Financial Statements

2012/13

Economic Regeneration

Children, Adults and Families

Innovation, Efficiency, Delivery

Shaped to deliver

27th September 2013

South Tyneside Council

Further Information

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

www.southtyneside.gov.uk.

Hard copies can be requested by writing to:

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

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

Your Comments

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

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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 2013 and outline our financial position at that date. The foreword provides:

- A review of the Council's financial results and financial standing for 2012/13.
- Information about the activities and significant matters that took place during 2012/13 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 Corporate Director, Business and Area Management, having a specific role in ensuring the adequacy of resources and proper financial administration. Our Medium Term Financial Plan 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 2012/13

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

The table over the page summarises our in-year revenue spending position including schools expenditure. The Council achieved an underspend of £0.293m in 2012/13. This underspend is after taking into account the expected transfers to and from reserves and funding £1.0m of costs for major flooding incidences from reserves. The overall use of reserves shown in the table over the page can be seen in more detail in note 6 to the Statement of Accounts.

Section 1 – Explanatory Foreword by the Head of Finance

2012/13 Revenue financial summary	Original budget £m	Revised budget £m *Note 1*	Actual outturn £m	(Underspend) / overspend £m *Note 4*	
Revenue spending					
Children, Adults and Families Group	78.464	79.150	80.296	1.146	*Note 2*
Business and Area Management Group	62.016	62.948	65.296	2.348	
Economic Regeneration Group	12.501	11.783	10.838	(0.945)	
Strategy and Performance	1.441	1.405	1.353	(0.052)	
Net cost of services and operating expenditure	**154.422**	**155.286**	**157.783**	**2.497**	
Funding sources					
General Government Grants	(12.920)	(12.920)	(12.920)	-	
National Non-Domestic Rates	(83.030)	(83.030)	(83.030)	-	
Contribution from Collection Fund	(0.200)	(0.200)	(0.200)	-	
Council Tax Payers	(58.022)	(58.022)	(58.022)	-	
Contribution from General Fund balance	(0.250)	(1.100)	(1.100)		*Note 3*
Contribution from earmarked reserves	-	(0.014)	(2.804)	(2.790)	*Note 3*
Total revenue funding	**(154.422)**	**(155.286)**	**(158.076)**	**(2.790)**	
Contribution back to General Fund balance for the year	**-**	**-**	**(0.293)**	**(0.293)**	

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 : Includes £0.257m overspend on school budgets which has been funded by a transfer from earmarked reserves.

Note 3 : Use of reserves and balances is estimated as part of our strategic planning process, we included an amount of £0.250m within the 2012/13 Medium Term Financial Plan budget of £154.422m. The budgeted amount was increased to £1.114m during the financial year.

Note 4 : Reported under and overspending is before transfers from earmarked reserves.

Children, Adults and Families Group

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

The revenue spending highlights during the year were as follows:

- The cost of looked after children through foster placements, social work staffing levels and out of borough placements continue to be a significant spending pressure for the Council. Approved savings could not be fully delivered because of a continued high demand. Consequently, this service has overspent by £2.5m above the sum budgeted in 2012/13. The Council continues to manage cost pressures in this area through reduced dependency upon more expensive external care provision, 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 £1.1m 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 has fallen compared to previous years. Ongoing demographic pressures will be managed through re-modelling care provision within the community to better reflect client needs and improved understanding of factors impacting upon customer demand.

- An underspend of £1.2m 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 and ICT services. Services for young people also underspent by £0.7m due to receipt of additional Government grant and lower expenditure on a range of youth related activities.

Business and Area Management Group

The major services provided by the Business and Area Management Group include waste collection and disposal, street cleaning, maintenance of open spaces, neighbourhood management, 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:

- During the year, the borough suffered from major incidences of flooding as a result of significant and unexpected sudden rainfall. The cost of responding to these incidences and implementing measures to reduce the risk of future flooding which was not covered by insurance was £1.0m. An application to the Government for additional financial assistance was rejected for failing to meet the criteria for such support. Consequently, the cost was funded from reserves to avoid any short-term financial impact on day to day council services.

- An overspend of £0.6m was incurred in relation to management and operation of community facilities. This arose as less progress towards an alternative model of financing and operating these facilities has been made compared to assumptions made when the budget was set.

- There was a shortfall in leisure facilities income of £0.4m due to fewer admissions compared to budget. The Council will soon be launching a new improved leisure offer as part of the opening of the new Haven Point leisure facility on the foreshore at South Shields.

- As a result of further re-organisation of services, a number of staff accepted voluntary redundancy. Unlike previous years, the Government did not permit councils to spread these costs over a period of years but were fully charged in year. These costs, amounting to £2.7m, were funded from Council reserves.

- Re-profiling of the capital investment programme and lower interest rates than forecast resulted in improved cash flow and lower debt charges. This delivered a saving of £2.0m after offsetting other spending pressures elsewhere in the Group.

- During the year, the Council, as one of seven councils that together hold a 51% shareholding in Newcastle International Airport Limited (NIAL), led the re-financing of a loan taken out by NIAL that was due to mature in December 2013. As part of that deal, the 49% shareholder was changed. These transactions generated additional one-off income of £0.4m.

Economic Regeneration Group

The major services provided by the Economic Regeneration Group include encouraging the creation of jobs through supporting new and existing business and 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:

- Savings of £1.1m 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.

- A £0.6m cost pressure on management of land and buildings including essential repairs to the Council's premises and schools and one-off transitional costs from re-modelling to improve the Council's estate. Other savings across the Group helped to partially offset this cost pressure.

3. Capital Investment Financial Summary 2012/13

The following table summarises capital investment of £98.4m during 2012/13 and the capital funding the Council has used to finance this spending. The original capital budget, agreed as part of the 2012-17 Medium Term Financial Plan, has been revised to reflect the full impact of known contractual commitments from 2011/12 and new funding approvals received in year. £19.2m of funding has been carried forward to support ongoing schemes in future years.

2012/13 Capital investment summary	**Revised budget £m**	**Actual outturn £m**	**Carry forward £m**	**(Underspend) / Overspend £m**
Children, Adults and Families Group	20.293	20.831	1.819	2.357
Business and Area Management Group	32.879	21.072	7.317	(4.490)
Economic Regeneration Group	18.886	15.523	5.941	2.578
Public Sector Housing	45.123	40.997	4.126	-
Total capital investment	**117.181**	**98.423**	**19.203**	**0.445**

2012/13 Capital financing summary	**Actual £m**
Unsupported borrowing	(38.639)
Capital receipts	(6.393)
Funding from the housing revenue account	(0.028)
Funding from the major repairs reserve	(17.015)
Government grant and other contributions	(36.348)
Total capital funding	**(98.423)**

Section 1 – Explanatory Foreword by the Head of Finance

The capital investment highlights during the year were as follows:

Children, Adults and Families Group

- £13.3m was invested through the Building Schools for the Future programme on the completion of a re-modelled Hebburn Comprehensive School and the construction of three new special educational needs facilities; Keelman's Way in Hebburn and Park View and the Beacon Centre in South Shields.

- £3.5m has been spent on the primary school estate during 2012/13. This expenditure completed the new Hebburn Lakes School which opened in September 2012. The School replaces two closing schools to further reduce surplus spaces and improve the primary education estate.

Business and Area Management Group

- Investment of £4.4m was made in a variety of infrastructure schemes ranging from road safety measures, resurfacing of highways and improved footpaths throughout the borough. A further £2.4m has been carried forward to 2013/14 for completion of these schemes.

- £8.0m was invested into NIAL as part of a shareholder loan for capital purposes involving five other shareholding local authorities. The investment relates to the re-financing of a loan for capital purposes previously taken out by NIAL.

- Work has continued on Haven Point, the new leisure facilities on South Shields foreshore, with £8.5m being spent in the year. The facilities are due to open in the autumn of 2013.

Economic Regeneration Group

- £4.6m was invested in new accommodation to facilitate the demolition of outdated and unattractive buildings as part of wider town centre regeneration plans. The investment was also made to take advantage of an opportunity to reduce building rental costs.

- £5.2m was invested in a variety of regeneration schemes throughout the borough. These included strategic land and property acquisitions to facilitate development on the riverside and town centre to complement the office facility at Harton Quay. Also included was site assembly costs for the construction of a new community and leisure facility in the centre of Hebburn which is scheduled to open in 2014.

Public Sector Housing

- £41.0m has been invested in council housing during 2012/13. A further £4.1m has been carried forward to 2013/14. £37.0m has been spent on improving 2,589 homes to the decent homes standard. The programme was accelerated by successfully bidding for a further £4.0m of grant funding from the Government to be brought forward from 2013/14.

- In addition to decent homes, £1.7m was spent on improvements to vacant properties to bring them back into occupation, £1.3m invested in adaptations to properties for tenants with special needs and £1.0m in new build, development of computer systems and demolition work.

4. Significant Matters

Government Funding

Grant support from the Government has reduced by 30% over the last two financial years. The most recent Government funding settlement, covering 2013/14 and 2014/15, was announced in December 2012. This set out further reductions of 13% across these two years. The Council is continuing to re-organise 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 and also with partners and other organisations. In support of this work the Council will continue to target capital investment to support economic regeneration and attract new business and jobs to the area with the aim of increasing overall economic prosperity and over time minimising growth in demand upon services that the Council provides. This will complement existing early intervention strategies in the area of social care that minimise the requirement for more expensive provision.

Claims under the Equal Pay Act 1970

The Council continues to have claims under the Equal Pay Act 1970 for which a provision has been made. We have been successful in seeking capitalisation from the Department of Communities and Local Government for backdated pay settlements. A provision is held to cover the costs which are reviewed annually to ensure the level is sufficient. The provision at the start of the year was £13.8m. This has been reduced by £2.3m in 2012/13 to take account of 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.

Pension Liability

As at 31st March 2013 the Council had a pension liability to the Tyne and Wear Pension Fund of £349.3m, (£320.4m at 31st March 2012). If the Council ceased operations, this liability would have to be taken over by the successor body or ultimately funded by Central Government.

5. Material Movements in Assets and Liabilities

The value of other property, plant and equipment has decreased by £33.7m. The primary reason is that a number of schools are currently in the process of seeking to become either trust school or academy school status. These transfers, which are expected to happen in 2013/14, have been reclassified as assets held for disposal which has increased £27.5m in the year.

At 31st March 2013 the Council held £32.3m less in cash and cash equivalents which is partially offset by increases in investments. Less uncertainty in the markets has allowed funds to be invested on a longer term basis.

Long and short term borrowing is £30.5m higher at 31st March 2013 due to additional support for the capital programme.

The increase in the pension liability of £28.8m compared to the previous year is primarily due to a reduction in the discount rate assumption following a fall in rates of return achievable on high quality bonds of equivalent currency and term to that of the pension liability.

6. Reserves and Balances

As at the 31st March 2013 the Council held earmarked reserves of £24.3m (£28.1m in 2011/12) of which £7.1m (£8.1m in 2011/12) related to individual school balances.

Our strategic reserve is intended to cover emergency/unforeseen events and is maintained at 2% of the net budget as part of a risk-based assessment. As at the 31st March 2013 the Council held £3.0m in this reserve (£3.0m in 2011/12).

The other key reserves that we hold to deal with our specific risks are the risk capacity reserve and the structural change reserve. Through prudent planning we have managed to retain a similar level of balances that we had at the start of the year (£4.9m at 31st March 2013 and £4.9m at 31st March 2012).

As at 31st March 2013 the Council held £1.8m (£2.7m in 2011/12) in capital receipts for the purposes of investing in our assets in future years. We are also holding £3.1m in a PFI reserve (£3.3m in 2011/12) to assist in the smoothing out of unitary charge costs over the lifetime of the schemes.

7. Group Results

The Group Accounts fully incorporate the results of South Tyneside Homes Limited, a subsidiary company of the Council. They also reflect the Council's share of the Tyne and Wear Development Company and Beamish Museum which are operated as associates with other local authorities. Further details about these relationships can be found in the Group introduction on page 109 of these accounts.

The Group results revealed a deficit for the year of £76.6m (£139.9m in 2011/12) incorporating a net deficit of £1.2m (£0.4m surplus in 2011/12) from Council subsidiaries. The net assets of the Group stood at £56.0m at 31st March 2013 (£148.7m at 31st March 2012).

8. Housing Revenue Account

The Housing Revenue Account is ringfenced and all expenditure must be met from rents. The Housing Revenue Account incurred a deficit for the year of £1.9m (surplus of £1.0m in 2011/12). Revenue reserves at 31st March 2013 stood at £9.6m (£11.6m in 2011/12) and these will be used to support future years' expenditure on housing.

Revenue reserves were reduced as a result of meeting repairs expenditure following severe incidences of flooding that occurred during the summer period. This resulted in a drawdown of £0.8m in reserves.

Section 1 – Explanatory Foreword by the Head of Finance

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

Expenditure on PFI schemes during the year was £13.7m (£12.4m in 2011/12). Revenue contributions provided funding of £4.4m (£4.4m in 2011/12), or 32% and the remaining 68% or £9.3m (£8.0m in 2011/12) 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 2012/13.

During the year, the Council increased its debt having taken out 7 loans totalling £35.0m (£90.0m in 2011/12) from the Public Works Loans Board. 1 loan totalling £5.0m was repaid during the year (£30.0m in 2011/12).

11. Shaped to Deliver Our Priorities

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

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

People

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

Place

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

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

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

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

We have strengthened our organisational structure during the last year 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 corporate approach. With real drive and energy we will work more effectively across services 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 Medium Term Financial Plan for 2013-2018 was approved by Council and published in March 2013. Our key stakeholders, including our trades unions, business sector and voluntary sector partners, members of the public and our own staff helped us to make decisions to ensure that our limited resources are directed to the top priorities for the residents of the borough.

Our Medium Term Financial Plan for 2013-2018 identifies what we need to spend to maintain current services, what our priority-led spending plans are and our plans to redirect current spending from lower priority areas. In addition, the plans include our financial strategy on what level of reserves we plan to hold and how these are to be utilised.

Through its corporate planning process, the Council recognised at an early stage that there would be a significant decline in Central Government funding over the medium term. Consequently, the Council has implemented an organisational restructure which has involved a sizeable reduction in staff posts. This process has been managed through continual dialogue with staff and trades unions. Our financial forecasts indicate that further staff reductions and service remodelling will be required in future years to meet the financial challenges and shape a successful future for the borough. The accounts include a £2.0m provision for the expected redundancy costs in 2013/14. Further information can be found in note 3 on page 26.

Our strategic planning is prioritised by a focus on large and high-risk areas of spend. As a result, all significant budgets were reviewed and revised as appropriate. This will ensure that the Council is best placed to manage future pressures and opportunities through working with a wide range of partners.

13. Future Key Financial Issues

There are a number of changes that have been made to the responsibilities of local authorities and the way in which they are financed. Prior to 1st April 2013, all business rate income was paid over to the Government who then returned a proportion back to the Council as part of their grant funding. As from 1st April 2013, local authorities will be able to retain 49% of any business rate income generated in the year. This means that additional income can be generated from any uplift in business rates over an agreed baseline position. Conversely, however the Council will incur a share of any losses arising from a reduction in income below the baseline.

Responsibility for public health was transferred back to local authorities on 1st April 2013 from the National Health Service. The Council has received a ring-fenced grant to fund a range of activity to combat and treat misuse of drugs, obesity and other health issues. There is uncertainty over the scale of funding available for these services from 2015/16 onwards.

The Government are planning to introduce universal credit from 1st October 2013. This new welfare benefit will replace a number of existing benefits such as working families tax credit and housing benefit. In the first instance, Universal Credit will only apply to a small number of claimants but will be fully implemented by 2017. Universal Credit will result in housing related support to cover rent being paid direct to tenants of social housing rather than direct to landlords as at present. This will present challenges in ensuring that levels of rent collection are maintained.

14. The Statement of Accounts

The Statement of Accounts are set out on pages 20 to 161. They consist of the following statements that are required to be prepared under the Code of Practice:

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

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

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

- **Movement in Reserves Statement** (page 20) reconciles items included in the Comprehensive Income and Expenditure Statement, which by statute are not charged to the Council Tax or housing rent payers.

- **Comprehensive Income and Expenditure Statement** (page 21) 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 22) shows what assets the Council owns and its level of indebtedness. This statement also details the level of reserves that the Council can call upon to meet future expenditure.

- **Cash Flow Statement** (page 23) summarising the activities during the year in terms of cash inflows and outflows reconciling to the cash and cash equivalent balances held on the Balance Sheet.

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

- **Housing Revenue Account Income and Expenditure Statement and Notes** (pages 98 to 105) 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 106 to 108) showing the income the Council receives from Council Tax and National 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 109 to 125) 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 126 to 161) record the years activities in relation to the Pension Fund. The Council is required to publish these statements as lead authority for the Fund.

15. The Annual Governance Statement

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

Stuart Reid
Head of Finance

27th September 2013

Section 2 – Statement of Responsibilities for the Accounts

The Council is required to:

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

The responsibilities of the Corporate Director, Business and Area Management

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

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

The Corporate Director, Business and Area Management has also:

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

Corporate Director, Business and Area Management Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2013, set out in pages 20 to 160, gives a true and fair view of the financial position of South Tyneside Council and the Tyne and Wear Pension Fund at 31st March 2013, and their income and expenditure for the year ended 31st March 2013.

Signed: P. Melia — Date: 27th September 2013

Patrick Melia, Corporate Director, Business and Area Management

Chair of General Purposes Committee Certificate

I can confirm that these accounts were approved by the General Purposes Committee at its meeting held in September 2013.

Signed: Iain Malcolm — Date: 27th September 2013

Councillor Iain Malcolm, Chair of General Purposes Committee

Section 3 – Independent Auditors' Report

Independent auditors' report to the Members of South Tyneside Council

Report on the Statement of Accounts

We have audited the statement of accounts of South Tyneside Council for the year ended 31 March 2013 which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets as at the end of the period, the Council and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the CIPFA Service Reporting Code of Practice 2012/13.

Respective responsibilities of the Corporate Director, Business and Area Management and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 15, the Corporate Director, Business and Area Management is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the statement of accounts

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

Section 3 – Independent Auditors' Report

Opinion on statement of accounts

In our opinion the statement of accounts:

- gives a true and fair view of the state of the Council and Group's affairs as at 31 March 2013 and of the Council's and Group's income and expenditure and cash flows for the year then ended; and

- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13.

Opinion on other matter prescribed by the Code of Audit Practice

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

Matters on which we are required to report by exception

We have nothing to report in respect of the 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;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Council 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.

Report on the pension fund accounts

We have audited the pension fund accounting statements contained within the Statement of Accounts of South Tyneside Council for the year ended 31 March 2013 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Corporate Director, Business and Area Management and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 15, the Corporate Director, Business and Area Management is responsible for the preparation of the pension fund accounting statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. Our responsibility is to audit and express an opinion on the pension fund accounting 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Section 3 – Independent Auditors' Report

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

Scope of the audit of the pension fund accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the pension fund accounting statements sufficient to give reasonable assurance that the pension fund accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the pension fund accounting statements.

Opinion on the pension fund accounting statements

In our opinion the pension fund accounting statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013, and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; 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 2012/13.

Opinion on other matter prescribed by the Code of Audit Practice

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

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

Council's responsibilities

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

Auditors' responsibilities

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

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

Section 3 – Independent Auditors' Report

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, 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 2013.

Certificate

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

Greg Wilson
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
Newcastle Upon Tyne
27 September 2013

Notes:

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

(b) Legislation in the United Kingdom governing the preparation and dissemination of 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 reserves. The deficit on the provision of services line shows the true economic cost of providing the Council's services. The net (increase) or decrease before transfers to earmarked reserves line shows 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 2011		**(1.458)**	**(27.711)**	**(10.588)**	**(2.495)**	**(1.917)**	**(3.294)**	**(47.463)**	**(328.639)**	**(376.102)**
Movement in reserves during 2011/12										
Deficit on the provision of services		5.199	-	135.141	-	-	-	140.340	-	140.340
Other comprehensive income and expenditure		-	-	-	-	-	-	-	56.748	56.748
Total comprehensive income and expenditure		**5.199**	**-**	**135.141**	**-**	**-**	**-**	**140.340**	**56.748**	**197.088**
Adjustments between accounting basis and funding basis under regulations	5	(5.753)	-	(136.106)	(0.246)	0.865	1.252	(139.988)	139.988	-
Net (increase) or decrease before transfers to earmarked reserves		**(0.554)**	**-**	**(0.965)**	**(0.246)**	**0.865**	**1.252**	**0.352**	**196.736**	**197.088**
Transfers to or (from) earmarked reserves	6	0.378	(0.378)	-	-	-	-	-	-	-
(Increase) or decrease in 2011/12		**(0.176)**	**(0.378)**	**(0.965)**	**(0.246)**	**0.865**	**1.252**	**0.352**	**196.736**	**197.088**
Balance at 31st March 2012 carried forward		**(1.634)**	**(28.089)**	**(11.553)**	**(2.741)**	**(1.052)**	**(2.042)**	**(47.111)**	**(131.903)**	**(179.014)**
Movement in reserves during 2012/13										
Deficit on provision of services		39.541	-	35.846	-	-	-	75.387	-	75.387
Other comprehensive income and expenditure		-	-	-	-	-	-	-	15.590	15.590
Total comprehensive income and expenditure		**39.541**	**-**	**35.846**	**-**	**-**	**-**	**75.387**	**15.590**	**90.977**
Adjustments between accounting basis and funding basis under regulations	5	(34.971)	-	(33.894)	0.989	1.048	2.042	(64.786)	64.786	-
Net (increase) or decrease before transfers to earmarked reserves		**4.570**	**-**	**1.952**	**0.989**	**1.048**	**2.042**	**10.601**	**80.376**	**90.977**
Transfers (from) or to earmarked reserves	6	(3.763)	3.763	-	-	-	-	-	-	-
Decrease in 2012/13		**0.807**	**3.763**	**1.952**	**0.989**	**1.048**	**2.042**	**10.601**	**80.376**	**90.977**
Balance at 31st March 2013 carried forward		**(0.827)**	**(24.326)**	**(9.601)**	**(1.752)**	**(0.004)**	**-**	**(36.510)**	**(51.527)**	**(88.037)**

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.

2011/12 Gross expenditure £m	2011/12 Gross income £m	2011/12 Net expenditure £m		Note	2012/13 Gross expenditure £m	2012/13 Gross income £m	2012/13 Net expenditure £m
21.640	(18.955)	2.685	Central services to the public		22.128	(18.749)	3.379
25.504	(4.090)	21.414	Cultural and related services		17.610	(3.742)	13.868
21.807	(6.122)	15.685	Environmental and regulatory services		19.196	(3.322)	15.874
11.387	(2.301)	9.086	Planning services		11.547	(3.067)	8.480
193.451	(130.825)	62.626	Education and children's services		196.838	(127.611)	69.227
12.894	(4.223)	8.671	Highways and transport services		14.342	(4.176)	10.166
60.818	-	60.818	Local authority housing (HRA) - housing debt subsidy payment	7	-	-	-
121.005	(58.390)	62.615	Local authority housing (HRA) - other		101.083	(62.989)	38.094
73.116	(68.368)	4.748	Other housing services		76.869	(72.820)	4.049
80.831	(31.462)	49.369	Adult social care services		77.185	(22.602)	54.583
10.866	(4.029)	6.837	Corporate and democratic core		6.487	(1.414)	5.073
-	(3.654)	(3.654)	Non distributed costs - equal pay settlements	7	0.004	(2.326)	(2.322)
1.260	(0.124)	1.136	Non distributed costs - other		2.076	(0.139)	1.937
634.579	**(332.543)**	**302.036**	**Cost of services**		**545.365**	**(322.957)**	**222.408**
16.512	-	16.512	Other operating expenditure	8	27.198	-	27.198
27.893	(2.337)	25.556	Financing and investment income and expenditure	9	34.022	(2.158)	31.864
-	(203.764)	(203.764)	Taxation and non-specific grant income	10	-	(206.083)	(206.083)
678.984	**(538.644)**	**140.340**	**Deficit on provision of services**		**606.585**	**(531.198)**	**75.387**
		(28.642)	Surplus on revaluation of property, plant and equipment				(3.182)
		-	Surplus on the revaluation of available for sale investments				(8.368)
		85.390	Actuarial losses on pension assets and liabilities	44			27.140
		56.748	**Other comprehensive income and expenditure**				**15.590**
		197.088	**Total comprehensive income and expenditure**				**90.977**

Section 4 – Core Financial Statements

Balance Sheet

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

31st March 2012 £m		Note	31st March 2013 £m
	Non-current assets		
490.778	Council dwellings	11	456.651
511.912	Other property, plant and equipment	11	478.168
3.500	Heritage assets	12	3.435
3.100	Investment properties	13	2.933
1.807	Intangible assets	14	1.348
0.436	Long term investments	15	8.804
0.949	Long term debtors	15	9.037
1,012.482	**Total non-current assets**		**960.376**
	Current assets		
19.512	Short term investments	15	27.723
0.799	Inventories		0.789
25.515	Short term debtors	16	30.711
63.385	Cash and cash equivalents	17	31.075
2.716	Assets held for sale	18	2.154
-	Assets held for disposal	18	27.548
111.927	**Total current assets**		**120.000**
	Current liabilities		
(0.725)	Cash and cash equivalents - bank overdraft	17	(0.696)
(50.692)	Short term creditors	19	(44.959)
(12.110)	Short term borrowing	15	(29.410)
(1.137)	PFI liability due in less than 1 year	21	(1.785)
(5.806)	Capital grants receipts in advance	34	(2.915)
(3.181)	Short term provisions	20	(3.399)
(73.651)	**Total current liabilities**		**(83.164)**
38.276	**Total net current assets**		**36.836**
	Non-current liabilities		
(0.179)	Long term creditors	15	(0.191)
(14.172)	Long term provisions	20	(12.023)
(459.189)	Long term borrowing	15	(472.387)
(74.074)	Long term PFI liability	21	(72.298)
(320.420)	Liability related to defined benefit pension scheme	44	(349.260)
(3.710)	Other long term liabilities	15	(3.016)
(871.744)	**Total non-current liabilities**		**(909.175)**
179.014	**Total net assets**		**88.037**
	Reserves		
(47.111)	Usable reserves	22	(36.510)
(131.903)	Unusable reserves	23	(51.527)
(179.014)	**Total reserves**		**(88.037)**

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.

