 2018 £m
18.042	Fixed interest securities	37.263
100.203	UK equities	89.658
43.920	Overseas equities	46.848
162.165	**Total securities lending**	**173.769**

The value of collateral against which the securities were lent out is £184.711m. This collateral consists of acceptable securities, government debt and obligations issued by supranational entities.

20. Property Holdings

2016/17 £m	Property holdings	2017/18 £m
311.425	Opening balance	340.300
18.866	Purchases	24.912
14.291	New construction	6.642
0.053	Subsequent expenditure	0.393
(13.000)	Disposals	(35.225)
8.665	Net increase in market value	29.208
340.300	**Closing balance**	**366.230**

There are no restrictions on the sale of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The future minimum lease payments receivable by the Fund are as follows:

31st March 2017 £m		31st March 2018 £m
19.032	Within one year	18.742
62.049	Between one and five years	70.207
149.742	Later than five years	194.322
230.823	**Minimum due from leases**	**283.271**

21. Significant Holdings

As at 31st March 2018, the Fund had three holdings that each represented more than 5% of the total Fund value. All three 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 2018, this was valued at £2,726.590m and represented 33.0% of the total net assets of the Fund. During 2017/18, the insurance contract was covered by nine individual funds, as follows:

31st March 2017 £m		31st March 2018 £m
861.300	UK equities	1,059.989
108.894	Asia Pacific (excluding Japan) equities	111.187
206.147	Emerging markets equities	224.174
189.179	Europe (excluding UK) equities	557.818
95.543	Japan equities	109.875
433.114	North America equities	464.879
11.256	UK gilts	11.313
103.698	Index-linked gilts	104.494
45.241	Emerging markets passive government bonds	82.858
0.033	Transition	0.003
2,054.405	**Total**	**2,726.590**

- Legal and General Assurance (Pensions Management) Limited – RAFI Fund. During the financial year the Fund transferred the holdings in RAFI Global Equities to a separate insurance contract from the Managed Fund mentioned above. As at the 31st March 2018, this was valued at £768.874m (£758.589m as at 31st March 2017) and represented 9.3% of the total assets of the Fund.

- M&G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2018, this was valued at £787.819m (£728.173m as at 31st March 2017) and represented 9.5% of the total net assets of the Fund.

22. Outstanding Commitments

As at 31st March 2018 the Fund had sixty-four outstanding commitments to investments, as shown in the table on the next page.

Section 7 – Tyne and Wear Pension Fund Statements

Name of fund	Year	Value	Drawdowns made	Commitment outstanding	
		m	m	m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$53.6	$1.4	£1.0
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$43.5	$2.5	£1.8
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.5	$0.5	£0.4
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$27.5	$0.5	£0.4
Capital International Private Equity Fund IV	2004	$18.0	$17.8	$0.2	£0.1
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€96.0	€4.0	£3.5
HarbourVest International Private Equity Partners V - Direct	2005	€30.0	€28.8	€1.2	£1.1
Pantheon Asia Fund IV	2005	$20.0	$18.9	$1.1	£0.8
Pantheon Europe Fund IV	2005	€25.0	€23.4	€1.6	£1.4
Pantheon USA Fund VI	2005	$30.0	$28.3	$1.7	£1.2
Lexington Capital Partners VI-B	2005	$30.0	$29.5	$0.5	£0.4
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$107.0	$5.0	£3.6
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$54.9	$1.1	£0.8
Pantheon Europe Fund V	2006	€35.0	€32.8	€2.2	£1.9
Pantheon USA Fund VII	2006	$35.0	$32.3	$2.7	£1.9
Coller International Partners V	2006	$30.0	$23.5	$6.5	£4.6
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$29.3	$0.7	£0.5
Pantheon Asia Fund V	2007	$20.0	$18.4	$1.6	£1.1
Pantheon Europe Fund VI	2007	€40.0	€36.7	€3.3	£2.9
Pantheon USA Fund VIII	2007	$35.0	$31.2	$3.8	£2.7
Capital International Private Equity Fund V	2007	$35.0	$29.2	$5.8	£4.1
Co-Investment Partners Europe	2007	€30.0	€28.4	€1.6	£1.4
Partners Group 2006 Direct Fund	2007	€30.0	€28.8	€1.2	£1.1
Infracapital Partners I	2007	£35.0	£32.8	£2.2	£2.2
Capital International Private Equity Fund VI	2010	$35.0	$29.0	$6.0	£4.3
Lexington Capital Partners VII	2010	$30.0	$24.3	$5.7	£4.1
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$37.6	$2.4	£1.7
Partners Group Real Estate Secondary 2009 (EURO)	2010	€60.0	€57.2	€2.8	£2.5
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€145.0	€127.9	€17.1	£15.0
Partners Group Global Infrastructure 2009	2010	€70.0	€61.2	€8.8	£7.7
Partners Group Direct Infrastructure 2011	2011	€85.0	€74.8	€10.2	£8.9
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$92.2	$7.8	£5.6
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$54.2	$10.8	£7.7
HarbourVest International Private Equity Partners VI - Partnership	2011	€50.0	€46.0	€4.0	£3.5
Coller International Partners VI	2012	$45.0	$31.6	$13.4	£9.6
Pantheon Asia Fund VI	2012	$40.0	$30.0	$10.0	£7.1
Pantheon Europe Fund VII	2012	€25.0	€19.9	€5.1	£4.5
Pantheon USA Fund IX	2012	$30.0	$23.8	$6.2	£4.4
Partners Group Global Infrastructure 2012	2013	€45.0	€31.4	€13.6	£11.9
Partners Group Real Estate 2014	2013	$64.0	$38.5	$25.5	£18.2
Partners Group Real Estate Income 2014	2013	€23.0	€19.9	€3.1	£2.7
Partners Group Global Real Estate 2013	2013	$130.0	$78.7	$51.3	£36.6
Partners Group Real Estate Secondary 2013	2013	$65.0	$44.8	$20.2	£14.4
HarbourVest Dover Street VIII Cayman Fund LP	2013	$30.0	$26.3	$3.7	£2.6
HarbourVest Partners IX - Cayman Buyout Fund	2013	$60.0	$42.8	$17.2	£12.3
HarbourVest Partners IX - Cayman Venture Fund	2013	$30.0	$27.6	$2.4	£1.7
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	$30.0	$29.0	$1.0	£0.7
Lexington Capital Partners VIII	2014	$30.0	$14.1	$15.9	£11.3
Infracapital Partners II	2014	£19.6	£16.6	£3.0	£3.0
HarbourVest International Private Equity Partners VII - Partnership	2014	$70.0	$36.1	$33.9	£24.2
Coller International Partners VII	2015	$45.0	$14.1	$30.9	£22.0
HarbourVest Partners X - AIF Buyout Fund	2015	$50.0	$8.5	$41.5	£29.6
HarbourVest Partners X - AIF Venture Fund	2015	$25.0	$6.3	$18.7	£13.3
HarbourVest Dover Street IX LP	2016	$30.0	$7.8	$22.2	£15.8
Partners Group Direct Infrastructure 2015	2016	$140.0	$40.8	$99.2	£70.7
HarbourVest Partners Co-Investment Fund IV AIF	2016	$30.0	$17.9	$12.1	£8.6
Aberdeen UK PRS Opportunities LP	2016	£60.0	£15.2	£44.8	£44.8
Pantheon Europe Select 2016	2017	€24.3	€1.8	€22.5	£19.7
Pantheon Global Co-Investment 2016	2017	$65.0	$19.5	$45.5	£32.4
HIPEP VIII Partnership Fund	2017	$80.0	$6.8	$73.2	£52.2
Infracapital Greenfield Partners I	2017	£20.0	£2.1	£17.9	£17.9
Pantheon Global Infrastructure III	2017	$27.0	$2.7	$24.3	£17.3
Infracapital Partners III	2017	£20.0	£0.0	£20.0	£20.0
Partners Group Real Estate Secondary 2017	2017	$135.0	$8.3	$126.7	£90.3
Total outstanding commitments					**£721.7**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2018.

