Financial Statements

2013/14

Economic Regeneration

Children, Adults and Families

Innovation, Efficiency, Delivery

Shaped to deliver

26th September 2014

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
Central Library Offices
Prince Georg Square
South Shields
NE33 2PE

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 2014 and outline our financial position at that date. The foreword provides:

- A review of the Council's financial results and financial standing for 2013/14.
- Information about the activities and significant matters that took place during 2013/14 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 2013/14

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 underspend on its budget of £0.7m in 2013/14 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 6 to the Statement of Accounts.

Section 1 – Explanatory Foreword by the Head of Finance

2013/14 Revenue financial summary	Original budget £m	Revised budget £m *Note 1*	Actual outturn £m	(Underspend) or overspend £m *Note 3*	
Revenue spending					
Children, Adults and Families Group	89.428	89.780	88.551	(1.229)	
Business and Resources Group	46.848	51.119	45.695	(5.424)	
Economic Regeneration Group	19.569	14.914	16.629	1.715	
Strategy and Performance	1.449	1.324	1.226	(0.098)	
Net cost of services and operating expenditure	**157.294**	**157.137**	**152.101**	**(5.036)**	
Funding sources					
General Government grants	(68.186)	(68.185)	(68.185)	-	
Non-domestic rates retained and top up grant	(43.808)	(43.652)	(43.652)	-	
Contribution from Collection Fund	(0.200)	(0.200)	(0.200)	-	
Council tax payers	(44.800)	(44.800)	(44.800)	-	
Contribution from General Fund balance	(0.300)	(0.300)	(0.300)	-	*Note 2*
Contribution to earmarked reserves	-	-	4.379	4.379	*Note 3*
Total revenue funding	**(157.294)**	**(157.137)**	**(152.758)**	**4.379**	
Contribution back to General Fund balance for the year	**-**	**-**	**(0.657)**	**(0.657)**	

Changes required in the restatement of management accounts to financial accounts

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

Note 2 : Use of reserves and balances is estimated as part of our strategic planning process, an amount of £0.300m was included within the 2013/14 Medium Term Financial Plan budget of £157.294m.

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, as well as a range of educational and support services for young people from nursery age through to youth provision and further learning.

The revenue spending highlights during the year were as follows:

- The cost of looked after children through foster placements, social work staffing levels and out of borough placements were stabilised following increases in previous years although service demand remains high. Consequently, this service spent £0.2m below budget in 2013/14. The Council continues to effectively manage cost pressures in this area through more robust gate keeping processes taking a multi-agency approach and re-focusing the work of preventative services.

- The Adult Social Care service incurred additional costs of £0.6m as demand exceeded the levels assumed in the budget. Our improved assessment and targeted investment in supporting the well-being of clients has ensured the number of clients entering residential care provision continues to fall compared to previous years. Ongoing demographic pressures will be managed through an integrated care model with health partners where services are better designed around the client.

- An underspend of £1.6m was achieved on education, learning and skills services. This related to improved commissioning of adult and community learning and additional income from schools for catering services. Additional Government grant was also effectively applied to meet the cost of extending early education for two year olds from disadvantaged backgrounds.

- Specific grant funding associated with the transfer of public health responsibilities back to local government from 1st April 2013 was applied to deliver a range of services. These included services to deal with substance misuse, obesity, smoking, sexual health but also wider factors that impact upon health such as employment, housing and social isolation.

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, neighbourhood management, 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 underspend of £0.7m was incurred in relation to services covering waste collection and disposal, car parking, maintenance of parks and open spaces. This arose primarily due to the early commencement of the new waste management partnership which includes Gateshead and Sunderland Councils as well as reductions in the volumes of waste collected for disposal.

- 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 £1.8m.

- There was an overspend of £0.4m due in part to additional support provided to cultural facilities within the borough as well as legacy issues relating to school swimming provision. The new leisure facility, Haven Point located at the foreshore in South Shields opened in October 2013. Income from the facility was £0.1m better than budgeted due to increased visitor numbers.

- Additional income of £3.0m was received from Government relating to a number of grant schemes including the earlier than anticipated waste PFI grant. These included monies to offset the costs of changes to business rates and funding previously held back nationally by Government to meet potential costs of changes to the local government funding system.

- A technical accounting adjustment has meant that we are no longer required to create a redundancy provision at year end. This has resulted in a £1.5m improvement compared to budget.

- Additional provision of £1.0m was made during the year to meet anticipated costs relating to insurance claims. This was offset in part by receipt of £0.4m from the Council's insurers relating to prior year claims that had been settled.

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:

- A cost pressure of £0.5m within energy budgets. This included bills that were backdated to previous years.

- A cost pressure of £0.5m relating to street-lighting. This arose due to backdated pension costs and energy rebates.

- Savings of £0.5m in relation to economic growth 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 2013/14

The following table summarises capital investment of £81.8m during 2013/14 and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2013-18 MTFP, has been revised to reflect the full impact of known contractual commitments from 2012/13 and new funding approvals received in year. £18.6m of funding has been carried forward to support ongoing schemes in future years. Investment during 2013/14 continues the Council's commitment to apply available capital resources in a targeted manner to regenerate and transform the borough.

2013/14 Capital investment summary	**Revised budget £m**	**Actual outturn £m**	**Carry forward £m**	**(Underspend) / Overspend £m**
Children, Adults and Families Group	4.013	3.687	1.385	1.059
Business and Resources Group	18.928	16.988	5.081	3.141
Economic Regeneration Group	27.356	25.774	2.436	0.854
Public Sector Housing	46.059	35.301	9.700	(1.058)
Total capital investment	**96.356**	**81.750**	**18.602**	**3.996**

2013/14 Capital financing summary	**Actual £m**
Unsupported borrowing	(26.450)
Capital receipts	(11.669)
Funding from the General Fund	(0.050)
Funding from the major repairs reserve	(4.166)
Government grant and other contributions	(39.415)
Total capital funding	**(81.750)**

Section 1 – Explanatory Foreword by the Head of Finance

The capital investment highlights during the year were as follows:

Children, Adults and Families Group

- £1.2m has been invested on the estate during 2013/14. This expenditure covers provision of new ICT equipment, landscaping and remediation works. This completes the Council's £173m transformation of the school estate incorporating 14 new or remodeled schools.

- £1.8m was spent during the year on the implementation of a new computerised social care information system. The system is due to go-live in 2014/15 and will improve management of individual client data, support more mobile and flexible working and allow easier and better information to be extracted to support performance improvement.

Business and Resources Group

- Investment of £6.8m was made in a variety of infrastructure schemes ranging from road safety measures, resurfacing of highways, and improved footpaths throughout the borough. A further £1.1m has been carried forward to 2014/15 for completion of these schemes.

- Work was completed on Haven Point, the new leisure facility on South Shields foreshore, with estimated in-year costs of £5.1m. The final bill is currently in dispute with the main contractor. The facility was officially opened in October 2013 by HRH The Duke of Cambridge.

Economic Regeneration Group

- £4.7m was invested in creating a new promenade, new public art, improved access to the beach and strengthened sea defences at South Shields. The scheme was officially opened in April 2014.

- £3.9m was invested in Hebburn to begin the construction, in November 2013, of a new community hub. 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 is due for completion in late spring 2015.

- £6.8m has been spent on measures to remodel the Council's building estate so that it is fit for purpose, allows a reduction in the number of buildings maintained and promotes flexible working. This work is still in progress and will not be completed until 2015.

- £1m was spent during the year to complete a new health and well-being centre in South Shields. Managed by a voluntary sector partner of national repute, the facility opened in January 2014 and incorporates General Practitioner surgery, dentist practice, housing office and leisure facilities.

Public Sector Housing

- £35.3m has been invested in council housing during 2013/14. A further £9.7m has been carried forward to 2014/15. £27.7m has been spent on improving 3,207 homes to the decent homes standard. This included £7.9m additional funding secured from the Government to refurbish housing plus facilities which would better meet the needs of elderly and vulnerable residents.

- In addition to decent homes, £3.2m was spent on improvements to vacant properties to bring them back into occupation, £1.1m invested in adaptations to properties for tenants with special needs and £2.1m on new affordable homes at Simonside and Trinity South.

4. Significant Matters

Government Funding

Grant support from the Government has reduced by 25% in cash terms since 2010. The most recent Government funding settlement, covering 2014/15 and 2015/16, was announced in December 2013. This set out further reductions of 20% across these two years. The Council has therefore accelerated its programme of re-organising and changing the way in which services are delivered to shape the borough going forward and operate within these financial constraints.

The Council's financial planning framework incorporates a programme of cross-cutting work over a three year time horizon split across 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 £10.9m. This has been reduced by £1.5m in 2013/14 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.

Defined Benefit Obligation

As at 31st March 2014 the Council had a defined benefit obligation to the Tyne and Wear Pension Fund of £280.0m (£349.3m in 2012/13). If the Council ceased operations, this liability would have to be taken over by the successor body or ultimately funded by Central Government.

Section 1 – Explanatory Foreword by the Head of Finance

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. £1.4m was loaned out during 2013/14. 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 generated by STHVTL.

Transfer of Public Health Services

From 1st April 2013 local authorities became statutorily responsible for commissioning and collaborating on a range of public health services and for advising the commissioners of local NHS services. Last year these duties were performed by the NHS. Public health is about helping people to stay healthy, protecting them from threats to their health and covers such areas as obesity, smoking and sexual heath. By joining with local authorities, public health professionals can now directly influence local decision making in relation to environment, housing, economic development, regeneration, education and social care services, with the aim of improving life quality and quantity for residents of the borough. All of the spend on public health services was funded by a ringfenced Government grant.

5. Material Movements in Assets and Liabilities

The value of Council dwellings has decreased by £15.8m or 3.5% following a revaluation of properties. These dwellings are valued on the basis of their current occupancy and use and not on an open market value.

The value of other property, plant and equipment has increased by £10.9m or 2.3% following revaluations. The increase is mainly due to the Haven Point leisure facility becoming operational during the year.

The decrease in the defined benefit obligation of £69.3m or 19.8% compared to the previous year is primarily due to changes in various 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 2014 the Council held earmarked reserves of £32.0m (£25.8m as restated in 2012/13) of which £8.9m (£7.1m in 2012/13) 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 2014 the Council held £3.0m in this reserve (£3.0m in 2012/13).

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 increase the level of this reserve to £10.7m (£6.4m as restated in 2012/13).

As at 31st March 2014 the Council held £1.7m (£1.8m in 2012/13) 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 114 of these accounts.

The Group results revealed a deficit for the year of £30.4m (£86.6m as restated in 2012/13) incorporating a net deficit of £0.6m (£1.2m in 2012/13) from STHL. The net assets of the Group stood at £140.6 at 31st March 2014 (£58.0m as restated in 2012/13).

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 £3.1m (deficit of £1.5m as restated in 2012/13). Revenue reserves at 31st March 2014 stood at £13.2m (£10.1m in as restated 2012/13) 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 £14.1m (£13.7m in 2012/13). Revenue contributions provided funding of £4.8m (£4.4m in 2012/13), or 34% and the remaining 66% or £9.3m (£9.3m in 2012/13) was funded using PFI credits from Government.

10. Borrowing Facilities

The Council has established a set of prudential indicators and developed a measurement and reporting process that highlights any breaches of these indicators. There were no breaches during 2013/14. During the year, the Council increased its debt having taken out 5 loans totalling £25.0m (£35.0m in 2012/13) from the Public Works Loans Board. £21.8m of loans were repaid during the year (£5.0m in 2012/13).

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.

Section 1 – Explanatory Foreword by the Head of Finance

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 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 2014-2019 was approved by Council and published in March 2014. 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 21 to 163. They consist of the following statements that are required to be prepared under the Code of Practice:

- **Statement of Responsibilities for the Accounts** (page 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 Statement of Accounts.

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

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

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

- **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 103 to 109) 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 110 to 113) 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 114 to 130) 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 131 to 163) record the years 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

26th September 2014

Section 2 – Statement of Responsibilities for the Accounts

The Council's Responsibility

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 for the year ended 31st March 2014, set out in pages 21 to 163, gives a true and fair view of the financial position of South Tyneside Council and the Tyne and Wear Pension Fund at 31st March 2014, and their income and expenditure for the year ended 31st March 2014.

Signed: S Reid Date: 26th September 2014

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 2014.

Signed: Iain Malcolm Date: 26th September 2014

Councillor Iain Malcolm, Chair of General Purposes Committee

Section 3 – Independent Auditors' Report

Independent auditors' report to the Members of South Tyneside Council (the "Authority")

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group and of the Authority's affairs as at 31 March 2014 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 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by South Tyneside Council, comprise:

- the Group and Authority Balance Sheets as at 31 March 2014;
- 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 Statements of Cash Flows 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; and
- 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 2013/14 supported by the CIPFA Service Reporting Code of Practice 2013/14.

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.

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.

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

Opinion on 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.

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 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14.

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.

Report on the pension fund accounts

Our opinion

In our opinion the pension fund accounts, defined below:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014, and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; 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 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The pension fund accounts, contained within the Statement of Accounts of South Tyneside Council for the year ended 31 March 2014, comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended; and
- 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 2013/14.

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.

Section 3 – Independent Auditors' Report

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.

In addition, we read all the financial and non-financial information in the Statement of Accounts 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.

Responsibilities for the pension fund accounts 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 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 2013/14.

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.

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.

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 15 October 2013, 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 2014.

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 15 October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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.

Section 3 – Independent Auditors' Report

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

Greg Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
30 September 2014

Notes:

- 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	Capital grants unapplied	Total usable reserves	Unusable reserves	Total Council reserves
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April 2012 (as restated)		**(1.634)**	**(29.589)**	**(11.553)**	**(2.741)**	**(1.052)**	**(2.042)**	**(48.611)**	**(131.903)**	**(180.514)**
Movement in reserves during 2012/13										
Deficit on the provision of services (as restated)		50.051	-	35.346	-	-	-	85.397	-	85.397
Other comprehensive income and expenditure (as restated)		-	-	-	-	-	-	-	5.080	5.080
Total comprehensive income and expenditure (as restated)		**50.051**	**-**	**35.346**	**-**	**-**	**-**	**85.397**	**5.080**	**90.477**
Adjustments between accounting basis and funding basis under regulations	5	(45.481)	-	(33.894)	0.989	1.048	2.042	(75.296)	75.296	-
Net decrease before transfers to earmarked reserves (as restated)		**4.570**	**-**	**1.452**	**0.989**	**1.048**	**2.042**	**10.101**	**80.376**	**90.477**
Transfers (from) or to earmarked reserves	6	(3.763)	3.763	-	-	-	-	-	-	-
Decrease in 2012/13 (as restated)		**0.807**	**3.763**	**1.452**	**0.989**	**1.048**	**2.042**	**10.101**	**80.376**	**90.477**
Balance at 31st March 2013 carried forward (as restated)		**(0.827)**	**(25.826)**	**(10.101)**	**(1.752)**	**(0.004)**	**-**	**(38.510)**	**(51.527)**	**(90.037)**
Movement in reserves during 2013/14										
Deficit on the provision of services		22.572	-	5.761	-	-	-	28.333	-	28.333
Other comprehensive income and expenditure		-	-	-	-	-	-	-	(96.032)	(96.032)
Total comprehensive income and expenditure		**22.572**	**-**	**5.761**	**-**	**-**	**-**	**28.333**	**(96.032)**	**(67.699)**
Adjustments between accounting basis and funding basis under regulations	5	(29.112)	-	(8.816)	0.022	(12.289)	-	(50.195)	50.195	-
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	6	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)**

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.

2012/13 Gross expenditure (as restated)	2012/13 Gross income	2012/13 Net expenditure (as restated)		Note	2013/14 Gross expenditure	2013/14 Gross income	2013/14 Net expenditure
£m	£m	£m			£m	£m	£m
22.128	(18.749)	3.379	Central services to the public		3.323	(1.526)	1.797
17.610	(3.742)	13.868	Cultural and related services		27.426	(3.455)	23.971
19.196	(3.322)	15.874	Environmental services		18.275	(3.591)	14.684
11.547	(3.067)	8.480	Regulatory and Planning services		9.284	(4.862)	4.422
196.838	(127.611)	69.227	Education and children's services		177.125	(124.914)	52.211
14.342	(4.176)	10.166	Highways and transport services		14.699	(6.614)	8.085
100.583	(62.989)	37.594	Local authority housing (HRA)		86.734	(68.299)	18.435
76.869	(72.820)	4.049	Other housing services		75.478	(73.702)	1.776
77.185	(22.602)	54.583	Adult social care services		81.463	(25.401)	56.062
-	-	-	Public health services		13.653	(13.650)	0.003
6.487	(1.414)	5.073	Corporate and democratic core		2.819	(0.836)	1.983
2.790	(2.465)	0.325	Non-distributed costs		2.595	(2.217)	0.378
545.575	**(322.957)**	**222.618**	**Cost of services**		**512.874**	**(329.067)**	**183.807**
27.198	-	27.198	Other operating expenditure	8	12.040	-	12.040
43.822	(2.158)	41.664	Financing and investment income and expenditure	9	45.861	(2.955)	42.906
-	(206.083)	(206.083)	Taxation and non-specific grant income	10	-	(210.420)	(210.420)
616.595	**(531.198)**	**85.397**	**Deficit on the provision of services**		**570.775**	**(542.442)**	**28.333**
			Items that may be reclassified to the deficit on the provision of services				
		(8.368)	Surplus on the revaluation of available for sale investments				-
			Items that will not be reclassified to the deficit on the provision of services				
		(3.182)	Surplus on revaluation of property, plant and equipment				(13.093)
		-	Impairment losses on non-current assets charged to the revaluation reserve				0.081
		16.630	Remeasurements of the net defined benefit liability	44			(83.020)
		5.080	**Other comprehensive income and expenditure**				**(96.032)**
		90.477	**Total comprehensive income and expenditure**				**(67.699)**

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.

1st April 2012 (as restated) £m	31st March 2013 (as restated) £m		Note	31st March 2014 £m
		Non-current assets		
490.778	456.651	Council dwellings	11	440.848
511.912	478.168	Other property, plant and equipment	11	489.027
3.500	3.435	Heritage assets	12	3.751
3.100	2.933	Investment properties	13	2.300
1.807	1.348	Intangible assets	14	1.420
0.436	8.804	Long term investments	15	8.804
0.949	9.037	Long term debtors	15	10.298
1,012.482	**960.376**	**Total non-current assets**		**956.448**
		Current assets		
19.512	27.723	Short term investments	15	24.515
0.799	0.789	Inventories		0.778
25.515	30.711	Short term debtors	16	33.648
63.385	31.075	Cash and cash equivalents	17	38.392
2.716	2.154	Assets held for sale	18	2.605
-	27.548	Assets held for disposal	18	21.749
111.927	**120.000**	**Total current assets**		**121.687**
		Current liabilities		
(0.725)	(0.696)	Cash and cash equivalents - bank overdraft	17	-
(50.692)	(44.959)	Short term creditors	19	(45.410)
(12.110)	(29.410)	Short term borrowing	15	(29.786)
(1.137)	(1.785)	PFI liability due in less than 1 year	21	(1.567)
(5.806)	(2.915)	Capital grants receipts in advance	34	(1.751)
(1.681)	(1.399)	Short term provisions	20	(7.214)
(72.151)	**(81.164)**	**Total current liabilities**		**(85.728)**
39.776	**38.836**	**Total net current assets**		**35.959**
		Non-current liabilities		
(0.179)	(0.191)	Long term creditors	15	(0.196)
(14.172)	(12.023)	Long term provisions	20	(10.759)
(459.189)	(472.387)	Long term borrowing	15	(470.385)
(74.074)	(72.298)	Long term PFI liability	21	(70.732)
(320.420)	(349.260)	Liability related to defined benefit obligation	44	(280.000)
(3.710)	(3.016)	Other long term liabilities	15	(2.599)
(871.744)	**(909.175)**	**Total non-current liabilities**		**(834.671)**
180.514	**90.037**	**Total net assets**		**157.736**
		Reserves		
(48.611)	(38.510)	Usable reserves	22	(60.372)
(131.903)	(51.527)	Unusable reserves	23	(97.364)
(180.514)	**(90.037)**	**Total reserves**		**(157.736)**

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.

2012/13 (as restated) £m		**Note**	**2013/14 £m**
(85.397)	**Cash outflow from the provision of services**		**(28.333)**
221.997	Adjustment to the deficit on the provision of services for non-cash movements	24	165.784
(111.211)	Adjust for items included in the deficit on the provision of services that are investing and financing activities	24	(110.920)
25.389	**Net cash flow from operating activities**		**26.531**
(76.373)	Investing activities	25	(28.250)
18.703	Financing activities	26	9.732
(32.281)	**Net (decrease) or increase in cash and cash equivalents**		**8.013**
62.660	**Cash and cash equivalents at the start of the year**		**30.379**
30.379	**Cash and cash equivalents at the end of the year**		**38.392**

The notes to the core financial statements are presented on pages 25 to 102 and form part of the Statement of Accounts.

Section 4 – Notes to the Core Financial Statements

Note 1. Accounting Standards Adopted – Impact on Prior Years

Under changes to IAS 19 the Council only has to recognise employee liabilities for termination of employment at the point at which any offer cannot be withdrawn. Previously liabilities were recognised sooner in the accounts based on estimates of likely costs. The change has resulted in the restatement of amounts presented in the 2012/13 Comprehensive Income and Expenditure Statement and Balance Sheet Statement as shown in the following tables:

Opening 1st April 2012 Balance Sheet	**2012/13 Statements £m**	**Adjustments made £m**
Short term provisions	(3.181)	1.500
Usable reserves	(47.111)	(1.500)

31st March 2013 Balance Sheet	**2012/13 Statements £m**	**Adjustments made £m**
Short term provisions	(3.399)	2.000
Usable reserves	(36.510)	(2.000)

2012/13 Comprehensive Income and Expenditure Statement Cost of Services (net):	**2012/13 Statements £m**	**Adjustments made £m**
Local authority housing (HRA)	38.094	(0.500)

Also under IAS 19 the Council has applied new accounting treatment to the disclosure of its long term benefit obligation. The overall measurement of the liability has remained the same however the following adjustments have been made to the Comprehensive Income and Expenditure Statement:

2012/13 Comprehensive Income and Expenditure Statement Cost of Services (net):	**2012/13 Statements £m**	**Adjustments made £m**
Non-distributed costs	(0.385)	0.710
Financing and investment income and expenditure	31.864	9.800
Remeasurements of the net defined benefit liability	27.140	(10.510)

Note 2. Accounting Standards Issued, Not Adopted in 2013/14 Accounts

The International Accounting Standards Board issued amendments to IFRS 10, IFRS 12 and IAS 27 on 31st October 2012. These standards deal with reporting of related entities within the Group Account Statements published by the Council. IFRS 10 replaces some of IAS 27 requirements and introduces a new definition of control that requires a greater focus on which an investor has power over an investee's activities rather than simply relying on who has the majority of the voting rights.

Under the new definition an investor must possess **all** of the following elements to be deemed to control an investee:

- 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.

The Council has reviewed its group entities and other related parties and has concluded that the above changes will not impact on the current entities disclosed in the Group Accounts.

The changes to IFRS 12 introduce the requirement to disclose the relationship with any group entity consolidated under a single comprehensive note. In the main this will simply result in current disclosures in the Group Accounts being brought together in one place. However there are some new disclosures the most significant being that judgements and assumptions in determining whether the Council has control, joint control or significant influence over any related entities must be disclosed.

Note 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 45, 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, foundation or trust and academy. The Council would usually only recognise community schools on the Balance Sheet.

During 2013/14, St Joseph's voluntary aided school converted to academy status. As the Council does not legally own such schools there has been no loss on disposal charged to the Comprehensive Income and Expenditure Statement.

Two community schools have converted to trust status – Jarrow School on 1st April 2010 and Keelmans Way on 1st September 2012. The legal transfer of assets for these trusts will be completed in 2014/15. These two schools remain on the Balance Sheet at 31st March 2014 as assets held for disposal at a valuation of £21.730m (£24.526m in 2012/13). This will be recognised as a loss on disposal when the assets are transferred.

The table below details the number of schools in each category as at 31st March 2014:

	Nursery, Primary or Special	Secondary
Community	33	5
Voluntary Aided	15	1
Academy	3	2
Trust	2	1
	53	**9**

Section 4 – Notes to the Core Financial Statements

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. The accounting policies for PFI schemes and similar contracts have been applied to the arrangements and assets totalling £51.106m (£54.848m in 2012/13) are recognised as property, plant and equipment on the Council's Balance Sheet. Further information can be found in notes 11 and 21. A further £14.404m (£14.390m in 2012/13), in relation to Jarrow School, is held on the Balance Sheet as asset held for disposal as it is transferring to trust status in 2014/15.