2011/12 £m		Note	2012/13 £m
(140.340)	**Cash outflow from the provision of services**		**(75.387)**
222.783	Adjustment to surplus or deficit on the provision of services for non-cash movements	24	211.987
(135.912)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(111.211)
(53.469)	**Net cash flow from operating activities**		**25.389**
(46.641)	Investing activities	25	(76.373)
123.365	Financing activities	26	18.703
23.255	**Net increase or (decrease) in cash and cash equivalents**		**(32.281)**
39.405	**Cash and cash equivalents at the start of the year**		**62.660**
62.660	**Cash and cash equivalents at the end of the year**		**30.379**

The notes to the core financial statements are presented on pages 24 to 97 and form part of the Statement of Accounts.

Section 4 – Notes to the Core Financial Statements

Note 1. Events after the Reporting Period

The Statement of Accounts have been certified as giving a true and fair view by the Corporate Director, Business and Area Management on 27th September 2013. 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 2013. There are no such events to report.

Note 2. Accounting Standards Issued, Not Adopted in 2012/13 Accounts

The International Accounting Standards Board issued an amended IAS 19 on 16th June 2011. The changes are effective for accounting years beginning on or after 1st January 2013 and impact on both short and long term employee benefits.

In 2013/14 the Council will apply a new accounting policy for the recognition of termination benefits. Costs will be recognised when the Council can no longer withdraw an offer to pay such benefits. Currently provision is made when the Council becomes demonstrably committed to terminate the employment of an employee (or groups of employees) or to provide benefits as part of an offer to encourage voluntary redundancy. If the new policy had been applied in the 2012/13 Statement of Accounts £2.000m of short term provisions charged against the deficit on the provision of services would not have been recognised and would have been carried over to 2013/14.

The Council will also apply new accounting treatments to the presentation and disclosure of long term post employment benefits in 2013/14. The overall measurement of the Council's net pension liability will not change but there will be some reclassification of the components into which year on year changes in the net liabilities are analysed. The only substantial change to the Council's financial performance will come from a revision of the measurement basis for the return on pension scheme assets. In future this will be calculated by applying the discount rate to pension assets rather than as an expected return of the assets based on market expectations. If this treatment had been applied in the 2012/13 Statement of Accounts, the deficit on the provision of services would increase by £10.510m. This would have been compensated for by a corresponding decrease in actuarial losses on pension assets and liabilities in other comprehensive income and expenditure, leaving the total comprehensive income and expenditure unchanged.

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/trust and academy. The Council would usually only recognise community schools on the Balance Sheet.

During 2012/13, three community schools converted to academy status – Monkton Juniors, Monkton Infants and Ridgeway School. This has been treated as a disposal for nil consideration in the accounts resulting in a £4.061m loss of disposal charged to the Comprehensive Income and Expenditure Statement.

Section 4 – Notes to the Core Financial Statements

Three further community schools have converted to trust status – Jarrow School on 1st April 2010, Epinay Business and Enterprise School on 9th July 2010 and Keelmans Way on 1st September 2012. The legal transfer of assets to the Epinay Trust took place on 17th October 2012 and a disposal for nil consideration has been recognised in the 2012/13 accounts resulting in a £1.696m loss on disposal. The legal transfer of assets for the other two trusts will be completed in 2013/14. These two schools remain on the Balance Sheet at 31st March 2013 as assets held for disposal at a valuation of £24.526m. 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 2013:

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

A further three schools are expected to convert to academy status in 2013/14. These schools have also been included in assets held for disposal in the Balance Sheet at their current valuation.

The Council entered into an agreement on 18th May 2012 to purchase two office buildings in Jarrow, Hawthorne and Strathmore Buildings, and the associated land. The Council paid a lease premium of £3.750m along with an annual rental payment of £1. The headlease has been retained by the sellers however the agreement gives the Council the option to purchase this on 15th November 2017 for a nominal fee of £1. Responsibility for the repair and upkeep of the buildings now lies with the Council. Given the nature of the transaction the Council has concluded that this arrangement represents a finance lease and the assets have therefore been accounted for as property plant and equipment in the Balance Sheet with a valuation of £6.967m.

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 £54.848m (£70.203m in 2011/12), are recognised as property, plant and equipment on the Council's Balance Sheet. Further information can be found in note 21. A further £14.390m (nil in 2011/12), in relation to Jarrow School, is held on the balance sheet as asset held for disposal as it is transferring to trust status in 2013/14.

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 2013 of £6.844m (£9.250m at 31st March 2012).

The Council owns assets leased to third parties e.g. factory and retail units, with a value at 31st March 2013 of £28.135m (£29.388m in 2011/12). 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 has continued its redundancy programme to meet the significant reduction in Government funding in 2012/13 and future years. The cost of employees that have either left the Council or had a confirmed leaving date at 31st March 2013 has been recognised in the Comprehensive Income and Expenditure Statement. The Council had articulated to employees the scale of reductions required to meet the 2013/14 budget. As the number of additional post reductions and costs could be reasonably estimated, a provision of £2.000m (£1.500m in 2011/12) has been included in the Statement of Accounts. This provision relates to the redundancy element only as accounting policies allow the pension costs to be charged to the General Fund in the year the person leaves.

Newcastle Airport Holding

The Council is one of seven local authorities (the 'LA7) who hold an overall 51% shareholding in Newcastle Airport. On 16th November 2012 the 49% shareholder, Copenhagen Airports A/S sold their holding to AMP Capital Investors Limited. The Council acts as lead authority for the LA7 and considers each year whether a revaluation of the holding is required. As a result of the sale, the Council has now revalued the holding at open market value. The Council's investment in Newcastle Airport is now valued at £8.794m (£0.425m in 2011/12).

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31st March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £1.614m (£1.401m in 2011/12) for every year that useful lives had to be reduced.

Provisions

The Council has made a provision of £10.940m (£13.780m in 2011/12) for the settlement of claims arising from 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. The assumption on average settlement cost has been updated to reflect most recent settlements.

Section 4 – Notes to the Core Financial Statements

An increase over the forthcoming year of 10% in the number of claims would have the effect of adding £1.094m (£1.378m in 2011/12) to the provision needed.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions applied. The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £73.600m (£63.820m in 2011/12). However the assumptions interact in complex ways. During 2012/13 the Council's actuaries advised that the net pension liability had decreased by £0.890m (increase of £4.530m in 2011/12) as a result of estimates being corrected for experience and increased by £48.200m (£52.940m in 2011/12) 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 204 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 £4.921m (£5.219m in 2011/12) and other land and buildings by £0.321m (£0.364m in 2011/12).

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.

2012/13	Usable reserves General fund balance £m	Housing revenue account £m	Capital receipts reserve £m	Major repairs reserve £m	Capital grants unapplied £m	Movement in unusable reserves £m
Adjustments primarily involving the capital adjustment account:						
Reversal of items debited or credited to the Comprehensive 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
Amounts of current and non-current assets written off as part of the loss on disposal	(10.965)	(11.621)	-	-	-	22.586
Accumulated loss on investment properties yet to be consumed	(0.167)	-	-	-	-	0.167
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)	(21.825)	(0.016)	-	-	-	21.841
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	**(34.971)**	**(33.894)**	**0.989**	**1.048**	**2.042**	**64.786**

The equivalent figures for the previous year are as follows:

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

Note 6. Transfers to/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 2012/13. Earmarked reserves are held for specific purposes and are not intended to support general Council spending. They include cash balances held on behalf of schools, which are not for use in other Council services.

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

	Balance at 31st March 2011	Transfers out 2011/12	Transfers in 2011/12	Balance at 31st March 2012	Transfers out 2012/13	Transfers in 2012/13	Balance at 31st March 2013
	£m	£m	£m	£m	£m	£m	£m
General Fund:							
Strategic reserve	(2.949)	-	(0.072)	(3.021)	-	-	(3.021)
School balances	(7.878)	1.852	(2.039)	(8.065)	4.153	(3.167)	(7.079)
Insurance reserve	(3.935)	0.293	(0.060)	(3.702)	1.177	(0.063)	(2.588)
Risk capacity and structural change reserve	(3.535)	1.503	(2.844)	(4.876)	3.704	(3.694)	(4.866)
Private Finance Initiative	(3.943)	0.657	(0.036)	(3.322)	0.235	-	(3.087)
Other reserves	(5.471)	1.586	(1.218)	(5.103)	2.584	(1.166)	(3.685)
Total earmarked reserves	**(27.711)**	**5.891**	**(6.269)**	**(28.089)**	**11.853**	**(8.090)**	**(24.326)**

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

Strategic Reserve
This reserve covers emergency events such as unforeseen financial liabilities or natural disasters. This reserve is held at 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. Of the school balances 5 schools (7 in 2011/12) are in deficit totalling £0.264m (£0.121m in 2011/12).

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 central Government funding.

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

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

Note 7. Major Items of Income and Expenditure

Non Distributed Cost – Equal Pay Settlements
The Council continues to litigate and to reach settlements in relation to its liability to equal pay and equal value claims. Due to the level of costs involved in recent years this item has

been disclosed separately on the face of the Comprehensive Income and Expenditure Statement rather than be subsumed within the specific service lines. As at 31st March 2013 significant commitments still remain however a review of liabilities has identified a reduced number of valid claims such that the provision could be reduced by £2.326m (£3.654m in 2011/12) and credited to the Comprehensive Income and Expenditure Statement.

Major Items of Income and Expenditure in 2011/12

There were two significant charges disclosed on the face of the 2011/12 Comprehensive Income and Expenditure Statement:

- On the cessation of the HRA subsidy system the Government assessed the total level of debt arising and allocated this to individual local authorities. As a result the Council had to pay £60.818m over to the Government on 28th March 2012.

- The financial assumptions for the Council's pension liabilities are reviewed each year with the Council's Actuary to ensure these are correct. Changes in the assumed discount factor, higher anticipated pension increases and lower returns on investments resulted in a £85.390m charge to the Comprehensive Income and Expenditure Statement.

Note 8. Other Operating Expenditure

Other operating expenditure is made up of the following items:

2011/12 £m		2012/13 £m
10.275	Levies	9.753
1.106	Payments to the Government housing capital receipts pool	1.388
5.131	Loss on the disposal of non-current assets	16.057
16.512	**Total other operating expenditure**	**27.198**

Note 9. Financing and Investment Income and Expenditure

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

2011/12 £m		2012/13 £m
24.583	Interest payable and similar charges	29.352
3.310	Pensions interest cost and expected return on pensions assets	4.670
(1.171)	Interest receivable and similar income	(1.177)
(0.506)	Surplus on trading undertakings and dividends receivable	(0.578)
-	Dividends receivable	(0.005)
(0.420)	Income and expenditure in relation to investment properties and changes in their fair value	(0.053)
(0.240)	Other investment income	(0.345)
25.556	**Total financing and investment income and expenditure**	**31.864**

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:

2011/12 £m		2012/13 £m
(58.295)	Council Tax income	(58.573)
(68.793)	National Non-Domestic Rates	(83.030)
(45.765)	Unringfenced Government grants	(31.625)
(30.911)	Capital grants and contributions	(32.855)
(203.764)	**Total taxation and non-specific grant Income**	**(206.083)**

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:

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 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	-	2.289	-	-	-	-	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**

Section 4 – Notes to the Core Financial Statements

The equivalent movements for the previous year are as follows:

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

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 Estates and Valuation Managers, L. McGuigan and D. Josephs (M.R.I.C.S.). The valuations have been made in accordance with the Statements of Valuation Practice and Guidance Notes issued by the Asset Valuation Standards Committee of the Royal Institution of Chartered Surveyors so far as these are consistent with the stated and agreed requirements.

Where property, plant or equipment has been revalued the date of the valuation is 1st April 2012 unless significant spending in year has taken place in which case the valuation date is 31st March 2013.

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

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

Section 4 – Notes to the Core Financial Statements

	Council dwellings	Other land and buildings	Other assets	Surplus asset	Total
	£m	£m	£m	£m	£m
Valued at historic cost	0.635	2.099	136.907	1.899	141.540
Valued at current value in:					
2012/13	66.116	94.011	-	0.168	160.295
2011/12	388.810	125.568	-	0.782	515.160
2010/11	1.053	29.793	-	0.098	30.944
2009/10	-	46.427	-	-	46.427
2008/09 or prior	0.037	36.311	-	4.105	40.453
Total cost or valuation	**456.651**	**334.209**	**136.907**	**7.052**	**934.819**

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

	31st March 2012	31st March 2013		31st March 2012	31st March 2013
Council dwellings	16,809	16,684	Youth and community centres	27	27
Sheltered housing units	1,249	1,253	Sports stadia	2	2
Garages	2,727	2,727	Children's homes	2	2
Town hall and civic offices	11	10	Family centres	4	4
Homes for the elderly	2	2	Day and other social centres	13	13
Leisure centres and swimming pools	2	2	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	14	Markets	1	1
Crematorium and cemeteries	7	7	Industrial estates	11	11
Libraries	8	8	Managed workshops	3	3
Schools	46	38	Shops	193	193

The following key movements took place during the year:

- 40 council dwellings were demolished and 85 sold through right to buy.
- 2 primary schools (Bedewell and Lukes Lane) closed and were replaced by Hebburn Lakes School and Sue Hedley Nursery School.
- 4 special schools (Greenfields, the Galsworthy centre, Margaret Sutton and Oakleigh Gardens) closed during the year as part of the Special Education Review. Two new Special Schools opened - Park View School and Keelmans Way.
- 4 schools (Epinay Business and Enterprise School, Monkton Infants School, Monkton Junior School and Ridgeway Primary) converted to Academies or Trusts.
- Jarrow and Keelmans Way schools have been moved to assets held for disposal pending legal transfer of the assets to the Trusts.

Section 4 – Notes to the Core Financial Statements

Capital Commitments

As at 31st March 2013 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 £15.220m (£70.000m in 2011/12). Details of commitments over £0.500m under capital contracts as at 31st March 2013 are shown in the following table.

Capital scheme		Net commitment at 31st March 2013 £m	Period of commitment Years
Foreshore swimming pool	Building of new swimming pool	5.343	2
South Shields riverside	Creation of Harton Quay park	2.508	1
Waste transfer station	modernised waste transfer station	3.770	1
Littlehaven sea wall	Coastal defences	3.599	2
Total		**15.220**	

Note 12. Heritage Assets

The following table shows the breakdown of heritage assets:

2011/12 £m		2012/13 £m
	Opening balances	
3.385	Gross book value	3.666
(0.107)	Accumulated depreciation	(0.166)
3.278	**Net book value at start of year**	**3.500**
0.281	Additions	0.009
0.014	Depreciation written out on revaluation	-
(0.073)	Depreciation charges in year	(0.074)
3.500	**Net book value at end of the year**	**3.435**
	Comprising	
3.666	Gross book value	3.675
(0.166)	Accumulated depreciation	(0.240)
3.500	**Net book value at end of the year**	**3.435**

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 3 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.

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 Joint Committee.

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

Other heritage assets include statues, civic regalia and historical buildings. There have been no major 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.

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

	2011/12 Total £m	2012/13 Total £m
Rental income from investment property	(0.220)	(0.220)
Revaluation (loss) or gain	(0.200)	0.167
Total investment income	**(0.420)**	**(0.053)**

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 fair value of investment properties at 31st March 2013 was £2.933m (£3.100m as at 31st March 2012).

Note 14. Intangible Assets

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

2011/12 Total £m		2012/13 Total £m
	Balance at start of year:	
5.281	Gross book value	5.401
(2.875)	Accumulated amortisation	(3.594)
2.406	**Net book value at start of year**	**1.807**
0.120	Additions: purchases	0.110
(0.719)	Amortisation for the period	(0.569)
1.807	**Net book value at end of year**	**1.348**
	Comprising:	
5.401	Gross book value	5.511
(3.594)	Accumulated amortisation	(4.163)
1.807	**Net book value at end of year**	**1.348**

Section 4 – Notes to the Core Financial Statements

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 2012	31st March 2013	31st March 2012	31st March 2013
	£m	£m	£m	£m
Available-for-sale financial assets				
Unquoted equity investment at fair value (Newcastle Airport)	0.425	8.794	-	-
Other available-for-sale financial assets at fair value	0.011	0.010	-	-
Total available-for-sale financial assets	**0.436**	**8.804**	**-**	**-**
Loans and receivables				
Deposits with banks and other financial institutions	-	-	19.512	27.723
Long and short term debtors	0.949	9.037	25.515	30.711
Total loans and receivables	**0.949**	**9.037**	**45.027**	**58.434**
Financial liabilities at amortised cost				
Long and short term borrowing	(459.189)	(472.387)	(12.110)	(29.410)
Long and short term creditors	(0.179)	(0.191)	(48.552)	(43.445)
PFI liabilities	(74.074)	(72.298)	(1.137)	(1.785)
Finance lease and other liabilities	(3.710)	(3.016)	(2.140)	(1.514)
Total financial liabilities at amortised cost	**(537.152)**	**(547.892)**	**(63.939)**	**(76.154)**

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") entered into a strategic partnership with Copenhagen Airports A/S for the latter to purchase a 49% share of the airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Limited (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 originally held a shareholding of 990 shares representing a 9.9% interest in the company. 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 full independent valuation was carried out in May 2010 which valued the shareholding at £0.425m based upon the discounted cash flow method. This valuation approach was used as no open market share value was available for the holding.

On 16th November 2012, Copenhagen Airports A/S sold its 49% holding to AMP Capital Investors Limited. As a result the valuation of the LA7 holding is now based on the open market value achieved in this sale. At the same time an internal sale of shares also took place within the LA7 group. The Council now holds a 10.12% interest in the NALAHCL, valued at £8.794m.

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. No dividends were payable for the year ended 31st December 2012 (nil for the year ended 31st December 2011).

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. 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 £2.361m and a profit after tax of £1.502m for the year ended 31st December 2012. In the previous year, the Group made a loss before tax of £2.884m and a profit after tax of £1.404m.

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, between Carillion Private Finance (Education) Limited (44% shareholding), Royal Bank of Scotland (36% 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, Units 12-14, Lumley Court, Drum Industrial Estate, Chester-le-Street, County Durham, DH2 1AN.

On 21st November 2007 Inspired Spaces STaG Limited set up Inspired Spaces STaG (Holdings 1) Limited to develop and build Jarrow School. The Council paid £500 for a 50% equity in this company and £0.107m in subordinated debt to be repaid over the lifetime of the PFI contract.

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

The remaining 50% of shareholding in each of these companies is held by Building Schools for the Future Investments LLP.

The Council received £0.005m (nil in 2011/12) 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

Long and short term debtors are carried at cost as this is a fair approximation of their value. £8.007m (£0.240m in 2011/12) of the long term debt relates to the issue of loan notes to

Newcastle Airport. 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 analysed in the table below:

31st March 2012 £m	Percentage range of interest rate payable %	Loans outstanding	31st March 2013 £m
(460.968)	0.650 - 9.375	Public Works Loans Board (PWLB)	(491.323)
(10.331)	2.99 - 9.50	Market debt	(10.474)
(471.299)		**Total**	**(501.797)**
(12.110)		Less than 1 year	(29.410)
(21.800)		Between 1 and 2 years	(17.000)
(61.000)		Between 2 and 5 years	(65.000)
(102.000)		Between 5 and 10 years	(98.328)
(274.389)		More than 10 years	(292.059)
(471.299)		**Total**	**(501.797)**

The current borrowings include accrued interest as at 31st March 2013 of £7.610m (£7.111m in 2011/12).

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

Both long and short term creditors are carried at cost as this is a fair approximation of their value. An analysis of short term creditors, which also includes the short term liabilities in relation to finance lease and other liabilities, can be found in note 19 to these accounts.

Other Liabilities

The following table summarises the Council's other liabilities:

	1st April 2012 £m	Additions in year £m	Paid during year £m	31st March 2013 £m	Long term £m	Short term £m
Loan notes	(0.480)	-	0.480	-	-	-
Deferred pensions strain on the fund	(3.132)	(1.060)	1.860	(2.332)	(0.862)	(1.470)
Finance leases	(2.238)	-	0.040	(2.198)	(2.154)	(0.044)
Total other liabilities	**(5.850)**	**(1.060)**	**2.380**	**(4.530)**	**(3.016)**	**(1.514)**

The deferred pensions reflect the fact that strain on the fund payable to the Tyne and Wear Pension Fund can be deferred over three years. The finance lease liability primarily relates to the Cleadon Park community facility.

Section 4 – Notes to the Core Financial Statements

Income, Expense, Gains and Losses

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

	2011/12			2012/13		
	Financial liabilities measured at amortised cost £m	Loans and receivables £m	Total £m	Financial liabilities measured at amortised cost £m	Loans and receivables £m	Total £m
Interest expense						
Impairment losses	-	0.628	0.628	-	0.125	0.125
Fee expense	18.290	6.293	24.583	29.352	-	29.352
Interest income						
Fee income	(0.856)	(0.315)	(1.171)	(0.920)	(0.257)	(1.177)
Net loss for the year	**17.434**	**6.606**	**24.040**	**28.432**	**(0.132)**	**28.300**

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 or nominal amount as follows:

	31st March 2012		31st March 2013	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
PWLB	(460.968)	(477.282)	(491.323)	(532.929)
Market debt (LOBOs)	(10.331)	(12.313)	(10.474)	(13.020)
Financial liabilities	**(471.299)**	**(489.595)**	**(501.797)**	**(545.949)**

The fair value of liabilities as at 31st March 2013 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.

The fair value of deposits with banks and other financial institutions is £28.281m compared to a carrying value of £27.723m (£19.633m and £19.512m respectively in 2011/12). 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.

Section 4 – Notes to the Core Financial Statements

Note 16. Short Term Debtors

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

31st March 2012 £m		31st March 2013 £m
	Amounts falling due in one year	
7.750	Central Government bodies	9.856
0.805	Other Local Authorities	0.715
1.594	NHS bodies	0.765
2.804	Housing tenants	3.022
5.463	Council Tax payers	5.895
1.750	South Tyneside Homes Limited	1.720
13.102	Other debtors	15.686
33.268	**Total amounts falling due in one year**	**37.659**
	Allowances for bad debts	
(1.939)	Housing tenants	(2.144)
(2.367)	Council Tax payers	(2.595)
(0.867)	NHS bodies	(0.029)
(2.580)	Other debtors	(2.180)
(7.753)	**Total bad debt allowances**	**(6.948)**
25.515	**Net debtors**	**30.711**

31st March 2012 £m		31st March 2013 £m
	Amounts written off during the year	
0.541	Housing rents (excluding write ons)	0.404
0.123	Council Tax (excluding write ons)	0.212
0.114	Other debtors (net of VAT recovered)	0.870
0.778	**Total amounts written off during the year**	**1.486**

In addition to the above the Council wrote off £0.544m (£0.643m in 2011/12) in National Non-Domestic Rates debtors. The Government met this cost.