23. Related Party Transactions

Under IAS24 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

Governance

There were five members of the Pensions Committee who were in receipt of pension benefits from the Fund, namely the Chair of the Pensions Committee E. Leask and committee members J. Foreman, R. Goldsworthy, P. Hay, T. Mulvenna and J. Perry. In addition, Committee member W. Flynn is an active member of the Fund. The Vice Chair of the Pensions Committee, A. Walsh, and Committee member G. Haley are deferred members of the Fund.

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

Employers

During 2017/18, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Ltd, had related party transactions with the Fund totalling £0.937m (£0.972m in 2016/17), analysed as follows:

- South Tyneside Council charged the Fund £0.557m (£0.536m in 2016/17) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs.
- The Fund charged South Tyneside Council £0.061m (£0.059m in 2016/17) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.319m (£0.377m in 2016/17) in respect of services provided, primarily being financial and information technology.

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

Key Management Personnel

The key management personnel of the Fund are the Head of Pensions, the Principal Investment Manager and the Principal Pensions Manager. Total remuneration payable to key management personnel is set out in the table on the next page.

31st March 2017 £m		31st March 2018 £m
0.169	Short term benefits	0.219
0.043	Post-employment benefits	0.053
0.212	**Total**	**0.272**

Other senior managers, including the Section 151 Officer, linked to the Fund are employed by South Tyneside Council and the costs to the Fund are included within recharges to the Fund.

24. Impairment Losses

Impairment for Bad and Doubtful Debts

During 2017/18 the fund has recognised an impairment loss of £0.086m (£0.085m as at 31st March 2017) for the possible non-recovery of pensioner death overpayments.

25. Pension Fund Disclosures under IAS26

Under IAS26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits", which were last valued at 31st March 2016 by the Actuary at £8,657.3m.

This figure was calculated using the following information supplied by the Actuary.

Information Supplied by the Actuary

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme

	Value as at 31st March 2016 £m	Value as at 31st March 2013 £m
Fair value of net assets	6,427.400	5,432.300
Actuarial present value of the promised retirement benefits	(8,657.300)	(7,514.500)
Deficit in the Fund as measured for IAS 26 purposes	(2,229.900)	(2,082.200)

	31st March 2016 (% per annum)	31st March 2013 (% per annum)
Discount rate	3.4	4.4
RPI inflation	2.9	3.4
CPI inflation *	1.8	2.4
Rate of general increase in salaries **	3.3	3.9

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.

Section 7 – Tyne and Wear Pension Fund Statements

Post retirement mortality	31st March 2016	31st March 2013
Males		
Base table	Standard SAPS S2 Tables	Standard SAPS Normal Health Light Tables (S1NMA_L)
Rating to above base table (years) *	0%	0%
Scaling to above base table rates	100%	120%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of 1.50%	CMI 2012 with a long term rate of improvement of 1.50%
Future lifetime from age 65 (currently aged 65)	22.7	22.9
Future lifetime from age 65 (currently aged 45)	24.9	24.9
Females		
Base table	Standard SAPS S2 Tables	Standard SAPS Normal Health Light Tables (S1NFA_L)
Rating to above base table (years) *	0%	0%
Scaling to above base table rates	85%	115%
Allowance for future improvements	CMI 2014 with a long term rate of improvement of 1.50%	CMI 2012 with a long term rate of improvement of 1.50%
Future lifetime from age 65 (currently aged 65)	26.2	24.5
Future lifetime from age 65 (currently aged 45)	28.5	26.8

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older then them. The ratings shown apply to normal health retirements.

	31st March 2016	31st March 2013
Commutation	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund – 8th May 2017. A full copy is available on request.

For figures relating to individual employers of the Fund, please refer to each employer's final accounts.

26. Other Sensitive areas

In accordance with the code the following notes are deemed to be containing sensitive information and are disclosed for transparency reasons.

Allowances paid to members of the Pensions Committee totalled £0.023m in the year to 31st March 2018 (£0.022m in 2016/17) these have been included within Oversight and Governance Costs included in note 9.

The Fund is audited by Ernst & Young who received a fee of £0.036m (£0.036m in 2016/17) for carrying out this audit. These fees are included in the administration and oversight and governance cost lines in note 9.

27. Policy documents

The Pension Fund has a number of key policy documents that outline the framework within which the fund operates. These include:

- Investment Strategy Statement
- Corporate Governance Policy
- Governance Compliance Statement
- Funding Strategy Statement
- The Pension Service Plan
- The Pensions Administration Strategy
- The Fund's Discretions within the Local Government Pension Scheme
- Communications Policy

28. Investment Performance

Equity markets generally produced strong returns for the first nine months of the year, however, in the final quarter they became nervous about potential monetary tightening and the possibility of a trade war between the US and China. Despite this all of the major equity markets produced positive returns.

The strongest performing markets were Emerging market equities and UK property, with returns of 11.8% and 11.3% respectively. The poorest performer was cash, which returned 0.4%.

