Statement of Accounts 2008/2009

30 September 2009

South Tyneside Council

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Section 1 – Explanatory Foreword by the Head of Finance

1. Introduction

The Statement of Accounts presents the overall financial performance of the Council and position for the year ended 31st March 2009. The statement has been prepared in accordance with the "Code of Practice on Local Authority Accounting in United Kingdom: A statement of Recommended Practice 2008" (the SORP), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice constitutes proper accounting practice under the terms of the Accounts and Audit Regulations 2003 and amendments to those Regulations in 2006 and the Local Government and Housing Act 1989.

These accounts set out the results of the Council's financial activities for the year ended 31st March 2009 and outline our financial position at that date. The foreword and financial summary provide:

- A review of the Council's financial results and financial standing for 2008/09;
- Information about the activities and significant matters that took place during 2008/09 which had an impact on Council finances;
- The principal financial statements.

South Tyneside Council seeks to make the best possible use of resources available with regard to economy efficiency and effectiveness. Our Medium Term Financial Plan sets out how we will do this over a five-year horizon. This Statement of Accounts looks back at our results over the past financial year.

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

2. The Financial Statements

The Accounts are set out on pages 2 to 148. They consist of the following financial statements that are required to be prepared under the Code of Practice:

- **Statement of Responsibilities** (page 13) that explains both the Council's and Head of Finance's responsibilities in respect of the Statement of Accounts.

- **Annual Governance Statement** (pages 14 to 18) from the Leadership of the Council that sets out the principal arrangements that operate to ensure proper governance of the Council's affairs and the stewardship of resources at its disposal, together with the principal arrangements that are in place to ensure that a sound system of internal control is maintained.

- **Independent Auditors Report** (pages 19 to 21) setting out the opinion of our external auditors PricewaterhouseCoopers LLP on the financial statements.

- **Statement of Accounting Policies** (pages 22 to 33) that explains the relevant bases and policies on which the accounts have been prepared.

Section 1 – Explanatory Foreword by the Head of Finance

The **Core Financial Statements** in Section 6 are:

- **Income and Expenditure Account** (page 34). This statement 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. The Income and Expenditure Account is presented using the service expenditure analysis set out in the Best Value Accounting Code of Practice (BVACOP).

- **Statement of Movement in the General Fund Balance** (page 35) reconciles items included in the Income and Expenditure Account, which by statute are not charged to the Council Tax payer.

- The **Statement of Total Recognised Gains and Losses (STRGL)** (page 36) reflects specific gains and losses experienced by the Council that are not reflected in the Income and Expenditure Account.

- **Balance Sheet** (pages 37 and 38) showing what assets the Council owns and its level of indebtedness. This statement also shows the level of reserves that the Council can call upon to meet future expenditure.

- **Cash Flow Statement** (page 39) summarising the activities during the year in terms of cash inflows and outflows reconciling to the cash balance held on the Balance Sheet.

The **Supplementary Financial Statements** in Section 7 are:

- **Housing Revenue Account** (pages 87 to 96) deals with the provision and maintenance of Council Housing. There is a statutory requirement to keep this account separate from the Income and Expenditure account.

- **Collection Fund Revenue Account** (pages 97 to 99) shows the income the Council receives from Council Tax and National Non-Domestic Rates and how this income has been distributed to precepting authorities (Northumbria Police Authority and Tyne & Wear Fire and Civil Defence Authority).

Group Accounts in Section 8

- The Council conducts some of its activities through partnerships and separate undertakings. The SORP requires the production of **Group Accounts** (pages 100 to 117) to take account of these relationships in order to provide a full picture of the financial position.

Tyne and Wear Pension Fund Accounts in Section 9

- As lead authority for the Tyne and Wear Pension Fund the Council is required to publish the accounts for the Fund (pages 118 to 141) as part of its financial statements for the year.

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3. Revenue Financial Summary 2008/09

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 Government and local taxation (Council Tax). The following table summarises our in-year revenue under spending of £0.251m, after drawing on £5.788m from reserves (see Note 2) and explains how our revenue spending has been financed. Note 1 to the table shows the recategorisation of unringfenced grant income from the Net Cost of Services to General Government Grant. The revenue financing of £169.110m agrees to the Income and Expenditure Account included later in this document.

The table confirms our increase in General Fund balance of £0.251m for 2008/09.

2008/09 Revenue Financial Summary	**Original Budget £m**	**Revised Budget £m**	**Actual Outturn £m**	**Variance £m**	
Revenue Spending					
Children and Young People Directorate	36.591	38.098	38.834	0.736	Note 1
Neighbourhood Services Directorate	85.756	92.565	94.955	2.390	Note 1
Regeneration and Resources Directorate	29.891	30.648	29.130	(1.518)	Note 1
Chief Executive's Office	0.313	2.119	2.003	(0.116)	
Precepts of other public bodies	9.868	9.766	9.725	(0.041)	
Net Cost of Services and Operating Expenditure	**162.419**	**173.196**	**174.647**	**1.451**	
Net Expenditure Funded By:					
General Government Grants	(31.320)	(36.560)	(38.262)	(1.702)	Note 1
National Non-Domestic Rates	(76.793)	(76.793)	(76.793)	0.000	
Contribution from Collection Fund	0.000	0.000	0.000	0.000	
Council Tax Payers	(54.055)	(54.055)	(54.055)	0.000	
Contribution to / from Council General Reserves	(0.251)	0.000	0.000	0.000	
Total Revenue Funding	**(162.419)**	**(167.408)**	**(169.110)**	**(1.702)**	
(Increase) / Decrease in general fund balance before movement in reserves	**0.000**	**5.788**	**5.537**	**(0.251)**	
Net transfer to / (from) earmarked reserves	0.000	(5.788)	(5.788)	0.000	Note 2
(Increase) / Decrease in general fund balance for the year	**0.000**	**(0.000)**	**(0.251)**	**(0.251)**	

Notes

Note 1: Income from unringfenced grant removed from Directorate spending and allocated to General Government Grant Income line.

Note 2: Use of reserves is estimated as part of our Strategic Planning process although we do not budget for the Use of Reserves in our Medium Term Financial Plan. The £5.788m Use of Reserves is within our planned levels and relates to specific projects for which we had set aside earmarked reserves. The Use of Reserves is not to meet in year spending pressures.

The revenue spending highlights during the year were as follows:

Children and Young People Directorate

- The cost of looked after children through foster placements and out of Borough placements continues to be a significant pressure for the Council. The area has faced more budget pressures in 2008/09 from the local implications of the Baby P case. Safeguarding children budgets have incurred costs of £1.6m above the sum budgeted in 2008/09.

- The Directorate faced significant cost pressures to fund teacher redundancies in 2008/09 from the closure of All Saints and St. Mary's CE primary schools and the opening of Holy

Trinity School. A budget of £1.5m was established in 2008/09 to manage these costs along with a contribution from Dedicated Schools Grant funding. The Council received approval from Government to allow £0.8m of these exceptional costs to be funded through additional borrowing. This helped to offset the spending pressures on looked after children.

Neighbourhood Services Directorate

- The Streetscape Service overspent by £0.9m due to reduced income streams and other budget pressures. A detailed review of budgets during the year concluded that funding levels would need to increase to maintain existing spending levels. These additional costs have been built into our Medium Term Financial Plan 2009-14.

- An underspend of £0.4m was achieved in the areas of community development and neighbourhood working primarily by maximising the use of external grant income and maintaining staff vacancies.

- Despite the volatile nature of costs within adult services, during 2008/09 the service came under budget by £0.1m. However, this was achieved after a contribution from an earmarked reserve of £0.5m to cover increased demand. The Council is forecasting increasing demand for adult care due to the ageing population in the Borough. This is being addressed through a review of the service and additional budget provision, which has been built into our Medium Term Financial Plan 2009-14.

Regeneration and Resources Directorate

- Prudent investments during the interest rate fluctuations and improved cash flow resulted in investment income increasing by £0.5m above the budgeted level. Declining interest rates as a result of the economic downturn mean that this situation is unlikely to be repeated in 2009/10.

- The replacement of more expensive loans with cheaper funding resulted in a saving of £1.0m in debt charges during the year.

- The Council set aside £4.9m as a provision against backdated costs arising from the implementation of a new pay and grading structure for staff. The actual costs were £4.8m.

4. Capital Investment Financial Summary 2008/09

The following table summarises capital investment of £88.561m during 2008/09 and the capital funding the Council has used to finance this spending. The revised budget reflects the full impact of known contractual commitments and funding approvals.

Section 1 – Explanatory Foreword by the Head of Finance

2008/09 Capital Investment Summary	Revised Budget	Actual Outturn	Carry Forward	Spend Variance
	£m	£m	£m	£m
Children and Young People	36.259	21.811	14.312	(0.136)
Environment, Housing and Transport	41.314	37.236	4.094	0.016
Safer and Stronger Communities	0.144	0.151	-	0.007
Jobs and Enterprise	0.649	0.233	0.416	-
Culture and Wellbeing	3.565	3.465	0.087	(0.013)
Resources	21.677	19.716	1.952	(0.009)
Regeneration	15.163	4.613	10.228	(0.322)
Independent and Healthy Lives	1.331	1.336	-	0.005
Total Capital Spending	**120.102**	**88.561**	**31.089**	**(0.452)**

2008/09 Capital Financing Summary	Actual Funding
	£m
Borrowing Approvals from Government	(3.357)
Unsupported Borrowing	(20.772)
Supported ALMO Borrowing	(24.944)
Capital Receipts	(5.118)
Funding from Housing Revenue Account	(3.419)
Funding from General Fund Revenue	(1.600)
Government Grants	(29.351)
Total Capital Funding	**(88.561)**

The capital spending highlights during the year were as follows:

Children and Young People
£15.0m was invested through the Building Schools for the Future (BSF) programme to rebuild or renew secondary school buildings. Overall, an underspend of £0.2m was achieved for capital schemes within this priority area after taking into account funding carried forward to 2009/10 of £14.3m to fund costs arising in future years. A significant proportion of the carry forward (£7.9m) relates to BSF schemes.

Environment, Housing and Transport and Independent and Healthy Lives
There was an overspend compared to budget of £0.2m in these priority areas after taking into account funding carried forward to 2009/10. The overspend related primarily to improvements in highways and other public transport projects.

Culture and Wellbeing
£2.8m was spent on the restoration and improvement works to South Marine Park.

Resources, Regeneration and Jobs and Enterprise
There was an underspend of £0.3m for capital schemes within these priority areas after taking into account funding carried forward of £13.2m to 2009/10 in order to deliver economic regeneration schemes in future years. The main underspend was in relation to Regeneration of the Borough.

Housing

Expenditure on council housing related schemes matched budget after carrying forward £3.6m of funding to future years. Of the £28.4m spend during the year, £12.3m was incurred by improving 1,252 dwellings up to the full decent homes standard.

5. Significant Matters

Prior Period Adjustments

The Council has reflected a number of Prior Period Adjustments in its accounts for 2008/09 that have required changes to 2007/08 comparatives and brought forward balances. Adjustments are:

- A review of tangible asset ownership that removed a total of 10 assets from our asset register and Balance Sheet;
- A reclassification of the nature of assets held that transferred 1,201 Sheltered Housing Units from Council Dwellings to Other Land and Building Assets on our Balance Sheet;
- Amendment to the depreciation charge on Housing Revenue Account equipment.
- Restatement of Council's pension liability at 31 March 2008 to meet changes in financial reporting standards.
- Boldon School and Street Lighting PFI accounting for residual interest and prepayments.

More information is provided in Note 3 to the accounts.

Impact of the Economic Downturn

The prospects for the UK economy have deteriorated significantly during the year. This has placed greater demand on Council services, such as economic development and welfare rights. It has also reduced income due to the Council, such as planning applications and local land charges. These factors have been taken into account in the Council's financial planning process and the risk assessment that informs the level of reserves it retains.

Impairment of Fixed Assets and Long-term Investments

Due to current economic conditions, the estimated values of a range of assets have reduced during the year. Where asset values have fallen, the reduction (or impairment) has been charged to the Income and Expenditure Account.

The largest fall in relation to fixed assets is for council dwellings, where an estimated reduction of 10% in the value of the stock has occurred based upon indices of property values within the area and local market evidence. Overall, the value of fixed assets held in the balance sheet has fallen by £115m since last year as a result of impairments.

The Council has a shareholding in Newcastle Airport, which is disclosed in our accounts under Long-term Investments. The holding has been valued at 31st March 2009 and, in the current economic climate, the valuation of the Council's holding has been impaired by £6.0m to a valuation of £0.8m (£6.8m in 2007/08). The impairment has been met from the Available for Sale Financial Instrument Reserve.

Job Evaluation

In July 2008, the Council reached agreement with trades unions on a new pay and grading structure, which was backdated to 1st January 2007. Back payments arising from this agreement for the period 1st January 2007 to 31st March 2008 were made during the 2008/09 financial year. The cost of these payments was £1.2m less than a provision that had been set-aside in prior years to fund this cost. The excess provision has been credited to the Income and Expenditure Account in 2008/09. The Council has now gone through the first stage of the Job Evaluation appeals process. A provision of £1.1m has been included in the accounts for the estimated outcome of the appeals.

Claims Under the Equal Pay Act 1970

The Council has received a significant number of claims under the Equal Pay Act 1970 following a judgement against the Council. We have a policy of seeking to capitalise such payments as they arise. Capitalisation is subject to approval by the Department of Communities and Local Government (DCLG) and only applies to backdated pay settlements.

Payments and provisions totalling £15.3m were capitalised in 2008/09 (£8.6m in 2007/08). The full cost of any forward-looking element incurred in 2008/09 (which does not qualify for capitalisation) has been met from the Equal Pay and Job Evaluation revenue provisions. The 2008/09 statement of accounts includes payments of £17.2m for both capital backward payments and revenue forward payments. The charges for Equal Pay are disclosed as an exceptional item on the face of the Income and Expenditure Account.

The Council has continued to negotiate with Union colleagues and those employees pursuing a claim through the employment tribunal in relation to Equal Pay and Equal Value claims to minimise our liability. We have been successful in reaching agreement for areas of the liability and have made provision for our full estimated liability.

There are a number of entries in the accounts in making this provision. Under Government legislation any costs for which the Council is liable but remains unpaid at the 31st March 2009 have been removed under the Statement of Movement on the General Fund Balance and transferred to an Equal Pay Account. This entry will be reversed in the year when the amounts are paid.

The Council has applied for a further capitalisation approval to meet the full liability for back pay and additional resources have been set aside in our Equal Pay and Job Evaluation Reserve to meet the revenue costs which cannot be capitalised.

Pension Liability

As at 31st March 2009 the Council had a pension liability of £231.470m, (£133.020m restated at 31st March 2008). This amount represents what the Council would have to pay out at the balance sheet date to meet the full future cost of all employee pensions, in line with the terms and conditions of the Tyne and Wear Pension Fund.

If the Council ceased operations, this liability would have to be taken over by the successor body or ultimately funded by Central Government.

The increase in the liability compared to the previous year reflects a change in the expected return on asset investments within the fund. During 2008/09 the fund experienced a negative return of 18% compared to an expected positive return of 7% due to the poor performance of equities during this period. The liability at 31 March 2008 has been restated in accordance with changes in accounting regulations as explained in Note 3 to the accounts.

Area Based Grant

From 2008/09, a number of previously ring-fenced revenue funding streams were absorbed within a new general government grant received by the Council called the Area Based Grant (ABG). There are no specific restrictions on the use of ABG, which the Council is free to use to support the delivery of local, regional and national priorities. The total ABG received in 2008/09 was £20.7m.

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

The Council is part of a unique public/private partnership, known as InspiredSpaces STaG Ltd to deliver our building schools for the future programme. This consists of the following parties; Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), South Tyneside Council (5% shareholding) and Gateshead Council (5% shareholding).

InspiredSpaces STaG Ltd will deliver the whole BSF build programme and ICT managed service for all education schemes above £0.1m (if the Local Education Partnership (LEP) demonstrates value for money). During 2008/09 work began on Mortimer Community College, St. Wilfred's RC College and St. Josephs RC Comprehensive which all involve a part re-build and part re-modelling of the existing buildings

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

Strategic Partnership

On 1st October 2008, the Council entered into a strategic partnership with British Telecom (BT) to deliver a range of functions such as finance, human resources, ICT and procurement on behalf of the Council. Staff previously employed by the Council in the delivery of these services were transferred over to the newly created company British Telecom South Tyneside Ltd. Through the partnership, BT has guaranteed the creation of employment opportunities, investment in the Borough and service efficiencies. The contract will run for 10 years with a potential 5-year extension. The pension liability for transferring staff remains with the Council as a result of a risk-sharing agreement between the two parties.

6. Material Movements in Assets and Liabilities

- At 31st March 2009 the Council held £49.0m less in short-term investments compared to the previous year. Balances have been reduced as a result of falling returns, following significant reductions in Bank of England base rates, and to mitigate risks on balances during recent uncertainty over stability of financial institutions. Cash balances have increased from £9.1m to £22.7m as a result of our reduced secure lender list. Funds are placed with UK banks and, where possible, within instant access accounts to further mitigate risk.

- At 31st March 2009, long-term investments had increased by £10.0m as surplus funds were invested for a period greater than 1 year to mitigate against falling interest rates.

- Creditor balances have increased by £23.8m for 2008/09 partly due to £10.1m advance receipt of funding and outstanding liabilities for the £125m Building Schools for the Future programme and £2.6m outstanding charges to BT for the provision of services under our new strategic partnership arrangement.

7. Reserves and Balances

Council agreed a risk based reserves strategy alongside the Medium Term Financial Plan for 2009-2014 and reviews all strategic reserves as part of the budget setting process.

As at the 31st March 2009 the Council held earmarked reserves of £31.2m (£37.0m in 2007/08).

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 2009 the Council held £2.9m in this reserve (£2.9m in 2007/08).

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

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

We have added to both reserves in recent years to strengthen the Council's financial position. Prudently, we have again added to both reserves in 2008/09 using one-off income from grants, savings from Minimum Revenue Provision policy for equal pay and reviews of other balances held. The overall balance of these reserves has reduced during 2008/09 as liabilities have crystallised.

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

As at 31st March 2009 the Council held £2.5m (£1.2m in 2007/08) in capital receipts for the purposes of investing in our assets in future years. We also expect to receive £152.1m in Government support for our three existing Private Finance Initiative (PFI) schemes leaving £86.3m for the Council to fund until the final scheme ends in 2034. We are currently building up a reserve of up-front Government support as a means of smoothing the required Council funding over the life of the contracts.

8. Group Results

The Group results revealed a deficit for the year of £107.711m (deficit of £61.818m as adjusted in 2007/08) incorporating a net surplus of £0.8m (deficit of £0.8m in 2007/08) from Council subsidiaries and joint ventures. The net assets of the Group stood at £496.264m at 31st March 2009 (£710.786m restated at 31st March 2008).

9. Housing Revenue Account

The Housing Revenue Account is ringfenced and all expenditure must be met from rents or Government subsidy. After transfer to balances, the Housing Revenue achieved a deficit of £0.131m against a break-even budget (£0.8m in 2007/08). Revenue balances at 31st March 2009 stood at £3.744m (£3.875m in 2007/08) and this will be used to support future years' expenditure on Housing.

10. Private Finance Initiative Expenditure for the Year

Expenditure on Private Finance Initiatives during the year was £5.8m (£4.7m in 2007/08). Revenue contributions provided funding of £1.8m (£1.9m in 2007/08), or 31% and the remaining 69% or £4.0m (£2.9m in 2007/08) was funded using PFI credits from Government.

11. Borrowing Facilities

Section 3 of the Local Government Act 2003 requires the Council to determine its own affordable borrowing requirement necessary to fund capital expenditure. The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. We have established a set of prudential indicators and have developed a measurement and reporting process that highlights any significant deviations from expectations. There were no significant deviations to report during 2008/09.

During the year, the Council reduced its debt having taken out 6 loans totalling £33.0m (£61.0m in 2007/08) from the Public Works Loans Board (PWLB) but repaying 8 loans totalling £38.0m (£43.0m in 2007/08). The Council also restructured its market loan portfolio, repaying 3 loans totalling £3.0m, replacing with a single loan for the same value.

12. Medium Term Prospects

Our Medium Term Financial Plan for 2009-2014 was approved by Council and published in February 2009. Our key stakeholders, including our trades union, business sector and voluntary sector partners, members of the public and our own staff helped us to make decisions on setting the level of council tax and ensuring that our limited resources are directed to the top priorities for the residents of the Borough.

Our Medium Term Financial Plan for 2009-2014 identifies what we need to spend to maintain current services, what our priority-led spending plans are and our plans to redirect current spending from lower priority areas. In addition, the plans include our financial strategy on what level of reserves we plan to hold and how these are to be utilised. There are significant risks facing the Council over the medium term and these are identified alongside our financial plans. The actions we are taking to minimise these risks are outlined in the Plan.

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

Section 1 – Explanatory Foreword by the Head of Finance

13. Changes in Accounting Policies

The following changes in accounting policy are reflected in these accounts:

- Pension assets are now valued on the basis of current bid price rather than mid year average. This is in line with amendment published by the Accounting Standards Board on 7th December 2006.
- Straight-line depreciation over 20 years has been introduced for community assets.

14. Further Information

The audited accounts 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**.

Other sources of useful information regarding the finances of the Council include the Medium Term Financial Plan 2009-2014. This is also available from the address above as well as at www.southtyneside.gov.uk.

15. Your Comments

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

Stuart Reid,
Head of Finance

29th September 2009

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

The responsibilities of the Head of Finance

The Head of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

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

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

The Head of Finance has also:

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2009, set out in the following pages, presents fairly the financial position of South Tyneside Council and the Tyne and Wear Pension Fund at 31st March 2009, and their income and expenditure for the year ended 31st March 2009.

Signed: Date: 29th September 2009

Stuart Reid, Head of Finance

Chair of General Purposes Committee Certificate

I can confirm that these audited Accounts were approved by the General Purposes Committee at its meeting held in September 2009.

Signed: Date: 30th September 2009

Councillor Iain Malcolm, Chair of General Purposes Committee

Section 3 – Annual Governance Statement

South Tyneside Council and Tyne and Wear Pension Fund

Annual Governance Statement 2008/09

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

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

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

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

The Council has adopted and approved a code of corporate governance, which outlines how the Council complies with these principles. A copy of the code is on our website at: http://www.southtyneside.info/corporategovernance or can be obtained from the Head of Corporate Governance.

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

The purpose of the governance framework

The governance framework comprises the systems, 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.

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

The governance framework

The governance framework has been in place at the Council for the year ended 31st March 2009 and up to the date of approval of the Statement of Accounts by the General Purposes Committee, 30th September 2009.

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

- Extensive consultation with stakeholders and partners has been carried out to identify the vision, priorities and intended outcomes for the citizens and service users of South Tyneside. This is set out in 'Spirit of South Tyneside' the Council's combined Community Strategy, Local Neighbourhood Renewal Strategy and Local Area Agreement. The vision has been communicated to partners, stakeholders and the wider community.

- The Council has established clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

- The Council has established a robust performance management framework to measure the quality of services for users and ensure that services are delivered in accordance with the Council's objectives.

- The Council has a programme of reviews to ensure that services provide best value for money.

- The corporate plan, 'Performing Together' sets out the key actions and performance targets to monitor the Council's contribution to the vision for the Borough. Partner actions are set out and monitored in "theme plans".

- The Council has robust systems for financial planning which are fully integrated into the strategic planning framework ensuring that our financial plans are driven by our agreed corporate objectives. Full details are published in the Medium Term Financial Plan.

- The Council has embedded a system of budget monitoring which ensures that variations against budget are detected and rectified at an early stage. As well as financial information, our monitoring framework includes the reporting of key cost drivers, which are lead indicators of spend and provide a clear focus on any changes in volume and demand.

Section 3 – Annual Governance Statement

- The Council's constitution clearly defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols to ensure effective communication.

- The Council has an agreed set of core values that are considered throughout council business. The Council has invested in an extensive Member and officer training programme to embed the core values into its everyday business.

- The Constitution includes codes of conduct for Members and staff that define the standards of behaviour expected.

- The Council has established procedures that clearly define how decisions are taken and the processes and controls required to manage risks. These include standing orders, standing financial instructions, a scheme of delegation, a risk management strategy and supporting procedure notes/manuals. Procedures are reviewed and updated where appropriate.

- The Council has agreed and maintains an Emergency Response Plan and has developed a specific plan to respond to an influenza pandemic.

- The Council has agreed a business continuity strategy, and has developed business continuity plans for key services to ensure that any disruption to Council services is minimised.

- The Council has established an Audit Committee that complies with best practice outlined in 'CIPFA's: Audit Committees – Practical Guidance for Local Authorities'. The Committee oversees the corporate governance arrangements and receives reports on risk, assurances and control improvements.

- The Pension Fund publishes a Governance Compliance Statement that sets out its governance structure and benchmarks it against good practice.

- A Pension Committee oversees the corporate governance arrangements for the Tyne and Wear Pension Fund. The Committee receives reports from the internal auditors (Deloitte) and the external auditors (PricewaterhouseCoopers LLP) on the Pension Fund's systems of internal control.

- The Council has an effective Internal Audit function that meets the professional standards as set out in CIPFA's Code of Practice for Internal Audit.

- The Council's scrutiny arrangements have been streamlined to ensure focus and challenge.

- The Council has opposition members in key chair and vice chair positions in accordance with best practice e.g. community area forums, and scrutiny, audit, appeals, human resources and pensions committees.

- The Council has put procedures in place to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. The Monitoring Officer and Section 151 officer are members of the Executive Team and all

Section 3 – Annual Governance Statement

- Cabinet reports are reviewed for legal, financial and VFM, equalities and diversity, sustainability and other risk implications.

- The Council has an anti-fraud and corruption policy, a whistle blowing policy and a complaints procedure for receiving and investigating complaints from staff and the public. The Council has promoted its whistle blowing policy ‘Speak Out’ to employees and the public.

- The development needs of members and senior officers are identified in relation to their strategic roles. They are recorded on personal development plans and supported by appropriate training.

- The Council has achieved investors in people accreditation for its employees and elected members as One Team, and has also been awarded the Regional Charter for Elected Member Development.

- The Council has identified its key partnerships and has carried out a review of governance arrangements and has an action plan to ensure improvement. In particular the Council has established effective and innovative governance arrangements in partnership with other councils, for building schools for the future and waste management. The Council has also established governance arrangements and systems of performance management to manage the strategic partnership with BT South Tyneside Ltd.

- As part of identifying our priorities, the Council has identified 14 critical 4 star plus projects for 2008-11 and 16 for 2009-11. Each project directly contributes to the Local Area Agreement top 10 priorities. These are subject to robust project monitoring and regular reports are made to the Executive Team.

- The Council has reviewed its financial systems, processes and governance arrangements against CIPFA’s Financial Management model, with an overall assurance level of “substantial” assessed in 2008/09.

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness was carried out under the supervision of the Council’s Corporate Governance Review Team, which is chaired by the Head of Corporate Governance. The review follows the methodology set out by CIPFA in its publication ‘Rough Guide for the Annual Governance Statement’.

