

Financial Statements

2014/15



Economic
Regeneration



Children, Adults
and Families



Innovation, Efficiency,
Delivery



Shaped to deliver

25th September 2015



South Tyneside Council

Further Information

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

www.southtyneside.gov.uk.

Hard copies can be requested by writing to:

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

If you know someone who would like this information in a different format, please contact the Communications Unit on **0191 424 7385**.

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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Section 1 – Explanatory Foreword by the Head of Finance

1. Introduction

These accounts set out the results of the Council's financial activities for the year ended 31st March 2015 and outline our financial position at that date. The foreword provides:

- A review of the Council's financial results and financial standing for 2014/15.
- Information about the activities and significant matters that took place during 2014/15 that had an impact on Council finances.
- An explanation of the principal financial statements.
- An assessment of the future financial prospects of the Council.

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

2. Revenue Financial Summary 2014/15

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 achieved an under-spend on its budget of £0.5m in 2014/15 after taking into account transfers to and from reserves. The overall change in reserves shown in the table can be seen in more detail in note 5 to the Statement of Accounts.

Section 1 – Explanatory Foreword by the Head of Finance

| 2014/15 Revenue financial summary | Original budget £m | Revised budget £m <i>Note 1</i> | Actual outturn £m | (Underspend) / overspend £m <i>Note 3</i> | |
|---|-----------------------|---------------------------------------|----------------------|--|---------------|
| Revenue spending | | | | | |
| Children, Adults and Families Group | 82.619 | 82.943 | 85.645 | 2.702 | |
| Business and Resources Group | 51.310 | 51.151 | 45.285 | (5.866) | |
| Economic Regeneration Group | 13.904 | 14.250 | 15.045 | 0.795 | |
| Net cost of services and operating expenditure | 147.833 | 148.344 | 145.975 | (2.369) | |
| Funding sources | | | | | |
| General Government grants | (57.000) | (57.011) | (56.975) | 0.036 | |
| Non-domestic rates retained and top up grant | (44.293) | (44.293) | (43.872) | 0.421 | |
| Contribution from Collection Fund | (0.600) | (0.600) | (0.600) | - | |
| Council tax payers | (45.678) | (45.678) | (45.678) | - | |
| Contribution from General Fund balance | (0.262) | (0.762) | - | 0.762 | <i>Note 2</i> |
| Contribution to earmarked reserves | - | - | 0.617 | 0.617 | <i>Note 3</i> |
| Total revenue funding | (147.833) | (148.344) | (146.508) | 1.836 | |
| Contribution back to General Fund balance for the year | - | - | (0.533) | (0.533) | |

Changes required in the restatement of management accounts to financial accounts

Note 1 : The changes from original budget to revised budget are due to budget transfers during the year for the transfer of activities or staff between Groups, additional funding and the final allocation of some cross cutting savings.

Note 2 : Use of unallocated balances is estimated as part of our strategic planning process. An amount of £0.262m was included within the 2014/15 Medium Term Financial Plan budget of £147.833m. In the final outturn the £0.762m was met from earmarked reserves

Note 3 : Reported under and overspending is before transfers to and from earmarked reserves.

Children, Adults and Families Group

The major services provided by the Children, Adults and Families Group include public health, social care for elderly and vulnerable adults, ensuring the 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 nursery age, school age through to youth provision and further learning.

The revenue spending highlights during the year were as follows:

- The Adult Social Care service incurred additional costs of £3.8m as demand exceeded the levels assumed in the budget particularly in the area of domiciliary care. Our improved assessment and targeted investment in supporting the well-being of clients has ensured the number of clients entering residential care provision has not increased compared to the previous year despite demographic pressures. The Council will continue to work closely with health partners in delivering integrated preventative services which reduce demand on more costly health and social care interventions.
- The cost of looked after children through foster placements, social work staffing levels and out of borough placements remained relatively stable although service demand remains high. Additional income was received from statutory partner agencies to support the cost of placements. Consequently, this service spent £1.5m below budget in 2014/15. The Council continues to effectively manage cost

Section 1 – Explanatory Foreword by the Head of Finance

pressures in this area through robust gate keeping processes, taking a multi-agency approach and aligning expenditure more closely to meet need.

- An underspend of £0.5m was achieved on education, learning and skills services. This related to additional income from schools for catering services and the non-filling of vacancies.
- The cost of pupil transport exceeded budget by £0.3m. This is due to service demand for this statutory service.

Business and Resources Group

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

The revenue spending highlights during the year were as follows:

- An overspend of £1.8m was incurred in relation to services covering waste collection and disposal, highways, maintenance of parks and open spaces. This arose primarily due to a shortfall in anticipated income across these areas.
- Re-profiling of the capital investment programme and lower interest rates than forecast resulted in improved cash flow and lower debt charges. This delivered a saving of £1.3m.
- Additional income of £4.7m was received from a variety of sources. These included Government funding to compensate the Council for changes in the national business rate system, monies received from Government for bringing empty dwellings back into use, improved recovery of benefit overpayments and release of unused contingency budgets.
- The Council maintained an effective income collection performance. During 2014/15, 96% of council tax income due was collected (96% in 2013/14). The majority of the amounts outstanding will also be received after the year-end. The comparative figure for business rates collection was 98% (98% in 2013/14).

Economic Regeneration Group

The major services provided by the Economic Regeneration Group include encouraging the creation of new jobs through supporting new and existing business, 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 Council continued to re-model its building estate to ensure it is fit for purpose and cost effective. This involved a complex re-organisation of the building portfolio. A cost pressure of £0.3m arose due to changes in the timing of that re-organisation.

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- Savings of £0.5m were achieved in relation to business employment and skills activity. A range of support was still provided during the year such as the youth apprenticeship scheme and grant funding to businesses to support both the creation and retention of jobs.
- An additional £0.8m cost pressure arose on the management of land and buildings including essential repairs to the Council's premises and schools.

3. Capital Investment Financial Summary 2014/15

The following table summarises capital investment of £95.7m during 2014/15 and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2014-19 MTFP, has been revised to reflect the full impact of known contractual commitments from 2013/14 and new funding approvals received in year. £26.3m of funding has been carried forward to support ongoing schemes in future years. Investment during 2014/15 continued the Council's commitment to apply available capital resources in a targeted manner to regenerate and transform the borough.

| 2014/15 Capital investment summary | Revised budget | Actual outturn | Carry forward | Overspend |
|---|-----------------------|-----------------------|----------------------|------------------|
| | £m | £m | £m | £m |
| Children, Adults and Families Group | 6.526 | 6.426 | 1.091 | 0.991 |
| Business and Resources Group | 16.149 | 13.808 | 2.530 | 0.189 |
| Economic Regeneration Group | 39.957 | 28.763 | 12.515 | 1.321 |
| Public Sector Housing | 56.892 | 46.710 | 10.182 | - |
| Total capital investment | 119.524 | 95.707 | 26.318 | 2.501 |

| 2014/15 Capital financing summary | Actual funding |
|--|-----------------------|
| | £m |
| Unsupported borrowing | (31.259) |
| Capital receipts | (4.656) |
| Funding from the General Fund | (0.224) |
| Funding from the major repairs reserve | (18.699) |
| Government grant and other contributions | (40.869) |
| Total capital funding | (95.707) |

The capital investment highlights during the year were as follows:

Children, Adults and Families Group

- £1.0m was invested in expanding the provision of child care facilities for disadvantaged two year olds. This supports the Council's objective of targeting resources to ensure children have the best start in life. A further £2.3m was invested across the school portfolio.
- £0.9m was invested in ICT following grant funding received through the Integrated Digital Care Fund.

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- £0.9m has been invested in adaptations to private houses such as walk in showers and stair lifts. This allows people to live independently for longer within their own home rather than requiring residential care.
- £0.7m was spent during the year on the implementation of a new computerised social care information system. Major elements of the system have now become operational and will improve management of individual client data, support more mobile and flexible working and allow key to be easily retrieved to support performance improvement.

Business and Resources Group

- Investment of £9.0m was made in a variety of infrastructure schemes ranging from road safety measures, resurfacing of highways, renewal of footbridges and improved footpaths throughout the borough. A further £2.3m has been carried forward to 2015/16 to support ongoing investment in these areas.
- £3.8m was spent on the creation of a new waste management transfer station within the borough as part of the multi-council waste management partnership agreement. The facility will allow different waste materials to be separated and sorted and therefore increase recycling targets.
- £0.5m was invested in replacing the fleet of vehicles with a further £0.4m investment in ICT systems replacement.

Economic Regeneration Group

- £5.0m was invested in the acquisition of property and associated costs as part of the South Shields 365 project. Work will continue in 2015/16 and beyond to transform the retail and visitor offer within South Shields town centre including the creation of a new digital media facility “The Word”.
- £8.6m was invested in Hebburn to progress the construction of a new community hub (Hebburn Central). The building encompassing leisure facilities, a new library, meeting space and customer service centre will replace the current outdated facilities and assist in stimulating private sector investment in the area. The new facility opened in June 2015.
- £8.9m has been spent on measures to remodel the Council’s building estate so that it is fit for purpose, allows a reduction in the number of buildings maintained and promotes flexible working. This work is still in progress and will not be completed until later in 2015.
- £3.7m was spent on a programme of works to maintain and enhance the portfolio of Council buildings.
- £0.8m was invested in solar panels which are generating savings for residents as well as feed-in-tariff income for the Council.
- £0.6m has been spent acquiring properties to further regenerate the Frederick Street and Trinity South area of South Shields.

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- £0.3m was spent on the completion of the Littlehaven sea wall, £0.2m on the acquisition of three development plots near the ferry landing to enable further development of the Harton Quay Park area and £0.6m spent on other regeneration projects and flood protection schemes.

Public Sector Housing

- £40.4m has been spent on improving 3,794 homes to the South Tyneside decent homes standard and a further £10.2m has been carried forward to 2015/16.
- In addition to decent homes, £1.4m was spent on improvements to vacant properties to bring them back into occupation, £0.9m invested in adaptations to properties for tenants with special needs, £1.8m on infrastructure and £2.1m on new affordable homes at Simonside and Trinity South and on area redevelopment.

4. Significant Matters

Government Funding

Grant support from the Government has reduced by 45% in cash terms since 2010 up to the end of 2015/16. During that period the Council will have delivered efficiencies totalling over £100m. This has been achieved through a relentless focus upon value for money, delivering services through new and innovative means and prioritising resources to areas that align with the Council's objectives.

The funding settlement beyond 2015/16 is not yet known and will be set out in the coming months by Central Government. However, broad estimates of public expenditure totals indicate strongly that the majority of councils will receive significant reductions in grant funding from Central Government until at least 2018/19.

In response, the Council's financial planning framework has been re-focussed on a five year time horizon. A programme has been developed of cross-cutting work over this period split by a number of work streams. 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. The Council will continue to 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 complement existing early intervention strategies in the area of social care that minimise the requirement for more expensive provision.

Claims under the Equal Pay Act 1970

The Council continues to have claims under the Equal Pay Act 1970 for which a provision has been made. We have been successful in seeking capitalisation from the Department of Communities and Local Government for backdated pay settlements. A provision is held to cover the costs which are reviewed annually to ensure the level is sufficient. The provision at the start of the year was £9.6m. This has been reduced by £0.9m in 2014/15 to take account of claims paid out and a reduction in the number and value of valid claims. The reduction was released to capital. The balance is held in long term provisions as no further settlements are anticipated in the next 12 months.

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Defined Benefit Obligation

As at 31st March 2015 the Council had a defined benefit obligation to the Tyne and Wear Pension Fund of £318.5m (£280.0m in 2013/14). 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)

During 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. £7.2m was advanced during 2014/15. The loan will allow the company to fund initial build and acquisition costs for dwellings and its cost will be serviced from rental and sales income those assets generate.

South Tyneside Waste Partnership

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. The contract has led to the development of an energy-from-waste facility on Teesside a visitor centre located in Gateshead and a new waste transfer station located on the Middlefield's site in South Shields. The main facility will treat approximately 190,000 tonnes of residual waste generated by the three councils each year until the expiry date on 31st March 2039. The Council is expected to utilise approximately 18% of the total capacity of the facility each year.

Service commencement was achieved on 22nd April 2014 following independent certification of the energy from waste facility, meaning that the unitary charge associated with using the asset became payable during the 2014/15 financial year based upon the volumes of waste provided by each authority. As at the 31st March 2015 the Council has recognised on its Balance Sheet a liability totalling £43.810m and a share of the asset value of the facility, after revaluation and depreciation, of £57.031m.

5. Material Movements in Assets and Liabilities

The value of other property, plant and equipment has increased by £48.7m or 10.0% primarily from the addition of the waste processing facility the Council acquired under the partnership arrangement. This has also resulted in an increase in the long term private finance initiative (PFI) liability of £39.7m.

Short term investments have increased by £15.0m whilst cash and cash equivalents have fallen by £13.9m. This simply represents a change in the length of time the Council has invested cash resources, as at the Balance Sheet date, in order to gain the maximum return on its investment.

Assets held for disposal have decreased by £21.7m. The balance in the previous year related to Jarrow and Keelman's Way trust schools which were in the process taking over ownership of the school assets from the Council. These transfers took place on 15th April 2014 and 11th February 2015 respectively and there are no similar assets planned to transfer in 2015/16.

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Long term borrowing has increased by £41.0m and this has been used to fund our major regeneration projects such as Hebburn Central and the remodelling of the Council's building estate. The Council also took the opportunity of some low interest loans to narrow the gap of its under borrowing position compared to the capital financing requirement.

The increase in the defined benefit obligation of £38.5m or 14% compared to the previous year is primarily due to changes in the financial assumptions used to reach this valuation. This includes assumptions on inflation, salary increases and the value of future payments made to scheme members.

6. Reserves and Balances

As at the 31st March 2015 the Council held earmarked reserves of £32.0m (£32.0m in 2013/14) of which £8.7m (£8.9m in 2013/14) related to school balances.

Our strategic reserve is intended to cover emergency or unforeseen events and is maintained at no less than 2% of the net budget as part of a risk-based assessment. As at the 31st March 2015 the Council held £3.0m in this reserve (£3.0m in 2013/14).

The other key reserve that we hold to deal with our specific risks is the risk capacity and structural change reserve. Through careful planning we have managed to maintain the level of this reserve at £10.1m (£10.7m in 2013/14) despite the financial pressures facing the Council.

As at 31st March 2015 the Council held £2.0m (£1.7m in 2013/14) 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 associates of Beamish Museum and STHVTL. Further details about these relationships can be found in the Group introduction on page 112 of these accounts.

The Group results revealed a deficit for the year of £57.3m (£9.7m surplus as restated in 2013/14) incorporating a net surplus of £1.1m (deficit of £0.6m in 2013/14) from STHL. The net assets of the Group stood at £53.6 at 31st March 2015 (£140.6m in 2013/14).

8. Housing Revenue Account (HRA)

The HRA is ringfenced and all expenditure must be met from rents and other charges. The HRA achieved a surplus for the year of £2.8m (£3.1m in 2013/14). Revenue reserves at 31st March 2015 stood at £16.0m (£13.2m in 2013/14) 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 £20.9m (£14.1m in 2013/14). Revenue contributions provided funding of £9.8m (£4.8m in 2013/14), or 47% and the remaining 53% or £11.1m (£9.3m in 2013/14) was funded using PFI credits from Government.

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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 2014/15. During the year, the Council increased its debt having taken out 12 loans totalling £61.0m (£25.0m in 2013/14) from the Public Works Loans Board. £27.0m of loans were repaid during the year (£21.8m in 2013/14).

11. Shaped to Deliver Our Priorities

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

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

People

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

Place

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

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

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

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

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

12. Medium Term Prospects

Our MTFP for 2015-2020 was approved by Council and published in March 2015. 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 an organisational restructure which has involved a sizeable reduction in staff posts. This process has been managed through continual dialogue with staff and trades unions. Our financial forecasts indicate that further staff reductions, service remodelling and integration between Council services and with major partners will be required in future years to meet the financial challenges and shape a successful and prosperous future for the borough. Reserves have been earmarked to facilitate the funding of these changes.

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

13. The Statement of Accounts

The Statement of Accounts are set out on pages 17 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 Head of Finance's responsibilities in respect of the Statement of Accounts.
- **Independent Auditors' Report** (page 17) sets out the opinion of our external auditors PricewaterhouseCoopers LLP following their audit of the Accounts.

The **Core Financial Statements** in Section 4 are described on the next page.

Section 1 – Explanatory Foreword by the Head of Finance

- **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.

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

- **Housing Revenue Account Income and Expenditure Statement and Notes** (pages 101 to 107) 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 108 to 111) 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 112 to 128) 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 129 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.

14. The Annual Governance Statement

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

Stuart Reid
Head of Finance
25th September 2015

Section 2 – Statement of Responsibilities for the Accounts

The Council's Responsibilities

The Council is required to:

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

The Responsibilities of the Head of Finance

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

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

The Head of Finance has also:

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

Head of Finance Certificate

I hereby certify that the Statement of Accounts, set out in pages 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 2015.

Signed: 

Date: 25th September 2015

Stuart Reid, [Head of Finance](#)

Chair of General Purposes Committee Certificate

I can confirm that these accounts were approved by the General Purposes Committee at its meeting held in September 2015.

Signed: 

Date: 25th September 2015

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

Section 3 – Independent Auditors’ Report

Independent auditors’ report to the Members of South Tyneside Council

Independent auditors’ report to the Members of South Tyneside Council (the “Authority”)

Report on the financial statements

Our opinion

In our opinion, South Tyneside Council’s Group and Authority financial statements (the “financial statements”):

- give a true and fair view of the state of the Group and of the Authority’s affairs as at 31 March 2015 and of the Group and of the Authority’s income and expenditure and cash flows for the year then ended; and
 - have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.
-

What we have audited

The financial statements comprise:

- the Group and Authority Balance Sheets as at 31 March 2015;
- the Group and Authority Comprehensive Income and Expenditure Statements for the year then ended;
- the Group and Authority Movement in Reserves Statements for the year then ended;
- the Group and Authority Cash Flow Statements for the year then ended;
- the Housing Revenue Account Income and Expenditure Statement for the year then ended;
- the Collection Fund Statement for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

In applying the financial reporting framework, the Head of Finance has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the Explanatory Foreword by the Head of Finance for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Authority to consider it at a public meeting and to decide what action to take in response ; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

Section 3 – Independent Auditors’ Report

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Head of Finance

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 16 the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group’s and the Authority’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Head of Finance; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Head of Finance’s judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on the pension fund accounts

Our opinion

In our opinion, the pension fund accounts contained within the Financial Statements of South Tyneside Council (the “pension fund accounts”):

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2015, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2015; and
 - have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
-

What we have audited

The pension fund accounts comprise:

- the Net Assets Statement as at 31 March 2015;
- the Fund Account for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Section 3 – Independent Auditors’ Report

In applying the financial reporting framework, the Head of Finance has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the Explanatory Foreword by the Head of Finance for the financial year for which the pension fund accounts are prepared is consistent with the pension fund accounts.

Responsibilities for the pension fund accounts and the audit

Our responsibilities and those of the Head of Finance

As explained more fully in Statement of Responsibilities for the Accounts set out on page 16 the Head of Finance is responsible for the preparation of the pensions fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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

What an audit of pension fund accounts involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the pension fund accounts sufficient to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Pension Fund’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Head of Finance; and
- the overall presentation of the Pension Fund Accounts.

We primarily focus our work in these areas by assessing the Head of Finance’s judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited pension fund accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 13 October 2014, we are satisfied that, in all significant respects, South Tyneside Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

What a review of the arrangements for securing economy, efficiency and effectiveness in the use of resources involves

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 13 October 2014, as to whether the Authority has proper arrangements for:

Section 3 – Independent Auditors’ Report

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Our responsibilities and those of the Authority

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report 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.

Certificate

Our audit cannot be formally concluded and a certificate issued in accordance with the requirements of Part II of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission because:

- we have not yet completed our assurance work on the Authority’s Whole of Government Accounts return for the financial year; and
- there is an outstanding matter in relation to an objection on the 2013/14 financial statements relating to specific costs incurred by the Authority during the year.



Greg Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
30th September 2015

- (a) The maintenance and integrity of the South Tyneside Council website 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 Statement of Accounts since they were initially presented on the website.

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

Section 4 – Core Financial Statements

Movement in Reserves Statement

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

| | Note | General fund balance | Earmarked general fund reserves | Housing revenue account | Capital receipts reserve | Major repairs reserve | Total usable reserves | Unusable reserves | Total Council reserves |
|--|------|-------------------------|---------------------------------------|-------------------------------|-----------------------------|--------------------------|--------------------------|----------------------|---------------------------|
| | | £m | £m | £m | £m | £m | £m | £m | £m |
| Balance at 31st March 2013 carried forward | | (0.827) | (25.826) | (10.101) | (1.752) | (0.004) | (38.510) | (51.527) | (90.037) |
| Movement in reserves during 2013/14 | | | | | | | | | |
| Deficit or (surplus) on the provision of services (as restated) | | 21.825 | - | (33.677) | - | - | (11.852) | - | (11.852) |
| Other comprehensive (income) and expenditure (as restated) | | - | - | - | - | - | - | (55.847) | (55.847) |
| Total comprehensive (income) and expenditure (as restated) | | 21.825 | - | (33.677) | - | - | (11.852) | (55.847) | (67.699) |
| Adjustments between accounting basis and funding basis under regulations (as restated) | 4 | (28.365) | - | 30.622 | 0.022 | (12.289) | (10.010) | 10.010 | - |
| Net (increase) or decrease before transfers to earmarked reserves | | (6.540) | - | (3.055) | 0.022 | (12.289) | (21.862) | (45.837) | (67.699) |
| Transfers to or (from) earmarked reserves | 5 | 6.183 | (6.183) | - | - | - | - | - | - |
| (Increase) or decrease in 2013/14 | | (0.357) | (6.183) | (3.055) | 0.022 | (12.289) | (21.862) | (45.837) | (67.699) |
| Balance at 31st March 2014 carried forward | | (1.184) | (32.009) | (13.156) | (1.730) | (12.293) | (60.372) | (97.364) | (157.736) |
| Movement in reserves during 2014/15 | | | | | | | | | |
| Deficit on the provision of services | | 49.938 | - | 8.412 | - | - | 58.350 | - | 58.350 |
| Other comprehensive (income) and expenditure | | - | - | - | - | - | - | 19.695 | 19.695 |
| Total comprehensive (income) and expenditure | | 49.938 | - | 8.412 | - | - | 58.350 | 19.695 | 78.045 |
| Adjustments between accounting basis and funding basis under regulations | 4 | (50.511) | - | (11.255) | (0.259) | 1.716 | (60.309) | 60.309 | - |
| Net (increase) or decrease before transfers to earmarked reserves | | (0.573) | - | (2.843) | (0.259) | 1.716 | (1.959) | 80.004 | 78.045 |
| Transfers to or (from) earmarked reserves | 5 | 0.040 | (0.040) | - | - | - | - | - | - |
| (Increase) or decrease in 2014/15 | | (0.533) | (0.040) | (2.843) | (0.259) | 1.716 | (1.959) | 80.004 | 78.045 |
| Balance at 31st March 2015 carried forward | | (1.717) | (32.049) | (15.999) | (1.989) | (10.577) | (62.331) | (17.360) | (79.691) |

Section 4 – Core Financial Statements

Comprehensive Income and Expenditure Statement

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

| 2013/14 Gross expenditure (as restated) £m | 2013/14 Gross income (as restated) £m | 2013/14 Net expenditure (as restated) £m | Note | 2014/15 Gross expenditure £m | 2014/15 Gross income £m | 2014/15 Net expenditure £m |
|--|---|--|------|--|----------------------------------|-------------------------------------|
| 3.323 | (1.526) | 1.797 | | 3.103 | (1.478) | 1.625 |
| 27.426 | (3.455) | 23.971 | | 21.715 | (4.837) | 16.878 |
| 17.528 | (3.591) | 13.937 | | 26.656 | (7.938) | 18.718 |
| 9.284 | (4.862) | 4.422 | | 10.139 | (6.590) | 3.549 |
| 177.125 | (124.914) | 52.211 | | 181.901 | (127.152) | 54.749 |
| 14.699 | (6.614) | 8.085 | | 11.578 | (2.947) | 8.631 |
| 47.296 | (68.299) | (21.003) | | 87.401 | (70.128) | 17.273 |
| 75.478 | (73.702) | 1.776 | | 75.074 | (73.536) | 1.538 |
| 81.463 | (25.401) | 56.062 | | 85.324 | (33.009) | 52.315 |
| 13.653 | (13.650) | 0.003 | | 13.570 | (13.059) | 0.511 |
| 2.819 | (0.836) | 1.983 | | 3.517 | (0.922) | 2.595 |
| 2.595 | (2.217) | 0.378 | | 1.413 | (0.226) | 1.187 |
| 472.689 | (329.067) | 143.622 | | 521.391 | (341.822) | 179.569 |
| 12.040 | (0.967) | 11.073 | 7 | 45.423 | (7.299) | 38.124 |
| 45.861 | (1.988) | 43.873 | 8 | 43.804 | (1.493) | 42.311 |
| - | (210.420) | (210.420) | 9 | - | (201.654) | (201.654) |
| 530.590 | (542.442) | (11.852) | | 610.618 | (552.268) | 58.350 |
| | | | | Items that will not be reclassified to the deficit on the provision of services | | |
| | | 27.092 | | | | (15.765) |
| | | 0.081 | | | | 0.280 |
| | | (83.020) | 43 | | | 35.180 |
| | | (55.847) | | | | 19.695 |
| | | (67.699) | | | | 78.045 |

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 an adequate 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 statute line in the Movement in Reserves Statement.

| 31st March 2014 £m | | Note | 31st March 2015 £m |
|--------------------------------|---|------|--------------------------|
| Non-current assets | | | |
| 440.848 | Council dwellings | 10 | 434.570 |
| 489.027 | Other property, plant and equipment | 10 | 537.764 |
| 3.751 | Heritage assets | 11 | 3.675 |
| 2.300 | Investment properties | 12 | 2.300 |
| 1.420 | Intangible assets | 13 | 1.179 |
| 8.804 | Long term investments | 14 | 8.820 |
| 10.298 | Long term loans and receivables | 14 | 17.667 |
| 956.448 | Total non-current assets | | 1,005.975 |
| Current assets | | | |
| 24.515 | Short term investments | 14 | 39.507 |
| 0.778 | Inventories | | 0.735 |
| 33.648 | Short term debtors | 15 | 44.107 |
| 38.392 | Cash and cash equivalents | 16 | 24.520 |
| 2.605 | Assets held for sale | 17 | 2.405 |
| 21.749 | Assets held for disposal | 17 | - |
| 121.687 | Total current assets | | 111.274 |
| Current liabilities | | | |
| (45.410) | Short term creditors | 18 | (49.153) |
| (29.786) | Short term borrowing | 14 | (23.388) |
| (1.567) | PFI liability due in less than one year | 20 | (4.076) |
| (1.751) | Capital grants receipts in advance | 33 | (2.164) |
| (7.214) | Short term provisions | 19 | (6.045) |
| (85.728) | Total current liabilities | | (84.826) |
| 35.959 | Total net current assets | | 26.448 |
| Non-current liabilities | | | |
| (0.196) | Long term creditors | 14 | (0.196) |
| (10.759) | Long term provisions | 19 | (9.747) |
| (470.385) | Long term borrowing | 14 | (511.383) |
| (70.732) | Long term PFI liability | 20 | (110.466) |
| (280.000) | Liability related to defined benefit obligation | 43 | (318.450) |
| (2.599) | Other long term liabilities | 14 | (2.490) |
| (834.671) | Total non-current liabilities | | (952.732) |
| 157.736 | Total net assets | | 79.691 |
| Reserves | | | |
| (60.372) | Usable reserves | 21 | (62.331) |
| (97.364) | Unusable reserves | 22 | (17.360) |
| (157.736) | Total reserves | | (79.691) |

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.

| 2013/14 (as restated) | | Note | 2014/15 |
|--------------------------|---|------|-----------------|
| £m | | | £m |
| 11.852 | Cash inflow or (outflow) from the provision of services | | (58.350) |
| 125.599 | Adjustment to the deficit on the provision of services for non-cash movements | 23 | 197.716 |
| (110.920) | Adjust for items included in the deficit on the provision of services that are investing and financing activities | 23 | (122.736) |
| 26.531 | Net cash flow from operating activities | | 16.630 |
| (28.250) | Investing activities | 24 | (60.549) |
| 9.732 | Financing activities | 25 | 30.047 |
| 8.013 | Net increase or (decrease) in cash and cash equivalents | | (13.872) |
| 30.379 | Cash and cash equivalents at the start of the year | | 38.392 |
| 38.392 | Cash and cash equivalents at the end of the year | | 24.520 |

The notes to the core financial statements are presented on pages 25 to 100 and form part of the Statement of Accounts.

Section 4 – Notes to the Core Financial Statements

Note 1. Accounting Standards Issued, Not Adopted in 2014/15 Accounts

On 12th May 2011 the International Accounting Standards Board issued IFRS 13 Fair Value Measurement, setting out the principles for the measurement and disclosure of fair value in financial statements. Following consultation exercises by CIPFA/LASAAC, HM Treasury and the other relevant authorities it was decided to defer adoption of IFRS 13 until the 2015/16 statement of accounts.

IFRS 13 is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value. The standard defines fair value as being 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 key principles that a fair value measurement represents an exit price of an asset or liability from the perspective of market participants at the measurement date.

The Code recognises that fair value is not always relevant in the public sector particularly where there is no active open market. Councils can therefore recognise assets at “current value” which would allow the retention of valuation methods such as depreciated replacement cost and existing use value as social housing for Council dwellings.

The main group of assets affected by the changes to IFRS 13 are surplus assets. These are assets which the Council no longer utilises to deliver services and for which no decision has yet been made about disposal. Currently these assets are valued at existing use so may represent the value of public space in the case of land and the last service use in the case of buildings. Following the changes the fair value of those assets would be the amount the Council could potentially receive if it were to decide to sell on the open market. Currently the Council holds £8.736m in surplus assets and this would potentially increase to £9.512m if revalued at fair value.

Note 2. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 44, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are set out below:

Accounting for Assets – Balance Sheet Recognition

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

During 2014/15, Holy Trinity and Cleadon Village primary schools converted to academy status. As both were VA schools the Council does not legally own any assets and there has been no loss on disposal charged to the Comprehensive Income and Expenditure Statement.

The legal transfer of assets for Jarrow and Keelman’s Way trust schools were completed on 15th April 2014 and 11th February 2015 respectively resulting in a loss on disposal of £21.848m charged to the Comprehensive Income and Expenditure Statement. There are no further transfers expected in 2015/16.

Section 4 – Notes to the Core Financial Statements

The table below details the number of schools in each category as at 31st March 2015:

| | Nursery, Primary or Special | Secondary |
|----------------------------|--------------------------------|-----------|
| Community | 33 | 5 |
| Voluntary Aided/Controlled | 13 | 1 |
| Academy | 5 | 2 |
| Trust | 2 | 1 |
| | 53 | 9 |

Private Finance Initiatives (PFI)

The Council is deemed to control the services provided under the PFI agreements for three secondary schools and the Council's street lighting. During 2014/15 the Council also controls a share of the new waste recycling facility in Teesside which was built under a PFI arrangement in partnership with Gateshead and Sunderland Councils. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and assets totalling £101.959m (£51.106m in 2013/14) are recognised as property, plant and equipment on the Council's Balance Sheet. Further information can be found in notes 10 and 20.

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 2015 of £8.859m (£8.346m in 2013/14).

The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31st March 2015 of £29.032m (£29.086m in 2013/14). 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.

Provisions

The Council is in dispute with one of its contractors. In April 2014 an adjudication panel ruled that the contractor has valid concerns and has allowed the claim to move forward during 2014/15. Certain issues have been resolved and the Council has paid out £0.821m. However following legal advice the Council has retained the remaining provision to protect against any losses arising from further legal action.

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.

Section 4 – Notes to the Core Financial Statements

Note 3. 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 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are described below.

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 beacon properties to cover the whole borough. Property values are affected by a number of factors and a 1% movement on the assumed valuation would change the reported value of dwellings by £4.346m (£4.408m in 2013/14) and other land and buildings by £3.778m (£3.431m as restated in 2013/14).

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 prices since the last valuation date would change the reported value of other land and buildings by £1.953m (£2.799m in 2013/14).

Useful Economic Lives

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £3.004m (£2.535m in 2013/14) for every year that useful lives had to be reduced.

Provisions

The Council has made a provision of £8.710m (£9.630m in 2013/14) for the settlement of claims arising from the Equal Pay legislation, based on the number of claims received and an average settlement amount. Assumptions have been made on numbers of potential claimants, as it is not certain that the Council has received all valid claims. An increase of 10% in the number of claims would have the effect of adding £0.871m (£0.963m in 2013/14) to the provision needed.