The majority of the major equity markets ended the year up in value, bond markets generally produced positive returns, however alternatives finished the year down in total.

The Fund's total return in this year was 3.9%, which was 0.1% above its benchmark return of 3.8%. This reflects modest performance from financial markets overall, following an exceptional period of performance for the Fund in 2016/17, when the Fund produced a return of 23.9%.

These performance figures reflect updated private markets valuations amounting to an increase of £18.000m, over and above the value shown in the Financial Statements. These updated valuations were not available at the time the financial statements were produced. This approach is consistent with the approach taken in previous years.

Inflation as measured by the Consumer Prices Index (CPI), which has risen in importance as a measure for the Scheme, was up by 2.3% over the year while average earnings increased by 2.8 %.

Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance. The Fund's five year return is 9.1% per annum, above the benchmark return of 8.0% per annum. The five year return is above both inflation at 1.1% per annum (CPI) and the average increase in average earnings at 2.4% per annum.

The Fund's ten year return is 8.0% per annum, also above the benchmark return of 7.5% per annum. The returns for both periods are above the increases in the CPI inflation figure of 2.1% per annum and the increase in average earnings at 1.5% per annum.

29. 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.

30. Events after the Accounting Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and

b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

For example, if there had been a marked decline in the global stock markets that would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorised for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

Section 7 – Tyne and Wear Pension Fund Statements

Organisations Participating in the Fund as at 31st March 2018

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

Other Part 1 Scheduled Bodies
Academy 360
Acer Learning Trust
Aim High Academy Trust
All Saints Academies Trust
Balmoral Learning Trust
Barnes Academy Trust
Barnwell Academy Trust
Beacon of Light School
Biddick Academy Trust
Bright Tribe Trust
Brighter Academy Trust
Castle View Enterprise Academy
City of Sunderland College
Consilium Academies
Dayspring Trust
Diamond Hall Infant Academy
Discover Learning Trust
Discovery Learning Limited
Eppleton Academy Primary School
Extol Academy Trust
Former North East Regional Airport Committee
Former Tyne and Wear County Council
Former Tyne and Wear Residuary Body
Gateshead College
Gateshead Housing Company
Gosforth Federated Academies Limited
Grasmere Academy
Grindon Hall Christian School
Holy Trinity Church of England Academy (South Shields) Trust
Houghton Kepier Sports College Academy Trust
Inspire Multi Academy Trust
Jigsaw Learning Trust
Joseph Swan Academy
Kenton School Newcastle
Kibblesworth Academy
Lord Lawson of Beamish Academy
Monkton Infants School
Monkton Junior School
Monkwearmouth College
Newcastle College
Newcastle East Mixed Academy Trust (NEAT)
Newcastle Education Action Zone
North East Learning Trust
North Tyneside College
North View Academy Trust
Northern Lights Learning Trust
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria University
Oak Learning Trust
Police and Crime Commissioner for Northumbria
Prosper Learning Trust
Redby Primary Academy
Red House Academy
River Tees Multi Academy Trust

Other Part 1 Schedule Bodies (continued)
Riverside Primary Academy
Ryhope Infant School Academy
Sacred Heart Partnership of Schools
Smart Multi Academy Trust
South Tyneside Education Action Zone
South Tyneside Homes
Southmoor Academy
St Aidan's Education Trust
St Anthony's Girls' Catholic Academy
St Cuthbert's Catholic High School
St Joseph's Catholic Education Trust
St Mary's Catholic School Trust
St Thomas More Roman Catholic Academy (North Tyneside)
Sunderland Education Action Zone
The Ascent Academies Trust
The Cedars Academy Trust
The Chief Constable for Northumbria
The Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority
The Illuminaire Multi Academy Trust
The Laidlaw Schools Trust
The Northern Education Trust
The Northern Saints Catholic Education Trust
The St Thomas More Partnership of Schools
The Trinity Catholic Multi Academy Trust
Trinity Academy Newcastle
Tyne and Wear Fire and Rescue Service
Tyne Coast Academy Trust
Tyne Coast College
Tyne Metropolitan College
Tynemouth College
University of Sunderland
Valour Multi Academy Trust
Vision Learning Trust
Wearmouth Learning Trust
Wearside College
West Newcastle Academy
Whickham School and Sports College
Whitburn Church of England Academy
Wise Academies
Woodard Academies Trust
Your Homes Newcastle

Part 2 Scheduled Bodies
Birtley Town Council
Blakelaw and North Fenham Parish Council
Blue Square Trading Limited
Care and Support Sunderland Limited
Castle View Fitness Centre
Illuminaire Business Services Limited
Learning World
Neat Active Limited
Nexus
Northumbria University Nursery Limited
Regent Funeral Services
Sunderland Care and Support Limited (SCSL)
Sunderland Live Limited
The Intraining Group Limited
Together For Children
University of Sunderland London Campus Limited
Victims First Northumbria
Zero Carbon Futures (North) Limited