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

- The opinion of internal audit which concluded overall substantial approval on key financial systems;
- The findings of external audit and inspection;
- Peer reviews;
- Scrutiny commissions;
- The views of key partners;
- The views of Lead Members;

Section 3 – Annual Governance Statement

- The views of Heads of Service;
- The views of Executive Team;
- The views of Managers of key financial systems;
- Regular reports on performance, risk, budget monitoring and progress on the 4 star plus projects;
- The work of the Corporate Governance Review Team (including the Monitoring Officer and S151 Officer) in overseeing the code of corporate governance;
- The work of the Audit Committee;
- The work of the Standards Committee;
- Self-assessment against the 'use of resources' audit requirements by the Use of Resources Steering Group.

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

- The Council has strong budget monitoring arrangements in place, this enabled it to identify and manage a number of demand led budget pressures during the year. The Council will continue to strengthen its budget setting and financial management processes to further improve budgetary control.

- The Council has improved its procedures to ensure that its financial systems reconcile to the general ledger. Key financial systems were reconciled to the general ledger on a regular basis in 2008/09, with the introduction during the year of a process to ensure prompt review and sign off by management.

- The Council has approved an Information and Data Quality Policy and is to develop systems to ensure compliance with the policy.

- The Council will continue to develop and test its business continuity plans and ensure that key suppliers and partnerships have appropriate business continuity arrangements.

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

Annual Governance Statement 2008/09

Signed: Iain Malcolm.

Councillor Iain Malcolm, Leader of the Council — Date: 29th September 2009

Signed: KA Harcus — Date: 29th September 2009

Keith Harcus, Interim Chief Executive

Section 4 – Independent Auditors Report

Independent Auditor's report to the Members of South Tyneside Council

Opinion on the financial statements

We have audited the financial statements of South Tyneside Council and its Group for the year ended 31 March 2009 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Chief Finance Officer and Auditor

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

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

This report, including the opinion, has been prepared for and only for South Tyneside Council's Members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its Group and its income and expenditure and cashflows for the year.

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

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

Basis of audit opinion

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

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

Section 4 – Independent Auditors Report

Opinion
In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its Group as at 31 March 2009 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
30 September 2009

Opinion on the pension fund accounts

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Chief Finance Officer and auditor
The Chief Finance Officer's responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for South Tyneside Council's Members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Basis of audit opinion
We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
30 September 2009

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

Authority's responsibilities

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

Auditor's responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, we are satisfied that, in all significant respects, South Tyneside Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
30 September 2009

Notes

(a) *The maintenance and integrity of the South Tyneside Council's website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

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

Section 5 – Statement of Accounting Policies

Introduction

The purpose of this statement is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

General Principles

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31st March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

1. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as stock on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Amounts outstanding at the year-end are accounted for as part of the carrying amount of the relevant long-term loans/investments.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

- **Apportionment of Employee Costs** – the last week of wages relating to March 2009 has not been accrued. However, the last week of March 2008 is included in the 2008/09 accounts, which results in wages expenditure of 52 weeks accounted for in 2008/09. Had an accrual been made for a part week at the start of April 2008 and for a part week at the end of March 2009, employee costs would have been £0.046m less in 2008/09.
- **Housing Rents** - the Council operates a 48-week year for Council house rents. However, given that 31st March does not always fall at a weekend, there will be years where there are 49 paying weeks. No income accruals have been made for part weeks. 2008/09 was a 48-week rent year. The average weekly rent receipt for 2008/09 was £0.996m.

2. Provisions

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

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

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

The Council has made a provision for the costs of settling claims for back pay arising from discriminatory payments incurred before the Council implemented its equal pay strategy. However statutory arrangements allow settlements to be financed from the General Fund in the year that payments actually take place, not when the provision is established. An Equal Pay Back Pay Account is therefore included under net worth to balance the provision in the accounts. This account will be debited back to the Statement of Movement in General Fund Balance as payments are made.

3. Reserves

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

Certain reserves are kept to manage the accounting processes for retirement benefits and tangible fixed assets and do not represent usable resources for the council. These particular reserves are explained in the relevant accounting policy notes 5 and 9 respectively.

4. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

Section 5 – Statement of Accounting Policies

5. Retirement Benefits

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

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

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

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

(a) The Local Government Pension Scheme

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

- The liabilities of the Tyne and Wear Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 6.6% (based on the Actuary's derived AA corporate bond yield curve).
- The assets of the Tyne and Wear Pension Fund attributable to the Council are included in the balance sheet at their fair value:
    - Quoted securities - 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 result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
    - Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
    - Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account.

- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Income and Expenditure Account.

- Gains/losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Total Recognised Gains and Losses.

- Contributions paid to the Tyne and Wear Pension Fund - cash paid as employer's contributions to the Pension Fund. This includes cash paid by our strategic partner British Telecom South Tyneside Limited on behalf of staff transferring to that organisation.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the Pension Fund and any amounts payable to the Fund but unpaid at the year-end.

(b) Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

6. VAT

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

7. Overheads and Support Services

The costs of overheads and support services are charged to those directorates that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP). The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core - costs relating to the Council's status as a multi-functional, democratic organisation.

- Non-Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and the cost associated with non-operational surplus assets.

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

8. Intangible Fixed Assets

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

9. Tangible Fixed Assets

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

(a) Recognition

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

In recognising capital expenditure as acquisition or enhancement of a fixed asset the following de minimis levels 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.
- £10,000 per item elsewhere in the programme.

(b) Measurement

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

- Investment properties and assets surplus to requirements - lower of net current replacement cost or net realisable value.
- Dwellings, other buildings and land - lower of net current replacement cost or net realisable value in existing use.
- Infrastructure assets, community assets, vehicles, plant and equipment - depreciated historical cost.
- Assets under construction – historical cost.

Net current replacement cost is assessed as:

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

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

(c) Impairment

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is charged to the relevant service revenue account.

In instances where a revaluation impairment loss is charged but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

(d) Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written-off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement in Movement in General Fund Balance.

(e) Depreciation

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

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the life of the property (between 10 to 50 years) as estimated by the valuer.
- Vehicles, plant and equipment – straight-line allocation over 5-7 years being the estimated remaining useful life.

- Community – straight-line allocation over 20 years.
- Infrastructure - straight-line allocation over 40 years (100 years for coastal protection).

The introduction of depreciation on Community Assets represents a change in accounting policy that is not material to warrant a prior period adjustment.

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.

(f) Grants and contributions

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

10. Charges to Revenue for Fixed Assets

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

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

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisation. However, it is required to agree an annual policy detailing the level of provision to set aside from revenue to contribute towards the reduction in its overall borrowing requirement. For 2008/09 this policy is as follows:

- 4% of the opening capital financing requirement (nil for the HRA) where this debt is subject to support from the Government via Revenue Support Grant.
- To repay unsupported borrowing in line with the estimated useful life of the asset being acquired or enhanced.
- To repay unsupported borrowing over 20 years where an estimated useful life cannot be established i.e. revenue expenditure funded from capital under statute.
- To voluntarily repay unsupported borrowing incurred by the HRA over 25 years.

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

11. Revenue Expenditure Funded from Capital under Statute

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

Revenue expenditure funded from capital under statute replaces deferred charges made in prior years accounts.

12. Leases

(a) Finance Leases

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

- A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset). The liability is written down as the rent becomes payable.

- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

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

(b) Operating Leases

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

(c) The Authority as Lessor

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

13. Financial Liabilities

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructure of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable, up to a maximum of 10 years. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instrument Adjustment Account via the Statement of Movement on the General Fund Balance.

14. Financial Assets

Financial assets are classified into two types:

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

(a) Loans and Receivables

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

Where loans have been made at less than market rates (soft loans), a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

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

(b) Available-for-sale Assets

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

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

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

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

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

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

15. Stocks and Work in Progress

Stocks, where material, are included in the balance sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost plus any profit reasonably attributable to the works.

16. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. The group financial statements within these accounts are prepared in accordance with the policies set out above, with the following additions and exceptions:

(a) Value Added Tax

VAT paid by other group entities is accounted for in the Group Income and Expenditure Account to the extent that it is irrecoverable from HM Revenue and Customs.

(b) Other Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date.

(c) Charges to Income and Expenditure for Fixed Assets

There are no transactions between the Group Income and Expenditure Account and the Capital Adjustment Account in relation to charges for fixed assets held by South Tyneside Homes Limited, such that the amounts charged to the account are initially reflected in the Group Income and Expenditure Reserve. However, a transfer is made from the Revaluation Reserve to the Group Income and Expenditure Reserve for the difference between depreciation charged on the current value of fixed assets held by South Tyneside Homes Limited and what would have been the historical cost depreciation for the year.

17. Private Finance Initiative (PFI))

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

(a) Prepayments

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

(b) Residual Interests

Where assets created or enhanced under the PFI scheme are to pass to the Council at the end of the scheme at a cost less than fair value (including nil) (residual interests), an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as a long-term debtor over the contract life by reducing the amount of the unitary payment charged to revenue

(c) PFI credits

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

18. Landfill Allowance Trading Scheme

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

Section 5 – Statement of Accounting Policies

19. Equal Pay Compensation Payments

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

20. Changes to Accounting Policies

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

- Pension assets are now valued on the basis of current bid price rather than a mid year average resulting in a decrease in the opening pension liability and reserve of £1.18m.
- Straight-line depreciation over 20 years has been introduced for Community Assets resulting in an additional charge of £0.276m to the Income and Expenditure Account for 2008/09.

Section 6 – Income and Expenditure Account

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

2007/08 Net Expenditure (as restated)		Note	2008/09 Gross Expenditure	2008/09 Gross Income	2008/09 Net Expenditure
£m			£m	£m	£m
2.784	Central Services to the Public		19.512	(16.343)	3.169
42.352	Cultural, Environmental, Regulatory and Planning Services		62.461	(18.515)	43.946
49.046	Education and Children's Services	7	189.487	(144.262)	45.225
9.015	Highways and Transport Services		14.117	(3.438)	10.679
10.386	Housing Services		175.351	(105.472)	69.879
46.408	Adult Social Care Services	19	79.687	(29.993)	49.694
0.212	Court Services		0.569	(0.321)	0.248
5.397	Corporate and Democratic Core	9	9.292	(2.794)	6.498
4.780	Non Distributed Costs		5.322	(0.237)	5.085
19.464	Exceptional Items - Equal Pay		15.379	-	15.379
189.844	**Net Cost of Services**	**8**	**571.177**	**(321.375)**	**249.802**
4.928	Loss or (Gain) on the Disposal of Fixed Assets				0.584
9.386	Precepts of other Public Bodies				9.725
(0.066)	(Surpluses) / Deficits on Trading Undertakings and Dividends Receivable	6			0.186
12.613	Interest Payable and Similar Charges				13.260
5.042	Amount Payable to Housing Capital Receipts Pool				1.340
(6.259)	Interest and Investment Income				(5.582)
3.390	Pension Interest Cost and Expected Return on Pension Assets	26			8.320
218.878	**Net Operating Expenditure**				**277.635**
(52.446)	Income from the Collection Fund				(54.055)
(35.124)	General Government Grants	5			(38.262)
(70.291)	Non-domestic Rates Redistribution				(76.793)
61.017	**Deficit or (Surplus) for the Year**				**108.525**

Section 6 – Statement of Movement on the General Fund Balance

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

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

This reconciliation statement summarises the differences between the deficit on the Income and Expenditure Account and the movement in General Fund balance.

2007/08 (as restated) £m		**Note**	**2008/09 £m**
61.017	Deficit or (Surplus) for the Year on the Income and Expenditure Account		108.525
(61.193)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the Year	1	(108.776)
(0.176)	**(Increase)/ Decrease in general fund balance for the Year**		**(0.251)**
(0.741)	General fund balance brought forward		(0.917)
(0.917)	**General fund balance carried forward**		**(1.168)**

The increase in the General Fund balance of £0.251m represents the surplus of income (which includes sums raised through local taxation) over expenditure in respect of services financed through the General Fund. This is after taking into account transfers to and from reserves.

Section 6 – Statement of Total Recognised Gains and Losses

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

2007/08		**Note**	**2008/09**
£m			**£m**
61.017	Deficit or (Surplus) for the Year on the Income and Expenditure Account		108.525
0.207	Deficit or (Surplus) for the Year on the Collection Fund Account		0.089
-	Adjustment for Finance Leases		0.696
(80.287)	Deficit or (Surplus) arising on Revaluation of Fixed Assets		(23.478)
(3.389)	Deficit or (Surplus) arising on Revaluation of Available for Sale Financial Assets		5.960
(4.922)	Adjustment Magistrates Courts		-
0.040	Adjustment Pension Liability		-
(42.930)	Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	26	98.930
(4.709)	Loss on the Disposal of Fixed Assets		-
(74.973)	**Total Recognised (Gains)/Losses for the Year**		**190.722**
	Prior Period Adjustments		0.229
	Total Recognised (Gains)/Losses since previous financial statements		**190.951**

The Council has made prior period adjustments to the balance sheet figures reported against 2007/08 as detailed below. The reason for these adjustments can be found in Note 3 to the accounts.

Details of Prior Period Adjustments:	Gain/(Loss)
Removal of Diocese assets	(9.565)
HRA depreciation correction	2.920
Pension Fund liability	(1.180)
Bisley Drive	0.045
Boldon School PFI residual interest	1.255
Boldon School PFI prepayment	6.754
Total Prior Period Adjustments	**0.229**

Section 6 – Balance Sheet

This statement provides a summary of the Council's financial position as at 31st March 2009. It shows the balances and reserves at the Council's disposal, fixed assets and current assets employed in its operations and the Council's long-term borrowing position.

31 March 2008 (as restated) £m		Note	31 March 2009 £m	31 March 2009 £m
1.499	**Intangible Fixed Assets**	28		1.887
	Tangible Fixed Assets			
	Operational Assets			
660.149	Council Dwellings	29,31	616.656	
252.354	Other Land and Buildings	29,31	265.766	
10.165	Vehicles, Plant, Furniture and Equipment	29	8.739	
52.363	Infrastructure Assets	29	57.191	
2.309	Community Assets	29,31	5.235	953.587
	Non-Operational Assets			
0.228	Investment Properties	29	3.029	
2.257	Assets under Construction	29	2.857	
50.477	Surplus Assets held for Disposal	29	32.756	38.642
1,031.801	**Total Fixed Assets**			**994.116**
6.776	Long Term Investments	39		10.817
	Long Term Debtors			
0.960	Airport Loan Notes	40	0.720	
12.066	Other Long Term Debtors	41	12.782	13.502
1,051.603	**Total Long Term Assets**			**1,018.435**
	Current Assets			
0.500	Stocks and Work in Progress	42	0.562	
26.373	Debtors	43	27.204	
85.202	Investments	44	36.217	
9.137	Cash and Bank	45	22.677	86.660
1,172.815	**Total Assets**			**1,105.095**
	Current Liabilities			
-	Borrowing Repayable within 12 months	47	(4.958)	
(42.881)	Creditors	46	(66.697)	
(0.805)	Bank Overdraft	45	(0.800)	(72.455)
1,129.129	**Total Assets Less Current Liabilities**			**1,032.640**
(227.038)	Long-Term Borrowing	47	(217.367)	
(27.040)	Provisions	51	(20.008)	
(26.656)	Government Grants Deferred		(42.080)	
(4.513)	Deferred Liabilities	48	(1.684)	
(0.109)	Deferred Credits	49	-	
(133.020)	Liability related to Defined Benefit Pension Scheme	26	(231.470)	(512.609)
710.753	**Total Assets Less Liabilities**			**520.031**

Section 6 – Balance Sheet

31 March 2008 (as restated) £m		Note	31 March 2009 £m	31 March 2009 £m
	Financed By			
(80.720)	Fixed Asset Revaluation Reserve	53		(102.003)
(6.767)	Available for Sale Financial Instrument Reserve			(0.807)
(726.259)	Capital Adjustment Account	54		(608.034)
(0.792)	Financial Instruments Adjustment Account			(0.753)
133.020	Pensions Reserve	26		231.470
(1.182)	Useable Capital Receipts Reserve	55		(2.540)
-	Deferred Capital Receipts Reserve			(0.061)
(0.917)	General Fund Balances			(1.168)
(37.000)	Earmarked Reserves	56		(31.212)
13.796	Equal Pay Account			7.566
0.025	Collection Fund			0.114
(0.082)	Housing Major Repairs Reserve			(8.859)
(3.875)	Housing Revenue Account Balances			(3.744)
(710.753)	**Total Net Worth**	**52**		**(520.031)**

Section 6 – Cash Flow Statement

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

2007/08 (as restated) £m		Note	2008/09 £m
(19.358)	**Net Cash Flow from Revenue Activities**	**63**	**(12.765)**
	Dividends from Joint Ventures and Associates		
	Cash Inflows		
-	Newcastle International Airport Limited Dividend		-
-	**Dividends from Joint Ventures and Associates**		**-**
	Returns on Investment and Servicing of Finance		
	Cash Outflows		
0.002	Finance Lease Interest Paid		0.103
7.842	Other Interest Paid		13.056
	Cash Inflows		
(5.938)	Interest Received		(6.552)
1.906	**Returns on Investment and Servicing of Finance**		**6.607**
	Capital Activities		
	Cash Outflows		
37.659	Purchase of Fixed Assets		56.071
-	Purchase of Long Term Investments		10.000
11.081	Other Capital Cash Payments		23.886
48.740			**89.957**
	Cash Inflows		
(9.788)	Sale of Fixed Assets		(7.351)
(13.184)	Capital Grants Received		(45.059)
(0.456)	Other Capital Cash Receipts		(0.275)
(23.428)			**(52.685)**
25.312	**Total Capital Activities**		**37.272**
	Acquisitions and Disposals		
	Cash Inflows		
(0.240)	Income from Restructure of Newcastle International Airport	40	-
(0.240)	**Acquisitions and Disposals**		**-**
7.620	**Net Cash Outflow / (Inflow) before Financing**		**31.114**
	Management of Liquid Resources		
7.985	Net Increase/(Decrease) in Short Term Deposits		(48.985)
7.985	**Management of Liquid Resources**	**44**	**(48.985)**
	Financing		
	Cash Outflows		
42.548	Repayments of Amounts Borrowed		41.000
0.019	Capital Element of Finance Lease Rental Payments		(0.674)
	Cash Inflows		
(61.000)	New Loans Raised		(36.000)
(18.433)	**Financing**	**64**	**4.326**
(2.828)	**Net (Increase) / Decrease in Cash**	**45**	**(13.545)**

Section 6 – Notes to the Core Financial Statements

Note 1. Movement on the General Fund Balance

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

2007/08 (as restated) £m		2008/09 £m
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the Year.	
(0.476)	Amortisation of Intangible Fixed Assets	(0.556)
(10.562)	Excess Depreciation from Housing Major Repairs Reserve	(7.239)
(31.955)	Other Depreciation and Impairment of Fixed Assets	(92.884)
5.077	Government Grants Deferred Amortisation	13.927
(16.674)	Revenue Expenditure Funded from Capital under Statute	(28.980)
(4.928)	Removal of (Loss) / Gain on Sale of Fixed Assets	(0.584)
0.792	Difference in amounts payable/receivable under statute and actual payments/receipts in respect of soft loans and early repayment of debt	(0.040)
(9.217)	Equal Pay Costs due but not yet paid	6.230
0.826	Appropriations for PFI Assets	0.826
0.659	Capital Receipts not linked to Fixed Assets	0.515
(23.170)	Net charges made for Retirement Benefits in accordance with FRS17	(19.230)
(89.628)		**(128.015)**
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the Year.	
4.456	Minimum Revenue Provision for Capital Financing	5.150
0.724	Capital Expenditure charged in-year to the General Fund Balance	1.600
(5.042)	Transfer from Usable Capital Receipts to meet Payments to the Housing Capital Receipts Pool	(1.340)
19.410	Employer's Contributions payable to the Tyne and Wear Pension Fund and Retirement Benefits payable direct to Pensioners	19.710
19.548		**25.120**
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the Year.	
0.805	Housing Revenue Account Balance	(0.131)
0.018	Voluntary Revenue provision for Capital Financing	0.038
8.064	Net transfer to or (from) Earmarked Reserves	(5.788)
8.887		**(5.881)**
(61.193)	**Net Additional amount required to be credited to the General Fund Balance for the Year**	**(108.776)**

Section 6 – Notes to the Core Financial Statements

Note 2. Best Value Accounting Code of Practice

The Income and Expenditure Account has been compiled under the 2008 Best Value Accounting Code of Practice (BVACOP). The BVACOP "establishes standard practice for the consistent financial reporting of the cost of providing Local Authority Services".

The main areas covered by the code are:

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

Note 3. Prior Period Adjustments

The Council has reflected a number of Prior Period Adjustments in its accounts for 2008/09 that have required changes to balances brought forward from 2007/08. The adjustments are:

Ownership of assets

Following a review of the asset register against other records held, we identified a number of tangible assets no longer in the Council's ownership but included in the closing value of assets on our Balance Sheet as at 31st March 2008. These assets related mainly to Church of England Schools where ownership rests with the Church and not the Council. The adjustment covers 10 assets in total. The adjustment of £9.565m reduces our opening asset value for Other Land and Buildings, with an equivalent entry against the opening Capital Adjustment Account balance.

Classification of assets

A review of the SORP revealed that we had incorrectly classified Sheltered Housing Units as Council Dwellings. The correct classification is Other Land and Buildings. The adjustment covers a total of 1,201 Sheltered Housing Units. The adjustment of £32.594m reduces our opening asset value for Council Dwellings, with an equivalent increase in our opening asset value for Other Land and Buildings.

Calculation of Housing Revenue Account Depreciation

During the preparation and review of accounts for 2008/09, we detected an error in calculation relating to the amount of depreciation charged for Housing Revenue Account equipment. The correction of £2.920m increases our opening asset value for Vehicles, Plant and Equipment, with an equivalent increase in our opening Capital Adjustment Account balance.

Compliance with amended FRS17 "Retirement Benefits" in the Calculation of the Pension Liability

In order to comply with revisions to Financial Reporting Standard 17 "Retirement Benefits" and International Accounting Standards, the Actuary has provided a restatement of the Council's pension liability as at 31st March 2008. The new approach taken ensures that the fair value of assets comprises the bid-value for quoted securities, rather than the mid-market value. The adjustment of £1.180m increases the Council's opening pension liability to £133.020m (previously £131.840m). The offsetting entry reduces the Council's opening pension reserve. The revised approach also affects the Expected Return on Pension Assets credited to the Income and Expenditure Account. The expected return has changed from £24.430m to £24.340m, resulting in an increased charge to the Income and Expenditure Account of £0.090m, with an equivalent adjusting entry in the Statement of Movement on General Fund Balance. The Statement of Total Recognised Gains and Losses includes a final adjustment of £0.130m representing the change in the total funded and unfunded amounts (restated as £42.930 from £42.800m).

Boldon School PFI Accounting

Boldon School PFI has been accounted for in the Council's accounts since financial close of the contract. The school became operational in 2006/07 and the statement of accounts has reflected unitary payments within the Income and Expenditure Account. The statement of accounts should also have reflected the:

- Residual interest which will return to the Council for nil cost at the end of the contract.
- Prepayments for the transfer of housing land as part of the contract.

The 2006/07 and 2007/08 accounting entries for these transactions have been reflected as prior period adjustments. The adjustment increases Other Long Term Debtors by £8.009m and Capital Adjustment Account by £8.009m. The Income and Expenditure Account Education and Children's Services line is reduced by £0.600m and Statement of Movement in General Fund Balances reduced by £0.600m.

Street Lighting PFI Accounting

The Street Lighting contract also has a residual interest asset, which will return to the Council at nil cost, and the accounting treatment has been revised to bring it in line with that adopted for Boldon School. Previously the value of the residual interest has been offset by the building up of a specific earmarked reserve. The prior period adjustment decreases Earmarked Reserves by £0.701m and increases the Capital Adjustment Account by £0.701m.

The following table showing a Balance Sheet extract provides a summary of the Prior Period Adjustments outlined above.

31st March 2008 before adjustment £m	31st March 2008 £m		31st March 2009
		Extract from Balance Sheet	
692.743	660.149	Council Dwellings	616.656
229.280	252.354	Other Land and Buildings	265.766
7.245	10.165	Vehicles, Plant, Furniture and Equipment	8.739
983.940	1,031.801	Total Fixed Assets	994.116
4.057	12.066	Other Long Term Debtors	12.782
(131.840)	(133.020)	Liability related to Defined Benefit Pension Scheme	(231.470)
710.524	710.753	Total Assets less Liabilities	520.031
(724.149)	(726.259)	Capital Adjustment Account	(608.034)
131.840	133.020	Pensions Reserve	231.470
(3.274)	(2.573)	PFI Reserve	(3.842)
(710.524)	(710.753)	Total Net Worth	(520.031)

Section 6 – Notes to the Core Financial Statements

Note 4. Changes in Presentation

The presentation of certain items in the Income and Expenditure Account has been changed, as follows:

- Education and Children's Social Services lines have now been consolidated into a single line.
- The Interest on Pension Liability and the Return on Pension Assets have now been consolidated into a single line.

Note 5. General Government Grants

The following table details the grants included in the General Government Grants line of the Income and Expenditure Account:

	2007/08 £m	2008/09 £m
Revenue Support Grant	(11.796)	(10.690)
Area Based Grant	-	(20.783)
Private Finance Initiative	(4.025)	(4.037)
Benefits Administration	(2.146)	(1.907)
Other Unringfenced Grants	(17.157)	(0.845)
Total General Government Grants	**(35.124)**	**(38.262)**

In 2008/09 Local Area Agreement (LAA) Grant was replaced by Area Based Grant (ABG). ABG is a non-ringfenced general grant and no conditions of use are imposed as part of the grant determination unlike LAA where the grant had to be used to support the achievement of LAA targets. This has led to an increase of £20.783m in General Government Grant that was previously reported under the net cost of services.

Note 6. Trading Operations

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

2007/08 (Surplus) / Deficit £m		2008/09 Turnover £m	2008/09 Expenditure £m	2008/09 (Surplus) / Deficit £m
0.001	South Shields Open Air Market	(0.251)	0.341	0.090
(0.067)	School Catering	(5.953)	6.159	0.206
(0.066)	Total Trading Activity	(6.204)	6.500	0.296
-	Newcastle Airport Dividend			(0.110)
(0.066)	**Actual Trading (Surplus)/Deficit**			0.186

The Council operates an open-air market in South Shields town centre. Income received is generated by rent received from stallholders. The income received from this rent has fallen sharply in 2008/09, due to the economic downturn, resulting in the deficit of £0.090m.

The 2007/08 underlying surplus made by the schools catering service has fallen into deficit in 2008/09. The main reason for this fall is job evaluation implementation and backpay charged to the service in year which is not met from additional income. The service has also experienced rising costs of food provisions (increase of £0.096m in 2008/09), although this increase has been partially off-set by increased school meals grant and an increase in meal income.