Defined Benefit Obligation

Estimation of the defined benefit obligation to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions applied. The effects on the net defined benefit obligation of changes in individual assumptions can be measured. The table over the page shows the impact of changes to the funded liability for four of the key assumptions; assuming all other factors remain the same.

Section 4 – Notes to the Core Financial Statements

| Impact on present value of obligation | +0.1% per annum £m | Change | -0.1% per annum £m | Change |
|---|-----------------------|--------|-----------------------|--------|
| Adjustment to discount rate | (846.890) | -1.9% | (879.110) | 1.9% |
| Adjustment to salary increase rate | (867.560) | 0.5% | (858.200) | -0.5% |
| Adjustment to pension increase rate | (874.860) | 1.4% | (851.030) | -1.4% |
| | - 1 Year | | + 1 Year | |
| Adjustment to mortality age rating assumption | (886.460) | 2.7% | (839.220) | -2.7% |

However the assumptions interact in complex ways. During 2014/15 the Council's actuaries advised that the defined benefit obligation for funded liabilities had decreased by £4.920m (£27.750m in 2013/14) as a result of estimates being corrected for experience and increased by £79.120m (decreased by £59.180m in 2013/14) due to updating of assumptions.

Section 4 – Notes to the Core Financial Statements

Note 4. 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.

| 2014/15 | Usable reserves | | | | Movement in unusable reserves £m |
|---|----------------------------|-------------------------------|--------------------------------|-----------------------------|-------------------------------------|
| | General Fund balance £m | Housing revenue account £m | Capital receipts reserve £m | Major repairs reserve £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 | (26.407) | (19.796) | - | - | 46.203 |
| Contribution towards the major repairs reserve | - | 16.983 | - | (16.983) | - |
| Revaluation losses on property, plant and equipment | (20.711) | (30.485) | - | - | 51.196 |
| Amortisation of intangible assets | (0.523) | - | - | - | 0.523 |
| Capital grants and contributions applied | 12.767 | 28.102 | - | - | (40.869) |
| Capital receipts not linked to non-current assets | - | 0.103 | (0.110) | - | 0.007 |
| Revenue expenditure funded from capital under statute | (4.344) | (1.097) | - | - | 5.441 |
| Amounts of current and non-current assets written off as part of the loss on disposal | (22.915) | (9.945) | - | - | 32.860 |
| Other movements | 0.002 | - | - | - | (0.002) |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | |
| Provision for the financing of capital investment | 14.289 | - | - | - | (14.289) |
| Capital expenditure charged against balances | 0.224 | - | - | - | (0.224) |
| 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 | 1.650 | 5.107 | (6.757) | - | - |
| Use of the capital receipts reserve to finance new capital expenditure | - | - | 4.656 | - | (4.656) |
| Use of the capital receipts reserve to repay debt | - | - | 0.007 | - | (0.007) |
| Contribution towards administrative costs of non-current asset disposals | - | (0.166) | 0.166 | - | - |
| Contribution towards the payments to the Government capital receipts pool | (1.782) | - | 1.782 | - | - |
| Transfer from deferred capital receipts reserve upon receipt of cash | - | - | (0.003) | - | 0.003 |
| Use of the major repairs reserve to finance new capital expenditure | - | - | - | 18.699 | (18.699) |
| 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 43) | (24.926) | - | - | - | 24.926 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 22.060 | - | - | - | (22.060) |
| Other adjustments to unusable reserves | | | | | |
| Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements | (0.075) | (0.061) | - | - | 0.136 |
| Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements | 0.802 | - | - | - | (0.802) |
| Employee benefits accrued during the year | (0.622) | - | - | - | 0.622 |
| Total adjustments | (50.511) | (11.255) | (0.259) | 1.716 | 60.309 |

Section 4 – Notes to the Core Financial Statements

The equivalent figures for the previous year are as follows:

| 2013/14 (as restated) | General Fund balance | Housing revenue account | Usable reserves | | Movement in unusable reserves |
|---|----------------------|-------------------------|--------------------------|-----------------------|-------------------------------|
| | | | Capital receipts reserve | Major repairs reserve | |
| | £m | £m | £m | £m | £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 | (21.166) | (14.492) | - | - | 35.658 |
| Contribution towards the major repairs reserve | - | 16.455 | - | (16.455) | - |
| Revaluation losses on property, plant and equipment | (14.815) | 2.434 | - | - | 12.381 |
| Amortisation of intangible assets | (0.518) | - | - | - | 0.518 |
| Capital grants and contributions applied | 10.508 | 28.907 | - | - | (39.415) |
| Capital receipts not linked to non-current assets | 0.115 | 0.045 | (0.160) | - | - |
| Revenue expenditure funded from capital under statute | (0.758) | (0.496) | - | - | 1.254 |
| Accumulated loss on investment properties yet to be consumed | (0.633) | - | - | - | 0.633 |
| Amounts of current and non-current assets written off as part of the loss on disposal | (3.756) | (10.505) | - | - | 14.261 |
| Other movements | (0.004) | - | - | - | 0.004 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | |
| Provision for the financing of capital investment | 12.295 | - | - | - | (12.295) |
| Capital expenditure charged against balances | 0.050 | - | - | - | (0.050) |
| 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 | 4.902 | 8.485 | (13.387) | - | - |
| Use of the capital receipts reserve to finance new capital expenditure | - | - | 11.669 | - | (11.669) |
| Contribution towards administrative costs of non-current asset disposals | (0.029) | (0.186) | 0.215 | - | - |
| Contribution towards the payments to the Government capital receipts pool | (1.689) | - | 1.689 | - | - |
| Transfer from deferred capital receipts reserve upon receipt of cash | (0.042) | - | (0.004) | - | 0.046 |
| Use of the major repairs reserve to finance new capital expenditure | - | - | - | 4.166 | (4.166) |
| 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 43) | (33.465) | - | - | - | 33.465 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 20.400 | - | - | - | (20.400) |
| Other adjustments to unusable reserves | | | | | |
| Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements | (0.028) | (0.025) | - | - | 0.053 |
| Amount by which council tax and non-domestic rates are different from income in accordance with statutory requirements | (0.134) | - | - | - | 0.134 |
| Employee benefits accrued during the year | 0.402 | - | - | - | (0.402) |
| Total adjustments | (28.365) | 30.622 | 0.022 | (12.289) | 10.010 |

Note 5. Transfers to or from Earmarked Reserves

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15. Earmarked reserves are held for specific purposes and are not intended to support general Council spending.

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

Section 4 – Notes to the Core Financial Statements

| | Balance at 31st March 2013 | Transfers out 2013/14 | Transfers in 2013/14 | Balance at 31st March 2014 | Transfers out 2014/15 | Transfers in 2014/15 | Balance at 31st March 2015 |
|--|----------------------------------|--------------------------|-------------------------|----------------------------------|--------------------------|-------------------------|----------------------------------|
| | £m | £m | £m | £m | £m | £m | £m |
| General Fund: | | | | | | | |
| Strategic reserve | (3.021) | - | - | (3.021) | - | - | (3.021) |
| School balances | (7.079) | 3.673 | (5.479) | (8.885) | 4.543 | (4.398) | (8.740) |
| Insurance reserve | (2.588) | 0.593 | (0.273) | (2.268) | - | (1.000) | (3.268) |
| Risk capacity and structural change reserve | (6.366) | 1.500 | (5.829) | (10.695) | 1.361 | (0.800) | (10.134) |
| Other reserves | (6.772) | 4.271 | (4.639) | (7.140) | 4.988 | (4.734) | (6.886) |
| Total earmarked reserves | (25.826) | 10.037 | (16.220) | (32.009) | 10.892 | (10.932) | (32.049) |

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 seven schools (four in 2013/14) in a deficit position totalling £0.333m (£0.345m in 2013/14).

Insurance Reserve

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

Risk Capacity and Structural Change Reserve

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

Other Reserves

Amounts set aside for specific expenditure commitments.

Note 6. Events after the Reporting Period

The Statement of Accounts have been certified as giving a true and fair view by the Head of Finance on 25th September 2015. 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 2015.

Developments have been made in relation to the contingent asset value added tax (VAT) case involving the payment of compound interest on previous VAT recoveries by the Council. In May 2015 the Court of Appeal upheld the High Court's judgement in full such that compound interest should be payable where VAT has been overdeclared. However it is highly likely that HMRC will now appeal this decision to the Supreme Court hence the item remains as a contingent asset.

In June 2015 St Wilfrid's RC School started the process of consultation on transferring to academy status. As this is a VA school no asset is currently recorded on the Council's Balance Sheet so were the school to transfer there will be no impact for the accounts.

Section 4 – Notes to the Core Financial Statements

Note 7. Other Operating Expenditure

Other operating expenditure is made up of the following items:

| 2013/14 (as restated) £m | | 2014/15 £m |
|--------------------------------|--|---------------|
| 9.262 | Levies | 9.246 |
| 1.689 | Payments to the Government housing capital receipts pool | 1.782 |
| (0.967) | (Surplus) or deficit on trading undertakings | 0.827 |
| 1.089 | Loss on the disposal of current and non-current assets | 26.269 |
| 11.073 | Total other operating income and expenditure | 38.124 |

Note the surplus or deficit on trading undertakings is now recorded in this note whereas previously it was reported as part of note 8 below.

Note 8. Financing and Investment Income and Expenditure

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

| 2013/14 (as restated) £m | | 2014/15 £m |
|--------------------------------|---|---------------|
| 30.398 | Interest payable and similar charges | 32.264 |
| 14.830 | Interest expense of defined benefit liability and interest income on assets | 11.540 |
| (1.366) | Interest receivable and similar income | (1.265) |
| (0.249) | Dividends receivable | (0.006) |
| 0.402 | Income and expenditure in relation to investment properties and changes in their fair value | (0.222) |
| (0.142) | Other investment income | - |
| 43.873 | Total financing and investment income and expenditure | 42.311 |

Note 9. Taxation and Non-specific Grant Income

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

| 2013/14 £m | | 2014/15 £m |
|------------------|---|------------------|
| (44.867) | Council tax income | (47.079) |
| (43.652) | Non-domestic rates (grant and retained income) | (43.872) |
| (84.060) | Unringfenced Government revenue grants | (75.016) |
| (37.841) | Capital grants and contributions | (35.687) |
| (210.420) | Total taxation and non-specific grant income | (201.654) |

Note 10. Property, Plant and Equipment

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

Section 4 – Notes to the Core Financial Statements

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

Other land and buildings at 31st March 2015 includes £2.112m in respect of leased assets (£2.235m in 2013/14).

The equivalent movements for the previous year are as follows:

| | Council dwellings | Other buildings | Other land | Vehicles, plant and equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total property, plant and equipment | PFI assets included in property, plant and equipment |
|--|-------------------|-----------------|---------------|-------------------------------|-----------------------|------------------|----------------|---------------------------|-------------------------------------|--|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Cost or valuation | | | | | | | | | | |
| At 1st April 2013 | 492.144 | 324.593 | 45.303 | 53.592 | 119.420 | 5.894 | 7.097 | 19.808 | 1,067.851 | 61.747 |
| Additions | 26.202 | 21.585 | 2.251 | 2.336 | 12.186 | 2.512 | 1.486 | 11.157 | 79.715 | 0.278 |
| Revaluation to revaluation reserve | (43.160) | (6.089) | (0.403) | - | (0.030) | - | 1.176 | - | (48.506) | (9.590) |
| Revaluation to Comprehensive Income and Expenditure Statement | 9.132 | (15.425) | (2.302) | - | (0.383) | - | (0.538) | - | (9.516) | 2.570 |
| Sales | (5.968) | (0.414) | (0.436) | (0.057) | - | - | (2.054) | - | (8.929) | - |
| Other derecognition | (5.013) | (2.228) | - | (2.635) | - | - | - | - | (9.876) | - |
| Reclassification of assets | (1.060) | 14.608 | 3.576 | 0.007 | 0.781 | 2.362 | (1.206) | (18.754) | 0.314 | 1.693 |
| At 31st March 2014 | 472.277 | 336.630 | 47.989 | 53.243 | 131.974 | 10.768 | 5.961 | 12.211 | 1,071.053 | 56.698 |
| Depreciation and Impairments | | | | | | | | | | |
| At 1st April 2013 | (35.493) | (35.687) | - | (38.213) | (22.258) | (1.336) | (0.045) | - | (133.032) | (6.899) |
| Depreciation to Comprehensive Income and Expenditure Statement | (12.701) | (12.338) | - | (5.628) | (2.898) | (0.406) | (0.085) | - | (34.056) | (1.449) |
| Depreciation and impairment met from revaluation reserve | 14.915 | 6.126 | - | - | 0.030 | - | 0.020 | - | 21.091 | 2.756 |
| Impairment to Comprehensive Income and Expenditure Statement | (0.671) | (1.139) | - | - | (0.082) | - | - | - | (1.892) | - |
| Sales | 0.594 | 1.554 | - | 0.110 | - | - | 0.004 | - | 2.262 | - |
| Other derecognition | 1.838 | 0.003 | - | 2.576 | - | - | - | - | 4.417 | - |
| Reclassification of assets | 0.089 | (0.041) | - | (0.005) | 0.042 | - | (0.053) | - | 0.032 | - |
| At 31st March 2014 | (31.429) | (41.522) | - | (41.160) | (25.166) | (1.742) | (0.159) | - | (141.178) | (5.592) |
| Balance Sheet amount at 31st March 2013 | 456.651 | 288.906 | 45.303 | 15.379 | 97.162 | 4.558 | 7.052 | 19.808 | 934.819 | 54.848 |
| Balance Sheet amount at 31st March 2014 | 440.848 | 295.108 | 47.989 | 12.083 | 106.808 | 9.026 | 5.802 | 12.211 | 929.875 | 51.106 |

Section 4 – Notes to the Core Financial Statements

Revaluations, Depreciation and Componentisation

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

Where property, plant or equipment has been revalued the date of the valuation is 1st April 2014 unless significant spending in year has taken place in which case the valuation date is 31st March 2015. Where appropriate, valuations reflect accumulated depreciation. The Council only recognises components following either a revaluation of the property or significant expenditure on the component.

Further details of the Council's depreciation and componentisation policy can be found in note 44 accounting policies.

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

| | Council dwellings | Other land and buildings | Other assets | Surplus asset | Total |
|--------------------------------|-------------------|--------------------------|----------------|---------------|----------------|
| | £m | £m | £m | £m | £m |
| Valued at historic cost | 1.200 | 3.923 | 150.965 | 5.163 | 161.251 |
| Valued at current value in: | | | | | |
| 2014/15 | 273.830 | 179.390 | - | 0.113 | 453.333 |
| 2013/14 | 63.740 | 32.775 | - | 2.308 | 98.823 |
| 2012/13 | 14.463 | 68.424 | 0.040 | 0.168 | 83.095 |
| 2011/12 | 80.393 | 69.592 | - | 0.950 | 150.935 |
| 2010/11 or prior | 0.944 | 23.862 | 0.057 | 0.034 | 24.897 |
| Total cost or valuation | 434.570 | 377.966 | 151.062 | 8.736 | 972.334 |

Section 4 – Notes to the Core Financial Statements

An analysis of the number of properties as at the Balance Sheet date are as follows:

| | 31st March 2014 | 31st March 2015 | | 31st March 2014 | 31st March 2015 |
|------------------------------------|--------------------|--------------------|------------------------------|--------------------|--------------------|
| Council dwellings | 16,479 | 16,345 | Youth and community centres | 27 | 23 |
| Sheltered housing units | 1,267 | 1,266 | Sports stadia | 2 | 2 |
| Garages | 2,727 | 2,727 | Children's homes | 2 | 2 |
| Town hall and civic offices | 10 | 10 | Family centres | 4 | 4 |
| Homes for the elderly | 2 | 2 | Day and other social centres | 10 | 7 |
| Leisure centres and swimming pools | 4 | 4 | Children's centres | 5 | 5 |
| Museums and galleries | 2 | 2 | Child protection units | 1 | 1 |
| Depots | 1 | 1 | Special placement units | 2 | 2 |
| Parks | 15 | 15 | Markets | 1 | 1 |
| Crematorium and cemeteries | 7 | 7 | Industrial estates | 14 | 14 |
| Libraries | 8 | 8 | Managed workshops | 3 | 4 |
| Schools | 38 | 38 | Shops | 191 | 175 |
| Waste facilities | - | 2 | | | |

The following key movements took place during the year:

- 128 dwellings were sold through right to buy and 6 were demolished.
- Nine shops have either been demolished or sold as part of the Council's regeneration programme.
- A new waste recycling facility and waste transfer station were added following the new PFI arrangement signed in April 2014.

Capital Commitments

As at 31st March 2015 the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment, in 2014/15 and future years, budgeted to cost £37.670m (£17.666m in 2013/14). Details of commitments over £0.500m under capital contracts as at 31st March 2015 are as follows:

| Capital scheme | | Net commitment at 31st March 2015 £m | Period of commitment Years |
|-------------------------------------|---|---|----------------------------------|
| South Shields town hall refit | Office modernisation | 0.594 | 1 |
| Hebburn Central | New service centre and community facility | 3.398 | 1 |
| South Shields central library | New service centre and community facility | 17.852 | 2 |
| South Shields transport interchange | Town centre regeneration | 15.495 | 4 |
| Total | | 37.339 | |

Section 4 – Notes to the Core Financial Statements

Note 11. Heritage Assets

The following table shows the breakdown of heritage assets:

| 2013/14 £m | | 2014/15 £m |
|---------------|--|---------------|
| | Opening balances | |
| 3.675 | Gross book value | 4.035 |
| (0.240) | Accumulated depreciation | (0.284) |
| 3.435 | Net book value at start of year | 3.751 |
| 0.151 | Additions | 0.035 |
| 0.209 | Revaluation to revaluation reserve | 0.003 |
| 0.034 | Depreciation written out on revaluation | - |
| (0.078) | Depreciation charges in year | (0.114) |
| 3.751 | Net book value at end of the year | 3.675 |
| | Comprising | |
| 4.035 | Gross book value | 4.073 |
| (0.284) | Accumulated depreciation | (0.398) |
| 3.751 | Net book value at end of the year | 3.675 |

The Council currently holds over 1,400 pieces of artwork, of which 13 oil paintings and watercolours have valuations exceeding the de minimis for asset recognition. These items have been identified separately for insurance purposes and valued individually, usually in advance of a loan-out, by three Tyne and Wear Archives and Museums (TWAM) officers – the Principal Keeper of Art, the Keeper of Fine Art and the Assistant Keeper of Fine and Decorative Art. The artwork collection is considered to have an indeterminate life and a high residual value, hence no depreciation is being charged. The 13 pieces of artwork are valued at £0.487m (£0.490m in 2013/14).

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

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

There have been no material additions or disposals to heritage assets in the last five years.

Note 12. Investment Properties

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

Income and expense has been accounted for in the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement as detailed in the table over the page.

Section 4 – Notes to the Core Financial Statements

| | 2013/14 | 2014/15 |
|---|--------------|----------------|
| | £m | £m |
| Rental income from investment property | (0.231) | (0.222) |
| Loss arising from fair value adjustment | 0.633 | - |
| Total investment expense or (income) | 0.402 | (0.222) |

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

The 40 year lease contains an option for the lessee to purchase the freehold at any time for the sum of £0.920m (uprated by the increase in the retail price index from the lease commencement date). To date the lessee has not taken up this option.

The fair value of investment properties at 31st March 2014 was £2.300m (£2.300m in 2013/14) representing no change in value (£0.633m loss in 2013/14).

Note 13. Intangible Assets

The movement on intangible asset balances during the year is shown in the following table.

| 2013/14 | 2013/14 | 2013/14 | | 2014/15 | 2014/15 | 2014/15 |
|----------------------------------|---------------------------|--------------|--|--------------|---------------------------|--------------|
| Software | Assets under construction | Total | | Software | Assets under construction | Total |
| £m | £m | £m | | £m | £m | £m |
| Balance at start of year: | | | | | | |
| 5.511 | - | 6.098 | Gross book value | 5.526 | 0.587 | 6.113 |
| (4.163) | - | (4.163) | Accumulated amortisation | (4.693) | - | (4.693) |
| 1.348 | - | 1.935 | Net book value at start of year | 0.833 | 0.587 | 1.420 |
| 0.040 | 0.587 | 0.040 | Additions | 0.282 | - | 0.282 |
| (0.025) | - | (0.025) | Disposals | - | - | - |
| - | - | - | Reclassification | 0.170 | (0.170) | - |
| (0.555) | - | (0.555) | Amortisation for the period | (0.523) | - | (0.523) |
| 0.025 | - | 0.025 | Amortisation written out on disposal | - | - | - |
| 0.833 | 0.587 | 1.420 | Net book value at end of year | 0.762 | 0.417 | 1.179 |
| Comprising: | | | | | | |
| 5.526 | 0.587 | 6.113 | Gross book value | 5.978 | 0.417 | 6.395 |
| (4.693) | - | (4.693) | Accumulated amortisation | (5.216) | - | (5.216) |
| 0.833 | 0.587 | 1.420 | Net book value at end of year | 0.762 | 0.417 | 1.179 |

Note 14. 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 note 44 accounting policies.

Section 4 – Notes to the Core Financial Statements

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

| | Long term | | Current | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | 31st March 2014 £m | 31st March 2015 £m | 31st March 2014 £m | 31st March 2015 £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 | 0.010 | 0.026 | - | - |
| Total available-for-sale financial assets | 8.804 | 8.820 | - | - |
| Loans and receivables | | | | |
| Deposits with banks and other financial institutions | - | - | 24.515 | 39.507 |
| Long and short term debtors | 10.298 | 17.667 | 16.798 | 24.675 |
| Total loans and receivables | 10.298 | 17.667 | 41.313 | 64.182 |
| Financial liabilities at amortised cost | | | | |
| Long and short term borrowing | (470.385) | (511.383) | (29.786) | (23.388) |
| Long and short term creditors | - | - | (28.876) | (33.234) |
| PFI liabilities | (70.732) | (110.466) | (1.567) | (4.076) |
| Finance lease liabilities | (2.104) | (2.051) | (0.049) | (0.054) |
| Total financial liabilities at amortised cost | (543.221) | (623.900) | (60.278) | (60.752) |

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. 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 2014/15 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 5.89% in NIAL (and the group companies of NIAL Group Limited and NIAL Holdings Limited). The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. No dividend was received for the year ended 31st December 2014 (£0.232m for the year ended 31st December 2013).

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 6 monthly basis. Otherwise there are no outstanding balances owed to or from NIAL at the end of the year.

Section 4 – Notes to the Core Financial Statements

NIAL Group Limited made a profit before tax of £0.496m and a profit after tax of £0.277m for the year ended 31st December 2014. In the previous year, the Group made a loss before tax of £11.134m and a loss after tax of £3.615m.

InspiredSpaces STaG Limited

On 21st December 2007 the procurement of STaG's (South Tyneside and Gateshead Building Schools for the Future) private sector partner to deliver the Building Schools for the Future and ICT programme reached financial close. This created the public/private partnership, known as InspiredSpaces STaG Limited, which is now owned by Carillion Private Finance (Education) 2012 Limited (80% shareholding), Building Schools for the Future Investments LLP (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside Council (5% shareholding). The Council's shares were purchased for £500. A copy of the accounts can be obtained by writing to Finance Director, InspiredSpaces STaG Limited, Floor 5 Partnership House, Regent Farm Road, Gosforth, Newcastle-upon-Tyne, NE3 3AF.

On 21st November 2007 Inspired Spaces STaG Limited set up Inspired Spaces STaG (Holdings1) Limited to develop and build Jarrow School. The Council paid £500 for a 5% equity in this company and £0.107m in subordinated debt to be repaid over the lifetime of the PFI contract.

On 21st December 2009 Inspired Spaces STaG Limited set up Inspired Spaces STaG (Holdings2) Limited to develop and build South Shields Community School. The Council paid £500 for a 5% equity in this company and £0.167m in subordinated debt to be repaid over the lifetime of the PFI contract.

South Tyneside Credit Union Limited

On 16th December 2014 the Council acquired 25,000 deferred shares in South Tyneside Credit Union Limited (operating as Bridges Your Community Bank) at a cost of £0.025m. The credit union exists for individuals living or working within the geographical boundaries of South Tyneside and Sunderland City Councils to have access to affordable loan and banking arrangements.

The Council received £0.006m (£0.019m in 2013/14) in dividends as a result of its various shareholdings. The Council has no plans to dispose of any of its available-for-sale financial assets in the near future.

Loans and Receivables

Long and Short Term Debtors

These financial assets are carried at cost as this is a fair approximation of their value. An analysis of short term debtors balances can be found in note 15 to these accounts.

Section 4 – Notes to the Core Financial Statements

Financial Liabilities at Amortised Cost

Long and Short Term Borrowing

An analysis of borrowing by maturity is as follows:

| 31st March 2014 £m | Percentage range of interest rate payable % | Loans outstanding | 31st March 2015 £m |
|--------------------------|---|---------------------------------|--------------------------|
| (489.846) | 1.570 - 9.375 | Public Works Loans Board (PWLB) | (524.449) |
| (10.325) | 4.400 - 9.500 | Market debt | (10.322) |
| (500.171) | | Total | (534.771) |
| (29.786) | | Less than 1 year | (23.388) |
| (20.000) | | Between 1 and 2 years | (14.000) |
| (51.000) | | Between 2 and 5 years | (62.000) |
| (92.328) | | Between 5 and 10 years | (77.328) |
| (307.057) | | More than 10 years | (358.055) |
| (500.171) | | Total | (534.771) |

The current borrowings include accrued interest as at 31st March 2015 of £3.388m (£2.786m in 2013/14).

Market debt comprises of Lender Option Borrower Option (LOBO) loans of which £5m was subject to a review of interest in 2014/15. 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 as this is a fair approximation of their value. An analysis of short term creditors, which also includes the short term liabilities in relation to finance lease and other liabilities, can be found in note 18 to these accounts.

Income, Expense, Gains and Losses

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

| | 2013/14 | | | 2014/15 | | |
|--|--|-----------------------------|---------------|--|-----------------------------|---------------|
| | Financial liabilities measured at amortised cost £m | Loans and receivables £m | Total £m | Financial liabilities measured at amortised cost £m | Loans and receivables £m | Total £m |
| Expenses | | | | | | |
| Impairment losses | - | 1.143 | 1.143 | - | 1.029 | 1.029 |
| Interest expense | 30.398 | - | 30.398 | 32.264 | - | 32.264 |
| Income | | | | | | |
| Interest income | - | (1.366) | (1.366) | - | (1.265) | (1.265) |
| Net loss or (profit) for the year | 30.398 | (0.223) | 30.175 | 32.264 | (0.236) | 32.028 |

Section 4 – Notes to the Core Financial Statements

Fair Value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost.

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

| | 31st March 2014 | | 31st March 2015 | |
|------------------------------|------------------|------------------|------------------|------------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| | £m | £m | £m | £m |
| PWLB | (489.846) | (496.451) | (524.449) | (605.617) |
| Market debt (LOBOs) | (10.325) | (12.085) | (10.322) | (14.780) |
| Financial liabilities | (500.171) | (508.536) | (534.771) | (620.397) |

The fair value of liabilities as at 31st March 2015 is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans. This gap has increased from the previous year as the PWLB interest rates as at 31st March 2015 are significantly better than the rates available as at 31st March 2014.

The fair value of deposits with banks and other financial institutions is £32.481m compared to a carrying value of £32.350m (£24.551m and £24.515m respectively in 2013/14). The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate payable is higher than the rates available for similar investments at the Balance Sheet date.

The fair value of the Airport investment cannot be measured reliably because the shares are not quoted in an active market. Trading of shares only takes place when one or more of the LA7 or AMP Capital Investors Limited wishes to sell their shareholding. There are no plans to dispose of shares in 2015/16.

Section 4 – Notes to the Core Financial Statements

Note 15. Short Term Debtors

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--|--------------------------|
| | Amounts falling due in one year | |
| 9.097 | Central Government bodies | 13.266 |
| 1.794 | Other local authorities | 4.210 |
| 1.203 | NHS bodies | 1.298 |
| 3.838 | Housing tenants | 4.311 |
| 7.134 | Council tax payers | 8.126 |
| 0.587 | Non-domestic ratepayers | 0.623 |
| 3.087 | South Tyneside Homes Limited | 2.327 |
| 0.966 | Tyne and Wear Pension Fund | 1.081 |
| 13.861 | Other debtors | 17.584 |
| 41.567 | Total amounts falling due in one year | 52.826 |
| | Allowances for bad debts | |
| (2.241) | Housing tenants | (2.460) |
| (3.087) | Council tax payers | (3.512) |
| (0.290) | Non-domestic ratepayers | (0.297) |
| (2.301) | Other debtors | (2.450) |
| (7.919) | Total bad debt allowances | (8.719) |
| 33.648 | Net debtors | 44.107 |

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--|--------------------------|
| | Amounts written off during the year | |
| 0.593 | Housing rents (excluding write ons) | 0.554 |
| 0.153 | Council tax (excluding write ons) | 0.161 |
| 0.125 | Non-domestic rates | 0.271 |
| 0.390 | Other debtors (net of VAT recovered) | 0.438 |
| 1.261 | Total amounts written off during the year | 1.424 |

The total non-domestic rate write off for the year was £0.553m (£0.253m in 2013/14) 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 16. Cash and Cash Equivalents

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| 0.067 | Cash held by the Council | 0.055 |
| 5.208 | Bank current accounts | 4.391 |
| 33.117 | Short term deposits with financial institutions | 20.074 |
| 38.392 | Cash and cash equivalent assets | 24.520 |

The short term deposits with financial institutions is made up of £5.000m lent out, for less than 91 days, to banks and building societies (£15.000m in 2013/14) and £15.074m money market funds (£18.117m in 2013/14).

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 known as short term deposits.

Note 17. 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:

| 2013/14 | | | 2014/15 | |
|---------------------|-------------------------|---|---------------------|-------------------------|
| Held for sale £m | Held for disposal £m | | Held for sale £m | Held for disposal £m |
| 2.154 | 27.548 | Balance outstanding at start of year | 2.605 | 21.749 |
| 2.588 | (2.934) | Assets transferred from or (to) property, plant and equipment | 0.450 | - |
| - | - | - Additions | - | 0.118 |
| - | (2.865) | Revaluation losses | - | (0.019) |
| (2.137) | - | Assets sold | (0.650) | (21.848) |
| 2.605 | 21.749 | Balance outstanding at end of year | 2.405 | - |

Section 4 – Notes to the Core Financial Statements

Note 18. Short Term Creditors

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|------------------------------|--------------------------|
| (5.404) | Central Government bodies | (7.845) |
| (0.554) | Other local authorities | (0.971) |
| (1.619) | NHS bodies | (1.600) |
| (0.821) | Housing tenants | (0.974) |
| (1.179) | Council tax payers | (1.316) |
| (6.354) | South Tyneside Homes Limited | (5.316) |
| (3.397) | Council employees | (4.003) |
| (2.964) | Tyne and Wear Pension Fund | (2.763) |
| (23.118) | All other creditors | (24.365) |
| (45.410) | Total creditors | (49.153) |

Note 19. Long and Short Term Provisions

An analysis of the provisions balances is as follows:

| | Pay settlement provision £m | Injury and damage compensation claims £m | Other provisions £m | Total £m |
|-----------------------------------|--------------------------------------|--|---------------------------|-----------------|
| Balance at 1st April 2013 | (10.940) | (2.016) | (0.466) | (13.422) |
| Additional provisions | - | (1.540) | (6.339) | (7.879) |
| Amounts used | 0.237 | 1.552 | 0.411 | 2.200 |
| Unused amounts reversed | 1.073 | - | 0.055 | 1.128 |
| Balance at 1st April 2014 | (9.630) | (2.004) | (6.339) | (17.973) |
| Additional provisions | - | (1.314) | (1.297) | (2.611) |
| Amounts used | 0.062 | 1.601 | 1.800 | 3.463 |
| Unused amounts reversed | 0.858 | - | 0.471 | 1.329 |
| Balance at 31st March 2015 | (8.710) | (1.717) | (5.365) | (15.792) |
| Short term provisions | - | (0.901) | (5.144) | (6.045) |
| Long term provisions | (8.710) | (0.816) | (0.221) | (9.747) |
| Balance at 31st March 2015 | (8.710) | (1.717) | (5.365) | (15.792) |

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

The Council maintains a provision to meet any excess payments applying to insurance claims and to self-fund against losses where this is more economical than procuring from the market. Based on past history the Council expects £0.901m of claims to be settled in 2015/16, £0.408m to be settled in 2016/17 and £0.408m to be settled in future years.

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A provision has been created in respect of potential repayments of overpaid non-domestic rates due to successful appeals lodged with the Valuation Office Agency. Under the terms of the rates retention scheme introduced in 2013/14 the Council will be liable for the cost of a portion of future repayments. The Council expects £0.302m of claims to be settled in 2015/16, £0.171m to be settled in 2016/17 and £0.050m to be settled in future years.