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 will generate rental income and may result in capital appreciation, these were not the primary purposes of the project. The Council has reviewed the terms of the lease agreement and concluded that this is an operating lease. For this reason, the Council has accounted for this asset as property, plant and equipment on the Balance Sheet with a value at 31st March 2014 of £8.346m (£6.844m in 2012/13).

The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31st March 2014 of £29.086m (£28.135m in 2012/13). 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 on to the next stage. Following legal advice the Council will continue to challenge this claim however an adequate provision has been created in these accounts to protect against any losses arising.

Newcastle Airport Holding

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

Note 4. Assumptions made about the Future and Other Sources of Estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about 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 the assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are described on the following page.

Section 4 – Notes to the Core Financial Statements

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £2.535m (£1.614m in 2012/13) for every year that useful lives had to be reduced.

Provisions

The Council has made a provision of £9.630m (£10.940m in 2012/13) 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 over the forthcoming year of 10% in the number of claims would have the effect of adding £0.963m (£1.094m in 2012/13) 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 defined benefit obligation of changes in individual assumptions can be measured. The following table shows the impact of changes of four of the key assumptions; assuming all other factors remain the same:

Impact on present value of obligation liability	+0.1% per annum £m	Change	-0.1% per annum £m	Change
Adjustment to discount rate	(748.910)	-1.9%	(777.200)	1.9%
Adjustment to salary increase rate	(766.710)	0.5%	(759.180)	-0.5%
Adjustment to pension increase rate	(773.270)	1.3%	(752.800)	-1.4%
	- 1 Year		**+ 1 Year**	
Adjustment to mortality age rating assumption	(780.460)	2.3%	(745.300)	-2.3%

However the assumptions interact in complex ways. During 2013/14 the Council's actuaries advised that the net defined benefit obligation had decreased by £27.750m (£0.950m as restated in 2012/13) as a result of estimates being corrected for experience and decreased by £59.180m (increased by £50.120m as restated in 2012/13) due to updating of assumptions.

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 244 beacon properties to cover the whole borough. Property values are affected by a number of factors and a 1% movement on the assumed valuation would change the reported value of dwellings by £4.408m (£4.921m in 2012/13) and other land and buildings by £0.284m (£0.321m in 2012/13).

Section 4 – Notes to the Core Financial Statements

Note 5. 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.

2013/14	Usable reserves				
	General Fund balance	Housing revenue account	Capital receipts reserve	Major repairs reserve	Movement in unusable reserves
	£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	(15.562)	(37.004)	-	-	52.566
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:					
Statutory provision for the financing of capital investment	12.295	-	-	-	(12.295)
Capital expenditure charged against the General Fund 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 44)	(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	**(29.112)**	**(8.816)**	**0.022**	**(12.289)**	**50.195**

The equivalent figures for the previous year are as follows:

2012/13	Usable reserves					
	General fund balance	Housing revenue account	Capital receipts reserve	Major repairs reserve	Capital grants unapplied	Movement in unusable reserves
	£m	£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	(21.572)	(14.978)	-	-	-	36.550
Contribution towards the major repairs reserve	-	15.967	-	(15.967)	-	-
Revaluation losses on property, plant and equipment	(25.326)	(49.265)	-	-	-	74.591
Amortisation of intangible assets	(0.532)	-	-	-	-	0.532
Capital grants and contributions applied	12.404	21.902	-	-	-	(34.306)
Capital receipts not linked to non-current assets	0.253	-	(0.253)	-	-	-
Revenue expenditure funded from capital under statute	0.190	(0.464)	-	-	-	0.274
Accumulated loss on investment properties yet to be consumed	(0.167)	-	-	-	-	0.167
Amounts of current and non-current assets written off as part of the loss on disposal	(10.965)	(11.621)	-	-	-	22.586
Other movements	(0.002)	-	-	-	-	0.002
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	10.776	-	-	-	-	(10.776)
Capital expenditure charged against the HRA balances	-	0.028	-	-	-	(0.028)
Adjustments primarily involving the capital receipts reserve, the major repairs reserve and the capital grants unapplied reserve:						
Application of grants to capital financing transferred to the capital adjustment account	-	-	-	-	2.042	(2.042)
Transfer of cash sale proceeds credited as part of the loss on disposal	1.526	5.131	(6.657)	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	6.393	-	-	(6.393)
Contribution towards administrative costs of non-current asset disposals	(0.003)	(0.125)	0.128	-	-	-
Contribution towards the payments to the Government capital receipts pool	(1.388)	-	1.388	-	-	-
Transfer from deferred capital receipts reserve upon receipt of cash	(0.005)	-	(0.010)	-	-	0.015
Use of the major repairs reserve to finance new capital expenditure	-	-	-	17.015	-	(17.015)
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 44)	(32.335)	(0.016)	-	-	-	32.351
Employer's pensions contributions and direct payments to pensioners payable in the year	20.933	0.007	-	-	-	(20.940)
Other adjustments to unusable reserves						
Amount by which finance costs charged are different from finance costs chargeable in accordance with statutory requirements	0.043	(0.460)	-	-	-	0.417
Amount by which council tax is different from income in accordance with statutory requirements	0.351	-	-	-	-	(0.351)
Reverse revaluation of available for sale assets	-	-	-	-	-	-
Employee benefits accrued during the year	0.338	-	-	-	-	(0.338)
Total adjustments	**(45.481)**	**(33.894)**	**0.989**	**1.048**	**2.042**	**75.296**

Note 6. Transfers to or from Earmarked Reserves

This note details the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14. 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 1st April 2012 (as restated) £m	Transfers out 2012/13 (as restated) £m	Transfers in 2012/13 (as restated) £m	Balance at 31st March 2013 (as restated) £m	Transfers out 2013/14 £m	Transfers in 2013/14 £m	Balance at 31st March 2014 £m
General Fund:							
Strategic reserve	(3.021)	-	-	(3.021)	-	-	(3.021)
School balances	(8.065)	4.153	(3.167)	(7.079)	3.673	(5.479)	(8.885)
Insurance reserve	(3.702)	1.177	(0.063)	(2.588)	0.593	(0.273)	(2.268)
Risk capacity and structural change reserve	(6.376)	5.204	(5.194)	(6.366)	1.500	(5.829)	(10.695)
Other reserves	(8.425)	2.819	(1.166)	(6.772)	4.271	(4.639)	(7.140)
Total earmarked reserves	**(29.589)**	**13.353**	**(9.590)**	**(25.826)**	**10.037**	**(16.220)**	**(32.009)**

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 four schools (five in 2012/13) in a deficit position totalling £0.345m (£0.264m in 2012/13).

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 7. 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 26th September 2014. 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 2014.

On 21st April 2014 the Council commenced a PFI service with SITA UK Limited for the provision of a waste processing service using a new energy from waste facility located on Teesside. Gateshead Council is lead authority for this contract for the South Tyne and Wear Waste Management Partnership which also includes Sunderland City Council. The Council's share of the costs of this 25 year deal is £208.127m which will be offset by £45.977m of PFI grant income. Had this deal been in place at 31st March 2014 the Balance Sheet would be showing additional PFI assets of £53.176m (including a refurbished waste transfer station at the Middlefield's site at Tyne Dock) within other property, plant and equipment and an additional long term PFI liability of £49.406m.

On 19th May 2014 an adjudication panel met to discuss a potential claim against the Council by one of its contractors for unpaid fees due in respect of a capital contract. The panel ruled against the Council and allowed the contractor to proceed to the next stage in the dispute. An appropriate liability has been included in these accounts to meet any potential costs.

Developments have been made in relation to two of the four VAT cases included as contingent assets within these accounts.

- In April 2014 the Upper VAT Tribunal met to discuss the car parking VAT case. Arguments were put forward by both sides at the conclusion of which the Court remained undecided and reserved judgment. The case continues and as there has been no definitive ruling no potential asset has been recorded in the Balance Sheet.

- In April 2014 HMRC issued an offer to settle all outstanding claims in respect of the reclassification of trade waste. This offer was for 20% of the total claim which for the Council would result in a receipt of £0.072m. At present the consultants advising the Council are considering whether to recommend the acceptance of this offer or to continue with litigation where receipts could be higher. Due to the continuing uncertainty no potential asset has been recorded in the Balance Sheet.

Note 8. Other Operating Expenditure

Other operating expenditure is made up of the following items:

2012/13 £m		2013/14 £m
9.753	Levies	9.262
1.388	Payments to the Government housing capital receipts pool	1.689
16.057	Loss on the disposal of current and non-current assets	1.089
27.198	**Total other operating expenditure**	**12.040**

Note 9. Financing and Investment Income and Expenditure

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

2012/13 (as restated) £m		2013/14 £m
29.352	Interest payable and similar charges	30.398
14.470	Interest expense of defined benefit obligation and interest income on assets	14.830
(1.177)	Interest receivable and similar income	(1.366)
(0.578)	Surplus on trading undertakings	(0.967)
(0.005)	Dividends receivable	(0.249)
(0.053)	Income and expenditure in relation to investment properties and changes in their fair value	0.402
(0.345)	Other investment income	(0.142)
41.664	**Total financing and investment income and expenditure**	**42.906**

Section 4 – Notes to the Core Financial Statements

Note 10. Taxation and Non-specific Grant Income

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

2012/13 £m		2013/14 £m
(58.573)	Council tax income	(44.867)
(83.030)	Non-domestic rates (grant and retained income)	(43.652)
(31.625)	Unringfenced Government revenue grants	(84.060)
(32.855)	Capital grants and contributions	(37.841)
(206.083)	**Total taxation and non-specific grant income**	**(210.420)**

Note 11. Property, Plant and Equipment

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

2013/14	Council dwellings	Other buildings	Other land	Vehicles, plant and equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total property, plant and equipment	PFI assets included in property, plant and equipment
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 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	(4.292)	(4.772)	(0.403)	-	(0.030)	-	1.176	-	(8.321)	(9.590)
Revaluation to Comprehensive Income and Expenditure Statement	(29.736)	(16.742)	(2.302)	-	(0.383)	-	(0.538)	-	(49.701)	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**

Other land and buildings reported last year are now reported as separate asset categories in this table. This is to clarify the value of land that is not subject to any depreciation charges. Other land and buildings at 31st March 2014 includes £2.235m in respect of leased assets (£2.278m in 2012/13).

The equivalent movements for the previous year are as follows:

2012/13	**Council dwellings**	**Other land and buildings**	**Vehicles, plant and equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total property, plant and equipment**	**PFI assets included in property, plant and equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2012	521.897	392.832	53.931	114.063	5.809	4.587	33.450	1,126.569	81.279
Additions	33.877	34.697	2.835	5.252	0.028	0.885	12.431	90.005	0.024
Revaluation to revaluation reserve	(11.840)	(3.585)	-	-	-	0.008	-	(15.417)	-
Revaluation to Comprehensive Income and Expenditure Statement	(42.541)	(31.597)	-	-	-	(0.022)	-	(74.160)	-
Sales	(2.743)	(2.221)	(0.205)	-	-	-	-	(5.169)	-
Other derecognition	(6.351)	(8.094)	(2.969)	-	-	(1.189)	-	(18.603)	-
Reclassification of assets	(0.155)	(12.136)	-	0.105	0.057	2.828	(26.073)	(35.374)	(19.556)
At 31st March 2013	**492.144**	**369.896**	**53.592**	**119.420**	**5.894**	**7.097**	**19.808**	**1,067.851**	**61.747**
Depreciation and Impairments									
At 1st April 2012	(31.119)	(37.512)	(34.580)	(19.609)	(1.057)	(0.002)	-	(123.879)	(10.786)
Depreciation to Comprehensive Income and Expenditure Statement	(13.740)	(10.826)	(6.093)	(2.616)	(0.279)	(0.043)	-	(33.597)	(1.280)
Depreciation and impairment met from revaluation reserve	9.374	9.224	-	-	-	-	-	18.598	-
Impairment to Comprehensive Income and Expenditure Statement	(0.248)	(3.034)	-	(0.033)	-	-	-	(3.315)	-
Sales	0.083	0.951	0.171	-	-	-	-	1.205	-
Other derecognition	0.145	-	2.289	-	-	-	-	2.434	-
Reclassification of assets	0.012	5.510	-	-	-	-	-	5.522	5.167
At 31st March 2013	**(35.493)**	**(35.687)**	**(38.213)**	**(22.258)**	**(1.336)**	**(0.045)**	**-**	**(133.032)**	**(6.899)**
Balance Sheet amount at 31st March 2012	**490.778**	**355.320**	**19.351**	**94.454**	**4.752**	**4.585**	**33.450**	**1,002.690**	**70.493**
Balance Sheet amount at 31st March 2013	**456.651**	**334.209**	**15.379**	**97.162**	**4.558**	**7.052**	**19.808**	**934.819**	**54.848**

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 2013 unless significant spending in year has taken place in which case the valuation date is 31st March 2014. Where appropriate, valuations reflect accumulated depreciation. The Council only recognises components following either a revaluation of the property or significant expenditure on the component.

In previous years the internal components of Council dwellings were created using cost estimates which were dependent on the number of bedrooms each property had. In 2013/14 this method has changed and a weighted average of £9,300 used for all properties representing the minimum amount now recognised for a dwelling component. The maximum amount for a component has been calculated at £18,600. Any existing component value outside of these ranges has been transferred to the structure, the net effect being £15.285m moving from components to structure. This has resulted in a reduction in the depreciation charge for the year of £0.489m.

Further details of the Council's depreciation and componentisation policy can be found in note 45 accounting policies.

Section 4 – Notes to the Core Financial Statements

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	0.411	3.876	140.128	1.757	146.172
Valued at current value in:					
2013/14	269.549	62.537	-	2.328	334.414
2012/13	25.147	91.604	-	0.215	116.966
2011/12	144.740	114.464	-	0.959	260.163
2010/11	0.964	28.260	-	0.034	29.258
2009/10 or prior	0.037	42.356	-	0.509	42.902
Total cost or valuation	**440.848**	**343.097**	**140.128**	**5.802**	**929.875**

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

	31st March 2013	31st March 2014		31st March 2013	31st March 2014
Council dwellings	16,684	16,479	Youth and community centres	27	27
Sheltered housing units	1,253	1,267	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	13	10
Leisure centres and swimming pools	2	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	14	15	Markets	1	1
Crematorium and cemeteries	7	7	Industrial estates	11	14
Libraries	8	8	Managed workshops	3	3
Schools	38	38	Shops	193	191

The following key movements took place during the year:

- 143 dwellings were sold through right to buy, 30 were demolished, 15 were reclassified as sheltered units and a net 17 properties were converted for non dwelling use.

- Three day centres have been demolished as part of the Council’s regeneration programme.

- Three industrial estates were added following assets transferred as part of the winding up of the Tyne and Wear Economic Development Company Limited.

- A new park was created following the completion of work at Harton Quay.

Section 4 – Notes to the Core Financial Statements

Capital Commitments

As at 31st March 2014 the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment, in 2013/14 and future years, budgeted to cost £17.666m (£15.220m in 2012/13). Details of commitments over £0.500m under capital contracts as at 31st March 2014 are as follows:

Capital scheme		Net commitment at 31st March 2014 £m	Period of commitment Years
Waste transfer station	Modernised waste transfer station	3.770	1
South Shields Town Hall refit	Office modernisation	3.911	1
Hebburn Hub	New service centre and community facility	9.985	1
Total		**17.666**	

Note 12. Heritage Assets

The following table shows the breakdown of heritage assets:

2012/13 £m		2013/14 £m
	Opening balances	
3.666	Gross book value	3.675
(0.166)	Accumulated depreciation	(0.240)
3.500	**Net book value at start of year**	**3.435**
0.009	Additions	0.151
-	Revaluation to revaluation reserve	0.209
-	Depreciation written out on revaluation	0.034
(0.074)	Depreciation charges in year	(0.078)
3.435	**Net book value at end of the year**	**3.751**
	Comprising	
3.675	Gross book value	4.035
(0.240)	Accumulated depreciation	(0.284)
3.435	**Net book value at end of the year**	**3.751**

The Council currently holds over 1,400 pieces of artwork, of which 13 oil paintings and watercolours have valuations exceeding the deminimis 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 £0.490m (£0.490m in 2012/13).

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 13. 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 following table:

	2012/13	**2013/14**
	£m	**£m**
Rental income from investment property	(0.220)	(0.231)
Loss arising from fair value adjustment	0.167	0.633
Total investment (income) or expense	**(0.053)**	**0.402**

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 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 (£2.933m in 2012/13) representing a net loss of £0.633m (£0.167m in 2012/13).

Note 14. Intangible Assets

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

Section 4 – Notes to the Core Financial Statements

2012/13 Software £m		2013/14 Software £m	2013/14 Assets under construction £m	2013/14 Total £m
	Balance at start of year:			
5.401	Gross book value	5.511	-	5.511
(3.594)	Accumulated amortisation	(4.163)	-	(4.163)
1.807	**Net book value at start of year**	**1.348**	**-**	**1.348**
0.110	Additions	0.040	0.587	0.627
-	Disposals	(0.025)	-	(0.025)
(0.569)	Amortisation for the period	(0.555)	-	(0.555)
-	Amortisation written out on disposal	0.025	-	0.025
1.348	**Net book value at end of year**	**0.833**	**0.587**	**1.420**
	Comprising:			
5.511	Gross book value	5.526	0.587	6.113
(4.163)	Accumulated amortisation	(4.693)	-	(4.693)
1.348	**Net book value at end of year**	**0.833**	**0.587**	**1.420**

Note 15. 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 45 accounting policies.

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

	Long term		Current	
	31st March 2013 (as restated) £m	31st March 2014 £m	31st March 2013 (as restated) £m	31st March 2014 £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	0.010	-	-
Total available-for-sale financial assets	**8.804**	**8.804**	**-**	**-**
Loans and receivables				
Deposits with banks and other financial institutions	-	-	27.723	24.515
Long and short term debtors	9.037	10.298	17.927	16.798
Total loans and receivables	**9.037**	**10.298**	**45.650**	**41.313**
Financial liabilities at amortised cost				
Long and short term borrowing	(472.387)	(470.385)	(29.410)	(29.786)
Long and short term creditors	-	-	(27.665)	(28.876)
PFI liabilities	(72.298)	(70.732)	(1.785)	(1.567)
Finance lease liabilities	(2.153)	(2.104)	(0.044)	(0.049)
Total financial liabilities at amortised cost	**(546.838)**	**(543.221)**	**(58.904)**	**(60.278)**

Section 4 – Notes to the Core Financial Statements

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 2013/14 the valuation has remained unchanged.

Through its shares in NALAHCL the Council has an effective shareholding of 5.16% in NIAL and the group companies of NIAL Group Limited and NIAL Holdings Limited. The principal activity of NIAL (registered number 2077766) is the provision of landing services for both commercial and freight operators. A dividend of £0.232m was received for the year ended 31st December 2013 (nil for the year ended 31st December 2012).

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.

NIAL Group Limited made a loss before tax of £11.134m and a loss after tax of £3.615m for the year ended 31st December 2013. In the previous year, the Group made a loss before tax of £3.296m (as restated) and a profit after tax of £0.782m (as restated).

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.

Section 4 – Notes to the Core Financial Statements

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.

The Council received £0.019m (£0.005m in 2012/13) 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 16 to these accounts.

Financial Liabilities at Amortised Cost

Long and Short Term Borrowing

An analysis of borrowing by maturity is as follows:

31st March 2013 £m	Percentage range of interest rate payable %	Loans outstanding	31st March 2014 £m
(491.323)	1.460 - 9.375	Public Works Loans Board (PWLB)	(489.846)
(10.474)	4.40 - 9.50	Market debt	(10.325)
(501.797)		**Total**	**(500.171)**
(29.410)		Less than 1 year	(29.786)
(17.000)		Between 1 and 2 years	(20.000)
(65.000)		Between 2 and 5 years	(51.000)
(98.328)		Between 5 and 10 years	(92.328)
(292.059)		More than 10 years	(307.057)
(501.797)		**Total**	**(500.171)**

The current borrowings include accrued interest as at 31st March 2014 of £2.786m (£7.610m in 2012/13).

Market debt comprises of Lending Option Borrowing Option (LOBO) loans of which £5m will be subject to a review of interest in 2014/15. As current interest rates are below the existing rates on these loans, the lender is unlikely to seek to revise the rates, in which case the option to pay off the loan early will not arise. Therefore all of the LOBO loans have been shown in the maturity analysis as being held to full maturity.

Long and Short Term Creditors

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 19 to these accounts.

Section 4 – Notes to the Core Financial Statements

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:

	2012/13			2013/14		
	Financial liabilities measured at amortised cost (as restated)	Loans and receivables (as restated)	Total (as restated)	Financial liabilities measured at amortised cost	Loans and receivables	Total
	£m	£m	£m	£m	£m	£m
Expenses						
Impairment losses	-	0.043	0.043	-	1.143	1.143
Interest expense	29.352	-	29.352	30.398	-	30.398
Income						
Interest income (as restated)	-	(1.177)	(1.177)	-	(1.366)	(1.366)
Net loss or (profit) for the year	**29.352**	**(1.134)**	**28.218**	**30.398**	**(0.223)**	**30.175**

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 2013		31st March 2014	
	Carrying value	Fair value (as restated)	Carrying value	Fair value
	£m	£m	£m	£m
PWLB	(491.323)	(525.553)	(489.846)	(496.451)
Market debt (LOBOs)	(10.474)	(12.546)	(10.325)	(12.085)
Financial liabilities	**(501.797)**	**(538.099)**	**(500.171)**	**(508.536)**

The fair value of liabilities as at 31st March 2014 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 narrowed from the previous year as more higher interest rate loans reach maturity.

The fair value of deposits with banks and other financial institutions is £24.551m compared to a carrying value of £24.515m (£28.281m and £27.723m respectively in 2012/13). 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 2014/15.

Section 4 – Notes to the Core Financial Statements

Note 16. Short Term Debtors

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

31st March 2013 £m		31st March 2014 £m
	Amounts falling due in one year	
9.856	Central Government bodies	9.097
0.715	Other local authorities	1.794
0.765	NHS bodies	1.203
3.022	Housing tenants	3.838
5.895	Council tax payers	7.134
0.014	Non domestic ratepayers	0.587
1.720	South Tyneside Homes Limited	3.087
1.344	Tyne and Wear Pension Fund	0.966
14.328	Other debtors	13.861
37.659	**Total amounts falling due in one year**	**41.567**
	Allowances for bad debts	
(2.144)	Housing tenants	(2.241)
(2.595)	Council tax payers	(3.087)
(0.015)	Non domestic ratepayers	(0.290)
(0.029)	NHS bodies	-
(2.165)	Other debtors	(2.301)
(6.948)	**Total bad debt allowances**	**(7.919)**
30.711	**Net debtors**	**33.648**

31st March 2013 £m		31st March 2014 £m
	Amounts written off during the year	
0.404	Housing rents (excluding write ons)	0.593
0.212	Council tax (excluding write ons)	0.153
-	Non-domestic rates	0.125
0.870	Other debtors (net of VAT recovered)	0.390
1.486	**Total amounts written off during the year**	**1.261**

The total non-domestic rate write off for the year was £0.253m with the balance being met proportionately by the Government and preceptors as defined by the rates retention scheme. Last year the write off of £0.544m was met in full by the Government.

Section 4 – Notes to the Core Financial Statements

Note 17. Cash and Cash Equivalents

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

31st March 2013 £m		31st March 2014 £m
0.083	Cash held by the Council	0.067
18.991	Bank current accounts	5.208
12.001	Short term deposits with financial institutions	33.117
31.075	**Cash and cash equivalent assets**	**38.392**
(0.696)	Bank overdraft facility	-
(0.696)	**Cash and cash equivalent liabilities**	**-**
30.379	**Total cash and cash equivalents**	**38.392**

The short term deposits with financial institutions is made up of £15.000m lent out, for less than 91 days, to banks and building societies (£2.500m in 2012/13) and £18.117m money market funds (£9.501m in 2012/13).

In March 2014 the Council's bank revised the interest rate paid on investment balances. This reduced the attractiveness of these accounts and led to the Council making increased use of money market funds and short term deposits with other banks and less use of accounts operated by the Council's own bank.