Note 17. Cash and Cash Equivalents

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

31st March 2012 £m		31st March 2013 £m
0.100	Cash held by the Council	0.083
6.615	Bank current accounts	18.991
56.670	Short term deposits with financial institutions	12.001
63.385	**Cash and cash equivalent assets**	**31.075**
(0.725)	Bank overdraft facility	(0.696)
(0.725)	**Cash and cash equivalent liabilities**	**(0.696)**
62.660	**Total cash and cash equivalents**	**30.379**

The short term deposits with financial institutions is made up of £2.500m lent out, for less than 91 days, to banks and building societies (£20.000m in 2011/12) and £9.501m money market funds (£36.670m in 2011/12).

In 2012/13 the Council increased the lending limits with nationalised banks. This has provided greater opportunity to invest term deposits with these banks thus increasing the level of bank account deposits and short term investments and contributing to the decrease in the amounts invested in money market funds.

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:

2011/12			2012/13	
Held for sale £m	Held for disposal £m		Held for sale £m	Held for disposal £m
2.341	**-**	**Balance outstanding at start of year**	**2.716**	**-**
2.615	-	Assets transferred from property, plant and equipment	2.304	27.548
-	-	Additions	0.017	-
-	-	Revaluation losses	(0.431)	-
(2.240)	-	Assets sold	(2.452)	-
2.716	**-**	**Balance outstanding at end of year**	**2.154**	**27.548**

Note 19. Short Term Creditors

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

31st March 2012 £m		31st March 2013 £m
(5.911)	Central Government bodies	(5.516)
(0.449)	Other local authorities	(0.704)
(2.103)	NHS bodies	(0.810)
(0.608)	Housing tenants	(0.629)
(1.020)	Council Tax payers	(1.059)
(8.140)	South Tyneside Homes Limited	(5.208)
(4.460)	Council employees	(4.119)
(3.687)	Tyne and Wear Pension Fund	(3.350)
(24.314)	All other creditors	(23.564)
(50.692)	**Total creditors**	**(44.959)**

Section 4 – Notes to the Core Financial Statements

Note 20. Long and Short Term Provisions

An analysis of the provisions balances is as follows:

	Pay settlement provision	Injury and damage compensation claims	Other provisions	Total
	£m	£m	£m	£m
Balance at 1st April 2011	(17.520)	(1.730)	(1.202)	(20.452)
Additional provisions	(0.050)	(1.099)	(1.850)	(2.999)
Amounts used	-	1.156	1.202	2.358
Unused amounts reversed	3.740	-	-	3.740
Balance at 1st April 2012	**(13.830)**	**(1.673)**	**(1.850)**	**(17.353)**
Additional provisions	-	(1.364)	(2.466)	(3.830)
Amounts used	0.576	1.021	1.850	3.447
Unused amounts reversed	2.314	-	-	2.314
Balance at 31st March 2013	**(10.940)**	**(2.016)**	**(2.466)**	**(15.422)**
Short term provisions	-	(0.933)	(2.466)	(3.399)
Long term provisions	(10.940)	(1.083)	-	(12.023)
Balance at 31st March 2013	**(10.940)**	**(2.016)**	**(2.466)**	**(15.422)**

The Council continues to face significant liabilities in relation to equal pay and equal value claims, which are reflected in the pay settlement provision. The major liability relates to an additional period outside of previous settlements reached for which claims are being received. The Council intends to defend these claims and so settlement is not expected until 2014/15 at the earliest. The timing of any payment is however uncertain as legal proceedings have been put on hold pending the resolution of all other liabilities for equal pay.

The Council maintains 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 £0.933m of claims to be settled in 2013/14, £0.624m to be settled in 2014/15 and £0.459m to be settled in future years.

The other provisions primarily relate to redundancy costs for restructuring Council services and a provision to meet the 2012/13 costs of the Carbon Reduction Commitment energy efficiency scheme. These provisions are expected to be paid in 2013/14.

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

Signed on 13th April 2005 with Gleeson Consortium and involved the construction of a new extended secondary school in Boldon. There is provision for community use of the school facilities, which includes a 220 seat theatre and a 25 metre swimming pool. The contract runs for 25 years, expiring on 31st October 2031 and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. The building became operational on 30th October 2006. The current net book value of the school is £14.859m (£15.034m in 2011/12).

In 2012/13 unitary charge payments of £2.550m (£2.800m in 2011/12) had been paid out. An additional £0.059m (£0.075m in 2011/12) was also paid in respect of free school meals. £1.502m (£1.502m in 2011/12) was recovered through PFI credits. Unitary charge payments over the whole life of the contract (excluding school meals) are expected to total £68.130m 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 £22.572m (£23.182m in 2011/12).

In 2012/13 unitary charge payments of £4.016m (£4.044m in 2011/12) had been paid out whilst £2.535m (£2.535m in 2011/12) was recovered through PFI grant. Over the lifetime of the contract the unitary charge is expected to total £103.440m of which £63.371m will be recovered in the form of PFI credits. The actual level of payments will depend on inflation rates and the satisfactory contract performance by the operator.

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 2013 is £14.390m (£14.390m at 31st March 2012).

The assets have been reclassified in year from other land and buildings to assets held for disposal because the Council is currently in the process of legally transferring them to the Jarrow School Trust which was created on 26th March 2010.

In 2012/13 unitary charge payments of £3.247m (£3.300m in 2011/12) were made, with £2.535m (£2.535m in 2011/12) received through PFI grant. Unitary charge payments over the life of the contract are expected to be £90.145m 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 and will run for 25 years, expiring on 4th September 2036.

Section 4 – Notes to the Core Financial Statements

The net book value of the school as at 31st March 2013 is £17.417m (£17.600 at 31st March 2012).

In 2012/13 unitary charge payments of £3.916m (£2.258m in 2011/12) were made, with £2.750m (£1.491m in 2011/12) received through PFI grant. Unitary charge payments over the life of the contract 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.

Long Term PFI Contract Payments

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

2011/12 £m		2012/13 £m
(55.276)	Opening balance	(75.211)
(21.390)	Addition of South Shields Community School	-
(5.944)	Interest and contingent rents	(7.025)
7.399	Repayments	8.153
(75.211)	**Closing balance**	**(74.083)**
(1.137)	Short term liability	(1.785)
(74.074)	Long Term Liability	(72.298)
(75.211)	**Closing balance**	**(74.083)**

The estimated outstanding unitary charge payments for all long-term PFI contracts in operation at 31st March 2013 are analysed in the following table:

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**

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.

Section 4 – Notes to the Core Financial Statements

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

2011/12	Repayment of liability £m	Interest charge £m	Contingent rents £m	Service charges £m	Total £m
Amounts due:					
Within one year	1.137	7.121	(0.067)	5.320	13.511
2 to 5 years	7.103	27.080	0.145	21.087	55.415
6 to 10 years	12.616	29.770	0.416	29.854	72.656
10 to 15 years	17.720	22.969	0.816	35.284	76.789
16 to 20 years	23.517	13.215	(0.292)	38.374	74.814
21 or more years	13.118	3.460	0.289	15.541	32.408
Total	**75.211**	**103.615**	**1.307**	**145.460**	**325.593**

Joint Waste PFI Project

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

The payment mechanism within the contract will be based on tonnage bands achieved by each Council. South Tyneside's expected unitary charge payments over the 25 year life of the contract are £173.996m (at current prices), against which PFI grant of £45.997m will be forthcoming.

BT South Tyneside Limited (BTSTL)

During 2008/09 the Council entered into a strategic partnership arrangement with British Telecom, creating BTSTL. The strategic partner delivers a range of back-office services to the Council, including finance, payroll, personnel, ICT and procurement. The partnership became operational on 1st October 2008 and the contract runs for 10 years. Unitary charge payments of £13.385m were paid in 2012/13 (£12.800m in 2011/12) and the total cost of the contract over 10 years is expected to be £133.070m.

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

2011/12 £m		2012/13 £m
	Amounts due:	
12.755	Within one year	12.794
53.650	Within 2 to 5 years	54.455
21.570	Over 5 years	7.237
87.975	**Total**	**74.486**

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 £5.500m 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.

31st March 2012 £m		31st March 2013 £m
(1.634)	General fund balance	(0.827)
(28.089)	Earmarked reserves	(24.326)
(11.553)	Housing revenue account balance	(9.601)
(2.741)	Useable capital receipts balance	(1.752)
(1.052)	Housing major repairs reserve	(0.004)
(2.042)	Capital grant unapplied reserve	-
(47.111)	**Total useable reserves**	**(36.510)**

Note 23. Unusable Reserves

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

31st March 2012 £m		31st March 2013 £m
(124.898)	Revaluation reserve	(120.465)
(333.388)	Capital adjustment account	(276.861)
323.552	Pensions reserve	351.593
(0.425)	Available-for-sale financial instruments reserve	(8.794)
4.189	Employee benefits adjustment account	3.852
(0.646)	Financial instruments adjustment account	(0.229)
(0.220)	Collection Fund adjustment account	(0.571)
(0.067)	Deferred capital receipts reserve	(0.052)
(131.903)	**Total unusable reserves**	**(51.527)**

Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are revalued downwards, 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.

31st March 2012 £m	**Revaluation reserve**	31st March 2013 £m
(101.402)	**Balance as at 1st April**	**(124.898)**
(30.654)	Upward revaluation of non-current assets	(15.927)
2.012	Valuation impairment charged to reserve	12.745
2.213	Accumulated gains on assets sold or scrapped	4.697
2.933	Other amounts written off to the capital adjustment account	2.918
(124.898)	**Balance as at 31st March**	**(120.465)**

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.

31st March 2012 £m	Capital adjustment account	31st March 2013 £m
(471.959)	**Balance as at 1st April**	**(333.388)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
43.761	Charges for depreciation and impairment of non-current assets	36.550
83.824	Revaluation losses on property, plant and equipment	74.591
0.719	Amortisation of intangible assets	0.532
10.253	Revenue expenditure funded from capital under statute	0.274
14.789	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	22.586
0.003	Other movements	0.002
(0.200)	Accumulated gains on investment properties yet to be consumed	0.167
60.818	Housing subsidy debt payment	-
(5.146)	Adjusting amounts written out of the revaluation reserve	(7.615)
208.821	**Net written out amount of the cost of non-current assets consumed in the year**	**127.087**
	Capital financing applied in the year	
(8.724)	Use of the capital receipts reserve to finance new capital expenditure	(6.393)
(12.769)	Use of the major repairs reserve to finance new capital expenditure	(17.015)
(35.534)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(34.306)
(1.252)	Application of grants to capital financing from the capital grants unapplied account	(2.042)
(10.343)	Statutory provision for the financing of capital investment charged against the General Fund and HRA Balances	(10.776)
(1.628)	Capital expenditure charged against HRA Balances	(0.028)
(70.250)	**Total capital financing applied**	**(70.560)**
(333.388)	**Balance as at 31st March**	**(276.861)**

Pension Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for 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.

31st March 2012 £m	Pensions reserve	31st March 2013 £m
242.661	**Balance as at 1st April**	**323.552**
85.390	Actuarial losses on pensions assets and liabilities	27.140
17.352	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	21.841
(21.851)	Employers pension contributions and direct payments to pensioners payable in year	(20.940)
323.552	**Balance as at 31st March**	**351.593**

Available-for-Sale Financial Instrument Reserve

This reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The Councils shareholding in Newcastle Airport has been revalued in year resulting in an £8.369m gain as shown in the table below:

31st March 2012 £m	Available-for-sale financial instrument reserve	31st March 2013 £m
(0.425)	**Balance as at 1st April**	**(0.425)**
-	Revaluation of available for sale financial assets	(8.369)
(0.425)	**Balance as at 31st March**	**(8.794)**

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:

2011/12 £m		2012/13 £m
43.761	Depreciation and impairment	36.550
83.824	Revaluation losses of property, plant and equipment	74.591
0.719	Amortisation of intangibles	0.532
(0.200)	Revaluation of investment properties	0.167
(3.541)	(Decrease) or increase in creditors	3.717
1.525	Decrease in debtors	3.654
(0.100)	(Increase) or decrease in inventories	0.010
(3.260)	Movement in pension liability	1.700
104.789	Carrying amount of current and non-current assets sold or demolished	92.586
(4.734)	Other non-cash items charged to the deficit on the provision of services	(1.520)
222.783	**Adjustment to surplus or deficit on the provision of services for non-cash movements**	**211.987**

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

2011/12 £m		2012/13 £m
(90.240)	Proceeds from short term and long term investments	(70.000)
(10.138)	Proceeds from sale of property, plant and equipment	(6.905)
(35.534)	Capital grants credited to surplus or deficit on the provision of services	(34.306)
(135.912)	**Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities**	**(111.211)**

The cash flows for operating activities include the following items:

2011/12 £m		2012/13 £m
1.517	Interest received	1.407
(19.087)	Interest paid	(28.901)

Note 25. Investing Activities

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

2011/12 £m		2012/13 £m
(97.102)	Purchase of property, plant and equipment and intangible assets	(96.120)
(90.000)	Purchase of short term and long term investments	(78.000)
13.832	Proceeds from the sale of property, plant and equipment	7.160
90.240	Proceeds from short-term and long-term investments	70.000
36.389	Other receipts from investing activities	20.587
(46.641)	**Net cash flows from investing activities**	**(76.373)**

Note 26. Financing Activities

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

2011/12 £m		2012/13 £m
150.818	Cash receipts of short and long term borrowing	35.000
(1.369)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and PFI contracts	(1.171)
(30.000)	Repayments of short and long term borrowing	(5.000)
3.916	Other payments for financing activities	(10.126)
123.365	**Net cash flows from financing activities**	**18.703**

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 2012/13 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:

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- 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.

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 2012/13 outturn	Business and Area Management Group	Strategy and Performance	Children, Adult and Families Group	Economic Regeneration Group	Total
	£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	36.097	0.228	46.680	6.709	89.714
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	**206.557**	**1.769**	**241.710**	**22.198**	**472.234**
Net expenditure	**65.296**	**1.353**	**80.296**	**10.838**	**157.783**

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.

	2012/13
	£m
Net expenditure in the Group analysis	157.783
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the analysis	101.129
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	**222.408**

Reconciliation to Subjective Analysis

The reconciliation over the 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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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
	£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	(17.371)	(3.306)	**140.555**	-	**140.555**
Support services recharges	6.798	38.989	(0.121)	**45.666**	-	**45.666**
Other service expenses	266.621	(52.833)	(2.591)	**211.197**	-	**211.197**
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 pension cost	17.020	-	(17.020)	**-**	34.022	**34.022**
Precepts and levies	9.753	-	(9.753)	**-**	9.753	**9.753**
Statutory provision for debt repayment	10.776	-	(10.776)	**-**	-	**-**
Loss on disposal of non-current assets	-	-	-	**-**	16.057	**16.057**
Payments to housing receipts pool	-	-	-	**-**	1.388	**1.388**
Total expenditure	**472.234**	**116.732**	**(43.601)**	**545.365**	**61.220**	**606.585**
Deficit on the provision of services	**157.783**	**101.129**	**(36.504)**	**222.408**	**(147.021)**	**75.387**

The equivalent tables for the previous year are as follows:

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

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

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2011/12	Group analysis	Amounts not reported to management in the analysis	Amounts not included in the Comprehensive Income and Expenditure Statement	Cost of services	Other operating income and expenditure	(Surplus) or deficit on the provision of services
	£m	£m	£m	£m	£m	£m
Fees, charges and other service income	(399.641)	75.399	50.089	**(274.153)**	-	**(274.153)**
Housing revenue account income	-	(58.390)	-	**(58.390)**	-	**(58.390)**
Surplus on trading undertakings	-	-	-	-	(0.506)	**(0.506)**
Interest and investment income	(0.989)	-	0.989	-	(1.831)	**(1.831)**
Income from Council Tax	-	-	-	-	(58.295)	**(58.295)**
Non-Domestic Rates redistribution	-	-	-	-	(68.793)	**(68.793)**
Grants and contributions	-	-	-	-	(76.676)	**(76.676)**
Total income	**(400.630)**	**17.009**	**51.078**	**(332.543)**	**(206.101)**	**(538.644)**
Employee expenses	142.155	12.589	(25.562)	**129.182**	-	**129.182**
Support services recharges	31.737	(19.430)	(0.410)	**11.897**	-	**11.897**
Other service expenses	351.369	(66.870)	(4.922)	**279.577**	-	**279.577**
Housing revenue account expenditure	-	97.636	-	**97.636**	-	**97.636**
Depreciation, amortisation and impairment	-	55.469	-	**55.469**	-	**55.469**
Interest payable and net pension cost	18.307	-	(18.307)	-	27.893	**27.893**
Precepts and levies	10.275	-	(10.275)	-	10.275	**10.275**
Statutory provision for debt repayment	8.809	-	(8.809)	-	-	-
Loss on disposal of non-current assets	-	-	-	-	5.131	**5.131**
Housing subsidy debt payment	-	60.818	-	**60.818**	-	**60.818**
Payments to housing receipts pool	-	-	-	-	1.106	**1.106**
Total expenditure	**562.652**	**140.212**	**(68.285)**	**634.579**	**44.405**	**678.984**
Deficit on the provision of services	**162.022**	**157.221**	**(17.207)**	**302.036**	**(161.696)**	**140.340**

Note 28. Trading Operations

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

		2010/11	2011/12	2012/13
South Shields open air market	Turnover	(0.202)	(0.176)	(0.108)
	Expenditure	0.143	0.089	0.063
Cumulative surplus over last 3 years: (£0.191m)	**Deficit or (surplus)**	**(0.059)**	**(0.087)**	**(0.045)**
School catering	Turnover	(6.238)	(6.220)	(6.521)
	Expenditure	6.424	5.801	5.988
Cumulative surplus over last 3 years: (£0.766m)	**Deficit or (surplus)**	**0.186**	**(0.419)**	**(0.533)**
Total trading activity	Turnover	(6.440)	(6.396)	(6.629)
	Expenditure	6.567	5.890	6.051
	Deficit or (surplus)	**0.127**	**(0.506)**	**(0.578)**

Note 29. Pooled Budgets

Following the cessation of the South Tyneside Arts studio project the Council now has four pooled arrangements with the South Tyneside Primary Care Trust (PCT) under Section 75 of the NHS Act 2006. Pooled funds enable health bodies and local authorities to work collaboratively to address specific health issues. The four projects are described over the page.

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

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

2011/12 Council share of net cost £m		2012/13 Pooled budgets gross cost £m	2012/13 NHS partners income to the Council £m	2012/13 Council share of net cost £m
0.532	Joint equipment store	1.077	(0.608)	0.469
(0.015)	The South Tyneside Arts Studio	-	-	-
0.770	Perth Green	1.033	(0.242)	0.791
-	Nursing care and continuing care	6.779	(6.779)	-
1.811	S117 mental health	3.452	(1.726)	1.726
3.098	**Total**	**12.341**	**(9.355)**	**2.986**

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.

	2011/12 £m	2012/13 £m
Members allowances	0.761	0.786
Other Members expenses	0.024	0.022
Total Members allowances paid	**0.785**	**0.808**

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 over the page. 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.

Section 4 – Notes to the Core Financial Statements

2011/12					2012/13			
Council	School Based	Total	Leavers in year	Remuneration bands	Council	School Based	Total	Leavers in year
40	34	74	7	£50,000 - £54,999	23	25	48	2
14	24	38	7	£55,000 - £59,999	7	20	27	6
11	17	28	6	£60,000 - £64,999	11	17	28	4
3	6	9	2	£65,000 - £69,999	2	6	8	1
3	10	13	1	£70,000 - £74,999	3	5	8	2
-	3	3	-	£75,000 - £79,999	2	3	5	1
-	2	2	-	£80,000 - £84,999	-	2	2	-
1	2	3	2	£85,000 - £89,999	1	2	3	-
-	3	3	2	£90,000 - £94,999	1	1	2	2
-	1	1	-	£125,000 - £129,999	-	-	-	-
-	-	-	-	£150,000 - £154,999	-	1	1	-
72	**102**	**174**	**27**		**50**	**82**	**132**	**18**

The Council has continued to revise its structure to ensure that it is shaped to deliver for the future, and as part of this plan, continued with its early retirement/voluntary redundancy programme during 2012/13. 6 of the Council staff who left through this programme are disclosed in the table (18 in 2011/12) as their redundancy and salary payments exceeded £50,000.

A number of schools have merged or closed during 2012/13 resulting in higher number of redundancies. There were 85 teaching and support staff redundancies in 2012/13 (29 in 2011/12). 12 of these redundancies are disclosed in the table above (9 in 2011/12).

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 increased due to the conversion of three schools to Trust status and the employment of staff transferring to the Trust Board.

2011/12 School based	Remuneration bands	2012/13 School based
12	£50,000 - £54,999	18
6	£55,000 - £59,999	9
5	£60,000 - £64,999	7
1	£65,000 - £69,999	1
3	£70,000 - £74,999	2
2	£75,000 - £79,999	1
-	£80,000 - £84,999	1
-	£90,000 - £94,999	1
1	£100,000 - £104,999	-
30		**40**

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Senior Officer Remuneration

The following table shows senior officer remuneration in 2011/12 and 2012/13:

Post title		Salary and allowances £	Termination benefits £	Pension contribution £	Total remuneration £
Officers over £150,000					
Chief Executive - M Swales	2011/12	152,735	-	21,769	174,504
	2012/13	152,833	-	21,769	174,602
Other senior officers					
Corporate Director Children Adults and Families	2011/12	124,393	-	17,524	141,917
	2012/13	124,395	-	17,524	141,919
Corporate Director Business and Area Management	2011/12	111,351	-	15,664	127,015
	2012/13	114,031	-	16,028	130,059
Corporate Director Economic Regeneration	2011/12	112,360	-	15,962	128,322
	2012/13	112,553	-	16,028	128,581
Head of Education Learning and Skills	2011/12	95,430	-	13,428	108,858
	2012/13	91,185	-	12,870	104,055
Head of Enterprise and Regeneration	2011/12	85,605	-	12,010	97,615
	2012/13	85,759	-	12,010	97,769
Head of Culture and Neighbourhoods	2011/12	85,640	-	12,010	97,650
	2012/13 *	3,775	86,979	534	91,288
Head of Children's and Families Social Care	2011/12	85,923	-	12,010	97,933
	2012/13 ^	70,104	77,315	9,008	156,427
Head of Pensions	2011/12	85,243	-	12,010	97,253
	2012/13	85,363	-	12,010	97,373
Head of Corporate and Commercial Services	2011/12	91,178	-	12,860	104,038
	2012/13	89,603	-	12,661	102,264
Head of Marketing and Communications	2011/12 *	35,537	-	5,228	40,765
	2012/13	77,388	-	10,903	88,291
Head of Legal Services	2011/12	70,428	-	9,908	80,336
	2012/13	77,350	-	10,892	88,242
Head of Finance	2011/12	78,701	-	11,116	89,817
	2012/13	79,000	-	11,159	90,159
Head of Adult Social Care	2011/12	81,689	-	11,640	93,329
	2012/13	80,276	-	11,455	91,731
Head of Strategic Development	2011/12 *	7,500	-	1,073	8,573
	2012/13	89,213	-	12,334	101,547
Head of Asset Management	2012/13	70,796	-	10,009	80,805
Head of Development Services	2012/13	84,930	-	12,010	96,940
Head of Planning, Housing, Transport Strategy and Regulatory Services	2011/12	79,458	-	11,250	90,708
Head of Transition and Wellbeing	2011/12 *	29,402	77,315	4,153	110,870
Head of Partnership and Corporate Affairs	2011/12	84,173	-	12,010	96,183
Head of Health and Social Inclusion	2011/12 *	30,212	77,315	4,257	111,784
Head of Strategic Partnership	2011/12 *	27,545	-	3,889	31,434
Acting Head of Sustainable Communities	2011/12 *	35,478	86,979	5,004	127,461
Head of Economic Growth	2011/12 *	78,920	34,958	11,286	125,164
Total remuneration 2011/12		**1,668,901**	**276,567**	**236,061**	**2,181,529**
Total remuneration 2012/13		**1,488,554**	**164,294**	**209,204**	**1,862,052**

* Denotes not a full year salary

^ Denotes leaver in year replaced

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Senior Officer Remuneration of Local Authority Subsidiaries

There was one officer in South Tyneside Homes earning in excess of £150,000 after taking into account termination benefits. The impact of officers earning more than £50,000 can be seen in note 10 to the Group Accounts.