The other provisions primarily relates to a legal challenge in respect of a contractor dispute. These provisions are expected to be paid in 2015/16.

Note 20. 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. With the exception of Jarrow School and the new Waste PFI the assets acquired under PFI will return to the Council at the end of the contract period. The Code requires the Council to provide details about the outstanding payments in relation to these contracts.

Boldon School

This PFI scheme was signed on 13th April 2005 with Gleeson Consortium and involved the construction of a new extended secondary school in Boldon. In December 2011 the PFI contract was acquired by Infrared Capital Partners. There is provision for community use of the school facilities, which includes a 220 seat theatre and a 25 metre swimming pool. The contract runs for 25 years, expiring on 31st October 2031 and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. The building became operational on 30th October 2006. The current net book value of the school is £11.617m (£11.970m in 2013/14).

In 2014/15 unitary charge payments of £2.609m (£2.584m in 2013/14) had been paid out. An additional £0.040m (£0.048m in 2013/14) was also paid in respect of free school meals and £0.174m (£0.148m in 2013/14) in respect of utilities. £1.502m (£1.502m in 2013/14) was recovered through PFI credits. Unitary charge payments over the whole life of the contract (excluding school meals and utilities) are expected to total £66.704m of which £37.545m will be recovered in the form of PFI grant. The actual level of payments will depend on inflation rates and the satisfactory contract performance by the operator.

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

Street Lights

Signed on 9th December 2005 with Balfour Beatty PLC and involves the replacement and maintenance of the whole of the borough's street lighting stock. The contract runs for 25 years, expiring on 28th February 2031, and covers the replacement of outdated lighting columns and street signage, providing new lighting in areas currently not served and maintaining the stock to a minimum standard. The street lighting assets owned by the Council were transferred to the operator at the commencement of the contract. The current net book value of the infrastructure is £21.556m (£22.163m in 2013/14).

In 2014/15 unitary charge payments, including energy liabilities, of £4.263m (£4.319m in 2013/14) had been paid out whilst £2.535m (£2.535m in 2013/14) was recovered through PFI grant. Over the lifetime of the contract the unitary charge is expected to total £104.895m of

Section 4 – Notes to the Core Financial Statements

which £63.371m will be recovered in the form of PFI credits. The actual level of payments will depend on inflation rates, other variables within the payment mechanism, including pension and insurance costs, and the satisfactory contract performance by the operator.

Jarrow School

Signed on 26th October 2009 this contract involved the construction of a secondary school and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. The contract will run for 25 years, expiring on 25th October 2034. The net book value of the school as at 31st March 2015 is nil (£14.404m in 2013/14). On 15th April 2014 the assets legally transferred from the Council across to Jarrow School Trust which was created on 26th March 2010.

In 2014/15 unitary charge payments of £3.321m (£3.286m in 2013/14) were made, with £2.535m (£2.535m in 2013/14) received through PFI grant. An additional £0.062m (£0.117m in 2013/14) was also paid in respect of utilities costs which are then fully recovered from the school. Unitary charge payments over the life of the contract (excluding utilities costs) are expected to be £89.736m with £63.363m funded from PFI grant. The actual level of payments will depend on inflation rates and the satisfactory contract performance by the operator.

South Shields Community School

Signed on 6th September 2011 this contract involved the construction of a secondary school and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. The contract will run for 25 years, expiring on 4th September 2036. The net book value of the school as at 31st March 2015 is £16.979m (£16.974m in 2013/14).

In 2014/15 unitary charge payments of £4.099m (£3.961m in 2013/14) were made, with £2.750m (£2.750m in 2013/14) received through PFI grant. An additional £0.263m (£0.243m in 2013/14) was also paid in respect of free school meals and utilities costs which are then fully recovered from the school. Unitary charge payments over the life of the contract (excluding school meals and utilities costs) are expected to be £109.945m with £68.756m funded from PFI grant. The actual level of payments will depend on inflation rates and satisfactory contract performance by the operator.

Joint Waste PFI 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 £73.500m of Waste Infrastructure Credits following receipt of the final business case which equates to £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 generated by the three councils each year until the expiry date on 31st March 2039. South Tyneside Council is expected to utilise approximately 18% of the total capacity of the facility each year.

Service commencement was achieved on 22nd April 2014 following independent certification of the energy from waste facility, meaning that the unitary charge associated with using the asset became payable during the 2014/15 financial year and is based upon the volumes of waste provided by each authority.

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In 2014/15 unitary charge payments of £6.627m (nil in 2013/14) were made, with £1.805m (£1.278m in 2013/14) received through PFI grant. Unitary charge payments over the life of the contract, excluding inflationary pressures, are expected to be £160.808m with £41.684m funded from PFI grant. The actual level of payments will depend on inflation rates, tonnage of waste sent by the Council to the facility and the satisfactory contract performance by the operator.

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%-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 UK Limited during the contract.

The Council retains legal title to the land relating to the waste transfer station and the asset will revert to the Council at the end of the contract period. The energy from waste facility is constructed on land owned by SITA. At the end of the contract there are a number of options around the asset whereby the agreement could be extended or the asset would revert to the three Councils to operate along with a lease of the underlying land. The contract includes an option to extend for a period of 5 years beyond the contractual expiry date. It allows the Council to terminate the contract with 20 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:

| 2013/14 | | 2014/15 |
|-----------------|--------------------------------------|------------------|
| £m | | £m |
| (74.083) | Opening balance | (72.299) |
| - | Addition of waste recycling facility | (45.593) |
| (7.192) | Interest and contingent rents | (8.254) |
| 8.976 | Repayments | 11.604 |
| (72.299) | Closing balance | (114.542) |
| (1.567) | Short term liability | (4.076) |
| (70.732) | Long term liability | (110.466) |
| (72.299) | Closing balance | (114.542) |

The estimated outstanding unitary charge payments for all long-term PFI contracts in operation at 31st March 2015 are analysed in the table on the next page.

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

This 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.

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

| 2013/14 | Repayment of liability £m | Interest charge £m | Contingent rents £m | Service charges £m | Total £m |
|--------------------------|---------------------------------|--------------------------|---------------------------|--------------------------|----------------|
| Amounts due: | | | | | |
| Within one year | 1.567 | 6.845 | 0.200 | 5.457 | 14.069 |
| Two to five years | 7.888 | 25.806 | 1.014 | 23.157 | 57.865 |
| Six to ten years | 15.220 | 27.361 | 2.155 | 31.482 | 76.218 |
| Eleven to fifteen years | 20.831 | 19.556 | 2.368 | 38.308 | 81.063 |
| Sixteen to twenty years | 20.222 | 8.875 | 0.275 | 32.605 | 61.977 |
| Twenty-one or more years | 6.571 | 1.051 | 0.327 | 6.555 | 14.504 |
| Total | 72.299 | 89.494 | 6.339 | 137.564 | 305.696 |

BT South Tyneside Limited (BTSTL)

During 2008/09 the Council entered into a strategic partnership arrangement with British Telecom, creating BTSTL. The strategic partner delivers a range of back-office services to the Council, including finance, payroll, personnel, ICT and procurement. The Partnership became operational on 1st October 2008 and the contract runs for 10 years. Unitary charge payments of £12.228m were paid in 2014/15 (£13.089m in 2013/14) and the total cost of the contract over 10 years is expected to be £123.384m. 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. On 28th March 2014 the Council signed an agreement with BTSTL to return professional finance and human resources staff back into the Council from 1st June 2014. This has significantly reduced the amounts still due to BTSTL compared to the previous year. As this is purely a service contract no liability has been created on the Balance Sheet.

| 2013/14 £m | 2014/15 £m | |
|---------------|--------------------------|---------------|
| Amounts due: | | |
| 11.947 | Within one year | 11.099 |
| 39.572 | Within two to five years | 28.473 |
| 51.519 | Total | 39.572 |

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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 £13.471m in 2014/15 (nil in 2013/14) and expects to pay out £35.000m in relation to this agreement over the next four years.

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 in 2006 and was extended for a period of five years in 2010. The contract is due to end on 31st December 2015 and there is an estimated value of £1.500m remaining on this contract.

Note 21. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and note 5. They are made up of the following balances:

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|----------------------------------|--------------------------|
| (1.184) | General Fund balance | (1.717) |
| (32.009) | Earmarked reserves | (32.049) |
| (13.156) | Housing revenue account balance | (15.999) |
| (1.730) | Useable capital receipts balance | (1.989) |
| (12.293) | Housing major repairs reserve | (10.577) |
| (60.372) | Total useable reserves | (62.331) |

Note 22. Unusable Reserves

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

| 31st March 2014 (as restated) £m | | 31st March 2015 £m |
|---|--|--------------------------|
| (90.368) | Revaluation reserve | (102.039) |
| (282.671) | Capital adjustment account | (229.001) |
| 281.638 | Pensions reserve | 319.684 |
| (8.794) | Available-for-sale financial instruments reserve | (8.794) |
| 3.450 | Employee benefits adjustment account | 4.072 |
| (0.176) | Financial instruments adjustment account | (0.040) |
| (0.437) | Collection Fund adjustment account | (1.239) |
| (0.006) | Deferred capital receipts reserve | (0.003) |
| (97.364) | Total unusable reserves | (17.360) |

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.

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| 2013/14 (as restated) £m | Revaluation reserve | 2014/15 £m |
|--------------------------------|---|------------------|
| (120.465) | Balance as at 1st April | (90.368) |
| (31.358) | Upward revaluation of non-current assets | (45.172) |
| 58.531 | Valuation impairment charged to reserve | 29.686 |
| 2.576 | Accumulated gains on assets sold or scrapped | 0.614 |
| 0.348 | Other amounts written off to the capital adjustment account | 3.201 |
| (90.368) | Balance as at 31st March | (102.039) |

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

| 2013/14 (as restated) £m | Capital adjustment account | 2014/15 £m |
|--------------------------------|---|------------------|
| (276.861) | Balance as at 1st April | (282.671) |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement | |
| 35.658 | Charges for depreciation and impairment of non-current assets | 46.203 |
| 12.381 | Revaluation losses on property, plant and equipment | 51.196 |
| 0.518 | Amortisation of intangible assets | 0.523 |
| 1.254 | Revenue expenditure funded from capital under statute | 5.441 |
| 14.261 | 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 | 32.860 |
| 0.004 | Other movements | (0.001) |
| - | Capital receipts not linked to assets | 0.007 |
| 0.633 | Accumulated gains on investment properties yet to be consumed | - |
| (2.924) | Adjusting amounts written out of the revaluation reserve | (3.815) |
| 61.785 | Net written out amount of the cost of non-current assets consumed in the year | 132.414 |
| | Capital financing applied in the year | |
| (11.669) | Use of the capital receipts reserve to finance new capital expenditure | (4.656) |
| (4.166) | Use of the major repairs reserve to finance new capital expenditure | (18.699) |
| (39.415) | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (40.869) |
| (12.295) | Provision for the financing of capital investment charged against the General Fund balance | (14.289) |
| - | Capital receipts used to repay debt | (0.007) |
| (0.050) | Capital expenditure charged against the General Fund balance | (0.224) |
| (67.595) | Total capital financing applied | (78.744) |
| (282.671) | Balance as at 31st March | (229.001) |

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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.

| 2013/14 | Pensions reserve | 2014/15 |
|----------------|---|----------------|
| £m | | £m |
| 351.593 | Balance as at 1st April | 281.638 |
| (83.020) | Actuarial (gains) or losses on pensions assets and defined benefit obligation | 35.180 |
| 33.465 | Reversal of items relating to retirement benefits debited or credited to the deficit on the provision of services in the Comprehensive Income and Expenditure Statement | 24.926 |
| (20.400) | Employers pension contributions and direct payments to pensioners payable in year | (22.060) |
| 281.638 | Balance as at 31st March | 319.684 |

Note 23. Operating Activities

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

| 2013/14 | | 2014/15 |
|----------------|--|----------------|
| (as restated) | | |
| £m | | £m |
| 35.658 | Depreciation and impairment | 46.203 |
| 12.381 | Revaluation losses of property, plant and equipment | 51.196 |
| 0.518 | Amortisation of intangibles | 0.523 |
| 0.633 | Revaluation of investment properties | - |
| (5.660) | (Decrease) or increase in creditors | 4.275 |
| (7.066) | Increase in debtors | (8.677) |
| 0.971 | Decrease in impairment provision for bad debts | 0.800 |
| 0.011 | Decrease in inventories | 0.043 |
| 13.760 | Movement in defined benefit obligation | 3.270 |
| 72.261 | Carrying amount of current and non-current assets sold or demolished | 107.869 |
| 2.132 | Other non-cash items charged to the deficit on the provision of services | (7.786) |
| 125.599 | Adjustment to the deficit on the provision of services for non-cash movements | 197.716 |

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

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| 2013/14 | | 2014/15 |
|------------------|--|------------------|
| £m | | £m |
| (58.000) | Proceeds from short term and long term investments | (75.000) |
| (13.505) | Proceeds from sale of property, plant and equipment | (6.867) |
| (39.415) | Capital grants credited to the deficit on the provision of services | (40.869) |
| (110.920) | Adjust for items included in the deficit on the provision of services that are investing and financing activities | (122.736) |

The cash flows for operating activities include the following items:

| 2013/14 | | 2014/15 |
|----------|-------------------|----------|
| £m | | £m |
| 2.285 | Interest received | 2.274 |
| (35.225) | Interest paid | (31.664) |

Note 24. Investing Activities

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

| 2013/14 | | 2014/15 |
|-----------------|--|-----------------|
| £m | | £m |
| (77.884) | Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal | (84.531) |
| (55.000) | Purchase of short term and long term investments | (90.025) |
| 13.506 | Proceeds from the sale of property, plant and equipment and assets held for sale | 6.768 |
| 58.000 | Proceeds from short-term and long-term investments | 75.000 |
| 33.128 | Other receipts from investing activities | 32.239 |
| (28.250) | Net cash flows from investing activities | (60.549) |

Note 25. Financing Activities

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

| 2013/14 | | 2014/15 |
|--------------|---|---------------|
| £m | | £m |
| 25.000 | Cash receipts of short and long term borrowing | 61.000 |
| (1.828) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts | (3.399) |
| (21.800) | Repayments of short term borrowing | (27.000) |
| 8.360 | Other receipts or (payments) for financing activities | (0.554) |
| 9.732 | Net cash flows from financing activities | 30.047 |

Note 26. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service in the face of the Comprehensive Income and Expenditure Statement is that specified by the 2014/15 Service Reporting Code of Practice (*SeRCOP*). However decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across service Groups. These reports are

Section 4 – Notes to the Core Financial Statements

prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

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

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

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

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

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

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Reconciliation to Subjective Analysis

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

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

The equivalent tables for the previous year are as follows:

| Income and expenditure 2013/14 outturn | Business and Resources Group | Strategy and Performance | Children, Adult and Families Group | Economic Regeneration Group | Total |
|--|------------------------------|--------------------------|------------------------------------|-----------------------------|------------------|
| | £m | £m | £m | £m | £m |
| Income | (138.369) | (0.314) | (162.892) | (11.039) | (312.614) |
| Employee expenses | 37.087 | 1.292 | 101.173 | 10.042 | 149.594 |
| Third party payments | 9.969 | 0.078 | 77.696 | 0.223 | 87.966 |
| Premises costs | 6.630 | 0.002 | 8.325 | 9.771 | 24.728 |
| Transport costs | 2.381 | 0.003 | 1.846 | 0.079 | 4.309 |
| Supplies and services | 36.700 | 0.165 | 34.129 | 7.327 | 78.321 |
| Client payments | 70.878 | - | 20.732 | - | 91.610 |
| Support services | (0.472) | - | 7.307 | 0.206 | 7.041 |
| Capital charges | 20.891 | - | 0.235 | 0.020 | 21.146 |
| Total expenditure | 184.064 | 1.540 | 251.443 | 27.668 | 464.715 |
| Net expenditure | 45.695 | 1.226 | 88.551 | 16.629 | 152.101 |

Section 4 – Notes to the Core Financial Statements

| | |
|---|----------------------|
| | 2013/14 |
| | (as restated) |
| | £m |
| Net expenditure in the Group analysis | 152.101 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis | 30.227 |
| Amounts included in the analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement | (38.706) |
| Cost of services in Comprehensive Income and Expenditure Statement | 143.622 |

| 2013/14 | Group analysis | Adjustments not reported to management in the analysis (as restated) | Amounts not included in the Comprehensive Income and Expenditure Statement | Cost of services (as restated) | Other operating income and expenditure | (Surplus) or deficit on the provision of services (as restated) |
|--|------------------|---|--|-----------------------------------|--|--|
| | £m | £m | £m | £m | £m | £m |
| Fees, charges and other service income | (311.343) | 44.430 | 6.145 | (260.768) | - | (260.768) |
| Housing revenue account income | - | (68.299) | - | (68.299) | - | (68.299) |
| Surplus on trading undertakings | - | - | - | - | (0.967) | (0.967) |
| Interest and investment income | (1.271) | - | 1.271 | - | (1.988) | (1.988) |
| Income from council tax | - | - | - | - | (44.867) | (44.867) |
| Income from non-domestic rates (including top up grant) | - | - | - | - | (43.652) | (43.652) |
| Grants and contributions | - | - | - | - | (121.901) | (121.901) |
| Total income | (312.614) | (23.869) | 7.416 | (329.067) | (213.375) | (542.442) |
| Employee expenses | 149.594 | (6.178) | (3.574) | 139.842 | - | 139.842 |
| Support services recharges | 7.041 | 34.635 | (0.012) | 41.664 | - | 41.664 |
| Other service expenses | 268.681 | (58.608) | (2.504) | 207.569 | - | 207.569 |
| Housing revenue account expenditure | - | 86.734 | - | 86.734 | - | 86.734 |
| Depreciation, amortisation and impairment | 0.056 | (3.120) | (0.056) | (3.120) | - | (3.120) |
| Interest payable and net defined benefit obligation cost | 17.786 | - | (17.786) | - | 45.228 | 45.228 |
| Losses on investments | - | 0.633 | (0.633) | - | 0.633 | 0.633 |
| Precepts and levies | 9.262 | - | (9.262) | - | 9.262 | 9.262 |
| Provision for debt repayment | 12.295 | - | (12.295) | - | - | - |
| Loss on disposal of current and non-current assets | - | - | - | - | 1.089 | 1.089 |
| Payments to housing receipts pool | - | - | - | - | 1.689 | 1.689 |
| Total expenditure | 464.715 | 54.096 | (46.122) | 472.689 | 57.901 | 530.590 |
| (Surplus) or deficit on the provision of services | 152.101 | 30.227 | (38.706) | 143.622 | (155.474) | (11.852) |

Note 27. Trading Operations

A summary of the surplus earned by each of our trading operations over the last three years is shown on the following table:

| | | 2012/13 (as restated) | 2013/14 (as restated) | 2014/15 |
|--|-----------------------------|--------------------------|--------------------------|----------------|
| | | £m | £m | £m |
| South Shields open air market | Turnover | (0.108) | (0.121) | (0.115) |
| | Expenditure | 0.063 | 0.120 | 0.079 |
| Cumulative surplus over last 3 years: £0.082m | Surplus | (0.045) | (0.001) | (0.036) |
| School catering | Turnover | (6.521) | (6.991) | (6.965) |
| | Expenditure | 5.988 | 6.025 | 7.668 |
| Cumulative surplus over last 3 years: £0.796m | (Surplus) or deficit | (0.533) | (0.966) | 0.703 |
| Building Regulation Charging | Turnover | (0.350) | (0.213) | (0.219) |
| | Expenditure | 0.353 | 0.213 | 0.379 |
| Cumulative deficit over last 3 years: £0.163m | Deficit | 0.003 | - | 0.160 |
| Total trading activity | Turnover | (6.979) | (7.325) | (7.299) |
| | Expenditure | 6.404 | 6.358 | 8.126 |
| | (Surplus) or deficit | (0.575) | (0.967) | 0.827 |

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Note 28. Pooled Budgets

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

- A joint equipment store that enables the Council and the CCG to provide an integrated equipment service, which will operate in line with Department of Health guidance, on a borough wide basis.
- Perth Green that enables the Council and the CCG to provide intermediate residential care for service users to help meet delayed discharge targets from hospital.
- An arrangement whereby the Council can commission nursing and continuing care on behalf of the CCG.
- An arrangement whereby the Council can commission after-care services, provided under Section 117 of the 1983 Mental Health Act, on behalf of the CCG.

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

| 2013/14 | | 2014/15 | 2014/15 | 2014/15 |
|---------------------------|----------------------------------|---------------------------|------------------------------------|---------------------------|
| Council share of net cost | | Pooled budgets gross cost | NHS partners income to the Council | Council share of net cost |
| £m | | £m | £m | £m |
| 0.628 | Joint equipment store | 1.412 | (0.681) | 0.731 |
| 0.880 | Perth Green | 1.293 | (0.242) | 1.051 |
| - | Nursing care and continuing care | 11.390 | (11.390) | - |
| 2.444 | S117 mental health | 5.236 | (2.618) | 2.618 |
| 3.952 | Total | 19.331 | (14.931) | 4.400 |

Note 29. Members' Allowances

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

| | 2013/14 | 2014/15 |
|---------------------------------------|--------------|--------------|
| | £m | £m |
| Members' allowances | 0.813 | 0.819 |
| Other Members' expenses | 0.022 | 0.020 |
| Total Members' allowances paid | 0.835 | 0.839 |

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Note 30. Officers' Remuneration

Employee Remuneration over £50,000

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

| 2013/14 | | | | 2014/15 | | | | |
|-----------|--------------|------------|-----------------|---------------------|-----------|--------------|------------|-----------------|
| Council | School based | Total | Leavers in year | Remuneration bands | Council | School based | Total | Leavers in year |
| 24 | 27 | 51 | 4 | £50,000 - £54,999 | 27 | 31 | 58 | 3 |
| 8 | 31 | 39 | 5 | £55,000 - £59,999 | 10 | 26 | 36 | 6 |
| 9 | 16 | 25 | 2 | £60,000 - £64,999 | 8 | 6 | 14 | 4 |
| 4 | 9 | 13 | 1 | £65,000 - £69,999 | 6 | 12 | 18 | 6 |
| 1 | 3 | 4 | 2 | £70,000 - £74,999 | 6 | 6 | 12 | 5 |
| 1 | 3 | 4 | - | £75,000 - £79,999 | 2 | 3 | 5 | 1 |
| 2 | 2 | 4 | 1 | £80,000 - £84,999 | - | 3 | 3 | - |
| - | 3 | 3 | 1 | £85,000 - £89,999 | - | 2 | 2 | - |
| - | - | - | - | £90,000 - £94,999 | 1 | - | 1 | 1 |
| - | 1 | 1 | - | £95,000 - £99,999 | - | - | - | - |
| - | - | - | - | £100,000-£104,999 | 1 | - | 1 | 1 |
| 1 | - | 1 | 1 | £105,000 - £109,999 | - | - | - | - |
| 1 | - | 1 | - | £120,000 - £124,999 | 1 | - | 1 | - |
| - | 1 | 1 | - | £165,000 - £169,999 | - | 1 | 1 | - |
| 51 | 96 | 147 | 17 | | 62 | 90 | 152 | 27 |

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 2014/15.

Teachers employed by school Governing Bodies at VA or trust schools have been excluded as they are not directly employed by the Council. These employees are shown separately in the table below.

| 2013/14 | | 2014/15 | |
|--------------|--------------------|--------------|--|
| School based | Remuneration bands | School based | |
| 13 | £50,000 - £54,999 | 11 | |
| 6 | £55,000 - £59,999 | 5 | |
| 5 | £60,000 - £64,999 | 7 | |
| 2 | £65,000 - £69,999 | 1 | |
| 2 | £70,000 - £74,999 | 4 | |
| 1 | £75,000 - £79,999 | 1 | |
| 2 | £80,000 - £84,999 | 1 | |
| - | £85,000-£89,999 | 1 | |
| 1 | £90,000 - £94,999 | - | |
| - | £100,000-£104,999 | 1 | |
| 32 | | 32 | |

Section 4 – Notes to the Core Financial Statements

Senior Officer Remuneration

The following table shows senior officer remuneration in 2013/14 and 2014/15:

| Post title | | Salary and allowances £ | Pension contribution £ | Total remuneration £ |
|---|-----------|----------------------------|---------------------------|-------------------------|
| <u>Officers over £150,000</u> | | | | |
| Chief Executive - M Swales | 2013/14 | 152,685 | 21,769 | 174,454 |
| | 2014/15 | 152,813 | 24,204 | 177,017 |
| <u>Other senior officers</u> | | | | |
| Corporate Director Children Adults and Families | 2013/14 | 124,767 | 17,524 | 142,291 |
| | 2014/15 | 124,364 | 19,485 | 143,849 |
| Corporate Director Business and Resources | 2013/14 ^ | 76,172 | 10,732 | 86,904 |
| | 2014/15 | 112,823 | 17,821 | 130,644 |
| Corporate Director Economic Regeneration | 2013/14 | 113,771 | 16,059 | 129,830 |
| | 2014/15 | 117,435 | 18,590 | 136,025 |
| Head of Education Learning and Skills | 2013/14 | 91,446 | 12,870 | 104,316 |
| | 2014/15 | 91,222 | - | 91,222 |
| Head of Enterprise and Regeneration | 2013/14 | 68,549 | 9,608 | 78,157 |
| | 2014/15 | 68,780 | 10,737 | 79,517 |
| Head of Children's and Families Social Care | 2013/14 | 83,988 | 12,010 | 95,998 |
| | 2014/15 | 84,408 | 13,421 | 97,829 |
| Director of Public Health | 2013/14 | 82,296 | 11,521 | 93,817 |
| | 2014/15 | 83,985 | 11,758 | 95,743 |
| Head of Pensions | 2013/14 | 85,195 | 12,010 | 97,205 |
| | 2014/15 | 85,235 | 13,421 | 98,656 |
| Head of Corporate and Commercial Services | 2013/14 | 89,596 | 12,611 | 102,207 |
| | 2014/15 | 89,888 | 14,038 | 103,926 |
| Head of Marketing and Communications | 2013/14 | 78,564 | 11,159 | 89,723 |
| | 2014/15 | 79,341 | 12,422 | 91,763 |
| Corporate Lead - Commissioning | 2013/14 | 78,124 | 11,074 | 89,198 |
| | 2014/15 | 81,879 | 13,019 | 94,898 |
| Head of Legal Services | 2013/14 | 79,050 | 11,159 | 90,209 |
| | 2014/15 | 83,952 | 12,422 | 96,374 |
| Head of Finance | 2013/14 | 79,000 | 11,159 | 90,159 |
| | 2014/15 | 88,165 | 12,821 | 100,986 |
| Head of Adult Social Care | 2013/14 | 80,336 | 11,455 | 91,791 |
| | 2014/15 ^ | 33,249 | 5,258 | 38,507 |
| Head of Strategic Development | 2014/15 ^ | 53,297 | 8,334 | 61,631 |
| | 2013/14 | 95,715 | 13,585 | 109,300 |
| | 2014/15 | 31,394 | 3,776 | 35,170 |
| Head of Asset Management | 2013/14 | 84,994 | 12,010 | 97,004 |
| | 2014/15 | 86,182 | 13,421 | 99,603 |
| Head of Development Services | 2013/14 | 84,897 | 12,010 | 96,907 |
| | 2014/15 | 85,733 | 13,421 | 99,154 |
| Total remuneration 2013/14 | | 1,629,145 | 230,325 | 1,859,470 |
| Total remuneration 2014/15 | | 1,634,145 | 238,369 | 1,872,514 |

^ Denotes not a full year salary

Section 4 – Notes to the Core Financial Statements

Exit Package Cost Disclosure

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

| 2013 /14 | | | 2014 /15 | | |
|---------------------|--------------|------------------------|---------------------|--------------|--|
| Total exit Packages | Total Paid | Exit package cost band | Total exit Packages | Total Paid | |
| | £m | | | £m | |
| 120 | 0.937 | £0 - £20,000 | 151 | 1.108 | |
| 28 | 0.851 | £20,001 - £40,000 | 55 | 1.623 | |
| 7 | 0.376 | £40,001 - £60,000 | 13 | 0.614 | |
| 1 | 0.067 | £60,001 - £80,000 | 3 | 0.202 | |
| - | - | £80,001 - £100,000 | 3 | 0.254 | |
| 2 | 0.368 | £150,000 and above | - | - | |
| 158 | 2.599 | Total | 225 | 3.801 | |

There were no compulsory redundancies in the year.

Note 31. External Audit Costs

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

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

| 2013/14 | | 2014/15 |
|--------------|---|--------------|
| £m | | £m |
| 0.167 | Fees with regard to external audit services carried out by the appointed auditor for the year | 0.167 |
| 0.017 | Fees for the certification of grant claims and returns for the year | 0.020 |
| 0.002 | Fees for other services provided by external auditors during the year | 0.004 |
| 0.186 | Total fees payable to external auditors | 0.191 |

In addition to the above the Council paid £0.036m (£0.036m in 2013/14) to PWC in relation to audit of the Tyne and Wear Pension Fund. These costs were fully recovered from the Fund.

Note 32. 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.

Section 4 – Notes to the Core Financial Statements

Over and underspends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2014/15 are as shown in the following table:

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

The in year adjustment relates to additional DSG received for early years based on the number of pupils as at the January 2014 census. A similar adjustment to the 2014/15 allocations will be made based on the January 2015 census figures. The amount of the adjustment has yet to be announced but will be shown as an in year adjustment in next year's DSG note.

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

The equivalent table for the previous year is shown below:

| 2013/14 | Central expenditure £m | Individual schools budget £m | Total £m |
|---|------------------------------|---------------------------------------|-----------------|
| Final DSG before academy recoupment | | | (109.054) |
| Academy recoupment | | | 10.436 |
| Total Council DSG for year | | | (98.618) |
| Brought forward from previous year | | | (0.373) |
| Agreed budgeted distribution in year | (11.390) | (87.601) | (98.991) |
| Final budgeted distribution for year | (11.390) | (87.601) | (98.991) |
| Actual central expenditure | 11.390 | - | 11.390 |
| Actual ISB deployed to schools | - | 87.198 | 87.198 |
| Carry forward to following year | - | (0.403) | (0.403) |

Section 4 – Notes to the Core Financial Statements

Note 33. Government Grant Income

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

| | 2013/14 £m | 2014/15 £m |
|---|------------------|------------------|
| Credited to taxation and non-specific grant income | | |
| Non-domestic rates top up grant | (28.877) | (29.439) |
| Capital grants and contributions | (37.841) | (35.687) |
| Revenue support grant | (64.948) | (53.991) |
| Private finance initiative | (10.599) | (11.126) |
| Education services grant | (2.559) | (2.395) |
| Small business rate relief grant | (0.577) | (1.360) |
| Adoption reform grant | (0.614) | (0.115) |
| Social fund administration grant | (0.645) | (0.636) |
| New homes bonus grant | (1.134) | (1.490) |
| Local services support grant | (0.092) | (0.068) |
| Benefits administration grant | (1.571) | (1.495) |
| Council tax freeze grant | (0.579) | (0.589) |
| Other unringfenced grants | (0.742) | (1.751) |
| Total | (150.778) | (140.142) |
| Credited to services | | |
| Dedicated schools grant | (98.618) | (96.501) |
| Housing benefit | (71.032) | (71.980) |
| Public health grant | (12.566) | (12.917) |
| NHS Commissioning Board | - | (4.195) |
| Education and skills funding agencies | (6.347) | (6.473) |
| Pupil premium grant | (6.482) | (8.127) |
| Grants supporting revenue expenditure funded by capital under statute | (1.574) | (5.182) |
| Other ringfenced grants | (2.434) | (1.706) |
| Total | (199.053) | (207.081) |
| Total grants | (349.831) | (347.223) |

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

Section 4 – Notes to the Core Financial Statements

| | 2013/14 £m | 2014/15 £m |
|---|----------------|----------------|
| Revenue grants | | |
| Education and skills funding agencies | (1.383) | (2.259) |
| Other grants | (0.191) | (0.124) |
| Revenue contributions | | |
| Other contributions | (0.133) | (0.060) |
| Total | (1.707) | (2.443) |
| Capital grants receipts in advance | | |
| ONE North East funding | (0.160) | - |
| Department for Education schools | (0.712) | (0.785) |
| Other grants | (0.879) | (1.379) |
| Total | (1.751) | (2.164) |

Note 34. 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.

| 2013/14 £m | | 2014/15 £m |
|-----------------|--|-----------------|
| 583.779 | Opening capital financing requirement (CFR) | 599.334 |
| | Capital investment | |
| 79.715 | Additions to property, plant and equipment | 89.832 |
| - | Adjustments for assets held under PFI and finance leases | 45.593 |
| 1.400 | Loans treated as capital expenditure | 7.160 |
| 0.778 | Additions to other long term assets and assets held for sale or disposal | 0.435 |
| 1.254 | Revenue expenditure funded from capital under statute | 5.441 |
| 0.003 | Other movements | (0.001) |
| 83.150 | Total capital investment | 148.460 |
| | Sources of finance | |
| (11.669) | Capital receipts | (4.656) |
| (39.415) | Government grants and other contributions | (40.869) |
| (4.166) | Major repairs reserve | (18.699) |
| (12.345) | General Fund sums set aside from revenue | (14.520) |
| (67.595) | Total finance used | (78.744) |
| 15.555 | Movement in CFR | 69.716 |
| 599.334 | Closing CFR | 669.050 |
| | Explanation of movement in year | |
| (5.016) | (Decrease) or increase in underlying need to borrow (supported by Government financial assistance) | 39.141 |
| 20.571 | Increase in underlying need to borrow (unsupported by Government financial assistance) | 30.575 |
| 15.555 | Increase in CFR | 69.716 |

Section 4 – Notes to the Core Financial Statements

Loans treated as Capital Expenditure

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

Revenue Expenditure Funded from Capital under Statute

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

Significant Items of Capital Additions

The most significant capital additions during 2014/15 are shown in the following table:

| | £m |
|--|--------|
| Decent homes | 42.637 |
| Maintaining and enhancing our buildings | 12.340 |
| Hebburn town centre regeneration | 8.624 |
| Middlefield's waste transfer station | 3.794 |
| South Shields town centre regeneration | 3.262 |
| A1290 junction improvement works | 2.784 |
| Ocean Road enhancement | 1.778 |
| Area redevelopment | 1.267 |
| Building schools for the future | 1.197 |
| Road and bridge resurfacing | 1.191 |
| Housing infrastructure | 1.062 |
| Expansion of two year old nursery provision | 0.974 |
| Disabled facilities in private homes | 0.942 |
| Integrated digital care fund | 0.934 |
| Disabled adaptations to Council dwellings | 0.925 |
| Harton Quay | 0.885 |
| Solar panels installation | 0.842 |
| New build dwellings | 0.817 |
| Road safety schemes | 0.766 |
| Adult social care computer system | 0.694 |
| New and replacement leisure facilities | 0.656 |
| Footpath infrastructure improvements | 0.632 |
| Frederick Street and Trinity South redevelopment | 0.596 |
| Vehicles | 0.520 |

Note 35. Leases

Council as Lessee - Finance Leases

The Council holds two buildings under finance leases:

- A lease for office accommodation at Landreth House which commenced in 1983 and is 33 years into a 35 year lease.