The Council has received a dividend of £0.110m from Newcastle Airport holding relating to the airport's financial year 31st December 2007. There was no dividend declared for the financial year to 31st December 2008.

Note 7. Dedicated Schools Grant

Dedicated Schools Grant (DSG) is provided by the Department for Children, Schools and Families to fund the Council's expenditure on schools. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a Council-wide basis and for 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 2008/09 are as follows:

	Central Expenditure £m	Individual Schools Budget £m	Total £m
Final DSG for 2008/09	(5.894)	(81.824)	(87.718)
Brought forward from 2007/08	-	(0.169)	(0.169)
Agreed budgeted distribution in 2008/09	**(5.894)**	**(81.993)**	**(87.887)**
Actual central expenditure	5.894	-	5.894
Actual ISB deployed to schools	-	81.876	81.876
Carry forward to 2009/10	**-**	**(0.117)**	**(0.117)**

In 2008/09 the Council received total DSG of £87.718m. After adding the underspend of £0.169m carried forward from 2007/08, the balance of DSG (£87.887m) has been credited against the Education and Children's Service outturn in the Income and Expenditure Account.

Note 8. Specific Government Grants

The following table details the Specific Government Grant included within the income totals for the appropriate net cost of services:

	2007/08 £m	2008/09 £m
Dedicated Schools Fund	(85.998)	(87.718)
Housing Benefit	(44.921)	(49.601)
Supporting People	(4.831)	(5.346)
Surestart	(4.623)	(5.593)
Council Tax Benefit	(14.796)	(15.429)
Learning and Skills Council	(4.936)	(5.874)
Standards Fund	(15.456)	(13.999)
School Standards	(3.558)	(4.871)
Other	(19.163)	(3.249)
Total	**(198.282)**	**(191.680)**

The reduction in Other Specific Grants in 2008/09 is primarily due to the transfer of former Local Area Agreement into Area Based Grant, as explained in Note 5.

Note 9. Members' Allowances

Included within Corporate and Democratic Core are all remuneration payments to members. Previously only the basic and special allowances have been reported in this note. The note now reflects all remuneration payments made to members net of recovery from third parties for both 2007/08 and 2008/09. Total basic and special responsibility allowances disclosed in 2007/08 totalled £0.593m.

	2007/08	2008/09
	£m	£m
Total Members' Allowances paid	0.734	0.756

Note 10. Officers' Emoluments

The definition of remuneration excludes employers pension payments, but includes:

- All taxable amounts paid to, or receivable by, employees, including sums due by way of expense allowances and
- Redundancy payments to employees during the year.

In accordance with Account and Audit Regulations 2003, the number of employees including teachers whose remuneration falls into each pay bracket shown in multiples of £10,000, and starting at £50,000 is as follows:

Remuneration	Number of Employees					
	2007/08			2008/09		
	Council	School Based	Total	Council	School Based	Total
£50,000 - £59,999	28	37	65	38	71	109
£60,000 - £69,999	32	6	38	11	22	33
£70,000 - £79,999	8	3	11	6	5	11
£80,000 - £89,999	8	1	9	6	3	9
£90,000 - £99,999	-	-	-	4	4	8
£100,000 - £109,999	1	-	1	3	-	3
£110,000 - £119,999	-	-	-	2	-	2
£120,000 - £129,999	1	-	1	-	-	-
£130,000 - £139,999	-	-	-	-	-	-
£140,000 - £149,999	-	-	-	2	-	2
£150,000 - £159,999	-	-	-	-	-	-
£160,000 - £169,999	-	-	-	-	-	-
£170,000 - £179,999	-	-	-	-	-	-
£180,000 - £189,999	-	-	-	1	-	1

There are a number of reasons for the large increase in the number of employees within this disclosure and the variations in employees within bands.

- We have continued our programme of removing surplus places in our schools, which has resulted in a number of teacher redundancies in 2008/09. The figures above include 20 employees whose payments have exceeded £50,000 as a direct result of redundancy payments. The majority of these redundancies relate to schools, although there are two redundancies that relate to our review of senior management structure. The redundancy and full years salary payments for these two posts are disclosed in the two highest payment bands.

- Our new job evaluation structure was implemented on 1st September 2008. The agreed implementation date was 1st January 2007, so employees entitled to an increase through the new structure were also entitled to backpay. The backpay is included in the salary payments above and has meant that a number of employees are disclosed in these bands for one year only as a direct result of this backpay.

- The number of employees within the lower bracket has increased due to teachers progressing through the National Leadership Pay Scale and now exceeding £50,000.

Note 11. Related Party Transactions

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

From examinations of returns completed by Elected Members and Executive Directors, together with details included in the Register of Members' Interests, there are no cases where we consider that disclosure is required.

Central Government has effective control over the general operations of the Council, as it is responsible for setting the statutory framework within which the Council operates and for providing the majority of funding. The Council received £229.920m (£233.406m in 2007/08) in support of its revenue spending as detailed in Notes 5 and 8.

The Council administers the Tyne and Wear Pension Fund and charged £0.719m (£0.713m in 2007/08) in respect of support services provided – primarily financial, legal and information technology. It also paid to the Fund £0.048m (£0.047m in 2007/08) in respect of treasury management duties. From 1st April 2004, the Fund has operated a separate bank account to that of the Council such that any interest earned on cash balances was taken directly into the Fund's accounts

South Tyneside Homes Limited buys services back from the Council and was charged £2.509m (£2.771m in 2007/08) in respect of support services provided – primarily financial, legal and information technology. The Council paid a management fee, including capital programme management of £12.352m (£11.544m in 2007/08) and £40.407m (£27.706m in 2007/08) for the provision of construction services.

The Council entered a strategic partnership with BT South Tyneside Ltd. on 1st October 2008 to deliver "back office" services to the Council and to South Tyneside Homes Ltd and Tyne and Wear Pension Fund. The Council has continued to charge Tyne and Wear Pension Fund and South Tyneside Homes for back office services for the full year in 2008/09. From April 2009/10, BT South Tyneside Ltd. will charge these two parties directly for back office services and the Council's charges disclosed in the 2009/10 related party disclosure will reduce accordingly.

The Net Liabilities of South Tyneside Homes Ltd amount to £25.567m at 31st March 2009 (£9.825m at 31st March 2008). The company made a net surplus of £0.758m in 2008/09 (deficit of £0.873m in 2007/08). Were the company to be wound up, the Council under the terms of the management agreement is committed to meeting any accumulated deficit, including outstanding pension liabilities as set out in Note 60.

On 21st December 2007 the procurement of STaG's (South Tyneside and Gateshead Building Schools for the Future) private sector partner to deliver the £175m Building Schools for the Future and £21m ICT programme reached financial close. This created the unique public/private partnership, known as InspiredSpaces STaG Ltd, between Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside Council (5% shareholding). A copy of the accounts can be obtained by writing to Finance Director, InspiredSpaces STaG Ltd, Unit 14, Blue Sky Way, Monkton, South Tyneside, NE31 2EQ.

The Council uses Royal Bank of Scotland and NatWest Bank during the year for financial services. NatWest Bank are the Council's bankers. At 31st March 2009, the Council had a £5.0m fixed term deposit and £9.6m money market fund deposit with Royal Bank of Scotland.

Note 12. Amounts Due to or from Related Parties

The following tables show the related party amounts due to or from the Council as at 31st March 2009. We have made provision for bad debts against our debtors for Government Bodies of £0.052m, relating to South Tyneside Primary Care Trust, reducing our net debtor to related parties to £11.747m.

2007/08 £m	Amount due to the Council	2008/09 £m
8.362	Government Bodies	8.952
3.046	Tyne and Wear Pension Fund	0.653
3.947	South Tyneside Homes Limited	2.139
-	InspiredSpaces	-
15.355	**Total**	**11.744**

2007/08 £m	Amount due from the Council	2008/09 £m
(15.520)	Government Bodies	(28.653)
(1.903)	Tyne and Wear Pension Fund	(2.356)
(4.788)	South Tyneside Homes Limited	(5.536)
-	InspiredSpaces	-
(22.211)	**Total**	**(36.545)**

Note 13. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council's expenditure under this power was £0.567m mainly on donations to voluntary bodies working in the local area (£0.388m in 2007/08).

Section 6 – Notes to the Core Financial Statements

Note 14. Publicity and Advertising

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

2007/08 £m		2008/09 £m
0.210	Press and Promotions Team	0.244
0.298	Recruitment Advertising	0.234
0.508	**Total**	**0.478**

Note 15. Building Control Regulations Charging Account

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

2007/08 Total £m		2008/09 Chargeable £m	2008/09 Non-Chargeable £m	2008/09 Total £m
0.568	Employees	0.300	0.288	0.588
0.021	Premises	0.013	0.012	0.025
0.026	Supplies and Services	0.028	0.011	0.039
0.013	Transport	0.008	0.004	0.012
0.139	Central Service Charges	0.025	0.037	0.062
0.767	**Total Expenditure**	**0.374**	**0.352**	**0.726**
(0.405)	Building Regulations Charges	(0.392)	-	(0.392)
(0.004)	Miscellaneous Income	-	(0.002)	(0.002)
(0.409)	**Total Income**	**(0.392)**	**(0.002)**	**(0.394)**
0.358	**(Surplus)/Deficit for the Year**	**(0.018)**	**0.350**	**0.332**

Note 16. Local Authority (Goods and Services) Act 1970

Under the provisions of the Local Authority (Goods and Services) Act 1970 the Council is able to provide services to other public bodies. There was no income under these provisions in 2008/09 (nil in 2007/08).

Note 17. Schemes under the Transport Act 2000

Under the provisions of the Transport Act 2000 the Council is able to implement road-charging schemes and/or workplace charging levies, income from which must be ring fenced for transport improvements. The Council received a gross income of £0.116m under these provisions in 2008/09 (nil in 2007/08), which has been fully utilised on transport purposes.

Note 18. Business Improvement District Schemes

Under the provisions of Part 4 of the Local Government Act 2003 (England and Wales) the Council is able to create a Business Improvement District (BID) and raise an additional levy on the non-domestic ratepayers in the BID area. The purpose of the BID is to improve services in that area and any additional income must be ring-fenced for that purpose. There was no income under these provisions in 2008/09 (nil in 2007/08).

Note 19. Health Act 1999 Pooled Funds and Similar Arrangements

The Council has five pooled arrangements with the South Tyneside Primary Care Trust (PCT) under Section 31 of the Health Act 1999. Pooled funds enable health bodies and local authorities to work collaboratively to address specific health issues. The five projects are as follows.

- A joint equipment store enables the Council and the PCT to provide an integrated equipment service, which will operate in line with Department of Health Guidance, on a Borough wide basis.
- The South Tyneside Art Studio enables the Council and the PCT to provide a therapeutic service for various service users.
- Perth Green enables the Council and the PCT to provide intermediate residential care for service users to ensure the delayed discharge targets from hospital is achieved.
- An arrangement whereby the Council can commission Nursing and Continuing Care on behalf of the PCT.
- A new 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 Services line of the Income and Expenditure Account. Details of the expenditure are shown in the following table:

2007/08 Total Council Share £m		**Lead Body**	**2008/09 Gross Income £m**	**2008/09 Gross Cost £m**	**2008/09 Council Share of Net Cost £m**
0.599	Joint Equipment Store	Council	(0.703)	1.460	0.756
0.215	Balgownie Employment and Education Team	Council	-	-	-
0.027	The South Tyneside Arts Studio	Council	(0.065)	0.112	0.046
0.797	Perth Green	Council	(0.193)	1.127	0.934
-	Nursing Care & Continuing Care	Council	(4.559)	4.559	-
-	S117 Mental Health	Council	(0.731)	1.461	0.731
1.638	**Totals**		**(6.251)**	**8.719**	**2.467**

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

Section 6 – Notes to the Core Financial Statements

Note 20. External Audit Fees

The Audit Commission is the regulatory body that controls the financial actions of the Council. In 2005/06 the Commission appointed PricewaterhouseCoopers LLP to act as the external auditors for the Council. The following table shows the fees paid for the various services received and chargeable to the Income and Expenditure Account. Grant fees are included in the net cost of individual services whilst the other fees are shown as part of the Corporate and Democratic Core costs.

2007/08 £m		2008/09 £m
0.234	Fees Payable in respect of External Audit Services	0.348
0.067	Fees Payable in respect of Grant Claim Certification	0.042
0.301	**Total Fees Payable to External Auditors**	**0.390**
0.043	Fees Payable in respect of Statutory Inspection	-
0.023	Non Statutory Services	0.072
0.367	**Total Costs**	**0.462**

Note 21. Operating Leases

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

2007/08 £m		2008/09 £m
0.090	Other Land and Buildings	0.156
0.696	Vehicles and Equipment	0.618
0.786	**Total Expenditure on Operating Leasing**	**0.774**

The Council was committed at 31st March 2009 to making payments of £0.277m (£0.625m in 2007/08) under equipment operating leases against an initial investment of £1.346m (£1.992m in 2007/08). A further £1.163m (£0.613m in 2007/08) is committed on the rental of property.

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

2008/09	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Lease expires within 1 year	-	0.059
Lease expires in 2 - 5 years	0.047	0.136
Lease expires in more than 5 years	0.109	-
Total Repayable	**0.156**	**0.195**

Note 22. Finance Leases

The Council is 26 years into a 35-year lease for office accommodation at Landreth House and 3 years into a 20 year lease for office accommodation at 9-10 Charlotte Terrace. In addition, the Council has a finance lease in respect of a refuse collection vehicle.

Section 6 – Notes to the Core Financial Statements

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

2007/08 £m		2008/09 £m
0.110	Other Land and Buildings	0.110
0.021	Vehicles and Equipment	0.021
0.131	**Total Expenditure on Finance Leasing**	**0.131**

The above payments include finance costs of £0.089m (£0.092m in 2007/08).

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

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Gross Value at 1st April 2008	**2.950**	**0.113**
Accumulated Depreciation	(1.370)	(0.077)
Net Value at 1st April 2008	**1.580**	**0.036**
Additions	0.065	-
Revaluation	(2.110)	-
Write out depreciation	0.989	-
Depreciation in Year	(0.034)	(0.023)
Net Value at 31st March 2009	**0.490**	**0.013**

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

2008/09	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Repayable within 1 year	0.027	0.018
Repayable in 2 - 5 years	0.147	-
Repayable in more than 5 years	0.501	-
Total Repayable	**0.675**	**0.018**

On 30th July 2008 the Council committed to a lease on the Cleadon Park Community Facility for 25 years. Payments will not start until the building becomes operational, early in 2010/11. The obligations under this lease totals £0.277m per annum.

Note 23. The Authority as Lessor

The Council earns income on a number of leases on commercial premises such as shops and industrial units that are accounted for as operating leases. In 2008/09, income of £1.857m has been generated from these leases (£1.963m in 2007/08). The gross book value of these assets is £16.945m with accumulated depreciation of £1.444m, resulting in a Net Book Value of £15.501m. The Authority does not act as lessor with regard to any finance leases.

Section 6 – Notes to the Core Financial Statements

Note 24. Long-term Contracts (including PFI)

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

Boldon School

The Council's first PFI contract was signed on 13th April 2005 with Gleeson Consortium and involves the construction of a new extended secondary school in Boldon. There is provision for community use of the school facilities, which includes a 220 seat theatre and a 25 metre swimming pool. The construction value of the new facility was £22m. The contract runs for 25 years, expiring in 2031 and incorporates the future maintenance and upkeep of both the building and the fixtures and fittings. The building became operational on 30th October 2006.
In addition to the basic unitary charge for Boldon School the Council has a liability to the PFI contractor in relation to the number of free school meals. The amount due will vary each month depending upon take up rates and is estimated to cost in the region of £0.150m per annum.

In 2008/09 unitary charge payments of £3.002m (£2.513m in 2007/08) had been paid out whilst £1.502m (£1.490m in 2007/08) was recovered through PFI credits. Unitary charge payments over the life of the contract will total £65.5m of which £37.6m will be recovered in the form of PFI credits. The contractor has built and operates the school under a license from the Council to use the site. The Council is not permitted to grant any leases, licences or sell parts of the site without the contractor's consent. At the end of the contract the buildings will transfer to Council ownership.

Street Lights

The second PFI contract was signed on 9th December 2005 with Balfour Beatty Power Networks and involves the replacement and maintenance of the whole of the Borough's street lighting stock estimated at a capital value of £2.763m (as assessed at contract start), which will be written out to the Income and Expenditure Account over the life of the contract. The contract runs for 25 years, expiring on 26th February 2031, and involves the replacement of outdated lighting columns and street signage, providing new lighting in areas currently not served and maintaining the stock to a minimum standard. The street lighting assets owned by the Council were transferred to the operator at the commencement of the contract. Ownership of all assets will revert to the Council at the end of the contract.

In 2008/09 unitary charge payments of £2.813m (£2.577m in 2007/08) had been paid out whilst £2.535m (£2.535m in 2007/08) was recovered through PFI credits. The unitary charge includes £0.337m (£0.337m in 2007/08) relating to a prepayment for the future transfer of the assets back to the Council. Over the lifetime of the contract the unitary charge will total £100.3m of which £63.4m will be recovered in the form of PFI credits.

Building Schools for the Future

On 21st December 2007 the procurement of STaG's private sector partner to delivery the £175m BSF and £21m ICT programme reached financial close. This created the unique public/private partnership, known as InspiredSpaces STaG Ltd, between Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside Council (5% shareholding). The cost of the 5% equity investment for South Tyneside was

£500 and has been included in Long-term Investments in the Balance Sheet. This project will deliver new schools to the Borough and includes two PFI schools, the first of which will be Jarrow School.

Jarrow School will become operational during 2009/10 and the contract will run for 25 years, expiring on 30th September 2034. Unitary charge payments over the life of the contract are expected to be £86.8m with £62.8m funded from PFI credits.

BT South Tyneside Ltd.

During 2008/09 the Council entered into a Strategic Partnership arrangement with BT, creating BT South Tyneside Ltd. 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 £5.8m were paid in 2008/09 and the total cost of the contract over 10 years is expected to be £120.8m.

The estimated outstanding contract payments for all long-term contracts are analysed in the following table.

2008/09	**Unitary Payments**	**PFI Credits**	**Net Cost**
	£m	**£m**	**£m**
Within one year (2009/10)	18.782	(5.186)	13.596
2010/11 to 2013/14	84.071	(26.187)	57.884
2014/15 to 2018/19	105.560	(32.734)	72.826
2019/20 to 2023/24	51.957	(32.734)	19.223
2024/25 to 2028/29	54.971	(32.734)	22.237
2029/30 to 2033/34	35.793	(21.196)	14.597
2034/35 to 2038/39	2.260	(1.360)	0.900
Totals	**353.394**	**(152.131)**	**201.263**

Note 25. Minimum Revenue Provision (MRP)

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

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

Following this change in policy there is only a small voluntary set-aside. In 2006/07 the Council took out unsupported borrowing of £0.466m to fund its Decent Homes Programme. A 25-year repayment schedule has been agreed with South Tyneside Homes, which results in the HRA making a voluntary set-aside of £0.018m (nil in 2007/08).

A further voluntary set-aside is made by the Council in relation to former South Tyneside College debt, which will be fully redeemed in 8 years time. The Higher Education Funding Council reimburses the £0.020m cost of this additional debt set-aside.

The following table shows the amount set aside for the repayment of debt in 2008/09.

2007/08 £m		2008/09 £m
4.456	Minimum Revenue Provision	5.150
0.018	Other Voluntary Set Aside Provision	0.038
4.474	**Total Debt Set Aside**	**5.188**

Note 26. Pension Costs

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

The Accounting Standards Board published an amendment to FRS17 on 7th December 2006. The amendment is effective for accounting periods beginning on or after 6th April 2008 and has therefore been incorporated into the following notes.

The key changes introduced by the amendment are as follows:

- Disclosures should show separate reconciliations of liabilities and assets from the prior years.
- Disclosure of the principal actuarial assumptions used at the balance sheet date, which includes disclosure of mortality rates if mortality is considered a material assumption.
- Unfunded liabilities should be separately disclosed.
- The fair value of the assets should comprise the bid-value for quoted securities rather than the mid-market value. This revised treatment has led to the adjustment of some of the previous year's balances.

The Actuary has provided a restatement of the Council's pension liability as at 31st March 2008. Full details of the restatement in the accounts are disclosed in Note 3.

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 British Telecom 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 2008/09, the Council made direct payments to the Pension Fund in respect of early retirements (known as "strain on the fund"). Early retirements result in reduced pension contributions payable to the Fund and earlier payments of benefits. The sum paid was £0.728m (£0.245m in 2007/08), which the Council elected to pay in the year.

The outstanding liability of the Council for pensions scheme stands at £231.470m at 31st March 2009 (£133.020m restated in 2007/08). This has reduced the reported net worth of the Council by £98.450m in the year (16% reduction). Statutory agreements for funding this deficit mean that the financial position of the Council remains healthy. Whilst there is no direct cost to the council taxpayer in these accounts, increased contributions will be required over the remaining working life of employees, as assessed by the scheme actuary.

(a) Local Government Pension Scheme funded benefits

The employers' regular contributions to the Fund for the financial year ending 31st March 2010 are estimated to be £18.60m including £1.72m payable by British Telecom South Tyneside Ltd. In addition, further Strain on Fund Contributions may be required.

The latest actuarial calculation of South Tyneside Council's liabilities took place as at 31st March 2007. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were as follows:

The main financial assumptions adopted as at 31st March 2009

	31st March 2009 % per annum	31st March 2008 % per annum	31st March 2007 % per annum
Inflation rate	3.50	3.70	3.20
Rate of general increase in salaries	5.00	5.20	4.70
Rate of increase to pensions in payment	3.50	3.70	3.20
Rate of increase to deferred pensions	3.50	3.70	3.20
Discount rate	6.60	6.80	5.30

The main demographic assumptions adopted as at 31st March 2009

The table below shows the principal assumptions in retirement mortality rates:

Post retirement mortality	31st March 2009	31st March 2008
Males		
Future lifetime from age 65 (currently aged 65)	19.9	19.1
Future lifetime from age 65 (currently aged 45)	22.1	21.0
Females		
Minimum underpin to improvement factors	1.25%	0.50%
Future lifetime from age 65 (currently aged 65)	22.8	22.1
Future lifetime from age 65 (currently aged 45)	25.0	23.3

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 total 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 2009.

	Long-term expected rate of return at 31st March 2009 (% per annum)	Asset split at 31st March 2009 (%)	Long-term expected rate of return at 31st March 2008 (% per annum)	Asset split at 31st March 2008 (%)	Long-term expected rate of return at 31st March 2007 (% per annum)	Asset split at 31st March 2007 (%)
Equities	7.0%	66.1%	7.6%	63.7%	7.7%	67.1%
Property	6.0%	8.4%	6.6%	10.5%	6.7%	9.9%
Government Bonds	4.0%	10.2%	4.6%	11.0%	4.7%	13.6%
Corporate Bonds	5.8%	10.4%	6.8%	8.9%	5.3%	7.6%
Cash/Other Investments	1.6%	4.9%	6.0%	5.9%	5.6%	1.8%
Total	**6.2%**	**100.0%**	**7.0%**	**100.0%**	**7.0%**	**100.0%**

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The following table reconciles the funded status of assets and liabilities to the balance sheet:

	31st March 2009	31st March 2008	31st March 2007
	£m	£m	£m
Notional value of assets	286.560	343.920	349.610
Present value of liabilities	(488.890)	(448.500)	(492.260)
Net pension (liability)	(202.330)	(104.580)	(142.650)

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 current and past service costs included in the net cost of services within the Income and Expenditure Account. The £8.320m pension interest cost and expected return on pension assets on the Income and Expenditure Account is made up of the £30.49m less £24.03m stated here plus a further expense of £1.86m relating to unfunded liabilities shown later in this note (page 60).

2007/08		2008/09
£m		£m
15.60	Current Service Cost	10.35
4.05	Past Service Cost	0.56
26.21	Interest on Pension Scheme Liabilities	30.49
(24.34)	Expected Return on Fund Assets	(24.03)
21.52	**Expense recognised**	**17.37**

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 the STRGL.

Changes to the present value of liabilities during the accounting period

2007/08		2008/09
£m		£m
(492.26)	**Opening present value of liabilities**	**(448.50)**
(15.60)	Current Service Cost	(10.35)
(26.21)	Interest on Pension Scheme Liabilities	(30.49)
(4.76)	Contributions by participants	(6.11)
78.56	Actuarial gains/(losses) on liabilities	(10.16)
15.82	Net benefits paid out	17.28
(4.05)	Past service cost	(0.56)
(448.50)	**Closing present value of liabilities**	**(488.89)**

Changes to the fair value of assets during the accounting period

2007/08		2008/09
£m		£m
349.61	**Opening fair value of assets**	**343.92**
24.34	Expected return on assets	24.03
(36.23)	Actuarial gains/(losses) on assets	(87.70)
17.26	Contributions by the employer	17.48
4.76	Contributions by participants	6.11
(15.82)	Net benefits paid out	(17.28)
343.92	**Closing fair value of assets**	**286.56**

Actual return on assets

2007/08 £m		2008/09 £m
24.34	Expected return on assets	24.03
(36.23)	Actuarial gain/(loss) on assets	(87.70)
(11.89)	**Actual return on assets**	**(63.67)**

Analysis of amount recognised in Statement of Recognised Gains and Losses

2007/08 £m		2008/09 £m
42.33	Total actuarial gains/(losses)	(97.86)
42.33	Total gain/(loss) in STRGL	(97.86)

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

2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m		2008/09 £m
276.80	357.53	349.61	343.92	Fair value of assets	286.56
(467.27)	(539.35)	(492.26)	(448.50)	Present value of liabilities	(488.89)
(190.47)	**(181.82)**	**(142.65)**	**(104.58)**	**Surplus/(deficit)**	**(202.33)**

In accordance with paragraph 77(o) of FRS17 (as revised), the assets for the current period and the previous two periods are measured at current bid price. Asset values previously measured at mid-market value for periods ending 2008 and 2007 have been re-measured for this purpose. Asset values for periods ending 2006 and 2005 are shown at mid-market value and have not been re-measured as permitted by FRS17 (as revised).

History of experience gains and losses

2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m		2008/09 £m
(10.44)	(51.13)	(2.09)	(36.23)	Experience gains/(losses) on assets	(87.70)
5.09	(0.37)	(1.27)	(0.92)	Experience gains/(losses) on liabilities	(2.18)

In accordance with paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed for periods beginning on or after 6th April 2007. The history of experience gain/(loss) on liabilities shown has not been re-stated for periods ending 2007, 2006 and 2005 and includes the experience relating to unfunded liabilities.

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

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

Section 6 – Notes to the Core Financial Statements

2007/08 Employer's Contributions	Added Years		2008/09 Employer's Contributions	Added Years
£6.9m	£1.4m	Amount Paid	£6.9m	£1.4m
14.1%	2.8%	Percentage of Pensionable Pay	14.1%	2.8%

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

In the financial year ending 31st March 2010 the employer expects to pay £2.30m directly to beneficiaries.