Note 18. 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:

2012/13			2013/14	
Held for sale £m	Held for disposal £m		Held for sale £m	Held for disposal £m
2.716	**-**	**Balance outstanding at start of year**	**2.154**	**27.548**
2.304	27.548	Assets transferred from or (to) property, plant and equipment	2.588	(2.934)
0.017	-	Additions	-	-
(0.431)	-	Revaluation losses	-	(2.865)
(2.452)	-	Assets sold	(2.137)	-
2.154	**27.548**	**Balance outstanding at end of year**	**2.605**	**21.749**

Section 4 – Notes to the Core Financial Statements

Note 19. Short Term Creditors

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

31st March 2013 £m		31st March 2014 £m
(5.516)	Central Government bodies	(5.404)
(0.704)	Other local authorities	(0.554)
(0.810)	NHS bodies	(1.619)
(0.629)	Housing tenants	(0.821)
(1.059)	Council tax payers	(1.179)
(5.208)	South Tyneside Homes Limited	(6.354)
(4.119)	Council employees	(3.397)
(3.350)	Tyne and Wear Pension Fund	(2.964)
(23.564)	All other creditors	(23.118)
(44.959)	**Total creditors**	**(45.410)**

Note 20. 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 2012 (as restated)	(13.830)	(1.673)	(0.350)	(15.853)
Additional provisions (as restated)	-	(1.364)	(1.966)	(3.330)
Amounts used	0.576	1.021	1.850	3.447
Unused amounts reversed	2.314	-	-	2.314
Balance at 1st April 2013 (as restated)	**(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 31st March 2014	**(9.630)**	**(2.004)**	**(6.339)**	**(17.973)**
Short term provisions	-	(1.017)	(6.197)	(7.214)
Long term provisions	(9.630)	(0.987)	(0.142)	(10.759)
Balance at 31st March 2014	**(9.630)**	**(2.004)**	**(6.339)**	**(17.973)**

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 claims and to self-fund against losses where this is more economical than procuring from the market. Based on past history the Council expects £1.017m of claims to be settled in 2014/15, £0.493m to be settled in 2015/16 and £0.494m to be settled in future years.

A new 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. Based on past history the Council expects £0.192m of claims to be settled in 2014/15, £0.112m to be settled in 2015/16 and £0.030m to be settled in future years.

The other provisions primarily relate to a legal challenge in respect of a contractor dispute and an unpaid energy liability under the carbon reduction scheme. These provisions are expected to be paid in 2014/15.

Note 21. PFI and Other Long Term Contracts

The Council has four operational PFI schemes. Under these agreements, the Council pays an annual sum to the operator, known as a unitary charge, and receives PFI grant to partially offset these costs. With the exception of Jarrow School 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 £11.970m (£14.859m in 2012/13).

In 2013/14 unitary charge payments of £2.584m (£2.550m in 2012/13) had been paid out. An additional £0.048m (£0.059m in 2012/13) was also paid in respect of free school meals and £0.148m (£0.217m in 2012/13) in respect of utilities. £1.502m (£1.502m in 2012/13) was recovered through PFI credits. Unitary charge payments over the whole life of the contract (excluding school meals and utilities) are expected to total £68.142m 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 £22.163m (£22.572m in 2012/13).

In 2013/14 unitary charge payments of £4.319m (£4.016m in 2012/13) had been paid out whilst £2.535m (£2.535m in 2012/13) was recovered through PFI grant. Over the lifetime of the contract the unitary charge is expected to total £105.720m of 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 new 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 2014 is £14.404m (£14.390m in 2012/13). The assets have been reclassified as assets held for sale or disposal because the Council is in the process of legally transferring them to the Jarrow School Trust which was created on 26th March 2010.

In 2013/14 unitary charge payments of £3.286m (£3.247m in 2012/13) were made, with £2.535m (£2.535m in 2012/13) received through PFI grant. An additional £0.117m (£0.114m in 2012/13) 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 £90.178m 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 new 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 2014 is £16.974m (£17.417m in 2012/13).

In 2013/14 unitary charge payments of £3.961m (£3.916m in 2012/13) were made, with £2.750m (£2.750m in 2012/13) received through PFI grant. An additional £0.243m (£0.321m in 2012/13) 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 £110.468m with £68.756m funded from PFI grant. The actual level of payments will depend on inflation rates and satisfactory contract performance by the operator.

Section 4 – Notes to the Core Financial Statements

Long Term PFI Contract Payments

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

2012/13 £m		2013/14 £m
(75.211)	Opening balance	(74.083)
(7.025)	Interest and contingent rents	(7.192)
8.153	Repayments	8.976
(74.083)	**Closing balance**	**(72.299)**
(1.785)	Short term liability	(1.567)
(72.298)	Long term liability	(70.732)
(74.083)	**Closing balance**	**(72.299)**

The estimated outstanding unitary charge payments for all long-term PFI contracts in operation at 31st March 2014 are analysed in the following table:

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
2 to 5 years	7.888	25.806	1.014	23.157	57.865
6 to 10 years	15.220	27.361	2.155	31.482	76.218
10 to 15 years	20.831	19.556	2.368	38.308	81.063
16 to 20 years	20.222	8.875	0.275	32.605	61.977
21 or more years	6.571	1.051	0.327	6.555	14.504
Total	**72.299**	**89.494**	**6.339**	**137.564**	**305.696**

This table sets out the future unitary charge payments expected to be paid in relation to the four operational PFI schemes. The expected payments are split into their constituent parts based on the operators' financial models, which predict the future charges on the scheme.

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

2012/13	Repayment of liability £m	Interest charge £m	Contingent rents £m	Service charges £m	Total £m
Amounts due:					
Within one year	1.785	7.000	(0.018)	5.127	13.894
2 to 5 years	7.473	26.459	0.069	23.056	57.057
6 to 10 years	13.429	28.610	0.323	32.526	74.888
10 to 15 years	19.351	21.346	0.451	38.093	79.241
16 to 20 years	21.922	10.989	(0.719)	36.903	69.095
21 or more years	10.123	2.090	0.387	10.898	23.498
Total	**74.083**	**96.494**	**0.493**	**146.603**	**317.673**

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.

Section 4 – Notes to the Core Financial Statements

On the same date, the Partnership, led by Gateshead Council, signed a £726.617m PFI contract with a consortium led by SITA UK Limited. 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. South Tyneside Council is expected to utilise approximately 18% of the total capacity of the facility each year, resulting in estimated unitary charge payments of £208.126m over the duration of the contract including indexation. This will be offset by £77.831m of external income and £45.997m of PFI grant over the life of the contract.

The contract is focussed on the development of an 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.

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 will become payable from the 2014/15 financial year and is based upon the volumes of waste provided by each authority. The PFI credits became receivable on 1st July 2013, when the facility at Teeside started to burn waste, and the Council received £1.278m during 2013/14 (nil in 2012/13).

BT South Tyneside Limited (BTSTL)

During 2008/09 the Council entered into a strategic partnership arrangement with British Telecom, creating BTSTL. The strategic partner delivers a range of back-office services to the Council, including finance, payroll, personnel, ICT and procurement. The Partnership became operational on 1st October 2008 and the contract runs for 10 years. Unitary charge payments of £13.089m were paid in 2013/14 (£13.385m in 2012/13) and the total cost of the contract over 10 years is expected to be £123.384m.

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.

2012/13 £m		**2013/14 £m**
	Amounts due:	
12.794	Within one year	11.947
54.455	Within 2 to 5 years	39.572
7.237	Over 5 years	-
74.486	**Total**	**51.519**

In addition to the unitary charge the Council has signed a contract with BTSTL during the year which will see approximately £7.000m of decent homes capital spending being procured from BTSTL starting in 2014/15 and lasting until the end of the strategic partnership contract. The Council expects to pay out £35.000m in relation to this agreement over the next 5 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 5 years in 2010. There is an estimated value of £3.300m remaining on this contract.

Section 4 – Notes to the Core Financial Statements

Note 22. 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 2013 (as restated) £m		31st March 2014 £m
(0.827)	General Fund balance	(1.184)
(25.826)	Earmarked reserves	(32.009)
(10.101)	Housing revenue account balance	(13.156)
(1.752)	Useable capital receipts balance	(1.730)
(0.004)	Housing major repairs reserve	(12.293)
(38.510)	**Total useable reserves**	**(60.372)**

Note 23. Unusable Reserves

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

31st March 2013 £m		31st March 2014 £m
(120.465)	Revaluation reserve	(127.806)
(276.861)	Capital adjustment account	(245.233)
351.593	Pensions reserve	281.638
(8.794)	Available-for-sale financial instruments reserve	(8.794)
3.852	Employee benefits adjustment account	3.450
(0.229)	Financial instruments adjustment account	(0.176)
(0.571)	Collection Fund adjustment account	(0.437)
(0.052)	Deferred capital receipts reserve	(0.006)
(51.527)	**Total unusable reserves**	**(97.364)**

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.

2012/13 £m	Revaluation reserve	2013/14 £m
(124.898)	**Balance as at 1st April**	**(120.465)**
(15.927)	Upward revaluation of non-current assets	(31.358)
12.745	Valuation impairment charged to reserve	18.346
4.697	Accumulated gains on assets sold or scrapped	2.576
2.918	Other amounts written off to the capital adjustment account	3.095
(120.465)	**Balance as at 31st March**	**(127.806)**

Section 4 – Notes to the Core Financial Statements

Capital Adjustment Account

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

Note 5 provides details of the source of all the transactions posted to the account with the exception of those involving the revaluation reserve.

2012/13 £m	Capital adjustment account	2013/14 £m
(333.388)	**Balance as at 1st April**	**(276.861)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
36.550	Charges for depreciation and impairment of non-current assets	35.658
74.591	Revaluation losses on property, plant and equipment	52.566
0.532	Amortisation of intangible assets	0.518
0.274	Revenue expenditure funded from capital under statute	1.254
22.586	Amounts of current and non-current assets written off on disposal or sale as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	14.261
0.002	Other movements	0.004
0.167	Accumulated gains on investment properties yet to be consumed	0.633
(7.615)	Adjusting amounts written out of the revaluation reserve	(5.671)
127.087	**Net written out amount of the cost of non-current assets consumed in the year**	**99.223**
	Capital financing applied in the year	
(6.393)	Use of the capital receipts reserve to finance new capital expenditure	(11.669)
(17.015)	Use of the major repairs reserve to finance new capital expenditure	(4.166)
(34.306)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(39.415)
(2.042)	Application of grants to capital financing from the capital grants unapplied account	-
(10.776)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(12.295)
(0.028)	Capital expenditure charged against the General Fund and HRA balances	(0.050)
(70.560)	**Total capital financing applied**	**(67.595)**
(276.861)	**Balance as at 31st March**	**(245.233)**

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.

2012/13 (as restated) £m	Pensions reserve	2013/14 £m
323.552	**Balance as at 1st April**	**351.593**
16.630	Actuarial losses or (gains) on pensions assets and defined benefit obligation	(83.020)
32.351	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	33.465
(20.940)	Employers pension contributions and direct payments to pensioners payable in year	(20.400)
351.593	**Balance as at 31st March**	**281.638**

Note 24. Operating Activities

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

2012/13 £m		2013/14 £m
36.550	Depreciation and impairment	35.658
74.591	Revaluation losses of property, plant and equipment	52.566
0.532	Amortisation of intangibles	0.518
0.167	Revaluation of investment properties	0.633
3.717	Increase or (decrease) in creditors	(5.660)
4.459	Decrease or (increase) in debtors	(7.066)
(0.805)	(Increase) or decrease in impairment provision for bad debts	0.971
0.010	Decrease in inventories	0.011
12.210	Movement in defined benefit obligation	13.760
92.586	Carrying amount of current and non-current assets sold or demolished	72.261
(2.020)	Other non-cash items charged to the deficit on the provision of services	2.132
221.997	**Adjustment to the deficit on the provision of services for non-cash movements**	**165.784**

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

2012/13 £m		2013/14 £m
(70.000)	Proceeds from short term and long term investments	(58.000)
(6.905)	Proceeds from sale of property, plant and equipment	(13.505)
(34.306)	Capital grants credited to the deficit on the provision of services	(39.415)
(111.211)	**Adjust for items included in the deficit on the provision of services that are investing and financing activities**	**(110.920)**

The cash flows for operating activities include the following items:

2012/13 £m		2013/14 £m
1.407	Interest received	2.285
(28.901)	Interest paid	(35.225)

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Note 25. Investing Activities

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

2012/13 £m		2013/14 £m
(96.120)	Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal	(77.884)
(78.000)	Purchase of short term and long term investments	(55.000)
7.160	Proceeds from the sale of property, plant and equipment and assets held for sale	13.506
70.000	Proceeds from short-term and long-term investments	58.000
20.587	Other receipts from investing activities	33.128
(76.373)	**Net cash flows from investing activities**	**(28.250)**

Note 26. Financing Activities

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

2012/13 £m		2013/14 £m
35.000	Cash receipts of short and long term borrowing	25.000
(1.171)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(1.828)
(5.000)	Repayments of short term borrowing	(21.800)
(10.126)	Other (payments) or receipts for financing activities	8.360
18.703	**Net cash flows from financing activities**	**9.732**

Note 27. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the 2013/14 Service Reporting Code of Practice (*SeRCOP*). However decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across service Groups. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

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

- No adjustment is made for the actual level of pension costs required by the Code and those assumed as part of the original budget setting process.

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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 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**

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.

	2013/14
	£m
Net expenditure in the Group analysis	152.101
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	70.412
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	**183.807**

Reconciliation to Subjective Analysis

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

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2013/14	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	(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	37.065	(0.056)	**37.065**	-	**37.065**
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**
Statutory 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**	**94.281**	**(46.122)**	**512.874**	**57.901**	**570.775**
Deficit on the provision of services	**152.101**	**70.412**	**(38.706)**	**183.807**	**(155.474)**	**28.333**

The equivalent tables for the previous year are as follows:

Income and expenditure 2012/13 outturn	Business and Resources Group	Strategy and Performance	Children, Adult and Families Group	Economic Regeneration Group	Total
	(as restated)				(as restated)
	£m	£m	£m	£m	£m
Income	**(141.261)**	**(0.416)**	**(161.414)**	**(11.360)**	**(314.451)**
Employee expenses	38.806	1.456	111.504	9.466	161.232
Third party payments	10.676	0.082	64.871	0.193	75.822
Premises costs	10.467	-	11.120	4.865	26.452
Transport costs	2.929	0.003	2.121	0.061	5.114
Supplies and services	35.597	0.228	46.680	6.709	89.214
Client payments	87.552	-	(0.911)	0.005	86.646
Support services	0.061	-	5.838	0.899	6.798
Capital charges	19.969	-	0.487	-	20.456
Total expenditure	**206.057**	**1.769**	**241.710**	**22.198**	**471.734**
Net expenditure	**64.796**	**1.353**	**80.296**	**10.838**	**157.283**

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	2012/13 (as restated) £m
Net expenditure in the Group analysis	157.283
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	101.839
Amounts included in the analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement	(36.504)
Cost of services in Comprehensive Income and Expenditure Statement	**222.618**

2012/13	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
	(as restated)	(as restated)		(as restated)	(as restated)	(as restated)
	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(313.406)	47.386	6.052	**(259.968)**	-	**(259.968)**
Housing revenue account income	-	(62.989)	-	**(62.989)**	-	**(62.989)**
Surplus on trading undertakings	-	-	-	-	(0.578)	**(0.578)**
Interest and investment income	(1.045)		1.045	-	(1.580)	**(1.580)**
Income from council tax	-	-	-	-	(58.573)	**(58.573)**
Non-domestic rates redistribution	-	-	-	-	(83.030)	**(83.030)**
Grants and contributions	-	-	-	-	(64.480)	**(64.480)**
Total income	**(314.451)**	**(15.603)**	**7.097**	**(322.957)**	**(208.241)**	**(531.198)**
Employee expenses	161.232	(16.661)	(3.306)	**141.265**	-	**141.265**
Support services recharges	6.798	38.989	(0.121)	**45.666**	-	**45.666**
Other service expenses	266.121	(52.833)	(2.591)	**210.697**	-	**210.697**
Housing revenue account expenditure	-	101.083	-	**101.083**	-	**101.083**
Depreciation, amortisation and impairment	0.034	46.864	(0.034)	**46.864**	-	**46.864**
Interest payable and net defined benefit obligation	17.020	-	(17.020)	-	43.822	**43.822**
Precepts and levies	9.753	-	(9.753)	-	9.753	**9.753**
Statutory provision for debt repayment	10.776	-	(10.776)	-	-	-
Loss on disposal of current and non-current assets	-	-	-	-	16.057	**16.057**
Payments to housing receipts pool	-	-	-	-	1.388	**1.388**
Total expenditure	**471.734**	**117.442**	**(43.601)**	**545.575**	**71.020**	**616.595**
Deficit on the provision of services	**157.283**	**101.839**	**(36.504)**	**222.618**	**(137.221)**	**85.397**

Note 28. 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:

		2011/12	2012/13	2013/14
South Shields open air market	Turnover	(0.176)	(0.108)	(0.121)
	Expenditure	0.089	0.063	0.120
Cumulative surplus over last 3 years: £0.133m	**Surplus**	**(0.087)**	**(0.045)**	**(0.001)**
School catering	Turnover	(6.220)	(6.521)	(6.991)
	Expenditure	5.801	5.988	6.025
Cumulative surplus over last 3 years: £1.918m	**Surplus**	**(0.419)**	**(0.533)**	**(0.966)**
Total trading activity	Turnover	(6.396)	(6.629)	(7.112)
	Expenditure	5.890	6.051	6.145
	Surplus	**(0.506)**	**(0.578)**	**(0.967)**

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Note 29. 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:

2012/13 Council share of net cost £m		2013/14 Pooled budgets gross cost £m	2013/14 NHS partners income to the Council £m	2013/14 Council share of net cost £m
0.469	Joint equipment store	1.361	(0.733)	0.628
0.791	Perth Green	1.122	(0.242)	0.880
-	Nursing care and continuing care	7.939	(7.939)	-
1.726	S117 mental health	4.888	(2.444)	2.444
2.986	**Total**	**15.310**	**(11.358)**	**3.952**

Note 30. Members' Allowances

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

	2012/13 £m	2013/14 £m
Members allowances	0.786	0.813
Other Members expenses	0.022	0.022
Total Members allowances paid	**0.808**	**0.835**

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Note 31. Officers' Remuneration

Employee Remuneration over £50,000

The number of employees whose remuneration, excluding employer's pension contribution, was £50,000 or more in bands of £5,000 are disclosed in 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.

2012/13					2013/14			
Council	**School based**	**Total**	**Leavers in year**	**Remuneration bands**	**Council**	**School based**	**Total**	**Leavers in year**
23	25	48	2	£50,000 - £54,999	24	27	51	4
7	20	27	6	£55,000 - £59,999	8	31	39	5
11	17	28	4	£60,000 - £64,999	9	16	25	2
2	6	8	1	£65,000 - £69,999	4	9	13	1
3	5	8	2	£70,000 - £74,999	1	3	4	2
2	3	5	1	£75,000 - £79,999	1	3	4	-
-	2	2	-	£80,000 - £84,999	2	2	4	1
1	2	3	-	£85,000 - £89,999	-	3	3	1
1	1	2	2	£90,000 - £94,999	-	-	-	-
-	-	-	-	£95,000 - £99,999	-	1	1	-
-	-	-	-	£105,000 - £109,999	1	-	1	1
-	-	-	-	£120,000 - £124,999	1	-	1	-
-	1	1	-	£150,000 - £154,999	-	-	-	-
-	-	-	-	£165,000 - £169,999	-	1	1	-
50	**82**	**132**	**18**		**51**	**96**	**147**	**17**

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 2013/14.

Teachers employed by school Governing Bodies or Trust schools whose remuneration, excluding employer's pension contribution, was £50,000 or more in bands of £5,000 have been excluded. These are shown separately in the table below. This number has decreased in 2013/14 due to the conversion of one school to Academy status.

2012/13 School based	**Remuneration bands**	**2013/14 School based**
18	£50,000 - £54,999	13
9	£55,000 - £59,999	6
7	£60,000 - £64,999	5
1	£65,000 - £69,999	2
2	£70,000 - £74,999	2
1	£75,000 - £79,999	1
1	£80,000 - £84,999	2
1	£90,000 - £94,999	1
40		**32**

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Senior Officer Remuneration

The following table shows senior officer remuneration in 2012/13 and 2013/14:

Post title		Salary and allowances £	Termination benefits £	Pension contribution £	Total remuneration £
Officers over £150,000					
Chief Executive - M Swales	2012/13	152,833	-	21,769	174,602
	2013/14	152,685	-	21,769	174,454
Other senior officers					
Corporate Director Children Adults and Families	2012/13	124,395	-	17,524	141,919
	2013/14	124,767	-	17,524	142,291
Corporate Director Business and Resources	2012/13	114,031	-	16,028	130,059
	2013/14 ^	76,172		10,732	86,904
Corporate Director Economic Regeneration	2012/13	112,553	-	16,028	128,581
	2013/14	113,771	-	16,059	129,830
Head of Education Learning and Skills	2012/13	91,185	-	12,870	104,055
	2013/14	91,446	-	12,870	104,316
Head of Enterprise and Regeneration	2012/13	85,759	-	12,010	97,769
	2013/14	68,549	-	9,608	78,157
Head of Culture and Neighbourhoods	2012/13 *	3,775	86,979	534	91,288
Head of Children's and Families Social Care	2012/13 ^	70,104	77,315	9,008	156,427
	2013/14	83,988	-	12,010	95,998
Director of Public Health	2013/14	82,296		11,521	93,817
Head of Pensions	2012/13	85,363	-	12,010	97,373
	2013/14	85,195	-	12,010	97,205
Head of Corporate and Commercial Services	2012/13	89,603	-	12,661	102,264
	2013/14	89,596	-	12,611	102,207
Head of Marketing and Communications	2012/13	77,388	-	10,903	88,291
	2013/14	78,564	-	11,159	89,723
Corporate Lead - Commissioning	2013/14	78,124		11,074	89,198
Head of Legal Services	2012/13	77,350	-	10,892	88,242
	2013/14	79,050	-	11,159	90,209
Head of Finance	2012/13	79,000	-	11,159	90,159
	2013/14	79,000	-	11,159	90,159
Head of Adult Social Care	2012/13	80,276	-	11,455	91,731
	2013/14	80,336	-	11,455	91,791
Head of Strategic Development	2012/13	89,213	-	12,334	101,547
	2013/14	95,715	-	13,585	109,300
Head of Asset Management	2012/13	70,796	-	10,009	80,805
	2013/14	84,994	-	12,010	97,004
Head of Development Services	2012/13	84,930	-	12,010	96,940
	2013/14	84,897	-	12,010	96,907
Total remuneration 2012/13		**1,488,554**	**164,294**	**209,204**	**1,862,052**
Total remuneration 2013/14		**1,629,145**	-	**230,325**	**1,859,470**

* Denotes not a full year salary
^ Denotes leaver in year replaced

Exit Package Cost Disclosure

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

2012/13 Compulsory redundancies	Other departures	Total exit packages	Total paid	Exit package cost band	2013/14 Other departures	Total paid
			£m			£m
3	209	212	1.200	£0 - £20,000	120	0.937
-	43	43	1.253	£20,001 - £40,000	28	0.851
-	13	13	0.602	£40,001 - £60,000	7	0.376
-	5	5	0.326	£60,001 - £80,000	1	0.067
-	5	5	0.447	£80,001 - £100,000	-	-
-	2	2	0.215	£100,000 - £150,000	-	-
-	2	2	0.334	£150,000 and above	2	0.368
3	**279**	**282**	**4.377**	**Total**	**158**	**2.599**

The compulsory redundancies in 2012/13 related to employees who asked the Council to look into re-deployment opportunities and only when all options had been exhausted, have the employees left the Council through redundancy.

Note 32. 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.

2012/13		2013/14
£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	0.017
0.002	Fees for other services provided by external auditors during the year	0.002
0.186	**Total fees payable to external auditors**	**0.186**

In addition to the above the Council paid £0.036m (£0.036m in 2012/13) to PWC in relation to audit of the Tyne and Wear Pension Fund. These costs were fully recovered from the Fund.