Section 4 – Notes to the Core Financial Statements

- The lease of Cleadon Park facility which commenced in July 2010 and is 5 years into a 24 year lease. The main use of this facility by the Council is as a library and community centre.

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 0.049 | - current | 0.054 |
| 2.104 | - non-current | 2.050 |
| 2.995 | Finance costs payable in future years | 2.772 |
| 5.148 | Minimum lease payments | 4.876 |

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 2014 £m | 31st March 2015 £m | 31st March 2014 £m | 31st March 2015 £m |
| | Not later than one year | 0.049 | 0.054 | 0.273 |
| Later than one year and not later than five years | 0.213 | 0.217 | 1.056 | 1.038 |
| Later than five years | 1.891 | 1.833 | 3.819 | 3.564 |
| | 2.153 | 2.104 | 5.148 | 4.876 |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, for example changes to rents following a rent review. In 2014/15 £0.099m contingent rents were payable by the Council (£0.140m as restated in 2013/14).

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

Council as Lessee - Operating Leases

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

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| 0.227 | Not later than one year | 0.209 |
| 0.572 | Later than one year and not later than five years | 0.442 |
| 1.472 | Later than five years | 1.008 |
| 2.271 | | 1.659 |

Section 4 – Notes to the Core Financial Statements

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

| 31st March | | 31st March |
|-------------------|------------------------|-------------------|
| 2014 | | 2015 |
| £m | | £m |
| 0.416 | Minimum lease payments | 0.367 |
| 0.023 | Contingent rents | 0.022 |
| 0.439 | | 0.389 |

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 | | 31st March |
|-------------------|---|-------------------|
| 2014 | | 2015 |
| £m | | £m |
| 2.859 | Not later than one year | 3.820 |
| 5.795 | Later than one year and not later than five years | 8.304 |
| 13.448 | Later than five years | 15.593 |
| 22.102 | | 27.717 |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into. In 2014/15 £0.163m contingent rents were receivable by the Council (£0.454m in 2013/14).

Note 36. 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 (including NHS bodies) 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 £347.223m (£349.831m in 2013/14) in support of its revenue spending as detailed in note 33.

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

- Grants totalling £0.275m (£0.550m in 2013/14) were paid to Bede's World Museum a third sector organisation in which some Members have an interest. This funding formed a significant proportion of the organisation's annual income.
- A Council Member is the Council representative on the South Tyneside Gymnastics Club. The Council paid the club nil (£0.003m in 2013/14) towards its general running costs.

Section 4 – Notes to the Core Financial Statements

- A Council Member is a director of a company which has provided training to South Tyneside Council and South Tyneside Homes Limited for the sum of £0.008m (£0.008m in 2013/14).

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

There have been no other related party transactions with either Elected Members or Chief Officers other than remuneration for the performance of their duties as detailed in notes 29 and 30 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.340m (£0.462m in 2013/14) in respect of support services provided. Some support services are delivered through a separate service level agreement with BTSTL. The Council also paid to the Fund £0.056m (£0.055m in 2013/14) in respect of treasury management duties.

The Council administers the accounts for NALAHCL on behalf of the LA7 and NIAL and charged £0.046m (£0.048m in 2013/14) in relation to officer time and expenses. The Council received £0.672m income from interest on loan notes with the airport (£0.672m in 2013/14) and nil in dividends (£0.232m in 2013/14).

South Tyneside Homes Limited buys services back from the Council and was charged £1.605m (£1.068m in 2013/14) in respect of support services provided. Some support services are delivered through a separate service level agreement with BTSTL. The Council paid a management fee of £13.500m (£13.052 as restated in 2013/14) and £39.365m (£40.559m as restated in 2013/14) primarily for the provision of construction services and capital programme management.

Community associations in the borough received indirect financial support from the Council of £1.962m (£1.747m in 2013/14). The funding was used to pay for premises costs and Council employed staffing costs. The Council holds reserve powers to take over operation of centres in cases of mismanagement.

The Council entered a strategic partnership with BTSTL on 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 £11.209m (£13.089m in 2013/14) to BTSTL for the provision of the transferred services.

InspiredSpaces STaG Limited is the private sector partner delivering our schools PFI contracts. The Council owns shares in the various companies established to run the contracts, details of which can be found in note 14.

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 £40m 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.

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

| 31st March 2014 £m | Amount due to the Council | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| 9.097 | Government bodies | 13.266 |
| 1.203 | NHS bodies | 1.298 |
| 0.966 | Tyne and Wear Pension Fund | 1.081 |
| 8.007 | NIAL | 7.815 |
| 3.087 | South Tyneside Homes Limited | 2.327 |
| 0.599 | Community associations | 0.533 |
| 0.001 | InspiredSpaces STaG Limited | 0.030 |
| 1.402 | South Tyneside Housing Ventures Trust Limited | 8.541 |
| 24.362 | Total | 34.891 |

| 31st March 2014 £m | Amount due from the Council | 31st March 2015 £m |
|--------------------------|------------------------------|--------------------------|
| (5.404) | Government bodies | (7.845) |
| (1.619) | NHS bodies | (1.600) |
| (2.964) | Tyne and Wear Pension Fund | (2.763) |
| (6.354) | South Tyneside Homes Limited | (5.316) |
| (0.006) | Community associations | (0.008) |
| - | InspiredSpaces STaG Limited | (0.086) |
| (16.347) | Total | (17.618) |

Note 37. 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 10 which reconciles the movement over the year in property, plant and equipment.

During 2014/15 the Council has recognised impairments of £8.654m (£1.892m in 2013/14). The majority of this increase reflects a higher number of planned property demolitions.

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

| | 2013/14 £m | 2014/15 £m |
|--|---------------|---------------|
| Central services to the public | - | 0.016 |
| Cultural and related services | 0.002 | 0.293 |
| Environmental services | 0.011 | 0.440 |
| Regulatory and planning services | 0.665 | 0.494 |
| Education and children's services | 0.334 | 0.984 |
| Highways and transport services | 0.126 | 0.201 |
| Local authority housing (HRA) | 0.754 | 5.426 |
| Adult social care services | - | 0.438 |
| Corporate and democratic core | - | 0.031 |
| Non distributed cost | - | 0.249 |
| Other operating income and expenditure | - | 0.084 |
| Total | 1.892 | 8.656 |

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In addition £0.280m (£0.081m in 2013/14) impairment loss has been absorbed by previous gains recognised in the revaluation reserve.

Note 38. 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 2015, the actuary assessed the deficit at £27.550m (£18.410m in 2013/14). In the unlikely event that South Tyneside Homes Limited were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

Note 39. Contingent Assets

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

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

The Council is a party to ongoing litigation over the VAT treatment of off street car parking charges. Following an unfavourable ruling in the European Courts, the Council repaid VAT monies it had previously retained. The Council appealed in October 2012. The VAT Tribunal dismissed the appeal on the basis that the distortion of competition arising from non-taxable treatment of parking services by local authorities would be more than negligible. The Upper Tribunal heard and dismissed an appeal against this ruling in October 2014, however leave has been granted to refer the case to the Court of Appeal. This is due to be heard in December 2015. Given the continued non favourable legal rulings no asset has been reflected in these accounts.

The Council submitted a voluntary disclosure to HMRC for £0.600m 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 this claim 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 claim and await the outcome of ongoing litigation although the Council is not one of the appellants. It is expected that the case will be

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heard before the Tribunal panel in late 2015 or early 2016. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

Note 40. Financial Instruments Risks

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

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

A copy of the Treasury Management Strategy can be found on the South Tyneside website at the following reference:

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

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

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

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers (Capita PLC) and to restrict lending to a prudent maximum amount for each institution. During 2014/15 six institutions were added to the lending list with one being subsequently removed. All changes were in line with Capita Asset Services' credit rating criteria.

Investments are also made in AAA rated, i.e. highly rated, money market funds. These funds are separate legal entities from the organisations that manage them and have the benefit of

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diversifying risk. Deposits may also be made with other local authorities and the Debt Management Account Deposit Facility.

As at 31st March 2015 the Council limited direct deposits with institutions to a maximum of £25m (£25m in 2013/14) for those institutions which are part owned by the UK Government and £15m (£15m in 2013/14) for all other institutions on the council lending list. In addition a £15m (£15m in 2013/14) limit was applied to investments made into AAA rated money market funds.

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

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

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

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

| Credit risk of financial assets | Amount at | Historical | Estimated | Estimated |
|--|---------------|---------------|------------------|------------------|
| | 31st March | experience | maximum | maximum |
| | 2015 | adjusted for | exposure to | exposure to |
| | £m | market | default and | default and |
| | A | conditions at | uncollectability | uncollectability |
| | | 31st March | 31st March 2015 | 31st March 2014 |
| | | 2015 | £m | £m |
| | | % | A x B | |
| | | B | | |
| Deposits with banks and other financial institutions | 39.507 | 0% | - | - |
| Customers | 19.186 | 4% | 0.767 | 0.606 |
| Government debtors | 8.462 | 0% | - | - |
| Other debtors | 5.508 | 0% | - | - |
| Total | 72.663 | | 0.767 | 0.606 |

Impairment

The Council has impaired its financial assets by a total of £1.029m during 2014/15 (£1.316m in 2013/14) 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.

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Collateral

The only form of collateral for any of the reported financial asset relates to residential care fees of £0.926m (£0.791m in 2013/14) where there is a charge against clients' property. The loan facility agreed with STHVTL allows for the Council to take back property assets from the company in the event of any default in repayment of the loans made.

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

| Credit risk of past due financial assets | 31st March 2014 | 31st March 2015 |
|--|-----------------|-----------------|
| | £m | £m |
| Less than three months | 5.999 | 10.284 |
| Three to six months | 1.085 | 0.769 |
| Six months to one year | 0.869 | 0.669 |
| More than one year | 2.647 | 2.554 |
| Total | 10.600 | 14.276 |

Liquidity Risk

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

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

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

| 31st March 2014 | Liabilities outstanding | 31st March 2015 |
|------------------|----------------------------|--------------------|
| £m | | £m |
| (489.846) | Public Works Loans Board | (524.449) |
| (10.325) | Market debt | (10.322) |
| (305.696) | PFI liabilities | (449.266) |
| (28.876) | Creditors | (33.234) |
| (5.148) | Finance lease liabilities | (4.876) |
| (839.891) | Total | (1,022.147) |
| (73.009) | Less than one year | (77.642) |
| (34.497) | Between one and two years | (35.173) |
| (95.424) | Between two and five years | (126.428) |
| (169.819) | Between five and ten years | (188.265) |
| (467.142) | More than ten years | (594.639) |
| (839.891) | Total | (1,022.147) |

Market Risk

Section 4 – Notes to the Core Financial Statements

Interest rate risk

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

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

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

The Council has a number of strategies for managing interest rate risk. Our treasury management policy sets a maximum of 35% (40% in 2013/14) 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 2015, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the table over the page:

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| 2013/14 | | 2014/15 |
|----------------|--|----------------|
| £m | Interest rate risk | £m |
| 0.200 | Increase in interest payable on variable rate borrowings | 0.200 |
| (0.417) | Increase in interest receivable on variable rate investments | (0.625) |
| (0.217) | Impact on Comprehensive Income and Expenditure Statement | (0.425) |
| (0.156) | Share of overall impact on the HRA Income and Expenditure Statement | (0.319) |
| (0.742) | Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement) | (8.686) |
| (49.419) | Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement) | (75.768) |

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

Price Risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £8.794m in Newcastle Airport (£8.794m in 2013/14). 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 41. 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:

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

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.

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The equivalent balances at 31st March 2014 are as follows:

| | 1st April 2013 | Amount received during year | Amount applied during year | 31st March 2014 | Government stock investments | Invested in Council Funds |
|-----------------------|----------------|-----------------------------|----------------------------|-----------------|------------------------------|---------------------------|
| | £m | £m | £m | £m | £m | £m |
| Westoe trust | (0.354) | (0.003) | 0.004 | (0.353) | - | 0.353 |
| Marine park trust | (0.172) | (0.002) | - | (0.174) | - | 0.174 |
| Other trust funds | (0.134) | (0.009) | 0.003 | (0.140) | 0.025 | 0.115 |
| Total balances | (0.660) | (0.014) | 0.007 | (0.667) | 0.025 | 0.642 |

Note 42. Pension Schemes Accounted for as Defined Contribution

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

On 1st April 2013 the Council took over responsibility for Public Health services from the National Health Service (NHS). These employees are members of the NHS Pension Scheme, administered by NHS Pensions on behalf of the Department of Health.

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

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

In 2014/15, the Council paid £5.584m to the Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 14.1% of pensionable pay (£5.883m and 14.1% respectively in 2013/14). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.781m (£0.785m in 2013/14).

In 2014/15, the Council paid £0.083m to the NHS Pensions Agency in respect of public health employees' retirement benefits, representing 14.0% of pensionable pay (£0.100m and 14.0% in 2013/14). There were no employee contributions remaining payable at the year-end. The Council sum remaining payable at year end totalled £0.009m (£0.014m in 2013/14).

The Council expects to pay out in the region of £5.700m in the year ending 31st March 2016 in respect of these two pension schemes. Information is not available to allow the Council to determine its level of participation 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 44.

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Note 43. 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.

In 2014/15, 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 2014/15 was estimated by the actuary to be £1.109m (£1.549m in 2013/14).

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

The Fund follows a robust risk management process which can be found in note 12 of the Tyne and Wear Pension Fund Accounts (page 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 curtailments but an allowance has been made for settlements in respect of staff based in schools that transferred to academy status in year.

Section 4 – Notes to the Core Financial Statements

(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 2016 are estimated at £19.280m. In addition, strain on the fund contributions may be required.

The main financial assumptions adopted as at 31st March 2015

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

| | 31st March 2014 | 31st March 2015 |
|---|-----------------|-----------------|
| | % per annum | % per annum |
| Discount rate | 4.30 | 3.20 |
| Inflation rate (consumer price index) | 2.40 | 1.80 |
| Rate of increase to pensions in payment | 2.40 | 1.80 |
| Rate of increase to deferred pensions | 2.40 | 1.80 |
| Pension accounts revaluation rate | n/a | 1.80 |
| Rate of general increase in salaries | 3.90 | 3.30 |

The main demographic assumptions adopted as at 31st March 2015

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 over the page.

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Post retirement mortality

31st March 2014

31st March 2015

Males

| | | |
|---|------|------|
| Future lifetime from age 65 (currently aged 65) | 23.0 | 23.1 |
| Future lifetime from age 65 (currently aged 45) | 25.0 | 25.1 |

Females

| | | |
|---|------|------|
| Future lifetime from age 65 (currently aged 65) | 24.6 | 24.7 |
| Future lifetime from age 65 (currently aged 45) | 26.9 | 27.0 |

Commutation

| | |
|---|---|
| <p>Each member was assumed to exchange 50% of the maximum amount permitted of their pre 1st April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post 31st March 2010 pension entitlements, for additional lump sum</p> | <p>Each member was assumed to exchange 50% of the maximum amount permitted of their pre 1st April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post 31st March 2010 pension entitlements, for additional lump sum</p> |
|---|---|

Further detail on mortality assumptions can be found in note 25 of the Tyne and Wear Pension Fund Statements (page 162).

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 2015 is set out below.

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

| Impact on present value of obligation liability | +0.1% | Change | -0.1% | Change |
|---|-----------------|--------|-----------------|--------|
| | per annum £m | | per annum £m | |
| Adjustment to discount rate | (846.890) | -1.9% | (879.110) | 1.9% |
| Adjustment to salary increase rate | (867.560) | 0.5% | (858.200) | -0.5% |
| Adjustment to pension increase rate | (874.860) | 1.4% | (851.030) | -1.4% |
| | - 1 Year | | + 1 Year | |
| Adjustment to mortality age rating assumption | (886.460) | 2.7% | (839.220) | -2.7% |

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

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

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| Impact on projected service cost | +0.1% per annum £m | Change | -0.1% per annum £m | Change |
|---|-----------------------|--------|-----------------------|--------|
| Adjustment to discount rate | 15.750 | -3.4% | 16.860 | 3.4% |
| Adjustment to salary increase rate | 16.300 | 0.0% | 16.300 | 0.0% |
| Adjustment to pension increase rate | 16.860 | 3.4% | 15.750 | -3.4% |
| | - 1 Year | | + 1 Year | |
| Adjustment to mortality age rating assumption | 16.880 | 3.6% | 15.720 | -3.6% |

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 2013 | Asset split at 31st March 2014 | Asset split at 31st March 2015 | | |
|-------------------|--------------------------------------|--------------------------------------|--------------------------------|--------------|---------------|
| | | | Quoted | Unquoted | Total |
| Equities | 68.0% | 66.8% | 58.2% | 8.2% | 66.4% |
| Property | 9.0% | 8.5% | - | 9.5% | 9.5% |
| Government bonds | 7.0% | 3.5% | 3.7% | - | 3.7% |
| Corporate bonds | 11.0% | 11.5% | 11.7% | - | 11.7% |
| Cash | 1.6% | 2.9% | 2.4% | - | 2.4% |
| Other investments | 3.4% | 6.8% | 4.2% | 2.1% | 6.3% |
| Total | 100.0% | 100.0% | 80.2% | 19.8% | 100.0% |

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

| | 31st March 2014 £m | 31st March 2015 £m |
|--|-----------------------|-----------------------|
| Fair value of assets | 512.820 | 574.740 |
| Present value of funded defined benefit obligation | (763.020) | (862.850) |
| Liability recognised on the Balance Sheet | (250.200) | (288.110) |

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The duration of the defined benefit obligation liability is 18.7 years (18.7 years in 2013/14). The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

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

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

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:

| 2013/14 £m | | 2014/15 £m |
|-----------------|---|---------------|
| | Operating cost | |
| 18.550 | Current service cost | 13.530 |
| 0.780 | Past service cost | 0.750 |
| - | Settlement cost | (0.490) |
| | Financing cost | |
| 13.590 | Interest on net defined benefit obligation | 10.340 |
| 32.920 | Pension expense recognised | 24.130 |
| | Remeasurements in other comprehensive income and expenditure | |
| 3.910 | Return on plan assets below or (in excess of) that recognised in net interest | (40.670) |
| (52.580) | Actuarial (gains) or losses due to change in financial assumptions | 79.120 |
| (6.030) | Actuarial gains due to change in demographic assumptions | - |
| (27.780) | Actuarial gains due to liability experience | (4.920) |
| (82.480) | Total amount recognised in other comprehensive income and expenditure | 33.530 |
| (49.560) | Total amount recognised | 57.660 |

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

| 2013/14 £m | | 2014/15 £m |
|------------------|--|------------------|
| (814.840) | Opening defined benefit liability | (763.020) |
| (18.550) | Current service cost | (13.530) |
| (35.420) | Interest expense on defined benefit liability | (32.390) |
| (4.580) | Contributions by participants | (4.650) |
| 52.580 | Actuarial gains or (losses) on liabilities - financial assumptions | (79.120) |
| 6.030 | Actuarial gains on liabilities - demographic assumptions | - |
| 27.780 | Actuarial gains on liabilities - experience | 4.920 |
| 24.760 | Net benefits paid out | 24.510 |
| (0.780) | Past service cost | (0.750) |
| - | Settlement cost | 1.180 |
| (763.020) | Closing defined benefit liability | (862.850) |

Changes to the fair value of assets during the accounting year

| 2013/14 £m | | 2014/15 £m |
|----------------|---|----------------|
| 496.980 | Opening fair value of assets | 512.820 |
| 21.830 | Interest income on assets | 22.050 |
| (3.910) | Remeasurement (loss) or gains on assets | 40.670 |
| 18.100 | Contributions by the employer | 19.750 |
| 4.580 | Contributions by participants | 4.650 |
| (24.760) | Net benefits paid out | (24.510) |
| - | Settlements | (0.690) |
| 512.820 | Closing fair value of assets | 574.740 |

Actual return on assets

| 2013/14 £m | | 2014/15 £m |
|---------------|--|---------------|
| 21.830 | Interest income on assets | 22.050 |
| (3.910) | Remeasurement (loss) or gain on assets | 40.670 |
| 17.920 | Actual return on assets | 62.720 |

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

The disclosures below relate to unfunded pension arrangements established by the Council. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure.

For the year ending 31st March 2016 the Council expects to pay £2.34m directly to beneficiaries.

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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 assumptions adopted as at 31st March 2015

The principal financial assumptions where these differ from those used for funded liabilities were as follows:

| | 31st March 2014 | 31st March 2015 |
|---|-----------------|-----------------|
| | % per annum | % per annum |
| Discount rate | 4.20 | 3.10 |
| Rate of increase to pensions in payment | 2.20 | 1.80 |

The main demographic assumptions adopted as at 31st March 2015

The principal assumptions in retirement mortality rates for unfunded liabilities are the same as those reported for funded liabilities on page 77.

Sensitivity analysis

No analysis in relation to unfunded benefits has been undertaken on the grounds of materiality.

The following table reconciles the liabilities to the Balance Sheet:

| | 31st March 2014 | 31st March 2015 |
|---|-----------------|-----------------|
| | £m | £m |
| Present value of unfunded defined benefit liability | (29.800) | (30.340) |
| Liability recognised on the Balance Sheet | (29.800) | (30.340) |

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 unfunded benefits in the Comprehensive Income and Expenditure Statement:

| 2013/14 | | 2014/15 |
|----------------|--|--------------|
| £m | | £m |
| | Financing cost | |
| 1.240 | Interest on net defined benefit liability | 1.200 |
| 1.860 | Strain on fund deferred payment | 1.144 |
| 3.100 | Pension expense recognised | 2.344 |
| | Remeasurements in other comprehensive income and expenditure | |
| (1.410) | Actuarial (gains) or losses due to change in financial assumptions | 1.930 |
| 0.840 | Actuarial losses due to change in demographic assumptions | - |
| 0.030 | Actuarial losses or (gains) due to liability experience | (0.280) |
| (0.540) | Total amount recognised in other comprehensive income and expenditure | 1.650 |
| 2.560 | Amount recognised | 3.994 |

Section 4 – Notes to the Core Financial Statements

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

| 2013/14 £m | | 2014/15 £m |
|-----------------|---|-----------------|
| (31.400) | Opening defined benefit liability | (29.800) |
| (1.240) | Interest expense on defined benefit liability | (1.200) |
| 1.410 | Actuarial gains or (losses) due to changes in financial assumptions | (1.930) |
| (0.840) | Actuarial losses due to changes in demographic assumptions | - |
| (0.030) | Actuarial (losses) or gains due to liability experience | 0.280 |
| 2.300 | Net benefits paid out | 2.310 |
| (29.800) | Closing defined benefit liability | (30.340) |

Changes to the fair value of assets during the accounting year

| 2013/14 £m | | 2014/15 £m |
|---------------|-------------------------------------|---------------|
| - | Opening fair value of assets | - |
| 2.300 | Contributions by the employer | 2.310 |
| (2.300) | Net benefits paid out | (2.310) |
| - | Closing fair value of assets | - |

Note 44. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. The Council is required by the Accounts and Audit (England) Regulations 2011 to prepare an annual Statement of Accounts in accordance with proper accounting practices. These practices primarily comprise the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') and the 2014/15 SeRCOP, supported by International Financial Reporting Standards (IFRS). The accounting policies as set out in this note have been applied consistently.

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

2. Accruals of Income and Expenditure

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

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

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- 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. 2014/15 was a 48-week rent year. The average weekly rent receipt for 2014/15 was £1.249m over 52 weeks (£1.212m as restated in 2013/14).

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 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.

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.

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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. The Council has adopted the following policy:

- Charge 4% of the opening capital financing requirement where this debt is subject to support from the Government via Revenue Support Grant.
- Repay unsupported borrowing in line with the estimated useful life of the additional asset.
- Repay unsupported borrowing over 20 years where an estimated useful life cannot be established i.e. revenue expenditure funded from capital under statute.
- Repay PFI and finance lease liabilities in line with the principal repayment of that liability made in year.
- Defer repayment until assets under construction are brought into use.
- Utilise loan repayments in lieu of making charges to revenue in the case of loans to STHVTL.

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

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

6. Employee Benefits

6a) Benefits Payable during Employment

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

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charged to the deficit on the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

6b) Termination Benefits

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

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

6c) Post Employment Benefits

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

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

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

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

6d) The Local Government Pension Scheme

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

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

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- Liabilities are discounted to their value at current prices, using a discount rate of 3.2% for funded and 3.1% for unfunded (based on the indicative rate of return on AA corporate bond yield or from yields on Government bonds).
- 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 non-distributed costs.
- *Settlements* – the decrease in liabilities arising from significant transfers out of the pension scheme - credited to non-distributed costs.
- *Net interest on the net 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

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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) Definitions

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

- *Fair Value* - 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 or sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. Fair value can be assessed by calculating the net present value (NPV) of cash flows that will take place over the remaining term of the instruments. The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration.
- *Amortised Cost* - most financial instruments are valued at “amortised cost” using the effective interest rate method.

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.

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

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

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principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. For other loans and receivables, such as short term debtors, no interest is charged and the Balance Sheet represents the outstanding amount.

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

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

8e) Available-for-Sale Assets

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

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

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

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

9. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or

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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.

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

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

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

11. Heritage Assets

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

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

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

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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:

12a) Intra Group Transactions

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

12b) Taxation other than VAT

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

12c) 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.

12d) Actuarial Assumptions on Defined Benefit Obligation

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

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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 Properties

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

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

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

15. Jointly Controlled Operations

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

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

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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).

16b) The Council as Lessor

Operating Leases

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

17. Overheads and Support Services

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

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

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

18. Property, Plant and Equipment

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

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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 de minimis level have been used:

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

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** – fair 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 existing use value (EUV) based on their last usage before being declared surplus.
- 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

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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** – fair value, determined as the amount that would be paid for the asset in its existing use (EUV).

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

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

Where decreases in value are identified, they are 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

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that are not yet available for use (i.e. assets under construction). Depreciation is calculated on the following bases:

- **Dwellings and other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer. The useful life of dwellings and other buildings is between 1 and 84 years.
- **Vehicles, plant, furniture and equipment** - straight-line allocation up to 10 years being the estimated remaining useful economic life.
- **Community Assets** – straight-line allocation over 15 to 39 years.
- **Infrastructure** – straight-line allocation over 25 years (sea defences over 99 years).
- **Surplus assets** – follow the same depreciation policy as the asset in its former use.

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

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

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

18e) Disposals of Non-current Assets

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

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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 35% net of statutory deductions and allowances; however this is subject to a Government share cap. 100% of all receipts in excess of this cap may be retained by the Council provided they are used to part fund the provision of new social housing. 100% of housing land sale income, net of statutory deductions and allowances, can be retained by the Council provided there is an equivalent amount of expenditure on affordable housing or regeneration. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

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

19. Private Finance Initiative (PFI) and Similar Contracts

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

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

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 as shown on the next page.

Section 4 – Notes to the Core Financial Statements

- **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. The cost of allowances is recognised and reported in the Council's net cost of services and is apportioned to individual services on the basis of energy consumption.

21. Provisions, Contingent Liabilities and Contingent Assets

21a) Provisions

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

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

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

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21b) Contingent Liabilities

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

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

21c) Contingent Assets

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

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

22. Reserves

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

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

23. Revenue Expenditure Funded from Capital under Statute

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

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

Section 4 – Notes to the Core Financial Statements

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

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

| 2013/14 (as restated) £m | | Note | 2014/15 £m |
|--------------------------------|--|------|-----------------|
| | Expenditure | | |
| 12.933 | Repairs and maintenance | | 14.938 |
| 18.017 | Supervision and management | | 16.967 |
| 2.238 | Rents, rates, taxes and other charges | | 2.414 |
| 14.171 | Depreciation of non-current assets | 2 | 14.765 |
| (1.745) | Revaluation losses and impairments on property, plant and equipment | 2 | 35.887 |
| 0.037 | Amortisation of intangible assets | 2 | - |
| 0.183 | Debt management costs | 2 | 0.192 |
| 0.697 | Movement in the allowance for bad debts | | 0.742 |
| 0.765 | Sums directed by the Secretary of State that are expenditure in accordance with the Code | 2 | 1.496 |
| 47.296 | Total expenditure | | 87.401 |
| | Income | | |
| (62.755) | Dwelling rents | | (64.587) |
| (0.950) | Non-dwelling rents | | (0.922) |
| (3.443) | Charges for services and facilities | | (3.552) |
| (1.151) | Contributions towards expenditure | | (1.067) |
| (68.299) | Total income | | (70.128) |
| (21.003) | Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement | | 17.273 |
| 0.738 | HRA services' share of corporate and democratic core | | 0.891 |
| 0.772 | HRA share of other amounts included in the Council's cost of services but not allocated to specific services | | 0.987 |
| (19.493) | Net expenditure for HRA services | | 19.151 |
| | HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement: | | |
| 2.206 | Loss on sale of HRA current and non-current assets | | 5.004 |
| 12.612 | Interest and investment expenditure | 2 | 12.520 |
| (0.095) | Interest and investment income | 2 | (0.161) |
| (28.907) | Taxation and non specific grant income | | (28.102) |
| (33.677) | Deficit for the year on HRA services | | 8.412 |
| 30.622 | Adjustments between accounting basis and funding basis under statute | 1 | (11.255) |
| (3.055) | Increase in year on the HRA | | (2.843) |
| (10.101) | Balance on the HRA at the end of the previous year | | (13.156) |
| (13.156) | Balance on the HRA at the end of the current year | | (15.999) |

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 1. Adjustments between accounting basis and funding basis under Statute

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.

| 2013/14 (as restated) £m | | 2014/15 £m |
|--------------------------------|---|-----------------|
| | Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year | |
| (0.689) | Impairment of non-current assets | (5.402) |
| 2.434 | Revaluation losses on property, plant and equipment | (30.485) |
| (13.803) | Depreciation of non-current assets | (14.394) |
| 28.907 | Capital grants applied | 28.102 |
| (0.496) | Revenue expenditure funded from capital under statute | (1.097) |
| (0.025) | Difference between amounts charged to the HRA Income and Expenditure Statement for premiums and discounts and the charge for the year determined in accordance with statute | (0.061) |
| 0.045 | Capital receipts not related to sale of a fixed asset | 0.103 |
| (10.505) | Amounts of non current assets written off on sale or disposal | (9.945) |
| 8.485 | Cash sale proceeds from the sale or disposal of non-current assets | 5.107 |
| (0.186) | Contribution towards administrative costs of disposal of non-current assets | (0.166) |
| 14.167 | | (28.238) |
| | Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year | |
| 16.455 | Contribution to major repairs reserve | 16.983 |
| 16.455 | | 16.983 |
| 30.622 | Net additional amount required by statute to be credited to the HRA balance for the year | (11.255) |

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 2014/15. It is made up of a number of components that are recorded in different sections of the Housing Revenue Account.

| | £m | Reference to main statements |
|---|-----------------|--|
| Credit items | | |
| Interest on notional cash balances | (0.158) | Operating income and expenditure - interest and investment income |
| Interest on loans for purchase of HRA properties | (0.003) | Operating income and expenditure - interest and investment income |
| Impairment and revaluation loss adjustments | (35.887) | Adjustments between accounting basis and funding basis under statute |
| Discounts for early repayment of debt | (0.088) | Adjustments between accounting basis and funding basis under statute - statement relating to premiums and discounts |
| Total item 8 credit | (36.136) | |
| Debit items | | |
| Interest on loans | 12.520 | Operating income and expenditure - interest and investment expenditure |
| Depreciation of dwellings | 13.211 | Net cost of services - depreciation of non-current assets |
| Depreciation of other assets | 1.554 | Net cost of services - depreciation of non-current assets |
| Debt management expenses | 0.192 | Net cost of services - debt management costs |
| Premium charges for early repayment of debt | 0.027 | Adjustments between accounting basis and funding basis under statute - statement relating to premiums and discounts |
| Revenue expenditure funded by capital under statute | 1.496 | Net cost of services - revenue expenditure funded by capital under statute |
| Excess transfer to the major repairs reserve | 2.218 | Adjustments between accounting basis and funding basis under statute - contribution to major repairs reserve less depreciation charges |
| Impairment and revaluation losses | 35.887 | Net cost of services - revaluation losses and impairment on property, plant and equipment |
| Total item 8 debit | 67.105 | |

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 3. Rent Income

Rents were increased with effect from Tuesday 1st April 2014 by 6.37% to achieve an average actual rent of £78.00 on a 48-week collection. Individual dwelling rents were set based on the Government's rent restructuring formula, which will be fully implemented by 2015/16.