The latest actuarial calculation of unfunded benefits took place as at 31st March 2008. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for FRS17 purposes were as follows:

The main financial assumptions adopted as at 31st March 2009

	31st March 2009 % per annum	31st March 2008 % per annum	31st March 2007 % per annum
Inflation rate	3.50	3.70	3.20
Rate of increase to pensions in payment	3.50	3.70	3.20
Discount rate	6.60	6.80	5.30

The main demographic assumptions adopted as at 31st March 2009

The table below shows the principal assumptions in retirement mortality rates:

Post retirement mortality	31st March 2009	31st March 2008
Males		
Future lifetime from age 65 (currently aged 65)	19.9	19.1
Future lifetime from age 65 (currently aged 45)	22.1	21.0

Post retirement mortality	31st March 2009	31st March 2008
Females		
Future lifetime from age 65 (currently aged 65)	22.8	22.1
Future lifetime from age 65 (currently aged 45)	25.0	23.3

The following table reconciles the liabilities to the balance sheet:

	31st March 2009 £m	31st March 2008 £m	31st March 2007 £m
Present value of liabilities	(29.140)	(28.440)	(29.540)
Net pension (liability)	(29.140)	(28.440)	(29.540)

Section 6 – Notes to the Core Financial Statements

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 Income and Expenditure Account:

2007/08 £m		2008/09 £m
0.13	Past Service Cost	-
1.52	Interest on Pension Scheme Liabilities	1.86
1.65	**Expense recognised**	**1.86**

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 the STRGL.

Changes to the present value of liabilities during the accounting period

2007/08 £m		2008/09 £m
(29.54)	**Opening present value of liabilities**	**(28.44)**
(1.52)	Interest on Pension Scheme Liabilities	(1.86)
0.60	Actuarial gains/(losses) on liabilities	(1.07)
2.15	Net benefits paid out	2.23
(0.13)	Past service cost	-
(28.44)	**Closing present value of liabilities**	**(29.14)**

Analysis of amount recognised in Statement of Recognised Gains and Losses

2007/08 £m		2008/09 £m
0.60	Total actuarial gains/(losses)	(1.07)
0.60	Total gain/(loss) in STRGL	(1.07)

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

2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m		2008/09 £m
n/a	n/a	n/a	(28.44)	Present value of liabilities	(29.14)
-	**-**	**-**	**(28.44)**	**Surplus/(deficit)**	**(29.14)**

History of experience gains and losses

2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m		2008/09 £m
n/a	n/a	n/a	(1.77)	Experience gains/(losses) on liabilities	(0.35)

In accordance with paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6th April 2007. This disclosure note presents the history of liabilities, and experience gain/(loss) on liabilities, for periods ending 2008 and 2009.

For periods ending 2007 and earlier, unfunded liabilities are included in the disclosure note for funded benefits.

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Note 27. Euro

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

Note 28. Intangible Fixed Assets

The following tables show the movement in the value and amortisation provision of intangible fixed assets. All intangible assets owned by the Council at 31st March 2009 relate to software licences, which are amortised to Income and Expenditure on a straight-line basis using an average useful life of 5 years. Any goodwill paid on extinguishment of businesses as part of local regeneration schemes has been written out in year as a disposal.

	Software Licences £m
Gross Book Value 31st March 2008	2.365
Accumulated Amortisation and Impairment	(0.866)
Net Book Value at 31st March 2008	**1.499**
Additions	1.194
Disposals	(0.306)
Amortisation	(0.500)
Impairment	-
Net Book Value at 31st March 2009	**1.887**

Amortisation and Impairment Provision	**Software Licences £m**
Provision at 31st March 2008	(0.866)
Amortisation in Year	(0.500)
Impairment in Year	-
Provision at 31st March 2009	**(1.366)**

Section 6 – Notes to the Core Financial Statements

Note 29. Movement of Tangible Fixed Assets

The following table analyses the movement in **operational** tangible fixed assets and the nature of asset holding.

Operational Fixed Assets	**Council Dwellings**	**Other Land and Buildings**	**Comm. Assets**	**Infra-structure**	**Vehicles Plant & Equip**	**Total**
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2008 (as restated)	731.990	284.391	2.309	62.272	29.240	1,110.202
Additions	27.030	13.883	3.202	6.526	3.519	54.160
Disposals	(3.146)	(0.393)	-	-	(0.550)	(4.089)
Reclassifications	0.020	(1.796)	-	-	-	(1.776)
Revaluations	(64.001)	(4.419)	-	(0.026)	-	(68.446)
At 31st March 2009	**691.893**	**291.666**	**5.511**	**68.772**	**32.209**	**1,090.051**
Depreciation and Impairments						
At 1st April 2008 (as restated)	(71.841)	(32.037)	-	(9.909)	(19.075)	(132.862)
Charge for 2008/09	(16.436)	(7.552)	(0.276)	(1.672)	(4.945)	(30.881)
Disposals	0.339	0.016	-	-	0.550	0.905
Reclassifications	-	0.012	-	-	-	0.012
Revaluations	12.701	13.661	-	-	-	26.362
At 31st March 2009	**(75.237)**	**(25.900)**	**(0.276)**	**(11.581)**	**(23.470)**	**(136.464)**
Balance Sheet amount at 31st March 2008	**660.149**	**252.354**	**2.309**	**52.363**	**10.165**	**977.340**
Balance Sheet amount at 31st March 2009	**616.656**	**265.766**	**5.235**	**57.191**	**8.739**	**953.587**
Nature of Asset Holding						
Owned	616.656	265.276	5.235	57.191	8.726	953.084
Finance Leases	-	0.490	-	-	0.013	0.503
Private Finance Initiative	-	-	-	-	-	-
	616.656	**265.766**	**5.235**	**57.191**	**8.739**	**953.587**

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The following table analyses the movement in **non-operational** tangible fixed assets and the nature of asset holding.

Non Operational Fixed Assets	**Investment Properties**	**Assets under Construction**	**Surplus Assets**	**Total**
Cost or valuation	**£m**	**£m**	**£m**	**£m**
At 1st April 2008	0.228	2.257	50.738	53.223
Additions	0.001	1.784	2.442	4.227
Disposals	-	-	(4.559)	(4.559)
Reclassifications	2.800	(1.184)	0.160	1.776
Revaluations	-	-	(15.694)	(15.694)
At 31st March 2009	**3.029**	**2.857**	**33.087**	**38.973**
Depreciation and Impairments				
At 1st April 2008	-	-	(0.261)	(0.261)
Charge for 2008/09	-	-	(0.096)	(0.096)
Disposals	-	-	-	-
Reclassifications	-	-	(0.012)	(0.012)
Revaluations	-	-	0.038	0.038
At 31st March 2009	**-**	**-**	**(0.331)**	**(0.331)**
Balance Sheet amount at 31st March 2008	**0.228**	**2.257**	**50.477**	**52.962**
Balance Sheet amount at 31st March 2009	**3.029**	**2.857**	**32.756**	**38.642**
Nature of Asset Holding				
Owned	3.029	2.857	32.756	38.642
Finance Lease	-	-	-	-
Private Finance Initiative	-	-	-	-
	3.029	**2.857**	**32.756**	**38.642**

The following table analyses the value of the fixed assets held, broken down by valuation method. Where current value is used, the assets have been further broken down into the year of the last valuation under the Council's 5-year rolling programme of revaluation.

	Operational Assets					**Non Operational Land**	**Total**
	Council Dwellings	**Other Land and Buildings**	**Comm. Assets**	**Infra-structure**	**Vehicles Plant & Equip**		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Valued at historical cost			5.235	57.191	8.739	2.857	74.022
Valued at current value in:	-	-				-	-
2008/09	104.655	71.579	-	-	-	12.206	188.440
2007/08	184.371	42.463	-	-	-	8.728	235.562
2006/07	327.613	37.658	-	-	-	0.996	366.267
2005/06	-	40.631	-	-	-	0.737	41.368
2004/05 or prior	0.017	73.435	-	-	-	13.118	86.570
	616.656	**265.766**	**5.235**	**57.191**	**8.739**	**38.642**	**992.229**

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Note 30. Ownership of Net Assets

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

31st March 2008 (as restated) £m	Net Assets	31st March 2009 £m
131.518	General Fund	(37.796)
579.500	Housing Revenue Account	557.757
(0.265)	Trading Activities	0.070
710.753	**Total Net Assets**	**520.031**

The decrease in General Fund net assets is mainly due to the £98.450m increase in pension liability.

Note 31. Information on Fixed Assets Held

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

	2008	2009		2008	2009
Council Dwellings	17,173	17,093	Early Years Excellence Centre	1	1
Sheltered Housing Units	1,201	1,201	Sports Stadiums	2	2
Garages	2,727	2,727	Children's Homes	4	4
Town Hall & Civic Offices	14	13	Family Centres	2	3
Homes for the Elderly	5	5	Day/Social Centres	16	13
Leisure Centre/Pools	2	2	Surestart Facilities	5	5
Museums/Galleries	2	2	Child Protection Unit	1	1
Depots	1	1	Special Placement Unit	2	2
Parks	14	14	Market	1	1
Crematorium & Cemeteries	7	7	Industrial Estates	11	11
Libraries	8	8	Managed Workshops	3	3
Schools	49	49	Shops	185	193
Youth & Community Centres	28	28			

The Council holds community assets consisting of 14 general parks, 6 Cemeteries and a number of art sculptures which are included above. These assets are valued at depreciated historical cost and those that were gifted to the Council appear at nil value in the accounts. The Council is also responsible for the management of 3 industrial estates on behalf of the Tyne & Wear Development Company.

The Council has reviewed its position as regards ‘substance over form’ for the school portfolio and has concluded that it need not report the values of any that it does not legally own. As a result the fixed asset analysis excludes the following types of schools which, whilst funded by the Council, are not in Council ownership.

- 13 Roman Catholic
- 6 Church of England
- 1 operated under a PFI arrangement

Note 32. Assets Recognised under a PFI Arrangement

The Council has concluded that only the prepayment and residual interest of its PFI arrangements require to be recognised so nothing is recorded in the Fixed Asset portfolio. Land at the Boldon School site remains in Council ownership and its value is recorded accordingly.

Note 33. Valuation Information

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

The valuations have been made in accordance with the Statements of Valuation Practice and Guidance Notes issued by the Asset Valuation Standards Committee of the Royal Institution of Chartered Surveyors so far as these are consistent with the stated and agreed requirements.

In the case of **operational assets of a specialised nature**, that is those properties rarely, if ever, sold on the open market in their existing use, the valuation method applied is the Depreciated Replacement Cost (DRC) of the property. The DRC basis of valuation requires an estimate of the value of the land in its existing use together with the current gross replacement costs of the building and its external works from which appropriate deductions have been made to reflect age and condition.

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

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

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

Where assets have been valued other than at historical cost the date of the valuation is **1st April 2008**. The total revaluation for 2008/09 increased asset values by £28.461m (£60.993m increase in 2007/08) prior to any impairment review. All assets are revalued as part of a five year rolling programme.

Note 34. Depreciation and Impairment

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

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

- A straight-line method of depreciation has been adopted based on the expected remaining useful life. For buildings (including dwellings) and infrastructure, this is usually forty years, for equipment and vehicles, five years and for community assets 20 years.

£29.578m depreciation has been charged to the Income and Expenditure Account for 2008/09 (£18.366m in 2007/08).

The valuations reflect all known impairments. Impairment occurs due to economic, functional and environmental obsolescence and other locational factors that might result in the existing property being worth less than its current net book value.

The current economic climate has had a material effect on the value of assets held by all councils, particularly during the latter part of the financial year. The Council has assessed the impact of the economic downturn on each category of asset the Council holds, taking into account the valuation method, national market valuation data and local market conditions and evidence. The outcome of this assessment is that the majority of asset categories have been impaired. The most significant revaluation impairment has been 10% on Council dwellings. The total impairment charge for 2008/09 is £115.101m (£14.951m in 2007/08). In 2008/09 the revaluation impairment has been charged to the Revaluation Reserve if a previous revaluation gain existed for the asset. Where no revaluation gain existed, the impairment has been charged to Income and Expenditure.

Note 35. Capital Finance

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

2007/08 £m		2008/09 £m
194.454	**Opening Capital Financing Requirement**	209.409
-	**Adjustment for Property Finance Leases**	0.775
	Capital Investment	
0.728	Intangible Assets	1.194
29.486	Operational Assets	54.160
7.445	Non Operational Assets	4.227
16.674	Revenue Expenditure Funded from Capital under Statute	28.980
54.333	**Total Capital Investment**	**88.561**
	Sources of Finance	
(10.308)	Capital Receipts	(5.118)
(12.847)	Government Grants and other Contributions	(29.351)
(11.028)	Housing Revenue Account Sums Set Aside from Revenue	(3.419)
(5.195)	General Fund Sums Set Aside from Revenue	(6.788)
(39.378)	**Total Finance Used**	**(44.676)**
14.955	**Movement in Capital Financing Requirement**	**44.660**
209.409	**Closing Capital Financing Requirement**	**254.069**
	Explanation of Movement in Year	
5.892	Increase in underlying need to borrow (supported by Government Financial Assistance)	24.778
9.063	Increase in underlying need to borrow (unsupported by Government Financial Assistance)	19.882
14.955	**Increase / (Decrease) in Capital Financing Requirement**	**44.660**

Section 6 – Notes to the Core Financial Statements

Note 36. Significant Items of Capital Expenditure

The total expenditure on the capital programme was £88.561m (£54.299m in 2007/08). The most significant items during 2008/09, excluding planned maintenance, are shown in the following table.

	£m
School asset conditioning works	0.984
Schools Devolved Capital Spending	1.468
Building Schools for the Future	14.978
Whitburn School	1.484
Holy Trinity School	0.640
Redundancy Payments	1.308
Regeneration of the Borough	1.705
South Shields Registry Office	0.749
Customer Service Strategy	0.540
Cleadon Park Regeneration	1.051
Housing Grants	1.143
Coastal Protection Initiatives	1.710
Disabled Facilities in Private Housing	1.174
Transport and highways maintenance	3.875
Streetscape replacement vehicles	0.855
South Marine Park	2.862

Note 37. Capital Commitments

Details of commitments over £0.5m under capital contracts as at 31st March 2009:

	£m
Acquisitions for Regeneration of the Borough	1.750
Cleadon Park Community Facilities	0.502
Whitburn School Contribution	1.521

Note 38. Revenue Expenditure Funded from Capital under Statute

Certain expenditure incurred by Local Authorities does not fall within the Code of Practice definition of fixed assets but is classified as expenditure for capital purposes with respect to capital controls. The charges primarily relate to Equal Pay Compensation, redundancy payments, expenditure on third party assets, for example Church owned schools and Housing grants. The total of revenue expenditure funded from capital for the year £28.980m (£16.932m in 2007/08) has been amortised to the Income and Expenditure Account.

Note 39. Long-term Investments

31st March 2008 £m	Long Term Investments	31st March 2009 £m
6.767	Newcastle Airport Local Authority Holding Company Limited and Inspired Spaces	0.807
-	Investments more than 1 year	10.000
0.009	Government Securities and other Investments	0.010
6.776	**Total Long Term Investments**	**10.817**

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Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer the Council received £3.306m worth of shares.

On 4th May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51% owned by LA7. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. South Tyneside Council has a shareholding of 990 shares representing a 9.9% interest in the company. The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (9.9% of 51%) was £6.766m. The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the Council will receive £2.4m over the 10 years.

The valuation of NIAL Holdings Limited is reviewed annually. South Tyneside's holding in 2008/09 has been valued at £0.807m as a result of the economic downturn. The revaluation impairment of £5.960m has been charged to Income and Expenditure account.

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

The principal activity of Newcastle International Airport Ltd (Registered No 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year.

Dividends paid for year-end 31st December 2008 amounted to nil. A revised dividend payable for year ended 31st December 2007 is £2.171m. South Tyneside Council's share of this dividend was £0.110m.

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Ltd made a profit before tax of £2.357m and a loss after tax of £10.227m for the year ended 31st December 2008 (loss before tax of £0.605m and profit after tax of £2.171m for the year ended 31st December 2007).

A request for a copy of NIAL Group Limited accounts should be made in writing to Head of Finance, South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

On 21st December 2007 the procurement of STaG's private sector partner to delivery the £175m BSF and £21m ICT programme reached financial close. This created the unique public/private partnership, known as InspiredSpaces STaG Ltd, between Carillion (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside Council (5% shareholding). The cost of the 5% equity investment for South Tyneside was £500 and has been included in Long-term Investments.

The Council has deposits of £10.000m with banks and building societies that mature in more than one year. The Council also hold deposits that mature in less than one year which are disclosed in Note 44.

Note 40. Airport Loan Notes

As part payment for the sale of a stake in Newcastle Airport, the Council will receive £0.240m per annum in the form of Loan Notes over the next four years.

Note 41. Other Long-term Debtors

An analysis of our other long-term debtors:

	At 1st April 2008 £m	Expenditure During Year £m	Repaid, Impaired or Written Off During Year £m	At 31st March 2009 £m
Assisted Vehicle Purchase	0.144	0.108	(0.092)	0.160
Social Care and Health Fees	0.559	0.281	(0.356)	0.484
Housing Advances (including Council Housing)	0.120	-	(0.051)	0.069
Boldon School PFI Residual Interest	1.255	0.886		2.141
Boldon School PFI Prepayment	6.754		(0.286)	6.468
Street Lighting Residual Interest	0.701	0.337	-	1.038
Street Lighting Prepayment	2.533		(0.111)	2.422
Total Other Long Term Debtors	**12.066**	**1.612**	**(0.896)**	**12.782**

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

In certain instances the only asset belonging to a client requiring social care is their property. Where the value of this property exceeds certain thresholds, the Council can take a charge against it in lieu of invoicing for the services provided. The Council recovers its monies only once the client has left care and the property concerned has been sold. No interest is charged on the outstanding balance.

The Council used to provide a mortgage service relating to tenants that wished to purchase their homes through the Right to Buy. The Housing advances represent the outstanding sums due to the Council from this activity. Interest is chargeable based on the base rates on the date of the Accounts.

As part of the street lighting PFI, the Council is making annual prepayments in respect of the value of the lighting stock that will transfer back to Council ownership at the end of the contract. The Council transferred lighting stock as part of the contract, this is being written out of the accounts over the life of the contract.

As part of the Boldon School PFI, the Council is making annual prepayments in respect of the value of the school that will transfer back to Council ownership at the end of the contract. The Council transferred land for housing development as part of the PFI contract, which has effectively reduced future unitary payments under the contract. This is recognised in the statement of accounts as a deferred consideration, which is released over the life of the contract.

Note 42. Stock and Work in Progress

An analysis of our stock balances is shown below. The Council has no material work in progress:

31st March 2008 £m	Stock	31st March 2009 £m
0.350	Home Loan Equipment Centre	0.326
0.073	Catering Service	0.106
0.077	Other Stock	0.130
0.500	**Total Stock**	**0.562**

Note 43. Debtors

An analysis of all debtors is shown below:

31st March 2008 £m		31st March 2009 £m
	Amounts Falling Due in One Year	
8.362	Government Bodies	8.952
0.726	Other Local Authorities	1.303
3.164	Housing Tenants	3.124
4.113	Council Tax Payers	4.558
0.981	National Non-Domestic Rate Payers	1.191
3.947	South Tyneside Homes Limited	2.139
11.631	Sundry Debtors	12.179
32.924	**Total Amounts Falling Due in One Year**	**33.446**
	Provisions for Bad debts	
(2.052)	Housing Rents	(2.045)
(1.308)	Council Tax	(1.804)
(0.549)	National Non-Domestic Rates	(0.397)
(2.642)	All Other Debtors	(1.996)
(6.551)	**Total Bad Debt Provisions**	**(6.242)**
26.373	**Net Debtors**	**27.204**

31st March 2008 £m	Debts Written Off During the Year	31st March 2009 £m
	Amounts Written Off During the Year	
0.401	Housing Rents	0.416
0.140	Council Tax (excluding costs and write ons)	0.146
0.336	National Non-Domestic Rates	0.480
0.383	All Other Debtors	0.281
1.260	**Total Amounts Written Off During the Year**	**1.323**

Section 6 – Notes to the Core Financial Statements

Note 44. Management of Liquid Resources

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

	As at 1st April 2008	As at 31st March 2009	Movement in Year
Short Term Investments	85.202	36.217	(48.985)

Liquid resources represent short-term lending by the Council to banks and other financial institutions. The Council also has £10.000m deposits with banks and other financial institutions that are repayable in more than one year. These are disclosed in long-term investments (see Note 39).

Note 45. Increase / (Decrease) in Cash

	As at 1st April 2008	Movement in Year	As at 31st March 2009
Cash in Hand and at Bank	9.137	13.540	22.677
Bank Overdraft	(0.805)	0.005	(0.800)
Net Cash and Bank Position	**8.332**	**13.545**	**21.877**

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

Note 46. Creditors

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

31st March 2008 £m		31st March 2009 £m
(15.520)	Government Bodies	(28.653)
(0.854)	Other Local Authorities	(0.843)
(0.616)	Housing Tenants	(0.645)
(0.730)	Council Tax Payers	(0.949)
(0.766)	National Non-Domestic Rates	(0.366)
(4.788)	South Tyneside Homes Limited	(5.536)
(19.607)	All Other Creditors	(29.705)
(42.881)	**Total Creditors**	**(66.697)**

Note 47. Long-term Borrowing

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

	Percentage Range of Interest Rate Payable	Amounts Outstanding 31st March 2008	31st March 2009
	%	£m	£m
Public Works Loan Board	2.100 - 9.375	(216.864)	(207.128)
Market Loans	2.99 - 9.50	(10.174)	(10.239)
Total Long Term Borrowing		**(227.038)**	**(217.367)**

An analysis of these loans by maturity is:

31st March 2008 £m		31st March 2009 £m
-	1 - 2 years	(4.000)
(5.000)	2 - 5 years	(31.800)
(56.800)	5 - 10 years	(57.000)
(165.238)	Over 10 years	(124.567)
(227.038)	**Total Long Term Borrowing**	**(217.367)**

Borrowing falling due within one year is:

	Amounts Outstanding 31st March 2008 £m	31st March 2009 £m
Public Works Loan Board	-	(4.851)
Market Loans	-	(0.062)
Finance Leases	-	(0.045)
Total Borrowing repayable in 12 months	**-**	**(4.958)**

This includes accrued interest as well as borrowing with maturity dates.

Note 48. Deferred Liabilities

The following table summarises the Council's deferred liabilities:

31st March 2008 £m		31st March 2009 £m
(3.294)	Secondary School Capital Financing	-
(1.200)	Newcastle Airport Loan Notes	(0.960)
(0.019)	Outstanding Finance Lease	(0.724)
(4.513)	**Total Deferred Liabilities**	**(1.684)**

Secondary School Capital Financing represents capital grants retained by the Council due to be released as part of its Building Schools for the Future programme. The balance has been transferred to creditors in 2008/09 pending its application to the capital programme.

The Newcastle Airport Loan Notes are an amount set aside in lieu of the loan notes described in note 40 being repaid.

The outstanding finance lease relates to principal outstanding in relation to a refuse collection vehicle and 2 long-term property lease agreements. The property leases for Landreth House and premises on Charlotte Terrace are included for the first time in the outstanding value as at 31st March 2009.

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

Section 6 – Notes to the Core Financial Statements

Note 49. Deferred Credits

The opening balance of £0.109m related to the outstanding balance of mortgages granted by the Council for the sale of Council Houses. The full amount was taken to the Income and Expenditure Account during the year in line with SORP guidance.

Note 50. Financial instruments disclosure

Since 2007/08, Local Authorities have had to provide more extensive disclosure on financial instruments. The notes that follow are intended to provide higher quality information on financial instruments to help 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.

Amortised Cost

Most financial instruments (whether borrowing or investment) have to be valued at "amortised cost" using the effective interest rate method.

Fair Value

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

Financial instruments shown on the balance sheet need to be further analysed into various defined categories. The investment, lending and borrowing disclosed in the balance sheet are made up of the following categories of "financial instruments":

Financial Instrument Balances	**LONG- TERM** 31st March 2008	31st March 2009	**CURRENT** 31st March 2008	31st March 2009	**TOTAL** 31st March 2008	31st March 2009
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Financial liabilities at amortised cost	(227.038)	(217.367)	-	(4.913)	(227.038)	(222.280)
Financial liabilities at fair value through Income and Expenditure	-	-	-	-	-	-
Total Financial Liabilities	**(227.038)**	**(217.367)**	**-**	**(4.913)**	**(227.038)**	**(222.280)**
Loans and receivables	-	10.720	85.202	36.457	85.202	47.177
Available for sale financial assets	0.009	0.009	-	-	0.009	0.009
Unquoted equity investment (Newcastle Airport and InspiredSpaces	6.767	0.808	-	-	6.767	0.808
Financial assets at fair value through Income and Expenditure	-	-	-	-	-	-
Total Financial Assets	**6.776**	**11.537**	**85.202**	**36.457**	**91.978**	**47.994**

The financial liabilities and assets are disclosed in the table above as current (due within 12 months) or long-term (over 12 months). In 2007/08 our financial liabilities were not split between long-term and short-term liabilities. The 2007/08 long-term financial liability balance included accrued interest of £0.736m. In 2008/09, we have reflected interest accrued of

£0.851m in short-term liabilities to provide consistency in our disclosure of assets and liabilities.

Lending Option Borrowing Option of £5.000m have been included in long-term liabilities which have a call date within 12 months. This is in line with SORP guidance.

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

2007/08		**2008/09**				
		Financial Liabilities	**Financial Assets**			
TOTAL		**Liabilities measured at amortised cost**	**Loans and receivables**	**Available for sale assets**	**Fair Value through I&E**	**TOTAL**
£m		**£m**	**£m**	**£m**	**£m**	**£m**
12.613	Interest expense	13.269	-	-	-	13.269
-	Losses on derecognition	0.643		-	-	0.643
0.984	Impairment losses	-	0.638	-	-	0.638
13.597	**Interest payable and similar charges**	**13.912**	**0.638**	**-**	**-**	**14.550**
(6.259)	Interest income	-	(5.582)	-	-	(5.582)
-	Gains on derecognition	(0.652)		-	-	(0.652)
(6.259)	**Interest and investment income**	**(0.652)**	**(5.582)**	**-**	**-**	**(6.234)**
(3.385)	Gains on revaluation	-	-	-	-	-
-	Losses on revaluation	-	-	-	-	-
	Amounts recycled to the I&E Account after impairment		-	-	-	-
(3.385)	**(Surplus)/deficit arising on revaluation of financial assets**	**-**	**-**	**-**	**-**	**-**
3.953	**Net (gain)/loss for the year for I&E**	**13.260**	**(4.944)**	**-**	**-**	**8.315**

This table reflects the impact on the I&E. Net discounts and premiums of £0.009m have been charged to I&E in 2008/09. The actual charge to General Fund for these discounts and premiums is £0.001m.

Fair Value of Assets and Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities, which are carried in the balance sheet at amortised cost, is disclosed in the following table. There is also no fair value disclosure for items where the carrying amount is a fair approximation of fair value such as short-term trade receivables and payables and cash and bank.