Note 33. 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

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- the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Over and underspends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2013/14 are as shown in the following table:

2013/14	**Central expenditure £m**	**Individual schools budget £m**	**Total £m**
Final DSG before academy recoupment	(11.325)	(97.729)	(109.054)
Academy recoupment	-	10.436	10.436
Total Council DSG for year	**(11.325)**	**(87.293)**	**(98.618)**
Brought forward from previous year	(0.065)	(0.308)	(0.373)
Agreed budgeted distribution in year	(11.325)	(87.293)	(98.618)
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)**

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:

2012/13	**Central expenditure £m**	**Individual schools budget £m**	**Total £m**
Final DSG before academy recoupment	(7.620)	(99.735)	(107.355)
Academy recoupment	0.045	5.164	5.209
Total Council DSG for year	**(7.575)**	**(94.571)**	**(102.146)**
Brought forward from previous year	-	(0.030)	(0.030)
Agreed budgeted distribution in year	(7.575)	(94.571)	(102.146)
Final budgeted distribution for year	**(7.575)**	**(94.601)**	**(102.176)**
Actual central expenditure	7.510	-	7.510
Actual ISB deployed to schools	-	94.293	94.293
Carry forward to following year	**(0.065)**	**(0.308)**	**(0.373)**

Section 4 – Notes to the Core Financial Statements

Note 34. Government Grant Income

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

	2012/13 £m	2013/14 £m
Credited to taxation and non specific grant income		
National Non-Domestic Rates	(83.030)	-
Non-domestic rates top up grant	-	(28.877)
Capital grants and contributions	(32.855)	(37.841)
Revenue support grant	(1.610)	(64.948)
Early intervention grant	(9.871)	-
Private finance initiative	(9.321)	(10.599)
Learning disability health reform grant	(6.625)	-
Education services grant	-	(2.559)
Small business rate relief grant	-	(0.577)
Adoption reform grant	-	(0.614)
Social fund administration grant	-	(0.645)
New homes bonus grant	-	(1.134)
Local services support grant	(0.488)	(0.092)
Benefits administration grant	(1.686)	(1.571)
Council tax freeze grant	(1.451)	(0.579)
Other unringfenced grants	(0.573)	(0.742)
Total	**(147.510)**	**(150.778)**
Credited to services		
Dedicated schools grant	(102.146)	(98.618)
Housing benefit	(70.376)	(71.032)
Council tax benefit	(17.384)	-
Public health grant	-	(12.566)
Education and skills funding agencies	(8.206)	(6.347)
Pupil premium grant	(4.470)	(6.482)
Grants supporting revenue expenditure funded by capital under statute	(1.451)	(1.574)
Other ringfenced grants	(2.382)	(2.434)
Total	**(206.415)**	**(199.053)**
Total grants	**(353.925)**	**(349.831)**

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

	2012/13 £m	2013/14 £m
Revenue grants		
Education and skills funding agencies	(1.378)	(1.383)
Other grants	(0.152)	(0.191)
Revenue contributions		
Other contributions	(0.048)	(0.133)
Total	**(1.578)**	**(1.707)**
Capital grants receipts in advance		
ONE North East funding	(1.170)	(0.160)
Department for Education schools	(1.124)	(0.712)
Other grants	(0.622)	(0.879)
Total	**(2.916)**	**(1.751)**

Note 35. 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.

2012/13 £m		2013/14 £m
555.916	**Opening capital financing requirement (CFR)**	**583.779**
	Capital investment	
89.981	Additions to property, plant and equipment	79.715
0.024	Adjustments for assets held under PFI and finance leases	-
8.007	Loans treated as capital expenditure	1.400
0.139	Additions to other long term assets and assets held for sale or disposal	0.778
0.274	Revenue expenditure funded from capital under statute	1.254
(0.002)	Other movements	0.003
98.423	**Total capital investment**	**83.150**
	Sources of finance	
(6.393)	Capital receipts	(11.669)
(36.348)	Government grants and other contributions	(39.415)
(17.015)	Major repairs reserve	(4.166)
(0.028)	HRA sums set aside from revenue	-
(10.776)	General Fund sums set aside from revenue	(12.345)
(70.560)	**Total finance used**	**(67.595)**
27.863	**Movement in CFR**	**15.555**
583.779	**Closing CFR**	**599.334**
	Explanation of movement in year	
(4.495)	Decrease in underlying need to borrow (supported by Government financial assistance)	(5.016)
32.358	Increase in underlying need to borrow (unsupported by Government financial assistance)	20.571
27.863	**Increase in CFR**	**15.555**

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 new build bungalows at Simonside.

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 2013/14 are shown in the following table:

	£m
Decent homes	27.727
Haven Point leisure facilities	9.407
Littlehaven sea wall	4.747
Asset management remodelling	4.724
Hebburn town centre regeneration	3.945
Non-decent homes high priority essential	3.571
South Shields riverside	2.682
Dwellings new builds	2.096
Footpath infrastructure improvements	2.075
Port of Tyne land purchase	2.055
Liquid Logic implementation (ICT)	1.800
Maintaining and enhancing our buildings	1.639
Frederick Street/Trinity South regeneration	1.549
Road resurfacing and bridge repairs	1.291
Disabled adaptations to Council dwellings	1.126
Road safety schemes	1.088
Community facilities at Horsley Hill community centre	1.055
South Shields town centre regeneration	0.896
Area redevelopment - housing	0.780
Ocean road enhancement	0.720
Disabled facilities in private homes	0.554

Note 36. 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 32 years into a 35 year lease.
- The lease of Cleadon Park facility which commenced in July 2010 and is 4 years into a 24 year lease. The main use of this facility by the Council is as a library and community centre.

These assets are valued as property, plant and equipment in the Balance Sheet at 31st March 2014 as £2.235m (£2.278m in 2012/13).

The Council is committed to making the minimum payments under these leases. This represents the 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 2013 £m		31st March 2014 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.044	- current	0.049
2.153	- non-current	2.104
3.225	Finance costs payable in future years	2.995
5.422	**Minimum lease payments**	**5.148**

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 2013 £m	**31st March 2014 £m**	**31st March 2013 £m**	**31st March 2014 £m**
Not later than one year	0.044	0.049	0.273	0.273
Later than one year and not later than five years	0.209	0.213	1.075	1.056
Later than five years	1.944	1.891	4.074	3.819
	2.197	**2.153**	**5.422**	**5.148**

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 2013/14 £0.032m contingent rents were payable by the Council (£0.032m in 2012/13).

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 2013 £m		31st March 2014 £m
0.226	Not later than one year	0.227
0.752	Later than one year and not later than five years	0.572
1.789	Later than five years	1.472
2.767		**2.271**

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

31st March 2013 £m		31st March 2014 £m
0.387	Minimum lease payments	0.416
0.015	Contingent rents	0.023
0.402		**0.439**

Council as Lessor - Finance Leases

The Finance lease the Council had with the Tyneside Economic Development Company Limited (TEDCO) was ended in year following the winding up of the company. The gross investment in the lease and minimum lease payments reported last year are as follows:

	Gross investment in the lease		Minimum lease payments	
	31st March 2013 £m	31st March 2014 £m	31st March 2013 £m	31st March 2014 £m
Not later than one year	0.010	-	0.005	-
Later than one year and not later than five years	0.047	-	0.028	-
Later than five years	0.063	-	0.009	-
	0.120	**-**	**0.042**	**-**

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 2013 £m		31st March 2014 £m
2.998	Not later than one year	2.859
7.168	Later than one year and not later than five years	5.795
16.528	Later than five years	13.448
26.694		**22.102**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into. In 2013/14 £0.454m contingent rents were receivable by the Council (£0.512m in 2012/13).

Note 37. Related Parties

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

Section 4 – Notes to the Core Financial Statements

Central Government (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 £349.831m (£353.925m in 2012/13) in support of its revenue spending as detailed in note 34.

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 £0.550m (£0.320m in 2012/13) 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 organisations annual income.

- A Council Member is the Council representative on the South Tyneside Gymnastics Club. The Council paid the club £0.003m (£0.002m in 2012/13) towards its general running costs.

- A Council Member is a director of a company which has provided training to South Tyneside Council (£0.008m) and South Tyneside Homes Limited (£0.007m) during the year. £0.029m was paid to this company in total in 2012/13.

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

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

The former Corporate Director, Business and Resources and Section 151 officer held the position of Chair of Governors of St Wilfrid's RC Comprehensive School until he ceased employment with the Council on 3rd November 2013. The school received a grant from the Council of £4.120m (£4.271m in 2012/13).

The Corporate Director Economic Regeneration held the position of board member of TEDCO until this company's cessation on 30th September 2013.

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 30 and 31 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.462m (£0.432m in 2012/13) 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 £0.055m (£0.052m in 2012/13) in respect of treasury management duties.

The Council administers the accounts for NALAHCL on behalf of the LA7 and NIAL and charged £0.048m (£0.184m in 2012/13) in relation to officer time and expenses. The Council received £0.672m income from interest on loan notes with the airport (£0.614m in 2012/13) and £0.232m in dividends (nil in 2012/13).

South Tyneside Homes Limited buys services back from the Council and was charged £1.068m (£1.071m in 2012/13) 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 £12.916m (£13.199m in 2012/13) and £40.154m (£53.324m in 2012/13) for the provision of construction services and capital programme management.

Community associations in the borough received indirect financial support from the Council of £1.747m (£1.521m in 2012/13). 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 £13.089m (£13.385m in 2012/13) 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 15.

South Tyneside Housing Ventures Trust Limited (STHVTL) was created as a private, limited by guarantee, no share capital company on 26th July 2013. STHVTL will provide 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.

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

31st March 2013 (as restated) £m	Amount due to the Council	31st March 2014 £m
9.856	Government bodies	9.097
0.765	NHS bodies	1.203
1.344	Tyne and Wear Pension Fund	0.966
8.007	NIAL	8.007
1.720	South Tyneside Homes Limited	3.087
0.386	Community associations	0.599
0.073	InspiredSpaces STaG Limited	0.001
-	South Tyneside Housing Ventures Trust Limited	1.402
22.151	**Total**	**24.362**

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31st March 2013 (as restated) £m	Amount due from the Council	31st March 2014 £m
(5.516)	Government bodies	(5.404)
(0.810)	NHS bodies	(1.619)
(3.350)	Tyne and Wear Pension Fund	(2.964)
(0.001)	NIAL	-
(5.208)	South Tyneside Homes Limited	(6.354)
(0.003)	Community associations	(0.006)
(0.418)	InspiredSpaces STaG Limited	-
(15.306)	**Total**	**(16.347)**

Note 38. Impairment Losses

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

During 2013/14 the Council has recognised impairments of £1.892m (£3.315m in 2012/13). The majority of this decrease reflects lower number surplus and school property demolitions.

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

	2012/13 £m	2013/14 £m
Cultural and related services	0.051	0.002
Environmental and regulatory services	0.008	0.011
Planning services	0.564	0.665
Education and children's services	1.930	0.334
Highways and transport services	0.008	0.126
Local authority housing (HRA)	0.259	0.754
Adult social care services	0.495	-
Total	**3.315**	**1.892**

In addition £0.081m (£0.192m in 2012/13) impairment loss has been absorbed by previous gains recognised in the revaluation reserve.

Note 39. 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 2014, the actuary assessed the deficit at £18.410m (£34.480m in 2012/13). In the unlikely event that South Tyneside Homes Limited were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

During 2011/12 a consortium of search providers launched a legal action against all local authorities who make local land charges to recover charges made over the previous six years. The legal action is based upon the original Local Land Charges charging regulations being incompatible with the Environmental Information Regulations 2004. The Local Government Association is coordinating the action on behalf of the local authorities and the case is ongoing. Given the uncertainty over the amount involved and the timing of any action, the Council has not recognised any liability in the statement of accounts.

Note 40. Contingent Assets

In 2008/09 the Council appointed consultants to pursue a claim with HMRC in relation to overpaid VAT. The Council was successful in recouping VAT for the period 1st January 1990 to 31st March 1994 in relation to sporting services supplied to individuals and for the period 1st April 1974 to 4th December 1996 in relation to excess parking and library charges. Whilst 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 (AG) 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 been given the right to appeal 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 a further two years. 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 however 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. A further appeal against this decision was issued in December 2012 and the upper tribunal is expected to hear this appeal early in 2014/15. For this reason no asset has been reflected in these accounts.

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

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. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

Note 41. 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:

http://www.southtyneside.info/applications/2/councillorsandcommittees/viewdocument.aspx?id=21715

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

Credit risks - The possibility that other parties might fail to pay amounts due to the Council.

Liquidity risks - The possibility that the Council might not have the funds available to meet its commitments to make payments.

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

Credit Risk

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. During 2013/14 one institution was removed from the lending list and then re-instated due to changes in market sentiment. One institution was added after a change to its ratings and another institution which met Capita's credit rating criteria was added when it became more active in the Local Authority money market.

The Council restricts direct lending to UK financial institutions which are included on the Capita Asset Services approved credit rating list. In addition, investments are made in AAA rated, i.e. highly rated, money market funds. These funds are separate legal entities from the organisations that manage them and have the benefit of diversifying risk. Deposits may also be made with other local authorities and the Debt Management Account Deposit Facility.

As at 31st March 2014 the Council limited direct deposits with institutions to a maximum of £25m (£25m in 2012/13) for those institutions which are part owned by the UK Government and £15m (£15m in 2012/13) for all other institutions on the council lending list. In addition a £15m (£10m in 2012/13) limit was applied to investments made into AAA rated money market funds. This increase was due to a concern over a shortage of suitable investment opportunities when the cash balances are high.

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

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

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

Credit risk of financial assets	Amount at 31st March 2014	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2014	Estimated maximum exposure to default and uncollectablility 31st March 2014	Estimated maximum exposure to default and uncollectablility 31st March 2013
	£m	%	%	£m	£m
	A	B	C	A x C	-
Deposits with banks and other financial institutions	24.515	0%	0%	-	-
Customers	15.142	4%	4%	0.606	0.702
Government debtors	6.068	0%	0%	-	-
Other debtors	2.998	0%	0%	-	-
Total	**48.723**			**0.606**	**0.702**

There has never been any default on the repayment of deposits with banks and other financial institutions nor any of the other debtors.

Impairment

The Council has impaired its financial assets by a total of £1.316m during 2013/14 (£0.125m in 2012/13) 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.

Section 4 – Notes to the Core Financial Statements

Collateral

The only form of collateral for any of the reported financial asset relates to residential care fees of £0.791m (£0.662m in 2012/13) where there is a charge against clients' property.

The Council does not generally allow credit for customers and as such, £11.709m (£15.001m in 2012/13) of the £16.251m (£17.453m 2012/13) customer balance is past its due date for payment. The past due amount can be analysed by age as follows:

Credit risk of past due financial assets	Customers 31st March 2013 (as restated) £m	Customers 31st March 2014 £m
Less than three months	6.819	5.999
Three to six months	1.142	1.085
Six months to one year	0.687	0.869
More than one year	1.833	2.647
Total	**10.481**	**10.600**

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 financial liabilities is as follows:

31st March 2013 (as restated) £m	Liabilities outstanding	31st March 2014 £m
(491.323)	Public Works Loans Board	(489.846)
(10.474)	Market debt	(10.325)
(317.673)	PFI liabilities	(305.696)
(27.665)	Creditors	(28.876)
(5.422)	Finance lease liabilities	(5.148)
(852.557)	**Total**	**(839.891)**
(71.242)	Less than 1 year	(73.009)
(29.540)	Between 1 and 2 years	(34.497)
(111.453)	Between 2 and 5 years	(95.424)
(174.456)	Between 5 and 10 years	(169.819)
(465.866)	More than 10 years	(467.142)
(852.557)	**Total**	**(839.891)**

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

Market Risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid 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 40% of borrowings in variable rate loans to reduce risk from variable rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates 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 2014, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the following table:

2012/13 £m	Interest rate risk	2013/14 £m
0.250	Increase in interest payable on variable rate borrowings	0.200
(0.694)	Increase in interest receivable on variable rate investments	(0.417)
(0.444)	**Impact on Comprehensive Income and Expenditure Statement**	**(0.217)**
(0.045)	**Share of overall impact on the HRA Income and Expenditure Statement**	**(0.156)**
(0.776)	Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement)	(0.742)
(52.192)	Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement)	(49.419)

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 2012/13). 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 42. 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 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**

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

The equivalent balances at 31st March 2013 are as follows:

	1st April 2012	Amount received during year	Amount applied during year	31st March 2013	Government stock investments	Invested in Council Funds
	£m	£m	£m	£m	£m	£m
Westoe trust	(0.353)	(0.004)	0.003	(0.354)	-	0.354
Marine park trust	(0.170)	(0.002)	-	(0.172)	-	0.172
Other trust funds	(0.132)	(0.009)	0.007	(0.134)	0.025	0.109
Total balances	**(0.655)**	**(0.015)**	**0.010**	**(0.660)**	**0.025**	**0.635**

Note 43. 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, both schemes are unfunded and 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 2013/14, the Council paid £5.883m to the Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 14.10% of pensionable pay (£6.435m and 14.09% respectively in 2012/13). There were no employee contributions remaining payable at the year-end. Employer's contribution remaining payable at year end totalled £0.785m (£0.841m in 2012/13).

In 2013/14, the Council paid £0.100m to the NHS Pensions Agency in respect of public health employees' retirement benefits, representing 14.00% of pensionable pay (nil in 2012/13). There were no employee contributions remaining payable at the year-end. Employer's contribution remaining payable at year end totalled £0.014m (nil in 2012/13).

The Council expects to pay out in the region of £6.000m in the year ending 31st March 2015 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.

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.

Section 4 – Notes to the Core Financial Statements

Note 44. 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.

- 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 pension 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 defined benefit obligation for all staff transferring remains with the Council as a result of a risk-sharing agreement between the two parties. As a result the members have still been included in both the reported asset and liability figures for the Council and contributions made by BTSTL have been added to those paid by the Council.

In 2013/14, 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 2013/14 was estimated by the actuary to be £1.549m (£2.153m in 2012/13).

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 11 of the Tyne and Wear Pension Fund Accounts (page 145). Assets are not concentrated in any one area and are liquid such that the costs of any large payment can be accommodated. There were no curtailments or settlements in year.

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

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 defined benefit obligation 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 are set out in the Rates and Adjustment Certificate.

The Employer's regular contributions to the Fund for the year ending 31st March 2015 are estimated at £18.270m (£18.670m estimated for 2013/14). In addition, strain on the fund contributions may be required.

The main financial assumptions adopted as at 31st March 2014

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 2013	**31st March 2014**
	% per annum	**% per annum**
Discount rate	4.40	4.30
Inflation rate (consumer price index)	2.70	2.40
Rate of increase to pensions in payment	2.70	2.40
Rate of increase to deferred pensions	2.70	2.40
Rate of general increase in salaries	4.60	3.90

The main demographic assumptions adopted as at 31st March 2014

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 as follows:

Post retirement mortality	31st March 2013	31st March 2014
Males		
Future lifetime from age 65 (currently aged 65)	21.7	23.0
Future lifetime from age 65 (currently aged 45)	23.5	25.0
Females		
Future lifetime from age 65 (currently aged 65)	23.9	24.6
Future lifetime from age 65 (currently aged 45)	25.8	26.9
Commutation	Each member was assumed to surrender pension on retirement such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum	Each member was assumed to 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

Further detail on mortality assumptions can be found in note 24 of the Tyne and Wear Pension Fund Statements (page 159).

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 2014 is set out on the next page.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. For inflation, for example, 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% per annum £m	Change	-0.1% per annum £m	Change
Adjustment to discount rate	(748.910)	-1.9%	(777.200)	1.9%
Adjustment to salary increase rate	(766.710)	0.5%	(759.180)	-0.5%
Adjustment to pension increase rate	(773.270)	1.3%	(752.800)	-1.4%
	- 1 Year		**+ 1 Year**	
Adjustment to mortality age rating assumption	(780.460)	2.3%	(745.300)	-2.3%

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.

Asset Allocation

The approximate split of assets for the Fund as a whole (based on data supplied by the Council acting as the Fund's administering authority) 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 2012	Asset split at 31st March 2013	Asset split at 31st March 2014		
			Quoted	Unquoted	Total
Equities	68.5%	68.0%	58.1%	8.7%	66.8%
Property	9.2%	9.0%	-	8.5%	8.5%
Government bonds	7.1%	7.0%	3.5%	-	3.5%
Corporate bonds	11.6%	11.0%	11.5%	-	11.5%
Cash	1.9%	1.6%	2.9%	-	2.9%
Other investments	1.7%	3.4%	5.0%	1.8%	6.8%
Total	**100.0%**	**100.0%**	**81.0%**	**19.0%**	**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 2013	31st March 2014
	£m	£m
Fair value of assets	496.980	512.820
Present value of funded defined benefit obligation	(814.840)	(763.020)
Liability recognised on the Balance Sheet	**(317.860)**	**(250.200)**

The duration of the defined benefit obligation liability is 18.7 years. 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.

Section 4 – Notes to the Core Financial Statements

Breakdown of amounts recognised in deficit on the provision of services and other comprehensive income (OCI)

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

2012/13 £m (as restated)		2013/14 £m
	Operating cost	
16.910	Current service cost	18.550
1.770	Past service cost	0.780
	Financing cost	
13.120	Interest on net defined benefit obligation	13.590
31.800	**Pension expense recognised**	**32.920**
	Remeasurements in OCI	
(32.540)	Return on plan assets (in excess of) or below that recognised in net interest	3.910
48.200	Actuarial losses or (gains) due to change in financial assumptions	(52.580)
-	Actuarial gains due to change in demographic assumptions	(6.030)
(0.890)	Actuarial gains due to liability experience	(27.780)
14.770	**Total amount recognised in OCI**	**(82.480)**
46.570	**Total amount recognised**	**(49.560)**

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

2012/13 (as restated) £m		2013/14 £m
(734.710)	**Opening defined benefit obligation**	**(814.840)**
(16.910)	Current service cost	(18.550)
(34.000)	Interest expense on defined benefit obligation	(35.420)
(4.700)	Contributions by participants	(4.580)
(48.200)	Actuarial (losses) or gains on liabilities - financial assumptions	52.580
-	Actuarial gains on liabilities - demographic assumptions	6.030
0.890	Actuarial gains on liabilities - experience	27.780
24.560	Net benefits paid out	24.760
(1.770)	Past service cost	(0.780)
(814.840)	**Closing defined benefit obligation**	**(763.020)**

Section 4 – Notes to the Core Financial Statements

Changes to the fair value of assets during the accounting year

2012/13 (as restated) £m		2013/14 £m
444.750	**Opening fair value of assets**	**496.980**
20.880	Interest income on assets	21.830
32.540	Remeasurement gains or (loss) on assets	(3.910)
18.670	Contributions by the employer	18.100
4.700	Contributions by participants	4.580
(24.560)	Net benefits paid out	(24.760)
496.980	**Closing fair value of assets**	**512.820**

Actual return on assets

2012/13 (as restated) £m		2013/14 £m
20.880	Interest income on assets	21.830
32.540	Remeasurement gain or (loss) on assets	(3.910)
53.420	**Actual return on assets**	**17.920**

(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 2015 the Council expects to pay £2.370m directly to beneficiaries (£2.320m as estimated for 31st March 2014).

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 principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS 19 purposes were as follows:

The main financial assumptions adopted

	31st March 2013 % per annum	31st March 2014 % per annum
Discount rate	4.10	4.20
Inflation rate (consumer price index)	2.60	2.20
Rate of increase to pensions in payment	2.60	2.20

The main demographic assumptions adopted

The principal assumptions in retirement mortality rates for unfunded liabilities are the same as those reported for funded liabilities on page 78.

Section 4 – Notes to the Core Financial Statements

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 2013 £m	31st March 2014 £m
Present value of unfunded defined benefit obligation	(31.400)	(29.800)
Liability recognised on the Balance Sheet	**(31.400)**	**(29.800)**

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

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

2012/13 £m		2013/14 £m
	Financing cost	
1.350	Interest on net defined benefit liability	1.240
1.060	Strain on fund deferred payment	1.860
2.410	**Pension expense recognised**	**3.100**
	Remeasurements in OCI	
1.920	Actuarial losses or (gains) due to change in financial assumptions	(1.410)
-	Actuarial losses due to change in demographic assumptions	0.840
(0.060)	Actuarial (gains) or losses due to liability experience	0.030
1.860	**Total amount recognised in OCI**	**(0.540)**
4.270	**Amount recognised**	**2.560**

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

2012/13 £m		2013/14 £m
(30.460)	**Opening defined benefit obligation**	**(31.400)**
(1.350)	Interest expense on defined benefit obligation	(1.240)
(1.920)	Actuarial (losses) or gains due to changes in financial assumptions	1.410
-	Actuarial losses due to changes in demographic assumptions	(0.840)
0.060	Actuarial gains or (losses) due to liability experience	(0.030)
2.270	Net benefits paid out	2.300
(31.400)	**Closing defined benefit obligation**	**(29.800)**

Section 4 – Notes to the Core Financial Statements

Changes to the fair value of assets during the accounting year

2012/13 £m		2013/14 £m
-	**Opening fair value of assets**	**-**
2.270	Contributions by the employer	2.300
(2.270)	Net benefits paid out	(2.300)
-	**Closing fair value of assets**	**-**

Note 45. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31st March 2014. 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 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') and the 2013/14 *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 certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

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

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

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are generally recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Amounts outstanding at the year-end are accounted for as part of the carrying amount of the relevant long-term loans 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. 2013/14 was a 49-week rent year. The average weekly rent receipt for 2013/14 was £1.384m over 52 weeks (£1.314m in 2012/13).

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.

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

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

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

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

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 of MRP until assets under construction are brought into use.

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

For the HRA there is no MRP 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 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.

- Liabilities are discounted to their value at current prices, using a discount rate of 4.3% for funded and 4.2% 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.