Net income due for the year from all tenanted properties, excluding that with respect to water and sewerage charges, is shown in the account. During the year, rent loss due to empty properties was £1.187m, 1.43% of the total net rent collectable for Housing Revenue Account dwellings (£1.259m and 1.55% in 2013/14).

Note 4. Housing Stock

The Council was responsible for managing an average of 17,679 dwellings and sheltered units during 2014/15 (17,842 in 2013/14). The variations during the year were:

| | |
|--|---------------|
| Opening balance | |
| Dwellings | 16,467 |
| Sheltered units | 1,267 |
| Shared ownership | 4 |
| Non HRA services | 8 |
| Opening balance as at 1st April 2014 | 17,746 |
| Reductions | |
| Right to Buys | (128) |
| Demolitions | (6) |
| Conversions | (1) |
| Net reduction in stock | (135) |
| Closing balance | |
| Dwellings | 16,333 |
| Sheltered units | 1,266 |
| Shared ownership | 4 |
| Non HRA services | 8 |
| Closing balance as at 31st March 2015 | 17,611 |
| Houses | 10,295 |
| Bungalows | 2,820 |
| Flats and maisonettes | 4,496 |
| Total housing stock as at 31st March 2015 | 17,611 |

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 5. Movement of Property, Plant, Equipment, Intangible Assets and Assets Held for Sale

Property, Plant and Equipment

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

| | Council dwellings | Other buildings | Other land | Vehicles, plant and equipment | Infrastructure assets | Surplus assets | Assets under construction | Total property, plant and equipment |
|--|-------------------|-----------------|--------------|-------------------------------|-----------------------|----------------|---------------------------|-------------------------------------|
| Cost or valuation | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1st April 2014 | 472.277 | 38.309 | 6.237 | 13.561 | 2.636 | 1.692 | 0.371 | 535.083 |
| Reclassification of impairment | (2.845) | (0.335) | - | - | - | - | - | (3.180) |
| Revised at 1st April 2014 | 469.432 | 37.974 | 6.237 | 13.561 | 2.636 | 1.692 | 0.371 | 531.903 |
| Additions | 36.224 | 7.315 | - | 0.279 | 1.062 | 0.263 | 1.312 | 46.455 |
| Revaluation to revaluation reserve | 0.020 | (0.322) | 0.421 | - | - | - | - | 0.119 |
| Revaluation to Comprehensive Income and Expenditure Statement | (21.098) | (8.786) | (0.600) | - | - | - | - | (30.484) |
| Impairment to Comprehensive Income and Expenditure Statement | (5.032) | (0.355) | - | - | - | - | (0.014) | (5.401) |
| Sales | (3.325) | - | (0.037) | - | - | - | (0.992) | (4.354) |
| Other derecognition | (5.713) | (0.067) | (0.121) | (9.547) | - | - | - | (15.448) |
| Reclassification of assets | (0.361) | (0.030) | (0.005) | - | - | - | - | (0.396) |
| At 31st March 2015 | 470.147 | 35.729 | 5.895 | 4.293 | 3.698 | 1.955 | 0.677 | 522.394 |
| Depreciation and Impairments | | | | | | | | |
| At 1st April 2014 | (31.429) | (3.974) | - | (13.273) | (0.160) | - | - | (48.836) |
| Reclassification of impairment | 2.845 | 0.335 | - | - | - | - | - | 3.180 |
| Revised at 1st April 2014 | (28.584) | (3.639) | - | (13.273) | (0.160) | - | - | (45.656) |
| Depreciation to Comprehensive Income and Expenditure Statement | (13.211) | (1.286) | - | (0.121) | (0.142) | (0.005) | - | (14.765) |
| Depreciation met from revaluation reserve | 5.320 | 0.540 | - | - | - | - | - | 5.860 |
| Sales | 0.873 | 0.007 | - | - | - | - | - | 0.880 |
| Other derecognition | - | 0.010 | - | 9.547 | - | - | - | 9.557 |
| Reclassification of assets | 0.025 | 0.003 | - | - | - | - | - | 0.028 |
| At 31st March 2015 | (35.577) | (4.365) | - | (3.847) | (0.302) | (0.005) | - | (44.096) |
| Balance Sheet amount at 31st March 2014 | 440.848 | 34.335 | 6.237 | 0.288 | 2.476 | 1.692 | 0.371 | 486.247 |
| Balance Sheet amount at 31st March 2015 | 434.570 | 31.364 | 5.895 | 0.446 | 3.396 | 1.950 | 0.677 | 478.298 |

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.

Intangible Assets

The Housing Revenue Account also holds some intangible assets in the form of computer software. In 2014/15, no spend was added to these assets and their net book value at 31st March 2015 was nil (nil in 2013/14).

Assets Held for Sale

The Housing Revenue Account holds current assets held for sale. The movement in year of these assets is shown in the table over the page.

Section 5 – Housing Revenue Account Income and Expenditure Statement

| | |
|----------------------------|--------------|
| | £m |
| At 1st April 2014 | 2.058 |
| Sales | (0.580) |
| Reclassification of assets | 0.369 |
| At 31st March 2015 | 1.847 |

Note 6. 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 2013 £m | 1st April 2014 £m |
|--|----------------------|----------------------|
| Vacant possession value | 1,191.481 | 1,174.511 |
| Existing use social housing value | (440.848) | (434.570) |
| Economic cost to the Government | 750.633 | 739.941 |

Note 7. Depreciation and Impairment

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

| | Council dwellings £m | Other land and buildings £m | Vehicles, plant and equipment £m | Surplus assets £m | Infrastructure assets £m | Total property, plant and equipment £m |
|--|-------------------------|--------------------------------|-------------------------------------|----------------------|-----------------------------|---|
| Balance at 1st April 2014 | (31.429) | (3.974) | (13.273) | - | (0.160) | (48.836) |
| Reclassification of impairment charges | 2.845 | 0.335 | - | - | - | 3.180 |
| Depreciation charges in year | (13.211) | (1.286) | (0.121) | (0.005) | (0.142) | (14.765) |
| Depreciation charges written out | 6.218 | 0.560 | 9.547 | - | - | 16.325 |
| Balance at 31st March 2015 | (35.577) | (4.365) | (3.847) | (0.005) | (0.302) | (44.096) |

Type of asset

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

Basis of depreciation

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 8. Major Repairs Reserve

The movement in the major repairs reserve is as follows:

| 2013/14 | | 2014/15 |
|-----------------|---|-----------------|
| £m | | £m |
| (0.004) | Balance at 1st April | (12.293) |
| (16.455) | Contribution from Housing Revenue Account | (16.983) |
| 4.166 | Applied to finance capital expenditure | 18.699 |
| (12.293) | Balance at 31st March | (10.577) |

Note 9. Housing Capital Expenditure Summary

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

| Spending | | Spending |
|---------------|---|---------------|
| 2013/14 | | 2014/15 |
| £m | | £m |
| | Expenditure | |
| 26.202 | Dwellings | 36.224 |
| 8.809 | Other property, plant and equipment | 10.232 |
| 0.496 | Revenue expenditure funded from capital under statute | 1.097 |
| 35.507 | Total spending | 47.553 |

| Funding | | Funding |
|-----------------|----------------------------------|-----------------|
| 2013/14 | | 2014/15 |
| £m | | £m |
| | Funding source | |
| (4.166) | Major repairs reserve | (18.699) |
| (2.434) | Borrowing | (0.632) |
| - | Capital receipts | (0.120) |
| (28.907) | Grants and other external income | (28.102) |
| (35.507) | Total funding | (47.553) |

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

Note 10. Capital Receipts Summary

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

| 2013/14 | | 2014/15 |
|----------------|------------------------------------|----------------|
| £m | | £m |
| (6.893) | House sales | (4.469) |
| (1.592) | Land sales | (0.638) |
| (0.004) | Mortgages | (0.003) |
| (0.045) | Other receipts | (0.102) |
| (8.534) | Total receipts for the year | (5.212) |

Note 11. 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 5.57% of the gross rent collectable (including water and sewerage charges) for the 48 weeks.

| 2013/14 | | 2014/15 |
|----------------|---|----------------|
| £m | | £m |
| 75.496 | Gross rent collectable (including water and sewerage charges) | 77.358 |
| 3.838 | Overall arrears as at 31st March (including water and sewerage charges) | 4.311 |
| 5.08% | Overall arrears as a percentage of gross rent collectable | 5.57% |
| 3.496 | Rent arrears as at 31st March (excluding water and sewerage rates) | 3.945 |
| 0.593 | Amounts written off during the year | 0.553 |
| (2.241) | Balance Sheet allowance for bad debts | (2.460) |

Section 5 – Collection Fund Statement

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to council tax and non-domestic rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administration are accounted for in the Comprehensive Income and Expenditure Statement. The Collection Fund is compiled on an accruals basis and consolidated with other accounts of the billing authority. From 1st April 2013 the business rates retention scheme was introduced which allows the Council to retain 49% of non-domestic rate income.

| 2013/14 £m | | Note | 2014/15 £m |
|-----------------|--|----------|-----------------|
| | Income | | |
| (52.027) | Council tax | 1 | (52.949) |
| (0.045) | Transfer from General Fund | | (0.044) |
| (52.072) | Total council tax income | | (52.993) |
| (29.628) | Income collectable from non-domestic ratepayers | 2 | (31.358) |
| - | Contribution towards previous years non-domestic rates deficit | 3 | (0.499) |
| (29.628) | Total non-domestic rates income | | (31.857) |
| (81.700) | Total income | | (84.850) |
| | Expenditure | | |
| 50.343 | Precept payments - council tax | 4 | 51.328 |
| 15.077 | Shares of non-domestic rates income payable to preceptors | 4 | 14.977 |
| 15.077 | Shares of non-domestic rates income payable as central share to Government | | 14.977 |
| 0.322 | Transition protection payments | | 0.050 |
| 0.150 | Allowable collection costs for non-domestic rates | | 0.151 |
| 30.626 | Total non-domestic rates expenditure | | 30.155 |
| 0.169 | Council tax written off | | 0.203 |
| 0.362 | Transfer to council tax bad debt provision | | 0.307 |
| 0.253 | Non-domestic rates written off | | 0.543 |
| 0.791 | Transfer to non-domestic rates bad debt provision | | 0.399 |
| 1.575 | Total bad and doubtful debts | | 1.452 |
| 0.224 | Distribution of previous years council tax surplus | 3 | 0.674 |
| 82.768 | Total expenditure | | 83.609 |
| (0.974) | Surplus for the year - council tax | | (0.481) |
| 2.042 | Deficit or (surplus) for the year - non-domestic rates | 6 | (0.760) |
| (0.642) | Balance brought forward from previous year - council tax | | (1.616) |
| - | Balance brought forward from previous year - non-domestic rates | | 2.042 |
| 0.426 | Collection Fund balance as at 31st March | | (0.815) |
| (0.178) | Surplus relating to other precepting bodies - council tax | | (0.231) |
| 1.041 | Deficit relating to other precepting bodies - non-domestic rates | | 0.653 |
| (1.438) | Surplus relating to South Tyneside Council - council tax | | (1.866) |
| 1.001 | Deficit relating to South Tyneside Council - non-domestic rates | | 0.629 |
| (0.437) | Surplus relating to South Tyneside Council - total | | (1.237) |

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: 35,367 in 2014/15 (34,687 in 2013/14). Council tax is calculated by multiplying the basic amount of council tax for band D by the proportion for that particular band. In 2014/15 the band D equivalent was £1,451.30 (£1,451.30 in 2013/14).

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

| Band | Proportion of band D | Number of dwellings (November 2013) |
|-------------|-----------------------------|--|
| A | 6/9ths | 45,918 |
| B | 7/9ths | 9,483 |
| C | 8/9ths | 7,820 |
| D | 9/9ths | 4,126 |
| E | 11/9ths | 1,683 |
| F | 13/9ths | 670 |
| G | 15/9ths | 322 |
| H | 18/9ths | 46 |
| | | 70,068 |

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 2014/15 was set at 47.1p for small businesses (46.2p in 2013/14) and 48.2p for all other businesses (47.1p in 2013/14).

The non-domestic rates income, after reliefs and provisions, of £31.358m (£29.628m in 2013/14) was based on a rateable value of £80.002m as at 31st March 2015 (£80.061m in 2013/14).

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

At 31st March 2014 the fund was in deficit in by £0.426m. Collection Fund regulations state that by 15th January the Council must make an estimate of what the Collection Fund balance in relation to council tax will be for the year end and by 31st January have made a similar estimate of the balance in relation to non-domestic rates. If it is estimated that these will be a surplus, this must be distributed to the Council and the preceptors in the following year and if there is estimated to be a deficit this must be used as a call on the revenue budget in the following year. On the 15th January the estimated surplus in relation to council tax for the year was expected to be £0.674m and was distributed to the precepting bodies as shown in the table on the next page.

Section 5 – Collection Fund Statement

| | 2014/15 |
|--|----------------|
| | £m |
| South Tyneside Council | (0.600) |
| Police and Crime Commissioner for Northumbria | (0.040) |
| Tyne and Wear Fire and Civil Defence Authority | (0.034) |
| Total contribution share of Collection Fund surplus | (0.674) |

The estimated deficit on 31st January for non-domestic rates was £0.499m which is shared as shown the table below.

| | 2014/15 |
|--|----------------|
| | £m |
| South Tyneside Council | 0.244 |
| Central Government | 0.250 |
| Tyne and Wear Fire and Civil Defence Authority | 0.005 |
| Total contribution share of Collection Fund deficit | 0.499 |

Note 4. Precept Payments

The precept payments for council tax and non-domestic rates can be broken down as follows:

| 2013/14 | Council tax | 2014/15 |
|----------------|--|----------------|
| £m | | £m |
| 44.801 | South Tyneside Council | 45.678 |
| 3.004 | Police and Crime Commissioner for Northumbria | 3.063 |
| 2.538 | Tyne and Wear Fire and Civil Defence Authority | 2.587 |
| 50.343 | Total precept payments | 51.328 |

| 2013/14 | Non-domestic rates | 2014/15 |
|----------------|--|----------------|
| £m | | £m |
| 14.775 | South Tyneside Council | 14.677 |
| 0.302 | Tyne and Wear Fire and Civil Defence Authority | 0.300 |
| 15.077 | Total precept payments | 14.977 |

Note 5. Non-Domestic Rates Expenditure

2013/14 saw the introduction of the rates retention scheme whereby all collectable rating income is split between Central Government and precepting bodies according to defined shares under the terms of the scheme. The Council share is called retained income and forms part of the annual revenue budget. The share paid over to Government is then redistributed to authorities as a grant as part of the annual finance settlement. The amount redistributed to an authority bears no direct relation to the tax paid over to the Government.

Section 5 – Collection Fund Statement

Note 6. Collection Fund Balance

Any surplus arising in the Collection Fund from council tax or the retained portion of non-domestic rates can be utilised to reduce future years' council tax. Any deficit can be recovered from the precepting bodies in the following year or carried forward and recovered either from any surplus generated in future years or from increased council tax. Any surplus or deficit to be shared is distributed to the billing and precepting authorities pro-rata to their precepts upon the Fund for council tax, and as per defined shares for non-domestic rates. The Code requires that the precepting bodies share of the surplus or deficit should be shown as part of the Council's debtors or creditors leaving only the Council's share in the closing balance. The balance is shown in the Council's Balance Sheet in the collection fund adjustment account.

The preceptor's share of the Collection Fund balances for council tax and non-domestic rates is as follows:

| 2013/14 | Council tax | 2014/15 |
|----------------|--|----------------|
| £m | | £m |
| (1.438) | South Tyneside Council | (1.866) |
| (0.096) | Police and Crime Commissioner for Northumbria | (0.125) |
| (0.082) | Tyne and Wear Fire and Civil Defence Authority | (0.106) |
| (1.616) | Total contribution from Collection Fund balance | (2.097) |

| 2013/14 | Non-domestic rates | 2014/15 |
|----------------|---|----------------|
| £m | | £m |
| 1.001 | South Tyneside Council | 0.629 |
| 1.021 | Central Government | 0.640 |
| 0.020 | Tyne and Wear Fire and Civil Defence Authority | 0.013 |
| 2.042 | Total contribution towards Collection Fund balance | 1.282 |

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 can have 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.

Following this approach identified the following interests that have been 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 £25.721m at 31st March 2015 (£16.838m in 2013/14). The company made a net surplus of £1.127m in 2014/15 (deficit of £0.633m in 2013/14).

The Council's accounts include a debtor due from STHL of £2.327m (£3.087m in 2013/14) and a creditor due to STHL of £5.316m (£6.354m in 2013/14).

The creation of the ALMO resulted in the transfer of past service pension deficit to STHL. The deficit had accrued as a result of the transfer of former South Tyneside Council employees. For the year ending 31st March 2015, the actuary assessed the deficit at £27.550m (£18.410m in 2013/14). In the unlikely event that STHL were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service defined benefit obligation.

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

Section 6 – Group Introduction

Associate - Beamish Museum

Beamish Museum was established in 1970 and the Council has been a constituent member authority of Beamish North of England Open Air Museum since its inception. On 1st April 2014 a full restructure of both the corporate and governance arrangements resulted in the dissolution of the Joint Committee although both companies, Beamish Museum Limited and Beamish Museum Trading Limited (BMTL) were retained. Beamish Museum Limited (a charitable company limited by guarantee) is responsible for managing and operating the museum. BMTL, a subsidiary company, manages all of the retailing and catering operations of the museum.

The Council made an annual contribution of £0.005m in 2014/15 (£0.004m in 2013/14) towards the running costs of the museum.

The entities had previously been deemed as jointly controlled by the local authorities through the Joint Committee. However following the dissolution of that committee on 31st March 2014, net assets of £23.156m primarily transferred to Beamish Museum and the company effectively took over the overall operational responsibilities. Whilst the six councils do have eight voting rights on the new company board it has been concluded that this no longer represents joint control and that there is no longer a need to report the museum as an associate in the accounts. This has had an overall nil impact as the Joint Committee were only ever responsible for net liabilities and none existed as at 31st March 2014 so nothing was consolidated into the Group Accounts last year.

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 £40m facilities loan agreement in place to allow the company to develop and expand its asset portfolio.

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

As at 31st March 2015 the Company owed the Council £8.541m (£1.400m in 2013/14) following loans and other drawdowns advanced. All loans are repayable before 31st March 2063.

In 2014/15 the company produced an operating loss of £0.098m (£0.029m in 2013/14) and had net liabilities at 31st March 2015 of £0.127m (net assets of £1.366m in 2013/14).

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.

Section 6 – Group Introduction

Joint Venture - Homes and Communities Agency (HCA)

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

Other Entities and Arrangements

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

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

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

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

The notes to the group financial statements are presented on pages 115 to 128 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. The net (increase) or decrease before transfers to earmarked reserves line shows the statutory General Fund balance, Housing Revenue Account balance and the Council's share of usable reserves of Group entities before any discretionary transfers to or from earmarked reserves undertaken by the Group.

| Note | General fund balance | Earmarked general fund reserves | Housing revenue account reserves | Capital reserves | Usable reserves of subsidiaries and associates | Total usable reserves | Council unusable reserves | Unusable reserves of subsidiaries | Total Group reserves |
|--|----------------------|---------------------------------|----------------------------------|------------------|--|-----------------------|---------------------------|-----------------------------------|----------------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Balance at 1st April 2013 | (0.827) | (25.826) | (10.101) | (1.756) | (2.868) | (41.378) | (51.527) | 34.921 | (57.984) |
| Movement in reserves during 2013/14 | | | | | | | | | |
| Deficit or (surplus) on the provision of services | 21.825 | - | (33.677) | - | 1.216 | (10.636) | - | 0.890 | (9.746) |
| Other comprehensive (income) and expenditure | - | - | - | - | - | - | (15.662) | (16.960) | (32.622) |
| Total comprehensive (income) and expenditure | 21.825 | - | (33.677) | - | 1.216 | (10.636) | (55.847) | (16.070) | (82.553) |
| Adjustments between Group accounts and Council accounts | 1 | - | - | - | (0.044) | (0.044) | - | - | (0.044) |
| Net decrease or (increase) before transfers | 21.825 | - | (33.677) | - | 1.172 | (10.680) | (55.847) | (16.070) | (82.597) |
| Adjustments between accounting basis and funding basis under regulations | (28.365) | - | 30.622 | (12.267) | - | (10.010) | 10.010 | - | - |
| Net (increase) or decrease before transfers to earmarked reserves | (6.540) | - | (3.055) | (12.267) | 1.172 | (20.690) | (45.837) | (16.070) | (82.597) |
| Transfers to or (from) earmarked reserves | 6.183 | (6.183) | - | - | - | - | - | - | - |
| (Increase) or decrease in 2013/14 | (0.357) | (6.183) | (3.055) | (12.267) | 1.172 | (20.690) | (45.837) | (16.070) | (82.597) |
| Balance at 31st March 2014 carried forward | (1.184) | (32.009) | (13.156) | (14.023) | (1.696) | (62.068) | (97.364) | 18.851 | (140.581) |
| Movement in reserves during 2014/15 | | | | | | | | | |
| Deficit on the provision of services | 49.938 | - | 8.412 | - | (0.280) | 58.070 | - | (0.870) | 57.200 |
| Other comprehensive (income) and expenditure | - | - | - | - | - | - | 19.695 | 10.010 | 29.705 |
| Total comprehensive (income) and expenditure | 49.938 | - | 8.412 | - | (0.280) | 58.070 | 19.695 | 9.140 | 86.905 |
| Adjustments between Group accounts and Council accounts | 1 | - | - | - | 0.065 | 0.065 | - | - | 0.065 |
| Net decrease or (increase) before transfers | 49.938 | - | 8.412 | - | (0.215) | 58.135 | 19.695 | 9.140 | 86.970 |
| Adjustments between accounting basis and funding basis under regulations | (50.511) | - | (11.255) | 1.457 | - | (60.309) | 60.309 | - | - |
| Net (increase) or decrease before transfers to earmarked reserves | (0.573) | - | (2.843) | 1.457 | (0.215) | (2.174) | 80.004 | 9.140 | 86.970 |
| Transfers to or (from) earmarked reserves | 0.040 | (0.040) | - | - | - | - | - | - | - |
| (Increase) or decrease in 2014/15 | (0.533) | (0.040) | (2.843) | 1.457 | (0.215) | (2.174) | 80.004 | 9.140 | 86.970 |
| Balance at 31st March 2015 carried forward | (1.717) | (32.049) | (15.999) | (12.566) | (1.911) | (64.242) | (17.360) | 27.991 | (53.611) |

Section 6 – Group Comprehensive Income and Expenditure Statement

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

| 2013/14 | 2013/14 | 2013/14 | | Note | 2014/15 | 2014/15 | 2014/15 |
|---------------------------------|----------------------------|-------------------------------|--|------|-------------------|------------------|-----------------|
| Gross expenditure (as restated) | Gross income (as restated) | Net expenditure (as restated) | | | Gross expenditure | Gross income | Net expenditure |
| £m | £m | £m | | | £m | £m | £m |
| 3.323 | (1.526) | 1.797 | Central services to the public | | 3.103 | (1.478) | 1.625 |
| 27.426 | (3.455) | 23.971 | Cultural and related services | | 21.715 | (4.837) | 16.878 |
| 17.528 | (3.591) | 13.937 | Environmental services | | 26.656 | (7.938) | 18.718 |
| 9.284 | (4.573) | 4.711 | Regulatory and planning services | | 10.139 | (6.301) | 3.838 |
| 177.125 | (124.914) | 52.211 | Education and children's services | | 181.901 | (127.152) | 54.749 |
| 14.699 | (6.614) | 8.085 | Highways and transport services | | 11.578 | (2.947) | 8.631 |
| 47.660 | (68.299) | (20.639) | Local authority housing (HRA) | | 87.100 | (70.128) | 16.972 |
| 75.478 | (73.702) | 1.776 | Other housing services | | 75.074 | (73.536) | 1.538 |
| 81.463 | (25.401) | 56.062 | Adult social care services | | 85.324 | (33.009) | 52.315 |
| 13.653 | (13.650) | 0.003 | Public health services | | 13.570 | (13.059) | 0.511 |
| 2.819 | (0.836) | 1.983 | Corporate and democratic core | | 3.517 | (0.922) | 2.595 |
| 2.595 | (2.217) | 0.378 | Non-distributed costs | | 1.413 | (0.226) | 1.187 |
| 473.053 | (328.778) | 144.275 | Cost of services | | 521.090 | (341.533) | 179.557 |
| 12.040 | (0.967) | 11.073 | Other operating income and expenditure | | 45.423 | (7.299) | 38.124 |
| 45.861 | (2.008) | 43.853 | Financing and investment income and expenditure | 2 | 43.804 | (2.543) | 41.261 |
| - | (210.420) | (210.420) | Taxation and non-specific grant income | | - | (201.654) | (201.654) |
| 530.954 | (542.173) | (11.219) | (Surplus) or deficit on the provision of services | | 610.317 | (553.029) | 57.288 |
| 1.473 | - | 1.473 | Associates accounted for on an equity basis | | 0.037 | (0.060) | (0.023) |
| 532.427 | (542.173) | (9.746) | (Surplus) or deficit on the provision of Group services | | 610.354 | (553.089) | 57.265 |
| | | | Items that will not be reclassified to the deficit on the provision of services | | | | |
| | | 27.092 | Deficit or (surplus) on revaluation of property, plant and equipment | | | | (15.765) |
| | | 0.081 | Impairment losses on non-current assets charged to the revaluation reserve | | | | 0.280 |
| | | (99.980) | Remeasurements of the defined benefit obligation | 14 | | | 45.190 |
| | | (72.807) | Other comprehensive (income) and expenditure | | | | 29.705 |
| | | (82.553) | Total comprehensive (income) and expenditure | | | | 86.970 |

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 (assets less liabilities) are matched by the reserves. Usable reserves, i.e. those that the Group may use to provide services, subject to the need to maintain an adequate 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 statute line in the Group Movement in Reserves Statement.

| 31st March 2014 £m | | Note | 31st March 2015 £m |
|--------------------------|---|------|--------------------------|
| | Non-current assets | | |
| 440.848 | Council dwellings | 3 | 434.570 |
| 489.032 | Other property, plant and equipment | 3 | 537.767 |
| 3.751 | Heritage assets | | 3.675 |
| 2.300 | Investment properties | | 2.300 |
| 1.555 | Intangible assets | 5 | 1.248 |
| (0.013) | Long term investments - associates | | 3.683 |
| 8.804 | Other long term investments | | 8.820 |
| 10.298 | Long term loans and receivables | | 13.994 |
| 956.575 | Total non-current assets | | 1,006.057 |
| | Current assets | | |
| 24.515 | Short term investments | | 39.507 |
| 0.778 | Inventories | | 0.735 |
| 31.336 | Short term debtors | 6 | 42.455 |
| 41.852 | Cash and cash equivalents | 7 | 27.035 |
| 2.605 | Assets held for sale | | 2.405 |
| 21.749 | Assets held for disposal | | - |
| 122.835 | Total current assets | | 112.137 |
| | Current liabilities | | |
| (45.430) | Short term creditors | 8 | (48.628) |
| (29.786) | Short term borrowing | | (23.388) |
| (1.567) | PFI liability due in less than one year | | (4.076) |
| (1.751) | Capital grants receipts in advance | | (2.164) |
| (7.214) | Short term provisions | | (6.045) |
| (85.748) | Total current liabilities | | (84.301) |
| 37.087 | Total net current assets | | 27.836 |
| | Non-current liabilities | | |
| (0.196) | Long term creditors | | (0.196) |
| (10.759) | Long term provisions | | (9.747) |
| (470.385) | Long term borrowing | | (511.383) |
| (70.732) | Long term PFI liability | | (110.466) |
| (298.410) | Liability related to defined benefit obligation | 14 | (346.000) |
| (2.599) | Other long term liabilities | | (2.490) |
| (853.081) | Total non-current liabilities | | (980.282) |
| 140.581 | Total net assets | | 53.611 |
| | Reserves | | |
| (60.372) | Council usable reserves | | (62.331) |
| (1.696) | Usable reserves of Group entities | 4 | (1.911) |
| (78.513) | Unusable reserves | 9 | 10.631 |
| (140.581) | Total reserves | | (53.611) |

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.

| 2013/14 (as restated) £m | | Note | 2014/15 £m |
|--------------------------------|---|------|-----------------|
| 9.746 | Cash inflow or (outflow) from the provision of Group services | | (57.265) |
| 131.221 | Adjustment to the deficit on the provision of services for non-cash movements | | 195.686 |
| (110.930) | Adjust for items included in the deficit on the provision of services that are investing and financing activities | | (122.746) |
| 30.037 | Net cash flow from operating activities | | 15.675 |
| (28.240) | Investing activities | 10 | (60.539) |
| 9.732 | Financing activities | | 30.047 |
| 11.529 | Net increase or (decrease) in cash and cash equivalents | | (14.817) |
| 30.323 | Cash and cash equivalents at the start of the year | | 41.852 |
| 41.852 | Cash and cash equivalents at the end of the year | | 27.035 |

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.

| 2013/14 £m | | 2014/15 £m |
|----------------|---|---------------|
| (0.044) | Realignment of depreciation policies for non-current assets | 0.065 |
| (0.044) | Total adjustments | 0.065 |

Note 2. Financing and Investment Income and Expenditure

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

| 2013/14 (as restated) £m | | 2014/15 £m |
|--------------------------------|---|---------------|
| 30.398 | Interest payable and similar charges | 32.264 |
| 14.820 | Interest expense of defined benefit obligation and interest income on assets | 10.500 |
| (1.376) | Interest receivable and similar income | (1.275) |
| (0.249) | Dividends receivable | (0.006) |
| 0.402 | Income and expenditure in relation to investment properties and changes in their fair value | (0.222) |
| (0.142) | Other investment income | - |
| 43.853 | Total financing and investment income and expenditure | 41.261 |

Note 3. Property, Plant and Equipment

The table on the next page analyses the movement in property, plant and equipment for the Group for 2014/15.

Section 6 – Notes to the Group Financial Statements

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

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 44 to the single entity statements.