Methods and Assumptions in valuation technique

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

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin, which represents the lender's profit as a result of rescheduling the loan. This is not included in the fair value calculation since any motivation other than securing a fair price should be ignored.

Our treasury management consultants obtained the rates quoted in this valuation from the market on 31st March 2009, using bid prices where applicable.

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per rate sheet number 072/09
- For other market debt and investments the discount rate used is the rates available for an instrument with the same terms from a comparable lender.
- We have used interpolation techniques between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- We have calculated fair values for all instruments in the portfolio, but only disclose those which are materially different from the carrying value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values for assets and liabilities where there is a material difference from the carrying value are:

	31 March 2008		31 March 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
PWLB - maturity	(216.864)	(236.199)	(211.980)	(235.384)
Lenders Option Borrower's Option (LOBO)	(10.174)	(10.979)	(10.300)	(12.897)
Financial Liabilities	**(227.038)**	**(247.178)**	**(222.280)**	**(248.280)**

	31 March 2008		31 March 2009	
	Carrying amount restated	Fair value restated	Carrying amount	Fair value
	£m	£m	£m	£m
Deposits with banks and building societies	85.202	85.245	46.217	36.612
Financial Assets	**85.202**	**85.245**	**46.217**	**36.612**

The fair value is lower 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 Council also has an investment in Newcastle Airport that is an equity instrument that does not have a quoted market price. This is carried in the balance sheet at £0.807m (£6.767m in 2007/08) following a revaluation in the year (see note 39 for further information). The Council has no plans to dispose of this investment in the near future.

Section 6 – Notes to the Core Financial Statements

Nature and Extent of Risks Arising from Financial Instruments

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 the Pensions Service has on the economic environment and other market related risks. The Council has fully adopted CIPFA's Treasury Management Code of Practice. In particular, it has set up twelve treasury management practices covering all areas of treasury management. 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 CLG, issues on 12th March 2004.

A copy of the Council's Treasury Management Strategy can be found on the SouthTyneside website at the following reference:

http://www.southtyneside.info/councillorsandcommittees/committeemeeting.aspx?committeeid=511&meetingid=1436&periodid=16

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

Credit risk	The possibility that other parties might fail to pay amounts due to the Council.
Liquidity risk	The possibility that the Council might not have the funds available to meet its commitments to make payments.
Market risk	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. The Council also has a policy of limiting deposits with institutions to a maximum of £15.000m and a separate limit of £5.000m is also applied to overnight deposits made by the Tyne and Wear Pension Fund.

The number of institutions to which the Council is prepared to lend its surplus balances to, has been significantly reduced during the year following a "stress testing" of our lending list. This is in response to the deterioration in the financial stability of some financial institutions as well as the uncertain economic environment. The level of invested surplus balances has reduced from £85m to £46m to reduce our risk in this area.

As at 31st March 2009, the Council has limited its lending list to those UK institutions covered by the UK government support scheme. In addition, deposits may also be made with the other local authorities, AAA Money Market Funds, and The Debt Management Account Deposit

Facility. The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties. The Council does not have any deposits frozen with Icelandic Banks.

There has never been any default on the repayment of Housing Advances or Airport Loan Notes. The majority of the assisted vehicle scheme debt could be recovered from final staff salaries so represent negligible risk. Social Care and Health fees are secured against the client property.

Credit Risk of Financial Assets	**Amount at 31 March 2009**	**Historical experience of default**	**Historical experience adjusted for market conditions at 31 March 2009**	**Estimated maximum exposure to default and uncollectablility 31 March 2009**	**Estimated maximum exposure to default and uncollectablility 31 March 2008**
	£m	**%**	**%**	**£m**	**£m**
	A	B	C	A x C	
Deposits with banks and other financial institutions	46.217	0%	0%	-	-
Customers	26.898	3%	3%	0.807	0.791
Airport Loan Notes	0.960	0%	0%	-	-
Assisted vehicle scheme	0.160	0%	0%	-	-
Housing Advances	0.069	0%	0%	-	-
Social Care and Health Fees	0.484	0%	0%	-	-
	74.788			**0.807**	**0.791**

Impairment

The Council has impaired its financial assets by a total of £6.242m and this impairment is included in the reported financial asset figures.

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

- A separate review for each class of customer such that Housing Rents, Housing Benefits overpaid, Council Tax and NNDR have all been separately reviewed.
- For sundry debtors raised at 31st March but not yet paid, an impairment review has been made both against individual or client balances and then for debt type.
- There has been no impairment of accrued debt.
- Impairment factors taken into consideration include the age of debt, past experience of recoverability and in the case of NNDR and Council Tax whether legal proceedings have been initiated.

Collateral

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

Whilst payment for other asset types is not yet due, the Council does not generally allow credit for customers. £24.031m of the £26.898m 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 31 March 2009 £m	Customers 31 March 2008 £m
Less than three months	18.707	18.957
Three to six months	1.029	1.314
Six months to one year	1.544	1.663
More than one year	2.751	2.394
	24.031	**24.328**

Liquidity Risk

The Council has access to a facility to borrow from the Public Works Loans Board. As a result there is no significant risk that the Council will be unable to raise finance to meets its commitments under financial instruments. 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 not more than 40% of loans are due to mature within any financial year and 75% within any rolling five-year period through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments.

The maturity structure of financial liabilities is as follows:

31st March 2008 (as restated) £m	Loans outstanding	31st March 2009 £m
(216.864)	Public Works Loans Board	(211.979)
(10.174)	Market Debt	(10.301)
(227.038)	**Total**	**(222.280)**
(0.736)	Less than 1 year	(4.913)
-	Between 1 and 2 years	(4.000)
(5.000)	Between 2 and 5 years	(31.800)
(56.800)	Between 5 and 10 years	(57.000)
(164.502)	More than 10 years	(124.567)
(227.038)	**Total**	**(222.280)**

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest rate risk

The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid/received on variable rate instruments, and the second being the 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 credited to the Income and Expenditure Account.

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

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

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

The Council has a number of strategies for managing interest rate risk. 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 ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

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

According to this assessment strategy, at 31st March 2009, if interest rates had been 1% higher with all other variables held constant, the financial effect would be as shown in the following table:

2007/08	Interest Rate Risk	2008/09 £m
2.293	Increase in interest payable on variable rate borrowings	2.211
(1.044)	Increase in interest receivable on variable rate investments	(1.047)
(0.312)	Increase in Government grant receivable for financing costs	(0.291)
0.937	**Impact on Income and Expenditure Account**	**0.873**
0.870	**Share of overall impact debited to HRA**	**0.946**
-	Decrease in fair value of 'available for sale' fixed rate investment assets	-
1.494	**Impact on Statement of Total Recognised Gains and Losses (STRGL)**	**1.528**
(0.431)	Decrease in fair value of fixed rate investment assets (no impact on I&E account or STRGL)	(0.289)
(30.339)	Decrease in fair value of fixed rate borrowings liabilities (no impact on I&E account or STRGL)	(24.784)

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 £0.807m in Newcastle Airport (£6.767m in 2007/08). 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. The £0.807m shares are all classified as 'available for sale', meaning that all movements in price will impact on gains and losses recognised in the STRGL. The impact of the 2008/09 valuation can been seen in the STRGL in 2008/09.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus no exposure to loss arising from movements in exchange rates.

Note 51. Provisions

	Balance 1st April 2008 £m	Incease During Year £m	Applied During Year £m	Balance 31st March 2009 £m
Insurances	(1.434)	(1.984)	1.378	(2.040)
Landfill Liability	(0.226)	-	0.226	-
Car Parking VAT	-	(0.517)	-	(0.517)
Pay Settlements (including Equal Pay)	(25.380)	(17.451)	25.380	(17.451)
Total Provisions	**(27.040)**	**(19.952)**	**26.984**	**(20.008)**

The Council maintains an insurances provision to meet any excess payments applying to claims on liability or fire insurance and to self-fund against losses where this is more economical than procuring from the market. The provision balance is based on the estimated costs for open and accepted claims at the end of the financial year. As at 31st March 2009, the Council faced outstanding claims of £2.040m. Based on our past history of claims we expect £1.060m to be settled in 2009/10, £0.588m to be settled in 2010/11 and £0.392m to be settled in future years. The fund's financial position is reviewed annually in the light of settled claims and on the basis of the external insurer's assessment of the cost.

The Council is involved in the local authority trading scheme (LATS) in respect of waste disposal at landfill. The current scheme of LATS ended in March 2009 so provisions have been released and any remaining LATS written-off.

The Council is facing significant liabilities in relation to Equal Pay and Equal Value claims, which are reflected in the pay settlement provision. It is anticipated that most liabilities will be settled in 2009/10. The Council implemented a revised pay structure through Job Evaluation in 2008/09. The Council are now undertaking an appeals process for the outcome of the Job Evaluation review. A provision of £1.1m has been included for the potential back pay costs from the appeal.

The Council is in litigation with HMRC over whether VAT should be declared on off street parking income. A provision has been set up pending further legal rulings.

Note 52. Net Worth

The net worth of the Council at the balance sheet date stands at £520.031m (2007/08 £710.753m restated), a reduction of £191m on the previous year. The Statement of Total Recognised Gains and Losses analyses this reduction in terms of surplus or deficit on the Income and Expenditure Account and Collection Fund Account, together with the revaluation of assets or liabilities.

	31st March 2008	Contributions (to)/from reserves	Transfers between reserves	31st March 2009	Purpose of Reserve	Further Detail of Movements
	£m	£m	£m	£m		
Fixed Assets Revaluation Reserve	(80.720)	(23.478)	2.195	(102.003)	Store of gains on revaluation of fixed assets not yet realised through sales	See note 53
Capital Adjustment Account	(726.259)	129.027	(10.802)	(608.034)	Store of capital resources set aside to meet past expenditure and losses on revaluation not met from the Fixed Asset Revaluation Reserve	See note 54
Usable Capital Receipts Reserve	(1.182)	(6.427)	5.069	(2.540)	Proceeds of fixed asset sales available to meet future expenditure	See note 55
Deferred Capital Receipts Reserve	-	(0.110)	0.049	(0.061)	Outstanding balance of mortgages granted by the Council for the sale of Council houses	
Unequal Back Pay Account	13.796	(6.230)	-	7.566	Balancing account to allow recognition of costs only in the year that they are paid	See Foreword to accounts
Pension Reserves	133.020	98.450	-	231.470	Balancing account to allow inclusion of Pension Liability in the Balance Sheet	See note 26
Housing Major Repairs Reserve	(0.082)	(12.266)	3.489	(8.859)	Resources available to meet capital investment in Council Housing	See HRA note 11
Financial Instruments Adjustment Account	(0.792)	0.039	-	(0.753)	Balancing account to allow for differences in statutory requirements and proper accounting practice for borrowings and investments	See note 50
Available for Sale Financial Instruments Reserve	(6.767)	5.960	-	(0.807)	Store of gains on revaluation of Airport shares not yet realised through sales	See note 39 & 50
Earmarked Reserves	(37.000)	5.788	-	(31.212)	Resources set aside to support specific future cost pressures	See note 56
Collection Fund	0.025	0.089	-	0.114	Balance available to support future Council Tax	See Collection Fund
General Fund Balances	(0.917)	(0.251)	-	(1.168)	Resources available to meet future running costs of non HRA services	See SMGFB
Housing Revenue Account Balances	(3.875)	0.131	-	(3.744)	Resources available to meet future running costs of HRA services	See HRA
Total Net Worth	**(710.753)**	**190.722**	**(0.000)**	**(520.031)**		

Note 53. Fixed Asset Revaluation Reserve

The purpose of the reserve is to record the gains on revaluation of fixed assets that have not yet been realised through the disposal of the asset.

	£m
Balance as at 1st April 2008	**(80.720)**
Defect or (Surplus) arising on Revaluation of Fixed Assets	(23.478)
Adjustments with Capital Adjustment Account	2.195
Balance as at 31st March 2009	**(102.003)**

Note 54. Capital Adjustment Account

The capital adjustment account reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

	£m
Balance as at 1st April 2008	**(726.259)**
Disposal of fixed assets	7.743
Reversal of Charges made to the Income & Expenditure Account	127.928
Adjustments with Revaluation Reserve	(2.195)
Other Movements	(15.251)
Balance as at 31st March 2009	**(608.034)**

Note 55. Usable Capital Receipts Reserve

The Useable Capital Receipts Reserve is the earmarked element of income from the disposal of assets available to be spent on capital projects.

	£m
Balance as at 1st April 2008	**(1.182)**
Net receipts in year	(6.476)
Applied to support capital spending in year	5.118
Balance as at 31st March 2009	**(2.540)**

Note 56. Earmarked Reserves

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 following table lists our Earmarked reserve balances at the start and the end of the 2008/09 financial year.

	31st March 2008	Transfers between Reserves	Contribution (to)/from Reserves	31st March 2009
	£m	£m	£m	£m
Strategic Reserve	(2.872)	-	-	(2.872)
School Balances	(6.160)	(0.110)	(0.517)	(6.787)
Structural Change Reserve	(1.850)	-	0.176	(1.674)
Maintenance Fund	(1.383)	-	(0.007)	(1.390)
Insurance Reserve	(4.063)	-	0.300	(3.763)
Corporate Strategic Financial Risk Reserve	(3.481)	0.221	0.307	(2.953)
Private Finance Initiative	(2.573)	(0.309)	(0.960)	(3.842)
Partnership Working	(0.256)	-	0.032	(0.224)
Grant Clawback	(0.160)	-	-	(0.160)
Retained Income	(0.598)	-	0.520	(0.078)
Other Reserves	(13.604)	0.198	5.937	(7.469)
Total Earmarked Reserves	**(37.000)**	**-**	**5.788**	**(31.212)**

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

Strategic Reserve

This reserve covers emergency events such as unforeseen financial liabilities or natural disasters without destabilising the budget in the short-term. This reserve is held 2% of the Council's net revenue budget (after netting off Area Based Grant). This is felt to be an appropriate level as separate earmarked reserves are created for identified risks.

School Balances

This amount represents the cumulative net unspent element of school budget shares, which, in accordance with Government legislation, must be carried forward into the following financial year. The balances include schools capital grant funding (Devolved Formula Capital) awarded but unspent which can be carried forward to future years. Higher capital balances have been carried forward to 2008/09 than previous years, which has resulted in school balances increasing at 31st March 2009. The balances are committed to be spent on education.

Section 6 – Notes to the Core Financial Statements

Structural Change/Invest to Save

This reserve was created in 2006/07 to provide resources to manage the revenue cost of achieving structural changes facing the Council. These structural changes are required to ensure that the Council has sufficient funds to achieve its priorities. Some change proposals approved by the Council may require significant up-front investment to ensure that they are carried out in an effective, planned way. The fund has also been used to finance "invest to save" projects. Invest to save proposals are approved with a repayment period (usually of 3 years) to ensure that this fund is replenished for future projects.

Maintenance Fund

Reserve to cover any revenue liabilities arising from assets transferred to the Council after the Tyne and Wear Urban Development Corporation was wound up. Interest is earned on the reserve and used to meet costs during the year. Any surplus is transferred back to the reserve.

Insurance Reserve

Insurance reserve balance represents funding to pay for future claims over and above the known claims for which we have made provision. The Council maintains reserves to meet excess payments for claims on Liability or Fire insurance and to self-fund against losses where this is more economical than procuring from the market. The key self-funded insurance areas are industrial diseases relating to pre 1974 loss or damage to equipment.

Corporate Strategic Financial Risk Reserve

To cover 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. The scope of this reserve has been extended from 2009/10 to cover the budget risks from the economic downturn as well as from demand led budgets.

Private Finance Initiative

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

Equal Pay and Job Evaluation

To finance the revenue cost of fighting and settling potential equal pay claims and the implementation cost of Job Evaluation. Significant drawdowns have been made in 2008/09 for settlements reached in these areas.

Other reserves

Amounts set aside for specific expenditure commitments within Directorates.

Note 57. Reserves and Balances held by Schools under Delegated Schemes

As at 31st March 2009, the Council was holding £6.787m school balances (£6.160m at 31st March 2008). Included within this total are the unspent balances held by individual schools, unspent contingencies from the Individual School Budget and school related earmarked reserves. Offset against these balances are school debtors and the prior year costs of the backdated job evaluation structure that was implemented on 1st September 2008.

Section 6 – Notes to the Core Financial Statements

Note 58. Trust Funds

The Council acts as sole trustee for legacies left by inhabitants of the Borough, the value of which at 31st March 2009 was £0.722m (£0.690m in 2008/09).

The largest of these legacies is the Westoe Trust that has investments worth £0.359m as at 31st March 2009 (£0.352m in 2007/08). As agreed with the Charity Commission, the income generated from this Trust's investments is used to benefit schools and promote the education of individuals in South Tyneside in a manner not normally provided by the Council.

The Marine Park Trust represents monies received from the sale of property in the park grounds. This must be invested in perpetuity with any interest earned being spent on improvements to the park. As well as these 2 major trust funds there are 25 other much smaller trust funds that are held by the Council and are there to provide a wide variety of assistance.

Trust Funds	**Balance 1st April 2008**	**Amount Received During Year**	**Amount Applied During Year**	**Balance 31st March 2009**
	£m	**£m**	**£m**	**£m**
Westoe Trust	(0.352)	(0.019)	0.011	(0.359)
Marine Park Trust	(0.174)	(0.009)	-	(0.183)
Other Trust Funds	(0.164)	(0.026)	0.010	(0.180)
Total Provisions	**(0.690)**	**(0.054)**	**0.022**	**(0.722)**

Trust Fund assets are invested in the Council's Consolidated Loans Pool and Government Stock. The following table shows the split of these assets:

Trust Funds	**Government Stock Investments**	**Invested in Council Funds**	**Total**
	£m	**£m**	**£m**
Westoe Trust	-	0.359	0.359
Marine Park Trust	-	0.183	0.183
Other Trust Funds	0.025	0.155	0.180
Total as at 31 March 2008	**0.025**	**0.697**	**0.722**

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

Note 59. Contingent Assets

The Council has appointed consultants to pursue a claim with HMRC in relation to overpaid VAT. The Council is looking to recoup 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. If all claims were settled the Council would be entitled to £0.569m plus interest. The consultant would be entitled to 10% of any sum recovered. The claims are subject to the interpretation of certain legal rulings and as of the date of publication of these accounts we have had no confirmation from HMRC that they agree with our claims. Given this uncertainty the Council has not incorporated any potential asset into its closing Balance Sheet.

Under equal pay legislation, the Council made payment of duties to HMRC during 2007/08. Payment of duties was based on our own estimate of liabilities, with no agreement from HMRC on the exact amount payable. In July 2008, HMRC agreed a process with the Council for calculating duties; with an acknowledgement that prior year payments could be recalculated. The recalculation of duties paid in 2007/08 would result in an estimated overpayment of £3.0m.

At present, duties relating to 2008/09 have not been paid to HMRC and are included as part of the Government Creditors balance within these accounts. This amount, together with duties falling due in 2009/10, would exceed the overpayment of £3.0m. The Council is therefore in negotiations with HMRC with regard to offsetting the overpaid amount with current and future liabilities. As there is no certainty that HMRC will agree to this proposal, no income has been taken through the Income and Expenditure Account.

Note 60. 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 2009, the Actuary assessed the deficit at £25.230m (£9.420m restated in 2007/08). 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 crystallise, therefore, in such a case, there is no possibility of reimbursement from the other member organisations of the Tyne and Wear Pension Fund.

Since the 31st March, the Council has lost a legal case in respect of equal pay claims submitted by some of its employees. The Council is appealing against this legal ruling (due to be heard in April 2010). If the Council is unsuccessful in its appeal, it will incur an additional liability.

Note 61. Post Balance Sheet Events

Events since the balance sheet date have been reflected in the statement of accounts and can be found in the relevant notes to the accounts.

Note 62. Reconciliation of Movement in Cash to Net Debt

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

	£m
Increase/(Decrease) in Cash during Year	13.545
Outflow from Debt	(47.772)
Net Cash Inflow	**(34.227)**
Net Debt at 1st April 2008	(141.836)
Net Debt at 31st March 2009	(176.063)
Net Cash Inflow	**(34.227)**

Section 6 – Notes to the Core Financial Statements

Note 63. Reconciliation to Net Cashflow from Revenue Items

This table reconciles the deficit/surplus from the Income and Expenditure Account to the net cashflow from revenue items.

	2008/09
	£m
Deficit or (surplus) for the year on the income and expenditure account	108.525
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the general fund balance for the year	(108.776)
Increase/Decrease in General Fund Balance	**(0.251)**
Returns on Investment and Service of Financing	
Newcastle Airport Dividend	0.110
Net Interest Payments	(7.678)
Total Returns on Investment and Service of Financing	**(7.568)**
Non-Cash Transactions	
Debt Set Aside Provisions	(5.188)
Contributions from / (to) Provisions	7.032
Contribution from / (to) Reserves	(3.059)
Revenue Contributions to Capital Outlay	(1.600)
Other Items	2.442
Total Non-Cash Transactions	**(0.373)**
Items on an Accruals Basis	
Stock Increase / (Decrease)	0.062
Debtors Increase / (Decrease)	3.041
Creditors (Increase) / Decrease	(7.676)
Total Items on an Accruals Basis	**(4.573)**
Net Cash Flow from Revenue Activities	**(12.765)**

Note 64. Financing

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

Financing	As at 1st April 2008	As at 31st March 2009	Movement in Year
Market Loans	(10.000)	(10.000)	-
Public Works Loan Board	(216.128)	(211.128)	5.000
Finance Leasing	(0.019)	(0.693)	(0.674)
	(226.147)	**(221.821)**	**4.326**

Note 65. Local Area Agreement

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

The Council received £16.597m of grant funding through the Local Area Agreement (LAA) in 2007/08. In 2008/09, Area Based Grant (ABG) replaced the Local Area Agreement grant. ABG is a non-ringfenced grant and no conditions for use are imposed, unlike LAA where the grant had to be used to support the achievement of LAA targets. Our 2008/09 allocation for ABG of £20.783m included a notional allocation of Working Neighbourhoods Fund. We have chosen to allocate a budget from this funding to the LSP to be awarded to projects that meet our key priorities.

Note 66. Authorisation of Accounts

These audited accounts were authorised for issue on 30th September 2009 by Councillor Iain Malcolm, chair of General Purposes Committee. They include any events taking place between this date and the date of the Balance Sheet where these events would affect the reported position at 31st March 2009.

Section 7 – Housing Revenue Account

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

2007/08 £m		Note	2008/09 £m
	Income		
(46.514)	Rent Income from Dwellings		(47.831)
(0.874)	Rent Income from Non-Dwellings		(0.824)
(1.718)	Charges for Services and Facilities		(2.230)
(1.505)	Contributions towards Expenditure		(1.228)
(0.170)	Government Grant Deferred		(0.012)
(50.781)	**Total Income**		**(52.125)**
	Expenditure		
14.319	Repairs & Maintenance		14.081
15.227	Supervision & Management		16.002
1.248	Rents, Rates, Taxes and Other Charges		0.629
1.416	Negative Subsidy Payable to the Secretary of State	2	2.667
0.452	Increased Provision for Bad or Doubtful Debts		0.346
19.025	Depreciation of Fixed Assets (Dwellings)	10	15.974
2.647	Depreciation of Fixed Assets (Other Assets)	10	3.461
1.774	Impairment of Fixed Assets		65.929
1.159	Revenue Expenditure Funded from Capital under Statute		0.505
0.038	Amortisation of Intangible Assets	3	0.048
0.044	Debt Management Costs	3	0.034
57.349	**Total Expenditure**		**119.676**
6.568	**Net Cost of Services per Council Income and Expenditure Account**		**67.551**
0.248	HRA share of Corporate and Democratic Core		0.204
0.251	HRA share of Non Distributed Cost		0.237
7.067	**Net cost of HRA services**		**67.992**
0.087	Loss on the Disposal of Fixed Assets		1.059
4.346	Interest Payable and similar Charges		5.832
(0.188)	Interest and Investment Income		(0.202)
11.312	**(Surplus) or Deficit for the Year on HRA Services**		**74.681**
11.312	(Surplus) or Deficit for the year on the HRA Income and Expenditure Account		74.681
(12.117)	Net additional amount required by statute to be debited or credited to the HRA Balance for the Year	1	(74.550)
(0.805)	**(Increase)/Decrease in HRA Balance for the Year**		**0.131**
(3.070)	**Housing Revenue Account Balance brought forward**		**(3.875)**
(3.875)	**Housing Revenue Account Balance carried forward**	**1**	**(3.744)**

Section 7 – Housing Revenue Account

Note 1. Movement on the Housing Revenue Account Balance

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

2007/08 £m		2008/09 £m
	Amounts included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the Year	
(0.038)	Amortisation of Intangible Fixed Assets	(0.048)
(1.774)	Impairment of Fixed Assets	(65.929)
0.170	Government Grants Deferred Amortisation	0.012
(1.159)	Revenue Expenditure Funded from Capital under Statute	(0.505)
0.922	Difference between amounts charged to the Income and Expenditure Account for Premiums and Discounts and the charge for the year determined in accordance with statute	(0.022)
0.419	Capital Receipts not related to sale of a Fixed Asset	0.218
(0.087)	Net Loss on Disposal of HRA Fixed Assets	(1.059)
(0.030)	Net charges made for Retirement Benefits in accordance with FRS17	(0.020)
(1.577)		**(67.353)**
	Items not included in the HRA Income and Expenditure Account but included in the movement on the HRA Balance for the Year	
(10.562)	Transfer to/(from) Major Repairs Reserve	(7.239)
0.022	Employer's contributions payable to the Tyne and Wear Pension Fund and Retirement Benefits payable direct to Pensioners	0.023
-	Voluntary set aside for debt repayment	0.019
(10.540)		**(7.197)**
(12.117)	**Net additional amount required by statute to be debited or (credited) to the HRA balance for the year**	**(74.550)**

Section 7 – Housing Revenue Account

Note 2. Housing Revenue Account Subsidy

Subsidy is based on a 'Notional' Housing Revenue Account constructed in accordance with determinations made by the Secretary of State. Subsidy is paid on any 'deficit' shown on the notional account. In preparation of the final accounts the following estimate of Housing Subsidy entitlement for 2008/09 has been used:

Actual Entitlement 2007/08 £m		Estimated Entitlement 2008/09 £m
	Subsidy Allowances for Expenditure Items	
(9.800)	Management Allowance	(9.962)
(18.277)	Maintenance Allowance	(19.677)
(11.110)	Major Repairs Allowance	(12.196)
(7.047)	Charges for Capital	(7.520)
(46.234)	**Total Subsidy Allowance Expenditure Items**	**(49.355)**
	Subsidy Withdrawn for Income Items	
50.034	Rent Income	52.023
0.016	Interest on Receipts	0.009
50.050	**Total Subsidy Withdrawn Income Items**	**52.032**
3.816	**Net Subsidy Withdrawn**	**2.677**
-	Prior Year Adjustment	(0.010)
(2.361)	Rental Constraint Allowance	-
1.455	**Negative Subsidy Payable to the Secretary of State**	**2.667**

Section 7 – Housing Revenue Account

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 2008/09. It is made up of a number of components that are recorded in different sections of the housing revenue account.