  - *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 net defined benefit obligation – charged to the pensions reserve as other comprehensive income and expenditure.

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

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

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The 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/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.

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 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 service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

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.

Section 4 – Notes to the Core Financial Statements

11. Heritage Assets

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

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

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

11a) Art Collection

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

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 zero valuation. This is because the Council has deemed that the cost of obtaining valuations would outweigh the benefits to the users of the financial statements.

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 Group entities 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.

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 £50,000.

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. Gains and losses on revaluation are posted to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. However, revaluation 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 are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets (see section 18) with MRP 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

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and a lease (long-term debtor) asset is created. Where that lease has been extinguished the reverse is true with an asset being recognised as an addition.

Lease rentals receivable are apportioned between:

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

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the deferred capital receipts reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the capital receipts reserve.

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.

18a) Recognition
Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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

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

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

18b) Measurement and Revaluation

Assets are initially measured at cost, comprising:

- the purchase price and;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

- ***Infrastructure, community assets, assets under construction, vehicles, plant and equipment*** – depreciated historical cost. However plant and machinery that would normally be regarded as an integral part of the building on letting or sale have been included as a component value and are revalued alongside the building. These assets are not revalued.

- ***Dwellings*** – 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 vale (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 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 that are not yet available for use (i.e. assets under construction). Deprecation is calculated on the following bases:

- ***Dwellings and other buildings*** – straight-line allocation over the useful life of the property as estimated by the valuer. The useful life of dwellings and other buildings is generally between 2 and 85 years, however there are a small number of older buildings within the Borough with significantly longer lives e.g. South Shields town hall.

- ***Vehicles, plant, furniture and equipment*** **-** straight-line allocation up to 10 years being the estimated remaining useful economic life.

- ***Community Assets*** – straight-line allocation over 16 to 40 years.

- ***Infrastructure*** – straight-line allocation over 36 to 100 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 4 and 20 years on inception. A small number of assets have specialist equipment with whose cost is material to the overall value of the asset and have different useful economic lives e.g. pool equipment at leisure centres or cremators. A further component is recognised for these assets. Componentisation will only be applied where there has been any expenditure in year and/or the asset has been subject to a formal revaluation. The Council has set the following 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.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale or disposal. 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 expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals and disposal costs (if any) are transferred to the same line (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government. For right to buy sales of dwellings this equates to approximately 70% 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. Written-off value of disposals of HRA non-dwelling represent a cost to housing tenants.

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:

- ***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. This scheme is currently in the last year of its introductory phase, which ends on 31st March 2014. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions, i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. 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 cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to 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.

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 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. However they are accounted for as separate entities such that any funds assigned to them is incorporated into the accounts as a grant payment rather than shown as spend against employee expenses and other subjective categories. Similarly the Council does not control the assets of these schools, other than playing fields, and hence 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 Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

2012/13 (as restated) £m		Note	2013/14 £m
	Expenditure		
14.889	Repairs and maintenance		12.933
17.914	Supervision and management		18.017
1.989	Rents, rates, taxes and other charges		2.238
15.166	Depreciation of non-current assets	2	14.171
49.513	Revaluation losses and impairments on property, plant and equipment	2	37.693
0.037	Amortisation of intangible assets	5	0.037
0.087	Debt management costs	2	0.183
0.523	Movement in the allowance for bad debts		0.697
0.464	Sums directed by the Secretary of State that are expenditure in accordance with the Code	2	0.765
100.582	**Total expenditure**		**86.734**
	Income		
(58.318)	Dwelling rents		(62.755)
(0.919)	Non-dwelling rents		(0.950)
(2.904)	Charges for services and facilities		(3.443)
(0.848)	Contributions towards expenditure		(1.151)
(62.989)	**Total income**		**(68.299)**
37.593	**Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**18.435**
0.438	HRA share of corporate and democratic core		0.738
0.557	HRA share of other amounts included in the Council's cost of services but not allocated to specific services		0.772
38.588	**Net expenditure for HRA services**		**19.945**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
6.615	Loss on sale of HRA current and non-current assets		2.206
12.332	Interest and investment expenditure	2	12.612
(0.132)	Interest and investment income	2	(0.095)
(22.057)	Taxation and non specific grant income		(28.907)
35.346	**Deficit for the year on HRA services**		**5.761**
(33.894)	Adjustments between accounting basis and funding basis under statute	1	(8.816)
1.452	**Decrease or (increase) in year on the HRA**		**(3.055)**
(11.553)	**Balance on the HRA at the end of the previous year**		**(10.101)**
(10.101)	**Balance on the HRA at the end of the current year**		**(13.156)**

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.

2012/13 £m		2013/14 £m
	Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year	
(0.248)	Impairment of non-current assets	(0.689)
(49.265)	Revaluation losses on property, plant and equipment	(37.004)
(14.730)	Depreciation of non-current assets	(13.803)
21.902	Capital grants applied	28.907
(0.464)	Revenue expenditure funded from capital under statute	(0.496)
(0.460)	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	(0.025)
-	Capital receipts not related to sale of a fixed asset	0.045
(11.621)	Amounts of non-current assets written off on sale or disposal	(10.505)
5.131	Cash sale proceeds from the sale or disposal of non-current assets	8.485
(0.125)	Contribution towards administrative costs of disposal of non-current assets	(0.186)
(0.016)	Net charges made for retirement benefits in accordance with IAS19	-
(49.896)		**(25.271)**
	Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year	
15.967	Contribution to major repairs reserve	16.455
0.028	Housing revenue contribution to capital	-
0.007	Employer's contributions payable to the Tyne and Wear Pension Fund and retirement benefits payable direct to pensioners	-
16.002		**16.455**
(33.894)	**Net additional amount required by statute to be credited to the HRA balance for the year**	**(8.816)**

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 2013/14. 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	(0.094)	Operating income and expenditure - interest and investment income
Interest on loans for purchase of HRA properties	(0.001)	Operating income and expenditure - interest and investment income
Impairment and revaluation loss adjustments	(37.693)	Adjustments between accounting basis and funding basis under statute
Discounts for early repayment of debt	(0.089)	Adjustments between accounting basis and funding basis under statute - statement relating to premiums and discounts
Total item 8 credit	**(37.877)**	
Debit items		
Interest on loans	12.612	Operating income and expenditure - interest and investment expenditure
Depreciation of dwellings	12.701	Net cost of services - depreciation of non-current assets
Depreciation of other assets	1.470	Net cost of services - depreciation of non-current assets
Debt management expenses	0.183	Net cost of services - debt management costs
Premium charges for early repayment of debt	0.064	Adjustments between accounting basis and funding basis under statute - statement relating to premiums and discounts
Revenue expenditure funded by capital under statute	0.765	Net cost of services - revenue expenditure funded by capital under statute
Excess transfer to the major repairs reserve	2.284	Adjustments between accounting basis and funding basis under statute - contribution to major repairs reserve less depreciation
Impairment and revaluation losses	37.693	Net cost of services - revaluation losses and impairment on property, plant and equipment
Total item 8 debit	**67.772**	

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 3. Rent Income

Rents were increased with effect from Monday 1st April 2013 by 5.88% to achieve an average actual rent of £73.34 on a 49-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 £1.259m, 1.55% of the total net rent collectable for Housing Revenue Account dwellings (£1.202m and 1.59% in 2012/13).

Note 4. Housing Stock

The Council was responsible for managing an average of 17,842 dwellings and sheltered units during 2013/14 (17,998 in 2012/13). The variations during the year were:

	2013/14
Opening balance	
Dwellings	16,672
Sheltered units	1,253
Shared ownership	4
Non HRA services	8
Opening balance as at 1st April 2013	**17,937**
Reductions	
Right to Buys	(143)
Demolitions	(30)
Conversions	(20)
	(193)
Additions	
Reinstated	2
	2
Net reduction in stock	**(191)**
Closing balance	
Dwellings	16,467
Sheltered units	1,267
Shared ownership	4
Non HRA services	8
Closing balance as at 31st March 2014	**17,746**
Houses	10,410
Bungalows	2,820
Flats and maisonettes	4,516
Total housing stock as at 31st March 2014	**17,746**

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 2013	492.144	38.274	6.523	13.430	1.969	3.987	0.047	556.374
Additions	26.202	7.642	-	0.131	0.667	-	0.369	35.011
Revaluation to revaluation reserve	(4.292)	(1.494)	0.033	-	-	0.840	-	(4.913)
Revaluation to HRA Income and Expenditure Statement	(29.736)	(6.162)	(0.587)	-	-	(0.519)	-	(37.004)
Sales	(5.968)	(0.115)	-	-	-	(1.137)	-	(7.220)
Other derecognition	(5.013)	(0.056)	-	-	-	-	-	(5.069)
Reclassification of assets	(1.060)	0.220	0.268	-	-	(1.479)	(0.045)	(2.096)
At 31st March 2013	**472.277**	**38.309**	**6.237**	**13.561**	**2.636**	**1.692**	**0.371**	**535.083**
Depreciation and Impairments								
At 1st April 2013	(35.493)	(3.231)	-	(13.159)	(0.091)	-	-	(51.974)
Depreciation to HRA Income and Expenditure Statement	(12.701)	(1.287)	-	(0.114)	(0.069)	-	-	(14.171)
Depreciation and impairment met from revaluation reserve	14.915	0.580	-	-	-	-	-	15.495
Impairment to Comprehensive Income and Expenditure Statement	(0.671)	(0.018)	-	-	-	-	-	(0.689)
Sales	0.594	0.030	-	-	-	-	-	0.624
Other derecognition	1.838	0.003	-	-	-	-	-	1.841
Reclassification of assets	0.089	(0.051)	-	-	-	-	-	0.038
At 31st March 2014	**(31.429)**	**(3.974)**	**-**	**(13.273)**	**(0.160)**	**-**	**-**	**(48.836)**
Balance Sheet amount at 31st March 2013	**456.651**	**35.043**	**6.523**	**0.271**	**1.878**	**3.987**	**0.047**	**504.400**
Balance Sheet amount at 31st March 2014	**440.848**	**34.335**	**6.237**	**0.288**	**2.476**	**1.692**	**0.371**	**486.247**

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 2013/14, no spend was added to these assets and their net book value at 31st March 2014 was nil (£0.037m in 2012/13).

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 on the next page.

Section 5 – Housing Revenue Account Income and Expenditure Statement

	£m
At 1st April 2013	0.682
Sales	(0.682)
Reclassification of assets	2.058
At 31st March 2014	**2.058**

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 2012 £m	1st April 2013 £m
Vacant possession value	1,234.192	1,191.481
Existing use social housing value	(456.651)	(440.848)
Economic cost to the Government	**777.541**	**750.633**

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	Infrastructure assets £m	Total property, plant and equipment £m
Balance at 1st April 2013	**(35.493)**	**(3.231)**	**(13.159)**	**(0.091)**	**(51.974)**
Charges in year - depreciation	(12.701)	(1.287)	(0.114)	(0.069)	(14.171)
Charges in year - impairment	(0.671)	(0.018)	-	-	(0.689)
Charges written out - depreciation and impairment	17.436	0.562	-	-	17.998
Balance at 31st March 2014	**(31.429)**	**(3.974)**	**(13.273)**	**(0.160)**	**(48.836)**

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

Impairment in year relates to capital expenditure against HRA assets that is not deemed to add any value.

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 8. Major Repairs Reserve

The movement in the major repairs reserve is as follows:

2012/13 £m		2013/14 £m
(1.052)	**Balance at 1st April**	**(0.004)**
(15.967)	Contribution from Housing Revenue Account	(16.455)
17.015	Applied to finance capital expenditure	4.166
(0.004)	**Balance at 31st March**	**(12.293)**

Note 9. Housing Capital Expenditure Summary

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

Spending 2012/13 £m		Spending 2013/14 £m
	Expenditure	
33.877	Dwellings	26.202
6.673	Other property, plant and equipment	8.809
0.464	Revenue expenditure funded from capital under statute	0.496
41.014	**Total spending**	**35.507**

Funding 2012/13 £m		Funding 2013/14 £m
	Funding source	
(17.015)	Major repairs reserve	(4.166)
(2.069)	Borrowing	(2.434)
(0.028)	Revenue contributions	-
(21.902)	Grants and other external income	(28.907)
(41.014)	**Total funding**	**(35.507)**

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

2012/13 £m		2013/14 £m
(2.957)	House sales	(6.893)
(2.174)	Land sales	(1.592)
(0.010)	Mortgages	(0.004)
-	Other receipts	(0.045)
(5.141)	**Total receipts for the year**	**(8.534)**

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 5.08% of the gross rent collectable (including water and sewerage charges) for the 49 weeks.

2012/13 Actual £m		2013/14 Estimate £m
70.371	Gross rent collectable (including water and sewerage charges)	75.496
3.022	Overall arrears as at 31st March (including water and sewerage charges)	3.838
4.29%	**Overall arrears as a percentage of gross rent collectable**	**5.08%**
2.745	Rent arrears as at 31st March (excluding water and sewerage rates)	3.496
0.404	**Amounts written off during the year**	**0.593**
(2.144)	**Balance Sheet allowance for bad debts**	**(2.241)**

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. This new accounting arrangement is now reflected in this statement for 2013/14.

2012/13 £m		**Note**	**2013/14 £m**
	Income		
(48.894)	Council tax	1	(52.027)
(17.178)	Transfer from General Fund		(0.045)
(66.072)	**Total council tax income**		**(52.072)**
(28.440)	Income collected from non-domestic ratepayers	2	(29.628)
(94.512)	**Total income**		**(81.700)**
	Expenditure		
65.068	**Precept payments - council tax**	**4**	**50.343**
-	Shares of non-domestic rates income payable to preceptors	4	15.077
28.287	Shares of non-domestic rates income payable as central share to government		15.077
-	Transition protection payments		0.322
0.153	Allowable collection costs for non-domestic rates		0.150
28.440	**Total non-domestic rates**		**30.626**
0.209	Council tax written off		0.169
0.176	Transfer to council tax bad debt provision		0.362
-	Non-domestic rates written off		0.253
-	Transfer to non-domestic rates bad debt provision		0.791
0.385	**Total bad and doubtful debts**		**1.575**
0.224	**Contribution towards previous years council tax surplus**	**3**	**0.224**
94.117	**Total expenditure**		**82.768**
(0.395)	**Surplus for the year - council tax**		**(0.974)**
-	**Deficit for the year - non-domestic rates**	**6**	**2.042**
(0.247)	Balance brought forward from previous year - council tax		(0.642)
(0.642)	**Collection Fund balance as at 31st March**		**0.426**
(0.071)	Surplus relating to other precepting bodies - council tax		(0.178)
-	Deficit relating to other precepting bodies - non-domestic rates		1.041
(0.571)	**Surplus relating to South Tyneside Council - council tax**		**(1.438)**
-	**Deficit relating to South Tyneside Council - non-domestic rates**		**1.001**
(0.571)	**Surplus relating to South Tyneside Council - total**		**(0.437)**

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: 34,687 in 2013/14 (44,925 in 2012/13). The taxbase has reduced in 2013/14 due to new accounting arrangements as a result of the introduction of the council tax support (CTS) scheme from 1st April 2013. Council tax is calculated by multiplying the basic amount of council tax for band D by the proportion for that particular band. In 2013/14 the band D equivalent was £1,451.30 (£1,448.37 in 2012/13).

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

Band	Proportion of band D	Number of dwellings (November 2012)
A	6/9ths	45,992
B	7/9ths	9,444
C	8/9ths	7,763
D	9/9ths	4,095
E	11/9ths	1,668
F	13/9ths	668
G	15/9ths	319
H	18/9ths	45
		69,994

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 2013/14 was set at 46.2p for small businesses (45.0p in 2012/13) and 47.1p for all other businesses (45.8p in 2012/13).

The non-domestic rates income, after reliefs and provisions, of £29.628m (£28.440m in 2012/13) was based on a rateable value of £80.061m as at 31st March 2014 (£79.736m in 2012/13).

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

At 31st March 2013 the fund was in surplus by £0.642m. Collection Fund regulations state that by 15th January the Council must make an estimate of what the Collection Fund balance will be for the year end. If it is estimated that this will be a surplus, this must be distributed to the Council and the preceptors in the following year. On the 15th January the estimated surplus in relation to council tax for the year was expected to be £0.224m and was distributed to the precepting bodies as shown in the table on the next page.

Section 5 – Collection Fund Statement

	2013/14 £m
South Tyneside Council	(0.200)
Police and Crime Commissioner for Northumbria	(0.013)
Tyne and Wear Fire and Civil Defence Authority	(0.011)
Total contribution share of Collection Fund surplus	**(0.224)**

Note 4. Precept Payments

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

2012/13 £m	Council tax	2013/14 £m
58.022	South Tyneside Council	44.801
3.759	Police and Crime Commissioner for Northumbria	3.004
3.287	Tyne and Wear Fire and Civil Defence Authority	2.538
65.068	**Total precept payments**	**50.343**

2012/13 £m	Non-domestic rates	2013/14 £m
-	South Tyneside Council	14.775
-	Tyne and Wear Fire and Civil Defence Authority	0.302
-	**Total precept payments**	**15.077**

Note 5. Non-Domestic Rates Expenditure

The occupiers or owners of business properties pay non-domestic rates. The tax rate is set nationally by the Government and collected by billing authorities. 2013/14 saw the introduction of the rates retention scheme whereby all 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.

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 Councils share in the closing balance. The balance is shown in the Council's Balance Sheet in the collection fund adjustment account.

Section 5 – Collection Fund Statement

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

2012/13 £m	Council tax	2013/14 £m
(0.571)	South Tyneside Council	(1.438)
(0.038)	Police and Crime Commissioner for Northumbria	(0.082)
(0.033)	Tyne and Wear Fire and Civil Defence Authority	(0.096)
(0.642)	**Total contribution towards Collection Fund balance**	**(1.616)**

2012/13 £m	Non-domestic rates	2013/14 £m
-	South Tyneside Council	1.001
-	Central Government	1.021
-	Tyne and Wear Fire and Civil Defence Authority	0.020
-	**Total contribution towards Collection Fund balance**	**2.042**

Section 6 – Group Introduction

Group Accounts

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

Subsidiary - South Tyneside Homes Limited (STHL)

A fully owned subsidiary, the Arms Length Management Organisation was incorporated on 1st April 2006 to manage, maintain and improve the Council's housing stock. The Council is the sole shareholder and will be liable for any accumulated deficits or losses upon the cessation of the company.

The net liabilities of the company amount to £16.838m at 31st March 2014 (£33.165m in 2012/13). The company made a net deficit of £0.633m in 2013/14 (£1.211m in 2012/13).

The Council's accounts include a debtor due from STHL of £3.087m (£1.720m in 2012/13) and a creditor due to STHL of £6.354m (£5.208m in 2012/13).

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 2013, the actuary assessed the deficit at £18.410m (£34.480m in 2012/13). In the unlikely event that STHL were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service defined benefit obligation.

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

Associate - Beamish Museum Limited

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. The Council made an annual contribution of £0.004m in 2013/14 (£0.004m in 2012/13) towards the running costs of the Joint Committee of which it is a member with voting rights. The Joint Committee is responsible for the assets of the museum and makes all decisions on capital schemes and procuring grants for capital development. Beamish Museum Limited (a charitable company limited by guarantee) is responsible for managing and operating the museum on behalf of the Joint Committee. A subsidiary of Beamish Museum Limited (BML), Beamish Museum Trading Limited (BMTL) manages all of the retailing and catering operations of the museum.

The entities have been incorporated as an associate using equity accounting, requiring the disclosure of the Council's share of the gross assets and liabilities and gross turnover and operating costs of the organisations.

In 2013/14 the Joint Committee generated revenues of £0.502m (£1.707m in 2012/13) resulting in an operating loss of £0.364m (£0.326m in 2012/13) and had net assets at 31st March 2014 of nil (£22.719m in 2012/13). The Joint Committee was dissolved on 31st March 2014 with net assets of £23.156m transferring, as agreed, to either Sunderland City Council or to BML. BML and BMTL group generated an operating profit of £0.549m (£0.460m loss in 2012/13) and had a net liability of £0.721m (£1.282m in 2012/13) prior to any assets transferred from the Joint Committee.

Section 6 – Group Introduction

The Museum has agreed and had approved a full restructure of both its corporate and governance arrangements. The impact of this sees a revised company board structure being put in place. Although both companies remain, the Joint Committee was agreed to be dissolved from 1st April 2014, with all of its assets and liabilities transferring to Beamish Museum in accordance with the agreed recommendations made by the Joint Committee at its final meeting held on 28th March 2014.

The Council receives no income or contributions from the above reported arrangements. The Council is only responsible for the net liabilities of the entities and has no liability at the year ended 31st March 2014 (nil in 2012/13).

Copies of the Joint Committee's and Group Accounts can be obtained from the Museum Director, Regional Resource Centre, Beamish, County Durham, DH9 0RG.

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 initially using vacant land sold to the company by the Council. 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 will be acting 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. For these reasons the Council does not consider it has significant influence over the company.

The Council has entered into a facilities loan agreement with the company which will allow them to drawdown up to £40.000m of funding over the coming years. On 20th March 2014 the Council made the first of these loans for £1.400m (nil in 2012/13) for the purposes of purchasing 20 new bungalows at Simonside in South Shields. This loan is repayable over 49 years.

In 2013/14 the company produced an operating loss of £0.029m (nil in 2012/13) and had net assets at 31st March 2014 of £1.366m (nil in 2012/13).

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

Joint Venture - Homes and Communities Agency (HCA)

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

Tyne and Wear Development Company (TWEDCo)

Tyne and Wear County Council and the five district Councils of Tyne and Wear established TWEDCo in 1986, to promote economic development activities in the region, overseen by the Tyne and Wear Economic Development Joint Committee. During the year the activities of the organisation have been wound up and the joint committee was formally ended on 31st March 2014.

Section 6 – Group Introduction

In July 2013 the Council took over ownership of the three industrial estates at Blaydon Street, Riley Street and Holystone from TWEDCo. The Council has also received £0.258m during the year as a result of the distribution of cash balances held by the Company. As at the Balance Sheet date one area of the operations has still to formally be extinguished due to an outstanding tax issue. The Council's share of the assets of this operation is estimated to be £0.063m and an appropriate accrual has been made as part of the single entity accounts. As a result of the companies dissolution the Council's share of assets at 31st March 2013 of £1.460m has been released to the Group Comprehensive Income and Expenditure Account.

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 121 to 130 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 2012 (as restated)		**(1.634)**	**(29.589)**	**(11.553)**	**(5.835)**	**(2.661)**	**(51.272)**	**(131.903)**	**32.961**	**(150.214)**
Movement in reserves during 2012/13										
Deficit on the provision of services (as restated)		50.051	-	35.346	-	(0.279)	85.118	-	1.490	86.608
Other comprehensive income and expenditure (as restated)		-	-	-	-	0.108	0.108	5.080	0.470	5.658
Total comprehensive income and expenditure (as restated)		**50.051**	**-**	**35.346**	**-**	**(0.171)**	**85.226**	**5.080**	**1.960**	**92.266**
Adjustments between group accounts and Council accounts	1	-	-	-	-	(0.036)	(0.036)	-	-	(0.036)
Net decrease or (increase) before transfers		**50.051**	**-**	**35.346**	**-**	**(0.207)**	**85.190**	**5.080**	**1.960**	**92.230**
Adjustments between accounting basis and funding basis under regulations		(45.481)	-	(33.894)	4.079	-	(75.296)	75.296	-	-
Net decrease or (increase) before transfers to earmarked reserves (as restated)		**4.570**	**-**	**1.452**	**4.079**	**(0.207)**	**9.894**	**80.376**	**1.960**	**92.230**
Transfers (from) or to earmarked reserves		(3.763)	3.763	-	-	-	-	-	-	-
Decrease or (increase) in 2012/13 (as restated)		**0.807**	**3.763**	**1.452**	**4.079**	**(0.207)**	**9.894**	**80.376**	**1.960**	**92.230**
Balance at 31st March 2013 carried forward (as restated)		**(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 on the provision of services		22.572	-	5.761	-	1.216	29.549	-	0.890	30.439
Other comprehensive income and expenditure		-	-	-	-	-	-	(96.032)	(16.960)	(112.992)
Total comprehensive income and expenditure		**22.572**	**-**	**5.761**	**-**	**1.216**	**29.549**	**(96.032)**	**(16.070)**	**(82.553)**
Adjustments between group accounts and Council accounts	1	-	-	-	-	(0.044)	(0.044)	-	-	(0.044)
Net decrease or (increase) before transfers		**22.572**	**-**	**5.761**	**-**	**1.172**	**29.505**	**(96.032)**	**(16.070)**	**(82.597)**
Adjustments between accounting basis and funding basis under regulations		(29.112)	-	(8.816)	(12.267)	-	(50.195)	50.195	-	0.000
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)**

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.