Section 7 – Tyne and Wear Pension Fund Statements

Admitted Bodies

Age Concern Newcastle
Assessment and Qualification Alliance
Association of North East Councils
Azure Business Centres Limited
Balfour Beatty Living Places Limited
Baltic Flour Mills Visual Arts Trust
Bell Decorating Group Limited
Benton Grange School
Benwell Young Peoples Development Project
Brunswick Young Peoples Development Project
BT South Tyneside Limited
Bullough Contract Services
Bulloughs Cleaning Services
Byker Community Trust
Capita Property and Infrastructure Limited
Carillion Integrated Services Limited
Carillion Services Limited (Jarrow School)
Carillion Services Limited (Lord Lawson Academy)
Carillion Services Limited (SSCS)
Catholic Care North East
CBS Outdoor Limited
Child Care Enterprise Limited
Churchill Contract Services Limited (ParkHead)
Compass Contract Services (UK) Ltd (Whickham School)
Compass Contract Services (UK) Ltd (Lord Lawson of Beamish Academy)
Compass Contract Services Ltd (Hilton Primary)
Compass Contract Services Ltd (Red House Academy)
Compass Contract Services Ltd (Thomas Hepburn and Thorp Academies)
Compass Group UK and Ireland
Dataspire Solutions Limited
DB Regio Tyne and Wear Limited
Disability North
Engie Buildings Limited
Engie Services Limited (N Tyneside)
Engie Services Limited (PB)
Gateshead Law Centre
Gentoo Group Limited
Groundwork South Tyneside and Newcastle
Hebburn Neighbourhood Advice Centre
Higher Education Funding Council for England
Information North (North Regional Library System)
Insitu Cleaning
International Centre for Life
Involve North East
Jarvis Accommodation Services Limited
Jarvis Workspace Facilities Management Limited
Kenton Park Sports Centre
KGB Cleaning and Support Services Limited
Kier North Tyneside Limited
Lovell Partnership Limited
Maxim Facilities Management Ltd (S Tyneside)
Maxim Facilities Management Limited (Illumaire Multi Academy Trust)
Mears Limited
Mitie Cleaning (North) Limited
Mitie PFI Limited (Boldon School)
Mitie PFI Limited (North Tyneside)
Morrison Facilities Services Limited 1
Morrison Facilities Services Limited 2
Morse
Museums Libraries and Archives North East
National Car Parks
National Glass Centre
Newcastle Family Service Unit
Newcastle Gateshead Initiative Limited
Newcastle Healthy City Project
Newcastle International Airport
Newcastle Law Centre
Newcastle Tenants and Residents Federation
Newcastle Tenants Federation
Newcastle Theatre Royal Trust
Newcastle West End Partnership
Newcastle Youth Congress
No Limits Theatre Company
Norcare
Norland Road Community Centre
North Country Leisure
North Country Leisure 2
North East Innovation Centre
North East Metro Operations Limited
North East Regional Employers Organisation
North Tyneside City Challenge
North Tyneside Disability Advice
Northern Arts Association
Northern Council for Further Education
Northern Counties School for the Deaf
Northern Grid for Learning
Northumbria Tourist Board
One North East
Orian Solutions Limited (Gateshead)
Orian Solutions Limited (Newcastle)
Orian Solutions Ltd (Washingwell Primary)
Ouseburn Trust
Parsons Brinkerhoff
Passenger Transport Company
Percy Hedley Foundation
Port of Tyne Authority
Praxis Service
Property Management Integrated Services and Employment Company
Raich Carter Sports Centre
RM Education
Robertson Facilities Management Limited
Robertson Facilities Management Limited (Newcastle Phase 2)

Admitted Bodies (continued)

S L M Community Leisure Charitable Trust
S L M Fitness and Health Limited
S L M Food and Beverage Limited
Saint Mary Magdalene and Holy Jesus Trust
Saint Mary the Virgin Hospital
Scolarest (Newcastle Schools)
Scolarest PFI (Boldon School)
Search Project
Simonside Community Centre
Sodexo Limited
South Tyneside Football Trust
South Tyneside Integrated Care Limited
South Tyneside Victim Support
SSE Contracting Limited
Stagecoach Services Limited
Suez Recycling and Recovery LTD (Gateshead)
Suez Recycling and Recovery LTD (Sunderland)
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust
Sunderland Outdoor Activities
Sunderland People First Co-operative Community Interest Company
Sunderland Street Lighting Limited
Taylor Shaw
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
TT2 Limited
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyne Waste Limited
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Valley Citizens Advice Bureau
Walker Profiles (North East) Limited
Wallsend Citizen Advice Bureau
Wallsend Hall Enterprise Limited
Workshops for the Adult Blind

The schedule includes organisations that are no longer in existence but for which there remains a liability in the Fund.

Section 8 – Glossary of Financial Terms

Glossary of Financial Terms

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

Accounting Policies
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accruals
The concept that income and expenditure are taken into account as they are earned or incurred, not when money is actually received or paid. Accrual accounting covers both revenue and capital transactions.

Actuarial Gains or Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.

Arm’s Length Management Organisation
A procurement option involving the creation of a company to deliver housing services on behalf of the Council. Whilst the Council still retains some management control the company is able to pursue additional funding sources and so deliver more regeneration to the borough.

Asset
Something an organisation owns e.g. land or buildings, cash and debtors.

Assets Held For Sale or Disposal
Non-current assets such as property actively marketed for disposal and expected to be sold or disposed of within 12 months of the reporting period.

Associates
An entity in which the Council has an interest on a long term basis and is jointly controlled with one or more other entities under a contractual or other binding arrangement. Voting is based on a majority decision rather than a unanimous decision.

Balance Sheet
A primary financial statement reporting the assets and liabilities of an organisation at a given date.

Budgets
A statement of the Council’s forecast expenditure, that is, net income and expenditure for the year.

Capital Accounting
Ensures that a charge is made to each service to represent the cost of using non-current assets.

Section 8 – Glossary of Financial Terms

Capital Expenditure
Spending resulting in the addition or enhancement of a long term asset such as property, plant and equipment, heritage and intangible assets. Other types of expenditure can be capitalised but only with the express permission of the Secretary of State.

The **Capital Adjustment Account** shows the effect of statutory departures from the Code including the financing of capital expenditure from external sources and the impact of depreciation, impairments, amortisations and revaluation losses compared to the debt set aside provision, which the Council has to make.

Capital Grants Receipts in Advance
Capital funding received but not applied at the Balance Sheet date. This funding has conditions attached meaning it will have to be repaid if not applied.

Capital Receipts
Income generated by the disposal of non-current assets or classified under statute by the Secretary of State. Part of the monies received can be retained by the Council and used to finance capital expenditure or repay debt. The balance is paid over to Central Government.

Cash Equivalents
An asset that can readily be turned into cash at short notice and with no penalty on its value held in the accounts.

Cash Flow Statement
A primary statement reporting the movement in cash and cash equivalents of the Council during the reporting period.

CIPFA
Chartered Institute of Public Finance and Accountancy the professional body governing how the Statement of Accounts should be prepared.

Code of Practice (the Code)
The statutory basis on which the statement of accounts are prepared. The Code follows IFRS approved accounting standards and specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position.

Collection Fund
Section 89 of the Local Government Finance Act 1988 requires each Council with the power to raise council tax bills (a billing authority) to maintain a Collection Fund. Council tax and non-domestic rates are held in this fund and it should be sufficient to cover expenditure relating to the precepts of the Fire and Police Authorities, the Governments share of non-domestic rates and the net expenditure of the billing authority.

Collection Fund Adjustment Account
A statutory account to reflect the difference between the Collection Fund balance required for budgetary purposes and the actual amount of council tax and non-domestic rates income receivable.

Community Assets
These are assets that the Council intends to hold in perpetuity, which have no finite useful life and may have restrictions on their disposal. Examples include parks and cemeteries.

Section 8 – Glossary of Financial Terms

Component Accounting
If an item of property, plant and equipment comprises two or more significant components with substantially different useful lives, then each component is treated separately for depreciation purposes, as if each component was a separate asset in its own right.