Exit Package Cost Disclosure

The numbers of exit packages with total cost per band for both compulsory and other redundancies are set out in the table below. These costs include both redundancy and the full strain on fund pension payment.

2011/12					2012/13			
Compulsory redundancies	Other departures	Total exit Packages	Total Paid	Exit package cost band	Compulsory redundancies	Other departures	Total exit Packages	Total Paid
			£m					£m
7	155	162	1.432	£0 - £20,000	3	209	212	1.200
1	61	62	1.844	£20,001 - £40,000	-	43	43	1.253
-	9	9	0.425	£40,001 - £60,000	-	13	13	0.602
-	11	11	0.759	£60,001 - £80,000	-	5	5	0.326
-	4	4	0.342	£80,001 - £100,000	-	5	5	0.447
-	6	6	0.728	£100,000 - £150,000	-	2	2	0.215
-	3	3	0.583	£150,000 and above	-	2	2	0.334
8	**249**	**257**	**6.113**	**Total**	**3**	**279**	**282**	**4.377**

The total cost represents exit packages that have been agreed, accrued for and charged to the Comprehensive Income and Expenditure Statement in the current year. The 2012/13 costs also include a credit of £0.119m for costs accrued in 2011/12 where the employee either did not leave or the cost was lower than estimated. The total cost of £4.342m also includes 94 employees who left the Council during 2012/13 and for whom a redundancy provision of £1.500m was made in the 2011/12 accounts (67 employees and £1.200m in 2010/11 accounts).

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

The total cost excludes a provision of £2.000m that has been charged to the Comprehensive Income and Expenditure Statement in 2012/13 in respect of 118 employees expected to leave the Council in 2013/14. This cost is not included in the table as it is not possible to analyse the employees exit packages into the appropriate bands. No provision is made for additional pension costs for these employees.

Note 32. External Audit Costs

PricewaterhouseCoopers LLP (PWC) act as the external auditors for the Council. The table over the page 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.

2011/12 £m		2012/13 £m
0.278	Fees with regard to external audit services carried out by the appointed auditor for the year	0.167
0.035	Fees for the certification of grant claims and returns for the year	0.017
0.010	Fees for other services provided by external auditors during the year	0.002
0.323	**Total fees payable to external auditors**	**0.186**

In addition to the above the Council paid £0.036m (£0.057m in 2011/12) 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 introduction of the academy schools system a proportion of DSG funding is top sliced by the Government and paid directly to academy schools in the Borough. The remaining DSG allocated to the Council is ring-fenced and can only be applied to meet expenditure properly included in the schools budget. The schools budget includes:

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

Over and underspends on the two elements are required to be accounted for separately. Details of the deployment of DSG receivable for 2012/13 are as shown in the following table:

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)**

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.

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The equivalent table for the previous year is shown below:

2011/12	Central expenditure £m	Individual schools budget £m	Total £m
Final DSG before academy recoupment	(9.102)	(99.803)	(108.905)
Academy recoupment	0.061	4.399	4.460
Total Council DSG for year	**(9.041)**	**(95.404)**	**(104.445)**
Brought forward from previous year	-	(0.131)	(0.131)
Agreed budgeted distribution in year	(9.041)	(95.404)	(104.445)
In year adjustments	-	-	-
Final budgeted distribution for year	**(9.041)**	**(95.535)**	**(104.576)**
Actual central expenditure	9.041	-	9.041
Actual ISB deployed to schools	-	95.505	95.505
Carry forward to following year	**-**	**(0.030)**	**(0.030)**

Note 34. Government Grant Income

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

	2011/12 £m	2012/13 £m
Credited to taxation and non specific grant income		
National Non-Domestic Rates	(68.793)	(83.030)
Capital grants and contributions	(30.911)	(32.855)
Revenue support grant	(21.264)	(1.610)
Early intervention grant	(9.517)	(9.871)
Private finance initiative	(8.062)	(9.321)
Learning disability health reform grant	-	(6.625)
Revenue support transition grant	(3.182)	-
Local services support grant	-	(0.488)
Benefits administration grant	(1.659)	(1.686)
Council Tax freeze grant	(1.450)	(1.451)
Other unringfenced grants	(0.631)	(0.573)
Total	**(145.469)**	**(147.510)**
Credited to services		
Dedicated schools grant	(104.445)	(102.146)
Standards fund	(0.050)	-
Housing benefit	(65.349)	(70.376)
Council Tax benefit	(17.437)	(17.384)
Early intervention grant	(0.066)	-
Education and skills funding agencies	(7.416)	(8.206)
Pupil premium grant	(2.766)	(4.470)
Grants supporting revenue expenditure funded by capital under statute	(4.622)	(1.451)
Other ringfenced grants	(1.520)	(2.382)
Total	**(203.671)**	**(206.415)**
Total grants	**(349.140)**	**(353.925)**

Section 4 – Notes to the Core Financial Statements

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

	2011/12 £m	2012/13 £m
Revenue grants		
Education and skills funding agencies	(0.777)	(1.378)
Other grants	(0.138)	(0.152)
Revenue contributions		
Other contributions	(0.384)	(0.048)
Total	**(1.299)**	**(1.578)**
Capital grants receipts in advance		
Building Schools for the Future	(0.680)	-
ONE North East funding	(3.193)	(1.170)
Department for Education schools	(1.363)	(1.124)
Other grants	(0.570)	(0.622)
Total	**(5.806)**	**(2.916)**

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.

2011/12 £m		2012/13 £m
436.244	**Opening capital financing requirement (CFR)**	**555.916**
	Capital investment	
97.339	Additions to property, plant and equipment	89.981
21.390	Adjustments for assets held under PFI and finance leases	0.024
-	Loans treat as capital expenditure	8.007
0.120	Additions to other long term assets and assets held for sale or disposal	0.139
60.818	Housing subsidy debt payment	-
10.253	Revenue expenditure funded from capital under statute	0.274
0.001	Other movements	(0.002)
189.921	**Total capital investment**	**98.423**
	Sources of finance	
(8.724)	Capital receipts	(6.393)
(36.786)	Government grants and other contributions	(36.348)
-	Major repairs reserve	(17.015)
(14.415)	HRA sums set aside from revenue	(0.028)
(10.324)	General fund sums set aside from revenue	(10.776)
(70.249)	**Total finance used**	**(70.560)**
119.672	**Movement in CFR**	**27.863**
555.916	**Closing CFR**	**583.779**
	Explanation of movement in year	
35.633	Increase or (decrease) in underlying need to borrow (supported by Government financial assistance)	(4.495)
84.039	Increase in underlying need to borrow (unsupported by Government financial assistance)	32.358
119.672	**Increase in CFR**	**27.863**

Section 4 – Notes to the Core Financial Statements

Loans treat as Capital Expenditure
The Council has loaned monies to Newcastle Airport during the year. This represents part of a refinancing deal replacing a loan previously given by the private sector to the airport for capital purposes.

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, redundancy payments and expenditure on third party assets, for example Diocese owned schools and housing grants. The amount for 2012/13 has reduced compared to the previous year because no directive from the Secretary of State was given to capitalise redundancy costs.

Significant Items of Capital Additions
The most significant capital additions during 2012/13 are shown in the following table:

	£m
Decent homes	33.716
Building schools for the future	13.161
Haven Point leisure facilities	8.544
Other dwelling improvements	6.394
Purchase of office accommodation	4.569
Construction of Hebburn Lakes primary school	3.313
Construction of Jarrow swimming pool	2.544
South Shields riverside regeneration	2.410
Road resurfacing and bridge improvements	2.304
Maintaining and enhancing our buildings	1.784
Fowler Street regeneration	1.125
Horsley Hill community centre improvements	1.051
Hebburn town centre regeneration	0.901
Footpath infrastructure improvements	0.895
Road safety schemes	0.867
Vehicle purchases	0.814
Additions and improvements to schools assets	0.582

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 31 years into a 35 year lease.
- The lease of Cleadon Park facility which commenced in July 2010 and is 3 years into a 24 year lease. The main use of this facility is as a library and community centre.

These assets are valued as property, plant and equipment in the Balance Sheet at 31st March 2013 at £2.278m (£2.351m at 31st March 2012).

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

The minimum lease payments are made up of the following amounts:

31st March 2012 £m		31st March 2013 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.040	- current	0.044
2.197	- non-current	2.153
3.458	Finance costs payable in future years	3.225
5.695	**Minimum lease payments**	**5.422**

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 2012 £m	31st March 2013 £m	31st March 2012 £m	31st March 2013 £m
Not later than one year	0.040	0.044	0.273	0.273
Later than one year and not later than five years	0.206	0.209	1.093	1.075
Later than five years	1.991	1.944	4.329	4.074
	2.237	**2.197**	**5.695**	**5.422**

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 2012/13 £0.032m contingent rents were payable by the Council (£0.102m in 2011/12).

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

Council as Lessee - Operating Leases

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

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

31st March 2012 £m		31st March 2013 £m
0.226	Not later than one year	0.226
0.766	Later than one year and not later than five years	0.752
1.967	Later than five years	1.789
2.959		**2.767**

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

31st March 2012 £m		31st March 2013 £m
0.403	Minimum lease payments	0.387
0.015	Contingent rents	0.015
0.418		**0.402**

Council as Lessor - Finance Leases

The Council leases a property at Viking Industrial Park in Jarrow to the Tyneside Economic Development Company Limited (TEDCO) on a finance lease with a remaining term of 6 years.

The Council has a gross investment in this lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment in the lease as at 31st March 2013 is £0.120m (£0.131m as at 31st March 2012).

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

	Gross investment in the lease		Minimum lease payments	
	31st March 2012 £m	31st March 2013 £m	31st March 2012 £m	31st March 2013 £m
Not later than one year	0.010	0.010	0.005	0.005
Later than one year and not later than five years	0.048	0.047	0.025	0.028
Later than five years	0.073	0.063	0.017	0.009
	0.131	**0.120**	**0.047**	**0.042**

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

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 2012 £m		31st March 2013 £m
2.608	Not later than one year	2.998
5.803	Later than one year and not later than five years	7.168
16.544	Later than five years	16.528
24.955		**26.694**

The Council purchased Hawthorne and Strathmore buildings in Viking Business Park, Jarrow on 18th May 2012, and Jarrow Hall on 13th November 2012. These buildings are now leased to tenants and a review of the lease agreements has concluded that they are operating leases primarily because the lease terms are not for the majority of the economic life of the buildings.

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into. In 2012/13 £0.512m contingent rents were receivable by the Council (£0.373m in 2011/12).

Note 37. Related Parties

The Council is required to disclose material transactions with related parties; bodies or individuals that are not disclosed elsewhere in the accounts. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to act freely.

Central Government (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 £353.925m (£349.140m as restated in 2011/12) 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 £0.320m (£0.338m in 2011/12) were paid to Boldon Lane and Hebburn Neighbourhood Advice Centres and Bede's World. These are third sector organisations in which some Members have an interest. This funding formed a significant proportion of each of these organisations' annual income.

- A Council Member is a representative on the North East Purchasing Organisation (NEPO) Joint Committee. NEPO is used by the twelve Northern Regional Authorities for collaborative contracts and a significant number of South Tyneside Council contracts are procured through the NEPO organisation. During the year the Council ordered £4.367m worth of goods and services through these contracts and NEPO issued £55.925m worth of new contracts.

- A Council Member is a Board Member of the TEDCO. The Council made payments of £0.137m to TEDCO (£0.334m in 2011/12) and also leases a property to TEDCO under a commercial lease arrangement (see note 36).

- A Council Member is a non executive director of NIAL Group Limited and a director of NALAHCL.

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

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

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

- The Corporate Director, Business and Area Management and Section 151 officer holds positions as the Chair of Governors of St Wilfrid's RC Comprehensive School and board member for South Tyneside Foundation Hospital Trust (stepped down October 2012).

- The Corporate Director Economic Regeneration holds the position of board member of TEDCO.

There have been no other related party transactions with either Elected Members or Chief Officers other than remuneration for the performance of their duties as detailed in notes 30 and 31 respectively.

The Council administers the Tyne and Wear Pension Fund and charged £0.432m (£0.408m in 2011/12) 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 £0.052m (£0.051m in 2011/12) in respect of treasury management duties.

The Council administers the accounts for NALAHCL on behalf of the LA7 and NIAL and charged £0.184m (£0.103m in 2011/12) in relation to officer time and expenses. The Council received £0.614m income from interest on loan notes with the airport (£0.040m in 2011/12).

South Tyneside Homes Limited buys services back from the Council and was charged £1.071m (£1.052m in 2011/12) in respect of support services provided. Some support services are delivered through a separate service level agreement with BTSTL. The Council paid a management fee of £13.199m (£13.511m in 2011/12) and £53.324m (£39.982m in 2011/12) for the provision of construction services and capital programme management.

Community associations in the borough received indirect financial support from the Council of £1.521m (£1.723m in 2011/12). 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. Details of payments made by the Council to BTSTL can be found in note 21.

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.

The following tables over the page show the related party amounts due to or from the Council as at 31st March 2013.

2011/12 £m	Amount due to the Council	2012/13 £m
7.750	Government bodies	9.856
1.594	NHS bodies	0.765
1.612	Tyne and Wear Pension Fund	1.344
0.277	NIAL	8.008
1.750	South Tyneside Homes Limited	1.720
0.593	Community associations	0.497
0.267	InspiredSpaces STaG Limited	0.265
13.843	**Total**	**22.455**

2011/12 £m	Amount due from the Council	2012/13 £m
(5.911)	Government bodies	(5.516)
(2.103)	NHS bodies	(0.810)
(4.960)	Tyne and Wear Pension Fund	(4.213)
-	NIAL	(0.001)
(8.140)	South Tyneside Homes Limited	(5.208)
(0.001)	Community associations	(0.003)
(0.427)	InspiredSpaces STaG Limited	(0.418)
(21.542)	**Total**	**(16.169)**

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.

In previous Statement of Accounts a total of £97.138m combination of revaluation loss and impairment loss was reported. £83.823m of this total related to revaluation loss which is now excluded from this note.

During 2012/13 the Council has recognised impairments of £3.315m (£13.315m in 2011/12). The following table shows total impairments losses made to each cost of service line in the Comprehensive Income and Expenditure Statement:

	2011/12 £m	2012/13 £m
Cultural and related services	-	0.051
Environmental and regulatory services	-	0.008
Planning services	1.468	0.564
Education and children's services	2.941	1.930
Highways and transport services	0.089	0.008
Local authority housing (HRA) - other	8.817	0.259
Adult social care services	-	0.495
Total	**13.315**	**3.315**

In addition £0.192m (£0.018m in 2011/12) impairment loss has been absorbed by previous gains recognised in the revaluation reserve.

Section 4 – Notes to the Core Financial Statements

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 2013, the Actuary assessed the deficit at £34.480m (£32.520m in 2011/12). In the unlikely event that South Tyneside Homes Limited were wound up, prior to the agreed contract-end date, the Council has guaranteed to fund the past service pension deficit. The Pension Committee agreed the Council's guarantee to fund any pension deficit arising, were the liability to fall due. Therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

During 2011/12 a consortium of search providers launched a legal action against all local authorities who make local land charges to recover charges made over the previous six years. The legal action is based upon the original Central Government legislation, which enabled the charging, being defective. 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. The AG's opinion precedes judgement of the full Court of Justice which has yet to be delivered. The Council have appointed solicitors who have issued a claim for the interest. Given the uncertainty around the litigation the Council has not incorporated any potential asset into its closing Balance Sheet.

The Council is one of four authorities in ongoing litigation over the VAT treatment of off street car parking charges. Following an unfavourable ruling in the European Courts, 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 so litigation is ongoing. 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 2012/13 one bank was added to the to the Council's lending list.

Section 4 – Notes to the Core Financial Statements

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

As at 31st March 2013 the Council limited direct deposits with institutions to a maximum of £25m for those institutions which are part owned by the UK Government and £15m for all other institutions on the council lending list. In addition a £10m limit was applied to investments made into AAA rated money market funds.

No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

The 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 2013	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2013	Estimated maximum exposure to default and uncollectablility 31st March 2013	Estimated maximum exposure to default and uncollectablility 31st March 2012
	£m	%	%	£m	£m
	A	B	C	A x C	-
Deposits with banks and other financial institutions	27.723	0%	0%	-	-
Customers	17.555	4%	4%	0.702	0.524
Government debtors	9.273	0%	0%	-	-
Other debtors	9.037	0%	0%	-	-
Total	**63.588**			**0.702**	**0.524**

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 £0.125m during 2012/13 (£1.204m in 2011/12) 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 both 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 £0.662m (£0.558m in 2011/12) where there is a charge against clients' property.

The Council does not generally allow credit for customers and as such, £15.001m (£15.875m in 2011/12) of the £17.453m (£20.282m 2011/12) 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 2012 £m	Customers 31st March 2013 £m
Less than three months	11.108	11.339
Three to six months	2.243	1.142
Six months to one year	1.113	0.687
More than one year	1.411	1.833
Total	**15.875**	**15.001**

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 2012 £m	Loans outstanding	31st March 2013 £m
(460.968)	Public Works Loans Board	(491.323)
(10.331)	Market debt	(10.474)
(75.211)	PFI liabilities	(74.083)
(48.731)	Creditors	(43.636)
(5.850)	Finance lease and other liabilities	(4.530)
(601.091)	**Total**	**(624.046)**
(63.939)	Less than 1 year	(76.154)
(24.841)	Between 1 and 2 years	(19.399)
(66.783)	Between 2 and 5 years	(71.146)
(114.906)	Between 5 and 10 years	(112.078)
(330.622)	More than 10 years	(345.269)
(601.091)	**Total**	**(624.046)**

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

Market Risk

Interest rate risk

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

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

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

- 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 2013, for every 1% increase in interest rates, with all other variables held constant, the financial effect would be as shown in the table over the page.

2011/12 £m	Interest rate risk	2012/13 £m
0.300	Increase in interest payable on variable rate borrowings	0.250
(1.034)	Increase in interest receivable on variable rate investments	(0.694)
(0.030)	Increase in Government grant receivable for financing costs	-
(0.764)	**Impact on Comprehensive Income and Expenditure Statement**	**(0.444)**
0.029	**Share of overall impact on the HRA Statement**	**(0.045)**
-	Decrease in fair value of fixed rate investment assets (no impact on Comprehensive Income and Expenditure Statement)	(0.776)
(4.119)	Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive Income and Expenditure Statement)	(52.192)

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 (£0.425m in 2011/12). 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:

	Balance 1st April 2012	Amount received during year	Amount applied during year	Balance 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**

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 2012 are as follows:

	Balance 1st April 2011	Amount received during year	Amount applied during year	Balance 31st March 2012	Government stock investments	Invested in Council funds
	£m	£m	£m	£m	£m	£m
Westoe trust	(0.354)	(0.004)	0.005	(0.353)	-	0.353
Marine park trust	(0.168)	(0.002)	-	(0.170)	-	0.170
Other trust funds	(0.150)	(0.012)	0.030	(0.132)	0.025	0.107
Total balances	**(0.672)**	**(0.018)**	**0.035**	**(0.655)**	**0.025**	**0.630**

Note 43. Pension Schemes Accounted for as Defined Contribution

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

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

In 2012/13, the Council paid £6.435m to the Teachers' Pensions Agency in respect of teachers' retirement benefits, representing 14.09% of pensionable pay (£6.675m and 14.15% respectively in 2011/12). There were no employees contributions remaining payable at the year-end. Employers contribution remaining payable at year end totalled £0.841m (£0.784m in 2011/12).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in the unfunded liabilities section of note 44.

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, the Tyne and Wear Pension Fund (the Fund) administered locally by South Tyneside Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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

On 1st October 2008 the Council entered into a ten-year partnership arrangement for the provision of support services and staff were transferred to a new company BT South Tyneside Limited (BTSTL). However, the pension liability for all staff transferring remains with the Council as a result of a risk-sharing agreement between the two parties. 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 2012/13, 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 2012/13 was estimated by the actuary to be £2.153m (£2.953m in 2011/12).

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

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

Introduction

The funded nature of the LGPS requires South Tyneside Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure.

The Employer’s regular contributions to the Fund for the year ending 31st March 2014 are estimated at £18.670m (£19.640m estimated for 2012/13). In addition, strain on the fund contributions may be required.

Sensitivity of the results to key assumptions

The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £73.600m (£63.820 in 2011/12).

However, the assumptions interact in complex ways. During 2012/13, the Council’s actuaries advised that the net pension liability for funded LGPS benefits had increased by £0.890m

(£4.530m in 2011/12) as a result of estimates being corrected as a result of experience and increased by £48.200m (£52.940m in 2011/12) attributable to updating of the assumptions.

The main financial assumptions adopted as at 31st March 2013

The latest actuarial valuation of South Tyneside Council's liabilities took place as at 31st March 2010 with the roll forward method being used for liabilities 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 % per annum	31st March 2012 % per annum
Discount rate	4.40	4.70
Inflation rate	2.70	2.50
Rate of increase to pensions in payment	2.70	2.50
Rate of increase to deferred pensions	2.70	2.50
Rate of general increase in salaries	4.60	5.00

The main demographic assumptions adopted as at 31st March 2013

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

Post retirement mortality	31st March 2013	31st March 2012
Males		
Future lifetime from age 65 (currently aged 65)	21.7	21.6
Future lifetime from age 65 (currently aged 45)	23.5	23.4
Females		
Future lifetime from age 65 (currently aged 65)	23.9	23.8
Future lifetime from age 65 (currently aged 45)	25.8	25.7

Fund assets and expected rate of return (for the Fund as a whole)

South Tyneside Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the following table. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31st March 2013.

The approximate split of assets for the Fund as a whole is shown in the table over the page, which reconciles the funded status of assets and liabilities to the Balance Sheet. Also shown are the assumed rates of return adopted by the employer for the purposes of IAS 19.

	Long-term expected rate of return at 31st March 2013 (% per annum)	Asset split at 31st March 2013 (%)	Long-term expected rate of return at 31st March 2012 (% per annum)	Asset split at 31st March 2012 (%)	Long-term expected rate of return at 31st March 2011 (% per annum)	Asset split at 31st March 2011 (%)
Equities	7.8%	68.0%	8.1%	68.5%	8.4%	68.0%
Property	7.3%	9.0%	7.6%	9.2%	7.9%	8.1%
Government bonds	2.8%	7.0%	3.1%	7.1%	4.4%	7.0%
Corporate bonds	3.8%	11.0%	3.7%	11.6%	5.1%	11.7%
Cash	0.9%	1.6%	1.8%	1.9%	1.5%	1.2%
Other investments	7.8%	3.4%	8.1%	1.7%	8.4%	4.0%
Total	**6.9%**	**100.0%**	**7.1%**	**100.0%**	**7.6%**	**100.0%**

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

	31st March 2013 £m	31st March 2012 £m
Fair value of assets	496.980	444.750
Present value of liabilities	(814.840)	(734.710)
Net pension liability	**(317.860)**	**(289.960)**

The full cost of retirement benefits for both current and past service employment has replaced actual amounts paid to the Fund in the net cost of services as detailed in the following table:

2011/12 £m		2012/13 £m
14.360	Current service cost	16.200
0.920	Past service cost	1.770
34.790	Interest on pension scheme liabilities	34.490
(33.010)	Expected return on fund assets	(31.170)
17.060	**Expense recognised**	**21.290**

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

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

2011/12 £m		2012/13 £m
(645.950)	**Opening present value of liabilities**	**(734.710)**
(14.360)	Current service cost	(16.200)
(34.790)	Interest on pension scheme liabilities	(34.490)
(5.660)	Contributions by participants	(4.700)
(57.470)	Actuarial losses on liabilities	(47.310)
24.440	Net benefits paid out	24.340
(0.920)	Past service cost	(1.770)
(734.710)	**Closing present value of liabilities**	**(814.840)**

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Changes to the fair value of assets during the accounting year

2011/12 £m		2012/13 £m
436.590	**Opening fair value of assets**	**444.750**
33.010	Expected return on assets	31.170
(25.710)	Actuarial (loss) or gains on assets	22.030
19.640	Contributions by the employer	18.670
5.660	Contributions by participants	4.700
(24.440)	Net benefits paid out	(24.340)
444.750	**Closing fair value of assets**	**496.980**

Actual return on assets

2011/12 £m		2012/13 £m
33.010	Expected return on assets	31.170
(25.710)	Actuarial (loss) or gain on assets	22.030
7.300	**Actual return on assets**	**53.200**

Analysis of amount recognised in other comprehensive income and expenditure

2011/12 £m		2012/13 £m
(83.180)	Total actuarial losses	(25.280)
(83.180)	**Total loss in other comprehensive expenditure**	**(25.280)**

The cumulative loss recognised in other comprehensive income and expenditure since 2007/08 is £237.510m.