2012/13 Gross expenditure (as restated)	2012/13 Gross income	2012/13 Net expenditure (as restated)		Note	2013/14 Gross expenditure	2013/14 Gross income	2013/14 Net expenditure
£m	£m	£m			£m	£m	£m
22.128	(18.749)	3.379	Central services to the public		3.323	(1.526)	1.797
17.610	(3.742)	13.868	Cultural and related services		27.426	(3.455)	23.971
19.196	(3.322)	15.874	Environmental services		18.275	(3.591)	14.684
11.547	(3.067)	8.480	Regulatory and Planning services		9.284	(4.573)	4.711
196.838	(127.611)	69.227	Education and children's services		177.125	(124.914)	52.211
14.342	(4.176)	10.166	Highways and transport services		14.699	(6.614)	8.085
101.151	(62.989)	38.162	Local authority housing (HRA)		87.098	(68.299)	18.799
76.869	(72.820)	4.049	Other housing services		75.478	(73.702)	1.776
77.185	(22.602)	54.583	Adult social care services		81.463	(25.401)	56.062
-	-	-	Public health services		13.653	(13.650)	0.003
6.487	(1.414)	5.073	Corporate and democratic core		2.819	(0.836)	1.983
2.790	(2.465)	0.325	Non-distributed costs		2.595	(2.217)	0.378
546.143	**(322.957)**	**223.186**	**Cost of services**		**513.238**	**(328.778)**	**184.460**
27.198	-	27.198	Other operating expenditure		12.040	-	12.040
44.472	(2.165)	42.307	Financing and investment income and expenditure	2	45.861	(2.975)	42.886
-	(206.083)	(206.083)	Taxation and non-specific grant income		-	(210.420)	(210.420)
617.813	**(531.205)**	**86.608**	**Deficit on the provision of services**		**571.139**	**(542.173)**	**28.966**
-	-	-	Associates accounted for on an equity basis		1.473	-	1.473
617.813	**(531.205)**	**86.608**	**Deficit on the Provision of Group Services**		**572.612**	**(542.173)**	**30.439**
			Items that may be reclassified to the deficit on the provision of services				
		(8.368)	Surplus on the revaluation of available for sale investments				-
			Items that will not be reclassified to the deficit on the provision of services				
		(3.182)	Surplus on revaluation of property, plant and equipment				(13.093)
		-	Impairment losses on non-current assets charged to the revaluation reserve				0.081
		0.108	Share of other comprehensive income and expenditure of associates				-
		17.100	Remeasurements of the net defined benefit liability	14			(99.980)
		5.658	**Other comprehensive income and expenditure**				**(112.992)**
		92.266	**Total comprehensive income and expenditure**				**(82.553)**

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.

1st April 2012 (as restated) £m	31st March 2013 (as restated) £m		Note	31st March 2014 £m
		Non-current assets		
490.778	456.651	Council dwellings	3	440.848
511.931	478.175	Other property, plant and equipment	3	489.032
3.500	3.435	Heritage assets		3.751
3.100	2.933	Investment properties		2.300
2.073	1.548	Intangible assets	5	1.555
1.568	1.460	Long term investments - associates		(0.013)
0.436	8.804	Other long term investments		8.804
0.949	9.037	Long term debtors		10.298
1,014.335	**962.043**	**Total non-current assets**		**956.575**
		Current assets		
19.512	27.723	Short term investments		24.515
1.158	0.789	Inventories		0.778
24.380	30.675	Short term debtors	6	31.336
63.654	31.079	Cash and cash equivalents	7	41.852
2.716	2.154	Assets held for sale		2.605
-	27.548	Assets held for disposal		21.749
111.420	**119.968**	**Total current assets**		**122.835**
		Current liabilities		
(0.810)	(0.756)	Cash and cash equivalents - bank overdraft	7	-
(49.733)	(44.107)	Short term creditors	8	(45.430)
(12.110)	(29.410)	Short term borrowing		(29.786)
(1.137)	(1.785)	PFI liability due in less than 1 year		(1.567)
(5.806)	(2.915)	Capital grants receipts in advance		(1.751)
(1.681)	(1.399)	Short term provisions		(7.214)
(71.277)	**(80.372)**	**Total current liabilities**		**(85.748)**
40.143	**39.596**	**Total net current assets**		**37.087**
		Non-current liabilities		
(0.179)	(0.191)	Long term creditors		(0.196)
(14.172)	(12.023)	Long term provisions		(10.759)
(459.189)	(472.387)	Long term borrowing		(470.385)
(74.074)	(72.298)	Long term PFI liability		(70.732)
(352.940)	(383.740)	Liability related to defined benefit obligation	14	(298.410)
(3.710)	(3.016)	Other long term liabilities		(2.599)
(904.264)	**(943.655)**	**Total non-current liabilities**		**(853.081)**
150.214	**57.984**	**Total net assets**		**140.581**
		Reserves		
(48.611)	(38.510)	Council usable reserves		(60.372)
(2.661)	(2.868)	Usable reserves of Group entities	4	(1.696)
(98.942)	(16.606)	Unusable reserves	9	(78.513)
(150.214)	**(57.984)**	**Total reserves**		**(140.581)**

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.

2012/13 (as restated) £m		**Note**	**2013/14 £m**
(86.608)	**Cash outflow from the provision of group services**		**(30.439)**
222.968	Adjustment to the deficit on the provision of services for non-cash movements		171.406
(111.218)	Adjust for items included in the deficit on the provision of services that are investing and financing activities		(110.930)
25.142	**Net cash flow from operating activities**		**30.037**
(76.366)	Investing activities	10	(28.240)
18.703	Financing activities		9.732
(32.521)	**Net (decrease) or increase in cash and cash equivalents**		**11.529**
62.844	**Cash and cash equivalents at the start of the year**		**30.323**
30.323	**Cash and cash equivalents at the end of the year**		**41.852**

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.

2012/13 £m		2013/14 £m
0.005	Loss on sale of property, plant and equipment	-
(0.041)	Realignment of depreciation policies for non-current assets	(0.044)
(0.036)	**Total adjustments**	**(0.044)**

Note 2. Financing and Investment Income and Expenditure

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

2012/13 (as restated) £m		2013/14 £m
29.352	Interest payable and similar charges	30.398
15.120	Interest expense of defined benefit obligation and interest income on assets	14.820
(1.184)	Interest receivable and similar income	(1.376)
(0.578)	Surplus on trading undertakings	(0.967)
(0.005)	Dividends receivable	(0.249)
(0.053)	Income and expenditure in relation to investment properties and changes in their fair value	0.402
(0.345)	Other investment income	(0.142)
42.307	**Total financing and investment income and expenditure**	**42.886**

Note 3. Property, Plant and Equipment

The table on the next page analyses the movement in property, plant and equipment for the Group for 2013/14.

Section 6 – Notes to the Group Financial Statements

2013/14	**Council dwellings**	**Other buildings**	**Other land**	**Vehicles, plant and equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total property, plant and equipment**	**PFI assets included in property, plant and equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 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	(4.292)	(4.772)	(0.403)	-	(0.030)	-	1.176	-	(8.321)	(9.590)
Revaluation to Comprehensive Income and Expenditure Statement	(29.736)	(16.742)	(2.302)	-	(0.383)	-	(0.538)	-	(49.701)	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 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)	-	(0.014)	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**

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 45 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 2012/13 are as follows:

2012/13	**Council dwellings**	**Other land and buildings**	**Vehicles, plant and equipment**	**Infrastructure assets**	**Community assets**	**Surplus assets**	**Assets under construction**	**Total property, plant and equipment**	**PFI assets included in property, plant and equipment**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2012	521.897	392.832	54.136	114.063	5.809	4.587	33.450	1,126.774	81.279
Additions	33.877	34.697	2.835	5.252	0.028	0.885	12.431	90.005	0.024
Revaluation to revaluation reserve	(11.840)	(3.585)	-	-	-	0.008	-	(15.417)	-
Revaluation to Comprehensive Income and Expenditure Statement	(42.541)	(31.597)	-	-	-	(0.022)	-	(74.160)	-
Sales	(2.743)	(2.221)	(0.205)	-	-	-	-	(5.169)	-
Other derecognition	(6.351)	(8.094)	(2.986)	-	-	(1.189)	-	(18.620)	-
Reclassification of assets	(0.155)	(12.136)	(0.160)	0.105	0.057	2.828	(26.073)	(35.534)	(19.556)
At 31st March 2013	**492.144**	**369.896**	**53.620**	**119.420**	**5.894**	**7.097**	**19.808**	**1,067.879**	**61.747**
Depreciation and impairments									
At 1st April 2012	(31.119)	(37.512)	(34.766)	(19.609)	(1.057)	(0.002)	-	(124.065)	(10.786)
Depreciation to Comprehensive Income and Expenditure Statement	(13.740)	(10.826)	(6.099)	(2.616)	(0.279)	(0.043)	-	(33.603)	(1.280)
Depreciation to revaluation reserve	9.374	9.224	-	-	-	-	-	18.598	-
Impairment to Comprehensive Income and Expenditure Statement	(0.248)	(3.034)	-	(0.033)	-	-	-	(3.315)	-
Sales	0.083	0.951	0.171	-	-	-	-	1.205	-
Other derecognition	0.145	-	2.306	-	-	-	-	2.451	-
Reclassification of assets	0.012	5.510	0.154	-	-	-	-	5.676	5.167
At 31st March 2013	**(35.493)**	**(35.687)**	**(38.234)**	**(22.258)**	**(1.336)**	**(0.045)**	**-**	**(133.053)**	**(6.899)**
Balance Sheet amount at 31st March 2012	**490.778**	**355.320**	**19.370**	**94.454**	**4.752**	**4.585**	**33.450**	**1,002.709**	**70.493**
Balance Sheet amount at 31st March 2013	**456.651**	**334.209**	**15.386**	**97.162**	**4.558**	**7.052**	**19.808**	**934.826**	**54.848**

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 Ltd	Tyne & Wear Development Company	South Tyneside Homes Venture Trust Limited	Total
	100% share	14% share	43% share	
	£m	£m	£m	£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**

The figures for Beamish Museum are not reported as there are sufficient assets available to cover the liabilities of the entities involved.

The equivalent figures for 2012/13 are as follows:

	South Tyneside Homes Limited	Tyne & Wear Development Company	Beamish Museum	Total
	100% share	14% share	8% share	
	£m	£m	£m	£m
Reserves as at 1st April 2012	**1.093**	**1.673**	**(0.105)**	**2.661**
Non-current assets	0.207	1.354	-	1.561
Current assets	6.896	0.249	-	7.145
Short term liabilities	(5.695)	(0.058)	-	(5.753)
Long term liabilities	-	(0.085)	-	(0.085)
Reserves as at 31st March 2013	**1.408**	**1.460**	**-**	**2.868**

Section 6 – Notes to the Group Financial Statements

Note 5. Intangible Assets

An analysis of Group intangible assets is as follows:

2012/13 Software £m		2013/14 Software £m	2013/14 Assets under construction £m	2013/14 Total £m
	Balance at start of year:			
5.973	Gross book value	6.083	-	6.083
(3.900)	Accumulated amortisation	(4.535)	-	(4.535)
2.073	**Net book value at start of year**	**1.548**	**-**	**1.548**
0.110	Additions	0.040	0.587	0.627
-	Disposals	(0.025)	-	(0.025)
(0.635)	Amortisation for the period	(0.620)	-	(0.620)
-	Amortisation written out on disposal	0.025	-	0.025
1.548	**Net book value at end of year**	**0.968**	**0.587**	**1.555**
	Comprising:			
6.083	Gross book value	6.098	0.587	6.685
(4.535)	Accumulated amortisation	(5.130)	-	(5.130)
1.548	**Net book value at end of year**	**0.968**	**0.587**	**1.555**

Note 6. Short Term Debtors

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

31st March 2013 £m		31st March 2014 £m
	Amounts falling due in one year	
9.856	Central Government bodies	9.719
2.025	Other local authorities	1.794
0.765	NHS bodies	1.203
3.022	Housing tenants	3.838
5.895	Council Tax payers	7.134
0.014	Non domestic ratepayers	0.587
1.344	Tyne and Wear Pension Fund	0.966
14.702	Other debtors	14.014
37.623	**Total amounts falling due in one year**	**39.255**
	Allowances for bad debts	
(2.144)	Housing tenants	(2.241)
(2.595)	Council Tax payers	(3.087)
(0.015)	Non domestic ratepayers	(0.290)
(0.029)	NHS bodies	-
(2.165)	Other debtors	(2.301)
(6.948)	**Total bad debt allowances**	**(7.919)**
30.675	**Net debtors**	**31.336**

Section 6 – Notes to the Group Financial Statements

Note 7. Cash and Cash Equivalents

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

31st March 2013 £m		31st March 2014 £m
0.083	Cash held by the Council	0.067
18.995	Bank current accounts	8.668
12.001	Short term deposits with financial institutions	33.117
31.079	**Cash and cash equivalent assets**	**41.852**
(0.756)	Bank overdraft facility	-
(0.756)	**Cash and cash equivalent liabilities**	**-**
30.323	**Total cash and cash equivalents**	**41.852**

Note 8. Short Term Creditors

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

31st March 2013 £m		31st March 2014 £m
(6.214)	Central Government bodies	(6.100)
(0.704)	Other local authorities	(0.554)
(0.810)	NHS bodies	(1.619)
(0.629)	Housing tenants	(0.821)
(1.059)	Council Tax payers	(1.179)
(4.119)	Group employees	(3.838)
(3.626)	Tyne and Wear Pension Fund	(3.242)
(26.946)	All other creditors	(28.077)
(44.107)	**Total creditors**	**(45.430)**

Note 9. Unusable Reserves

The following table lists the unusable reserves of the Group.

31st March 2013 £m		31st March 2014 £m
(120.465)	Revaluation reserve	(127.806)
(276.861)	Capital adjustment account	(245.233)
386.073	Pensions reserve	300.048
(8.794)	Available-for-sale financial instruments reserve	(8.794)
4.293	Employee benefits adjustment account	3.891
(0.229)	Financial instruments adjustment account	(0.176)
(0.571)	Collection Fund adjustment account	(0.437)
(0.052)	Deferred capital receipts reserve	(0.006)
(16.606)	**Total unusable reserves**	**(78.513)**

Section 6 – Notes to the Group Financial Statements

Note 10. Investing Activities

The cash flows for investing activities include the following items:

2012/13 £m		2013/14 £m
(96.120)	Purchase of property, plant and equipment, heritage assets, intangible assets and assets held for sale or disposal	(77.884)
(78.000)	Purchase of short term and long term investments	(55.000)
7.160	Proceeds from the sale of property, plant and equipment and assets held for sale	13.506
70.000	Proceeds from short-term and long-term investments	58.000
20.594	Other receipts from investing activities	33.138
(76.366)	**Net cash flows from investing activities**	**(28.240)**

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:

	Number of employees	
Group	**2012/13**	**2013/14**
£50,000 - £54,999	48	52
£55,000 - £59,999	27	40
£60,000 - £64,999	33	29
£65,000 - £69,999	8	15
£70,000 - £74,999	10	4
£75,000 - £79,999	5	4
£80,000 - £84,999	5	5
£85,000 - £89,999	3	4
£90,000 - £94,999	3	1
£95,000 - £99,999	-	1
£105,000 - £109,999	-	1
£120,000 - £124,999	-	1
£150,000 - £154,999	1	-
£165,000 - £169,999	-	1
£185,000 - £189,999	1	-
	144	**158**

Note 12. External Audit Costs

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

2012/13 £m		2013/14 £m
0.185	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	0.017
0.005	Fees for other services provided by external auditors during the year	0.002
0.207	**Total fees payable to external auditors**	**0.205**

Section 6 – Notes to the Group Financial Statements

Note 13. Contingent Liabilities

Details of the Council's contingent liabilities can be found in note 39 of the single entity statement. This details a liability in relation to the Council's guarantee of the pension deficit within South Tyneside Homes Limited.

Note 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.

Actuarial Assumptions Adopted

The main financial assumptions used by the actuary for STHL in 2013/14, differ from those applied to the Council valuation. The assumptions used for STHL are confirmed in the table below. Note 44 of the Council's Core Financial Statements provide the assumptions used by the actuary for the Council.

	31st March 2013	31st March 2014
	% per annum	% per annum
Discount rate	4.60	4.40
Inflation rate (retail price index)	3.70	3.40
Inflation rate (consumer price index)	2.80	2.40
Rate of increase to pensions in payment	2.80	2.40
Rate of increase to deferred pensions	2.80	2.40
Rate of general increase in salaries	4.70	3.90

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

Asset Allocation

Assets for STH are allocated the same as disclosed for the Council in note 44 of the Council's core financial statements. However STH 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 2014.

Section 6 – Notes to the Group Financial Statements

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

	31st March 2013 £m	31st March 2014 £m
Fair value of assets	570.170	591.490
Present value of funded defined benefit obligation	(922.510)	(860.100)
Liability recognised on the Balance Sheet	**(352.340)**	**(268.610)**

The impact of STH on the split of the defined benefit obligation at the last valuation compared to that disclosed by the Council in note 44 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 (OCI)

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

2012/13 £m (as restated)		2013/14 £m
	Operating cost	
20.180	Current service cost	21.890
2.020	Past service cost	0.870
	Financing cost	
13.770	Interest on net defined benefit obligation	13.580
35.970	**Pension expense recognised**	**36.340**
	Remeasurements in OCI	
(36.220)	Return on plan assets (in excess of) or below that recognised in net interest	5.330
51.880	Actuarial losses / (gains) due to change in financial assumptions	(52.580)
-	Actuarial gains due to change in demographic assumptions	(6.030)
(0.420)	Actuarial gains due to liability experience	(46.160)
15.240	**Total amount recognised in OCI**	**(99.440)**
51.210	**Total amount recognised**	**(63.100)**

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

The tables on the next page 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.

2012/13 (as restated) £m		2013/14 £m
(830.750)	**Opening defined benefit obligation**	**(922.510)**
(20.180)	Current service cost	(21.890)
(38.680)	Interest expense on defined benefit obligation	(40.440)
(5.660)	Contributions by participants	(5.490)
(51.880)	Actuarial (losses) or gains on liabilities - financial assumptions	52.580
-	Actuarial gains on liabilities - demographic assumptions	6.030
0.420	Actuarial gains on liabilities - experience	46.160
26.240	Net benefits paid out	26.330
(2.020)	Past service cost	(0.870)
(922.510)	**Closing defined benefit obligation**	**(860.100)**

Changes to the fair value of assets during the accounting year

2012/13 (as restated) £m		2013/14 £m
508.270	**Opening fair value of assets**	**570.170**
24.910	Interest income on assets	26.860
36.220	Remeasurement gains or (loss) on assets	(5.330)
21.350	Contributions by the employer	20.630
5.660	Contributions by participants	5.490
(26.240)	Net benefits paid out	(26.330)
570.170	**Closing fair value of assets**	**591.490**

Actual return on assets

2012/13 (as restated) £m		2013/14 £m
24.910	Interest income on assets	26.860
36.220	Remeasurement gain or (loss) on assets	(5.330)
61.130	**Actual return on assets**	**21.530**

Unfunded Benefits

STHL has no unfunded benefits. Disclosure information relating to unfunded benefits for the Council can be found at note 44, section b of the core financial statements within this document.

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

Section 6 – Notes to the Group Financial Statements

31st March 2013 Group funded £m	31st March 2013 Council unfunded £m	31st March 2013 Group total £m		31st March 2014 Group funded £m	31st March 2014 Council unfunded £m	31st March 2014 Group total £m
570.170	-	570.170	Fair value of assets	591.490	-	591.490
(922.510)	(31.400)	(953.910)	Present value of liabilities	(860.100)	(29.800)	(889.900)
(352.340)	**(31.400)**	**(383.740)**	**Defined benefit obligation**	**(268.610)**	**(29.800)**	**(298.410)**

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:

2012/13 Group funded (as restated) £m	2012/13 Council unfunded £m	2012/13 Group total (as restated) £m		2013/14 Group funded £m	2013/14 Council unfunded £m	2013/14 Group total £m
38.680	1.350	40.030	Interest on defined benefit obligation	40.440	1.240	41.680
(24.910)	-	(24.910)	Interest income on assets	(26.860)	-	(26.860)
13.770	**1.350**	**15.120**	**Pension interest cost and interest income on pension assets**	**13.580**	**1.240**	**14.820**

Section 7 – Tyne and Wear Pension Fund Statements

1. Introduction

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

As at 31st March 2014, there were 210 employers participating in the Fund, including five district councils and a range of other organisations that provide a public service within the County area. A full list of employers is shown later in this statement. The Fund had 121,294 members, made up of 44,077 active members, 41,778 pensioners and 35,439 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2013/14.

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. 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.

Scheme Regulations to 31st March 2014

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

Scheme Regulations from 1st April 2014

A new pension scheme is introduced from 1st April 2014 and the following regulations replace those mentioned above.

Local Government Pension Scheme Regulations 2013

These regulations 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 set out how membership accrued prior to 1st April 2014 counts. A third set of Regulations, covering aspects of the management and governance of the new Scheme, are currently awaited.

Section 7 – Tyne and Wear Pension Fund Statements

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

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

4. The 2010 Valuation

Rates of contributions paid by the employers during 2013/14 were based on the valuation carried out as at 31st March 2010. The value of the Fund at that date was £4,304.9 million.

The total rate of employer contribution resulting from the 2010 valuation was 21.2% of pensionable pay, comprised of a future service element of 15.3% and a past service deficiency element of 5.9%. The revised employers' contributions were implemented from April 2011.

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

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

A valuation was carried out as at 31st March 2013 which set the employers' contributions from April 2014. The average future service rate will be 16.1% of pay and the contribution to address the deficit will be 7.5% of pay, leading to a total average contribution of 23.6% of pay, as against 21.1% of pay at the 2010 valuation.

5. Investment Strategy and Investment Structure

The investment strategy in place in 2013/14 was based on an asset liability study carried out in 2012/13 that was based upon the liabilities shown by the 2010 valuation.

Note 9 to the 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 2014

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 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 is:

- 16.1% of pensionable pay. This is 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 1st April 2014, amounting to £64.1m in 2014/15, and increasing by 3.9% per annum (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 is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

Section 7 – Tyne and Wear Pension Fund Statements

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	5.1% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	5.15% p.a.
Admission Bodies	3.7% p.a.
Rate of inflationary pay increases (additional allowance made for promotional increases)	3.9% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% 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 as at 31st March 2016.

8. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. The first such review since the actuarial valuation as at 31st March 2013 is due to be carried out with an effective date of 31st March 2014.

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

Aon Hewitt Limited
14th May 2014

Section 7 – Tyne and Wear Pension Fund Statements

Fund Account for the year ending

31st March 2013 £m		Note	31st March 2014 £m
	Dealings with members, employers and others directly involved in the Fund		
(221.010)	Contributions receivable - employers	3	(230.862)
(54.310)	Contributions receivable - employees	3	(53.629)
(5.974)	Transfers in from other pension funds	4	(4.519)
(281.294)	**Total contributions**		**(289.010)**
252.151	Benefits payable	5	251.495
14.436	Payments to and on account of leavers	6	10.077
2.255	Administrative expenses	7	2.380
268.842	**Total benefits**		**263.952**
(12.452)	**Net additions from dealings with members**		**(25.058)**
	Returns on investments		
(93.985)	Investment income	8	(99.501)
3.535	Non-recoverable tax	8	4.097
(497.457)	Change in market value of investments	9	(192.643)
9.480	Investment management expenses	12	9.717
(578.427)	**Net returns on investments**		**(278.330)**
(590.879)	**Increase in the net assets available for benefits during the year**		**(303.388)**
4,841.462	**Net assets of the Fund at 1st April**		**5,432.341**
5,432.341	**Net assets of the Fund at 31st March**		**5,735.729**

Net Assets Statement

31st March 2013 £m		Note	31st March 2014 £m
5,425.461	Investment assets	9	5,723.149
(12.613)	Investment liabilities	9	(9.677)
33.391	Current assets	13	37.519
(13.898)	Current liabilities	13	(15.262)
5,432.341	**Net assets of the Fund at 31st March**		**5,735.729**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary. The financial statements should be read in conjunction with the Actuary's statement. The actuarial present value of the promised retirement benefits is disclosed at note 24, which has been compiled under IAS 26 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 have been prepared in accordance with the main recommendations of the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

2. Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice is transfer values, which are recognised when the liability is accepted by the receiving scheme.

Acquisition Cost of Investments

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

Valuation of Investments

Quoted securities have been valued at their bid price on 31st March 2014.

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 2014 as valued by the Investment Manager responsible for such vehicles.

Other unquoted investments have been valued with regard to latest dealings and other appropriate financial information as provided by the Investment Manager responsible for those investments.