Comprehensive Income and Expenditure Statement
A primary statement showing the accounting cost in year of providing services rather than the amount to be funded from taxation. This statement includes changes in revaluation surplus, actuarial gains and losses on defined pension schemes and the gains and losses on re-measuring available for sale financial assets.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Asset or Liability
A contingent asset or liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or (ii) a present obligation from past events where it is not possible that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core
Comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Corporate Governance
The system by which audited bodies are directed and controlled.

Council Tax
The Local Government Finance Act 1992 introduced council tax with effect from 1st April 1993 and is based upon property values. There are eight valuation bands for chargeable dwellings ranging from band "A" (the lowest valued properties) to band "H" (the highest valued properties). The Council levies the tax based upon band D properties; the actual charge will dependent upon the banding of the individual dwelling – i.e. those properties in bands A to C will pay less council tax whilst those in bands E to H will pay more.

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

Current Service Cost (Pensions)
This is the actuarial estimate of the present value of full pension benefits earned by current employees in the year under review.

Current Value
The valuation assigned to operational property, plant and equipment so that measurement is based on service potential rather than fair value.

Section 8 – Glossary of Financial Terms

Curtailment
For a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples including termination of employees service through redundancy or amendment of their terms affecting the future benefits.

Debt Set Aside
The amount of money the Council has set aside to support the repayment of debt. This is in line with the policy adopted by the Council as part of its MTFP.

Debtors
Sums of money due to the Council but not received by the Balance Sheet date.

Defined Benefit and Defined Contribution Pension Schemes
A defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

Defined Benefit Obligation
Represents the amount of pension payments still to be paid out at the Balance Sheet date as assessed by a qualified actuary.

Depreciation
A method of measuring the wearing out (consumption) of a non-current asset during its useful life.

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

Emoluments
Payments received in cash and benefits for employment.

Employee Benefits Adjustment Account
Absorbs the differences that would otherwise arise on the general fund balance as a result of accruing for benefits earned but not taken in the year.

Existing Use Value – Social Housing
This is a vacant possession valuation of the Council dwellings adjusted to reflect the continuing occupation by a secure tenant. A further adjustment is made to reflect the difference between open market rented property and social rented property.

Expenditure and Funding Analysis
A statement that reconciles the Council's financial performance based on the General Fund to the deficit or surplus on the provision of services.

Section 8 – Glossary of Financial Terms

Fair Value
Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Finance Lease
A lease that transfers substantially all of the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred. The payments usually cover the full cost of the asset together with a return for the cost of finance.

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

Financial Instruments Adjustment Account
Records the accumulated difference between the financing costs included in the Comprehensive Income and Expenditure Statement and the accumulated financing costs required in accordance with regulations to be charged to the General Fund balance.

Financial Statements
A wider commentary on the financial position of the Council. The financial statements incorporate the statement of accounts but also include a narrative statement and an annual governance statement.

Fund of Funds
A type of investment involving the investment in a fund which itself invests in other funds.

General Fund
Expenditure and income relating to the services provided by the Council but excluding Housing Revenue Account activities.

Going Concern
An assumption that the Council will continue in operational existence for the foreseeable future.

Heritage Assets
A non-current asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Home and Communities Agency
The national housing and regeneration delivery agency for England, enabling local authorities and communities to meet the ambition they have for their areas.

Housing Revenue Account (HRA)
The provision, management and maintenance of Council house accommodation is required by law to be accounted for separately in a Housing Revenue Account. The account records the net cost after specific Government subsidy that needs to be met by Council tenants. In general the Council cannot transfer sums between the General Fund and the HRA.

Section 8 – Glossary of Financial Terms

International Financial Reporting Standards (IFRS)
The nationally recognised set of accounting standards agreed by the Accounting Standards Board. These represent the accounting treatment to be followed by all commercial organisations in the United Kingdom when preparing their accounts. Council accounts are expected to accord with IFRS except where the Government considers their principles to be inappropriate or considers others to be more appropriate to Local Government accounting and reporting.

Inventories
Assets accounted for as they are released for use rather than when they are purchased.

Impairment
A reduction in value of a non-current asset or financial instruments resulting from causes such as obsolescence, physical damage or non-recoverability of debt.

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

Intangible Assets
These are assets that do not have a physical form e.g. computer software.

Investment Properties
This is land and buildings where construction work and development has been completed and the asset is held for its investments potential, any rental income being negotiated at arm's length.

Levies
Similar to precepts these are sums paid to other bodies. However instead of being charged to the Collection Fund, as with precepting bodies, the costs are shown in the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Council are the Tyne and Wear Passenger Transport Authority and Environment Agency.

Liability
A financial obligation, any debt or money owed by the Council.

Lifecycle Costs
Incurred in PFI contracts these represent the cost of an asset, or its part throughout its cycle life, while fulfilling the performance requirements under the contract.

Major Repairs Reserve
Capital resources unspent by the Housing Revenue Account at the Balance Sheet date. By statute this reserve can only be used to fund future capital expenditure on HRA assets.

Materiality
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Medium Term Financial Planning (MTFP)
The process of identifying and aligning service pressure, corporate priorities and objectives as well as available resources over the medium term (5 years) and budgeting accordingly.

Section 8 – Glossary of Financial Terms

Money Market Funds
Mutual funds that invest in a diversified portfolio of short term, high quality debt instruments.

Movement in Reserves Statement
A primary financial statement showing the movement in year on the different reserves held by the Council. It shows the true economic cost of providing the Councils services.

Net Book Value
The amount at which non-current assets are included in the Balance Sheet being the historical cost or current value less the cumulative amounts provided for depreciation and impairment.

Net Interest on Defined Benefit Obligation
The expected increase in the year in the present value of the defined benefit obligation as the benefits are one year closer to settlement less an actuarially calculated estimate of the return on the pension scheme's investment assets during the year.

Non-Current Assets
Assets that yield benefits to the Council and the services that it provides for a period of more than one year. Examples include property, plant and equipment, land and vehicles.

Non-Distributed Costs
These are overheads for which no user benefits, and accordingly are not apportioned to services expenditure.

Non-Domestic Rates (NDR)
Non-domestic properties must pay these rates and are based upon property valuations, as undertaken by the District Valuer, and a nationally set multiplier figure.

Operating Leases
Leases other than a finance lease.

Pension Reserve
The amount set aside to offset the IAS 19 defined benefit obligation.

Post Balance Sheet Events
Those events occurring between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Finance Director.