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

2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m		2012/13 £m
(286.560)	(399.880)	(436.590)	(444.750)	Fair value of assets	(496.980)
488.890	671.210	645.950	734.710	Present value of liabilities	814.840
202.330	**271.330**	**209.360**	**289.960**	**Deficit**	**317.860**

The assets for the current year and the previous three years are measured at current bid price. Asset values previously measured at mid-market value for the year ending 2009 have been re-measured for this purpose.

History of experience gains and losses

2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m		2012/13 £m
(87.700)	89.560	1.720	(25.710)	Experience (losses) or gains on assets	22.030
-30.6%	22.4%	0.4%	-5.8%	Percentage of scheme assets	4.4%
(2.180)	6.420	(13.080)	(4.530)	Experience (losses) or gains on liabilities	0.890
-0.4%	1.0%	-2.0%	-0.6%	Percentage of the present value of liabilities	0.1%

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(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. Any gains and losses are recognised in full immediately through other comprehensive income and expenditure.

For the year ending 31st March 2014 the Employer expects to pay £2.32m directly to beneficiaries (£2.26m as estimated for 31st March 2013).

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

The main financial assumptions adopted as at 31st March 2013

	31st March 2013 % per annum	31st March 2012 % per annum
Discount rate	4.10	4.60
Inflation rate	2.60	2.40
Rate of increase to pensions in payment	2.60	2.40

The main demographic assumptions adopted as at 31st March 2013

The principal assumptions in retirement mortality rates for unfunded liabilities are the same as those reported for funded liabilities on page 74.

The following table reconciles the liabilities to the Balance Sheet:

	31st March 2013 £m	31st March 2012 £m
Present value of liabilities	(31.400)	(30.460)
Net pension liability	**(31.400)**	**(30.460)**

The full cost of retirement benefits for both current and past service employment and any gains or losses on curtailments or settlements has replaced actual amounts paid to the Fund in the net cost of services as detailed in the table below:

2011/12 £m		2012/13 £m
1.530	Interest on pension scheme liabilities	1.350
3.130	Strain on fund deferred payment	1.060
4.660	**Expense recognised**	**2.410**

The tables on the following 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.

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Changes to the present value of liabilities during the accounting year

2011/12 £m		2012/13 £m
(28.930)	**Opening present value of liabilities**	**(30.460)**
(1.530)	Interest on pension scheme liabilities	(1.350)
(2.210)	Actuarial losses on liabilities	(1.860)
2.210	Net benefits paid out	2.270
(30.460)	**Closing present value of liabilities**	**(31.400)**

Analysis of amount recognised in other comprehensive income and expenditure

2011/12 £m		2012/13 £m
(2.210)	Total actuarial losses	(1.860)
(2.210)	**Total loss in other comprehensive expenditure**	**(1.860)**

The cumulative loss recognised in other comprehensive income and expenditure since 2007/08 is £7.920m.

History of present value of liabilities and deficit

2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m		2012/13 £m
29.140	31.450	28.930	30.460	Present value of liabilities	31.400
29.140	**31.450**	**28.930**	**30.460**	**Deficit**	**31.400**

History of experience gains and losses

2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m		2012/13 £m
(0.350)	0.970	0.030	(0.690)	Experience (losses) or gains on liabilities	0.060
-1.2%	3.1%	0.1%	-2.3%	Percentage of the present value of liabilities	0.2%

Note 45. Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31st March 2013. 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 2012/13 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') and 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 short-term 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. 2012/13 was a 48-week rent year. The average weekly rent receipt for 2012/13 was £1.314m over 52 weeks (£1.219m in 2011/12).

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately on the face of the Comprehensive Income and Expenditure Statement and in the notes to the accounts.

Section 4 – Notes to the Core Financial Statements

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

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 calculated on a prudent basis 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 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. Charges in relation to HRA non dwellings assets do impact upon the HRA reserve and are now funded from housing rents.

Section 4 – Notes to the Core Financial Statements

7. Employee Benefits

7a) Benefits Payable during Employment

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

7b) Termination Benefits

Termination benefits, whether they arise as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment or making an offer to encourage voluntary redundancy.

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

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

7c) Post Employment Benefits

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

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

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

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

7d) The Local Government Pension Scheme

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

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

- Liabilities are discounted to their value at current prices, using a discount rate of 4.4% for funded and 4.1% for unfunded (based on the indicative rate of return on AA corporate bond yield or from yields on Government bonds).

- The assets of Tyne and Wear Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

- The change in the net pensions liability is analysed into seven components:
    - *Current service cost* – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - *Past service cost* – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to non distributed costs.
    - *Interest cost* – the net of the expected increase in the present value of liabilities during the year as they move one year closer to being paid – credited to financing and investment income and expenditure
    - *Expected return on assets* - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – debited to financing and investment income and expenditure.
    - *Gains or losses on settlements and curtailments* – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to non distributed costs. Significant redundancy programmes during a financial year would impact on curtailments.
    - *Actuarial gains and losses* – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited or credited to Other Comprehensive Income and Expenditure.

- o *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 and HRA balances 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 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.

7e) Discretionary Benefits

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

8. Events after the Reporting Period

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

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

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

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

9. Financial instruments

9a) 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.

9b) 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.

9c) 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.

9d) 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 9(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.

9e) Available-for-Sale Assets

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

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

- Instruments with quoted market prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

- Equity shares with no quoted market prices – independent appraisal of company valuations.

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

10. Government Grants and Contributions

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

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

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

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

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

11. Intangible Assets

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

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

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

Section 4 – Notes to the Core Financial Statements

12. Heritage Assets

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

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

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

12a) 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

12b) 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.

12c) 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.

12d) 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.

13. 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:

13a) Intra Group Transactions

All transactions between Group entities have been eliminated from the statements and notes.

13b) 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.

13c) 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.

13d) Actuarial Assumptions on Pension Liabilities

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

14. Inventories

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

15. 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.

16. Jointly Controlled Operations

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

Section 4 – Notes to the Core Financial Statements

17. Leases

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

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

17a) The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets (see section 19) with MRP applied as per section 6 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).

17b) The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal and a lease (long-term debtor) asset is created.

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.

18. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of 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 past service cost of post employment benefits and costs associated with property, plant and equipment not used for service delivery.

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.

19. Property, Plant and Equipment

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

19a) Recognition

Expenditure on the acquisition, creation or improvement 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.

19b) 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 cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

- ***Infrastructure, community assets, assets under construction, vehicles, plant and equipment*** – depreciated historical cost. 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 asset categories are not revalued.

- ***Dwellings*** – fair value, determined using the basis of existing use value for social housing. This represents the amount that the Council could be expected to receive from the sale of that asset having regard to the prospect and viability of the continuance of the current occupancy and use.

- ***Surplus assets*** are valued at existing use value (EUV) based on their last usage before being declared surplus.

- In the case of ***operational assets of a specialised nature***, that is those properties rarely, if ever, sold on the open market in their existing use, the valuation method applied is the Depreciated Replacement Cost (DRC) of the property. The DRC basis of valuation requires an estimate of the value of the land in its existing use together with 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 19c).

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

19c) Impairment

The values of each category of assets and material individual assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. 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 line(s) in the Comprehensive Income and Expenditure Statement.

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

19d) Depreciation

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

- ***Dwellings and other buildings*** – straight-line allocation over the useful life of the property as estimated by the valuer. The useful life of dwellings and other buildings is generally between 3 and 86 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 17 to 57 years.
- ***Infrastructure*** – straight-line allocation over 17 to 97 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 £8,800 and no components exist on this asset, this spend is added to the structure. Where the expenditure is over £8,800 components are recognised at cost value.

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

19e) Disposals of Non-current Assets

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction (but sometimes through an asset transfer) rather than through its continuing use, it is reclassified as an asset held for sale or disposal. Assets held for sale are 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. Assets which are expected to be transferred in the next financial year e.g. conversion of schools to academy status are reclassified as assets held for disposal but have not been revalued. Depreciation is not charged on assets held for sale or disposal.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale or disposal but are impaired in year instead.

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 (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the reserve from the General Fund balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax or housing rents, 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 or HRA balances in the Movement in Reserves Statement.

20. 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 four 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).

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.

Section 4 – Notes to the Core Financial Statements

23. Revenue Expenditure Funded from Capital under Statute

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

24. VAT

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

2011/12 £m		Note	2012/13 £m
	Expenditure		
12.556	Repairs and maintenance		14.889
17.108	Supervision and management		18.414
1.472	Rents, rates, taxes and other charges		1.989
2.395	Negative HRA subsidy payable	2	-
14.188	Depreciation of non-current assets	3	15.166
72.066	Revaluation losses and impairments on property, plant and equipment	3	49.513
0.075	Amortisation of intangible assets	3	0.037
0.087	Debt management costs	3	0.087
60.818	Housing subsidy debt payment		-
0.477	Movement in the allowance for bad debts		0.523
0.581	Sums directed by the Secretary of State that are expenditure in accordance with the Code	3	0.464
181.823	**Total expenditure**		**101.082**
	Income		
(54.007)	Dwelling rents		(58.318)
(0.948)	Non-dwelling rents		(0.919)
(2.684)	Charges for services and facilities		(2.904)
(0.751)	Contributions towards expenditure		(0.848)
(58.390)	**Total income**		**(62.989)**
123.433	**Net Cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		**38.093**
0.386	HRA services' share of corporate and democratic core		0.438
0.556	HRA share of other amounts included in the Council's cost of services but not allocated to specific services		0.557
124.375	**Net (income) or expenditure for HRA services**		**39.088**
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
3.566	Loss on disposal of HRA current and non-current assets		6.615
8.966	Interest and investment expenditure	3	12.332
(0.122)	Interest and investment income	3	(0.132)
(1.644)	Taxation and non specific grant income		(22.057)
135.141	**Deficit for the year on HRA services**		**35.846**
(136.106)	Adjustments between accounting basis and funding basis under statute	1	(33.894)
(0.965)	**(Increase) or decrease in year on the HRA**		**1.952**
(10.588)	**Balance on the HRA at the end of the previous year**		**(11.553)**
(11.553)	**Balance on the HRA at the end of the current year**		**(9.601)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

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

2011/12 £m		2012/13 £m
	Amounts included in the HRA Income and Expenditure Statement but excluded from the movement on HRA balance for the year	
(0.075)	Amortisation of intangible assets	-
(8.817)	Impairment of non-current assets	(0.248)
(63.249)	Revaluation losses on property, plant and equipment	(49.265)
(60.818)	Housing subsidy debt payment	-
(14.188)	Depreciation of dwellings	(14.730)
1.644	Capital grants applied	21.902
(0.581)	Revenue expenditure funded from capital under statute	(0.464)
(0.082)	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	(0.460)
0.081	Capital receipts not related to sale of a fixed asset	-
(11.943)	Amounts of non current assets written off on sale or disposal	(11.621)
8.389	Cash sale proceeds from the sale or disposal of non current assets	5.131
(0.012)	Contribution towards administrative costs of disposal of non current assets	(0.125)
(0.018)	Net charges made for retirement benefits in accordance with IAS19	(0.016)
(149.669)		**(49.896)**
	Items not included in the HRA Income and Expenditure Statement but included in the movement on the HRA balance for the year	
11.904	Contribution to the major repairs reserve	15.967
1.628	Housing revenue contribution to capital	0.028
0.012	Employer's contributions payable to the Tyne and Wear Pension Fund	0.007
0.019	Voluntary set aside for debt repayment	-
13.563		**16.002**
(136.106)	**Net additional amount required by statute to be credited to the HRA balance for the year**	**(33.894)**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 2. Housing Revenue Account Subsidy

In prior years HRA subsidy was based on a 'notional' Housing Revenue Account constructed in accordance with determinations made by the Secretary of State. Subsidy was paid on any 'deficit' shown on the notional account and the Council paid £2.374m in 2011/12. From 1st April 2012 housing self financing was introduced and the HRA subsidy system ceased. No payments are required in 2012/13.

Note 3. Cost of Capital Charge

The cost of capital charge is determined by the Secretary of State in accordance with the Item 8 Credit and Item 8 Debit (General) Determination 2012/13. It is made up of a number of components that are recorded in different sections of the Housing Revenue Account Income and Expenditure Statement.

	£m	Reference to main statements
Credit items		
Interest on notional cash balances	(0.131)	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	(49.513)	Adjustments between accounting basis and funding basis under statute
Discounts for early repayment of debt	(0.582)	Adjustments between accounting basis and funding basis under regulations - statement for premiums and discounts
Total item 8 credit	**(50.227)**	
Debit items		
Interest on loans	12.332	Operating income and expenditure - interest and investment expenditure
Depreciation of dwellings	14.730	Net cost of services - depreciation of non-current assets
Depreciation of other assets	0.436	Net cost of services - depreciation of non-current assets
Debt management expenses	0.087	Net cost of services - debt management costs
Premium charges for early repayment of debt	0.122	Adjustments between accounting basis and funding basis under regulations - statement for premiums and discounts
Revenue expenditure funded by capital under statute	0.464	Net cost of services - revenue expenditure funded by capital under statute
Transfer to the major repairs reserve	0.801	Adjustments between accounting basis and funding basis under statute - contribution to major repairs reserve less depreciation
Impairment and revaluation losses	49.513	Net cost of services - revaluation losses and impairment on property, plant and equipment
Total item 8 debit	**78.485**	

Note 4. Rent Income

Rents were increased with effect from Monday 2nd April 2012 by 9.2% to achieve an average actual rent of £69.27 on a 48-week collection. Individual dwelling rents were set based on the Government's rent restructuring formula, which will be fully implemented by 2015/16.

Net income due for the year from all tenanted properties, excluding that with respect to water and sewerage charges, is shown in the account. During the year, rent loss due to empty properties was £1.202m, 1.59% of the total net rent collectable for Housing Revenue Account dwellings (£1.378m and 1.98% in 2011/12).

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 5. Housing Stock

The Council was responsible for managing an average of 17,998 dwellings and sheltered units during 2012/13 (18,111 in 2011/12). The movements during the year are shown in the following table:

	2012/13
Opening balance	
Dwellings	16,797
Sheltered units	1,249
Shared ownership	4
Non HRA services	8
Opening balance as at 1st April 2012	**18,058**
Reductions	
Right to Buys	(85)
Demolitions	(40)
	(125)
Additions	
Reinstated	4
	4
Net reduction in stock	**(121)**
Closing balance	
Dwellings	16,672
Sheltered units	1,253
Shared ownership	4
Non HRA services	8
Closing balance as at 31st March 2013	**17,937**
Houses	10,531
Bungalows	2,823
Flats and maisonettes	4,583
Total housing stock as at 31st March 2013	**17,937**

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 6. Movement of Property, Plant, Equipment and Intangible Assets

Property, Plant and Equipment

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

	Council dwellings	Other land and buildings	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**
At 1st April 2012	521.897	48.403	13.293	1.215	2.903	-	587.711
Additions	33.877	5.735	0.137	0.754	-	0.047	40.550
Revaluation to revaluation reserve	(11.840)	(1.987)	-	-	-	-	(13.827)
Revaluation to HRA income and expenditure	(42.541)	(6.723)	-	-	-	-	(49.264)
Sales	(2.743)	-	-	-	-	-	(2.743)
Other derecognition	(6.351)	(0.402)	-	-	-	-	(6.753)
Reclassification of assets	(0.155)	(0.229)	-	-	1.084	-	0.700
At 31st March 2013	**492.144**	**44.797**	**13.430**	**1.969**	**3.987**	**0.047**	**556.374**
Depreciation and Impairments							
At 1st April 2012	(31.119)	(4.657)	(13.088)	(0.040)	-	-	(48.904)
Depreciation to HRA income and expenditure	(13.740)	(1.304)	(0.071)	(0.051)	-	-	(15.166)
Depreciation and impairment to revaluation reserve	9.374	2.727	-	-	-	-	12.101
Impairment to HRA income and expenditure	(0.248)	-	-	-	-	-	(0.248)
Sales	0.083	-	-	-	-	-	0.083
Other derecognition	0.145	-	-	-	-	-	0.145
Reclassification of assets	0.012	0.003	-	-	-	-	0.015
At 31st March 2013	**(35.493)**	**(3.231)**	**(13.159)**	**(0.091)**	**-**	**-**	**(51.974)**
Balance Sheet amount at 31st March 2012	**490.778**	**43.746**	**0.205**	**1.175**	**2.903**	**-**	**538.809**
Balance Sheet amount at 31st March 2013	**456.651**	**41.566**	**0.271**	**1.878**	**3.987**	**0.047**	**504.400**

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 2012/13, no spend was added to these assets and their net book value at 31st March 2013 stood at £0.037m (£0.075m in 2011/12).

Section 5 – Housing Revenue Account Income and Expenditure Statement

Assets Held for Sale

The Housing Revenue Account holds current assets held for sale. The movement in year of these assets is as follows:

	£m
At 1st April 2012	**0.500**
Additions	0.003
Sales	(2.353)
Reclassification of assets	2.532
At 31st March 2013	**0.682**

Note 7. 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 2011 £m	1st April 2012 £m
Vacant possession value	1,364.254	1,234.192
Existing use social housing value	(490.778)	(456.651)
Economic cost to the Government	**873.476**	**777.541**

Note 8. 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 2012	**(31.119)**	**(4.657)**	**(13.088)**	**(0.040)**	**(48.904)**
Charges in year - depreciation	(13.740)	(1.304)	(0.071)	(0.051)	(15.166)
Charges in year - impairment	(0.248)	-	-	-	(0.248)
Charges written out - depreciation and impairment	9.614	2.730	-	-	12.344
Balance at 31st March 2013	**(35.493)**	**(3.231)**	**(13.159)**	**(0.091)**	**(51.974)**

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

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

Note 9. Major Repairs Reserve

The movement in the major repairs reserve is as follows:

2011/12 £m		2012/13 £m
(1.917)	**Balance at 1st April**	**(1.052)**
(11.904)	Contribution from Housing Revenue Account	(15.967)
12.769	Applied to finance capital expenditure	17.015
(1.052)	**Balance at 31st March**	**(0.004)**

Note 10. Housing Capital Expenditure Summary

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

Spending 2011/12 £m		Spending 2012/13 £m
	Expenditure	
27.131	Dwellings	33.877
9.480	Other property, plant and equipment	6.673
0.581	Revenue expenditure funded from capital under statute	0.464
37.192	**Total spending**	**41.014**

Funding 2011/12 £m		Funding 2012/13 £m
	Funding source	
(12.769)	Major repairs reserve	(17.015)
(20.672)	Borrowing	(2.069)
(0.479)	Capital receipts	-
(1.628)	Revenue contributions	(0.028)
(1.644)	Grants and other external income	(21.902)
(37.192)	**Total funding**	**(41.014)**

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

Section 5 – Housing Revenue Account Income and Expenditure Statement

Note 11. Capital Receipts Summary

Capital receipts generated by the Housing Revenue Account came from the following sources:

2011/12 £m		2012/13 £m
(1.540)	House sales	(2.957)
(6.849)	Land sales	(2.174)
(0.009)	Mortgages	(0.010)
(0.081)	Other receipts	-
(8.479)	**Total receipts for the year**	**(5.141)**

Note 12. Rent Arrears

The estimated arrears (excluding external charges) have been calculated utilising the relative proportion of such charges within the gross rent collectable for the year.

Overall arrears at 31st March represented 4.29% of the gross rent collectable (including water and sewerage charges) for the 48 weeks.

2011/12 Actual £m		2012/13 Estimate £m
64.875	Gross rent collectable (including water and sewerage charges)	70.371
2.804	Overall arrears as at 31st March (including water and sewerage charges)	3.022
4.32%	**Overall arrears as a percentage of gross rent collectable**	**4.29%**
2.540	Rent arrears as at 31st March (excluding water and sewerage rates)	2.745
0.541	**Amounts written off during the year**	**0.404**
(1.939)	**Balance Sheet allowance for Bad Debts**	**(2.144)**

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.

2011/12 £m		Note	2012/13 £m
	Income		
(48.406)	Council tax	1	(48.894)
(17.274)	Transfer from general fund		(17.178)
(27.699)	Income collectable from business ratepayers	2	(28.440)
(93.379)	**Total income**		**(94.512)**
	Expenditure		
65.049	Precept payments	4	65.068
27.547	Non-domestic rates – payment to national pool		28.287
0.152	Non-domestic rates – cost of collection allowance		0.153
27.699	Total non-domestic rates	2	28.440
0.116	Council tax written off		0.209
0.189	Transfer to council tax bad debt provision		0.176
0.305	Total bad and doubtful debts		0.385
0.449	Contribution towards previous years collection fund surplus		0.224
93.502	**Total expenditure**		**94.117**
0.123	**Deficit for the year**		**(0.395)**
(0.370)	Balance brought forward from previous year		(0.247)
(0.247)	**Collection fund balance as at 31st March**		**(0.642)**
(0.027)	Surplus relating to other precepting bodies		(0.071)
(0.220)	**Surplus relating to South Tyneside Council**		**(0.571)**

Section 5 – Collection Fund Statement

Note 1. Council Tax

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

Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 44,925 in 2012/13 (44,912 in 2011/12). Council tax is calculated by multiplying the basic amount of council tax for Band D by the proportion for that particular band. In 2012/13 the Band D equivalent was £1,448.37 (£1,448.37 in 2011/12).

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

Band	Proportion of Band D	Number of dwellings (November 2011)
A	6/9ths	45,982
B	7/9ths	9,291
C	8/9ths	7,738
D	9/9ths	4,070
E	11/9ths	1,655
F	13/9ths	669
G	15/9ths	319
H	18/9ths	49
		69,773

Note 2. National Non-Domestic Rates Income

The Non-Domestic Rate is organised on a national basis. The Government specifies an amount in the pound, and subject to the effects of transition arrangements, local businesses pay rates calculated by multiplying this sum by the rateable value of their property – the latter being determined by the District Valuer. The national poundage for 2012/13 was set at 45.0p for small businesses (42.6p in 2011/12) and 45.8p for all other businesses (43.3p in 2011/12).

The Non-Domestic Rates income, after reliefs and provisions, of £28.440m (£27.699m in 2011/12) was based on a rateable value of £79.736m as at 31st March 2013 (£81.061m at 31st March 2012).

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

At 31st March 2012 the fund was in surplus by £0.247m. Collection Fund regulations state that by 15th January the Council must make an estimate of what the Collection fund balance will be for the year end. If it is estimated that this will be a surplus, this must be distributed to the Council and the preceptors in the following year. On the 15th January the estimated surplus for the year was expected to be £0.224m and was distributed to the precepting bodies as shown in the table over the page:

Section 5 – Collection Fund Statement

	2012/13 £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 can be broken down as follows:

2011/12 £m		2012/13 £m
58.005	South Tyneside Council	58.022
3.758	Police and Crime Commissioner for Northumbria	3.759
3.286	Tyne and Wear Fire and Civil Defence Authority	3.287
65.049	**Total precept payments**	**65.068**

Note 5. National Non-Domestic Rates Expenditure

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

Note 6. Collection Fund Balance

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

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

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 £33.165m at 31st March 2013 (£31.482m at 31st March 2012). The company made a net deficit of £1.211m in 2012/13 (surplus of £0.219m in 2011/12).

The Council's accounts include a debtor due from South Tyneside Homes Limited of £1.720m (£1.750m at 31st March 2012) and a creditor due to South Tyneside Homes Limited of £5.208m (£8.140m at 31st March 2012).

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 2013, the Actuary assessed the deficit at £34.480m (£32.520m at 31st March 2012). 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.