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

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2014.

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 2014.

Properties are shown as valued at 31st March 2014. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE. No depreciation is provided on freehold buildings or long leasehold properties.

Section 7 – Tyne and Wear Pension Fund Statements

Investment Transactions
Investment transactions that were not settled as at 31st March 2014 have been accrued.

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

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

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31st March 2014.

With regard to property rental income payable quarterly in advance, only the proportion of each payment attributable to the Fund from the due date to the 31st March 2014 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2014.

Investment Management Expenses
Investment management expenses payable as at 31st March 2014 have been accrued.

Foreign Currencies
Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2014.

Contributions
Contributions represent the amounts receivable from the organisations participating in the Fund. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2014 have been accrued.

Benefits and Refunds
Benefits and refunds are accounted for in the year in which they become due for payment. These become payable at the later of date of retirement or when requested by the Member.

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

Outstanding Commitments
The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. These are shown in note 22.

Section 7 – Tyne and Wear Pension Fund Statements

Overheads and Expenses

Overheads and other management expenses are included in the accounts on an accruals basis.

3. Contributions Receivable

2012/13 £m		2013/14 £m
	Employers	
(124.263)	Normal	(128.093)
(96.738)	Deficit funding	(102.748)
(0.009)	Augmentation	(0.021)
(221.010)		**(230.862)**
	Members and employees	
(53.883)	Normal	(53.235)
(0.427)	In-house additional voluntary contributions	(0.394)
(54.310)		**(53.629)**
(275.320)	**Total contributions receivable**	**(284.491)**

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

2012/13 £m		2013/14 £m
(22.567)	South Tyneside Council (Administering Authority)	(21.398)
(155.483)	Other metropolitan councils	(147.815)
(57.438)	Other Part 1 Scheduled Bodies	(70.923)
(9.459)	Part 2 Scheduled Bodies	(11.034)
(30.373)	Admitted Bodies	(33.321)
(275.320)	**Total contributions receivable**	**(284.491)**

4. Transfers In

During the year, individual transfers in from other schemes amounted to £4.519m (£5.974m in 2012/13). There were no bulk transfers in to the Fund in 2013/14 or 2012/13.

5. Benefits Payable

2012/13 £m		2013/14 £m
197.128	Pensions	208.200
60.968	Commutations and lump sum retirement benefits	48.966
5.245	Lump sum death benefits	5.539
(11.190)	Recharges out	(11.210)
252.151	**Total benefits payable**	**251.495**

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

2012/13 £m		2013/14 £m
23.489	South Tyneside Council (Administering Authority)	23.296
158.116	Other metropolitan councils	158.821
38.561	Other Part 1 Scheduled Bodies	36.893
8.009	Part 2 Scheduled Bodies	7.552
23.976	Admitted Bodies	24.933
252.151	**Total benefits payable**	**251.495**

6. Leavers

2012/13 £m		2013/14 £m
14.429	Individual transfers to other schemes	9.228
0.015	Refunds to members leaving service	0.030
-	Group Transfers	0.825
(0.008)	State scheme premiums	(0.006)
14.436	**Total leavers**	**10.077**

There was one bulk transfer out of the Fund in 2013/14 to Bristol City Council from Newcastle College. There were no bulk transfers out in 2012/13.

7. Administrative Expenses

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

2012/13 £m		2013/14 £m
1.472	Employee expenses	1.517
0.538	Support services recharge	0.505
0.033	Audit fees	0.031
0.024	External computing costs	0.100
0.086	Printing and publications	0.063
0.076	Professional fees	0.148
0.028	Other expenses	0.023
(0.002)	Income	(0.007)
2.255	**Total administrative expenses**	**2.380**

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

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8. Investment Income

2012/13 £m		2013/14 £m
(1.034)	Fixed interest securities	(1.515)
(58.010)	Equities	(67.921)
(0.428)	Index-linked securities	(0.351)
(14.196)	Pooled investment vehicles	(11.298)
(19.614)	Net rents from properties	(17.703)
(0.185)	Cash deposits	(0.230)
(0.490)	Securities lending	(0.463)
(0.004)	Commission recapture	(0.003)
(0.024)	Underwriting commission	(0.017)
(93.985)	**Sub-total**	**(99.501)**
3.535	Non-recoverable tax	4.097
(90.450)	**Total investment income**	**(95.404)**

Net Rent from Property

Net rent from Property can be analysed further, as follows:

2012/13 £m		2013/14 £m
	Net rent from property	
(22.474)	Rental income	(21.492)
2.860	Direct operating expenses	3.789
(19.614)	**Net income**	**(17.703)**

9. Investments

31st March 2013 £m		31st March 2014 £m
	Investment assets	
48.294	Fixed interest securities	51.221
2,451.632	Equities	2,649.607
49.704	Index-linked securities	47.268
2,496.675	Pooled investment vehicles	2,578.373
306.920	Properties	263.155
5.843	Derivative contracts	1.709
50.891	Cash deposits	118.321
15.502	Other investment balances	13.495
5,425.461	**Total investment assets**	**5,723.149**
	Investment liabilities	
(2.780)	Derivative contracts	(1.862)
(9.833)	Other investment balances	(7.815)
(12.613)	**Total investment liabilities**	**(9.677)**
5,412.848	**Net investment assets**	**5,713.472**

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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.

2013/14	Value at 1st April 2013 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31st March 2014 £m
Fixed interest securities	48.294	213.521	(208.084)	(2.510)	51.221
Equities	2,451.632	1,365.839	(1,083.435)	(84.429)	2,649.607
Index-linked securities	49.704	178.247	(178.907)	(1.776)	47.268
Pooled investment vehicles	2,496.675	329.368	(517.598)	269.928	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	**2,132.994**	**(2,094.093)**	**194.282**	**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**	**2,205.523**	**(2,097.542)**	**192.643**	**5,713.472**

The equivalent table for the previous year is as follows:

2012/13	Value at 1st April 2012 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31st March 2013 £m
Fixed interest securities	20.744	272.973	(245.361)	(0.062)	48.294
Equities	2,118.646	874.049	(853.679)	312.616	2,451.632
Index-linked securities	36.655	212.804	(204.840)	5.085	49.704
Pooled investment vehicles	2,245.571	211.799	(218.591)	257.896	2,496.675
Properties	359.185	33.297	(2.850)	(82.712)	306.920
Derivative contracts	(1.545)	5.946	(6.029)	4.691	3.063
	4,779.256	**1,610.868**	**(1,531.350)**	**497.514**	**5,356.288**
Cash deposits	40.851	9.777	-	0.263	50.891
Other investment balances	0.364	11.745	(6.120)	(0.320)	5.669
Total investments	**4,820.471**	**1,632.390**	**(1,537.470)**	**497.457**	**5,412.848**

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31st March 2013 £m		31st March 2014 £m
48.294	**Total fixed interest securities**	**51.221**
	Equities	
801.480	UK quoted	834.884
1,380.288	Overseas quoted	1,498.430
269.864	Overseas unquoted	316.293
2,451.632	**Total equities**	**2,649.607**
49.704	**Total UK public sector index linked securities**	**47.268**
	Pooled investment vehicles	
45.732	Unit trusts	37.682
1,250.572	Unitised insurance policies	1,333.609
1,200.371	Other managed funds	1,207.082
2,496.675	**Total pooled investment vehicles**	**2,578.373**
3.063	**Total forward foreign currency derivative contracts**	**(0.153)**
	Properties	
222.725	Freehold	186.905
84.195	Long leasehold	76.250
306.920	**Total properties**	**263.155**
	Cash deposits	
41.862	Sterling	107.606
9.029	Foreign currency	10.715
50.891	**Total cash deposits**	**118.321**
	Other investment balances	
(0.236)	Outstanding trades	(1.638)
12.578	Outstanding dividends and tax recoveries	11.601
2.924	Debtors	1.894
(9.597)	Creditors	(6.177)
5.669	**Total other investment balances**	**5.680**
5,412.848	**Total investments**	**5,713.472**

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases. Transaction costs incurred during the year amounted to £5.613m (£5.056m in 2012/13). In addition to the transaction costs noted above, costs will be incurred within pooled investment vehicles. The amount of these costs is not provided separately to the Fund.

10. Financial Instruments

Classification of financial instruments

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

31st March 2013 Designated as fair value through profit and loss £m	31st March 2013 Loans and receivables £m	31st March 2013 Financial liabilities at amortised cost £m		31st March 2014 Designated as fair value through profit and loss £m	31st March 2014 Loans and receivables £m	31st March 2014 Financial liabilities at amortised cost £m
			Financial assets			
48.294	-	-	Fixed interest securities	51.221	-	-
2,451.632	-	-	Equities	2,649.607	-	-
49.704	-	-	Index-linked securities	47.268	-	-
2,496.675	-	-	Pooled investment vehicles	2,578.373	-	-
5.843	-	-	Derivative contracts	1.709	-	-
306.920	-	-	Properties	263.155	-	-
-	50.891	-	Cash deposits	-	118.321	-
12.578	-	-	Other investment balances	11.601	-	-
	36.315	-	Debtors		39.413	-
5,371.646	**87.206**	**-**	**Total financial assets**	**5,602.934**	**157.734**	**-**
			Financial liabilities			
(2.780)	-	-	Derivative contracts	(1.862)	-	-
(0.236)	-	-	Other investment balances	(1.638)	-	-
-	-	(23.495)	Creditors	-	-	(21.439)
(3.016)	**-**	**(23.495)**	**Total financial liabilities**	**(3.500)**	**-**	**(21.439)**
5,368.630	**87.206**	**(23.495)**	**Net financial assets or (liabilities)**	**5,599.434**	**157.734**	**(21.439)**

Net gains and losses on financial instruments

31st March 2013 £m		31st March 2014 £m
	Financial assets	
497.514	Fair value through profit and loss	194.322
0.263	Loans and receivables	-
	Financial liabilities	
(0.320)	Fair value through profit and loss	(1.679)
497.457	**Total**	**192.643**

Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values;

31st March 2013 Carrying value £m	31st March 2013 Fair value £m		31st March 2014 Carrying value £m	31st March 2014 Fair value £m
		Financial assets		
4,251.825	5,359.068	Fair value through profit and loss	4,516.515	5,591.333
99.836	99.784	Loans and receivables	169.416	169.335
4,351.661	**5,458.852**	**Total financial assets**	**4,685.931**	**5,760.668**
		Financial liabilities		
-	(2.780)	Fair value through profit and loss	-	(1.862)
(23.731)	(23.731)	Financial liabilities at amortised cost	(23.077)	(23.077)
(23.731)	**(26.511)**	**Total financial liabilities**	**(23.077)**	**(24.939)**
4,327.930	**5,432.341**	**Net financial assets**	**4,662.854**	**5,735.729**

Valuation of financial instruments carried at fair value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments are level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where valuation techniques are used to determine fair value and where the techniques use input that are based significantly on observable market data. Assets in this level are comprised of UK property valued independently by professional valuers.

Level 3

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

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

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

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31st March 2014 valuation and a 31st December 2013 valuation adjusted for cash flows and rolled forward to 31st March 2014 as appropriate.

The table on the next page provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3 at fair value.

Value at 31st March 2014	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	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**

Value at 31st March 2013	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,243.228	312.763	803.077	5,359.068
Loans and receivables	99.784	-	-	99.784
Total financial assets	**4,343.012**	**312.763**	**803.077**	**5,458.852**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(2.780)	-	(2.780)
Financial liabilities at amortised cost	(23.731)	-	-	(23.731)
Total financial liabilities	**(23.731)**	**(2.780)**	**-**	**(26.511)**
Net financial assets	**4,319.281**	**309.983**	**803.077**	**5,432.341**

11. Nature and extent of risks arising from Financial Instruments

Risk and Risk Management

The Fund’s investment objective is:

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

and

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

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

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

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.

Market Risk

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

Other Price Risk

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

Other Price Risk – Sensitivity Analysis

In consultation with its investment advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the movements in market price risk are reasonably possible for the 2014/15 financial year as detailed in the table on the next page.

Asset type	Potential market movements (+/-) %
UK equities	17.0
Overseas equities	19.0
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 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**

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Asset type	Value at 31st March 2013 £m	Percentage change %	Value on increase £m	Value on decrease £m
UK equities	1,517.953	16.0	1,760.825	1,275.081
Overseas equities	1,591.631	19.0	1,894.041	1,289.221
UK bonds	874.555	7.9	943.645	805.465
Overseas bonds	19.629	10.4	21.670	17.588
Index linked securities	145.472	5.9	154.055	136.889
UK property	306.920	14.5	351.423	262.417
Overseas property	165.573	20.0	198.688	132.458
Private equity	539.944	27.8	690.048	389.840
Infrastructure funds	88.749	14.4	101.529	75.969
Active currency	100.215	20.0	120.258	80.172
Cash and cash equivalents	53.474	-	53.474	53.474
Foreign currency contracts	3.063	-	3.063	3.063
Investment income due	12.578	-	12.578	12.578
Amounts due for sales	2.924	-	2.924	2.924
Amounts payable for purchases	(9.832)	-	(9.832)	(9.832)
Total	**5,412.848**		**6,298.389**	**4,527.307**

The analysis in the two tables above is on a look through basis. This differs from the analysis in note 9 and the tables below which are compiled under accounting standards.

Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31st March 2014 and 31st March 2013 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

Asset type	31st March 2013 £m	31st March 2014 £m
Cash and cash equivalents	50.891	118.321
Fixed interest securities	48.294	51.221
Index linked securities	49.704	47.268
Total	**148.889**	**216.810**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The table on the next page shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 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 March 2014	Change in net asset values	
		+1%	-1%
	£m	£m	£m
Cash and cash equivalents	118.321	119.504	117.138
Fixed interest securities	51.221	51.733	50.709
Index linked securities	47.268	47.741	46.795
Total	**216.810**	**218.978**	**214.642**

Asset type	Value at 31st March 2013	Change in net asset values	
		+1%	-1%
	£m	£m	£m
Cash and cash equivalents	50.891	51.400	50.382
Fixed interest securities	48.294	48.777	47.811
Index linked securities	49.704	50.201	49.207
Total	**148.889**	**150.378**	**147.400**

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 dominated 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 2014 and at 31st March 2013, which were revised after a review of the asset included within each class:

Asset type	Value at 31st March 2013 £m (as restated)	Value at 31st March 2014 £m
Overseas quoted equities	1,591.631	1,896.159
Overseas unquoted equities	536.469	526.706
Overseas pooled investment vehicles	254.323	355.025
Forward currency contracts	3.063	(0.153)
Overseas currency	9.029	10.715
Total	**2,394.515**	**2,788.452**

Currency Risk – Sensitivity Analysis

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

The table on the next page shows the impact of a 13% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens.

Asset type	Value at 31st March 2014	Change in net asset values	
		+13%	-13%
	£m	£m	£m
Overseas quoted equities	1,896.159	2,142.660	1,649.658
Overseas unquoted equities	526.706	595.178	458.234
Overseas pooled investment vehicles	355.025	401.178	308.872
Forward currency contracts	(0.153)	(0.173)	(0.133)
Overseas currency	10.715	12.108	9.322
Total	**2,788.452**	**3,150.951**	**2,425.953**

The comparable figures for the previous year are as follows:

Asset type	Value at 31st March 2013	Change in net asset values	
	(as restated)	+13% (as restated)	-13% (as restated)
	£m	£m	£m
Overseas quoted equities	1,591.631	1,798.543	1,384.719
Overseas unquoted equities	536.469	606.210	466.728
Overseas pooled investment vehicles	254.323	287.385	221.261
Forward currency contracts	3.063	3.461	2.665
Overseas currency	9.029	10.203	7.855
Total	**2,394.515**	**2,705.802**	**2,083.228**

Manager Risk

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

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

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

Credit Risk

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

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

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

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 2014 was £76.630m (£12.362m in 2012/13). 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 Fund seeks to further limit risk by restricting direct investments to UK financial institutions that are supported by the UK Government.

The internally managed cash was held with the following institutions:

	Rating	Value at 31st March 2013	Value at 31st March 2014
		£m	£m
Money market funds			
Prime Rate	AAA	7.758	15.000
Insight	AAA	-	15.000
Goldman Sachs	AAA	-	14.000
Ignis	AAA	-	14.000
Deutsche Bank	AAA	-	2.400
Bank deposit accounts			
NatWest SIBA	A	4.072	1.230
Bank of Scotland	A	0.531	-
Royal Bank of Scotland	A	0.001	-
Nationwide Building Society	A	-	15.000
Total		**12.362**	**76.630**

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 2014.

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12. Investment Management Expenses

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

2012/13 £m		2013/14 £m
9.306	Administration, management and custody	9.547
0.072	Performance and risk measurement services	0.061
0.102	Other advisory fees	0.109
9.480	**Total investment management expenses**	**9.717**

Administration includes employee expenses that have been charged to the Fund on a time basis, in line with accountancy standards this line only includes the net external management costs and not expenses paid as part of a pooled investment fund. Office expenses and other overheads have also been charged.

13. Current Assets and Liabilities

31st March 2013 £m		31st March 2014 £m
	Current assets	
4.852	Contributions and recharges due - employees	4.749
28.140	Contributions and recharges due - employers	32.260
0.055	HM Revenue and Customs	0.012
0.336	Investment management expenses	0.493
0.008	Other	0.005
33.391	**Total current assets**	**37.519**
	Current liabilities	
(8.096)	Unpaid benefits	(9.057)
(0.066)	Contributions, recharges and refunds due - employers	(0.444)
(1.697)	HM Revenue and Customs	(2.318)
(2.931)	Investment management expenses	(3.417)
(1.108)	Other	(0.026)
(13.898)	**Total current liabilities**	**(15.262)**

14. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

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

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

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

During 2013/14, £1.337m of contribution income was received into the AVC funds provided by The Prudential (£1.160m in 2012/13). As at 31st March 2014, these funds were valued at £9.039m (£8.769m in 2012/13).

During 2013/14, £0.002m of contribution income was received into the AVC funds provided by Equitable Life (£0.002m in 2012/13). As at 31st March 2014, these funds were valued at £0.113m (£0.158m in 2012/13).

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 2014. Each manager is a specialist in the market in which they invest. This broadly based management structure seeks to ensure that investment returns are not overly influenced by the performance of any one manager.

The Fund also has investment programmes across the four alternative asset classes of private equity, active currency, infrastructure and global property.

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

The active currency programme is invested with Millennium, Investec and BlackRock.

The Fund has invested in infrastructure through funds provided by Partners Group, Henderson Global Investors and M&G.

Investment in global property is through funds provided by Partners Group.

The market value of the investments in the hands of each manager is shown in the table on the next page.

31st March 2013 £m			31st March 2014 £m	
		Investment managers		
306.920	5.7%	Aberdeen Property Investors	263.155	4.6%
236.220	4.4%	BlackRock	257.162	4.5%
131.131	2.4%	Capital International - Emerging Markets	-	0.0%
436.390	8.1%	Henderson Global Investors	444.336	7.8%
-	0.0%	JP Morgan Asset Management Emerging Markets	72.131	1.3%
541.177	10.0%	JP Morgan Asset Management Global Equities	585.387	10.2%
137.853	2.5%	Lazard Asset Management	128.777	2.3%
860.703	15.9%	Legal and General Investment Management	935.464	16.4%
490.430	9.1%	M&G Investment Management	497.270	8.7%
239.625	4.4%	Mirabaud Investment Management	261.563	4.6%
549.666	10.1%	Sarasin and Partners	579.640	10.1%
54.856	1.0%	TT International	50.883	0.9%
511.406	9.4%	UBS Global Asset Management	551.063	9.6%
100.215	1.9%	Active Currency	92.739	1.6%
539.944	10.0%	Private Equity	547.932	9.6%
88.749	1.6%	Infrastructure	108.358	1.9%
165.573	3.1%	Global Property	246.775	4.3%
21.990	0.4%	Managed in-house	90.837	1.6%
5,412.848	**100.0%**	**Total investments**	**5,713.472**	**100.0%**

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2014, the Fund had £0.327m (£0.934m in 2012/13) 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. A further payment was received after the year reducing the amount outstanding to £0.224m.

16. Investment Performance

The 2013/14 year produced mixed returns from the major equity markets. The strongest markets were the European (excluding UK) equities and UK Property which rose by 17.3% and 14.2% respectively. The weaker performing markets were Emerging Market and Asia (excluding Japanese equities) which finished the year down by 9.7% and 5.8% respectively.

The Fund's return for the year was 5.2%, which was 0.7% below its benchmark return of 5.9%. Inflation, as measured by the Consumer Price Index, rose by 1.6% and average earnings increased by 1.7%.

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 12.2% per annum, which is 0.2% below the benchmark return of 12.4% per annum. The five year return is above both inflation at 3.1% per annum and the increase in average earnings at 1.1% per annum.

The Fund's annual return over the last ten years has been 7.7% per annum, which is 0.3% below the benchmark return of 8.0%. These returns are above inflation at 3.4% per annum and the increase in average earnings at 2.5% per annum.

17. Taxation

UK Tax

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

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

Overseas Tax

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

18. Derivatives

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

Futures

The Fund did not hold any Futures contracts as at 31st March 2014 or 31st March 2013.

Forward Currency Contracts

The Fund has used forward currency contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2014, the Fund held 21 positions in foreign currency that together showed an unrealised loss of £0.153m, as shown in the table on the next page:

Type of forward foreign currency contracts

Settlement	Type of contract	Currency bought	Currency sold	Market value £m	
Three month	Over the counter	Sterling	Australian Dollar	(0.176)	
Three month	Over the counter	Sterling	Swiss Franc	(0.089)	
Three month	Over the counter	Sterling	Euro	(0.013)	
Three month	Over the counter	Canadian Dollar	Sterling	(0.470)	
Three month	Over the counter	Swiss Franc	Sterling	(0.018)	
Three month	Over the counter	Danish Krone	Sterling	(0.009)	
Three month	Over the counter	Hong Kong Dollar	Sterling	(0.130)	
Three month	Over the counter	Yen	Sterling	(0.058)	
Three month	Over the counter	Swedish Krona	Sterling	(0.096)	
Three month	Over the counter	Singapore Dollar	Sterling	(0.020)	
Three month	Over the counter	US Dollar	Sterling	(0.783)	
Loss/liabilities					**(1.862)**
Three month	Over the counter	Sterling	Euro	0.168	
Three month	Over the counter	Sterling	Hong Kong Dollar	0.516	
Three month	Over the counter	Sterling	Yen	0.165	
Three month	Over the counter	Sterling	US Dollar	0.228	
Three month	Over the counter	Australian Dollar	Sterling	0.529	
Three month	Over the counter	Euro	Sterling	0.019	
Three month	Over the counter	Swiss Franc	Sterling	0.015	
Three month	Over the counter	Yen	Sterling	0.031	
Three month	Over the counter	Norwegian Krone	Sterling	0.028	
Three month	Over the counter	US Dollar	Sterling	0.010	
Profit/assets					**1.709**
Net forward currency contracts at 31st March 2014					**(0.153)**

The contracts were settled at a loss of £0.220m early in the 2014/15 financial year.

19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £148.979m were out on loan as at 31st March 2014. The breakdown of securities on loan was:

31st March 2013 £m		31st March 2014 £m
3.706	Fixed interest securities	18.357
1.699	Index-linked securities	4.105
31.505	UK equities	29.664
79.127	Overseas equities	96.853
116.037	**Total securities lending**	**148.979**

The value of collateral against which the securities were lent out is £158.859m. This collateral consists of acceptable securities, Government debt and obligations issued by supranational entities.

20. Property Holdings

31st March 2013 £m		31st March 2014 £m
	Property holdings	
359.185	Opening balance	306.920
33.297	Additions	31.971
(2.850)	Disposals	(97.118)
(82.712)	Net (decrease) or increase in market value	21.382
306.920	**Closing balance**	**263.155**

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The Fund disposed of a portfolio of 18 properties and 2 individual properties during the year as part of the restructuring of the property portfolio, the total value of which was £97.118m.

21. Significant Holdings

As at 31st March 2014, 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 2014, this was valued at £935.464m (£860.703m in 2012/13) and represented 16.4% (15.9% in 2012/13) of the total net assets of the Fund. During 2013/14, the insurance contract was limited to six individual funds, each representing a different asset class, as follows:

31st March 2013 £m		31st March 2014 £m
719.948	UK equities	744.945
1.627	Europe (ex UK) equities	1.920
23.730	North America equities	2.541
-	Emerging Markets equities	80.732
95.768	Index-linked gilts	68.710
19.630	Emerging markets local currency bonds	36.616
860.703	**Total**	**935.464**

- M&G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2014, this was valued at £398.146m (£389.870m in 2012/13) and represented 6.9% (7.2% in 2012/13) of the total net assets of the Fund.