Precept
In the calculation of the council tax and non-domestic rates for a particular year, precepts levied by appropriate bodies must be taken into account. In the case of this Council, the precepting bodies are Northumbria Police Authority, Tyne and Wear Fire and Civic Defence Authority and the Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

Private Finance Initiative (PFI)
A method of purchasing assets and services over a longer term period, usually 25 years. The financial risks involved are usually shared between the Council and the PFI operator.

Section 8 – Glossary of Financial Terms

Provisions
Provisions are required for any losses that are likely to be incurred, or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise.

Public Works Loan Board (PWLB)
A Government financed body that makes long term money available to Local Authorities who are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Party Transactions
Financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. Most related parties (i.e. precepting bodies, pension funds etc.) already have separate disclosure requirements; the main exception being members and chief officers.

Reserves
Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. Expenditure is not charged direct to any reserve.

Revaluation Reserves
Records the accumulated gains on non-current assets held by the Council from increases in value.

Revenue Balances
An expression usually referring to the accumulated surplus on the General Fund. They can be used to avoid borrowing, pay bills in the early part of the year before income is received or to reduce the council tax charge.

Revenue Expenditure
Money spent on the day-to-day running costs of providing the various services. It is usually of a constantly recurring nature and produces no permanent asset.

Revenue Expenditure funded from Capital under Statute
Represents items of expenditure which by definition are not capital but where the Council has statutory powers to treat and fund as capital expenditure.

Revenue Support Grant
A government grant in aid of Council services generally. It is based upon the Government assessment of how much a Council needs to spend.

Segment
The service lines making up the cost of services in the Comprehensive Income and Expenditure Statement that equate to the Heads of Service or Corporate Leads within the Council's management structure of responsibilities.

Settlements
Occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the pension benefits provided under a defined benefit plan. Examples include schools transferring to academy status.

Section 8 – Glossary of Financial Terms

Specific Government Grants
Funding provided by Central Government to aid particular services or projects administered by local authorities.

Statement of Accounts
Made up of all the primary statements, the notes to the accounts and the auditor's report.

Subsidiary
An entity wholly owned or controlled by the Council.

Taxation and Non-Specific Grant Income
Primarily for recording revenue grants received by the Council but not for any specific purpose and capital grants received in respect of funding for the capital programme.

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

Unusable Reserves
Reserves created to hold the differences between accounting for Income and Expenditure under IFRS and the statutory regime governing what can and cannot be charged against usable reserves.

Usable Reserves
Funds available to the Council to support future spending.

Useful Economic Life
The period over which the Council will derive benefits from the use of a non-current asset.

Section 9 – Annual Governance Statement

South Tyneside Council and Tyne and Wear Pension Fund

Annual Governance Statement 2017/18

Introduction

1. Everything the Council does is focused around delivering our ambitious vision for South Tyneside and to ensure we deliver the best possible services and outcomes for our Community whilst providing good value for our stakeholders.

2. To help achieve our vision it is essential that the Council has effective governance arrangements. This means effective leadership, clear direction and controls to ensure that vision and policy is put into practice. These arrangements will ensure that we are resilient and able to withstand any threats that emerge which impact on the Community, on our business or our reputation.

3. This document is the Council's Annual Governance Statement, which shows how the Council is run and the review that has been carried out to check that arrangements are operating effectively. The Council is required by law to publish this statement and review arrangements. The aim is to demonstrate to the public and stakeholders that the Council is run well.

Scope of responsibility

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

5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

6. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/Solace Framework Delivering Good Governance in Local Government. A copy of the code is on our website. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

7. The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the Community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

Section 9 – Annual Governance Statement

8. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

9. The governance framework has been in place at the Council for the year ended 31st March 2018 and up to the date of approval of the Statement of Accounts.

The governance framework

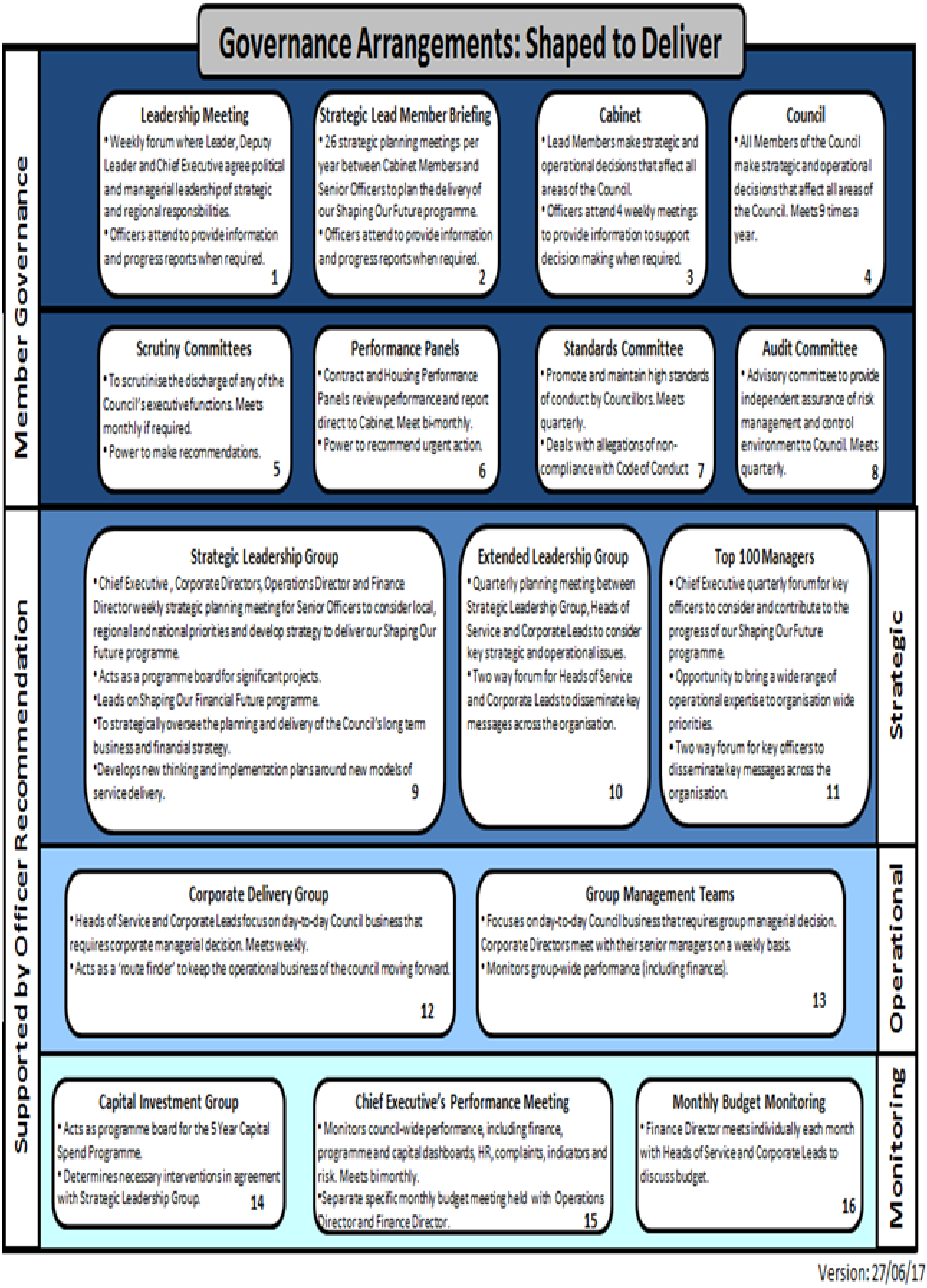
10. The Council is made up of 54 Councillors who are democratically accountable to residents of the Borough. The full Council appoints the Leader and the Leader appoints the Cabinet and Deputy Leader. The Cabinet is responsible for most day to day decisions. The Council holds the Cabinet to account by appointing scrutiny committees to question decisions and to propose policy changes where appropriate.