	£m	Reference to main statements
Credit Items		
Interest Adjustments		
Amortised Discounts	(0.279)	Income and Expenditure - Interest Payable and similar Charges
Mortgage Interest	(0.006)	Income and Expenditure - Interest and Investment Income
Interest on Cash Balances	(0.196)	Income and Expenditure - Interest and Investment Income
Total Interest Adjustments	**(0.481)**	
Transfer from the Major Repairs Reserve		
Dwellings Depreciation > Major Repairs Allowance	(3.778)	Statement of Movement - Housing Major Repairs Reserve
Depreciation - Other Assets	(3.461)	Statement of Movement - Housing Major Repairs Reserve
Total Item 8 Credit 2008/09	**(7.239)**	
Debit Items		
Capital Asset Charges		
Impairment Charges	65.929	Net cost of services - Impairment of Fixed Assets
Revenue expenditure funded from Capital under Statute	0.505	Net cost of services - Amortisation of Deferred Charges
Amortisation of Intangible Assets	0.048	Net cost of services - Amortisation of Intangible Assets
Government Grant Deferred Adjustment	(0.012)	Net cost of services - Government Grant Deferred
Total Capital Charges	**66.470**	
Depreciation Charges		
Dwellings	15.974	Net cost of services - Depreciation of Dwellings
Other Assets	3.461	Net cost of services - Depreciation of other Assets
Total Depreciation Charges	**19.435**	
Debt Repayment and Management Costs		
Debt Management Expenses	0.034	Net cost of services - Debt Management Costs
Amortised Premiums	0.275	Income and Expenditure - Interest Payable and similar Charges
Total Debt Repayment and Management	**0.309**	
Capital Asset Charges Accounting Adjustment		
Capital asset charges are reversed so they do not impact on tenant's rents. The adjustment is calculated thus:		
Interest Payable on Capital Financing Requirement	5.836	Income and Expenditure - Interest Payable and similar Charges
Removal of Premiums and Discounts Amortised	0.004	Statement of Movement on HRA Balances
Removal of Capital Asset Charges	(66.470)	Statement of Movement on HRA Balances
Total Adjustments	**(60.630)**	
Total Item 8 Debit 2008/09	**25.584**	

Note 4. HRA Share of Contributions to the Pension Reserve

An apportionment has been made to reflect FRS17 liability for current pension costs. This has been included in the net cost of services for the HRA under supervision & management costs. Income of £0.020m (£0.008m expenditure in 2007/08) has been reversed out in the Statement of Movement in the HRA balance so that there is no impact on Council rents.

The HRA is also charged a share of the Council's backdated lump sum pension costs. The contribution in 2008/09 was £0.237m (£0.251m in 2007/08).

Section 7 – Housing Revenue Account

Note 5. Rent Income

Rents were increased with effect from Monday 6th April 2008 to achieve the Government rent guideline of an average of £55.73 per week based on a 48-week collection. Individual dwelling rents were set based on the Government's rent restructuring formula, which will be fully implemented by 2025. 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 £0.892m, 1.50% of the total net rent collectable for Housing Revenue Account dwellings (£1.019m and 1.70% in 2007/08).

Note 6. Formation of South Tyneside Homes Limited

The Council set up a wholly owned Arms Length Management Organisation (ALMO) called South Tyneside Homes Limited from 1st April 2006. Approval was received from the Secretary of State under Section 27 of the Housing Act 1985 to delegate housing management functions to the company. The management agreement between the Council and South Tyneside Homes Limited took effect from 1st April 2006. Formation of the company has given access to significant investment support through the Governments ALMO decent homes programme. In 2008/09 the Council received revised approval from the Government of £167m additional funding from 2008 to 2013, following notification from the Audit Commission that South Tyneside Homes had been rated as a two star service.

During 2008/09 South Tyneside Council paid South Tyneside Homes a management fee of £12.352m (£11.544m in 2007/08).

In 2007/08 it was agreed that the sum of £0.300m would be held in a specific reserve within the Housing Revenue Account for any costs resulting from the job evaluation process. In 2008/09, £0.227m of South Tyneside Homes Ltd job evaluation costs were charged to the Housing Revenue Account and funded from this earmarked reserve.

Under the housing management function, South Tyneside Homes manages the collection of rents of £50.885m in 2008/09 (£49.106m in 2007/08), the repairs and maintenance of the homes of £12.819m in 2008/09 (£13.361m in 2007/08) and the delivery of the capital programme of £28.544m in 2008/09 (£13.820m in 2007/08).

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

Section 7 – Housing Revenue Account

Note 7. Housing Stock

The Council was responsible for managing an average of 18,334 dwellings and sheltered units during 2008/09. The variations during the year were:

	2008/09
Opening Balance	
Dwellings	17,161
Sheltered Units	1,201
Shared Ownership	4
Non HRA Services	8
Opening Balance as at 1st April 2008	**18,374**
Less Reductions	
Right to Buy Sales	(34)
Demolition	(42)
Leasehold Expiry	(4)
Other Disposals	(1)
	(81)
Additions	
Housing Reinstated	1
Net Reduction in Stock	**(80)**
Closing Balance	
Dwellings	17,081
Sheltered Units	1,201
Shared Ownership	4
Non HRA Services	8
Closing Balance as at 31st March 2009	**18,294**

	31st March 2009
Houses	10,676
Bungalows	2,810
Flats & Maisonettes	4,808
Total Housing Stock as at 31st March 2009	**18,294**

Note 8. Movement of Fixed Assets 2008/09

The following table shows the movement of tangible fixed assets held by the Housing Revenue Account:

	Operational Assets			Non Operational Assets	
	Social Housing Dwellings	Other Property	Vehicles, Plant and equipment	Open Market Value Surplus Land	Total
	£m	£m	£m	£m	£m
Gross book value at 31st March 2008 (as restated)	**731.991**	**44.937**	**12.927**	**38.966**	**828.821**
Accumulated Depreciation and Impairment (as restated)	(71.841)	(5.643)	(8.007)	-	(85.491)
Net book value at 31st March 2008	**660.150**	**39.294**	**4.920**	**38.966**	**743.330**
Additions	27.030	0.620	0.166	1.336	29.152
Disposals	(3.146)	(0.133)	-	(4.559)	(7.838)
Reclassification	0.020	(0.020)	-	-	-
Revaluation	(64.001)	(4.011)	-	(18.634)	(86.646)
Depreciation	(2.980)	(0.353)	(2.602)	-	(5.935)
Impairment	(0.417)	-	-	-	(0.417)
Net book value at 31st March 2009	**616.656**	**35.397**	**2.484**	**17.109**	**671.646**

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

Dwellings have been revalued as at 1st April 2008 utilising selected beacon properties. The Guidance issued by the Government in July 2005 recommended that a downward adjustment factor of 51% be applied to vacant possession values to arrive at the existing use social housing values. The factor applying prior to 1st April 2005 was 65%.

The Housing Revenue Account also holds some intangible fixed assets in the form of computer software. In 2008/09, no spend was added to these assets (£0.094m in 2007/08) and their net book value at 31st March 2009 stood at £0.135m (£0.182m in 2007/08).

Note 9. 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 2007	1st April 2008
	£m	£m
Vacant Possession Value	1,151.483	1,209.129
Existing Use Social Housing Value	(587.256)	(616.656)
Economic Cost to the Government	**564.227**	**592.473**

Section 7 – Housing Revenue Account

Note 10. Depreciation and Impairment

The Accounting Standards Board and CIPFA have accepted the Major Repairs Allowance as a reasonable estimate for the basis of calculating depreciation for Council dwellings. Due to the increase in average values because of house price inflation for 2008/09, depreciation based on the major repairs allowance is less than that calculated by depreciating individual dwellings on a straight line basis over their estimated useful lives. The higher value for depreciation has therefore been included in the statement below:

	Existing Use Value Social Housing Dwellings	Existing Use Value Other Property	Vehicles, Plant and Equipment	Total Operational Assets
	£m	£m	£m	£m
Balance at 1st April 2008 as restated	**(71.841)**	**(5.643)**	**(8.007)**	**(85.491)**
Charges in year - depreciation	(15.974)	(0.859)	(2.602)	(19.435)
Charges in year - impairment	(0.461)	-	-	(0.461)
Charges written out - depreciation	12.994	0.506	-	13.500
Charges written out -impairment	0.044	-	-	0.044
Balance at 31st March 2009	**(75.238)**	**(5.996)**	**(10.609)**	**(91.843)**

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

Due to the economic downturn, a 10% impairment charge has been applied to all dwellings and sheltered housing units, and 17.1% on surplus land, to reflect changes in market values during 2008/09.

Note 11. Major Repairs Reserve

The movement in the major repairs reserve is as follows:

	£m
Balance at 1st April 2008	**(0.082)**
Depreciation all HRA assets	(19.435)
Capital expenditure from MRA (Houses)	3.419
Depreciation higher than MRA	7.239
Balance at 31st March 2009	**(8.859)**

Section 7 – Housing Revenue Account

Note 12. Housing Capital Expenditure Summary

The following table summarises the capital expenditure on the Housing Revenue Account and the method of financing that expenditure.

Spending 2007/08 £m	Capital Expenditure	Spending 2008/09 £m
	Expenditure	
12.796	Operational Dwellings	27.030
-	Land	1.335
4.417	Demolition and Area Redevelopment	-
0.010	Other Land and Buildings	0.618
0.142	Equipment and Intangible Assets	0.166
1.118	Revenue Expenditure Funded from Capital under Statute	0.505
18.483	**Total Spending**	**29.654**

Funding 2007/08 £m	Capital Funding	Funding 2008/09 £m
	Funding Source	
(11.028)	Major Repairs Reserve	(3.419)
(2.792)	Borrowing	(24.944)
(4.261)	Capital Receipts	(1.263)
-	Revenue Contributions	(0.028)
(0.402)	Grants	-
(18.483)	**Total Funding**	**(29.654)**

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

Note 13. Capital Receipts Summary

2007/08 £m		2008/09 £m
(6.185)	House Sales	(1.714)
(1.531)	Land Sales	(4.712)
(0.108)	Mortgage Principal Repayments	(0.049)
(0.269)	Discount Repayments	(0.093)
(8.093)	**Total Receipts for the Year**	**(6.568)**

Section 7 – Housing Revenue Account

Note 14. 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.

2007/08 Actual £m		2008/09 Estimate £m
54.658	Gross Rent Collectable (including water and sewerage charges)	56.570
3.164	Overall Arrears as at 31st March (including water and sewerage charges)	3.124
5.79%	**Overall Arrears as a percentage of gross rent collectable**	**5.52%**
3.173	Rent Arrears as at 31st March (excluding water and sewerage rates)	3.268
0.397	**Amounts written off during the year**	**0.416**
(2.052)	**Balance Sheet Provision for Bad Debts**	**(2.045)**

Whilst overall arrears at 31st March represent 5.52% of the Gross Rent Collectable (including water and sewerage charges), monies received on 1st to 3rd April 2009 have been excluded. The total amount collected in this period was £0.439m, which would reduce outstanding arrears to £2.685m representing 4.75% of the Gross Rent Collectable for the 48 weeks.

Section 7 – Collection Fund Revenue Account

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for which the income has been raised. The costs of administration are accounted for in the Income and Expenditure Account. The Collection Fund is compiled on an accruals basis and consolidated with other accounts of the billing authority.

2007/08 £m		**Note**	**2008/09 £m**
	Income		
(44.088)	Council Tax	1	(45.788)
(14.686)	Transfer from General Fund - Benefits		(15.348)
(24.124)	Income Collectable from Business Ratepayers	2	(25.801)
(82.898)	**Total Income**		**(86.937)**
	Expenditure		
58.837	Precept Payments	3	60.690
23.972	Non-Domestic Rates – Payment to National Pool		25.649
0.152	Non-Domestic Rates – Cost of Collection Allowance		0.152
24.124	Total Non-Domestic Rates	4	25.801
0.175	Council Tax Written Off		0.146
(0.028)	Transfer to/(from) Council Tax Bad Debt Provision		0.400
0.147	Total Bad and Doubtful Debts		0.546
83.108	**Total Expenditure**		**87.037**
0.210	**(Surplus) / Deficit for the Year**		**0.100**
(0.182)	Balance brought forward from previous year		0.028
0.028	**Collection Fund Balance as at 31st March**	**6**	**0.128**
0.003	Deficit relating to other Precepting Bodies		0.014
0.025	**Deficit relating to South Tyneside Council**		**0.114**

Section 7 – Collection Fund Revenue Account

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: 44,271 in 2008/09 (44,220 in 2007/08). Council tax is calculated by multiplying the basic amount of council tax for Band D by the proportion for that particular band. In 2008/09 the Band D equivalent was £1,370.88 (£1,330.56 in 2007/08).

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

Band	Proportion of Band D	Number of Dwellings (November 2008)
A	6/9ths	46,022
B	7/9ths	8,877
C	8/9ths	7,400
D	9/9ths	3,930
E	11/9ths	1,561
F	13/9ths	703
G	15/9ths	317
H	18/9ths	48
		68,858

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 transitionary arrangements, local businesses pay rates calculated by multiplying this sum by the rateable value of their property – the latter being determined by the District Valuer. The national poundage for 2008/09 was set at 45.8p for small businesses (44.1p 2007/08) and 46.2p for all other businesses (44.4p 2007/08).

The Non-Domestic Rates income, after reliefs and provisions, of £25.801m (£24.124m in 2007/08) was based on an average rateable value of £65.4m as at 31st March 2009 (£64.3m at 31st March 2008).

Note 3. Precept Payments

The precept payments can be broken down as follows:

2007/08 £m		2008/09 £m
52.446	South Tyneside Council	54.055
3.299	Northumbria Police Authority	3.465
3.092	Tyne and Wear Fire and Civil Defence Authority	3.170
58.837	**Total Precept Payments**	**60.690**

Section 7 – Collection Fund Revenue Account

Note 4. National Non-Domestic Rates Expenditure

National Non Domestic Rates are paid by the occupiers or owners of business properties. 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 5. 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 SORP requires that the precepting bodies share of the surplus or deficit should be shown as part of the Council's debtors or creditors leaving only the Council's share in the closing balance.

Note 6. Collection Fund Deficit

The collection fund deficit is shared between the precepting bodies as follows:

2007/08 £m		2008/09 £m
0.025	South Tyneside Council	0.114
0.002	Northumbria Police Authority	0.007
0.001	Tyne and Wear Fire and Civil Defence Authority	0.007
0.028	**Total Contribution towards Collection Fund Deficit**	**0.128**

The £0.028m deficit from 2007/08 is being recovered as part of the precepts for 2009/10.

Section 8 – Group Income and Expenditure

Group Accounts

Introduction

Many Local Authorities now provide services through partner organisations that operate under the control of the Authority. The Code of Practice on Local Authority Accounting in accordance with FRS2 requires that, where an Authority has material financial interests and a significant level of control over one or more entities, it should prepare Group Accounts. South Tyneside Council has reviewed the relationships it has with its partner organisations to determine the scope of the local authority group and identified the following organisations requiring consolidation into Group Accounts:

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

The notes included in the Group Accounts include 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.

South Tyneside Homes Limited (subsidiary company)

South Tyneside Council established an Arms Length Management Organisation registered as South Tyneside Homes Limited on 3rd March 2005 and transferred responsibility for the management and maintenance of its housing stock to the company on 1st April 2006. South Tyneside Homes Limited has no share capital, is limited by guarantee and is wholly owned by the Council. South Tyneside Homes Limited accounting policies have been realigned in order to ensure they are consistent with the Group Accounting Policies. Accounts for South Tyneside Homes Ltd have been brought together with the Council's single entity accounts on a line-by-line basis to produce a unified set of accounts on consolidation.

The Net Liabilities of the company amount to £25.567m at 31st March 2009 (£9.825m at 31st March 2008).

The company made a net surplus of £0.758m in 2008/09 (deficit of £0.873m in 2007/08).

The Council's accounts include a debtor due from South Tyneside Homes of £2.139m (£3.947m at 31st March 2008) and a creditor due to South Tyneside Homes of £5.536m (£4.788m at 31st March 2008).

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 2009, the Actuary assessed the deficit at £25.230m (£9.420m at 31st March 2008). 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.

Section 8 – Group Income and Expenditure

Joint Venture – Tyne & Wear Development Company (TWEDCo)

Tyne & Wear County Council and the five district Councils of Tyne & Wear established TWEDCo in 1986. TWEDCo is a company limited by guarantee and does not have share capital. The proportion ownership within the Group Accounts is based upon population across Tyne & Wear. TWEDCo has been incorporated as a joint venture using the gross equity method, requiring the disclosure of the council's share of the gross assets and liabilities and gross turnover and operating costs of the organisation.

The Net Assets of TWEDCo amount to £17.431m at 31 March 2009 (£17.361m at 31 March 2008). TWEDCo made a surplus of £0.218m in 2008/09 (surplus of £0.728m in 2007/08).

Joint Venture – Beamish

A Joint Committee of Local Authorities runs Beamish Museum. Primarily funded through admission income, the Museum also receives funding from those Local Authorities that are members of the Joint Committee, including South Tyneside. Beamish has been incorporated as a joint venture using the gross equity method, requiring the disclosure of the council's share of the gross assets and liabilities and gross turnover and operating costs of the organisation.

The Net Assets of Beamish amount to £20.064m at 31 March 2009 (restated £16.893m at 31 March 2008). Beamish made a deficit of £0.578m in 2008/09 (deficit of £0.206m in 2007/08).

Other Entities

The Accounting Code of Practice requires information to be shown where the Council has an interest in companies. Apart from the companies disclosed in the Group Accounts, the Council had interests in the following companies:

- Newcastle Airport Local Authority Holding Company Limited
- North East Consortium for Asylum and Refugee Support
- InspiredSpaces

Due to materiality, the accounts for the North East Consortium for Asylum and Refugee Support are no longer incorporated into the group accounts as a joint venture.

Full details of the shareholding in Newcastle Airport Local Authority Holding Company Limited and InspiredSpaces can be found in Note 39. Our investment in InspiredSpaces has been reviewed and has been included as an investment in our Long-term Investments.

Section 8 – Group Income and Expenditure

2007/08 Net Expenditure as restated £m		2008/09 Gross Expenditure £m	2008/09 Gross Income £m	Note	2008/09 Net Expenditure £m
2.784	Central Services to the Public	19.512	(16.343)		3.169
42.352	Cultural, Environmental, Regulatory and Planning Services	62.461	(18.515)		43.946
49.046	Education and Children's Services	189.487	(144.262)		45.225
9.015	Highways and Transport Services	14.117	(3.438)		10.679
10.347	Housing Services	175.351	(107.291)		68.060
46.408	Adult Social Care Services	79.687	(29.993)		49.694
0.212	Court Services	0.569	(0.321)		0.248
5.397	Corporate and Democratic Core	9.292	(2.794)		6.498
5.580	Non Distributed Costs	5.842	(0.237)		5.605
	Share of operating results of Joint Ventures:				
(0.310)	- Turnover	-	(0.349)	**2**	(0.349)
0.219	- Cost of sales and operating expenses	0.319	-	**2**	0.319
19.464	Exceptional Items - Equal Pay	15.379	-		15.379
190.514	**Net Cost of Services**	**572.016**	**(323.543)**		**248.473**
4.928	Loss or (Gain) on the Disposal of Fixed Assets				0.584
9.386	Precepts of other Public Bodies				9.725
(0.066)	(Surpluses) / Deficits on Trading Undertakings and Dividends Receivable				0.186
12.221	Interest Payable and Similar Charges				13.262
5.042	Amount Payable to Housing Capital Receipts Pool				1.340
(5.906)	Interest and Investment Income				(5.654)
3.560	Pension Interest Cost and Expected Return on Pension Assets			**9**	8.890
-	Taxation of Group Entities			**17**	0.015
219.679	**Net Operating Expenditure**				**276.821**
(52.446)	Income from the Collection Fund				(54.055)
(35.124)	General Government Grants				(38.262)
(70.291)	Non-domestic Rates Redistribution				(76.793)
61.818	**Deficit or (Surplus) for the Year**				**107.711**

Section 8 – Reconciliation of the Single Entity Surplus/Deficit to the Group

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

2007/08 £m		2008/09 £m
61.017	(Surplus) / deficit for the year on the Authority Income and Expenditure Account	108.525
0.019	Adjustments for the transactions with other Group Entities	-
61.036	**(Surplus) / deficit in the Group Income and Expenditure Account attributable to the Authority**	**108.525**
	(Surplus) / deficit in the Group Income and Expenditure Account attributable to Group Entities:	
0.873	Subsidiaries	(0.784)
(0.091)	Joint Ventures	(0.030)
61.818	**(Surplus) / deficit for the year on the Group Income and Expenditure Account**	**107.711**

Section 8- Group Statement of Total Recognised Gains and Losses

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

2007/08 £m		2008/09 £m
61.818	(Surplus) / Deficit for the Year on the Income and Expenditure Account	107.711
0.207	(Surplus) / Deficit for the Year on the Collection Fund Account	0.089
-	Adjustment for Finance Leases	0.696
(80.287)	(Surplus) / Deficit arising on the Revaluation of Fixed Assets	(23.478)
(3.389)	Deficit or (Surplus) arising on Revaluation of Available for Sale Financial Assets	5.960
(49.530)	Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities	115.300
(4.709)	Removal of (Loss) / Gain on the Disposal of Fixed Assets	-
0.419	(Surplus) / Deficit arising on other Reserves of Group Entities	(0.756)
(4.922)	Adjustment Magistrates Courts	-
(80.393)	**Total Recognised (Gains) / Losses for the year**	**205.522**
	Prior Period Adjustments	**0.099**
	Total Recognised (Gains) / Losses since previous financial statements	**205.621**

The Council has made prior period adjustments to the balance sheet figures reported against 2007/08 as detailed below. The reason for these adjustments can be found in Note 3 to the Council's single entity accounts.

Details of Prior Period Adjustments:	Gain/(Loss)
Removal of Diocese assets	(9.565)
HRA depreciation correction	2.920
Pension Fund liability	(1.310)
Bisley Drive	0.045
Boldon School PFI residual interest	1.255
Boldon School PFI prepayment	6.754
Total Prior Period Adjustment	**0.099**

Section 8 – Group Balance Sheet

This statement provides a summary of the Group's financial position as at 31st March 2009. It shows the balances and reserves at the Group's disposal, fixed assets and current assets employed in its operations and the Group's long-term borrowing position.

31st March 2008 (as restated) £m		Note	31st March 2009 £m	31st March 2009 £m
1.602	**Intangible Fixed Assets**	10		1.963
	Tangible Fixed Assets			
	Operational Assets			
660.149	Council Dwellings	11	616.656	
252.354	Other Land and Buildings	11	265.766	
10.175	Vehicles, Plant and Equipment	11	8.747	
52.363	Infrastructure	11	57.191	
2.309	Community Assets	11	5.235	953.595
	Non-Operational Assets			
0.228	Investment Properties	11	3.029	
2.257	Assets under Construction	11	2.857	
50.477	Surplus Assets Earmarked for Disposal	11	32.756	38.642
1,031.914	**Total Fixed Assets**			**994.200**
	Long Term Investments			
1.881	Long Term Investments: Joint Venture Assets	2	1.990	
(0.916)	Long Term Investments: Joint Venture Liabilities	2	(0.239)	
6.776	Other Long Term Investments		10.817	12.568
	Long Term Debtors			
0.960	Airport Loan Notes		0.720	
12.066	Other Long Term Debtors		12.782	13.502
1,052.681	**Total Long Term Assets**			**1,020.270**
	Current Assets			
0.909	Stocks and Work in Progress	13	0.843	
22.543	Debtors	14	25.071	
85.202	Investments		36.217	
10.407	Cash and Bank	15	25.794	87.925
1,171.742	**Total Assets**			**1,108.195**
	Current Liabilities			
-	Borrowing Repayable within 12 months		(4.958)	
(40.914)	Creditors	16	(67.060)	
(1.116)	Bank Overdraft	15	(2.074)	(74.092)
1,129.712	**Total Assets Less Current Liabilities**			**1,034.103**
(227.038)	Long-Term Borrowing		(217.367)	
(27.040)	Provisions		(20.008)	
(26.656)	Government Grants Deferred		(42.080)	
(4.513)	Deferred Liabilities		(1.684)	
(0.109)	Deferred Credits		-	
(142.570)	Liability related to Defined Benefit Pension Scheme	9	(256.700)	(537.839)
701.786	**Total Assets Less Liabilities**			**496.264**

Section 8 – Group Balance Sheet

31st March 2008 (as restated) £m		Note	31st March 2009 £m	31st March 2009 £m
	Financed By			
(80.720)	Fixed Asset Revaluation Reserve			(102.003)
(6.767)	Available for Sale Financial Instrument Reserve			(0.807)
(726.259)	Capital Adjustment Account			(608.034)
(0.792)	Financial Instruments Adjustment Account			(0.753)
142.570	Pensions Reserve	9		256.700
(1.182)	Useable Capital Receipts Reserve			(2.540)
-	Deferred Capital Receipts Reserve			(0.061)
(0.917)	General Fund Balances			(1.168)
(37.000)	Earmarked Reserves			(31.212)
13.796	Equal Pay Account			7.566
0.025	Collection Fund			0.114
(0.082)	Housing Major Repairs Reserve			(8.859)
(3.875)	Housing Revenue Account Balances			(3.744)
(0.583)	Profit / Loss and other Reserves of Group Entities			(1.463)
(701.786)	**Total Net Worth**	**18**		**(496.264)**

Section 8 – Group Cash Flow Statement

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

2007/08 £m			2008/09 £m
(20.457)	**Net Cash Flow from Revenue Activities**	**19**	**(13.579)**
	Dividends from Joint Ventures and Associates		
	Cash Inflows		
-	Newcastle International Airport Limited Dividend		-
-	**Dividends from Joint Ventures and Associates**		-
	Returns on Investment and Servicing of Finance		
	Cash Outflows		
0.002	Finance Lease Interest Paid		0.103
8.234	Other Interest Paid		13.058
	Cash Inflows		
(6.369)	Interest Received		(6.624)
1.867	**Returns on Investment and Servicing of Finance**		**6.537**
	Capital Activities		
	Cash Outflows		
37.679	Purchase of Fixed Assets		56.071
-	Purchase of Long-term Investments		10.000
11.081	Other Capital Cash Payments		23.886
48.760			**89.957**
	Cash Inflows		
(9.788)	Sale of Fixed Assets		(7.351)
(13.184)	Capital Grants Received		(45.059)
(0.456)	Other Capital Cash Receipts		(0.275)
(23.428)			**(52.685)**
25.332	**Total Capital Activities**		**37.272**
	Acquisitions and Disposals		
	Cash Inflows		
(0.240)	Income from Restructure Newcastle International Airport		-
(0.240)	**Acquisitions and Disposals**		**-**
6.502	**Net Cash Outflow / (Inflow) before Financing**		**30.230**
	Management of Liquid Resources		
7.985	Net Increase/(Decrease) in Short Term Deposits		(48.985)
7.985	**Management of Liquid Resources**		**(48.985)**
	Financing		
	Cash Outflows		
42.548	Repayments of Amounts Borrowed		41.000
0.019	Capital Element of Finance Lease Rental Payments		(0.674)
	Cash Inflows		
(61.070)	New Loans Raised		(36.000)
(18.503)	**Financing**		**4.326**
(4.016)	**Net (Increase) / Decrease in Cash**	**15**	**(14.429)**

Section 8 – Notes to the Group Financial Statements

Note 1. Group Entities

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

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

Further information on the draft 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.