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

The equivalent movements in property, plant and equipment for 2013/14 are as follows:

| | Council dwellings | Other buildings | Other land | Vehicles, plant and equipment | Infrastructure assets | Community assets | Surplus assets | Assets under construction | Total property, plant and equipment | PFI assets included in property, plant and equipment |
|--|-------------------|-----------------|---------------|-------------------------------|-----------------------|------------------|----------------|---------------------------|-------------------------------------|--|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Cost or valuation | | | | | | | | | | |
| At 1st April 2013 | 492.144 | 324.593 | 45.303 | 53.620 | 119.420 | 5.894 | 7.097 | 19.808 | 1,067.879 | 61.747 |
| Additions | 26.202 | 21.585 | 2.251 | 2.336 | 12.186 | 2.512 | 1.486 | 11.157 | 79.715 | 0.278 |
| Revaluation to revaluation reserve | (43.160) | (6.089) | (0.403) | - | (0.030) | - | 1.176 | - | (48.506) | (9.590) |
| Revaluation to Comprehensive Income and Expenditure Statement | 9.132 | (15.425) | (2.302) | - | (0.383) | - | (0.538) | - | (9.516) | 2.570 |
| Sales | (5.968) | (0.414) | (0.436) | (0.057) | - | - | (2.054) | - | (8.929) | - |
| Other derecognition | (5.013) | (2.228) | - | (2.635) | - | - | - | - | (9.876) | - |
| Reclassification of assets | (1.060) | 14.608 | 3.576 | 0.016 | 0.781 | 2.362 | (1.206) | (18.754) | 0.323 | 1.693 |
| At 31st March 2014 | 472.277 | 336.630 | 47.989 | 53.280 | 131.974 | 10.768 | 5.961 | 12.211 | 1,071.090 | 56.698 |
| Depreciation and Impairments | | | | | | | | | | |
| At 1st April 2013 | (35.493) | (35.687) | - | (38.234) | (22.258) | (1.336) | (0.045) | - | (133.053) | (6.899) |
| Depreciation to Comprehensive Income and Expenditure Statement | (12.701) | (12.338) | - | (5.630) | (2.898) | (0.406) | (0.085) | - | (34.058) | (1.449) |
| Depreciation and impairment met from revaluation | 14.915 | 6.126 | - | - | 0.030 | - | 0.020 | - | 21.091 | 2.756 |
| Impairment to Comprehensive Income and Expenditure Statement | (0.671) | (1.139) | - | - | (0.082) | - | - | - | (1.892) | - |
| Sales | 0.594 | 1.554 | - | 0.110 | - | - | 0.004 | - | 2.262 | - |
| Other derecognition | 1.838 | 0.003 | - | 2.576 | - | - | - | - | 4.417 | - |
| Reclassification of assets | 0.089 | (0.041) | - | (0.014) | 0.042 | - | (0.053) | - | 0.023 | - |
| At 31st March 2014 | (31.429) | (41.522) | - | (41.192) | (25.166) | (1.742) | (0.159) | - | (141.210) | (5.592) |
| Balance Sheet amount at 31st March 2013 | 456.651 | 288.906 | 45.303 | 15.386 | 97.162 | 4.558 | 7.052 | 19.808 | 934.826 | 54.848 |
| Balance Sheet amount at 31st March 2014 | 440.848 | 295.108 | 47.989 | 12.088 | 106.808 | 9.026 | 5.802 | 12.211 | 929.880 | 51.106 |

Section 6 – Notes to the Group Financial Statements

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

The equivalent figures for 2013/14 are as follows:

| | South Tyneside Homes Limited 100% share £m | Tyne and Wear Development Company 14% share £m | South Tyneside Homes Venture Trust Limited 43% share £m | Total £m |
|---------------------------------------|--|---|---|--------------|
| Reserves as at 1st April 2013 | 1.408 | 1.460 | - | 2.868 |
| Non-current assets | 0.140 | - | 0.652 | 0.792 |
| Current assets | 10.584 | - | 0.010 | 10.594 |
| Short term liabilities | (9.015) | - | (0.075) | (9.090) |
| Long term liabilities | - | - | (0.600) | (0.600) |
| Reserves as at 31st March 2014 | 1.709 | - | (0.013) | 1.696 |

Section 6 – Notes to the Group Financial Statements

Note 5. Intangible Assets

An analysis of Group intangible assets is as follows:

| 2013/14 | 2013/14 | 2013/14 | | 2014/15 | 2014/15 | 2014/15 |
|--------------|--------------|--------------|--|--------------|--------------|--------------|
| Software | Assets under | Total | | Software | Assets under | Total |
| £m | construction | £m | | £m | construction | £m |
| | | | Balance at start of year: | | | |
| 6.083 | - | 6.083 | Gross book value | 6.098 | 0.587 | 6.685 |
| (4.535) | - | (4.535) | Accumulated amortisation | (5.130) | - | (5.130) |
| 1.548 | - | 1.548 | Net book value at start of year | 0.968 | 0.587 | 1.555 |
| 0.040 | 0.587 | 0.627 | Additions | 0.281 | - | 0.281 |
| (0.025) | - | (0.025) | Disposals | - | - | - |
| - | - | - | Reclassification | 0.170 | (0.170) | - |
| (0.620) | - | (0.620) | Amortisation for the period | (0.588) | - | (0.588) |
| 0.025 | - | 0.025 | Amortisation written out on disposal | - | - | - |
| 0.968 | 0.587 | 1.555 | Net book value at end of year | 0.831 | 0.417 | 1.248 |
| | | | Comprising: | | | |
| 6.098 | 0.587 | 6.685 | Gross book value | 6.550 | 0.417 | 6.967 |
| (5.130) | - | (5.130) | Accumulated amortisation | (5.719) | - | (5.719) |
| 0.968 | 0.587 | 1.555 | Net book value at end of year | 0.831 | 0.417 | 1.248 |

Note 6. Short Term Debtors

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

| 31st March | | 31st March |
|----------------|--|----------------|
| 2014 | | 2015 |
| £m | | £m |
| | Amounts falling due in one year | |
| 9.719 | Central Government bodies | 13.826 |
| 1.794 | Other local authorities | 4.210 |
| 1.203 | NHS bodies | 1.298 |
| 3.838 | Housing tenants | 4.311 |
| 7.134 | Council tax payers | 8.126 |
| 0.587 | Non-domestic ratepayers | 0.623 |
| 0.966 | Tyne and Wear Pension Fund | 1.081 |
| 14.014 | Other debtors | 17.699 |
| 39.255 | Total amounts falling due in one year | 51.174 |
| | Allowances for bad debts | |
| (2.241) | Housing tenants | (2.460) |
| (3.087) | Council tax payers | (3.512) |
| (0.290) | Non-domestic ratepayers | (0.297) |
| (2.301) | Other debtors | (2.450) |
| (7.919) | Total bad debt allowances | (8.719) |
| 31.336 | Net debtors | 42.455 |

Note 7. Cash and Cash Equivalents

Section 6 – Notes to the Group Financial Statements

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| 0.067 | Cash held by the Council | 0.055 |
| 8.668 | Bank current accounts | 6.906 |
| 33.117 | Short term deposits with financial institutions | 20.074 |
| 41.852 | Cash and cash equivalent assets | 27.035 |

Note 8. Short Term Creditors

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

| 31st March 2014 £m | | 31st March 2015 £m |
|-----------------------|----------------------------|-----------------------|
| (6.100) | Central Government bodies | (9.005) |
| (0.554) | Other local authorities | (0.971) |
| (1.619) | NHS bodies | (1.600) |
| (0.821) | Housing tenants | (0.974) |
| (1.179) | Council tax payers | (1.316) |
| (3.838) | Group employees | (4.444) |
| (3.242) | Tyne and Wear Pension Fund | (3.078) |
| (28.077) | All other creditors | (27.240) |
| (45.430) | Total creditors | (48.628) |

Note 9. Unusable Reserves

The following table lists the unusable reserves of the Group.

| 31st March 2014 (as restated) £m | | 31st March 2015 £m |
|---|--|--------------------------|
| (90.368) | Revaluation reserve | (102.039) |
| (282.671) | Capital adjustment account | (229.001) |
| 300.048 | Pensions reserve | 347.234 |
| (8.794) | Available-for-sale financial instruments reserve | (8.794) |
| 3.891 | Employee benefits adjustment account | 4.513 |
| (0.176) | Financial instruments adjustment account | (0.040) |
| (0.437) | Collection Fund adjustment account | (1.239) |
| (0.006) | Deferred capital receipts reserve | (0.003) |
| (78.513) | Total unusable reserves | 10.631 |

Section 6 – Notes to the Group Financial Statements

Note 10. Investing Activities

The cash flows for investing activities include the following items:

| 2013/14 | | 2014/15 |
|-----------------|--|-----------------|
| £m | | £m |
| (77.884) | Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal | (84.531) |
| (55.000) | Purchase of short term and long term investments | (90.025) |
| 13.506 | Proceeds from the sale of property, plant and equipment and assets held for sale | 6.768 |
| 58.000 | Proceeds from short-term and long-term investments | 75.000 |
| 33.138 | Other receipts from investing activities | 32.249 |
| (28.240) | Net cash flows from investing activities | (60.539) |

Note 11. Officers' Remuneration

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

| Group | Number of employees | |
|---------------------|---------------------|------------|
| | 2013/14 | 2014/15 |
| £50,000 - £54,999 | 52 | 58 |
| £55,000 - £59,999 | 40 | 38 |
| £60,000 - £64,999 | 29 | 17 |
| £65,000 - £69,999 | 15 | 18 |
| £70,000 - £74,999 | 4 | 13 |
| £75,000 - £79,999 | 4 | 5 |
| £80,000 - £84,999 | 5 | 4 |
| £85,000 - £89,999 | 4 | 3 |
| £90,000 - £94,999 | 1 | 1 |
| £95,000 - £99,999 | 1 | - |
| £100,000-£104,999 | 1 | 1 |
| £105,000 - £109,999 | 1 | 1 |
| £120,000 - £124,999 | - | 1 |
| £165,000 - £169,999 | 1 | 1 |
| | 158 | 161 |

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:

| 2013/14 | | | 2014/15 | | |
|---------------------|--------------|------------------------|---------------------|--------------|--|
| Total exit Packages | Total Paid | Exit package cost band | Total exit Packages | Total Paid | |
| | £m | | | £m | |
| 120 | 0.937 | £0 - £20,000 | 162 | 1.184 | |
| 28 | 0.851 | £20,001 - £40,000 | 64 | 1.894 | |
| 7 | 0.376 | £40,001 - £60,000 | 15 | 0.713 | |
| 1 | 0.067 | £60,001 - £80,000 | 4 | 0.274 | |
| - | - | £80,001 - £100,000 | 3 | 0.254 | |
| 2 | 0.368 | £150,000 and above | - | - | |
| 158 | 2.599 | Total | 248 | 4.319 | |

Note 12. External Audit Costs

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

| 2013/14 | | 2014/15 |
|--------------|---|--------------|
| | £m | £m |
| 0.186 | Fees with regard to external audit services carried out by the appointed auditor for the year | 0.186 |
| 0.017 | Fees for the certification of grant claims and returns for the year | 0.020 |
| 0.002 | Fees for other services provided by external auditors during the year | 0.004 |
| 0.205 | Total fees payable to external auditors | 0.210 |

Note 13. Contingent Liabilities

Details of the Council's contingent liabilities can be found in note 38 of the single entity statement. This details a liability in relation to the Council's guarantee of the pension deficit within STHL.

Note 14. Defined Benefit Pension Schemes

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

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

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

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

Section 6 – Notes to the Group Financial Statements

Actuarial Assumptions Adopted

The main financial assumptions used by the actuary for STHL in 2014/15, differ from those applied to the Council valuation. The assumptions used for STHL are confirmed in the table below. Note 43 of the Council's core Financial Statements provide the assumptions used by the actuary for the Council.

| | 31st March 2014 | 31st March 2015 |
|---|-----------------|-----------------|
| | % per annum | % per annum |
| Discount rate | 4.40 | 3.30 |
| Rate of increase to pensions in payment | 2.40 | 1.90 |
| Rate of increase to deferred pensions | 2.40 | 2.40 |
| Rate of general increase in salaries | 3.90 | 3.40 |

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

Asset Allocation

Assets for STHL are allocated the same as disclosed for the Council in note 43 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 2015.

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

| | 31st March 2014 | 31st March 2015 |
|--|--------------------|--------------------|
| | £m | £m |
| Fair value of assets | 591.490 | 664.850 |
| Present value of funded defined benefit obligation | (860.100) | (980.510) |
| Liability recognised on the Balance Sheet | (268.610) | (315.660) |

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 43 of the Council's core financial statements is not considered material.

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

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

Section 6 – Notes to the Group Financial Statements

| 2013/14 £m | | 2014/15 £m |
|---------------|--|---------------|
| | Operating cost | |
| 21.890 | Current service cost | 16.340 |
| 0.870 | Past service cost | 0.880 |
| - | Settlement cost | (0.490) |
| | Financing cost | |
| 13.580 | Interest on net defined benefit obligation | 9.300 |
| 36.340 | Pension expense recognised | 26.030 |

| | | |
|-----------------|---|---------------|
| | Remeasurements in other comprehensive income and expenditure | |
| 5.330 | Return on plan assets below or (in excess of) that recognised in net interest | (44.990) |
| (52.580) | Actuarial (gains) or losses due to change in financial assumptions | 79.120 |
| (6.030) | Actuarial gains due to change in demographic assumptions | - |
| (46.160) | Actuarial (gains) or losses due to liability experience | 9.410 |
| (99.440) | Total amount recognised in other comprehensive income and expenditure | 43.540 |
| (63.100) | Total amount recognised | 69.570 |

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.

| 2013/14 £m | | 2014/15 £m |
|------------------|--|------------------|
| (922.510) | Opening defined benefit obligation | (860.100) |
| (21.890) | Current service cost | (16.340) |
| (40.440) | Interest expense on defined benefit obligation | (36.700) |
| (5.490) | Contributions by participants | (5.590) |
| 52.580 | Actuarial gains or (losses) on liabilities - financial assumptions | (79.120) |
| 6.030 | Actuarial gains on liabilities - demographic assumptions | - |
| 46.160 | Actuarial gains or (losses) on liabilities - experience | (9.410) |
| 26.330 | Net benefits paid out | 26.450 |
| (0.870) | Past service cost | (0.880) |
| - | Settlement cost | 1.180 |
| (860.100) | Closing defined benefit obligation | (980.510) |

Section 6 – Notes to the Group Financial Statements

Changes to the fair value of assets during the accounting year

| 2013/14 £m | | 2014/15 £m |
|----------------|---|----------------|
| 570.170 | Opening fair value of assets | 591.490 |
| 26.860 | Interest income on assets | 27.400 |
| (5.330) | Remeasurement (loss) or gains on assets | 44.990 |
| 20.630 | Contributions by the employer | 22.520 |
| 5.490 | Contributions by participants | 5.590 |
| (26.330) | Net benefits paid out | (26.450) |
| - | Settlements | (0.690) |
| 591.490 | Closing fair value of assets | 664.850 |

Actual return on assets

| 2013/14 £m | | 2014/15 £m |
|---------------|--|---------------|
| 26.860 | Interest income on assets | 27.400 |
| (5.330) | Remeasurement (loss) or gain on assets | 44.990 |
| 21.530 | Actual return on assets | 72.390 |

Unfunded Benefits

STHL has no unfunded benefits. Disclosure information relating to unfunded benefits for the Council can be found at note 43, section b 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 2014 | | | | 31st March 2015 | | |
|------------------|------------------|------------------|-----------------------------------|------------------|------------------|------------------|
| Group funded | Council unfunded | Group total | | Group funded | Council unfunded | Group total |
| £m | £m | £m | | £m | £m | £m |
| 591.490 | - | 591.490 | Fair value of assets | 664.850 | - | 664.850 |
| (860.100) | (29.800) | (889.900) | Present value of liabilities | (980.510) | (30.340) | (1,010.850) |
| (268.610) | (29.800) | (298.410) | Defined benefit obligation | (315.660) | (30.340) | (346.000) |

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:

| 2013/14 Group funded | 2013/14 Council unfunded | 2013/14 Group total | | 2014/15 Group funded | 2014/15 Council unfunded | 2014/15 Group total |
|-------------------------|-----------------------------|------------------------|--|-------------------------|-----------------------------|------------------------|
| £m | £m | £m | | £m | £m | £m |
| 40.440 | 1.240 | 41.680 | Interest on defined benefit liability | 36.700 | 1.200 | 37.900 |
| (26.860) | - | (26.860) | Interest income on assets | (27.400) | - | (27.400) |
| 13.580 | 1.240 | 14.820 | Pension interest cost and interest income on pension assets | 9.300 | 1.200 | 10.500 |

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 service. Pensions are increased each year in line with the Consumer Price Index (CPI).

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

The Fund is financed by contributions from employees, the Council and all other employers within the Fund, as well as from capital growth and interest and dividends on the Fund's investments. Contributions from active members of the Fund are set in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31st March 2015. Employers pay contributions based on triennial funding valuations carried out by the Fund's Actuary. The last valuation was at 31st March 2013.

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

As at 31st March 2015, there were 223 employers participating in the Fund, including the five district councils and a range of other organisations that provide a public service within the former County Council area. A full list of employers is shown later in this statement. The Fund had 125,736 members, made up of 46,900 active members, 42,469 pensioners and 36,367 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2014/15.

2. Legal Framework

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

Investment Regulations

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

Section 7 – Tyne and Wear Pension Fund Statements

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. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 set out provisions concerning the management and governance of the Scheme.

3. Funding Strategy

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

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

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

4. The 2013 Valuation

Rates of contributions paid by the employers during 2014/15 were based on the valuation carried out as at 31st March 2013. The value of the Fund at that date was £5,432.3m.

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

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

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

Section 7 – Tyne and Wear Pension Fund Statements

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

5. Investment Strategy and Investment Structure

The investment strategy in place in 2014/15 was based on an asset liability study carried out in 2013/14 that was based upon the liabilities shown by the 2013 valuation.

Note 10 to Pension Fund Financial Statements shows the amounts held in each type of investment. Note 15 shows the amount invested by each manager.

Section 7 – Tyne and Wear Pension Fund Statements

Tyne and Wear Pension Fund

Statement of the Actuary for the year ended 31st March 2015

Introduction

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

Actuarial Position

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

Plus

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

Discount rate for periods in service

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

Discount rate for periods after leaving service

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

Section 7 – Tyne and Wear Pension Fund Statements

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

The assets were valued at market value.

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

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31st March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1st April 2014 to 31st March 2017 were signed on 28th March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31st March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. Reviews to monitor the level of ill-health retirements are periodically carried out in respect of participating employers and, where appropriate, employer contribution rates may be increased.
9. This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31st March 2013. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

10. The actuarial valuation report is available on the Fund's website at the following address:
<http://www.twpf.info/article/11978/Fund-Valuation-Reports> or
<http://www.twpf.info/CHttpHandler.ashx?id=21419&p=0>

Aon Hewitt Limited
30th April 2015

Section 7 – Tyne and Wear Pension Fund Statements

Fund Account for the year ended

| 31st March 2014 (as restated) £m | | Note | 31st March 2015 £m |
|--|--|----------|-----------------------|
| | Dealings with members, employers and others directly involved in the Fund | | |
| (284.491) | Contributions | 4 | (279.084) |
| (4.519) | Transfers in from other pension funds | 5 | (3.317) |
| (289.010) | Total income | | (282.401) |
| 251.495 | Benefits payable | 6 | 247.698 |
| 10.077 | Payments to and on account of leavers | 7 | 114.036 |
| 261.572 | Total costs | | 361.734 |
| (27.438) | Net (income) or expenditure | | 79.333 |
| 58.674 | Management Expenses | 8 | 58.094 |
| | Returns on investments | | |
| (99.501) | Investment income | 9 | (100.999) |
| 4.097 | Taxes on income | 9 | 3.837 |
| (239.220) | Profit and losses on disposals of investments and changes in market value of investments | 10 | (682.860) |
| (334.624) | Net returns on investments | | (780.022) |
| (303.388) | Net increase in the net assets available for benefits during the year | | (642.595) |
| 5,432.341 | Net assets of the Fund at 1st April | | 5,735.729 |
| 5,735.729 | Net assets of the Fund at 31st March | | 6,378.324 |

Section 7 – Tyne and Wear Pension Fund Statements

Net Assets Statement for the year ended

| 31st March 2014 £m | | Note | 31st March 2015 £m |
|--------------------------|---|------|--------------------------|
| 5,723.149 | Investment assets | 10 | 6,382.493 |
| (9.677) | Investment liabilities | 10 | (23.979) |
| 37.519 | Current assets | 13 | 28.686 |
| (15.262) | Current liabilities | 13 | (8.876) |
| 5,735.729 | Net assets of the Fund at 31st March | | 6,378.324 |

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is covered in a statement prepared by the Actuary. The financial statements should be read in conjunction with the Actuary's statement. The actuarial present value of the promised retirement benefits is disclosed at Note 25, which has been compiled under IAS26 and, as such, is based on different assumptions.

Section 7 – Tyne and Wear Pension Fund Statements

Notes to the Tyne and Wear Pension Fund Financial Statements

1. Basis of Preparation

The financial statements summarise the Fund's transactions for the financial year 2014/15 and its position at yearend as at 31st March 2015. The accounts have been prepared following the "Code of Practice on Local Authority Accounting in the United Kingdom 2014/15" (the Code), which is based upon International Financial Reporting Standards (IFRS) as amended for the UK local government sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. They do not take into account obligations to pay pensions and benefits payable after the end of the financial year.

Following the publication of the CIPFA guidance "Local Government Pension Management Costs", the Fund has adjusted the way that it accounts for costs deducted directly from pooled funds by including such costs in Management Expenses.

This has resulted in new tables being included within the 2014/15 accounts and the relevant figures for 2013/14 being restated. Changes have been made to the levels of income and expenses and in the change in market value of investments in the Fund Account. A change has been made to the note on investments. The notes on administration expenses and investment management expenses have been removed and a new note has been introduced on management expenses. There has been no change to the increase in the net assets available for benefits during the year or the net assets of the Fund at 31st March figures on the Fund Account.

Changes to the accounting arrangements have led to the costs of administrative and investment management expenses being combined into management expenses in the Fund Account.

A resulting change to the accounting for expenses carried within pooled accounts has led to the new, combined management expenses figure for 2013/14 rising from £12.097m to £58.674m and the change in market value of investments figure rising from £192.643m to £239.220m.

2. Summary of Significant Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values which are recognised when cash is transferred.

Fund Account – Revenue Recognition

a. Contributions

Normal contributions, from both employers and members, are accounted for on an accruals basis in the payroll period for which they relate. The percentage rate payable by the employer is determined by the Actuary whilst the rate payable by employees is set within the Local Government Pension Scheme Regulations. Contributions due as at 31st March 2015 have been accrued.

Section 7 – Tyne and Wear Pension Fund Statements

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 yearend has been accrued.

b. Transfer Values

Transfer values represent the capital sums either receivable or payable in respect of members who have either joined or left the Fund during the financial year and have been calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers either in or out have been accounted for in the period in which they were received or paid.

Transfers In from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis within Transfers In.

Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c. Investment Income

Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year end is disclosed in the net assets statement as a current financial asset.

Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year end is disclosed in the net assets statement as a current financial asset.

Property Rental Income

Property rental income is payable quarterly in advance. Only the proportion of each payment attributable to the Fund from the due date to the 31st March 2015 is credited to the Fund Account.

Section 7 – Tyne and Wear Pension Fund Statements

d. Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e. Taxation

The Fund is a registered public sector scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Tax that is irrecoverable is accounted for as a Fund expense as it arises.

f. Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA guidance entitled “*Accounting for Local Government Pension Scheme Management Costs.*”

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct 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 direct 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 2015 have been accrued. Performance related fees, where applicable, have not been accrued at that date as they are not deemed to be earned until the end of the performance period for which they are calculated and agreed.

Net Assets Statement

g. Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the 31st March 2015. 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.

Section 7 – Tyne and Wear Pension Fund Statements

The values of investments as shown in the Net Assets Statement have been determined as follows:

Market Quoted Investments

Quoted securities have been valued at their bid price on 31st March 2015.

Pooled Investment Vehicles

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31st March 2015 as valued by the investment manager responsible for such vehicles.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned has been accrued within Investment Income.

Unquoted Investments

Unquoted investments have been valued with regard to latest dealings and other appropriate financial information as provided by the investment manager responsible for those investments.

Freehold and Leasehold Properties

The Fund's UK properties are shown as valued at 31st March 2015 by independent valuers appointed by the Fund. The valuers are Fellows of the Royal Institute of Chartered Surveyors (RICS) from Jones Lang LaSalle.

The market values are based on assumptions made in accordance with The RICS Valuation Standards.

All work is carried out in accordance with the Professional Standards, Valuation Practice Statements and UK Valuation Standards contained in the RICS Valuation – Professional Standards (January 2014) published by the Royal Institution of Chartered Surveyors (“the Red Book”), by valuers who conform to the requirements thereof. Valuations may be subject to monitoring by the RICS. The valuations are undertaken by currently registered RICS valuers.

Valuations are prepared on the basis that the premises (and any works thereto) comply with all relevant statutory and EC regulations, including fire regulations, access and use by disabled persons, control and remedial measures for asbestos in the workplace, the Energy Performance of Buildings Directive and any applicable bye laws. All buildings are assumed to have Energy Performance Certificates.

Valuations do not take into account any rights, obligations or liabilities, whether prospective or accrued, under the Defective Premises Act 1972, or the Health and Safety at Work etc. Act 1974.

Section 7 – Tyne and Wear Pension Fund Statements

No depreciation is provided on freehold buildings or long leasehold properties, in accordance with The RICS Valuation Standards.

The actual valuation of each property will only be known when the Fund sells the property on the open market.

h. Foreign Currency Transactions

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year end have been valued at the closing exchange rates on 31st March 2015.

End of year investment and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2015.

i. Derivatives

Futures have been valued at fair value. The fair value is the unrealised profit or loss of the current bid or offer price of the contract. The variation margin is the amount due to or from the broker for this unrealised profit or loss at the period end.

The fair value of forward currency contracts is based on exchange rates at the year end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31st March 2015.

j. 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.

k. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and also includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in their valuations.

l. Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed The Prudential Assurance Company as its current AVC provider. AVCs are paid to The Prudential Assurance Company by employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements during the year.

Section 7 – Tyne and Wear Pension Fund Statements

In accordance with section 42(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) AVCs are not included in the accounts but are disclosed only as a note (note 14).

3. Critical judgements in applying accounting policies

In applying the accounting policies set out in note 2 above, the Fund has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability

The Pension Fund liability is calculated triennially by the Actuary, in accordance with IAS19, whose report can be seen in note 25. The estimate is subject to significant variances based on changes to the underlying assumptions used by the Actuary.

Property Valuation

The Fund's UK property is included at a value derived by the valuers based on assumptions made by them in accordance with The Royal Institute of Chartered Surveyors Valuation Standards 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

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. The value of private equity at 31st March 2015 was £572.448m (£547.932m at 31st March 2014).

4. Contributions Receivable

| 31st March 2014 | | 31st March 2015 |
|--------------------|---|--------------------|
| £m | | £m |
| (230.862) | Employers | (222.019) |
| (53.629) | Members | (55.384) |
| (284.491) | Total contributions receivable (excluding refunds) | (277.403) |
| - | Refund of payroll costs | (1.681) |
| (284.491) | Total contributions receivable | (279.084) |

Section 7 – Tyne and Wear Pension Fund Statements

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| (21.398) | South Tyneside Council (administering authority) | (23.766) |
| (147.815) | Other metropolitan councils | (147.034) |
| (70.923) | Other Part 1 scheduled bodies | (59.986) |
| (11.034) | Part 2 scheduled bodies | (13.906) |
| (33.321) | Admitted bodies | (32.711) |
| (284.491) | Total contributions receivable (excluding refunds) | (277.403) |
| - | Refund of payroll costs | (1.681) |
| (284.491) | Total contributions receivable | (279.084) |

The contributions can be further analysed between sources as follows;

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| (53.629) | Employees' normal contributions | (55.384) |
| (128.093) | Employers' normal contributions | (133.160) |
| (102.748) | Employers' deficit recovery contributions | (88.859) |
| (0.021) | Employers' augmentation contributions | - |
| (284.491) | Total contributions receivable (excluding refunds) | (277.403) |
| - | Refund of payroll costs | (1.681) |
| (284.491) | Total contributions receivable | (279.084) |

The Refund of payroll costs relates to a group transfer of pensioners into the Greater Manchester Pension Fund. For a period of time after the date of the transfer, the Fund paid the payroll costs and was reimbursed for this on a monthly basis.

5. Transfers In

During the year, individual transfers in from other schemes amounted to £3.317m (£4.519m in 2013/14). There was no income relating to bulk transfers in to the Fund in 2014/15 or 2013/14.

A group of employees, deferred and actual pensioners transferred to the Fund from Worcestershire Pension Fund during the year in relation to the transfer of Kidderminster College to Newcastle College. At the time of preparation of these Accounts, the Fund did not have a value for the assets to be transferred and, accordingly, has not been able to include an amount in these Accounts.

Section 7 – Tyne and Wear Pension Fund Statements

6. Benefits Payable

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| 208.200 | Pensions | 217.297 |
| 48.966 | Commutations and lump sum retirement benefits | 35.565 |
| 5.539 | Lump sum death benefits | 6.030 |
| (11.210) | Recharges out | (11.194) |
| 251.495 | Total benefits payable | 247.698 |

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

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--|--------------------------|
| 23.296 | South Tyneside Council (administering authority) | 23.928 |
| 158.821 | Other metropolitan councils | 153.565 |
| 36.893 | Other Part 1 scheduled bodies | 36.565 |
| 7.552 | Part 2 scheduled bodies | 7.792 |
| 24.933 | Admitted bodies | 25.848 |
| 251.495 | Total benefits payable | 247.698 |

7. Leavers

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---------------------------------------|--------------------------|
| 9.228 | Individual transfers to other schemes | 6.140 |
| 0.030 | Refunds to members leaving service | 0.244 |
| 0.825 | Group Transfers | 107.647 |
| (0.006) | State scheme premiums | 0.005 |
| 10.077 | Total leavers | 114.036 |

There was one bulk transfer out of the Fund in 2014/15 in respect of the transfer of the Probation Trust liabilities and assets to the Greater Manchester Pension Fund. In 2013/14, there was one transfer out to Bristol City Council from Newcastle College.

8. Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 permit costs incurred in connection with the administration of the Fund to be charged against the Fund. A breakdown of the costs is set out over the page.

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

Section 7 – Tyne and Wear Pension Fund Statements

| 31st March 2014 (as restated) £m | | 31st March 2015 £m |
|---|--------------------------------|--------------------------|
| 2.369 | Administrative costs | 2.317 |
| 55.421 | Investment management expenses | 54.992 |
| 0.884 | Oversight and governance costs | 0.785 |
| 58.674 | Management Expenses | 58.094 |

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 analysed further, as follows:

| 31st March 2014 (as restated) £m | | 31st March 2015 £m |
|---|---|--------------------------|
| 31.901 | Management and custody fees | 29.151 |
| 14.850 | Performance fees | 17.013 |
| 5.179 | Transaction costs | 5.148 |
| 3.491 | Expenses charged within pooled vehicles | 3.680 |
| 55.421 | Investment management expenses | 54.992 |

These costs do not include indirect costs which are incurred through the bid-offer spread on investments sales and purchases.

9. Investment Income

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--------------------------------|--------------------------|
| (1.515) | Fixed interest securities | (1.957) |
| (67.921) | Equities | (64.450) |
| (0.351) | Index-linked securities | (0.362) |
| (11.298) | Pooled investment vehicles | (16.948) |
| (17.703) | Net rents from properties | (16.158) |
| (0.230) | Cash deposits | (0.348) |
| (0.463) | Securities lending | (0.750) |
| (0.003) | Commission recapture | (0.002) |
| (0.017) | Underwriting commission | (0.024) |
| (99.501) | Sub-total | (100.999) |
| 4.097 | Taxes on income | 3.837 |
| (95.404) | Total investment income | (97.162) |

Net rents from Properties

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Net rents from properties can be analysed further, as follows:

| 31st March 2014 | | 31st March 2015 | |
|--------------------|--------------------------------------|--------------------|--|
| £m | Property income | £m | |
| (21.492) | Rental income | (15.610) | |
| 3.789 | Direct operating expenses / (income) | (0.548) | |
| (17.703) | Net income | (16.158) | |

10. Investments

| 31st March 2014 | | 31st March 2015 | |
|--------------------|-------------------------------------|--------------------|--|
| £m | | £m | |
| | Investment assets | | |
| 51.221 | Fixed interest securities | 58.784 | |
| 2,649.607 | Equities | 3,008.420 | |
| 47.268 | Index-linked securities | 55.862 | |
| 2,578.373 | Pooled investment vehicles | 2,824.214 | |
| 263.155 | Properties | 303.000 | |
| 1.709 | Derivative contracts | 5.480 | |
| 118.321 | Cash deposits | 113.947 | |
| 13.495 | Other investment balances | 12.786 | |
| 5,723.149 | Total investment assets | 6,382.493 | |
| | Investment liabilities | | |
| (1.862) | Derivative contracts | (2.713) | |
| (7.815) | Other investment balances | (21.266) | |
| (9.677) | Total investment liabilities | (23.979) | |
| 5,713.472 | Net investment assets | 6,358.514 | |

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.