11. The Council has restructured to ensure that it is 'Shaped to Deliver' the vision. The Council's objectives are delivered through three strategic groups:

    - Business and Resources
    - Economic Regeneration
    - Children, Adults and Health

12. The Council's overarching governance arrangements at Member level, at strategic and operational level and the monitoring arrangements put in place are illustrated in the diagram on the next page.

Section 9 – Annual Governance Statement



Section 9 – Annual Governance Statement

13. The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officers in Local Government (2010). CIPFA/SOLACE published *'Delivering Good Governance in Local Government'* in 2007. This sets out the fundamental principles of corporate governance as shown in the following diagram:

14. Underpinning these principles CIPFA have identified the features that need to be in place for Councils to demonstrate that they comply with the framework. The next six diagrams describe how the Council complies with the six principles of good governance. In some cases these principles interrelate. They outline:

- the core principle,
- what the Council is trying to achieve, and
- the **key** policies, procedures and systems that the Council has put in place to ensure that it complies with the principles.

15. These diagrams reflect the key features of the Council's governance arrangements. The Council has a number of detailed policies and procedures to run its business which are available on the Council's website or on request.

Section 9 – Annual Governance Statement

CORE PRINCIPLE 1:
Focusing on the Council's purpose and on outcomes for citizens and services

How does the Council demonstrate that this core principle is achieved?

- South Tyneside Vision
- Shaping our Future – South Tyneside Council Strategy
- Shaping our Future – Service Delivery Plans
- South Tyneside Partnership
- Shaping our Financial Future - Medium Term Financial Plan 2017– 2022
- Annual Budget Consultation
- Treasury Management Strategy

The function of governance is to ensure that councils fulfil their purpose and achieve the intended outcomes for their citizens and service users and operate in an effective, efficient, economic and ethical manner.

CORE PRINCIPLE 2:
Members and Officers performing effectively in clearly defined functions and roles

How does the Council demonstrate that this core principle is achieved?

- Articles of the Constitution
- Council Procedure Rules
- Executive Procedure Rules
- Proper Officer Roles
- Chief Executive's Performance Meeting
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Financial Management Standards
- Record of Delegated Decisions
- Shaping our Future – Service Delivery Plans
- Employee Performance Management
- South Tyneside Partnership
- External Inspections
- Standards Committee
- Members Induction, Training and PDP's

The full Council has overall responsibility for directing and controlling the organisation

Section 9 – Annual Governance Statement

CORE PRINCIPLE 3: Promoting good values and demonstrating the values of good governance through behaviour

How does the Council demonstrate that this core principle is achieved?

- Members Codes of Conduct
- Procedure for dealing with complaints against members
- Code of Corporate Governance
- Employees Code of Conduct
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Access to Information Procedure Rules
- Information Security Policy
- Counter Fraud Strategy
- Corporate Induction Programme
- Register of Interests, Gifts and Hospitality
- Elected Member Development Strategy
- Speakout Policy
- Human Resources Delivery Plan
- Complaints Procedure
- Standards Committee

Good governance flows from a shared ethos or culture, as well as from systems and structures. It cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements. This spirit or ethos of good governance can be expressed as values and demonstrated in behaviour. A hallmark of good governance is the development of shared values which become a part of the Council's culture, underpinning policy and behaviour throughout the Council from the governing body to all staff. These are in addition to compliance with legal requirements on for example equal opportunities and anti-discrimination.

CORE PRINCIPLE 4:
Taking informed transparent decisions and managing risk

How does the Council demonstrate that this core principle is achieved?

- Standardised Committee Report Template
- Committee Reports Available on Council Website
- Record of Delegated Decisions
- Risk Management Process
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules/Budget Policy Framework
- Health & Safety
- Training
- Accurate Management Data

Decision making within a good governance framework is complex and challenging. It must further the Council's purpose and strategic direction and be robust in the medium and longer terms. To make decisions Council members must be well informed. Members making decisions need the support of appropriate systems to help ensure that decisions are implemented and that resources are used legally and efficiently.

Section 9 – Annual Governance Statement

CORE PRINCIPLE 5:
Developing the capacity and capability of the governing body to be effective

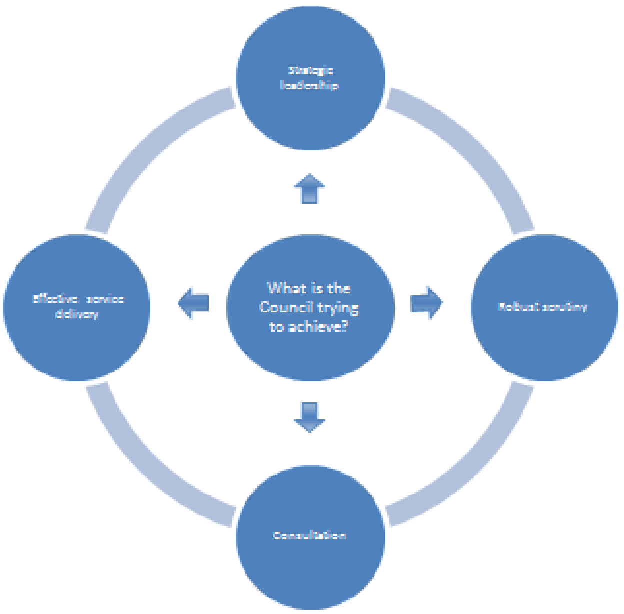
How does the Council demonstrate that this core principle is achieved?