Tyne and Wear Economic Development Company. The Council acts in partnership with the other four Tyne and Wear local authorities to promote economic development activities in the region. The major function of the Company is to operate a number of industrial units providing accommodation to local businesses.

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

Beamish Museum. Run by a Joint Committee of local authorities in the region. Primarily funded through admission income, the Museum also receives funding from those Local Authorities that are members of the Joint Committee.

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

Note 2. Council Share in Group Entities

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

	South Tyneside Homes Ltd	Tyne & Wear Economic Development Company	Beamish Museum	Total
	100% share	14% share	8% share	
	£m	£m	£m	£m
Fixed assets	0.084	1.377	-	1.461
Current assets	3.404	0.613	-	4.017
Liabilities due within one year	(7.724)	(0.080)	(0.129)	(7.918)
Liabilities due after one year	(25.230)	(0.012)	(0.018)	(25.260)
Reserves	**(29.466)**	**1.898**	**(0.147)**	**(27.700)**

Note 3. Prior Period Adjustments

The Group Balance Sheet reflects a number of Prior Period Adjustments where non-correction of opening balances would result in a material misstatement. Note 3 to the Council's Core

Financial Statements, outlines the Prior Period Adjustments recognised in the Single Entity Balance Sheet which become part of the opening Group Balance Sheet upon consolidation.

The Group Balance Sheet includes a further Prior Period Adjustment relating to the reclassification of reserve balances brought forward from 2007/08.

The reserve movements arising from the Council's share in Group Entities, including South Tyneside Homes Limited should properly be recorded against the figure for Reserves of Group Entities. Prior to restatement, the reserves relating to South Tyneside Homes Limited were included in the Housing Revenue Account Balances in error. The adjustment reduces the Housing Revenue Account Balances Brought Forward by £0.548m, with a corresponding increase to the Reserves of Group Entities Balance Brought Forward.

Note 4. Changes in Presentation

The presentation of certain items in the Single Entity accounts which have been incorporated in the Group Income and Expenditure Account have been changed, as follows:

- Education and Children's Social Services lines have now been consolidated into a single line;
- The Interest on Pension Liability and the Return on Pension Assets have now been consolidated into a single line.

Note 5. Officers' Emoluments

The definition of remuneration excludes employer's pension payments but includes:

- All taxable amounts paid to, or receivable by, employees, including sums due by way of expense allowances, and
- Redundancy payments to employees during the year.

In accordance with Account and Audit Regulations 2003, the number of employees, including teachers, whose remuneration falls into each pay bracket, shown in multiples of £10,000, and starting at £50,000 is:

	Number of Employees	
	2007/08	**2008/09**
£50,000 - £59,999	68	111
£60,000 - £69,999	40	35
£70,000 - £79,999	11	14
£80,000 - £89,999	9	11
£90,000 - £99,999	-	8
£100,000 - £109,999	1	4
£110,000 - £119,999	-	2
£120,000 - £129,999	1	-
£130,000 - £139,999	-	-
£140,000 - £149,999	-	2
£150,000 - £159,999	-	-
£160,000 - £169,999	-	-
£170,000 - £179,999	-	-
£180,000 - £189,999	-	1

Section 8 – Notes to the Group Financial Statements

Note 6. Publicity and Advertising

Expenditure by the Group on publicity and advertising is as follows:

2007/08 £m		2008/09 £m
0.254	Press and Promotions	0.277
0.395	Recruitment Advertising	0.377
0.649	**Total**	**0.654**

Note 7. External Audit Fees

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

2007/08 £m		2008/09 £m
0.254	Fees Payable in respect of External Audit Services	0.348
0.067	Fees Payable in respect of Grant Claim Certification	0.042
0.321	**Total Fees Payable to External Auditors**	**0.390**
0.043	Fees Payable in respect of Statutory Inspection	-
0.028	Non Statutory Services	0.072
0.392	**Total Costs**	**0.462**

Note 8. Operating Leases

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

2007/08 £m		2008/09 £m
0.311	Other Land and Buildings	0.377
0.696	Vehicles and Equipment	0.618
1.007	**Total Expenditure on Operating Leasing**	**0.995**

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

	Other Land and Buildings 2008/09 £m	Vehicles, Plant and Equipment 2008/09 £m
Lease expires within 1 year	-	0.059
Lease expires in 2 - 5 years	0.047	0.136
Lease expires in more than 5 years	0.330	-
Total Repayable	**0.377**	**0.195**

Note 9. Pension Costs

Both South Tyneside Council and South Tyneside Homes Limited employees are entitled to join the Tyne and Wear Pension Fund, which is administered by South Tyneside Council under the Regulations governing the Local Government Pension Scheme, a defined benefit scheme. The Accounting Standards Board (ASB) published an amendment to FRS17 on 7th December 2006. The amendment is effective for accounting periods beginning on or after 6th April 2008 and has therefore been incorporated into the following notes.

The key changes introduced by the amendment are as follows:

- Disclosures should show separate reconciliations of liabilities and assets from the prior years.
- Disclosure of the principal actuarial assumptions used at the balance sheet date, which includes disclosure of mortality rates if mortality is considered a material assumption.
- Unfunded liabilities should be separately disclosed.
- The fair value of the assets should comprise the bid-value for quoted securities rather than the mid-market value. This revised treatment has led to the adjustment of some of the previous year's balances.

The outstanding pension liability for the Group stands at £256.700m at 31st March 2009 (£142.570m in 2007/08 - restated).

Actuarial Assumptions Adopted

The main financial assumptions used by the Actuary for South Tyneside Homes Limited in 2008/09, differ from those applied to the South Tyneside Council valuation. The assumptions used for South Tyneside Homes Limited are confirmed in the table below. Note 26 of the Council's Core Financial Statements provide the assumptions used by the Actuary for South Tyneside Council.

	31st March 2009	31st March 2008	31st March 2007
	% per annum	% per annum	% per annum
Inflation rate	3.70	3.70	3.20
Rate of general increase in salaries	5.20	5.20	4.70
Rate of increase to pensions in payment	3.70	3.70	3.20
Rate of increase to deferred pensions	3.70	3.70	3.20
Discount rate	6.40	6.80	5.30

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 2009	31st March 2008	31st March 2007
	£m	£m	£m
Notional value of assets	320.86	381.84	388.06
Present value of liabilities	(548.42)	(495.97)	(545.94)
Net pension (liability)	**(227.56)**	**(114.13)**	**(157.88)**

Section 8 – Notes to the Group Financial Statements

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 Income and Expenditure Account.

2007/08 £m		2008/09 £m
18.24	Current Service Cost	12.39
4.85	Past Service Cost	1.08
29.13	Interest on Pension Scheme Liabilities	33.80
(27.08)	Expected Return on Fund Assets	(26.77)
25.14	**Expense recognised**	**20.50**

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 the Statement of Total Recognised Gains and Losses.

Changes to the present value of liabilities during the accounting period

2007/08 £m		2008/09 £m
(545.94)	Opening present value of liabilities	(495.97)
(18.24)	Current Service Cost	(12.39)
(29.13)	Interest on Pension Scheme Liabilities	(33.80)
(5.62)	Contributions by participants	(7.02)
91.44	Actuarial gains/(losses) on liabilities	(16.46)
16.37	Net benefits paid out	18.30
(4.85)	Past service cost	(1.08)
(495.97)	**Closing present value of liabilities**	**(548.42)**

Changes to the fair value of assets during the accounting period

2007/08 £m		2008/09 £m
388.06	Opening fair value of assets	381.84
27.08	Expected return on assets	26.77
(42.50)	Actuarial gains/(losses) on assets	(97.77)
19.95	Contributions by the employer	21.30
5.62	Contributions by participants	7.02
(16.37)	Net benefits paid out	(18.30)
381.84	**Closing fair value of assets**	**320.86**

Actual return on assets

2007/08 £m		2008/09 £m
27.08	Expected return on assets	26.77
(47.00)	Actuarial gain/(loss) on assets	(93.97)
(19.92)	**Actual return on assets**	**(67.20)**

Analysis of amount recognised in Statement of Total Recognised Gains and Losses

2007/08 £m		2008/09 £m
48.94	Total actuarial gains/(losses)	(114.23)
48.94	**Total gain/(loss) in STRGL**	**(114.23)**

Section 8 – Notes to the Group Financial Statements

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

2004/05	2005/06	2006/07	2007/08		2008/09
£m	£m	£m	£m		£m
276.80	390.62	388.19	381.84	Fair value of assets	320.86
(467.27)	(588.64)	(545.94)	(495.97)	Present value of liabilities	(548.42)
(190.47)	**(198.02)**	**(157.75)**	**(114.13)**	**Surplus/(deficit)**	**(227.56)**

History of experience gains and losses

2004/05	2005/06	2006/07	2007/08		2008/09
£m	£m	£m	£m		£m
(10.44)	(51.13)	(2.31)	(42.50)	Experience gains/(losses) on assets	(97.77)
5.09	(0.37)	(0.14)	1.30	Experience gains/(losses) on liabilities	(2.20)

In accordance with paragraph 79 of FRS17 (as revised), unfunded liabilities are disclosed for periods beginning on or after 6th April 2007. The history of experience gain / (loss) on liabilities shown has not been restated for periods ending 2007, 2006 and 2005 and includes the experience relating to unfunded liabilities.

Unfunded Benefits

South Tyneside Homes Limited has no unfunded benefits in their accounts for 2008/09, in line with the Actuarial information provided. Disclosure information relating to unfunded benefits for South Tyneside Council can be found at note 26, section b within this document.

Note 10. Intangible Fixed Assets

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

	Software Licences
	£m
Gross Book Value 31st March 2008	2.500
Accumulated Amortisation and Impairment	**(0.898)**
Net Book Value at 31st March 2008	1.602
Additions	1.194
Disposals	(0.306)
Amortisation	(0.527)
Net Book Value at 31st March 2009	**1.963**

	£m
Provision at 31st March 2008	(0.898)
Amortisation in Year	(0.527)
Impairment in Year	-
Provision at 31st March 2009	**(1.425)**

Section 8 – Notes to the Group Financial Statements

Note 11. Movement of Tangible Fixed Assets

The following table analyses the movement in operational tangible fixed assets for the Group and the nature of assets held.

Operational Fixed Assets	Council Dwellings	Other Land and Buildings	Comm. Assets	Infra-structure	Vehicles Plant & Equip	Total
Cost or valuation	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1st April 2008 (as restated)	731.990	284.391	2.309	62.272	29.252	1,110.214
Additions	27.030	13.883	3.202	6.526	3.519	54.160
Disposals	(3.146)	(0.393)	-	-	(0.550)	(4.089)
Reclassifications	0.020	(1.796)	-	-	-	(1.776)
Revaluations	(64.001)	(4.419)	-	(0.026)	-	(68.446)
At 31st March 2009	**691.893**	**291.666**	**5.511**	**68.772**	**32.221**	**1,090.063**
Depreciation and Impairments						
At 1st April 2008 (as restated)	(71.841)	(32.037)	-	(9.909)	(19.077)	(132.864)
Charge for 2008/09	(16.436)	(7.552)	(0.276)	(1.672)	(4.947)	(30.883)
Disposals	0.339	0.016	-	-	0.550	0.905
Reclassifications	-	0.012	-	-	-	0.012
Revaluations	12.701	13.661	-	-	-	26.362
At 31st March 2009	**(75.237)**	**(25.900)**	**(0.276)**	**(11.581)**	**(23.474)**	**(136.468)**
Balance Sheet amount at 31st March 2008	**660.149**	**252.354**	**2.309**	**52.363**	**10.175**	**977.350**
Balance Sheet amount at 31st March 2009	**616.656**	**265.766**	**5.235**	**57.191**	**8.747**	**953.595**
Nature of Asset Holding						
Owned	616.656	265.276	5.235	57.191	8.734	953.092
Finance Leases	-	0.490	-	-	0.013	0.503
Private Finance Initiative	-	-	-	-	-	-
	616.656	**265.766**	**5.235**	**57.191**	**8.747**	**953.595**

Note 12. Depreciation and Impairment

Information on the treatment of depreciation and impairment for South Tyneside Council is included in note 34 to the Core Financial Statements included within this document. Depreciation charges for South Tyneside Homes Limited have been adjusted upon consolidation for Group Accounts to align accounting policies.

Note 13. Stock and Work in Progress

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

31st March 2008 £m		31st March 2009 £m
0.350	Home Loan Equipment Centre	0.326
0.073	Catering Service	0.106
0.409	South Tyneside Homes Limited	0.281
0.077	Other Stock	0.130
0.909	**Total Stock**	**0.843**

Section 8 – Notes to the Group Financial Statements

Note 14. Debtors

An analysis of Group debtors is shown below:

31st March 2008 £m		31st March 2009 £m
	Amounts Falling Due in one year	
8.362	Government Bodies	8.952
0.726	Other Local Authorities	1.303
3.164	Housing Tenants	3.124
4.113	Council Tax Payers	4.558
0.981	National Non-Domestic Rate Payers	1.191
11.748	Sundry Debtors	12.185
29.094	**Total Amounts Falling Due in one year**	**31.313**
	Provisions for Bad debts	
(2.052)	Housing Rents	(2.045)
(1.308)	Council Tax	(1.804)
(0.549)	National Non-Domestic Rates	(0.397)
(2.642)	All Other Debtors	(1.996)
(6.551)	**Total Bad Debt Provisions**	**(6.242)**
22.543	**Net Debtors**	**25.071**

Note 15. Increase / (Decrease) in Cash

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

	As at 1st April 2008	As at 31st March 2009	Movement in Year
Cash in Hand and at Bank	10.407	25.794	15.387
Bank Overdraft	(1.116)	(2.074)	(0.958)
Net Cash and Bank Position	**9.291**	**23.720**	**14.429**

Note 16. Creditors

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

31st March 2008 £m		31st March 2009 £m
(16.497)	Government Bodies	(29.757)
(0.854)	Other Local Authorities	(0.846)
(0.616)	Housing Tenants	(0.645)
(0.730)	Council Tax Payers	(0.949)
(0.766)	National Non-Domestic Rates	(0.366)
(21.451)	All Other Creditors	(34.497)
(40.914)	**Total Creditors**	**(67.060)**

Note 17. Taxation

On the basis of HM Revenue and Customs (HMRC) guidance, and due to the relationship between South Tyneside Homes Limited and its parent Council, South Tyneside, the taxable status of South Tyneside Homes Limited is assessed as non-trading for normal operating activities. However, the company remains taxable on any third-party income sources.

Section 8 – Notes to the Group Financial Statements

Note 18. Net Worth

The net worth of the Group at the Balance Sheet date stands at £496.264m (£701.786m as restated in 2007/08). The Group Statement of Total Recognised Gains and Losses analyses this growth in terms of surplus or deficit on the Group Income and Expenditure Account and the Council Collection Fund Accounts, together with any revaluation of assets or liabilities.

Note 19. Reconciliation to Net Cashflow from Revenue Items

This table reconciles the deficit/surplus from the Income and Expenditure Account to the net cashflow from revenue items

2007/08 £m		2008/09 £m
61.818	**Deficit or (Surplus) for the Year on the Income and Expenditure Account**	**107.711**
(62.052)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the Group Balance for the Year	(108.016)
(0.047)	Removal of Non Cash items from Subsidiaries and Joint Ventures	(0.029)
(0.281)	**Increase/Decrease in Group Balances**	**(0.334)**
	Returns on Investment and Service of Financing	
-	Newcastle Airport Dividend	0.110
(1.906)	Net Interest Payments	(7.678)
(1.906)	**Total Returns on Investment and Service of Financing**	**(7.568)**
	Non-Cash Transactions	
(4.474)	Debt Set Aside Provisions	(5.188)
(18.501)	Contributions from / (to) Provisions	7.032
(8.401)	Contribution from / (to) Reserves	(3.059)
(0.724)	Revenue Contributions to Capital Outlay	(1.600)
4.893	Other Items	2.472
(27.207)	**Total Non-Cash Transactions**	**(0.343)**
	Items on an Accruals Basis	
(0.081)	Stock Increase / (Decrease)	(0.066)
(3.390)	Debtors Increase / (Decrease)	4.345
12.408	Creditors (Increase) / Decrease	(9.613)
8.937	**Total Items on an Accruals Basis**	**(5.334)**
(20.457)	**Net Cash Flow from Revenue Activities**	**(13.579)**

Note 20. 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 2009, the Actuary assessed the deficit at £25.230m (£9.550m in 2007/08). 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.

Since the 31st March, the Council has lost a legal case in respect of equal pay claims submitted by some of its employees. The Council is appealing against this legal ruling. If the Council is unsuccessful in its appeal, it will incur an additional liability.

South Tyneside Homes Limited is currently undergoing a pay and grading review. At the point of preparing the accounts presented for audit, the review has not been finalised.

Section 8 – Notes to the Group Financial Statements

Note 21. Post Balance Sheet Events

Since the 31st March, the Council has lost a legal case in respect of equal pay claims submitted by some of its employees. The Council is appealing against this legal ruling. If the Council is unsuccessful in its appeal, it will incur an additional liability. This event has been reflected in these accounts as a further contingent liability.

Note 22. Reconciliation of Movement in Cash to Net Debt

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

	£m
Increase/(Decrease) in Cash during Year	14.429
Outflow from Debt	(47.470)
Net Cash Outflow	**(33.041)**
Net Debt at 1st April 2008	(142.064)
Net Debt at 31st March 2009	(175.105)
Net Cash Outflow	**(33.041)**

Note 23. Authorisation of Accounts

The draft accounts presented for audit, including the Group Account Statements and Disclosure, were authorised for issue on 30th September 2009 by Councillor Iain Malcolm, Chair of the General Purposes Committee. They include any events taking place between this date and the date of the Balance Sheet as at 31st March 2009 where such events would affect the reported position.

Section 9 – Tyne and Wear Pension Fund Accounts

1. Introduction

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

As at 31st March 2009, there were 134 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 107,554 members, made up of 50,008 active members, 33,020 pensioners and 24,526 deferred members.

Further information may be obtained from the Pension Fund Report and Accounts for 2008/09.

2. Legal Framework

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

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

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

The framework for the new Scheme is contained in Regulations made by DCLG that apply nationally to all local authorities in England and Wales.

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, describe how rights accrue and benefits are calculated

The Local Government Pension Scheme (Administration) Regulations 2008, as amended, carry forward provisions in the preceding Local Government Pension Scheme Regulations 1997.

The Local Government Pension Scheme (Transitional Provisions) Regulations 2008, as amended, govern how membership in the old scheme will count in the new Scheme.

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

Further Regulations have been issued in 2008/09 and in 2009/10.

In May 2008, the Local Government Pension Scheme (Amendment) (No.2) Regulations 2008 introduced changes to improve the alignment between the Scheme and the new tax regime and to increase the options available to employers to enhance a member's total service.

In June 2008, the Local Government Pension Scheme (Amendment) (No.3) Regulations 2008 introduced amendments and new provisions in respect of governance and pension fund annual reports. In particular, they introduced discretion for an administering authority to prepare and publish a pensions administration strategy.

In September 2008, the Local Government Pension Scheme (Miscellaneous) Regulations 2008 amended the time-limits during which an employer can increase a member's total membership and introduced a number of technical and minor amendments.

In December 2008, the Local Government Pension Scheme (Administration) (Amendment) Regulations 2008 amended the rules governing staff who are transferred from one Scheme employer to another where either TUPE applies or is treated as applying.

In April 2009, the Local Government Pension Scheme (Amendment) Regulations 2009 introduced amendments to provide for the operation of the Scheme's cost sharing arrangements.

During the past year, DCLG has also provided statutory guidance on the operation of the Scheme's ill health retirement provisions.

3. Employers' Contributions and the 2007 Valuation

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

Rates of contributions paid by the employers during 2008/09 were based on the valuation carried out as at 31st March 2007. The value of the Fund at that date was £3,726.5m.

The 2007 valuation has shown that the Fund had assets to cover 79% of the liabilities. This is an improvement of 15% over the position at the 2004 valuation, which is largely due to investment returns being greater than the level assumed in 2004. The valuation revealed upward pressure on contributions from a number of factors, including improved longevity. The future service rate paid by employers increased from 14.0% of pensionable pay at the 2004 valuation to 15.1%.

The total employer contribution resulting from the 2007 valuation is 21.1% of pensionable pay, an increase of 1% over the rate of 20.1% that was set by the 2004 valuation.

4. Funding Strategy

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

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

The Fund has used a number of measures to assist employers to afford the cost of benefits, including an extended deficit recovery period for employers with a suitably strong covenant. Recovery periods for most employers have been set within the range of 22 years for employers with the strongest covenant to average future working lifetime of active members, or an appropriate proxy, for employers with a weaker covenant. For most contractors, this strategy is also subject to a maximum of the remaining contract period from 1st April 2008.

Other measures were:

- An increase in the discount rate for scheduled bodies.
- The use of up to six annual steps in the deficit payments.
- The grouping of some smaller employers to protect against the risk of high volatility of contribution rates.

5. Events since the 2007 Valuation

The economic environment and the experience of other factors that affect the funding level have been very poor since the 2007 valuation. For example:

- Returns from equities and property have been negative.
- There has been a fall in gilt yields and, therefore, in the discount rates that are used to calculate liabilities.
- The annual pension increase has been above the valuation assumption.

All these factors impact negatively on the funding position, which has deteriorated significantly.

So far, this has not affected contributions paid by employers whose rates were set by the 2007 valuation. However, it has affected rates set for new employers and terminal valuations.

Section 9 – Tyne and Wear Pension Fund Accounts

Statement of the Actuary for the year ended 31st March 2009

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

Actuarial Position

1. Rates of contributions paid by the participating Employers during 2008/09 were based on the actuarial valuation carried out as at 31st March 2007.

2. The valuation as at 31st March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £3,726.5m) covering 79% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration. The main reasons for the improvement in the funding ratio since 31st March 2004 were higher than expected investment returns on the Fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations, the removal of a smoothing adjustment to the asset value used at the previous valuation and longevity improvements.

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

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

Plus

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

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

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.
- Changes were made consistent with the Finance Act 2004.
- A new scheme had been put in place, which came into effect as at 1st April 2008. All existing members transferred to the new scheme as at that date.

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

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

   Contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31st March 2010.

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

7. The main actuarial assumptions were as follows:

   Discount rate for periods

   Scheduled Bodies

Pre-retirement discount rate:	6.6% a year
Post-retirement discount rate:	5.6% a year

   Admitted Bodies

In service discount rate:	6.2% a year
Left service discount rate:	5.2% a year

Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% a year
Valuation of assets	market value

8. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow Limited), for inclusion in the accounts of the Council of the Borough of South Tyneside. It provides a summary of the results of the actuarial valuation, which was carried out as at 31st March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

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

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

Hewitt Associates Limited
22nd May 2009

Section 9 – Tyne and Wear Pension Fund Accounts

Fund Account

The comparative figures for 2007/08 have been restated to take account of the requirement of the Statement of Recommended Practice 2008 to value investments on a bid price or fair value basis and not mid price or economic exposure basis from the 1st April 2008.

2007/08 £m (as restated)		Note	2008/09 £m
	Contributions and Benefits		
(195.342)	Contributions Receivable - Employers	3	(208.638)
(52.576)	Contributions Receivable - Employees	3	(59.806)
(11.221)	Transfers In	4	(11.055)
(259.139)	**Total Contributions**		**(279.499)**
159.087	Benefits Payable	5	166.472
11.494	Leavers	6	6.774
2.713	Administrative Expenses	7	2.680
173.294	**Total Benefits**		**175.926**
(85.845)	**Net Additions from Dealings with Members**		**(103.573)**
	Returns on investments		
(88.102)	Investment Income	8	(85.268)
4.367	Non-Recoverable Tax	8	3.929
211.292	Change in Market Value of Investments	9	754.000
7.102	Investment Management Expenses	10	5.865
134.659	**Net Returns on Investments**		**678.526**
48.814	**Net (Increase) / Decrease in the Fund During the Year**		**574.953**
3,726.505	**Net Assets of the Fund at 1st April**		**3,677.691**
3,677.691	**Net Assets of the Fund at 31st March**		**3,102.738**

Section 9 – Tyne and Wear Pension Fund Accounts

Net Assets Statement

31st March 2008 (as restated) £m		Note	31st March 2009 £m
3,677.528	Investment Assets	9	3,092.885
(11.247)	Investment Liabilities		(11.263)
25.116	Current Assets	11	28.220
(13.706)	Current Liabilities	11	(7.104)
3,677.691	**Net Assets of the Fund at 31st March**		**3,102.738**

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary, which is attached. The financial statements should be read in conjunction with the Actuary's statement.

Section 9 – Tyne and Wear Pension Fund Accounts

Notes to the Tyne and Wear Pension Fund Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (SORP) (Financial Reports of Pension Schemes), revised May 2007, and subject to note 5 follow the 2008 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Accounting Policies

Change in Accounting Policy

The 2008 Code of Practice on Local Authority Accounting introduced the requirement to value investment assets, including derivatives, on a bid or fair value basis rather than on the mid market price or economic exposure basis.

To ensure an appropriate comparison is made between the 2008/09 financial statements and those for 2007/08, the value of the 2007/08 investment assets has been restated on the new bid or fair value basis.

The one exception to this is the Net Assets of the Fund as at 1st April 2007, as shown in the Fund Account. This has been valued under the previous SORP valuation practices on a mid basis at £3,726.505m. This balance has not been restated owing to the difficulty in obtaining valuations for 1st April 2007 on a bid basis. From a review of information available, the Fund considers that there is no material difference between valuations on the mid and on the bid price basis.

The inability to restate the Net Assets as at 1st April 2007 means that the Change in Market Value of Investments on the Fund Account for 2007/08 includes the impact of moving from a mid valuation as at 1st April 2007 to a bid valuation as at 31st March 2008.

The overall impact of the restatement is to reduce the Net Assets of the Fund as at 31st March 2008 by £5.531m from £3,683.222m to £3,677.691m.