Section 7 – Tyne and Wear Pension Fund Statements

22. Outstanding Commitments

As at 31st March 2014, the Fund had 48 outstanding commitments to investments as shown below:

Name of Fund	Year	Value	Drawdowns made	Commitment outstanding	
		m	m	m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$53.6	$1.4	£0.8
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$42.6	$3.4	£2.0
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.4	$0.6	£0.4
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$26.8	$1.2	£0.7
Capital International Private Equity Fund IV	2004	$18.0	$17.8	$0.2	£0.1
HarbourVest International Private Equity Partners V - Partnership	2005	€ 100.0	€ 91.0	€ 9.0	£7.4
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.8	€ 1.2	£1.0
Pantheon Asia Fund IV	2005	$20.0	$17.1	$2.9	£1.7
Pantheon Europe Fund IV	2005	€ 25.0	€ 22.4	€ 2.6	£2.1
Pantheon USA Fund VI	2005	$30.0	$27.4	$2.6	£1.6
Lexington Capital Partners VI-B	2005	$30.0	$29.6	$0.4	£0.2
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$90.7	$21.3	£12.8
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$50.1	$5.9	£3.5
Pantheon Europe Fund V	2006	€ 35.0	€ 29.6	€ 5.4	£4.5
Pantheon USA Fund VII	2006	$35.0	$28.4	$6.6	£4.0
Coller International Partners V	2006	$30.0	$23.5	$6.5	£3.9
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$28.3	$1.7	£1.0
Pantheon Asia Fund V	2007	$20.0	$16.3	$3.7	£2.2
Pantheon Europe Fund VI	2007	€ 40.0	€ 24.6	€ 15.4	£12.7
Pantheon USA Fund VIII	2007	$35.0	$23.1	$11.9	£7.1
Capital International Private Equity Fund V	2007	$35.0	$28.8	$6.2	£3.7
Co-Investment Partners Europe	2007	€ 30.0	€ 27.9	€ 2.1	£1.7
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 27.9	€ 2.1	£1.7
Infracapital	2007	£35.0	£32.6	£2.4	£2.4
Capital International Private Equity Fund VI	2010	$35.0	$16.3	$18.7	£11.2
Lexington Capital Partners VII	2010	$30.0	$21.2	$8.8	£5.3
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$29.7	$10.3	£6.2
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 49.9	€ 10.1	£8.3
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 104.4	€ 40.6	£33.6
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 49.3	€ 20.7	£17.1
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 35.3	€ 49.7	£41.1
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$85.3	$14.7	£8.8
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$19.5	$45.5	£27.3
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 20.5	€ 29.5	£24.4
Coller International Partners VI	2012	$45.0	$15.9	$29.1	£17.5
Pantheon Asia Fund VI	2012	$40.0	$11.4	$28.6	£17.2
Pantheon Europe Fund VII	2012	€ 25.0	€ 7.1	€ 17.9	£14.8
Pantheon USA Fund IX	2012	$30.0	$8.9	$21.1	£12.7
Partners Group Global Infrastructure 2012	2013	€ 45.0	€ 6.7	€ 38.3	£31.7
Partners Group Real Estate 2014	2013	$64.0	$14.3	$49.7	£29.8
Partners Group Real Estate Income 2014	2013	€ 23.0	€ 4.6	€ 18.4	£15.2
Partners Group Global Real Estate 2013	2013	$130.0	$24.8	$105.2	£63.1
Partners Group Real Estate Secondary 2013	2013	$65.0	$6.9	$58.1	£34.8
HarbourVest Dover Street VIII Cayman Fund LP	2013	$30.0	$6.3	$23.7	£14.2
HarbourVest Partners IX - Cayman Buyout Fund	2013	$60.0	$9.7	$50.3	£30.2
HarbourVest Partners IX - Cayman Venture Fund	2013	$30.0	$8.1	$21.9	£13.1
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	$30.0	$8.1	$21.9	£13.1
Lexington Capital Partners VIII	2014	$10.0	$0.0	$10.0	£6.0
Total outstanding commitments					**£575.9**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2014.

23. Related Party Transactions

Under IAS24 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

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 cases where disclosure is required.

During 2013/14, two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited had related party transactions with the Fund totalling £0.808m analysed as follows:

- South Tyneside Council charged the Fund £0.450m (£0.432m in 2012/13) in respect of services provided, primarily being legal and building costs.
- The Fund charged South Tyneside Council £0.055m (£0.052m in 2012/13) in respect of Treasury Management services.
- BT South Tyneside Limited charged the Fund £0.303m (£0.312m in 2012/13) 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.

24. Pension Fund Disclosures under IAS26

Under IAS 26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits", which were last valued at 31st March 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 £m	Value as at 31st March 2010 £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)**

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The principal assumptions used by the Actuary were:

	31st March 2013 (% p.a.)	31st March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI inflation rate	3.4	3.9
CPI inflation rate	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.

Principal demographic assumptions

Post retirement mortality	**31st March 2013**	**31st March 2010**
Males		
Base table	Standard SAPS Normal Health Light Tables (S1NFA_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 then 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 IAS 26 – 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.

25. Policy Documents

The Pension Fund has a number of key policy documents that outline the framework within which the Fund operates. These include:

- Governance Compliance Statement
- Funding Strategy Statement
- Statement of Investment Principles
- Corporate Governance Policy
- The Pension Service Plan
- The Pensions Administration Strategy
- The Fund's Discretions within the Local Government Pension Scheme
- Communications Policy

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

Section 7 – Tyne and Wear Pension Fund Statements

Organisations Participating in the Fund as at 31st March 2014

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
Benedict Biscop Church of England Academy
Biddick Academy Trust
Brighter Academy Trust
Cardinal Hume Catholic School
Castle View Enterprise Academy
City of Sunderland College
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
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
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria Probation Trust
Northumbria University
Police and Crime Commissioner for Northumbria
Redby Primary Academy
Red House Academy
Riverside Primary Academy
Sacred Heart Catholic High School
South Tyneside College
South Tyneside College Academy Trust
South Tyneside Education Action Zone
South Tyneside Homes
Southmooor Academy
St Aidan's Education Trust
St Anthony's Girls' Catholic Academy
St Cuthbert's Catholic High School

Other Part 1 Schedule Bodies (continued)
St Joseph's Catholic Education Trust
St Mary's Catholic School Trust
St Thomas More Partnership of Schools
St Thomas More Roman Catholic Academy (North Tyneside)
Sunderland Education Action Zone
The Ascent Academies Trust
The Cedars Academy Trust
The Laidlaw Schools Trust
The Northern Education Trust
Tyne and Wear Fire and Rescue Services
Tyne and Wear Integrated Transport Authority
Tyne Metropolitan College
Tynemouth College
University of Sunderland
Venerable Bede C of E Academy
Wearmouth Learning Trust
Wearside College
West Newcastle Academy
Whickam 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

Admitted Bodies
Age Concern Newcastle
Assessment and Qualification Alliance
Association of North East Councils
Balfour Beatty Power Networks Limited
Balfour Beatty Power Networks Limited (PB)
Baltic Flour Mills Visual Arts Trust
Bell Decorating Group Limited
Benton Grange School
Benwell Young Peoples Development Project
Brunswick Young Peoples Project
BT South Tyneside Limited
Bullough Cleaning Services
Bullough Contract Services
Byker Community Trust
Capita Symonds Limited
Carillion Services Limited (Jarrow School)
Carillion Services Limited (Lord Lawson Academy)
Carillion Services Limited (SSCS)
Catholic Care North East
CBS Outdoor Limited

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Admitted Bodies (continued)

ChildCare Enterprise Limited
Churchill Contract Services Limited (ParkHead)
Cofely Workplace Limited
Compass Group UK and Ireland
DB Regio Tyne and Wear Limited
Disability North
Gateshead Law Centre
Gentoo Group Limited
Groundwork South Tyneside and Newcastle
Hebburn Neighbourhood Advice Centre
Higher Education Funding Council for England
Information North (North Regional Library System)
Insitu Cleaning
International Centre for Life
Involve North East
Jarvis Accommodation Services Limited
Jarvis Workspace Facilities Management Limited
John Laing Integrated Services
Kenton Park Sports Centre
KGB Cleaning and Support Services Limited
Kier North Tyneside Limited
Lend Lease Facilities Management (EMEA) Limited
Lovell Partnership Limited
Managed Business Space Limited
Mears Limited
Mitie Cleaning (North) Limited
Mitie PFI Limited (Boldon School)
Mitie PFI Limited (North Tyneside)
Morrison Facilities Services Limited 1
Morrison Facilities Services Limited 2
Morse
Museums Libraries and Archives North East
National Car Parks
National Glass Centre
Newcastle Law Centre
Newcastle Family Service Unit
Newcastle Health City Project
Newcastle International Airport
Newcastle Tenants and Residents Federation
Newcastle Tenants Federation
Newcastle Theatre Royal Trust
Newcastle West End Partnership
Newcastle Youth Congress
No Limits Theatre Company
Norcare
Norland Road Community Centre
North East Innovation Centre
North East Regional Employers Organisation
North Tyneside City Challenge
North Tyneside Disability Advice
Northern Arts Association
Northern Council for Further Education
Northern Counties School for the Deaf
Northern Grid for Learning
Northumbria Tourist Board
One North East
Ouseburn Trust
Parsons Brinkerhoff
Passenger Transport Company
Percy Hedley Foundation
Port of Tyne Authority
Praxis Service
Raich Carter Sports Centre
RM Education
Robertson Facilities Management Limited
Robertson Facilities Management Limited (Newcastle Phase 2)
Saint Mary Magdalene and Holy Jesus Trust
Saint Mary the Estate Management Charity
Scolarest (Newcastle Schools)
Scolarest PFI (Boldon School)
Search Project
Simonside Community Centre
Sodexo Limited
South Tyneside Football Trust
South Tyneside Victim Support
Southern Electric Contracting Limited
Stagecoach Services Limited
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust
Sunderland Outdoor Activities
Sunderland Streetlighting Limited
Taylor Shaw
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
TT2 Limited
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyne Waste Limited
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Valley Citizens Advice Bureau
Walker Profiles (North East) Limited
Wallsend Citizen Advice Bureau
Wallsend Hall Enterprises Limited
Workshops for the Adult Blind

The schedule includes organisations that are no longer in existence but for which there remains a liability in the Fund.

Section 8 – Glossary of Financial Terms

Glossary of Financial Terms

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

Accounting Policies
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

Accruals
The concept that income and expenditure are taken into account as they are earned or incurred, not when money is actually received or paid. Accrual accounting covers both revenue and capital transactions.

Actuarial Gains or Losses
For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed.

Arms Length Management Organisation
A procurement option involving the creation of a company to deliver the housing service on behalf of the Council. Whilst the Council still retains some management control the company is able to pursue additional funding sources and so deliver more regeneration to the borough.

Asset
Something an organisation owns e.g. land or buildings, cash and debtors.

Assets Held For Sale 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
The Chartered Institute of Public Finance and Accountancy (CIPFA) having recognised the need to amend the accounting practices for capital in Local Authority accounts introduced a new system of accounting for Local Authority assets with effect from 1st April 1994. The essential feature of the system is that a charge is made to each service to represent the cost of using the assets.

Section 8 – Glossary of Financial Terms

Capital Expenditure
Spending resulting in the addition 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 balance of the collection fund 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
The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

Corporate Governance
The system by which audited bodies are directed and controlled.

Council Tax
The Local Government Finance Act 1992 introduced council tax with effect from 1st April 1993 and is based upon property values. There are eight valuation bands for chargeable dwellings ranging from band "A" (the lowest valued properties) to band "H" (the highest valued properties). The Council levies the tax based upon band D properties; the actual charge will dependent upon the banding of the individual dwelling – i.e. those properties in bands A to C will pay less council tax whilst those in bands E to H will pay more.

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

Current Service Cost (Pensions)
This is the actuarial estimate of the present value of full pensions 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

Previously the Pension Liability this represents the amount of payments still to be paid out as assessed by the 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.

Major Repairs Reserve
Capital resources unspent by the Housing Revenue Account at 31st March. By statute this reserve can only be used to fund future capital expenditure on HRA assets.

Materiality
An item is material if its omission, non-disclosure or misstatement in the financial statements could be expected to lead to a distortion of the view given by the financial statements.

Medium Term Financial Planning (MTFP)
The process of identifying and aligning service pressure, corporate priorities and objectives as well as available resources over the medium term (5 years) and budgeting accordingly.

Minimum Revenue Provision (MRP)
The amount of money the Council must statutorily set aside in line with the MRP policy adopted by the Council as part of its MTFP to support the repayment of debt.

Money Market Funds
Mutual funds that invest in a diversified portfolio of short term, high quality debt instruments.

Section 8 – Glossary of Financial Terms

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 Borough Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

Private Finance Initiative (PFI)
A method of purchasing assets and services over a longer term period, usually 25 years. The financial risks involved are usually shared between the Council and the PFI operator.

Provisions
Provisions are required for any losses that are likely to be incurred, or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise.

Public Works Loan Board (PWLB)
The Public Works Loans Board is a Government financed body that makes long term money available to Local Authorities who are able to borrow a proportion of their requirements to finance capital spending from this source.

Section 8 – Glossary of Financial Terms

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.

Specific Government Grants
Funding provided by Central Government to aid particular services or projects administered by local authorities.

Statement of Accounts
Made up of all the primary statements, the notes to the accounts and the auditor’s report.

Subsidiary
An entity wholly owned or controlled by the Council.

Taxation and Non-Specific Grant Income
Primarily for recording revenue grants received by the Council but not for any specific purpose and capital grants received in respect of funding for the capital programme.

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

Section 8 – Glossary of Financial Terms

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 2013/14

Introduction

1. Everything the Council does is focused around delivering our ambitious vision for South Tyneside and to ensure we deliver the best possible services and outcomes for our Community whilst ensuring that we provide good value for our stakeholders.

2. To help achieve our vision it is essential that the Council has effective governance arrangements, in other words have effective leadership, clear direction and controls to ensure that vision and policy is put into practice. These arrangements will ensure that we are resilient and able to withstand any threats that emerge which impact on the Community, on our business or on our reputation.

3. This document is the Council's Annual Governance Statement, which shows how the Council runs itself and the review that has been carried out to check that arrangements are operating effectively. The Council is required by law to publish this statement and review arrangements. The aim is to demonstrate to the public and stakeholders that the Council is run well.

Scope of responsibility

4. South Tyneside Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

5. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

6. The 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.

8. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

9. The governance framework has been in place at the Council for the year ended 31st March 2014 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 following diagram.

Section 9 – Annual Governance Statement

Governance Arrangements: Shaped to Deliver

Member Governance

Leadership Meeting
- 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.

1

Strategic Lead Member Briefing
- 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.

2

Cabinet
- 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.

3

Council
- All Members of the Council make strategic and operational decisions that affect all areas of the Council. Meets 9 times a year.

4

Scrutiny Committees
- To scrutinise the discharge of any of the Council's executive functions. Meets monthly if required.
- Power to make recommendations.

5

Performance Panels
- Contracts and Housing Performance Panels review performance and report direct to Cabinet. Meet bi-monthly.
- Power to recommend urgent action.

6

Standards Committee
- Promote and maintain high standards of conduct by Councillors. Meets quarterly.
- Deals with allegations of non-compliance with Code of Conduct

7

Audit Committee
- Advisory committee to provide independent assurance of risk management and control environment to Council. Meets quarterly.

8

Supported by Officer Recommendation

Strategic

Strategic Leadership Group
- Chief Executive and Corporate Directors weekly strategic planning meeting for Senior Officers to consider local, regional and national priorities and develop Council strategy to deliver our Shaping Our Future programme.
- Acts as a programme board for significant projects.

9

Extended Leadership Group
- 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.

10

Top 100 Managers
- 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 and projects.
- Two way forum for key officers to disseminate key messages across the organisation.

11

Innovation & Efficiency Group
- Develops new thinking and implementation plans around new models of service delivery.
- Leads on Shaping Our Financial Future programme.

12

Operational

Corporate Delivery Group
- 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.

13

Group Management Teams
- 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).

14

Monitoring

Corporate Programme Board
- Acts as programme board for officers delivering Shaping Our Financial Future programme. Meet monthly.
- Determines necessary interventions in agreement with Strategic Leadership Group.

15

Capital Investment Group
- Acts as programme board for the 5 Year Capital Spend Programme.
- Determines necessary interventions in agreement with Strategic Leadership Group.

16

Chief Executive's Performance Meeting
- 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 Area Management and Head of Finance.

17

Monthly Budget Monitoring
- Head of Finance meets individually each month with Heads of Service and Corporate Leads to discuss budget.

18

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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?

- Shaping our Future – South Tyneside Council Strategy
- Shaping our Future – Service Delivery Plans
- South Tyneside Partnership
- Shaping our Financial Future - Medium Term Financial Plan 2014– 19
- 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?

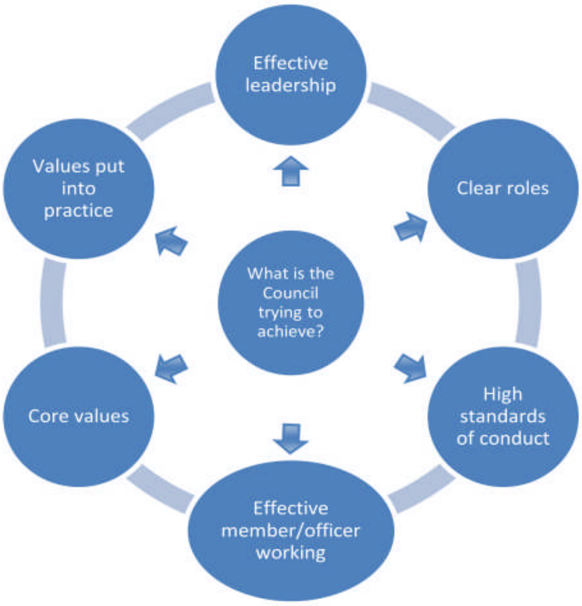
- Articles of the Constitution
- Council Procedure Rules
- Executive Procedure Rules
- Proper Officer Roles
- Chief Executive's Performance Meeting
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Financial Management Standards
- Record of Delegated Decisions
- 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?

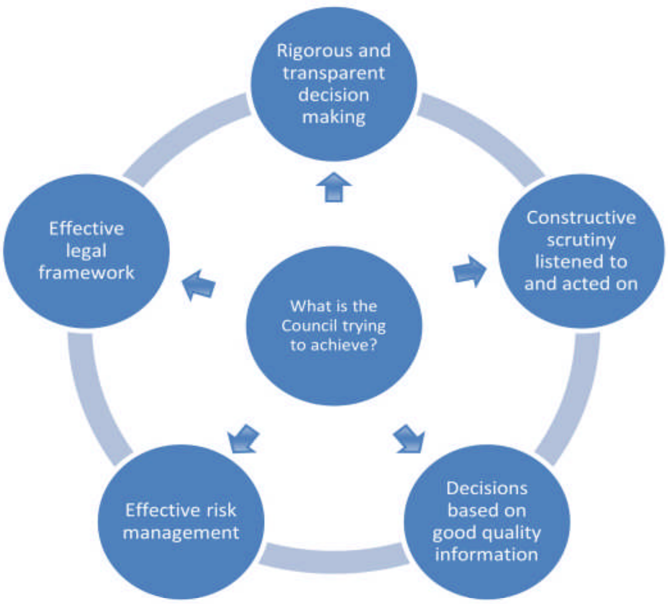


- Members Codes of Conduct
- Procedure for dealing with complaints against members
- Code of Corporate Governance
- Employees Code of Conduct
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Access to Information Procedure Rules
- Information Security Policy
- Counter Fraud Strategy
- Corporate Induction Programme
- Register of Interests, Gifts and Hospitality
- Elected Member Development Strategy
- Speakout Policy
- Shaped to Deliver – South Tyneside Council Human Resources Strategy
- Complaints Procedure
- Standards Committee

Good governance flows from a shared ethos or culture, as well as from systems and structures. It cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements. This spirit or ethos of good governance can be expressed as values and demonstrated in behaviour. A hallmark of good governance is the development of shared values which become a part of the Council's culture, underpinning policy and behaviour throughout the Council from the governing body to all staff. These are in addition to compliance with legal requirements on for example equal opportunities and anti-discrimination.

CORE PRINCIPLE 4:
Taking informed transparent decisions and managing risk

How does the Council demonstrate that this core principle is achieved?



- Standardised Committee Report Template
- Committee Reports Available on Council Website
- Record of Delegated Decisions
- Risk Management Process
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules/Budget Policy Framework
- Health & Safety
- Training
- Accurate Management Data

Decision making within a good governance framework is complex and challenging. It must further the Council's purpose and strategic direction and be robust in the medium and longer terms. To make decisions Council members must be well informed. Members making decisions need the support of appropriate systems to help ensure that decisions are implemented and that resources are used legally and efficiently.

Section 9 – Annual Governance Statement

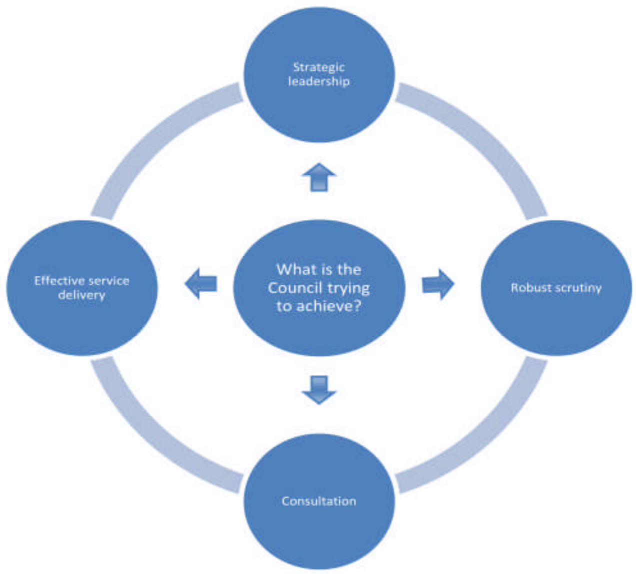
CORE PRINCIPLE 5:
Developing the capacity and capability of the governing body to be effective

How does the Council demonstrate that this core principle is achieved?

- Induction Training
- Members Induction and Training
- Job Descriptions
- Employee Performance Management
- Corporate Training Programme
- Managers Toolkit
- Succession Planning Programme
- Leadership Development
- Top 100 Managers Programme
- Shaped to Deliver – South Tyneside Council Human Resources Strategy
- Delivering our Future – South Tyneside Council's Organisation & Development Strategy

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

Elected Council members are democratically accountable to their local area and this gives a clear leadership role in building sustainable communities. All Members must account to their communities for decisions that they have taken. The Council is subject to external audit and is required to publish financial statements and aim to achieve national standards and targets. Members and officers are subject to Codes of Conduct. Additionally where maladministration may have occurred an aggrieved person may appeal either through their local Councillor or directly to the Ombudsman.

Section 9 – Annual Governance Statement

Review of effectiveness

16. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness was carried out under the supervision of the Council's Business and Resources Group Management Team, including senior officers from across the Council and chaired by the Corporate Director Business and Resources.

17. The review follows the methodology set out by CIPFA in its publication 'Rough Guide for the Annual Governance Statement' as shown in the following diagram:

Annual review of the effectiveness of governance arrangements and systems of internal control

Methodology set out in CIPFA's: Annual Governance Statement, Rough Guide for Practitioners 2008	
Objective 1	Establish the principal statutory obligations and organisational objectives Apply the six CIPFA/SOLACE principles
Objective 2	Identify the principal risks to achievement of objectives
Objective 3	Identify and evaluate key controls to manage risk
Objective 4	Obtain assurance on effectiveness of key controls
Objective 5	Evaluate assurances and identify gaps in controls/assurances
Objective 6	Action plan to address weaknesses
Objective 7	Annual Governance Statement
Objective 8	Report to Audit Committee and General Purposes Committee

Section 9 – Annual Governance Statement

Sources of assurance

18. The Council has identified sources of assurance to review governance arrangements and confirm that they are operating adequately or where they are found to be falling short, identify areas for improvement. The assurance framework is as follows:

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 over the page. 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 24th September 2014 and has recommended that the Council adopt it.

Section 9 – Annual Governance Statement

No	Issue	Action taken/proposed	Responsible Officer	Target Date
1	**Financial Resilience** The Council has set another challenging budget for 2014-15 with efficiency savings of £18m to be achieved. This is on top of the £90m saved over the last 4 years.	Shaping Our Financial Future 2015-2020 programme established to reshape Council services through 10 cross cutting workstreams. Governance framework in place to support programme.	Corporate Director Business and Resources.	Ongoing
2	**Data Management** 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 2014
3	**Children's Services** 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 inspection report.	Corporate Director Children, Adults and Families	Ongoing