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| | 2014/15 | | Purchases | Sales | Change in market value £m | Value at 31st March 2015 £m |
|----------------------------|-----------------------------------|---|--|----------------|---------------------------------|-----------------------------------|
| | Value at 31st March 2014 £m | at cost and derivative payments £m | proceeds and derivative receipts £m | | | |
| | | | | | | |
| Fixed interest securities | 51.221 | 300.869 | (298.817) | 5.511 | 58.784 | |
| Equities | 2,649.607 | 1,233.694 | (1,187.378) | 312.497 | 3,008.420 | |
| Index-linked securities | 47.268 | 141.897 | (143.336) | 10.033 | 55.862 | |
| Pooled investment vehicles | 2,578.373 | 248.203 | (323.232) | 320.870 | 2,824.214 | |
| Properties | 263.155 | 55.788 | (38.955) | 23.012 | 303.000 | |
| Derivative contracts | (0.153) | 6.743 | (10.464) | 6.641 | 2.767 | |
| | 5,589.471 | 1,987.194 | (2,002.182) | 678.564 | 6,253.047 | |
| Cash deposits | 118.321 | 8.722 | (17.460) | 4.364 | 113.947 | |
| Other investment balances | 5.680 | 1.111 | (15.203) | (0.068) | (8.480) | |
| Total investments | 5,713.472 | 1,997.027 | (2,034.845) | 682.860 | 6,358.514 | |

| | 2013/14 (as restated) | | Purchases | Sales | Change in market value £m | Value at 31st March 2014 £m |
|----------------------------|----------------------------------|---|--|----------------|---------------------------------|-----------------------------------|
| | Value at 1st April 2013 £m | at cost and derivative payments £m | proceeds and derivative receipts £m | | | |
| | | | | | | |
| Fixed interest securities | 48.294 | 213.521 | (208.084) | (2.510) | 51.221 | |
| Equities | 2,451.632 | 1,355.589 | (1,084.603) | (73.011) | 2,649.607 | |
| Index-linked securities | 49.704 | 178.247 | (178.907) | (1.776) | 47.268 | |
| Pooled investment vehicles | 2,496.675 | 294.209 | (517.598) | 305.087 | 2,578.373 | |
| Properties | 306.920 | 31.971 | (97.118) | 21.382 | 263.155 | |
| Derivative contracts | 3.063 | 14.048 | (8.951) | (8.313) | (0.153) | |
| | 5,356.288 | 2,087.585 | (2,095.261) | 240.859 | 5,589.471 | |
| Cash deposits | 50.891 | 69.109 | - | (1.679) | 118.321 | |
| Other investment balances | 5.669 | 3.420 | (3.449) | 0.040 | 5.680 | |
| Total investments | 5,412.848 | 2,160.114 | (2,098.710) | 239.220 | 5,713.472 | |

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| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--|--------------------------|
| | Fixed interest securities | |
| 51.221 | UK public sector | 58.784 |
| 51.221 | Total fixed interest securities | 58.784 |
| | Equities | |
| 834.884 | UK quoted | 889.707 |
| 1,498.430 | Overseas quoted | 1,739.893 |
| 316.293 | Overseas unquoted | 378.820 |
| 2,649.607 | Total equities | 3,008.420 |
| 47.268 | Total UK public sector index-linked securities | 55.862 |
| | Pooled investment vehicles | |
| 37.682 | Unit trusts | 0.284 |
| 1,333.609 | Unitised insurance policies | 1,477.167 |
| 1,207.082 | Other managed funds | 1,346.763 |
| 2,578.373 | Total pooled investment vehicles | 2,824.214 |
| (0.153) | Total forward foreign currency derivative contracts | 2.767 |
| | Properties | |
| 186.905 | Freehold | 258.500 |
| 76.250 | Long leasehold | 44.500 |
| 263.155 | Total Properties | 303.000 |
| | Cash deposits | |
| 107.606 | Sterling | 90.146 |
| 10.715 | Foreign currency | 23.801 |
| 118.321 | Total cash deposits | 113.947 |
| | Other investment balances | |
| (1.638) | Outstanding trades | (15.984) |
| 11.601 | Outstanding dividends and tax recoveries | 11.749 |
| 1.894 | Debtors | 1.037 |
| (6.177) | Creditors | (5.282) |
| 5.680 | Total other investment balances | (8.480) |
| 5,713.472 | Total investments | 6,358.514 |

Transaction costs are included in the cost of purchases and in sale proceeds. These costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases.

11. Financial Instruments

Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table on the next page analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement headings. No financial assets have been reclassified during the financial year.

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31st March 2014

31st March 2015

| Designated as fair value through profit and loss £m | Loans and receivables £m | Financial liabilities at amortised cost £m | Designated as fair value through profit and loss £m | Loans and receivables £m | Financial liabilities at amortised cost £m |
|--|--------------------------------|--|--|--------------------------------|--|
| Financial assets | | | | | |
| 51.221 | - | - | 58.784 | - | - |
| 2,649.607 | - | - | 3,008.420 | - | - |
| 47.268 | - | - | 55.862 | - | - |
| 2,578.373 | - | - | 2,824.214 | - | - |
| 1.709 | - | - | 5.480 | - | - |
| 263.155 | - | - | 303.000 | - | - |
| - | 118.321 | - | - | 113.947 | - |
| 11.601 | - | - | 11.749 | - | - |
| - | 39.413 | - | - | 29.723 | - |
| 5,602.934 | 157.734 | - | 6,267.509 | 143.670 | - |
| Financial liabilities | | | | | |
| (1.862) | - | - | (2.713) | - | - |
| (1.638) | - | - | (15.984) | - | - |
| - | - | (21.439) | - | - | (14.158) |
| (3.500) | - | (21.439) | (18.697) | - | (14.158) |
| 5,599.434 | 157.734 | (21.439) | 6,248.812 | 143.670 | (14.158) |

Net gains and losses on financial instruments

| 31st March 2014 £m | | 31st March 2015 £m |
|------------------------------|------------------------------------|--------------------------|
| Financial assets | | |
| 240.899 | Fair value through profit and loss | 678.496 |
| Financial liabilities | | |
| (1.679) | Fair value through profit and loss | 4.364 |
| 239.220 | Total | 682.860 |

Fair value of financial instruments and liabilities

The table over the page summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values:

| 31st March 2014 | | | 31st March 2015 | |
|------------------------------|------------------|---|----------------------|------------------|
| Carrying value £m | Fair value £m | | Carrying value £m | Fair value £m |
| Financial assets | | | | |
| 4,516.515 | 5,591.333 | Fair value through profit and loss | 4,767.081 | 6,255.760 |
| 169.416 | 169.335 | Loans and receivables | 157.565 | 155.419 |
| 4,685.931 | 5,760.668 | Total financial assets | 4,924.646 | 6,411.179 |
| Financial liabilities | | | | |
| - | (1.862) | Fair value through profit and loss | - | (2.713) |
| (23.077) | (23.077) | Financial liabilities at amortised cost | (30.142) | (30.142) |
| (23.077) | (24.939) | Total financial liabilities | (30.142) | (32.855) |
| 4,662.854 | 5,735.729 | Net assets | 4,894.504 | 6,378.324 |

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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. Assets in this level are comprised of UK property valued independently by professional valuers.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the value of the instrument is not based on observable market data.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Fund's private market investments include private equity, private real estate and private infrastructure funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31st March 2015 valuation and a 31st December 2014 valuation adjusted for cash flows and rolled forward to 31st March 2015 as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Fund into Levels 1 to 3 at fair value.

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| Value at 31st March 2015 | Quoted | Using | With | Total |
|---|------------------|----------------|------------------|------------------|
| | market price | observable | significant | |
| | Level 1 | Level 2 | Level 3 | |
| | £m | £m | £m | £m |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 4,931.406 | 308.480 | 1,015.874 | 6,255.760 |
| Loans and receivables | 155.419 | - | - | 155.419 |
| Total financial assets | 5,086.825 | 308.480 | 1,015.874 | 6,411.179 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | - | (2.713) | - | (2.713) |
| Financial liabilities at amortised cost | (30.142) | - | - | (30.142) |
| Total financial liabilities | (30.142) | (2.713) | - | (32.855) |
| Net financial assets | 5,056.683 | 305.767 | 1,015.874 | 6,378.324 |

| Value at 31st March 2014 | Quoted | Using | With | Total |
|---|------------------|----------------|----------------|------------------|
| | market price | observable | significant | |
| | Level 1 | Level 2 | Level 3 | |
| | £m | £m | £m | £m |
| Financial assets | | | | |
| Financial assets at fair value through profit and loss | 4,429.715 | 264.864 | 896.754 | 5,591.333 |
| Loans and receivables | 169.335 | - | - | 169.335 |
| Total financial assets | 4,599.050 | 264.864 | 896.754 | 5,760.668 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit and loss | - | (1.862) | - | (1.862) |
| Financial liabilities at amortised cost | (23.077) | - | - | (23.077) |
| Total financial liabilities | (23.077) | (1.862) | - | (24.939) |
| Net financial assets | 4,575.973 | 263.002 | 896.754 | 5,735.729 |

12. Nature and extent of risks arising from Financial Instruments

Risk and Risk Management

The Fund's investment objective is:

To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and member contributions, will meet the cost of benefits;

and

To keep contributions as low and as stable as possible through effective management of the assets.

The Fund's primary long term risk is that it will be unable to meet its liability to pay the promised benefits to members from the assets that it holds.

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and

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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 Statement of Investment Principles.

The analysis in the tables in this section is on a look through basis. This differs from the analysis in note 10 which is compiled under accounting standards. In the 2013/14 accounts, the tables were a combination of a look through basis and a basis in accordance with accounting standards. In order to ensure that the risk analysis is applied consistently, all tables have been changed to a look through basis. This has resulted in the interest rate risk and currency rate risk tables being restated from last year.

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

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In consultation with its investment advisor, 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 2015/16 financial year.

| Asset type | Potential market movements (+/-) % |
|-------------------------|---|
| UK equities | 17.0 |
| Overseas equities | 20.0 |
| UK bonds | 12.0 |
| Overseas bonds | 10.4 |
| Index-linked securities | 7.0 |
| UK property | 15.0 |
| Overseas property | 20.0 |
| Private equity | 28.0 |
| Infrastructure funds | 15.0 |
| Active currency | 20.0 |
| Cash | 1.0 |

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged.

Had the market price of the Fund's investments increased or decreased in line with the above table, the change in the net assets available to pay benefits is as shown in the table below. The comparable figures for the previous year are also shown.

| Asset type | Value at 31st March 2015 £m | Percentage change % | Value on increase £m | Value on decrease £m |
|-------------------------------|--|--------------------------------|---------------------------------|---------------------------------|
| UK equities | 1,621.791 | 17.0 | 1,897.495 | 1,346.087 |
| Overseas equities | 2,051.427 | 20.0 | 2,461.712 | 1,641.142 |
| UK bonds | 991.513 | 12.0 | 1,110.495 | 872.531 |
| Overseas bonds | 36.519 | 10.4 | 40.317 | 32.721 |
| Index-linked securities | 139.197 | 7.0 | 148.941 | 129.453 |
| UK property | 303.000 | 15.0 | 348.450 | 257.550 |
| Overseas property | 310.825 | 20.0 | 372.990 | 248.660 |
| Private equity | 572.709 | 28.0 | 733.068 | 412.350 |
| Infrastructure funds | 139.985 | 15.0 | 160.983 | 118.987 |
| Active currency | 69.582 | 20.0 | 83.498 | 55.666 |
| Cash and cash equivalents | 127.679 | 1.0 | 128.956 | 126.402 |
| Foreign currency contracts | 2.767 | - | 2.767 | 2.767 |
| Investment income due | 11.749 | - | 11.749 | 11.749 |
| Amounts due for sales | 1.037 | - | 1.037 | 1.037 |
| Amounts payable for purchases | (21.266) | - | (21.266) | (21.266) |
| Total | 6,358.514 | | 7,481.192 | 5,235.836 |

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| Asset type | Value at 31st March 2014 £m | Percentage change % | Value on increase £m | Value on decrease £m |
|-------------------------------|-----------------------------------|---------------------------|----------------------------|----------------------------|
| UK equities | 1,573.518 | 17.0 | 1,841.016 | 1,306.020 |
| Overseas equities | 1,706.639 | 19.0 | 2,030.900 | 1,382.378 |
| UK bonds | 893.703 | 12.0 | 1,000.947 | 786.459 |
| Overseas bonds | 36.616 | 10.4 | 40.424 | 32.808 |
| Index-linked securities | 115.977 | 7.0 | 124.095 | 107.859 |
| UK property | 263.155 | 15.0 | 302.628 | 223.682 |
| Overseas property | 246.775 | 20.0 | 296.130 | 197.420 |
| Private equity | 547.931 | 28.0 | 701.352 | 394.510 |
| Infrastructure funds | 108.358 | 15.0 | 124.612 | 92.104 |
| Active currency | 92.740 | 20.0 | 111.288 | 74.192 |
| Cash and cash equivalents | 122.533 | 1.0 | 123.758 | 121.308 |
| Foreign currency contracts | (0.153) | - | (0.153) | (0.153) |
| Investment income due | 11.601 | - | 11.601 | 11.601 |
| Amounts due for sales | 1.894 | - | 1.894 | 1.894 |
| Amounts payable for purchases | (7.815) | - | (7.815) | (7.815) |
| Total | 5,713.472 | | 6,702.677 | 4,724.267 |

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 2014 and 31st March 2015 are set out in the table on the next page. These represent the interest rate risk based on underlying financial assets at fair value.

| Asset type | 31st March 2014 (as restated) £m | 31st March 2015 £m |
|---------------------------|---|--------------------------|
| Cash and cash equivalents | 122.533 | 127.679 |
| Fixed interest securities | 930.319 | 1,028.032 |
| Index-linked securities | 115.977 | 139.197 |
| Total | 1,168.829 | 1,294.908 |

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.

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| Asset type | Value at 31st | Change in net asset | |
|---------------------------|------------------|---------------------|------------------|
| | March 2015 | values | |
| | £m | +1% £m | -1% £m |
| Cash and cash equivalents | 127.679 | 128.956 | 126.402 |
| Fixed interest securities | 1,028.032 | 1,038.312 | 1,017.752 |
| Index-linked securities | 139.197 | 140.589 | 137.805 |
| Total | 1,294.908 | 1,307.857 | 1,281.959 |

| Asset type | Value at 31st | Change in net asset values | |
|---------------------------|---------------------|----------------------------|----------------------------|
| | March 2014 | | |
| | (as restated) £m | +1% (as restated) £m | -1% (as restated) £m |
| Cash and cash equivalents | 122.533 | 123.758 | 121.308 |
| Fixed interest securities | 930.319 | 939.622 | 921.016 |
| Index-linked securities | 115.977 | 117.137 | 114.817 |
| Total | 1,168.829 | 1,180.517 | 1,157.141 |

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 2015 and at 31st March 2014:

| Asset type | Value at 31st | Value at 31st |
|-------------------------------------|------------------|------------------|
| | March 2014 | March 2015 |
| | £m | £m |
| Overseas fixed interest | 36.616 | 36.519 |
| Overseas quoted equities | 1,706.638 | 2,051.427 |
| Overseas unquoted equities | 316.293 | 378.820 |
| Overseas pooled investment vehicles | 576.174 | 591.819 |
| Forward currency contracts | (0.153) | 2.767 |
| Overseas currency | 10.715 | 31.461 |
| Total | 2,646.283 | 3,092.813 |

Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the Investment Advisor, the Fund considers the likely volatility associated with foreign exchange to be 13%.

The following table 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.

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The comparable figures for the previous year are also shown.

| Asset type | Value at 31st March 2015 | Change in net asset values | |
|-------------------------------------|-----------------------------|-------------------------------|------------------|
| | | +13% | -13% |
| | £m | £m | £m |
| Overseas fixed interest | 36.519 | 41.266 | 31.772 |
| Overseas quoted equities | 2,051.427 | 2,318.113 | 1,784.741 |
| Overseas unquoted equities | 378.820 | 428.067 | 329.573 |
| Overseas pooled investment vehicles | 591.819 | 668.755 | 514.883 |
| Forward currency contracts | 2.767 | 3.127 | 2.407 |
| Overseas currency | 31.461 | 35.551 | 27.371 |
| Total | 3,092.813 | 3,494.879 | 2,690.747 |

| Asset type | Value at 31st March 2014 | Change in net asset values | |
|-------------------------------------|-----------------------------|----------------------------|---------------------|
| | | +13% | -13% |
| | (as restated) £m | (as restated) £m | (as restated) £m |
| Overseas fixed interest | 36.616 | 41.376 | 31.856 |
| Overseas quoted equities | 1,706.638 | 1,928.501 | 1,484.775 |
| Overseas unquoted equities | 316.293 | 357.411 | 275.175 |
| Overseas pooled investment vehicles | 576.174 | 651.077 | 501.271 |
| Forward currency contracts | (0.153) | (0.173) | (0.133) |
| Overseas currency | 10.715 | 12.108 | 9.322 |
| Total | 2,646.283 | 2,990.300 | 2,302.266 |

Manager Risk

Manager risk is the risk that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each investment manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views, relative to their respective benchmarks.

The Pension Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken into account.

To this end, almost all of the Fund's investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

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The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions.

Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2015 was £23.690m (£76.630m 31st March 2014). 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 2014 | Value at 31st March 2015 |
|------------------------------|--------|-----------------------------|-----------------------------|
| | | £m | £m |
| Money Market Funds | | | |
| Federated | AAA | 15.000 | 6.650 |
| Insight | AAA | 15.000 | - |
| Goldman Sachs | AAA | 14.000 | - |
| Ignis | AAA | 14.000 | 14.120 |
| Deutsche Bank | AAA | 2.400 | - |
| Bank Deposit Accounts | | | |
| NatWest | A | 1.230 | 2.920 |
| Nationwide Building Society | A | 15.000 | - |
| Total | | 76.630 | 23.690 |

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. This is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of the 31st March 2015.

13. Current Assets and Liabilities

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| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--|--------------------------|
| | Current assets | |
| 4.749 | Contributions and recharges due - employees | 4.823 |
| 32.260 | Contributions and recharges due - employers | 22.675 |
| 0.012 | HM Revenue and Customs | - |
| 0.493 | Investment management expenses | 1.172 |
| 0.005 | Other | 0.016 |
| 37.519 | Total current assets | 28.686 |
| | Current liabilities | |
| (9.057) | Unpaid benefits | (2.848) |
| (0.444) | Contributions, recharges and refunds due - employers | (0.467) |
| (2.318) | HM Revenue and Customs | (2.439) |
| (3.417) | Investment management expenses | (2.664) |
| (0.026) | Other | (0.458) |
| (15.262) | Total current liabilities | (8.876) |

Further analysis of debtors and creditors

Current assets can be further analysed, as follows:

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| 0.012 | Central government bodies | - |
| 21.616 | Other local authorities | 13.729 |
| 0.005 | NHS bodies | 0.016 |
| 15.677 | Public corporations and other trading funds | 10.396 |
| 0.209 | Other entities and individuals | 4.545 |
| 37.519 | Total current assets | 28.686 |

Current liabilities can be further analysed, as follows:

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|---|--------------------------|
| (0.552) | Central government bodies | (2.439) |
| (0.418) | Other local authorities | (0.467) |
| (7.376) | Public corporations and other trading funds | (2.664) |
| (6.916) | Other entities and individuals | (3.306) |
| (15.262) | Total current liabilities | (8.876) |

14. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

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Additional periods of membership can be purchased within the Local Government Pension Scheme, with the contributions being invested as part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

Equitable Life has experienced financial difficulties that arose from some of its financial products that carry guaranteed returns. With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members, contributions from existing members and transfers. A significant proportion of investors in funds operated by Equitable Life have had their balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2014/15, £1.359m of contribution income was received into the AVC funds provided by The Prudential (£1.337m during 2013/14). As at 31st March 2015, these funds were valued at £10.160m (£9.039m as at 31st March 2014).

During 2014/15, £0.001m of contribution income was received into the AVC funds provided by Equitable Life (£0.002m during 2013/14). As at 31st March 2015, these funds were valued at £0.095m (£0.113m as at 31st March 2014).

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

15. Analysis of Investments Over Managers

The Fund employed eleven external investment managers as at 31st March 2015. Each manager is a specialist in the market in which they invest. This broadly based management structure seeks to ensure that investment returns are not overly influenced by the performance of any one manager.

The Fund also has investment programmes across the four alternative asset classes of Private Equity, Active Currency, Infrastructure and Global Property.

The Private Equity programme is well diversified across providers, geography, industry and vintage years. The Fund has made commitments to fund of funds provided by HarbourVest and Pantheon, secondary funds managed by HarbourVest, Lexington Partners and Collier Capital and direct funds with HarbourVest, Capital International, Lexington Partners and Partners Group.

The Active Currency programme is invested with Millennium, Investec and Record.

The Fund has invested in Infrastructure through funds provided by Partners Group, Henderson Global Investors and Infracapital.

Investment in Global Property is through funds provided by Partners Group.

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The market value of the investments with each manager was:

| 31st March 2014 | | | 31st March 2015 | | |
|------------------|---------------|---|---------------------|---------------|--|
| £m | | | £m | | |
| | | | Investment managers | | |
| 263.155 | 4.6% | Aberdeen Property Investors | 303.000 | 4.8% | |
| 257.162 | 4.5% | BlackRock | 287.258 | 4.5% | |
| 444.336 | 7.8% | Henderson Global Investors | 483.117 | 7.6% | |
| 657.518 | 11.5% | JP Morgan Asset Management | 789.120 | 12.4% | |
| 128.777 | 2.3% | Lazard Asset Management | 154.535 | 2.4% | |
| 935.464 | 16.4% | Legal and General Investment Management | 1,027.556 | 16.2% | |
| 497.270 | 8.7% | M&G Investments | 566.600 | 8.9% | |
| 261.563 | 4.6% | Mirabaud Investment Management | 274.535 | 4.3% | |
| 579.640 | 10.1% | Sarasin and Partners | 669.107 | 10.5% | |
| 50.883 | 0.9% | TT International | 61.286 | 1.0% | |
| 551.063 | 9.6% | UBS Global Asset Management | 591.948 | 9.3% | |
| 92.739 | 1.6% | Active Currency | 69.582 | 1.1% | |
| 547.932 | 9.6% | Private Equity | 572.709 | 9.0% | |
| 108.358 | 1.9% | Infrastructure | 139.985 | 2.2% | |
| 246.775 | 4.3% | Global Property | 310.825 | 4.9% | |
| 90.837 | 1.6% | Managed in-house | 57.351 | 0.9% | |
| 5,713.472 | 100.0% | Total investments | 6,358.514 | 100.0% | |

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2015, the Fund had £0.145m (£0.327m 31st March 2014), outstanding with the company through a position held within an active currency fund. The full amount is included in the Active Currency line above. The level of recovery remains uncertain at the time of compiling the Accounts.

16. Investment Performance

The 2014/15 year produced mixed returns from the major equity markets. The strongest markets were Japan and US which rose by 26% and 25% respectively. The weaker performing markets were UK and Europe ex UK which finished the year up by 7% and 8% respectively.

The Fund's return for the year was 12.9%, which was 2.1% above its benchmark return of 10.8%. Inflation, as measured by the Consumer Price Index, was flat for the year whilst average earnings increased by 3.3%.

Pension fund returns are generally assessed over at least five-year periods in order to avoid taking too short-term a view of investment performance. The Fund's annual return over the last five years has been 8.1% per annum, which is level with the benchmark return. The five year return is above both inflation at 2.8% per annum and the increase in average earnings at 1.8% per annum.

The Fund's annual return over the last ten years has been 7.9% per annum, which is 0.1% below the benchmark return of 8.0%. These returns are above inflation at 2.8% per annum and the increase in average earnings at 2.9% per annum.

17. Taxation

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UK Tax

The Fund is an exempt approved fund and is not liable to income tax or capital gains tax. It is not registered separately from the Council for VAT and therefore can recover its input tax.

All investment income in the accounts has been shown gross of UK income tax and the non-recoverable element has been shown as an expense.

Overseas Tax

The Fund is subject to withholding tax in certain overseas countries. In all such cases, the investment income has been grossed up and non-recoverable tax has been shown as an expense.

18. Derivatives

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

Futures

The Fund did not hold any Futures contracts as at 31st March 2015 and 31st March 2014.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2015, the Fund held twenty positions in foreign currency that together showed an unrealised gain of £2.767m, as shown in the table on the next page.

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Type of forward foreign currency contracts

| Settlement | Type of contract | Currency bought | Currency sold | Market value £m | |
|--|------------------|-------------------|------------------|-----------------|----------------|
| Three month | Over the counter | Sterling | Euro | (0.061) | |
| Three month | Over the counter | Sterling | Hong Kong Dollar | (0.240) | |
| Three month | Over the counter | Sterling | Yen | (0.203) | |
| Three month | Over the counter | Sterling | US Dollar | (0.528) | |
| Three month | Over the counter | Australian Dollar | Sterling | (0.521) | |
| Three month | Over the counter | Canadian Dollar | Sterling | (0.476) | |
| Three month | Over the counter | Danish Krone | Sterling | (0.112) | |
| Three month | Over the counter | Euro | Sterling | (0.298) | |
| Three month | Over the counter | Hong Kong Dollar | Sterling | (0.042) | |
| Three month | Over the counter | Norwegian Krone | Sterling | (0.046) | |
| Three month | Over the counter | Swedish Krona | Sterling | (0.141) | |
| Three month | Over the counter | Singapore Dollar | Sterling | (0.033) | |
| Three month | Over the counter | US Dollar | Sterling | (0.012) | |
| Loss or liability value | | | | | (2.713) |
| Three month | Over the counter | Sterling | Swiss Franc | 0.909 | |
| Three month | Over the counter | Sterling | Euro | 1.855 | |
| Three month | Over the counter | Sterling | Hong Kong Dollar | 0.016 | |
| Three month | Over the counter | Sterling | Yen | 0.020 | |
| Three month | Over the counter | Hong Kong Dollar | Sterling | 0.086 | |
| Three month | Over the counter | Yen | Sterling | 0.203 | |
| Three month | Over the counter | US Dollar | Sterling | 2.391 | |
| Profit or asset value | | | | | 5.480 |
| Net forward currency contracts at 31st March 2015 | | | | | 2.767 |

The contracts were settled at a profit of £3.768m early in the 2015/16 financial year.

19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £204.298m were out on loan as at 31st March 2015. The breakdown of securities on loan was:

| 31st March 2014 £m | | 31st March 2015 £m | |
|--------------------------|---------------------------------|--------------------------|--|
| 18.357 | Fixed interest securities | 6.178 | |
| 4.105 | Index-linked securities | - | |
| 29.664 | UK equities | 65.300 | |
| 96.853 | Overseas equities | 132.820 | |
| 148.979 | Total securities lending | 204.298 | |

The value of collateral against which the securities were lent out was £224.160m. This collateral consisted of acceptable securities, government debt and obligations issued by supranational entities.

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20. Property Holdings

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|------------------------------|--------------------------|
| | Property holdings | |
| 306.920 | Opening balance | 263.155 |
| 31.971 | Additions | 55.788 |
| (97.118) | Disposals | (38.955) |
| 21.382 | Net increase in market value | 23.012 |
| 263.155 | Closing balance | 303.000 |

There are no restrictions on the realisability of a property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The future minimum lease payments receivable by the Fund are as follows:

| 31st March 2014 £m | | 31st March 2015 £m |
|--------------------------|--------------------------------|--------------------------|
| 14.623 | Within one year | 16.441 |
| 52.241 | Between one and five years | 61.332 |
| 100.950 | Later than five years | 145.576 |
| 167.814 | Minimum due from leases | 223.349 |

21. Significant Holdings

As at 31st March 2015, the Fund had two holdings that each represented more than 5% of the total Fund value. Both holdings are without-profit insurance contracts that provide access to a pool of underlying assets. The values have been determined by reference to the underlying assets using price feeds from markets. These holdings are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund. As at 31st March 2015, this was valued at £1,027.556m and represented 16.2% of the total net assets of the Fund. During 2014/15, the insurance contract was limited to six individual funds, each representing a different asset class, as follows:

| 31st March 2014 £m | | 31st March 2014 £m |
|--------------------------|---|--------------------------|
| 744.945 | UK equities | 739.730 |
| 80.732 | Emerging Markets Equities | 118.698 |
| 1.920 | Europe (ex UK) equities | 2.067 |
| 2.541 | North America equities | 47.207 |
| 68.710 | Index-linked gilts | 83.335 |
| 36.616 | Emerging markets passive government bonds | 36.519 |
| 935.464 | Total | 1,027.556 |

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- M&G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2015, this was valued at £449.611m (£398.146m as at 31st March 2014) and represented 7.1% (6.9% in 2013/14) of the total net assets of the Fund.

22. Outstanding Commitments

As at 31st March 2015 the Fund had fifty outstanding commitments to investments, as shown below:

| Name of Fund | Year | Value m | Drawdowns made | | Commitment outstanding | |
|---|------|------------|-------------------|--------|---------------------------|---|
| | | | m | m | m | m |
| HarbourVest International Private Equity Partners IV | 2002 | \$55.0 | \$53.6 | \$1.4 | £0.9 | |
| HarbourVest Partners VII Cayman Buyout Fund | 2002 | \$46.0 | \$43.0 | \$3.0 | £2.0 | |
| HarbourVest Partners VII Cayman Mezzanine Fund | 2002 | \$8.0 | \$7.5 | \$0.5 | £0.3 | |
| HarbourVest Partners VII Cayman Venture Fund | 2002 | \$28.0 | \$27.1 | \$0.9 | £0.6 | |
| Capital International Private Equity Fund IV | 2004 | \$18.0 | \$17.9 | \$0.1 | £0.1 | |
| HarbourVest International Private Equity Partners V - Partnership | 2005 | €100.0 | €93.0 | €7.0 | £5.1 | |
| HarbourVest International Private Equity Partners V - Direct | 2005 | €30.0 | €28.8 | €1.2 | £0.9 | |
| Pantheon Asia Fund IV | 2005 | \$20.0 | \$17.5 | \$2.5 | £1.7 | |
| Pantheon Europe Fund IV | 2005 | €25.0 | €22.5 | €2.5 | £1.8 | |
| Pantheon USA Fund VI | 2005 | \$30.0 | \$28.2 | \$1.8 | £1.2 | |
| Lexington Capital Partners VI-B | 2005 | \$30.0 | \$29.5 | \$0.5 | £0.3 | |
| HarbourVest Partners VIII Cayman Buyout Fund | 2006 | \$112.0 | \$98.0 | \$14.0 | £9.4 | |
| HarbourVest Partners VIII Cayman Venture Fund | 2006 | \$56.0 | \$53.5 | \$2.5 | £1.7 | |
| Pantheon Europe Fund V | 2006 | €35.0 | €29.9 | €5.1 | £3.7 | |
| Pantheon USA Fund VII | 2006 | \$35.0 | \$30.2 | \$4.8 | £3.2 | |
| Coller International Partners V | 2006 | \$30.0 | \$23.5 | \$6.5 | £4.4 | |
| HarbourVest Partners 2007 Direct Fund | 2007 | \$30.0 | \$28.6 | \$1.4 | £0.9 | |
| Pantheon Asia Fund V | 2007 | \$20.0 | \$17.1 | \$2.9 | £2.0 | |
| Pantheon Europe Fund VI | 2007 | €40.0 | €30.2 | €9.8 | £7.1 | |
| Pantheon USA Fund VIII | 2007 | \$35.0 | \$25.9 | \$9.1 | £6.1 | |
| Capital International Private Equity Fund V | 2007 | \$35.0 | \$28.7 | \$6.3 | £4.2 | |
| Co-Investment Partners Europe | 2007 | €30.0 | €28.5 | €1.5 | £1.1 | |
| Partners Group 2006 Direct Fund | 2007 | €30.0 | €28.8 | €1.2 | £0.9 | |
| Infracapital Partners | 2007 | £35.0 | £32.4 | £2.6 | £2.6 | |
| Capital International Private Equity Fund VI | 2010 | \$35.0 | \$17.7 | \$17.3 | £11.7 | |
| Lexington Capital Partners VII | 2010 | \$30.0 | \$22.5 | \$7.5 | £5.1 | |
| Partners Asia-Pacific and Emerging Markets Real Estate 2009 LP | 2010 | \$40.0 | \$31.2 | \$8.8 | £5.9 | |
| Partners Group Real Estate Secondary 2009 (EURO) | 2010 | €60.0 | €55.0 | €5.0 | £3.6 | |
| Partners Group Global Real Estate 2011 S.C.A., SICAR | 2010 | €145.0 | €125.4 | €19.6 | £14.2 | |
| Partners Group Global Infrastructure 2009 | 2010 | €70.0 | €56.2 | €13.8 | £10.0 | |
| Partners Group Direct Infrastructure 2011 | 2011 | €85.0 | €58.4 | €26.6 | £19.2 | |
| Partners Group Direct Real Estate 2011 S.C.A., SICAR | 2011 | \$100.0 | \$87.7 | \$12.3 | £8.3 | |
| Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR | 2011 | \$65.0 | \$38.8 | \$26.2 | £17.6 | |
| HarbourVest International Private Equity Partners VI - Partnership | 2011 | €50.0 | €28.2 | €21.8 | £15.8 | |
| Coller International Partners VI | 2012 | \$45.0 | \$21.2 | \$23.8 | £16.0 | |
| Pantheon Asia Fund VI | 2012 | \$40.0 | \$16.2 | \$23.8 | £16.0 | |
| Pantheon Europe Fund VII | 2012 | €25.0 | €10.4 | €14.6 | £10.6 | |
| Pantheon USA Fund IX | 2012 | \$30.0 | \$13.8 | \$16.2 | £10.9 | |
| Partners Group Global Infrastructure 2012 | 2013 | €45.0 | €13.2 | €31.8 | £23.0 | |
| Partners Group Real Estate 2014 | 2013 | \$64.0 | \$14.4 | \$49.6 | £33.4 | |
| Partners Group Real Estate Income 2014 | 2013 | €23.0 | €7.7 | €15.3 | £11.1 | |
| Partners Group Global Real Estate 2013 | 2013 | \$130.0 | \$39.7 | \$90.3 | £60.8 | |
| Partners Group Real Estate Secondary 2013 | 2013 | \$65.0 | \$12.5 | \$52.5 | £35.4 | |
| HarbourVest Dover Street VIII Cayman Fund LP | 2013 | \$30.0 | \$15.0 | \$15.0 | £10.1 | |
| HarbourVest Partners IX - Cayman Buyout Fund | 2013 | \$60.0 | \$21.6 | \$38.4 | £25.9 | |
| HarbourVest Partners IX - Cayman Venture Fund | 2013 | \$30.0 | \$17.0 | \$13.0 | £8.8 | |
| HarbourVest Partners 2013 Cayman Direct Fund LP | 2014 | \$30.0 | \$10.5 | \$19.5 | £13.1 | |
| Lexington Capital Partners VIII | 2014 | \$30.0 | \$2.1 | \$27.9 | £18.8 | |
| Infracapital Partners II | 2014 | £20.0 | £5.1 | £14.9 | £14.9 | |
| HarbourVest International Private Equity Partners VII - Partnership | 2014 | \$70.0 | \$4.6 | \$65.4 | £44.1 | |
| Total outstanding commitments | | | | | £526.5 | |

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The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2015.