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 - Tyne and Wear Development Company (TWEDCo)

The Council acts in partnership with the other four Tyne and Wear local authorities to promote economic development activities in the region. The major function of the company is to operate a number of industrial units providing accommodation to local businesses. The Council has membership and therefore voting rights on the board of the company.

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

The Company is in the process of being wound up and the assets distributed to the five authorities. As a result accounts for the year ending 31st March 2013 have not been produced and instead accounts will be prepared based on the date of the winding up order. The following information is based on provisional figures prepared as at 21st June 2013.

Section 6 – Group Introduction

The net assets of TWEDCo and the Joint Committee amount to £15.125m at 21st June 2013 (£16.274m at 31st March 2012) and they held a non-current asset revaluation reserve of £10.672m (£10.943m in 2011/12). TWEDCo generated revenue of £2.492m resulting in a net loss of £0.582m for the period 1st April 2012 to 21st June 2013 (£0.049m loss in 2011/12).

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

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 2012/2013 (£0.008m in 2011/2012) 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 organisation.

In 2012/2013 the Joint Committee generated revenues of £1.707m (£1.367m in 2011/12) resulting in an operating loss of £0.326m (£0.028m profit in 2011/2012) and had net assets at 31st March 2013 of £22.719m (£22.007m at 31st March 2012).

In 2012/2013 the BML and BMTL group generated revenues of £6.704m (£6.704m in 2011/12) resulting in an operating loss of £0.460m (£0.162m in 2011/2012) and had net liabilities of £1.282m as at 31st January 2013 (£0.944m as at 31st January 2012).

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 2013.

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

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. 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.

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 13 of the accounting policies note.

Section 6 – Group Introduction

The notes to the group financial statements are presented on pages 116 to 125 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 and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Group.

	Note	General fund balance	Earmarked general fund reserves	Housing revenue account reserves	Capital reserves	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 2011		**(1.458)**	**(27.711)**	**(10.588)**	**(7.706)**	**(1.854)**	**(49.317)**	**(328.639)**	**20.751**	**(357.205)**
Movement in reserves during 2011/12										
Deficit on the provision of services		5.199	-	135.141	-	(0.675)	139.665	-	0.260	139.925
Other comprehensive income and expenditure		-	-	-	-	(0.099)	(0.099)	56.748	11.950	68.599
Total comprehensive income and expenditure		**5.199**	**-**	**135.141**	**-**	**(0.774)**	**139.566**	**56.748**	**12.210**	**208.524**
Adjustments between group accounts and Council accounts	1	-	-	-	-	(0.033)	(0.033)	-	-	(0.033)
Net decrease (or increase) before transfers		**5.199**	**-**	**135.141**	**-**	**(0.807)**	**139.533**	**56.748**	**12.210**	**208.491**
Adjustments between accounting basis and funding basis under regulations		(5.753)	-	(136.106)	1.871	-	(139.988)	139.988	-	-
Net (increase) or decrease before transfers to earmarked reserves		**(0.554)**	**-**	**(0.965)**	**1.871**	**(0.807)**	**(0.455)**	**196.736**	**12.210**	**208.491**
Transfers to or (from) earmarked reserves		0.378	(0.378)	-	-	-	-	-	-	-
(Increase) or decrease in 2011/12		**(0.176)**	**(0.378)**	**(0.965)**	**1.871**	**(0.807)**	**(0.455)**	**196.736**	**12.210**	**208.491**
Balance at 31st March 2012 carried forward		**(1.634)**	**(28.089)**	**(11.553)**	**(5.835)**	**(2.661)**	**(49.772)**	**(131.903)**	**32.961**	**(148.714)**
Movement in reserves during 2012/13										
Deficit on provision of services		39.541	-	35.846	-	(0.279)	75.108	-	1.490	76.598
Other comprehensive income and expenditure		-	-	-	-	0.108	0.108	15.590	0.470	16.168
Total comprehensive income and expenditure		**39.541**	**-**	**35.846**	**-**	**(0.171)**	**75.216**	**15.590**	**1.960**	**92.766**
Adjustments between group accounts and Council accounts	1	-	-	-	-	(0.036)	(0.036)	-	-	(0.036)
Net (increase) or decrease before transfers		**39.541**	**-**	**35.846**	**-**	**(0.207)**	**75.180**	**80.376**	**1.960**	**157.516**
Adjustments between accounting basis and funding basis under regulations		(34.971)	-	(33.894)	4.079	-	(64.786)	64.786	-	-
Net (increase) or decrease before transfers to earmarked reserves		**4.570**	**-**	**1.952**	**4.079**	**(0.207)**	**10.394**	**80.376**	**1.960**	**92.730**
Transfers (from) or to earmarked reserves		(3.763)	3.763	-	-	-	-	-	-	-
Decrease in 2012/13		**0.807**	**3.763**	**1.952**	**4.079**	**(0.207)**	**10.394**	**80.376**	**1.960**	**92.730**
Balance at 31st March 2013 carried forward		**(0.827)**	**(24.326)**	**(9.601)**	**(1.756)**	**(2.868)**	**(39.378)**	**(51.527)**	**34.921**	**(55.984)**

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 Movement in Reserves Statement.

2011/12 Gross expenditure £m	2011/12 Gross income £m	2011/12 Net expenditure £m		Note	2012/13 Gross expenditure £m	2012/13 Gross income £m	2012/13 Net expenditure £m
21.640	(18.955)	2.685	Central services to the public		22.128	(18.749)	3.379
25.504	(4.090)	21.414	Cultural and related services		17.610	(3.742)	13.868
21.807	(6.122)	15.685	Environmental and regulatory services		19.196	(3.322)	15.874
11.387	(2.301)	9.086	Planning services		11.547	(3.067)	8.480
193.451	(130.825)	62.626	Education and children's services		196.838	(127.611)	69.227
12.894	(4.223)	8.671	Highways and transport services		14.342	(4.176)	10.166
60.818	-	60.818	Local authority housing (HRA) - housing debt subsidy payment		-	-	-
121.005	(58.404)	62.601	Local authority housing (HRA) - other		101.651	(62.989)	38.662
73.116	(68.368)	4.748	Other housing services		76.869	(72.820)	4.049
80.831	(31.462)	49.369	Adult social care services		77.185	(22.602)	54.583
10.866	(4.029)	6.837	Corporate and democratic core		6.487	(1.414)	5.073
-	(3.654)	(3.654)	Non distributed costs - equal pay settlements		0.004	(2.326)	(2.322)
1.260	(0.124)	1.136	Non distributed costs - other		2.076	(0.139)	1.937
634.579	**(332.557)**	**302.022**	**Cost of services**		**545.933**	**(322.957)**	**222.976**
16.512	-	16.512	Other operating expenditure		27.198	-	27.198
27.893	(2.542)	25.351	Financing and investment income and expenditure	2	34.672	(2.165)	32.507
-	(203.764)	(203.764)	Taxation and non-specific grant income		-	(206.083)	(206.083)
678.984	**(538.863)**	**140.121**	**Deficit on provision of services**		**607.803**	**(531.205)**	**76.598**
0.031	(0.227)	(0.196)	Associates accounted for on an equity basis		-	-	-
679.015	**(539.090)**	**139.925**	**Deficit on provision of group services**		**607.803**	**(531.205)**	**76.598**
		(28.642)	Surplus on revaluation of property, plant and equipment				(3.182)
		-	Surplus on the revaluation of available for sale investments				(8.368)
		(0.099)	Share of other comprehensive income and expenditure of associates				0.108
		97.340	Actuarial losses on pension assets and liabilities	14			27.610
		68.599	**Other comprehensive income and expenditure**				**16.168**
		208.524	**Total comprehensive income and expenditure**				**92.766**

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 a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations".

31st March 2012 £m		Note	31st March 2013 £m
	Non-current assets		
490.778	Council dwellings	3	456.651
511.931	Other property, plant and equipment	3	478.175
3.500	Heritage assets		3.435
3.100	Investment properties		2.933
2.073	Intangible assets		1.548
1.568	Long term investments: associates	4	1.460
0.436	Other long term investments		8.804
0.949	Long term debtors		9.037
1,014.335	**Total non-current assets**		**962.043**
	Current assets		
19.512	Short term investments		27.723
1.158	Inventories		0.789
24.380	Short term debtors	5	30.675
63.654	Cash and cash equivalents	6	31.079
2.716	Assets held for sale		2.154
-	Assets held for disposal		27.548
111.420	**Total current assets**		**119.968**
	Current liabilities		
(0.810)	Cash and cash equivalents - bank overdraft	6	(0.756)
(49.733)	Short term creditors	7	(44.107)
(12.110)	Short term borrowing		(29.410)
(1.137)	PFI liability due in less than 1 year		(1.785)
(5.806)	Capital grants receipts in advance		(2.915)
(3.181)	Short term provisions		(3.399)
(72.777)	**Total current liabilities**		**(82.372)**
38.643	**Total net current assets**		**37.596**
	Non-current liabilities		
(0.179)	Long term creditors		(0.191)
(14.172)	Long term provisions		(12.023)
(459.189)	Long term borrowing		(472.387)
(74.074)	Long term PFI liability		(72.298)
(352.940)	Liability related to defined benefit pension scheme	14	(383.740)
(3.710)	Other long term liabilities		(3.016)
(904.264)	**Total non-current liabilities**		**(943.655)**
148.714	**Total net assets**		**55.984**
	Reserves		
(47.111)	Council usable reserves		(36.510)
(2.661)	Useable reserves of group entities	4	(2.868)
(98.942)	Unusable reserves	8	(16.606)
(148.714)	**Total reserves**		**(55.984)**

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.

2011/12 £m		Note	2012/13 £m
(139.925)	**Cash outflow from the provision of services**		**(76.598)**
220.876	Adjustment to surplus or deficit on the provision of services for non-cash movements		212.958
(136.108)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(111.218)
(55.157)	**Net cash flow from operating activities**		**25.142**
(46.666)	Investing activities	9	(76.366)
123.347	Financing activities		18.703
21.524	**Net increase or (decrease) in cash and cash equivalents**		**(32.521)**
41.320	**Cash and cash equivalents at the start of the year**		62.844
62.844	**Cash and cash equivalents at the end of the year**		**30.323**

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.

2011/12 £m		2012/13 £m
-	Loss on sale of property, plant and equipment	0.005
(0.033)	Realignment of depreciation policies for non-current assets	(0.041)
(0.033)	**Total adjustments**	**(0.036)**

Note 2. Financing and Investment Income and Expenditure

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

2011/12 £m		2012/13 £m
24.583	Interest payable and similar charges	29.352
3.110	Pensions interest cost and expected return on Pensions assets	5.320
(1.176)	Interest receivable and similar income	(1.184)
(0.506)	Surplus on trading undertakings and dividends receivable	(0.578)
-	Dividends receivable	(0.005)
(0.420)	Income and expenditure in relation to Investment Properties and changes in their fair value	(0.053)
(0.240)	Other investment income	(0.345)
25.351	**Total Financing and Investment Income and Expenditure**	**32.507**

Note 3. Property, Plant and Equipment

The table over the page analyses the movement in property, plant and equipment for the Group for 2012/13.

Section 6 – Notes to the Group Financial Statements

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**

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

The equivalent movements in property, plant and equipment for 2011/12 are as follows:

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

Section 6 – Notes to the Group Financial Statements

Note 4. Council Share in Group Entities' Usable Reserves

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

	South Tyneside Homes Limited	Tyne & Wear Development Company	Total
	100% share	14% share	
	£m	£m	£m
Reserves as at 1st April 2012	**1.093**	**1.673**	**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**

The figures for Beamish are no longer reported as there are sufficient assets available to cover the liabilities of the entities involved.

The equivalent figures for 2011/12 are as follows:

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

Section 6 – Notes to the Group Financial Statements

Note 5. Short Term Debtors

An analysis of Group debtors is shown below:

31st March 2012 £m		31st March 2013 £m
	Amounts falling due in one year	
7.750	Central Government bodies	9.856
1.266	Other local authorities	2.025
1.594	NHS bodies	0.765
2.804	Housing tenants	3.022
5.463	Council Tax payers	5.895
13.256	Other debtors	16.060
32.133	**Total amounts falling due in one year**	**37.623**
	Allowances for bad debts	
(1.939)	Housing tenants	(2.144)
(2.367)	Council Tax payers	(2.595)
(0.867)	NHS bodies	(0.029)
(2.580)	Other debtors	(2.180)
(7.753)	**Total bad debt allowances**	**(6.948)**
24.380	**Net debtors**	**30.675**

Note 6. Cash and Cash Equivalents

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

31st March 2012 £m		31st March 2013 £m
0.104	Cash held by the Group	0.083
6.880	Bank current accounts	18.995
56.670	Short term deposits with building societies	12.001
63.654	**Cash and cash equivalent assets**	**31.079**
(0.810)	Bank overdraft facility	(0.756)
(0.810)	**Cash and cash equivalent liabilities**	**(0.756)**
62.844	**Total cash and cash equivalents**	**30.323**

Section 6 – Notes to the Group Financial Statements

Note 7. Short Term Creditors

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

31st March 2012 £m		31st March 2013 £m
(7.063)	Central Government bodies	(6.214)
(0.449)	Other local authorities	(0.704)
(2.103)	NHS bodies	(0.810)
(0.608)	Housing tenants	(0.629)
(1.020)	Council Tax payers	(1.059)
(4.460)	Group employees	(4.119)
(3.974)	Tyne and Wear Pension Fund	(3.626)
(38.203)	All other creditors	(26.946)
(49.733)	**Total creditors**	**(44.107)**

Note 8. Unusable Reserves

The following table lists the unusable reserves of the Group.

31st March 2012 £m		31st March 2013 £m
(124.898)	Revaluation reserve	(120.465)
(333.388)	Capital adjustment account	(276.861)
356.072	Pensions reserve	386.073
(0.425)	Available-for-sale financial instruments reserve	(8.794)
4.630	Employee benefits adjustment account	4.293
(0.646)	Financial instruments adjustment account	(0.229)
(0.220)	Collection Fund adjustment account	(0.571)
(0.067)	Deferred capital receipts reserve	(0.052)
(98.942)	**Total unusable reserves**	**(16.606)**

Note 9. Investing Activities

The cash flows for investing activities include the following items:

2011/12 £m		2012/13 £m
(97.132)	Purchase of property, plant and equipment and intangible assets	(96.120)
(90.000)	Purchase of short term and long term investments	(78.000)
13.832	Proceeds from the sale of property, plant and equipment	7.160
90.240	Proceeds from short-term and long-term investments	70.000
36.394	Other receipts from investing activities	20.594
(46.666)	**Net cash flows from investing activities**	**(76.366)**

Section 6 – Notes to the Group Financial Statements

Note 10. Officers' Remuneration

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

	Number of employees	
Remuneration bands	**2011/12 total**	**2012/13 total**
£50,000 - £54,999	74	48
£55,000 - £59,999	39	27
£60,000 - £64,999	36	33
£65,000 - £69,999	9	8
£70,000 - £74,999	13	10
£75,000 - £79,999	3	5
£80,000 - £84,999	6	5
£85,000 - £89,999	3	3
£90,000 - £94,999	3	3
£105,000-£109,999	1	-
£125,000-£129,999	1	-
£150,000 - £154,999	-	1
£185,000 - £190,999	-	1
	188	**144**

The table includes both salary and redundancy costs.

Note 11. External Audit Costs

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

2011/12 £m		**2012/13 £m**
0.295	Fees with regard to external audit services carried out by the appointed auditor for the year	0.185
0.035	Fees for the certification of grant claims and returns for the year	0.017
0.014	Fees for other services provided by external auditors during the year	0.005
0.344	**Total fees payable to external auditors**	**0.207**

Note 12. Leases

The Group as Lessee

Operating Leases

In addition to the lease arrangements of the Council outlined in note 36 of the single entity statements South Tyneside Homes Limited is into the 6th year of a 15 year lease for office accommodation at Strathmore House.

Section 6 – Notes to the Group Financial Statements

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

31st March 2012 £m		31st March 2013 £m
0.447	Not later than one year	0.226
1.650	Later than one year and not later than five years	0.759
3.054	Later than five years	1.823
5.151		**2.808**

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

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

31st March 2012 £m		31st March 2013 £m
0.633	Minimum lease payments	0.394
0.015	Contingent rents	0.015
0.648		**0.409**

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 Pension Schemes

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

The disclosures 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 pension liabilities 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 2010.

Actuarial Assumptions Adopted

The main financial assumptions used by the Actuary for South Tyneside Homes Limited in 2011/12, differ from those applied to the South Tyneside Council valuation. The assumptions used for South Tyneside Homes Limited are confirmed in the table over the page. Note 44 of the Council's Core Financial Statements provide the assumptions used by the Actuary for South Tyneside Council.

	31st March 2013 % per annum	31st March 2012 % per annum
Discount rate	4.60	4.80
RPI Inflation rate	3.70	3.60
CPI Inflation rate	2.80	2.80
Rate of increase to pensions in payment	2.80	2.60
Rate of increase to deferred pensions	2.80	2.60
Rate of general increase in salaries	4.70	5.10

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

Fund Assets and Expected Rate of Return

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

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

	31st March 2013 £m	31st March 2012 £m
Notional value of assets	570.170	508.270
Present value of liabilities	(922.510)	(830.750)
Net pension liability	**(352.340)**	**(322.480)**

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

2011/12 £m		2012/13 £m
17.300	Current service cost	19.470
0.970	Past service cost	2.020
39.230	Interest on pension scheme liabilities	39.170
(37.650)	Expected return on fund assets	(35.200)
19.850	**Expense recognised**	**25.460**

Changes to the present value of liabilities during the accounting year

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

Section 6 – Notes to the Group Financial Statements

2011/12 £m		2012/13 £m
(727.110)	**Opening present value of liabilities**	**(830.750)**
(17.300)	Current service cost	(19.470)
(39.230)	Interest on pension scheme liabilities	(39.170)
(6.650)	Contributions by participants	(5.660)
(65.800)	Actuarial losses on liabilities	(51.460)
26.310	Net benefits paid out	26.020
(0.970)	Past service cost	(2.020)
(830.750)	**Closing present value of liabilities**	**(922.510)**

Changes to the fair value of assets during the accounting year

2011/12 £m		2012/13 £m
497.440	**Opening fair value of assets**	**508.270**
37.650	Expected return on assets	35.200
(29.330)	Actuarial gains on assets	25.710
22.170	Contributions by the employer	21.350
6.650	Contributions by participants	5.660
(26.310)	Net benefits paid out	(26.020)
508.270	**Closing fair value of assets**	**570.170**

Actual return on assets

2011/12 £m		2012/13 £m
37.650	Expected return on assets	35.200
(29.330)	Actuarial gain on assets	25.710
8.320	**Actual return on assets**	**60.910**

Analysis of amount recognised in other comprehensive income and expenditure

2011/12 £m		2012/13 £m
(95.130)	Total actuarial losses	(25.750)
(95.130)	**Total loss in other comprehensive expenditure**	**(25.750)**

The cumulative loss recognised in other comprehensive income and expenditure since 2007/08 is £263.040m.

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

2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m		2012/13 £m
(320.860)	(450.400)	(497.440)	(508.270)	Fair value of assets	(570.170)
548.420	754.010	727.110	830.750	Present value of liabilities	922.510
227.560	**303.610**	**229.670**	**322.480**	**Deficit**	**352.340**

Section 6 – Notes to the Group Financial Statements

History of experience gains and losses

2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m		2012/13 £m
(93.970)	100.600	5.240	(29.330)	Experience (losses)/gains on assets	25.710
(2.200)	6.500	(15.610)	(12.860)	Experience (losses)/gains on liabilities	(3.260)

Unfunded Benefits

South Tyneside Homes Limited has no unfunded benefits for 2012/13. Disclosure information relating to unfunded benefits for South Tyneside Council can be found at note 44, section b of the core financial statements within this document.

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

31st March 2012				31st March 2013		
Group funded £m	Council unfunded £m	Group total £m		Group funded £m	Council unfunded £m	Group total £m
(508.270)	-	(508.270)	Fair value of assets	(570.170)	-	(570.170)
830.750	30.460	861.210	Present value of liabilities	922.510	31.400	953.910
322.480	**30.460**	**352.940**	**Deficit**	**352.340**	**31.400**	**383.740**

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

2011/12 Group funded £m	2011/12 Council unfunded £m	2011/12 Group total £m		2012/13 Group funded £m	2012/13 Council unfunded £m	2012/13 Group total £m
(39.230)	(1.530)	(40.760)	Interest on pension scheme liabilities	(39.170)	(1.350)	(40.520)
37.650	-	37.650	Expected return on assets	35.200	-	35.200
(1.580)	**(1.530)**	**(3.110)**	**Pension interest cost and expected return on pension assets**	**(3.970)**	**(1.350)**	**(5.320)**

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 2013, there were 191 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 115,892 members, made up of 42,220 active members, 40,216 pensioners and 33,456 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2012/13.

2. Legal Framework

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

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

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

3. Funding Strategy

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

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

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

4. The 2010 Valuation

Rates of contributions paid by the employers during 2012/13 were based on the valuation carried out as at 31st March 2010. The value of the Fund at that date was £4,304.9 m.

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 is being carried out as at 31st March 2013 and this will set the employers' contributions from April 2014.

5. Investment Strategy and Investment Structure

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

Note 9 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

The Council of the Borough of South Tyneside
Statement of the Actuary for the year ended 31st March 2013

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31st March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended).

Actuarial Position

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

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

- 15.3% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1st April 2011, amounting to £59.7m in 2011/12, and increasing by 5.3% per annum thereafter.

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

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

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

6. The main actuarial assumptions were as follows:

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

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

7. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31st March 2010. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

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. Since the actuarial valuation as at 31st March 2010, two such reviews have been carried out with effective dates of 31st March 2011 and 31st March 2012. A revised Rates and Adjustments Certificate was signed on 10th December 2012.

9. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31st March 2013, the preparation for which is already under way. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1st April 2014 to 31st March 2017 are required by the Regulations to be signed off by 31st March 2014.

10. 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 the actuarial valuation which was carried out as at 31st March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

11. 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.

12. 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.

13. The report on the actuarial valuation as at 31st March 2010 is available on the Fund's website at the following address: www.twpf.info

Aon Hewitt Limited
30th May 2013

Section 7 – Tyne and Wear Pension Fund Statements

Fund Account for the Year Ending:

2011/12 £m		Note	2012/13 £m
	Dealings with members, employers and others directly involved in the Fund		
(229.272)	Contributions receivable - employers	3	(221.010)
(58.324)	Contributions receivable - employees	3	(54.310)
(10.112)	Transfers in from other pension funds	4	(5.974)
(297.708)	**Total contributions**		**(281.294)**
251.015	Benefits payable	5	252.151
11.164	Payments to and on account of leavers	6	14.436
2.238	Administrative expenses	7	2.255
264.417	**Total benefits**		**268.842**
(33.291)	**Net additions from dealings with members**		**(12.452)**
	Returns on investments		
(93.025)	Investment income	8	(93.985)
3.758	Non-recoverable tax	8	3.535
12.994	Change in market value of investments	9	(497.457)
9.824	Investment management expenses	12	9.480
(66.449)	**Net returns on investments**		**(578.427)**
(99.740)	**Increase in the net assets available for benefits during the year**		**(590.879)**
4,741.722	**Net assets of the Fund at 1st April**		**4,841.462**
4,841.462	**Net assets of the Fund at 31st March**		**5,432.341**

Section 7 – Tyne and Wear Pension Fund Statements

Net Assets Statement for the Year Ended:

31st March 2012 £m		Note	31st March 2013 £m
4,841.233	Investment assets	9	5,425.461
(10.762)	Investment liabilities	9	(12.613)
(10.000)	Borrowings	9	-
36.365	Current assets	13	33.391
(15.374)	Current liabilities	13	(13.898)
4,841.462	**Net assets of the Fund at 31st March**		**5,432.341**

The financial statements summarise the transactions of the Fund and deal with the net assets under the control 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 26, 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 2012/13, which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

2. Accounting Policies

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

Acquisition Cost of Investments

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

Valuation of Investments

Quoted securities have been valued at their bid price on 31st March 2013.

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 2013 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 2013.

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 2013.

Properties are shown as valued at 31st March 2013 and have been valued in accordance with the Royal Institute of Chartered Surveyors – Professional Standards (incorporating the International Valuation Statement) March 2012. The valuations have been prepared by a suitable qualified valuer, as defined by VS1.5 and 1.6 of the Professional Standards. 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 2013 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 2013.