The following table shows the impact of this restatement on each category of investment:

Section 9 – Tyne and Wear Pension Fund Accounts

31st March 2008 Mid Price (not published) £m		31st March 2008 Current Bid Price £m
	Investments	
196.999	Fixed Interest Securities	138.419
1,513.652	Equities	1,511.121
49.692	Index-Linked Securities	49.580
1,570.841	Pooled Investment Vehicles	1,568.034
-	Derivative Contracts	(1.205)
340.650	Properties	340.650
54.667	Cash Deposits	54.667
(54.689)	Other investment Balances	5.015
3,671.812		**3,666.281**
25.116	Current Assets	**25.116**
(13.706)	Current Liabilities	**(13.706)**
3,683.222	**Net Assets of the Fund at 31st March**	**3,677.691**

The most significant changes in the table above relate to the different accounting treatment for derivatives under the new SORP. This has impacted on the valuations for fixed interest securities, Derivative contracts and other investment balances. Derivate contracts were previously presented using the economic exposure methodology, rather than at fair value. Prior year comparatives have been restated to remove the economic exposure amounts and replace them with fair value amounts, as follows:

	As previously reported £m	Adjustment £m	As restated £m
Fixed Interest Securities	196.999	(58.580)	138.419
Derivative Contracts	-	(1.205)	(1.205)
Other Investment Balanc	(54.689)	59.704	5.015

Where assets have been restated as at 31st March 2008, this is clearly shown in the heading above the table.

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 2009.

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 2009 as valued by the Investment Manager responsible for such vehicles.

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

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

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2009.

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

The fair value of forward currency contracts is based on exchange rates at the year-end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31st March 2009.

Properties are shown as valued at 31st March 2009. 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.

Investment Transactions

Investment transactions that were not settled as at 31st March 2009 have been accrued.

Transaction costs are included in the cost of purchases and 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 2009.

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 2009 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2009.

Investment Management Expenses

Investment management expenses payable as at 31st March 2009 have been accrued.

Debtors and Creditors

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

Section 9 – Tyne and Wear Pension Fund Accounts

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2009.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2009 have been accrued.

The presentation of the information on contributions in the prior year has been restated to be consistent with the current year and as required by the new SORP. Total contributions remain unchanged.

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 other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on a payments/receipts basis.

3. Contributions Receivable

2007/08 £m		2008/09 £m
	Employers	
(128.263)	Normal	(140.917)
(66.661)	Deficit Funding	(67.418)
(0.418)	Augmentation	(0.303)
(195.342)		**(208.638)**
	Members	
(51.823)	Normal	(59.051)
(0.753)	In-House Additional Voluntary Contributions	(0.755)
(52.576)		**(59.806)**
(247.918)	**Total Contributions Receivable**	**(268.444)**

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

2007/08 £m		2008/09 £m
(22.018)	South Tyneside Council (Administering Authority)	(23.666)
(147.628)	Other Metropolitan Councils	(158.694)
(47.003)	Other Part 1 Scheduled Bodies	(52.759)
(10.864)	Part 2 Scheduled Bodies	(10.232)
(20.405)	Admitted Bodies	(23.093)
(247.918)	**Total Contributions Receivable**	**(268.444)**

Section 9 – Tyne and Wear Pension Fund Accounts

4. Transfers In

During the year, individual transfers in from other schemes amounted to £11.055m (£11.221m in 2007/08). There were no bulk transfers in during 2008/09 or 2007/08.

5. Benefits Payable

2007/08 £m		2008/09 £m
131.132	Pensions	139.263
35.741	Commutations and Lump Sum Retirement Benefits	34.064
2.559	Lump Sum Death Benefits	3.685
(10.345)	Recharges out	(10.540)
159.087	**Total Benefits Payable**	**166.472**

The financial year 2008/09 is the first time that the Fund has been able to produce the analysis of benefits by type of member body, therefore the comparative figures for 2007/08 are not available. In this respect, the accounts do not comply with the 2008 Code of Practice on Local Authority Accounting.

	2008/09 £m
South Tyneside Council (Administering Authority)	17.049
Other Metropolitan Councils	109.327
Other Part 1 Scheduled Bodies	20.267
Part 2 Scheduled Bodies	5.919
Admitted Bodies	13.910
Total Benefits Payable	**166.472**

6. Leavers

2007/08 £m		2008/09 £m
11.462	Individual Transfers to Other Schemes	6.745
0.048	Refunds to Members Leaving Service	0.042
(0.016)	State Scheme Premiums	(0.013)
11.494	**Total Leavers**	**6.774**

There were no bulk transfers out of the scheme in 2008/09 or 2007/08.

7. Administration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended, permit costs incurred in connection with the administration of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

2007/08 £m		2008/09 £m
1.509	Employee Expenses	1.590
0.437	Support Services Recharge	0.441
0.035	Audit Fees	0.050
0.356	External Computing Costs	0.136
0.086	Printing / Publications	0.115
0.255	Professional Fees	0.314
0.041	Other Expenses	0.041
(0.006)	Income	(0.007)
2.713	**Total Administration Expenses**	**2.680**

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

8. Investment Income

2007/08 £m		2008/09 £m
(7.360)	Fixed Interest Securities	(1.104)
(50.640)	Equities	(50.746)
(0.941)	Index-Linked Securities	(0.512)
(6.964)	Pooled Investment Vehicles	(11.841)
(18.413)	Net Rents from Properties	(18.517)
(2.955)	Cash Deposits	(1.688)
(0.746)	Securities Lending	(0.597)
(0.083)	Commission Recapture	(0.103)
-	Underwriting Commission	(0.160)
(88.102)	**Sub-Total**	**(85.268)**
4.367	Non-Recoverable Tax	3.929
(83.735)	**Total Investment Income**	**(81.339)**

9. Investments

31st March 2008 (as restated) £m		31st March 2009 £m
	Investment Assets	
138.419	Fixed Interest Securities	1.553
1,511.121	Equities	891.996
49.580	Index-Linked Securities	19.930
1,568.034	Pooled Investment Vehicles	1,858.658
0.599	Derivative Contracts	0.072
340.650	Properties	259.610
54.667	Cash Deposits	51.689
14.458	Other Investment Balances	9.377
3,677.528	**Total Investment Assets**	**3,092.885**
	Investment Liabilities	
(1.804)	Derivative Contracts	(0.264)
(9.443)	Other Investment Balances	(10.999)
(11.247)	**Total Investment Liabilities**	**(11.263)**
3,666.281	**Net Investment Assets**	**3,081.622**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	Value at 1st April 2008 Restated £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2009 £m
Fixed Interest Securities	138.419	52.181	(191.553)	2.506	1.553
Equities	1,511.121	1,180.255	(1,416.272)	(383.108)	891.996
Index-Linked Securities	49.580	60.550	(80.730)	(9.470)	19.930
Pooled Investment Vehicles	1,568.034	1,334.190	(787.804)	(255.762)	1,858.658
Derivative Contracts	(1.205)	5.335	(9.647)	5.325	(0.192)
Properties	340.650	34.877	-	(115.917)	259.610
	3,606.599	**2,667.388**	**(2,486.006)**	**(756.426)**	**3,031.555**
Cash Deposits	54.667	4.221	(10.375)	3.176	51.689
Other Investment Balances	5.015	5.089	(10.976)	(0.750)	(1.622)
Total Investments	**3,666.281**	**2,676.698**	**(2,507.357)**	**(754.000)**	**3,081.622**

Section 9 – Tyne and Wear Pension Fund Accounts

31st March 2008 (as restated)		31st March 2009 £m
	Fixed Interest Securities	
78.992	UK Public Sector	1.553
3.915	UK Other	-
55.512	Overseas Public Sector	-
138.419	**Total Fixed Interest Securities**	**1.553**
	Equities	
536.150	UK Quoted	165.413
951.210	Overseas Quoted	690.921
-	UK Unquoted	3.300
23.761	Overseas Unquoted	32.362
1,511.121	**Total Equities**	**891.996**
	Index Linked Securities	
26.691	UK Public Sector	14.082
6.750	UK Non Public Sector	5.848
16.139	Overseas Public Sector	-
49.580	**Total Index-Linked Securities**	**19.930**
	Pooled Investment Vehicles	
106.361	Unit Trusts	69.621
918.368	Unitised Insurance Policies	1,090.465
543.305	Other Managed Funds	698.572
1,568.034	**Total Pooled Investment Vehicles**	**1,858.658**
	Derivative Contracts	
0.599	Futures Contracts	(0.264)
(1.804)	Forward Foreign Currency Contracts	0.072
(1.205)	**Total Derivative Contracts**	**(0.192)**
	Properties	
311.850	Freehold	239.870
28.800	Long Leasehold	19.740
340.650	**Total Properties**	**259.610**
	Cash Deposits	
32.080	Sterling	36.301
22.587	Foreign Currency	15.388
54.667	**Total Cash Deposits**	**51.689**
	Other Investment Balances	
(0.599)	Amounts Due for Variation Margin	0.264
(2.149)	Outstanding Trades	(3.955)
12.023	Outstanding Dividends & Tax Recove	7.062
2.435	Debtors	2.051
(6.695)	Creditors	(7.044)
5.015	**Total Other Investment Balances**	**(1.622)**
3,666.281	**Total Investments**	**3,081.622**

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 £6.756m (£5.560m in 2007/08). In addition to the transaction costs noted above, costs will be incurred within pooled investment vehicles. The amount of these costs is not provided separately to the Fund.

10. Investment Management Expenses

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

2007/08 £m		2008/09 £m
6.869	Administration, Management and Custody	5.718
0.093	Performance and Risk Measurement Services	0.087
0.140	Other Advisory Fees	0.060
7.102	**Total Investment Management Expenses**	**5.865**

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

11. Current Assets and Liabilities

Previously, current assets and liabilities have been disclosed as an overall net balance within the accounts. To comply with the 2007 SORP, this year the current assets and liabilities have been shown separately and the prior year comparatives have been restated.

31st March 2008 (as restated) £m		31st March 2009 £m
	Current Assets	
4.434	Contributions and Recharges Due - Employees	4.718
20.406	Contributions and Recharges Due - Employers	23.278
0.115	Investment Management Expenses	0.088
0.161	Other	0.136
25.116	**Total Current Assets**	**28.220**
	Current Liabilities	
(5.607)	Unpaid Benefits	(2.473)
-	Contributions and Recharges Due - Employers	(0.336)
(1.120)	Inland Revenue	(1.170)
(2.918)	Investment Management Expenses	(1.906)
(4.061)	Other	(1.219)
(13.706)	**Total Current Liabilities**	**(7.104)**

12. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the Local Government Pension Scheme, with the contributions being invested as 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 Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended, these amounts are not credited to the Fund and as such are excluded from the Fund's accounts.

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

During 2008/09, £1.008m of contribution income was received into the AVC funds provided by The Prudential (£0.908m during 2007/08). As at 31st March 2009, these funds were valued at £7.653m (£7.490m as at 31st March 2008).

During 2008/09, £0.004m contribution income was received into the AVC funds operated by Equitable Life (£0.006m during 2007/08). As at 31st March 2009, these funds were valued at £0.576m (£0.663m as at 31st March 2008).

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

13. Analysis of Investments Over Managers

The Fund employed seven specialist external investment managers on fourteen investment mandates as at 31st March 2009. 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 UK Equity mandate with Fidelity was terminated during the year.

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

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

Investments have been made in two infrastructure funds managed by Henderson Global Investors and M&G.

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

31st March 2008 (as restated) £m			31st March 2009 £m	
		Investment Managers		
340.650	9.3%	Aberdeen Property Investors	259.610	8.4%
358.056	9.8%	Capital International - Global Equities	281.931	9.2%
95.724	2.6%	Capital International - Emerging Markets	73.656	2.4%
383.237	10.5%	Fidelity Pensions Management	-	0.0%
311.241	8.5%	Henderson Global Investors	320.103	10.4%
658.337	18.0%	Legal and General Investment Management	904.915	29.4%
309.239	8.4%	M&G	215.996	7.0%
293.295	8.0%	Schroder Investment Management	247.890	8.0%
532.588	14.5%	UBS Global Asset Management	392.677	12.7%
100.255	2.7%	Active Currency	63.986	2.1%
216.412	5.9%	Private Equity	272.874	8.9%
49.380	1.3%	Infrastructure	31.467	1.0%
17.867	0.5%	Managed In-House	16.517	0.5%
3,666.281	**100.0%**	**Total Investments**	**3,081.622**	**100.0%**

14. Investment Performance

The credit crisis led to extreme market volatility in 2008/09. Global equity markets fell sharply in value. The European and UK markets were the worst affected, falling by 31.1% and 29.3% respectively.

The fall in equity markets led investors to seek the safer haven of gilts, which rose by 10.3%. Index-linked gilts fell by 2.8%. Property continued to suffer a strong market correction, with a fall of 25.5% in the year. Consequently, the value of UK pension fund assets fell in 2008/09 for the second year running.

The Fund's return for the year was –17.8%, which was 1.3% above its benchmark return of -19.1%. Inflation, as measured by the Retail Price Index, fell by 0.4% and average earnings increased by 3.0%.

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 3.3% per annum. This is 0.1% below the Fund's benchmark return for the period of 3.4% per annum. This underperformance is largely attributable to below benchmark returns from certain of the Fund's active equity managers and to very poor returns from the active currency mandates. The return is in line with inflation at 3.3% per annum and above the increase in average earnings at 3.0% per annum.

15. Taxation

UK Tax

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

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

Overseas Tax

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

16. Derivatives

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

Futures

As at 31st March 2009, the Fund held 147 June 2009 Long Gilt Futures contracts which had a book value of £18.071m and an economic exposure value of £18.112m.

As at 31st March 2009, the Fund held 386 June 2009 Long European Equity Futures which had a book value of £7.431m and an economic exposure value of £7.126m.

The overall futures position as at 31st March 2009 is shown below:

Type of Future	Expiration	Economic Exposure Value £m	Market Value £m
UK Gilt - exchange traded	June 2009	18.112	0.041
European Equities - exchange traded	June 2009	7.126	(0.305)
		25.238	**(0.264)**

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments and to take strategic foreign currency positions. As at 31st March 2009, the Fund held three positions in the Swiss Franc that together showed an unrealised profit of £0.072m, as shown in the table below:

Type of Forward Foreign Currency Contracts			Market Value £m
One Month - Over the Counter	Bought GBP/Sold CHF		0.072
		-	**0.072**

These positions were settled in April 2009 at an overall profit of £0.213m.

17. Securities Lending

The securities lending programme is operated through the Fund's custodian, Northern Trust. The Fund suspended its programme in September 2008 due to market turmoil and resulting concern over counterparty risk. Therefore, the Fund had no stock out on loan as at 31st March 2009 (£207.701m as at 31st March 2008).

31st March 2008 £m		31st March 2009 £m
29.910	Fixed Interest Securities	-
10.095	Index-Linked Securities	-
116.309	UK Equities	-
51.387	Overseas Equities	-
207.701	**Total Securities Lending**	**-**

As the Fund did not have any assets on loan as at 31st March 2009, it did not hold any collateral.

31st March 2008 £m		31st March 2009 £m
11.637	Cash	-
141.460	Fixed Interest	-
72.043	Equities	-
225.140	**Total Collateral**	**-**

The value of the assets shown in the two tables above is on a mid basis and not on a restated bid basis. This is the standard methodology for valuing securities on loan so bid pricing is not available.

18. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2009, there was one commitment outstanding which had a potential liability of £3.331m. The Fund was later released from this commitment without having to take up any shares.

19. Significant Holdings

As at 31st March 2009, the Fund had two holdings that 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 2009, this was valued at £904.915m and represented 29.4% of the total net assets of the Fund. During 2008/09, a new fund was contracted into so as to split the insurance contract into six individual funds, representing six different asset classes, as follows:

31st March 2008 (as restated) £m		31st March 2009 £m
389.977	UK Equities	673.515
-	European Equities	23.559
112.819	North America Equities	97.156
38.725	UK Gilts	10.916
27.073	AAA Fixed Interest	28.946
89.743	Index-Linked Gilts	70.823
658.337	**Total**	**904.915**

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2009, this was valued at £185.551m (£260.033m as at 31st March 2008, restated) and represented 6.0% of the total net assets of the Fund.

20. Outstanding Commitments

As at 31st March 2009 the Fund had twenty-seven outstanding commitments to investments:

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
		m	m	m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$48.4	$6.6	£4.6
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$32.9	$13.1	£9.1
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$6.0	$2.0	£1.4
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$20.3	$7.7	£5.4
Capital North East	2002	£1.5	£1.4	£0.1	£0.1
HarbourVest Partners 2004 Direct Fund	2004	$30.0	$29.6	$0.4	£0.3
Capital International Private Equity Fund IV	2004	$18.0	$16.9	$1.1	£0.8
HarbourVest International Private Equity Partners V - Partner	2005	€ 100.0	€ 52.5	€ 47.5	£44.0
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€ 23.4	€ 6.6	£6.1
Pantheon Asia Fund IV	2005	$20.0	$9.2	$10.8	£7.5
Pantheon Europe Fund IV	2005	€ 25.0	€ 14.6	€ 10.4	£9.6
Pantheon USA Fund VI	2005	$30.0	$20.5	$9.5	£6.6
Lexington Capital Partners VI-B	2005	$30.0	$22.5	$7.5	£5.2
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$37.0	$75.0	£52.3
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$21.3	$34.7	£24.2
Pantheon Europe Fund V	2006	€ 35.0	€ 12.4	€ 22.6	£20.9
Pantheon USA Fund VII	2006	$35.0	$10.0	$25.0	£17.4
Coller International Partners V	2006	$30.0	$12.5	$17.5	£12.2
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$9.8	$20.2	£14.1
Pantheon Asia Fund V	2007	$20.0	$4.2	$15.8	£11.0
Pantheon Europe Fund VI	2007	€ 40.0	€ 6.4	€ 33.6	£31.1
Pantheon USA Fund VIII	2007	$35.0	$3.5	$31.5	£22.0
Capital International Private Equity Fund V	2007	$35.0	$12.3	$22.7	£15.8
Co-Investment Partners Europe	2007	€ 30.0	€ 12.6	€ 17.4	£16.1
Partners Group 2006 Direct Fund	2007	€ 30.0	€ 26.2	€ 3.8	£3.5
Infracapital	2007	£35.0	£23.5	£11.5	£11.5
Pantheon International Participations	2008	£10.0	£3.3	£6.7	£6.7
Total Outstanding Commitments					**£359.5**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2009.

21. Related Party Transactions

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

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

Section 9 – Tyne and Wear Pension Fund Accounts

During 2008/09, South Tyneside Council charged the Fund £0.719m (£0.713m in 2007/08) in respect of services provided, primarily financial, legal and information technology. The Fund charged South Tyneside Council £0.048m (£0.047m in 2007/08) in respect of Treasury Management services.

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

22. Policy Documents

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

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

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

Section 9 – Tyne and Wear Pension Fund Accounts

Organisations Participating in the Fund as at 31st March 2009

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

Other Part 1 Scheduled Bodies
Academy 360
City of Sunderland College
Excelsior Academy
Former North East Regional Airport
Former Tyne and Wear County Council
Former Tyne and Wear Residuary Body
Gateshead College
Gateshead Housing Company
Monkwearmouth College
National Probation Service - Northumbria
Newcastle College
Newcastle Education Action Zone
North Tyneside College
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria University
South Tyneside College
South Tyneside Education Action Zone
South Tyneside Homes
Sunderland Education Action Zone
Tyne and Wear Fire and Rescue Service
Tyne and Wear Passenger Transport Authority
Tyne Metropolitan College
Tynemouth College
University of Sunderland
Wearside College
Your Homes Newcastle

Part 2 Scheduled Bodies
Birtley Town Council
Blakelaw and North Fenham Parish Council
Blue Square Trading
Learning World
Nexus

Admitted Bodies
Age Concern Newcastle
Assessment and Qualifications Alliance
Association of North East Councils
Balfour Beatty
Baltic Arts Flour Mills
Benton Grange School
Benwell Young Peoples Development Project
Bovis Lend Lease (BLL)
Brunswick Young Peoples Project
BT South Tyneside Ltd
Bullough Contracts Services
Carillion Services Ltd
Catholic Care North East
CBS Outdoor Limited
Community Action on Health
Compass Group UK and Ireland
Disability North
Gateshead Law Centre
Gentoo Group Ltd
Gentoo Group Ltd (TUPE)
Hebburn Neighbourhood Advice Centre
Higher Education Funding Council for England
Information North (Northern Regional Library System)
Insitu Cleaning
International Centre for Life
Jarvis Accommodation Services Limited
Jarvis-Sandhill View

Admitted Bodies

Kenton Park Sports Centre
Managed Business Space Limited
Mitie Cleaning (North) Limited
Mitie PFI (Boldon)
Mitie PFI Limited
Morrison Facilities Services Limited 1
Morrison Facilities Services Limited 2
Morse
Museums Libraries and Archives North East
National Car Parks Limited
National Glass Centre
Newcastle Family Service Unit
Newcastle Healthy City Project
Newcastle International Airport
Newcastle Law Centre
Newcastle Tenants Federation
Newcastle Theatre Royal Trust Limited
Newcastle West End Partnership
Newcastle Youth Congress
No Limits Theatre
Norcare
Norland Road Community Centre
North East Innovation Centre Company Limited
North East Regional Employers Organisation
Northern Arts Association
Northern Council for Further Education
Northern Counties School for the Deaf
Northern Grid for Learning
North Tyneside Child Care Enterprise
North Tyneside City Challenge
North Tyneside Disability Advice Centre
Northumbria Tourist Board
One North East
Ouseburn Trust
Parsons Brinkerhoff
Passenger Transport Company
Percy Hedley Foundation
Port of Tyne Authority
Praxis Service
Raich Carter Sports Complex
Saint Mary Magdalene and Holy Jesus
Saint Mary the Virgin Estate Management Charity
Scolarest
Scolarest PFI Boldon
Search Project
Simonside Community Centre
Southern Electric Contracting Limited
South Tyne Football Trust
South Tyneside Groundwork Trust
South Tyneside Victim Support
Stagecoach Travel Services
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust Limited
Sunderland Outdoor Activities
Sunderland Streetlighting Limited
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
TT2 Limited
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust
Tyne and Wear Play Association
Tyner and Wear Small Business Service
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Tyne Waste Limited
Valley Citizens Advice Bureau
Walker Profiles (North East) Limited
Wallsend Citizens Advice Bureau
Wallsend Peoples Centre
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 10 – Glossary of Financial Terms

Glossary of Financial Terms

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

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

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

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

Arms Length Management Organisation
Procurement option whereby a company is created to deliver the housing service on behalf of the Council. Whilst the Council still retains some management control the company is able to pursue additional funding sources and so deliver more regeneration to the Borough.

Area Based Grant
Unringfenced grant received from Government. The grant was introduced in 2008/09, bringing together a number of existing grants and removing any ring fencing requirements.

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

Audit Commission
An independent body established by the 1982 Local Government Finance Act, which is responsible for appointing auditors to Local Authorities.

Balance Sheet
A primary financial statement showing a snapshot of the assets and liabilities of an organisation at a given point in time.

Budgets
A statement of the Council's forecast expenditure, that is, net Income and Expenditure for the year.

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

Section 10 – Glossary of Financial Terms

Capital Expenditure
Spending on the acquisition of a tangible or intangible asset, or which enhances the value of an existing asset. Other types of expenditure can be capitalised but only with the express permission of the Secretary of State.

The **Capital Adjustment Account** shows the effect of financing capital expenditure from external sources and the impact of depreciation and impairment charges compared to the Minimum Revenue Provision, which the Council has to make.

Capital Receipts
Receipts that are generated by the disposal of fixed assets or classified under statute by the Secretary of State. Part of the monies received can be retained by the Authority and used to finance capital expenditure or repay debt. The balance is paid over to central Government.

Capitalisation Directions
These are approvals issued by Department for Communities and Local Government (DCLG) that allow authorities to capitalise costs that would not normally fall within the definition of capital expenditure. This has included exceptional redundancy costs and the back pay elements of Equal Pay and Equal Value settlements.

CIPFA
Chartered Institute of Public Finance and Accountancy.

Collection Fund
Section 89 of the Local Government Finance Act 1988 requires each Council with the power to raise Council Tax bills (a billing authority) to maintain a collection fund. Council Tax is held in this fund and it should be sufficient to cover expenditure relating to the precepts of the Fire and Police Authorities and the net expenditure of the billing authority, after taking account of Business Rate income and General Government Grants.

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

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent 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.

Section 10 – Glossary of Financial Terms

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

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

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

Current Service Cost
This is the actuarial estimate of the present value of full pensions benefits earned current employees in the year under review.

Curtailment
For a defined benefit pension scheme this is an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples 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 fixes as an amount or a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all the employees benefits relating to employee service in the current or prior periods. A defined benefit scheme is a pension or retirement benefit scheme other than a defined contribution scheme.

Depreciation
A method of measuring the wearing out (consumption) of a fixed asset during its useful life.

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

Existing Use Value – Social Housing
This is a vacant possession valuation of the Council dwellings adjusted to reflect the continuing occupation by a secure tenant. A further adjustment is made to reflect the difference between open market rented property and social rented property.

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

Section 10 – Glossary of Financial Terms

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

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

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

Financial Reporting Standards (FRS)
The nationally recognised set of accounting standards agreed by the Accounting Standards Board. These represent the accounting treatment to be followed by all commercial organisations in the United Kingdom when preparing their accounts. Local Authority accounts are expected to accord with FRS except where the Government considers their principles to be inappropriate or considers others to be more appropriate to Local Government accounting and reporting.

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

General Fund
The General Fund includes the expenditure and income relating to the services provided by the Authority but excluding Housing Revenue Account activities. The net expenditure on the General Fund is compared to the charge levied upon the Collection Fund and results in a surplus or deficit that will increase or decrease the reserves of the Council. The General Fund's expenditure includes the Passenger Transport Authority's levy.

Going Concern
An assumption that the Authority will continue in operational existence for the foreseeable future.

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

Housing Revenue Account (HRA)
The provision, management and maintenance of Council house accommodation is required by law to be accounted for separately in a Housing Revenue Account. The account records the net cost after specific Government subsidy that needs to be met by Council tenants. In general the Council cannot transfer sums between the General Fund and the Housing Revenue Account.

Section 10 – Glossary of Financial Terms

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

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

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

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

Joint Venture
An entity in which the Authority has an interest on a long-term basis and is jointly controlled with one or more other entities under a contractual or other binding arrangement

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

Liability
A financial obligation, any debt or money owed.

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

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

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

Minimum Revenue Provision (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.

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

Section 10 – Glossary of Financial Terms

Net Book Value
The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation and impairment.

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

Operating Leases
Leases other than a finance lease.

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

The **Pension Reserve** is the amount set aside to offset the FRS17 Pension Liability.

Post Balance Sheet Events
Those events that occur between the balance sheet date and the date on which the statement of accounts is signed by the Head of Finance.

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

Private Finance Initiative
A method of 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.

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

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

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

and chief officers are required as a result of the incorporation of FRS8 into the Local Authority SORP.

Reserves
Amounts set aside for purposes falling outside the definition of Provisions are considered as Reserves – expenditure is not charged direct to any Reserve.

Revaluation Reserves
Records the accumulated gains on the fixed assets held by the Authority from increases in value.

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

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

Revenue Expenditure funded from Capital under Statute
Represents items of expenditure which by definition are not capital but where the Authority has a statutory powers to treat and fund as capital expenditure.

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

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

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

Subsidiary
An entity wholly owned or controlled by the Authority.

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

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