- Induction Training
- Members Induction and Training
- Job Descriptions
- Employee Performance Management
- Corporate Training Programme
- Managers Toolkit
- Succession Planning Programme
- Top 100 Managers Programme
- Human Resources Delivery Plan

Effective councils depend on public confidence in Councillors and officers. Good governance strengthens credibility and confidence in our public services

CORE PRINCIPLE 6:
Engaging stakeholders and making accountability real

How does the Council demonstrate that this core principle is achieved?



- South Tyneside Vision
- Shaping our Future – Service Delivery Plans
- Member Surgeries
- External Inspections/Consultations
- Performance Management Arrangements
- Complaints Procedure
- Bi Annual Residents Newsletter
- Published Annual Accounts
- Transparency Code

Elected Council members are democratically accountable to their local area and this gives a clear leadership role in building sustainable communities. All Members must account to their communities for decisions that they have taken. The Council is subject to external audit and is required to publish financial statements and aim to achieve national standards and targets. Members and officers are subject to Codes of Conduct. Additionally where maladministration may have occurred an aggrieved person may appeal either through their local Councillor or directly to the Ombudsman.

Section 9 – Annual Governance Statement

Review of effectiveness

16. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness was carried out under the supervision of the Council's Business and Resources Group Management Team, including senior officers from across the Council and chaired by Finance Director.

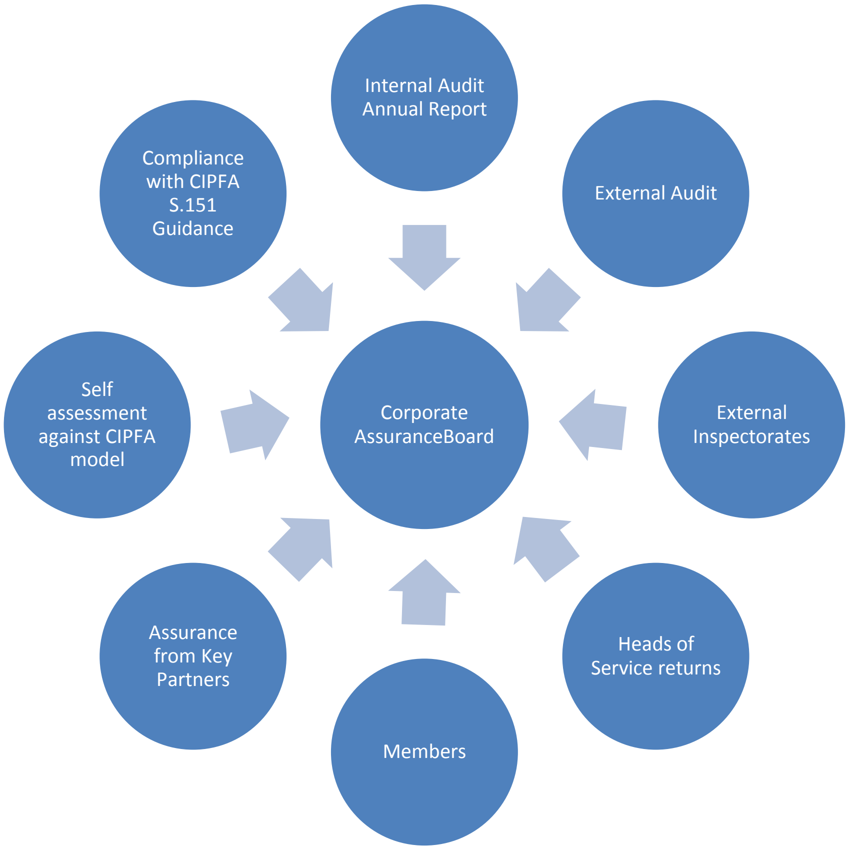
17. The review follows the methodology set out by CIPFA in its publication 'Rough Guide for the Annual Governance Statement' as shown in the following diagram:

Annual review of the effectiveness of governance arrangements and systems of internal control

Methodology set out in CIPFA's: Annual Governance Statement, Rough Guide for Practitioners 2008	
Objective 1	Establish the principal statutory obligations and organisational objectives Apply the six CIPFA/SOLACE principles
Objective 2	Identify the principal risks to achievement of objectives
Objective 3	Identify and evaluate key controls to manage risk
Objective 4	Obtain assurance on effectiveness of key controls
Objective 5	Evaluate assurances and identify gaps in controls/assurances
Objective 6	Action plan to address weaknesses
Objective 7	Annual Governance Statement
Objective 8	Report to Audit Committee and General Purposes Committee

Sources of assurance

18. The Council has identified sources of assurance to review governance arrangements and confirm that they are operating adequately or where they are found to be falling short, identify areas for improvement. The assurance framework is as follows:



Section 9 – Annual Governance Statement

Overall conclusion of the Council's governance arrangements

19. The annual review of the governance framework found that overall the Council has robust governance arrangements in place. This conclusion is based on the assurances and improvements identified from the review and detailed in the following table.

20. Only those improvements identified which are felt to be **significant** to the delivery of the Council's objectives are outlined in the table below. The Council has also agreed action plans for other areas felt to be less significant to ensure continual improvement.

Way forward

21. The steps that have been taken or need to be taken to improve the issues identified are set out in the Action plan that follows.

22. The Audit Committee will discuss the audited statement on 23rd July 2018 with a view to recommending that the Council adopt it.

No	Issue	Action taken/proposed	Responsible Officer	Target Date
1	**Financial Resilience** The Council has set another challenging budget for 2018/19 with efficiency savings of £11m to be achieved. This is on top of over £156m saved over the last 8 years.	Shaping Our Financial Future 2018-2023 programme established to reshape Council services through cross cutting work-streams. Governance framework in place to support programme with financial management embedded into the process.	Finance Director	Ongoing
2	**Adult Social Care** ASC cannot manage increasing demand within resources.	The Council has a change programme in place to continue to manage the improvement of the service to deliver better outcomes in a more effective and efficient manner.	Corporate Director Children, Adults and Health	Ongoing

The annual governance statement was approved at the meeting of the Audit Committee on 23rd July 2018.

……………………………… Councillor Iain Malcolm, Leader of the Council

23rd July 2018

……………………………… Martin Swales, Chief Executive

23rd July 2018