23. Related Party Transactions

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

Governance – Voting Members of Pensions Committee

There were two members of the Pensions Committee who were in receipt of pension benefits from the Fund, namely R. Glindon and T. Wright. In addition, the Chair of the Pensions Committee, E. McAtominey, and Committee members J. Milburn, P. Hay, J. Perry, B. Goldsworthy, and G. Haley were active members of the Fund. The Vice Chair of the Pensions Committee, A. Walsh was a deferred member 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 2014/15, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited had related party transactions with the Fund totalling £0.877m, analysed as follows:

- South Tyneside Council charged the Fund £0.490m (£0.450m in 2013/14) in respect of services provided, primarily being recovery of past service deficit payments, legal and building costs.
- The Fund charged South Tyneside Council £0.056m (£0.055m in 2013/14) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.294 m (£0.303m in 2013/14) in respect of services provided, primarily being financial and information technology.

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

Key Management Personnel

Paragraph 3.9.4.3 of the “Code of Practice on Local Authority Accounting in the United Kingdom 2014/15” (the Code) exempts local authorities from the key management personnel disclosure requirements of International Accounting Standard 24 (IAS 24) on the basis that the disclosure requirements for officer remuneration and members’ allowances detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24. This also applies to the accounts of Tyne and Wear Pension Fund.

The disclosures required by Regulation 7(2) - 7(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of South Tyneside Council.

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24. Impairment Losses

Impairment for bad and doubtful debts

During 2014/15, the Fund has recognised an impairment loss of £0.104m (£0.137m as at 31st March 2014) 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 2013 by the Actuary at £7,514.5m.

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 2013 | Value as at 31st March 2010 |
|---|--------------------------------|--------------------------------|
| | £m | £m |
| Fair value of net assets | 5,432.300 | 4,302.300 |
| Actuarial present value of the promised retirement benefits | (7,514.500) | (7,037.300) |
| Deficit in the Fund as measured for IAS 26 purposes | (2,082.200) | (2,735.000) |

The principal assumptions used by the Actuary were:

| | 31st March 2013 | 31st March 2010 |
|--|-----------------|-----------------|
| | (% p.a.) | (% p.a.) |
| Discount rate | 4.4 | 5.5 |
| RPI inflation | 3.4 | 3.9 |
| CPI inflation | 2.4 | 3.0 |
| Rate of increase to pensions in payment* | 2.4 | 3.9 |
| Rate of increase to deferred pensions* | 2.4 | 3.9 |
| Rate of general increase in salaries ** | 3.9 | 5.4 |

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.

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Principal demographic assumptions

| | 31st March 2013 | 31st March 2010 |
|---|--|--|
| Post retirement mortality | | |
| Males | | |
| Base table | Standard SAPS Normal Health Light Tables (S1NMA_L) | Standard SAPS Normal Health All Amounts (S1NMA) |
| Scaling to above base table rates** | 120% | 110% |
| Allowance for future improvements | In line with CMI 2012 with long term improvement of 1.5% p.a. | In line with CMI 2009 with long term improvement of 1.25% p.a. |
| Future lifetime from age 65 (currently aged 65) | 22.9 | 21.3 |
| Future lifetime from age 65 (currently aged 45) | 24.9 | 23.2 |
| Females | | |
| Base table | Standard SAPS Normal Health Light Tables (S1NFA_L) | Standard SAPS Normal Health All tables (S1NFA) |
| Scaling to above base table rates** | 115% | 110% |
| Allowance for future improvements | In line with CMI 2012 with long term improvement of 1.50% p.a. | In line with CMI 2009 with long term improvement of 1.25% p.a. |
| Future lifetime from age 65 (currently aged 65) | 24.5 | 23.5 |
| Future lifetime from age 65 (currently aged 45) | 26.8 | 25.5 |

* A rating if x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

** The scaling factors shown apply to normal health retirements

| | 31st March 2013 | 31st March 2010 |
|--------------------|---|---|
| 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 is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum. |

There have been no changes in benefits during the accounting period. No allowance has been made in our calculations for the new scheme benefits accruing from 1st April 2014.

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund – 16th May 2014. A full copy is available on request.

For figures relating to individual employers of the Fund, please refer to each employer's final accounts.

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The Pension Fund has a number of key policy documents that outline the framework within which the Fund operates. These include:

- Governance Compliance Statement
- Funding Strategy Statement
- Statement of Investment Principles
- Corporate Governance Policy
- The Pension Service Plan
- The Pensions Administration Strategy
- The Fund's Discretions within the Local Government Pension Scheme
- Communications Policy

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

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Organisations Participating in the Fund as at 31st March 2015

Councils

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

Other Part 1 Scheduled Bodies

Academy 360
Aim High Academy Trust
All Saints Academies Trust
Barnes Academy Trust
Barnwell Academy Trust
Benedict Biscop Church of England Academy
Biddick Academy Trust
Brighter Academy Trust
Cardinal Hume Catholic School
Castle View Enterprise Academy
City of Sunderland College
Dayspring Trust
Diamond Hall Infant Academy
Discover Learning Trust
Discovery Learning Limited
East Herrington Primary Academy
Eppleton Academy Primary School
Former North East Regional Airport Committee
Former Tyne and Wear County Council
Former Tyne and Wear Residuary Body
Fulwell Infant School Academy
Gateshead College
Gateshead Housing Company
Gosforth Federated Academies Limited
Grasmere Academy
Grindon Hall Christian School
Holley Park Academy
Holy Trinity Church of England Academy (South Shields) Trust
Houghton Kepier Sports College Academy Trust
Inspire Multi Academy Trust
Joseph Swan Academy
Kenton School Newcastle
Kibblesworth Academy
Lord Lawson of Beamish Academy
Monkton Infants School
Monkton Junior School
Monkwearmouth College
Newcastle College
Newcastle Education Action Zone
North Tyneside College
North View Academy Trust
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria University
Police and Crime Commissioner for Northumbria
Redby Primary Academy
Red House Academy
Riverside Primary Academy
Ryhope Infant School Academy
Sacred Heart Catholic High School
South Tyneside College
South Tyneside College Academy Trust
South Tyneside Education Action Zone
South Tyneside Homes

Other Part 1 Schedule Bodies (continued)

Southmoor Academy
St Aidan's Education Trust
St Anthony's Girls' Catholic Academy
St Cuthbert's Catholic High School
St Joseph's Catholic Education Trust

The Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority

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
St Mary's Catholic School Trust
The Laidlaw Schools Trust
The Northern Education Trust
The St Thomas More Partnership of Schools
Trinity Academy Newcastle
Tyne and Wear Fire and Rescue Services
Tyne and Wear Integrated Transport Authority
Tyne Metropolitan College
Tynemouth College
University of Sunderland
Wearmouth Learning Trust
Wearside College
West Newcastle Academy
Whickham School and Sports College
Whitburn Church of England Academy
Wise Academies
Woodard Academies Trust
Your Homes Newcastle

Part 2 Scheduled Bodies

Birtley Town Council
Blakelaw and North Fenham Parish Council
Blue Square Trading Limited

Care and Support Sunderland Limited

Castle View Fitness Centre
Charge Your Car (North) Limited
Learning World
Nexus
Northumbria University Nursery Limited
Sunderland Care and Support Limited (SCSL)
Sunderland Live Limited
The Intraining Group Limited
University of Sunderland London Campus Limited

Admitted Bodies

Age Concern Newcastle
Assessment and Qualification Alliance
Association of North East Councils
Azure Business Centres Limited
Balfour Beatty Living Places Limited
Baltic Flour Mills Visual Arts Trust
Bell Decorating Group Limited
Benton Grange School
Benwell Young Peoples Development Project
Brunswick Young Peoples Development Project
BT South Tyneside Limited
Bullough Cleaning Services
Bullough Contract Services
Byker Community Trust
Capita Symonds Limited

Section 7 – Tyne and Wear Pension Fund Statements

Admitted Bodies (continued)

| | |
|---|---|
| Carillion Integrated Services Limited | North Tyneside City Challenge |
| Carillion Services Limited (Jarrow School) | North Tyneside Disability Advice |
| Carillion Services Limited (Lord Lawson Academy) | Northern Arts Association |
| Carillion Services Limited (SSCS) | Northern Council for Further Education |
| Catholic Care North East | Northern Counties School for the Deaf |
| CBS Outdoor Limited | Northern Grid for Learning |
| Child Care Enterprise Limited | Northumbria Tourist Board |
| Churchill Contract Services Limited (ParkHead) | One North East |
| Cofely Workplace Limited (N Tyneside) | Ouseburn Trust |
| Cofely Workplace Limited (PB) | Parsons Brinkerhoff |
| Compass Group UK and Ireland | Passenger Transport Company |
| DB Regio Tyne and Wear Limited | Percy Hedley Foundation |
| Disability North | Port of Tyne Authority |
| Gateshead Law Centre | Praxis Service |
| Gentoo Group Limited | Property Management Integrated Services and Employment Company |
| Groundwork South Tyneside and Newcastle | Raich Carter Sports Centre |
| Hebburn Neighbourhood Advice Centre | RM Education |
| Higher Education Funding Council for England | Robertson Facilities Management Limited |
| Information North (North Regional Library System) | Robertson Facilities Management Limited (Newcastle Phase 2) |
| In situ Cleaning | SSE Contracting Limited |
| International Centre for Life | Saint Mary Magdalene and Holy Jesus Trust |
| Involve North East | Saint Mary the Virgin Hospital |
| Jarvis Accommodation Services Limited | Scolarest (Newcastle Schools) |
| Jarvis Workspace Facilities Management Limited | Scolarest PFI (Baldon School) |
| Kenton Park Sports Centre | Search Project |
| KGB Cleaning and Support Services Limited | Simonside Community Centre |
| Kier North Tyneside Limited | SITA UK Limited (Gateshead) |
| Lend Lease Facilities Management (EMEA) Limited | SITA UK Limited (Sunderland) |
| Lovell Partnership Limited | Sodexo Limited |
| Mears Limited | South Tyneside Football Trust |
| Mitie Cleaning (North) Limited | South Tyneside Victim Support |
| Mitie PFI Limited (Baldon School) | Stagecoach Services Limited |
| Mitie PFI Limited (North Tyneside) | Sunderland City Training and Enterprise Council |
| Morrison Facilities Services Limited 1 | Sunderland Empire Theatre Trust |
| Morrison Facilities Services Limited 2 | Sunderland Outdoor Activities |
| Morse | Sunderland People First Co-operative Community Interest Company |
| Museums Libraries and Archives North East | Sunderland Street lighting Limited |
| National Car Parks | Taylor Shaw |
| National Glass Centre | The Ozanam House Probation Hostel Committee |
| Newcastle Law Centre | Thomas Gaughan Community Association |
| Newcastle Family Service Unit | TT2 Limited |
| Newcastle Healthy City Project | Tyne and Wear Development Company Limited |
| Newcastle International Airport | Tyne and Wear Development Corporation |
| Newcastle Tenants and Residents Federation | Tyne and Wear Enterprise Trust |
| Newcastle Tenants Federation | Tyne and Wear Play Association |
| Newcastle Theatre Royal Trust | Tyne and Wear Small Business Service |
| Newcastle West End Partnership | Tyne Waste Limited |
| Newcastle Youth Congress | Tyneside Deaf Youth Project |
| No Limits Theatre Company | Tyneside Training and Enterprise Council |
| Norcare | Valley Citizens Advice Bureau |
| Norland Road Community Centre | Walker Profiles (North East) Limited |
| North Country Leisure | Wallsend Citizen Advice Bureau |
| North East Innovation Centre | Wallsend Hall Enterprise Limited |
| North East Regional Employers Organisation | Workshops for the Adult Blind |

The schedule includes organisations that are no longer in existence but for which there remains a liability in the Fund.

Section 8 – Glossary of Financial Terms

Glossary of Financial Terms

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

Accounting Policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accruals

The concept that income and expenditure are taken into account as they are earned or incurred, not when money is actually received or paid. Accrual accounting covers both revenue and capital transactions.

Actuarial Gains or Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.

Arm's Length Management Organisation

A procurement option involving the creation of a company to deliver housing services on behalf of the Council. Whilst the Council still retains some management control the company is able to pursue additional funding sources and so deliver more regeneration to the borough.

Asset

Something an organisation owns e.g. land or buildings, cash and debtors.

Assets Held For Sale or Disposal

Non-current assets such as property actively marketed for disposal and expected to be sold or disposed of within 12 months of the reporting period.

Associates

An entity in which the Council has an interest on a long term basis and is jointly controlled with one or more other entities under a contractual or other binding arrangement. Voting is based on a majority decision rather than a unanimous decision.

Balance Sheet

A primary financial statement reporting the assets and liabilities of an organisation at a given date.

Budgets

A statement of the Council's forecast expenditure, that is, net income and expenditure for the year.

Capital Accounting

Ensures that a charge is made to each service to represent the cost of using non-current assets.

Section 8 – Glossary of Financial Terms

Capital Expenditure

Spending resulting in the addition or enhancement of a long term asset such as property, plant and equipment, heritage and intangible assets. Other types of expenditure can be capitalised but only with the express permission of the Secretary of State.

The **Capital Adjustment Account** shows the effect of statutory departures from the IFRS Code including the financing of capital expenditure from external sources and the impact of depreciation, impairments, amortisations and revaluation losses compared to the minimum revenue provision, which the Council has to make.

Capital Grants Receipts in Advance

Capital 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 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 depend upon the banding of the individual dwelling – i.e. those properties in bands A to C will pay less council tax whilst those in bands E to H will pay more.

Creditors

Amounts owed by the Council for goods and services provided where payment has not been made by the Balance Sheet date.

Current Service Cost (Pensions)

This is the actuarial estimate of the present value of full pension benefits earned by current employees in the year under review.

Section 8 – Glossary of Financial Terms

Curtailment

For a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples including termination of employees service through redundancy or amendment of their terms affecting the future benefits.

Debtors

Sums of money due to the Council but not received by the Balance Sheet date.

Defined Benefit and Defined Contribution Pension Schemes

A defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

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.

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.

Section 8 – Glossary of Financial Terms

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 an explanatory foreword and an annual governance statement.

Fund of Funds

A type of investment involving the investment in a fund which itself invests in other funds.

General Fund

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.

International Financial Reporting Standards (IFRS)

The nationally recognised set of accounting standards agreed by the Accounting Standards Board. These represent the accounting treatment to be followed by all commercial organisations in the United Kingdom when preparing their accounts. Council accounts are expected to accord with IFRS except where the Government considers their principles to be inappropriate or considers others to be more appropriate to Local Government accounting and reporting.

Interest Expense on Defined Benefit Obligation

The expected increase in the year in the present value of the defined benefit obligation as the benefits are one year closer to settlement.

Section 8 – Glossary of Financial Terms

Interest Income on Assets

This is an actuarially calculated estimate of the return on the pension scheme's investment assets during the year.

Inventories

Assets accounted for as they are released for use rather than when they are purchased.

Impairment

A reduction in value of a non-current asset or financial instruments resulting from causes such as obsolescence, physical damage or non-recoverability of debt.

Infrastructure Assets

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

Intangible Assets

These are assets that do not have a physical form e.g. computer software.

Investment Properties

This is land and buildings where construction work and development has been completed and the asset is held for its investments potential, any rental income being negotiated at arm's length.

Levies

Similar to precepts these are sums paid to other bodies. However instead of being charged to the Collection Fund, as with precepting bodies, the costs are shown in the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Council are the Tyne and Wear Passenger Transport Authority and Environment Agency.

Liability

A financial obligation, any debt or money owed by the Council.

Lifecycle Costs

Incurred in PFI contracts these represent the cost of an asset, or its part throughout its cycle life, while fulfilling the performance requirements under the contract.

Major Repairs Reserve

Capital resources unspent by the Housing Revenue Account at the Balance Sheet date. By statute this reserve can only be used to fund future capital expenditure on HRA assets.

Materiality

An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Medium Term Financial Planning (MTFP)

The process of identifying and aligning service pressure, corporate priorities and objectives as well as available resources over the medium term (5 years) and budgeting accordingly.

Minimum Revenue Provision (MRP)

The amount of money the Council has set aside to support the repayment of debt. This is in line with the MRP policy adopted by the Council as part of its MTFP.

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.

Non-Current Assets

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

Non-Distributed Costs

These are overheads for which no user benefits, and accordingly are not apportioned to services expenditure.

Non-Domestic Rates (NDR)

Non-domestic properties must pay these rates and are based upon property valuations, as undertaken by the District Valuer, and a nationally set multiplier figure.

Operating Leases

Leases other than a finance lease.

Pension Reserve

The amount set aside to offset the IAS 19 defined benefit obligation.

Post Balance Sheet Events

Those events occurring between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Head of Finance.

Precept

In the calculation of the council tax and non-domestic rates for a particular year, precepts levied by appropriate bodies must be taken into account. In the case of this Council, the precepting bodies are Northumbria Police Authority, Tyne and Wear Fire and Civic Defence Authority and the Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

Private Finance Initiative (PFI)

A method of purchasing assets and services over a longer term period, usually 25 years. The financial risks involved are usually shared between the Council and the PFI operator.

Provisions

Provisions are required for any losses that are likely to be incurred, or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise.

Section 8 – Glossary of Financial Terms

Public Works Loan Board (PWLB)

A Government financed body that makes long term money available to Local Authorities who are able to borrow a proportion of their requirements to finance capital spending from this source.

Related Party Transactions

Financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. Most related parties (i.e. precepting bodies, pension funds etc.) already have separate disclosure requirements; the main exception being members and chief officers.

Reserves

Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. Expenditure is not charged direct to any reserve.

Revaluation Reserves

Records the accumulated gains on non-current assets held by the Council from increases in value.

Revenue Balances

An expression usually referring to the accumulated surplus on the General Fund. They can be used to avoid borrowing, pay bills in the early part of the year before income is received or to reduce the council tax charge.

Revenue Expenditure

Money spent on the day-to-day running costs of providing the various services. It is usually of a constantly recurring nature and produces no permanent asset.

Revenue Expenditure funded from Capital under Statute

Represents items of expenditure which by definition are not capital but where the Council has statutory powers to treat and fund as capital expenditure.

Revenue Support Grant

A government grant in aid of Council services generally. It is based upon the Government assessment of how much a Council needs to spend.

Settlements

Occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the pension benefits provided under a defined benefit plan. Examples include schools transferring to academy status.

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.

Section 8 – Glossary of Financial Terms

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 2014/15

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 2015 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 Families
12. The Council's overarching governance arrangements at Member level, at strategic and operational level and the monitoring arrangements put in place are illustrated in the diagram on the next page.

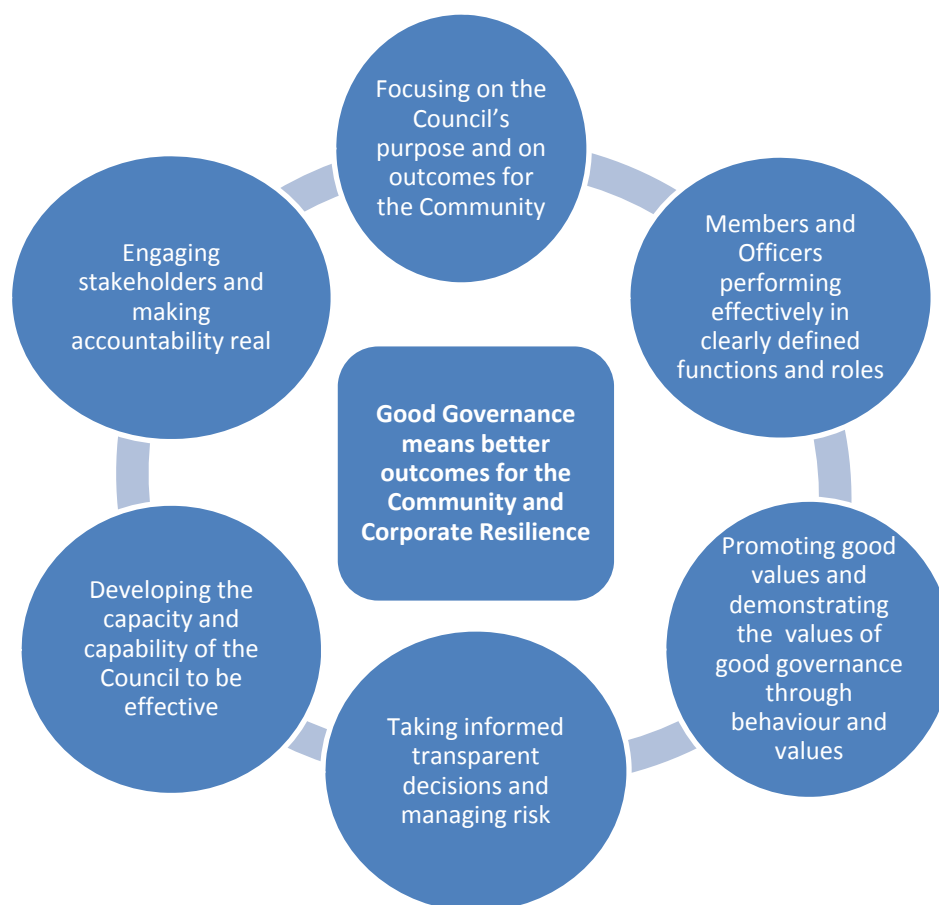
Section 9 – Annual Governance Statement

Governance Arrangements: Shaped to Deliver

| | | | | | | |
|--|--|--|---|---|--|--------------------|
| Member Governance | <p>Leadership Meeting</p> <ul style="list-style-type: none"> Weekly forum where Leader, Deputy Leader and Chief Executive agree political and managerial leadership of strategic and regional responsibilities. Officers attend to provide information and progress reports when required. <p>1</p> | <p>Strategic Lead Member Briefing</p> <ul style="list-style-type: none"> 26 strategic planning meetings per year between Cabinet Members and Senior Officers to plan the delivery of our Shaping Our Future programme. Officers attend to provide information and progress reports when required. <p>2</p> | <p>Cabinet</p> <ul style="list-style-type: none"> Lead Members make strategic and operational decisions that affect all areas of the Council. Officers attend 4 weekly meetings to provide information to support decision making when required. <p>3</p> | <p>Council</p> <ul style="list-style-type: none"> All Members of the Council make strategic and operational decisions that affect all areas of the Council. Meets 9 times a year. <p>4</p> | Strategic | |
| | <p>Scrutiny Committees</p> <ul style="list-style-type: none"> To scrutinise the discharge of any of the Council's executive functions. Meets monthly if required. Power to make recommendations. <p>5</p> | <p>Performance Panels</p> <ul style="list-style-type: none"> Contract and Housing Performance Panels review performance and report direct to Cabinet. Meet bi-monthly. Power to recommend urgent action. <p>6</p> | <p>Standards Committee</p> <ul style="list-style-type: none"> Promote and maintain high standards of conduct by Councillors. Meets quarterly. Deals with allegations of non-compliance with Code of Conduct <p>7</p> | <p>Audit Committee</p> <ul style="list-style-type: none"> Advisory committee to provide independent assurance of risk management and control environment to Council. Meets quarterly. <p>8</p> | | |
| Supported by Officer Recommendation | <p>Strategic Leadership Group</p> <ul style="list-style-type: none"> Chief Executive and Corporate Directors weekly strategic planning meeting for Senior Officers to consider local, regional and national priorities and develop strategy to deliver our Shaping Our Future programme. Acts as a programme board for significant projects. <p>9</p> | <p>Extended Leadership Group</p> <ul style="list-style-type: none"> Quarterly planning meeting between Strategic Leadership Group, Heads of Service and Corporate Leads to consider key strategic and operational issues. Two way forum for Heads of Service and Corporate Leads to disseminate key messages across the organisation. <p>10</p> | <p>Top 100 Managers</p> <ul style="list-style-type: none"> Chief Executive quarterly forum for key officers to consider and contribute to the progress of our Shaping Our Future programme. Opportunity to bring a wide range of operational expertise to organisation wide priorities. Two way forum for key officers to disseminate key messages across the organisation. <p>11</p> | <p>Innovation & Efficiency Group</p> <ul style="list-style-type: none"> Develops new thinking and implementation plans around new models of service delivery. Leads on Shaping Our Financial Future programme. <p>12</p> | <p>Futures Group</p> <ul style="list-style-type: none"> To strategically oversee the planning and delivery of the Council's long term business and financial strategy. <p>13</p> | Operational |
| | <p>Corporate Delivery Group</p> <ul style="list-style-type: none"> Heads of Service and Corporate Leads focus on day-to-day Council business that requires corporate managerial decision. Meets weekly. Acts as a 'route finder' to keep the operational business of the council moving forward. <p>14</p> | <p>Group Management Teams</p> <ul style="list-style-type: none"> Focuses on day-to-day Council business that requires group managerial decision. Corporate Directors meet with their senior managers on a weekly basis. Monitors group-wide performance (including finances). <p>15</p> | | | | |
| | Monitoring | <p>Capital Investment Group</p> <ul style="list-style-type: none"> Acts as programme board for the 5 Year Capital Spend Programme. Determines necessary interventions in agreement with Strategic Leadership Group. <p>16</p> | <p>Chief Executive's Performance Meeting</p> <ul style="list-style-type: none"> Monitors council-wide performance, including finance, programme and capital dashboards, HR, complaints, indicators and risk. Meets bi monthly. Separate specific monthly budget meeting held with Corporate Director Business and Resources and Head of Finance. <p>17</p> | <p>Monthly Budget Monitoring</p> <ul style="list-style-type: none"> Head of Finance meets individually each month with Heads of Service and Corporate Leads to discuss budget. <p>18</p> | | |

Section 9 – Annual Governance Statement

13. CIPFA/SOLACE published ‘*Delivering Good Governance in Local Government*’ in 2007. This sets out the fundamental principles of corporate governance as shown in the following diagram:



14. Underpinning these principles CIPFA have identified the features that need to be in place for Councils to demonstrate that they comply with the framework. The next six diagrams describe how the Council complies with the six principles of good governance. In some cases these principles interrelate. They outline:
- the core principle,
 - 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 2015–2020
- 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.

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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.

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Review of effectiveness

16. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness was carried out under the supervision of the Council's Business and Resources Group Management Team, including senior officers from across the Council and chaired by the Corporate Director Business and Resources.
17. The review follows the methodology set out by CIPFA in its publication 'Rough Guide for the Annual Governance Statement' as shown in the following diagram:

Annual review of the effectiveness of governance arrangements and systems of internal control

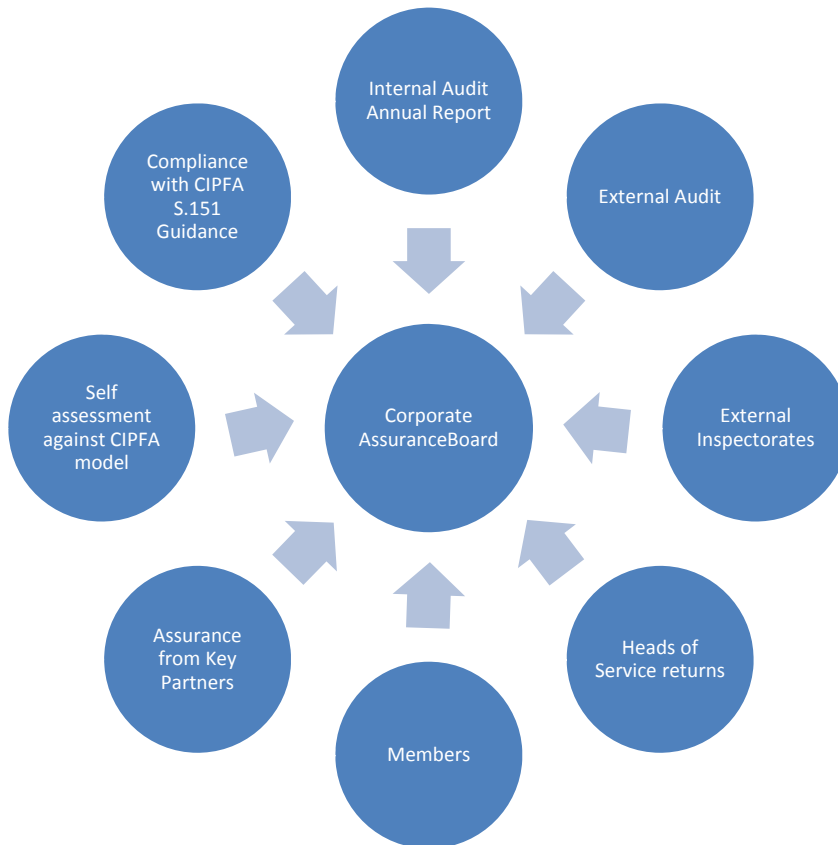
Methodology set out in CIPFA's: Annual Governance Statement, Rough Guide for Practitioners 2008

| | |
|-------------|--|
| Objective 1 | Establish the principal statutory obligations and organisational objectives 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 |

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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:



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Overall conclusion of the Council's governance arrangements

19. The annual review of the governance framework found that overall the Council has robust governance arrangements in place. This conclusion is based on the assurances and improvements identified from the review and detailed in the following table.

20. Only those improvements identified which are felt to be **significant** to the delivery of the Council's objectives are outlined in the table below. The Council has also agreed action plans for other areas felt to be less significant to ensure continual improvement.

Way forward

21. The steps that have been taken or need to be taken to improve the issues identified are set out in the Action plan that follows.

22. The Audit Committee discussed and approved the audited statement on 21st September 2015 and has recommended that the Council adopt it.

| No | Issue | Action taken/proposed | Responsible Officer | Target Date |
|----|--|---|--|--------------|
| 1 | <u>Financial Resilience</u> The Council has set another challenging budget for 2015-16 with efficiency savings of £22m to be achieved. This is on top of over £100m saved over the last 5 years. | Shaping Our Financial Future 2016-2020 programme established to reshape Council services through cross cutting workstreams. Governance framework in place to support programme with financial management embedded into the process. | Corporate Director Business and Resources. | Ongoing |
| 2 | <u>Data Management</u> The Council is in the process of implementing new social care computer system. | Governance framework in place to oversee the implementation of the new system. | Corporate Director Children, Adult and Families | October 2015 |
| 3 | <u>Children's Services</u> The Ofsted inspection of local authority arrangements for the protection of children identified some areas for improvement. | Arrangements are in place to address the issues highlighted in the last inspection report and monitor the requirements of current inspection regime. | Corporate Director Children, Adults and Families | Ongoing |