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 2013 is credited to the Fund Account.

Interest on cash deposits, commission from securities lending, commission recapture and underwriting commission have been accrued up to 31st March 2013 where applicable.

Investment Management Expenses

Investment management expenses payable as at 31st March 2013 have been accrued and are calculated in accordance with each separately negotiated contract.

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2013.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2013 have been accrued.

Benefits and Refunds

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

Transfer Values

Transfer values represent the capital sums either receivable in respect of new members from 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.

Cash or Cash Equivalents

Cash comprises cash in hand and demand type deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of change in values.

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.

3. Contributions Receivable

2011/12 £m		2012/13 £m
	Employers	
(131.212)	Normal	(124.263)
(98.060)	Deficit funding	(96.738)
-	Augmentation	(0.009)
(229.272)		**(221.010)**
	Members and employees	
(57.789)	Normal	(53.883)
(0.535)	In-house additional voluntary contributions	(0.427)
(58.324)		**(54.310)**
(287.596)	**Total contributions receivable**	**(275.320)**

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

2011/12 (as restated) £m		2012/13 £m
(23.419)	South Tyneside Council (administering authority)	(22.567)
(162.620)	Other metropolitan councils	(155.483)
(58.936)	Other Part 1 scheduled bodies	(57.438)
(8.811)	Part 2 scheduled bodies	(9.459)
(33.810)	Admitted bodies	(30.373)
(287.596)	**Total contributions receivable**	**(275.320)**

An employer that was classified as being an Other Part 1 Scheduled Body in 2011/12 has been moved to Part 2 Schedule Bodies in 2012/13 and the income figures moved accordingly.

4. Transfers In

During the year, individual transfers in from other schemes amounted to £5.974m (£10.112m in 2011/12). There were no bulk transfers into the Fund in 2012/13 or 2011/12.

Section 7 – Tyne and Wear Pension Fund Statements

5. Benefits Payable

2011/12 £m		2012/13 £m
178.074	Pensions	197.128
78.278	Commutations and Lump Sum Retirement Benefits	60.968
5.508	Lump Sum Death Benefits	5.245
(10.845)	Recharges Out	(11.190)
251.015	**Total Benefits Payable**	**252.151**

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

2011/12 (as restated) £m		2012/13 £m
23.077	South Tyneside Council (administering authority)	23.489
157.292	Other metropolitan councils	158.116
38.477	Other Part 1 scheduled bodies	38.561
7.096	Part 2 scheduled bodies	8.009
25.073	Admitted bodies	23.976
251.015	**Total benefits payable**	**252.151**

An employer that was classified as being an Other Part 1 Scheduled Body in 2011/12 has been moved to Part 2 Schedule Bodies in 2012/13 and the benefits figures moved accordingly.

6. Payments to and on account of Leavers

2011/12 £m		2012/13 £m
11.143	Individual transfers to other schemes	14.429
0.034	Refunds to members leaving service	0.015
(0.013)	State scheme premiums	(0.008)
11.164	**Total leavers**	**14.436**

There was a payment of £2.313m during the year to Teesside Pension Fund in respect of a body which transferred in April 2007. Payment was made once the two pension fund Actuaries had agreed the amount. There were no bulk transfers out of the Fund in 2011/12.

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 over the page:

2011/12 £m		2012/13 £m
1.523	Employee expenses	1.472
0.528	Support services recharge	0.538
0.052	Audit fees	0.033
0.014	External computing costs	0.024
0.077	Printing and publications	0.086
0.027	Professional fees	0.076
0.037	Other expenses	0.028
(0.020)	Income	(0.002)
2.238	**Total administrative expenses**	**2.255**

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

8. Investment Income

2011/12 £m		2012/13 £m
(1.372)	Fixed interest securities	(1.034)
(54.793)	Equities	(58.010)
(0.475)	Index-linked securities	(0.428)
(15.620)	Pooled investment vehicles	(14.196)
(19.958)	Net rents from properties	(19.614)
(0.241)	Cash deposits	(0.185)
(0.553)	Securities lending	(0.490)
(0.001)	Commission recapture	(0.004)
(0.012)	Underwriting commission	(0.024)
(93.025)	**Sub-total**	**(93.985)**
3.758	Non-recoverable tax	3.535
(89.267)	**Total investment income**	**(90.450)**

Property income can be analysed further, as follows:

2011/12 £m		2012/13 £m
	Property income	
(21.911)	Rental income	(22.474)
1.953	Direct operating expenses	2.860
(19.958)	**Net income**	**(19.614)**

Section 7 – Tyne and Wear Pension Fund Statements

9. Investments

31st March 2012 £m		31st March 2013 £m
	Investment assets	
20.744	Fixed interest securities	48.294
2,118.646	Equities	2,451.632
36.655	Index-linked securities	49.704
2,245.571	Pooled investment vehicles	2,496.675
0.943	Derivative contracts	5.843
359.185	Properties	306.920
40.851	Cash deposits	50.891
18.638	Other investment balances	15.502
4,841.233	**Total investment assets**	**5,425.461**
	Investment liabilities	
(2.488)	Derivative contracts	(2.780)
(10.000)	Borrowings	-
(8.274)	Other investment balances	(9.833)
(20.762)	**Total investment liabilities**	**(12.613)**
4,820.471	**Net investment assets**	**5,412.848**

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.

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**

Section 7 – Tyne and Wear Pension Fund Statements

The equivalent table for the previous year is as follows:

2011/12	**Value at 1st April 2011 £m**	**Purchases at cost and derivative payments £m**	**Sales proceeds and derivative receipts £m**	**Change in market value £m**	**Value at 31st March 2012 £m**
Fixed interest securities	34.743	196.578	(215.356)	4.779	20.744
Equities	2,017.105	1,150.001	(966.909)	(81.551)	2,118.646
Index-linked securities	41.241	212.926	(225.868)	8.356	36.655
Pooled investment vehicles	2,242.777	115.206	(195.325)	82.913	2,245.571
Properties	345.225	52.469	(9.350)	(29.159)	359.185
Derivative contracts	(0.907)	6.174	(8.857)	2.045	(1.545)
	4,680.184	**1,733.354**	**(1,621.665)**	**(12.617)**	**4,779.256**
Cash deposits	23.029	18.756	-	(0.934)	40.851
Other investment balances	6.074	5.341	(11.608)	0.557	0.364
Total investments	**4,709.287**	**1,757.451**	**(1,633.273)**	**(12.994)**	**4,820.471**

Section 7 – Tyne and Wear Pension Fund Statements

31st March 2012 £m		31st March 2013 £m
	Fixed interest securities	
20.744	UK public sector	48.294
20.744	**Total fixed interest securities**	**48.294**
	Equities	
637.780	UK quoted	801.480
1,295.023	Overseas quoted	1,380.288
185.843	Overseas unquoted	269.864
2,118.646	**Total equities**	**2,451.632**
36.655	**Total UK public sector index linked securities**	**49.704**
	Pooled investment vehicles	
54.550	Unit trusts	45.732
1,157.005	Unitised insurance policies	1,250.572
1,034.016	Other managed funds	1,200.371
2,245.571	**Total pooled investment vehicles**	**2,496.675**
(1.545)	**Total forward foreign currency derivative contracts**	**3.063**
	Properties	
296.525	Freehold	222.725
62.660	Long leasehold	84.195
359.185	**Total properties**	**306.920**
	Cash deposits	
32.396	Sterling	41.862
8.455	Foreign currency	9.029
40.851	**Total cash deposits**	**50.891**
	Other investment balances	
5.168	Outstanding trades	(0.236)
10.800	Outstanding dividends and tax recoveries	12.578
2.670	Debtors	2.924
(10.000)	Borrowings	-
(8.274)	Creditors	(9.597)
0.364	**Total other investment balances**	**5.669**
4,820.471	**Total investments**	**5,412.848**

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 £5.056m (£6.221m in 2011/12). 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.

The Fund is allowed to borrow for cashflow purposes. There was no such borrowing as at 31st March 2013 (£10.000m at 31st March 2012).

Section 7 – Tyne and Wear Pension Fund Statements

10. Financial Instruments

a. Classification of financial instruments

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

31st March 2012 Designated as fair value through profit and loss £m	31st March 2012 Loans and receivables £m	31st March 2012 Financial liabilities at amortised cost £m		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
			Financial assets			
20.744	-	-	Fixed interest securities	48.294	-	-
2,118.646	-	-	Equities	2,451.632	-	-
36.655	-	-	Index-linked securities	49.704	-	-
2,245.571	-	-	Pooled investment vehicles	2,496.675	-	-
0.943	-	-	Derivative contracts	5.843	-	-
359.185	-	-	Properties	306.920	-	-
	40.851	-	Cash deposits	-	50.891	-
15.968	-	-	Other investment balances	12.578	-	-
	39.035	-	Debtors		36.315	-
4,797.712	**79.886**	**-**	**Total financial assets**	**5,371.646**	**87.206**	**-**
			Financial liabilities			
(2.488)	-	-	Derivative contracts	(2.780)	-	-
-	-	-	Other investment balances	(0.236)	-	-
-	(10.000)	-	Borrowings	-	-	-
-	-	(23.648)	Creditors	-	-	(23.495)
(2.488)	**(10.000)**	**(23.648)**	**Total financial liabilities**	**(3.016)**	**-**	**(23.495)**
4,795.224	**69.886**	**(23.648)**	**Net financial assets/(liabilities)**	**5,368.630**	**87.206**	**(23.495)**

b. Net gains and losses on financial instruments

31st March 2012 £m		31st March 2013 £m
	Financial assets	
(12.617)	Fair value through profit and loss	497.514
(0.934)	Loans and receivables	0.263
	Financial liabilities	
0.557	Fair value through profit and loss	(0.320)
(12.994)	**Total**	**497.457**

c. Fair value of financial instruments and liabilities

The following table summarises the carrying values, which are the value of the assets when purchased, of the financial assets and liabilities by class of instrument compared with their fair values:

31st March 2012 Carrying value £m	31st March 2012 Fair value £m		31st March 2013 Carrying value £m	31st March 2013 Fair value £m
		Financial assets		
4,073.986	4,797.712	Fair value through profit and loss	4,251.825	5,359.068
78.897	79.886	Loans and receivables	99.836	99.784
4,152.883	**4,877.598**	**Total financial assets**	**4,351.661**	**5,458.852**
		Financial liabilities		
-	(2.488)	Fair value through profit and loss	-	(2.780)
(10.000)	(10.000)	Loan and receivables	-	-
(23.648)	(23.648)	Financial liabilities at amortised cost	(23.731)	(23.731)
(33.648)	**(36.136)**	**Total financial liabilities**	**(23.731)**	**(26.511)**
4,119.235	**4,841.462**	**Net financial assets**	**4,327.930**	**5,432.341**

d. Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments are level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities, unitised insurance policies, managed funds excluding alternatives, unit trusts, cash deposits, other investment balances (both debtors and creditors) and current assets and liabilities. Due to the type of derivatives that the Fund held at 31st March 2013, these have been included in level 1 assets as the value of these could be derived from quoted sources.

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 Tyne and Wear Pension Fund has invested. These valuations are prepared in accordance with the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31st March valuation and a 31st December valuation adjusted for cash flows and rolled forward to 31st March as appropriate.

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

Value at 31st March 2013	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£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**

The equivalent position for the previous year is as follows:

Value at 31st March 2012	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets				
Financial assets at fair value through profit and loss	3,776.443	360.128	661.141	4,797.712
Loans and receivables	79.886	-	-	79.886
Total financial assets	**3,856.329**	**360.128**	**661.141**	**4,877.598**
Financial liabilities				
Financial liabilities at fair value through profit and loss	-	(2.488)	-	(2.488)
Borrowings	(10.000)	-	-	(10.000)
Financial liabilities at amortised cost	(23.648)	-	-	(23.648)
Total financial liabilities	**(33.648)**	**(2.488)**	**-**	**(36.136)**
Net financial assets	**3,822.681**	**357.640**	**661.141**	**4,841.462**

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 employee contributions, will meet the cost of benefits; and

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

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

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

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the 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. Monitoring against a factor risk analysis aims to ensure that risk remains within tolerable levels at both Fund and individual investment manager level.

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 following movements in market price risk are reasonably possible for the 2013/14 financial year.

Asset type	Potential market movements (+/-) %
UK equities	16.0
Overseas equities	19.0
UK bonds	7.9
Overseas bonds	10.4
Index linked securities	5.9
UK property	14.5
Overseas property	20.0
Private equity	27.8
Infrastructure funds	14.4
Active currency	20.0

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 over the page. The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2013 £m	Percentage change %	Value on increase £m	Value on decrease £m
Cash and cash equivalents	53.474	-	53.474	53.474
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
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**

Asset type	Value at 31st March 2012 £m	Percentage change %	Value on increase £m	Value on decrease £m
Cash and cash equivalents	43.422	-	43.422	43.422
UK equities	1,284.373	16.0	1,489.873	1,078.873
Overseas equities	1,472.594	19.0	1,752.387	1,192.801
UK bonds	752.473	7.9	811.918	693.028
Index linked securities	150.893	5.9	159.796	141.990
UK property	359.185	14.5	411.267	307.103
Overseas property	87.045	20.0	104.454	69.636
Private equity	487.918	27.8	623.559	352.277
Infrastructure funds	82.204	14.4	94.041	70.367
Active currency	101.544	20.0	121.853	81.235
Foreign currency contracts	(1.545)	-	(1.545)	(1.545)
Investment income due	10.800	-	10.800	10.800
Amounts due for sales	7.838	-	7.838	7.838
Amounts payable for purchases	(8.273)	-	(8.273)	(8.273)
Borrowings	(10.000)	-	(10.000)	(10.000)
Total	**4,820.471**		**5,611.390**	**4,029.552**

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

Interest Rate Risk

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

The Fund's direct exposures to interest rate movements as at 31st March 2013 and 31st March 2012 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

31st March 2012 £m	Asset type	31st March 2013 £m
40.851	Cash and cash equivalents	50.891
20.744	Fixed interest securities	48.294
36.655	Index linked securities	49.704
98.250	**Total**	**148.889**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect of a 100bp (1%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 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**

Asset type	Value at 31st March 2012	Change in net asset values	
		+1%	-1%
	£m	£m	£m
Cash and cash equivalents	40.851	41.260	40.442
Fixed interest securities	20.744	20.951	20.537
Index linked securities	36.655	37.022	36.288
Total	**98.250**	**99.233**	**97.267**

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The table over the page shows the Fund's currency exposures as at 31st March 2013 and at 31st March 2012:

Asset type	Value at 31st March 2012 £m	Value at 31st March 2013 £m
Overseas quoted equities	1,295.023	1,320.288
Overseas unquoted equities	185.843	265.409
Overseas pooled investment vehicles	191.779	228.760
Forward currency contracts	(1.545)	3.063
Overseas currency	8.455	9.029
Total	**1,679.555**	**1,826.549**

Currency risk – sensitivity analysis

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

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

The comparable figures for the previous year are also shown.

Asset type	Value at 31st March 2013	Change in net asset values	
		-13%	+13%
	£m	£m	£m
Overseas quoted equities	1,320.288	1,491.925	1,148.651
Overseas unquoted equities	265.409	299.912	230.906
Overseas pooled investment vehicles	228.760	258.499	199.021
Forward currency contracts	3.063	3.461	2.665
Overseas currency	9.029	10.203	7.855
Total	**1,826.549**	**2,064.000**	**1,589.098**

Asset type	Value at 31st March 2012	Change in net asset values	
		-13%	+13%
	£m	£m	£m
Overseas quoted equities	1,295.020	1,463.373	1,126.667
Overseas unquoted equities	185.843	210.003	161.683
Overseas pooled investment vehicles	191.779	216.710	166.848
Forward currency contracts	(1.545)	(1.344)	(1.746)
Overseas currency	8.455	9.554	7.356
Total	**1,679.552**	**1,898.296**	**1,460.808**

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 Pensions 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 in to 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 2013 was £12.362m (£6.164m at 31st March 2012). The Fund sets its credit criteria in consultation with the Council's treasury management advisor, Sector. 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 Sector's 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 2012	Value at 31st March 2013
		£m	£m
Money Market Funds			
Prime Rate	AAA	3.000	7.758
Bank Deposit Accounts			
NatWest	A	3.136	4.072
Bank of Scotland	A	0.028	0.531
Royal Bank of Scotland	A	-	0.001
Total		**6.164**	**12.362**

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 2013.

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:

2011/12		2012/13
£m		£m
9.631	Administration, Management and Custody	9.306
0.082	Performance and Risk Measurement Services	0.072
0.111	Other Advisory Fees	0.102
9.824	**Total Investment Management Expenses**	**9.480**

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

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13. Current Assets and Liabilities

31st March 2012 £m		31st March 2013 £m
	Current Assets	
6.503	Contributions and Recharges Due - Employees	4.852
29.573	Contributions and Recharges Due - Employers	28.140
0.057	HM Revenue and Customs	0.055
0.205	Investment Management Expenses	0.336
0.027	Other	0.008
36.365	**Total Current Assets**	**33.391**
	Current Liabilities	
(6.801)	Unpaid Benefits	(8.096)
(0.033)	Contributions, Recharges and Refunds Due - Employers	(0.066)
(1.528)	HM Revenue and Customs	(1.697)
(4.599)	Investment Management Expenses	(2.931)
(2.413)	Other	(1.108)
(15.374)	**Total Current Liabilities**	**(13.898)**

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 2012/13, £1.160m of contribution income was received into the AVC funds provided by The Prudential (£1.202m during 2011/12). As at 31st March 2013, these funds were valued at £8.769m (£8.768m as at 31st March 2012).

During 2012/13, £0.002m of contribution income was received into the AVC funds provided by Equitable Life (£0.002m during 2011/12). As at 31st March 2013, these funds were valued at £0.158m (£0.241m as at 31st March 2012).

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

15. Analysis of Investments with Managers

The Fund employed twelve external investment managers as at 31st March 2013. 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 was:

31st March 2012 £m			31st March 2013 £m	
		Investment managers		
359.185	7.4%	Aberdeen Property Investors	306.920	5.7%
206.146	4.3%	BlackRock	236.220	4.4%
124.432	2.6%	Capital International - emerging markets	131.131	2.4%
393.185	8.1%	Henderson Global Investors	436.390	8.1%
484.697	10.1%	JP Morgan Asset Management	541.177	10.0%
116.847	2.4%	Lazard Asset Management	137.853	2.5%
818.461	17.0%	Legal and General Investment Management	860.703	15.9%
396.325	8.2%	M&G Investment Management	490.430	9.1%
205.568	4.3%	Mirabaud Investment Management	239.625	4.4%
479.969	10.0%	Sarasin and Partners	549.666	10.1%
50.008	1.0%	TT International	54.856	1.0%
427.529	8.9%	UBS Global Asset Management	511.406	9.4%
101.544	2.1%	Active Currency	100.215	1.9%
487.918	10.1%	Private Equity	539.944	10.0%
82.204	1.7%	Infrastructure	88.749	1.6%
87.045	1.8%	Global Property	165.573	3.1%
(0.592)	0.0%	Managed in-house	21.990	0.4%
4,820.471	**100.0%**	**Total investments**	**5,412.848**	**100.0%**

MF Global, a broker, went into administration on 31st October 2011. As at 31st March 2013, the Fund had £0.934m outstanding with the company through a position held within an active currency fund. The full amount is included in the active currency line above. The level of recovery remains uncertain at the time of compiling the accounts.

16. Investment Performance

The major equity markets all delivered positive returns in 2012/13. The strongest markets were the US and Asia (excluding Japan) which rose by 20% and 18% respectively. The weaker performing markets were emerging markets and Japanese equities which, nonetheless, rose by 7% and 14% respectively. Lower market returns were derived from UK property at 2% and gilts at 5%.

The Fund's return for the year was 12.2%, which was 1.5% below its benchmark return of 13.7%. Inflation, as measured by the retail price index, rose by 2.6% and average earnings excluding bonuses increased by 0.6%.

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 6.8% per annum, which is 0.2% below the benchmark return of 7.0% per annum. The five year return is above both inflation at 2.8% per annum and the increase in average earnings at 1.8% per annum.
The Fund's annual return over the last ten years has been 9.4% per annum, which is 0.3% below the benchmark return of 9.7%. These returns are above inflation at 3.2% per annum and the increase in average earnings at 3.2% per annum.

The below benchmark returns were largely driven by poor performance from the UK property portfolio. This Portfolio is currently being restructured to seek to improve its future performance.

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 2013 and 31st March 2012.

Forward Currency Contracts

The Fund has used forward currency contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2013, the Fund held twenty positions in foreign currency that together showed an unrealised gain of £3.063m, as shown in the table over the page:

Type of forward foreign currency contracts

Settlement	Type of contract	Currency bought	Currency sold	Market value £m	
Three month	Over the counter	Sterling	Euro	(0.453)	
Three month	Over the counter	Sterling	Hong Kong Dollar	(1.997)	
Three month	Over the counter	Sterling	US Dollar	(0.239)	
Three month	Over the counter	Euro	Sterling	(0.034)	
Three month	Over the counter	Hong Kong Dollar	Sterling	(0.010)	
Three month	Over the counter	US Dollar	Sterling	(0.047)	
					(2.780)
Three month	Over the counter	Sterling	Swiss Franc	0.037	
Three month	Over the counter	Sterling	Euro	0.193	
Three month	Over the counter	Sterling	Yen	0.046	
Three month	Over the counter	Sterling	Swedish Krona	0.008	
Three month	Over the counter	Sterling	US Dollar	0.048	
Three month	Over the counter	Australian Dollar	Sterling	0.965	
Three month	Over the counter	Canadian Dollar	Sterling	0.444	
Three month	Over the counter	Swiss Franc	Sterling	0.148	
Three month	Over the counter	Hong Kong Dollar	Sterling	0.371	
Three month	Over the counter	Yen	Sterling	0.120	
Three month	Over the counter	Norwegian Krone	Sterling	0.018	
Three month	Over the counter	Swedish Krona	Sterling	0.162	
Three month	Over the counter	Singapore Dollar	Sterling	0.156	
Three month	Over the counter	US Dollar	Sterling	3.127	
					5.843
Net Forward Currency Contracts at 31st March 2013					**3.063**

The contracts were settled at a profit of £1.875m early in the 2013/14 financial year.

19. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £116.037m were out on loan as at 31st March 2013, against collateral of £122.299m. The breakdown of securities on loan was:

31st March 2012 £m		31st March 2013 £m
16.097	Fixed Interest Securities	3.706
-	Index-Linked Securities	1.699
49.447	UK Equities	31.505
72.917	Overseas Equities	79.127
138.461	**Total Securities Lending**	**116.037**

The value of the collateral against which the securities were lent out is shown below:

31st March 2012 £m		31st March 2013 £m
83.175	Fixed Interest	65.409
6.692	Index Linked	3.260
62.620	Equities	53.630
152.487	**Total Collateral**	**122.299**

An amount included as Cash as at 31st March 2012 in the 2011/12 accounts has been restated as fixed interest following further details of the holding being made available.

20. Property Holdings

31st March 2012 £m		31st March 2013 £m
	Property holdings	
345.225	Opening balance	359.185
52.469	Additions	33.297
(9.350)	Disposals	(2.850)
(29.159)	Net increase in market value	(82.712)
-	Other changes in fair value	-
359.185	**Closing balance**	**306.920**

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.

21. Significant Holdings

As at 31st March 2013, 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 2013, this was valued at £860.703m and represented 15.8% of the total net assets of the Fund. During 2012/13, the insurance contract was limited to five individual funds, each representing a different asset class, as follows:

31st March 2012 £m		31st March 2013 £m
651.083	UK Equities	719.948
19.580	Europe (ex UK) Equities	1.627
33.560	North America Equities	23.730
114.238	Index-Linked Gilts	95.768
-	Em. Markets Local Currency Bonds	19.630
818.461	**Total**	**860.703**

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2013, this was valued at £389.870m (£338.543m as at 31st March 2012) and represented 7.2% of the total net assets of the Fund.

22. Outstanding Commitments

As at 31st March 2013, the Fund had thirty-eight outstanding commitments to investments valued at £463.3m, as shown in the table over the page.

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
		m	m	m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$52.5	$2.5	£1.6
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$41.6	$4.4	£2.9
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.3	$0.7	£0.5
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$26.2	$1.8	£1.2
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	€ 86.5	€ 13.5	£11.4
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 28.8	€ 1.2	£1.0
Pantheon Asia Fund IV	2005	$20.0	$16.3	$3.7	£2.4
Pantheon Europe Fund IV	2005	€ 25.0	€ 21.9	€ 3.1	£2.6
Pantheon USA Fund VI	2005	$30.0	$27.4	$2.6	£1.7
Lexington Capital Partners VI-B	2005	$30.0	$29.0	$1.0	£0.7
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$82.9	$29.1	£19.2
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$45.9	$10.1	£6.7
Pantheon Europe Fund V	2006	€ 35.0	€ 27.0	€ 8.0	£6.8
Pantheon USA Fund VII	2006	$35.0	$25.6	$9.4	£6.2
Coller International Partners V	2006	$30.0	$23.5	$6.5	£4.3
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$28.1	$1.9	£1.3
Pantheon Asia Fund V	2007	$20.0	$15.5	$4.5	£3.0
Pantheon Europe Fund VI	2007	€ 40.0	€ 24.0	€ 16.0	£13.5
Pantheon USA Fund VIII	2007	$35.0	$21.0	$14.0	£9.2
Capital International Private Equity Fund V	2007	$35.0	$30.6	$4.4	£2.9
Co-Investment Partners Europe	2007	€ 30.0	€ 27.7	€ 2.3	£1.9
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 27.9	€ 2.1	£1.8
Infracapital	2007	£35.0	£32.0	£3.0	£3.0
Capital International Private Equity Fund VI	2010	$35.0	$6.3	$28.7	£18.9
Lexington Capital Partners VII	2010	$30.0	$18.1	$11.9	£7.8
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$25.6	$14.4	£9.5
Partners Group Real Estate Secondary 2009 (EURO)	2010	€ 60.0	€ 37.0	€ 23.0	£19.5
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€ 145.0	€ 71.8	€ 73.2	£61.9
Partners Group Global Infrastructure 2009	2010	€ 70.0	€ 40.7	€ 29.3	£24.8
Partners Group Direct Infrastructure 2011	2011	€ 85.0	€ 22.8	€ 62.2	£52.6
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$68.8	$31.2	£20.5
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$12.1	$52.9	£34.8
HarbourVest International Private Equity Partners VI - Partnership	2011	€ 50.0	€ 13.0	€ 37.0	£31.3
Coller International Partners VI	2012	$45.0	$11.4	$33.6	£22.1
Pantheon Asia Fund VI	2012	$40.0	$8.0	$32.0	£21.1
Pantheon Europe Fund VII	2012	€ 25.0	€ 5.1	€ 19.9	£16.8
Pantheon USA Fund IX	2012	$30.0	$6.0	$24.0	£15.8
Total Outstanding Commitments					**£463.3**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2013.

Section 7 – Tyne and Wear Pension Fund Statements

23. Critical Judgements in Applying Accounting Policies

Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US, adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. The value of private equity at 31st March 2013 was £539.944m (£487.920m at 31st March 2012).

Pension Fund liability

The Pension Fund liability is calculated every three years by the appointed Actuary of the Fund. The Fund does not update this liability in the intervening years. The methodology used to calculate the liability is in line with accepted guidelines and in accordance with IAS 26. The assumptions underpinning the valuation are agreed with the Actuary and are summarised in note 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

24. Assumptions about the Future and other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. As actual results cannot be predicted with certainty, they could be materially different from the assumptions and estimates.

The items in the net assets statement at 31st March 2013 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Debtors	At 31st March 2013, the Fund had a balance of sundry debtors of £33.344m. The Fund makes no provision for bad debts on the majority of these, making provision only where there is significant likelihood that the debt will not be paid. This related to £0.095m in the year.	If an additional 50% allowance was made for debts older than 12 months, an additional provision of £0.058m would be required to increase the provision to £0.153m.
Private Equity	Private equity investments are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital	The Fund has a total of £539.944m included for private equity investments. There is a risk that this could be under or over stated in the accounts.

	Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation	
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review. Therefore there is a possibility that the valuation of £7,037.300m in note 25 for the "actuarial present value of the promised retirement benefits" could be under or over stated in the note. This is under review for the 2013/14 accounts.

25. Related Party Transactions

Under IAS 24 "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 2012/13, two employers within the Fund, namely South Tyneside Council and BTSTL, had related party transactions with the Fund totalling £0.796m, analysed as follows:

- South Tyneside Council charged the Fund £0.432m (£0.408m in 2011/12) in respect of services provided, primarily being legal and building costs.
- The Fund charged South Tyneside Council £0.052m (£0.051m in 2011/12) in respect of Treasury Management services.
- BTSTL charged the Fund £0.312m (£0.322m in 2011/12) 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.

26. Pension Fund Disclosures under IAS 26

Under IAS 26, the Fund is required to disclose the "actuarial present value of the promised retirement benefits", which were last valued at 31st March 2010 by the Actuary at £7,037.300m. This figure was calculated using the following information supplied by the Actuary.

Information supplied by the Actuary

The information set out over the page 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 2010 £m
Fair value of net assets	4,302.300
Actuarial present value of the promised retirement benefits	(7,037.300)
Deficit in the Fund as measured for IAS 26 purposes	(2,735.000)

The principal assumptions used by the Actuary were:

	31st March 2010 (% p.a.)
Discount rate	5.5
RPI inflation rate	3.9
CPI inflation rate	3.0
Rate of increase to pensions in payment*	3.9
Rate of increase to deferred pensions*	3.9
Rate of general increase in salaries **	5.4

** In excess of guaranteed minimum pension increases in payment where appropriate*

*** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31st March 2010.*

Section 7 – Tyne and Wear Pension Fund Statements

Principal demographic assumptions

Post retirement mortality	**31st March 2010**
Males	
Base table	Standard SAPS Normal Health All Amounts (S1NMA)
Scaling to above base table rates***	110%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	21.3
Future lifetime from age 65 (currently aged 45)	23.2
Females	
Base table	Standard SAPS Normal Health All tables (S1NFA)
Scaling to above base table rates***	110%
Allowance for future improvements	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	23.5
Future lifetime from age 65 (currently aged 45)	25.5

*** The scaling factors shown apply to normal health retirements

	31st March 2010
Commutation	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

The figures are taken from the report: Whole of Pension Fund Disclosures under IAS 26 – Tyne and Wear Pension Fund, dated 27th May 2011. A full copy is available on request.

Figures relating to individual employers of the Fund are included in each employer's final accounts.

Section 7 – Tyne and Wear Pension Fund Statements

27. 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

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 2013

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

Other Part 1 Scheduled Bodies
Academy 360
Benedict Biscop Church of England Academy
Cardinal Hume Catholic School
Castle View Enterprise Academy
City of Sunderland College
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 Probation Trust
Oxclose Community Academy
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 Anthony's Girls' Catholic Academy
St Cuthbert's Catholic High School
St Thomas More Catholic School (Gateshead)

Other Part 1 Schedule Bodies (continued)
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 Northumbria
University of Sunderland
Venerable Bede C of E Academy
Wearside College
Whickham School and Sports College
Whitburn Church of England Academy
Wise Academies
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
The Intraining Group Limited
Nexus
Northumbria University Nursery Limited

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

Section 7 – Tyne and Wear Pension Fund Statements

Admitted Bodies (continued)

Child Care Enterprise 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
Kier North Tyneside Limited
Managed Business Space Limited
Maxim Facilities Management 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 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 Street lighting Limited
Taylor Shaw
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
TT2 Limited
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyne Waste Limited
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Valley Citizens Advice Bureau
Walker Profiles (North East) Limited
Wallsend Citizen Advice Bureau
Wallsend Hall Enterprise Limited
Workshops for the Adult Blind

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

Section 8 – Glossary of Financial Terms

Glossary of Financial Terms

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

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

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

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

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 is held in this fund and it should be sufficient to cover expenditure relating to the precepts of the Fire and Police Authorities and the net expenditure of the billing authority, after taking account of business rate income and general government grants.

Collection Fund Adjustment Account
A statutory account to reflect the difference between the balance of the collection fund required for budgetary purposes and the actual amount of council tax income receivable.

Community Assets
These are assets that the Council intends to hold in perpetuity, which have no finite useful life and may have restrictions on their disposal. Examples include parks and cemeteries.

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 unaudited bodies are directed and controlled.

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

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

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.

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.

Expected Return on Pensions Assets

This is an actuarially calculated estimate of the return on the scheme's investment assets during the year.

Fair Value

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Finance Lease

A lease that transfers substantially all of the risks and rewards 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
The General Fund includes the 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.

Homes 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.

Inventories
Assets accounted for as they are released for use rather than when they are purchased.

Section 8 – Glossary of Financial Terms

Impairment
A reduction in value of a non-current asset or financial instruments resulting from causes such as obsolescence, physical damage or non recoverability of debt.

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

Intangible Assets
Capital expenditure relating to the acquisition of computer software.

Investment Properties
Interest in land and buildings where construction work and development has been completed and the asset is held for its investments potential, any rental income being negotiated at arms length.

Levies
Similar to precepts these are sums paid to other bodies. However instead of being charged to the Collection Fund, as with precepting bodies, the costs are shown in the Comprehensive Income and Expenditure Statement. The bodies that charge a levy on the Council are the Tyne and Wear Passenger Transport Authority and Environment Agency.

Liability
A financial obligation, any debt or money owed.

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

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

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

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

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

Movement in Reserves Statement
A primary financial statement showing the movement in year on the different reserves held by the Council. It shows the true economic cost of providing the Councils services.

Section 8 – Glossary of Financial Terms

National Non-Domestic Rates (NNDR)
Non-domestic properties must pay these rates and are based upon property valuations, as undertaken by the District Valuer, and a nationally set multiplier figure. The Council is responsible for the collection of NNDR although all proceeds are paid into a national pool and redistribution is made to Local Authorities based upon population.

Net Book Value
The amount at which non-current assets are included in the Balance Sheet being the historical cost or current value less the cumulative amounts provided for depreciation and impairment.

Non-Current Assets
Assets that yield benefits to the Council and the services that it provides for a period of more than one year. Examples include property, plant and equipment, land and vehicles.

Non-Distributed Costs
These are overheads for which no user benefits, and accordingly are not apportioned to services expenditure.

Operating Leases
Leases other than a finance lease.

Pension Interest Cost
The expected increase in the year in the present value of the scheme liabilities as the benefits are one year closer to settlement.

Pension Reserve
The amount set aside to offset the IAS 19 Pension Liability.

Post Balance Sheet Events
Those events that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Corporate Director of Business and Area Management.

Precept
In the calculation of the Council Tax for a particular year, precepts levied by appropriate bodies must be taken into account. In the case of this Council, the precepting bodies are Northumbria Police Authority, Tyne and Wear Fire and Civic Defence Authority and the Borough Council itself who all charge the Collection Fund with the estimated sums required to cover their net expenditure, in part or in entirety.

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

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

Section 8 – Glossary of Financial Terms

Prudence
This accounting concept requires that income is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available.

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

Related Party Transactions
Financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. Most related parties (i.e. precepting bodies, pension funds etc.) already have separate disclosure requirements; the main exception being members and chief officers.

Reserves
Amounts set aside for purposes falling outside the definition of provisions are considered as reserves. Expenditure is not charged direct to any reserve.

Revaluation Reserves
Records the accumulated gains on non-current assets held by the Council from increases in value.

Revenue Balances
An expression usually referring to the accumulated surplus on the General Fund. They can be used to avoid borrowing, pay bills in the early part of the year before income is received or to reduce the council tax charge.

Revenue Expenditure
Money spent on the day-to-day running costs of providing the various services. It is usually of a constantly recurring nature and produces no permanent asset.

Revenue Expenditure funded from Capital under Statute
Represents items of expenditure which by definition are not capital but where the Council has 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 auditors report.

Subsidiary
An entity wholly owned or controlled by the Council.

Section 8 – Glossary of Financial Terms

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

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

Unusable Reserves
Reserves created to hold the differences between accounting for Income and Expenditure under IFRS and the statutory regime governing what can and cannot be charged against usable reserves.

Usable Reserves
Funds available to the Council to support future spending.

Useful Economic Life
The period over which the Council will derive benefits from the use of a non-current asset.

Section 9 – Annual Governance Statement

South Tyneside Council and Tyne and Wear Pension Fund

Annual Governance Statement 2012/13

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 2013 and up to the date of approval of the Statement of Accounts.

The governance framework

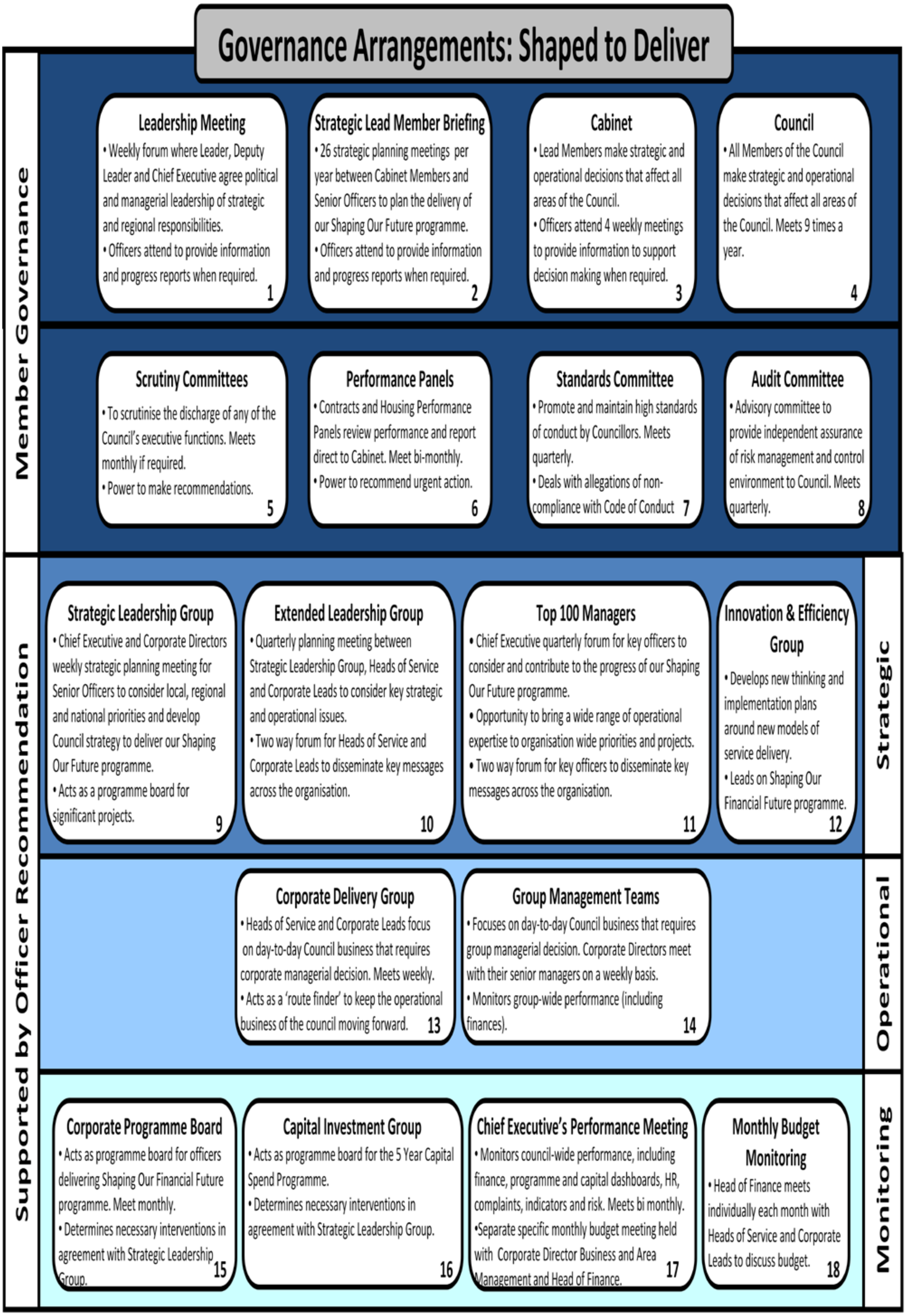
10. The Council is made up of 54 Councillors who are democratically accountable to residents of the Borough. The full Council appoints the Leader and the Leader appoints the Cabinet and Deputy Leader. The Cabinet is responsible for most day to day decisions. The Council holds the Cabinet to account by appointing scrutiny committees to question decisions and to propose policy changes where appropriate.

11. The Council has restructured to ensure that it is 'Shaped to Deliver' the vision. The Council's objectives are delivered through three strategic groups:

    - Business and Area Management
    - Economic Regeneration
    - Children, Adults and Families

12. The Council's overarching governance arrangements at Member level, at strategic and operational level and the monitoring arrangements put in place are illustrated in the following diagram.

Section 9 – Annual Governance Statement



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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.

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CORE PRINCIPLE 1:
Focusing on the Council's purpose and on outcomes for citizens and services

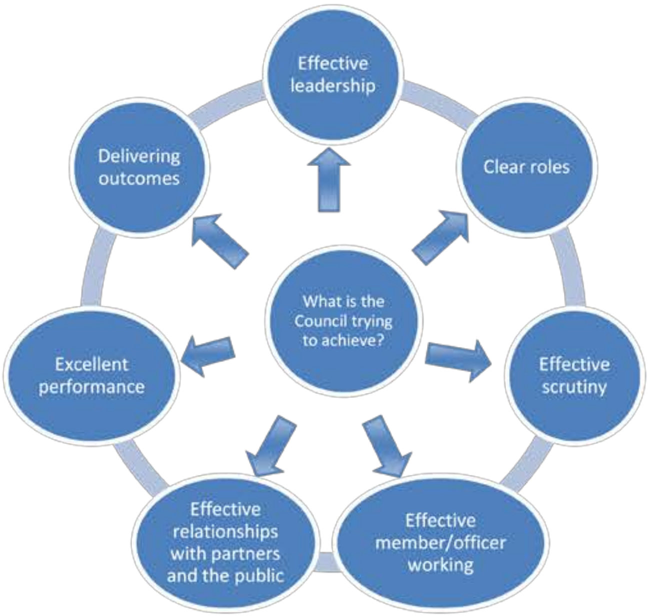
How does the Council demonstrate that this core principle is achieved?

- Shaping our Future – South Tyneside Council Strategy
- Shaping our Future – Service Delivery Plans
- South Tyneside Partnership
- Shaping our Financial Future - Medium Term Financial Plan 2013– 18
- 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?



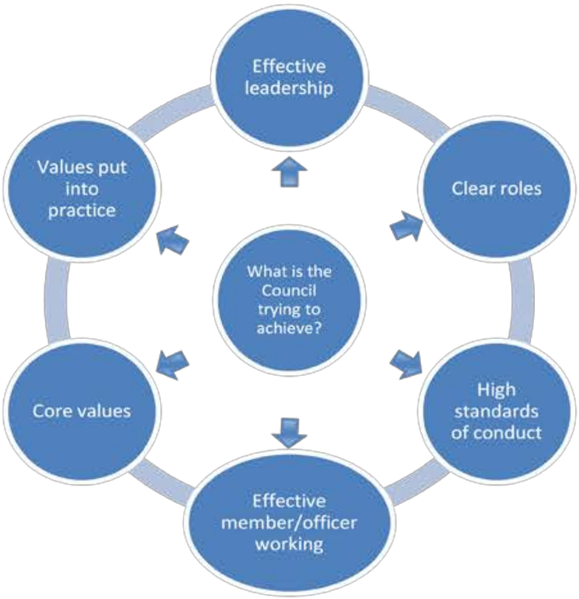
- Articles of the Constitution
- Council Procedure Rules
- Executive Procedure Rules
- Proper Officer Roles
- Chief Executive's Performance Meeting
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Financial Management Standards
- Record of Delegated Decisions
-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

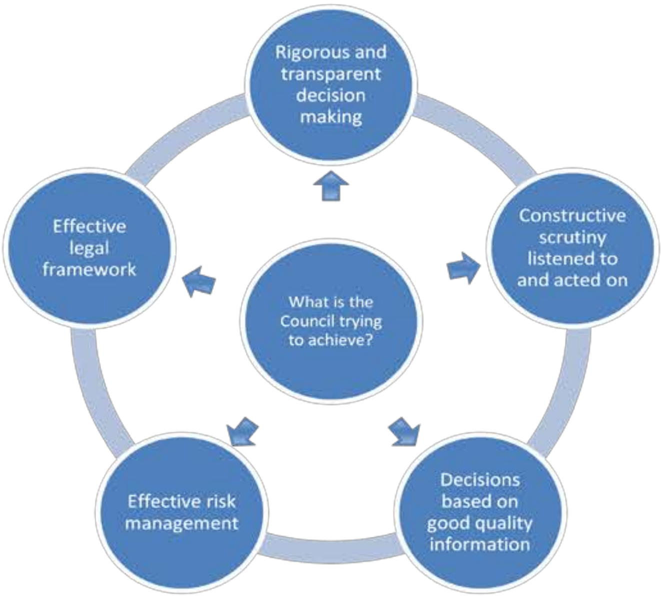


- Members Codes of Conduct
- Procedure for dealing with complaints against members
- Code of Corporate Governance
- Employees Code of Conduct
- Procurement Procedure Rules
- Employment Procedure Rules
- Financial Procedure Rules
- Access to Information Procedure Rules
- Information Security Policy
- Counter Fraud Policy
- 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

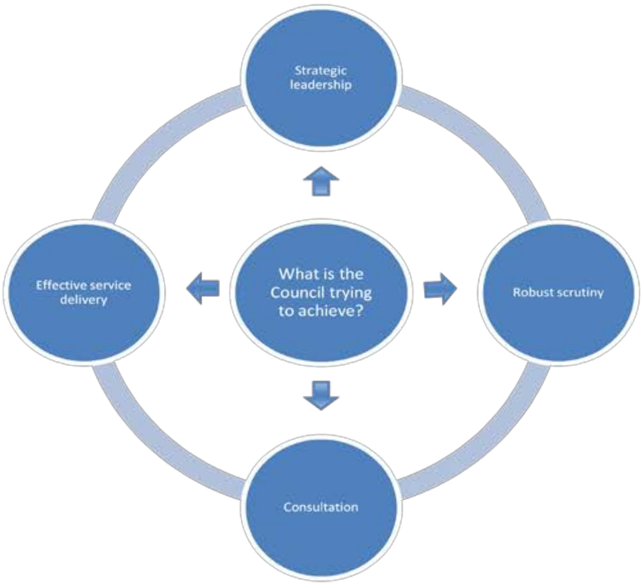
CORE PRINCIPLE 5:
Developing the capacity and capability of the governing body to be effective

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.

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Review of effectiveness

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

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

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

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

Section 9 – Annual Governance Statement

Sources of assurance

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

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 table over the page.

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 23rd September 2013 and has recommended that the Council adopt it.

Section 9 – Annual Governance Statement

No	Issue	Action taken/proposed	Responsible Officer	Target Date
1	The Council has set another challenging budget for 2013/14 with efficiency savings of £12m to be achieved followed by another £48m over the next 3 years. This is on top of the £20m saved in 2010/11, £35m 2011/12 and £20m 2012/13.	Shaping Our Financial Future 2014-2017 programme established to reshape Council services through 10 cross cutting workstreams. Governance framework in place to support programme.	Corporate Director Business and Area Management.	Ongoing
2	The Council has reported three issues to the Health and Safety Executive. A review of the issues highlighted some non-compliance with procedures and management of contractors.	Action plan to address issues has been drafted. Actions to be monitored by Corporate Director Business and Area Management.	Corporate Director Business and Area Management.	30th September 2013
3	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	31st March 2014
4	PCT agreements need to be agreed with the Care Commissioning Group (CCG) for Children and Adult Social Care pooled budgets. The arrangements to identify and recover money from the PCT for joint services are not always effective.	Discussions ongoing with the CCG to put in place relevant formal agreements for pooled budgets. Retrospective reconciliations continue to be undertaken to ensure all money owed is recovered from the PCT and CCG going forward. Improvements to the processes to ensure money are identified and recovered on a timely basis have been made and are being embedded.	Corporate Lead - Commissioning Strategic Business Manager	30th September 2013 30th September 2013
5	The Ofsted inspection of local authority arrangements for the protection of children identified some areas for improvement.	Arrangements are in place to address all of the issues highlighted in the inspection report.	Corporate Director Children, Adults and Families	31st December 2013