STATEMENT OF ACCOUNTS

2006/07

December 2007

South Tyneside Council

South Tyneside Council

2006/07 Statement of Accounts

Contents **Page**

Foreword by the Head of Finance 4

Auditor's Report 18

Statement of Accounting Policies 22

Statement of Responsibilities for the Accounts 34

Statement of Assurance 36

Core Financial Statements

- Income and Expenditure Account 42
- Statement of Movement on the General Fund Balance 44
- Statement of Total Recognised Gains and Losses 45
- Balance Sheet 46

- Cash flow Statement 49
- Notes to Core Financial Statements 52

Group Financial Statements
- Income and Expenditure Account 100
- Reconciliation of the Single Entity Surplus/Deficit to the Group 103
- Statement of Total Recognised Gains and Losses 104
- Balance Sheet 105
- Cash flow Statement 108
- Notes to Group Financial Statements 111

Supplementary Financial Statements
- Housing Revenue Account 125
- Collection Fund Revenue Account 141

Tyne and Wear Pension Fund Accounts 144

Glossary of Financial Terms 174

Foreword by the Head of Finance

1. Introduction

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 three-year horizon. This Statement of Accounts looks back at our results over the past financial year and provides stakeholders with an up to date view of the Council's financial position.

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 financial control.

These accounts set out the results of Council activities for the year ended 31st March 2007 and outline our financial position at that date.

This foreword should allow the reader to:

- Review the Council's financial results and financial standing for 2006/07.
- Understand the activities and significant matters which took place during 2006/07 and had an impact on Council finances.
- Review and understand the principal financial statements.

2. Delay in Production of Accounts

Normally our accounts would have been published last September however a number of issues remained to be resolved at that time leading in a delay in the audit sign off of our accounts.

- A discrepancy between our year-end bank statement and the amount shown by our general ledger was still not fully resolved.

- A reconciling item in the Statement of Total Recognised Gains and Losses reflecting the deficit or surplus arising on revaluation of fixed assets had not been agreed to the other statements in the accounts.

- Due to the delay in pulling together our Group Accounts statements the external audit review was still outstanding

These issues have now been resolved and all necessary adjustments are reflected in these audited accounts.

3. Overview of Financial Position 2006/07

Although the Council has faced significant revenue spending pressures during 2006/07, we have successfully achieved an underspend position of £0.601m at the year-end. This was brought about through our "one-team" approach, which encouraged us to tackle the budget pressures in a corporate way. Before the year-end adjustments set out in section 3, all Directorates returned revenue underspends for 2006/07 and, as a result, the Council has been able to further strengthen its financial position by increasing the level of strategic reserves.

During the year, the Council received a one-off special dividend of £7.8m from Newcastle Airport. It was agreed that this would be credited to the reserves in order to manage the Council's significant financial risks. This, and the reported underspend for 2006/07, has improved the position of the reserves held by the Council. The Council now has a risk-based reserves policy, which is designed to provide for the significant corporate financial risks.

The Council continues to face and manage significant cost pressures relating to demand for social care, teacher redundancies and the revenue impact of equal pay claims.

The Council had a capital programme of £71.878m during 2006/07. During recent years, improvements in the management of our capital programme have improved our delivery and ensured that the number and value of carry forwards has been reduced.

4. Revenue Financial Summary 2006/07

The table below summarises revenue spending during 2006/07 and how this has been financed. Management accounts are reviewed rigorously on a monthly basis and are reported to the Executive Team each month as part of the overall performance monitoring framework adopted by the Council. The management accounts are then reported to the Cabinet and the Regeneration and

Resources Scrutiny Committee on a quarterly basis.

Certain budget adjustments were required during the year to reflect new budget management arrangements. These were:

- The review of the Council budgets agreed early in the financial year due to the reorganisation of the Council from five Directorates to three.
- Some of the responsibilities for Community Education were transferred from Children and Young People to Neighbourhood Services.
- Responsibility for the Strategic Partnership was also transferred from the Chief Executive's Office to Regeneration and Resources.

Further budget adjustments were required at year-end in order to comply with statutory reporting requirements. These were:

- Budget transfers from Children and Young People to Regeneration and Resources for redundancy and pension payments to teachers in order to comply with the Accounting Code of Practice categorisation of expenditure.
- New statutory accounting arrangements were introduced in the Statement of Recommended Practice 2006 that removed the requirement for a notional charge for capital. Instead of being allocated to services, the majority of these budgets are now held centrally within the Regeneration and Resources Directorate. This represents a change from our original budget for 2006/07.
- In line with the Best Value Accounting Code of Practice, the expenditure for past service pension costs is shown as a Non Distributed Cost rather than as a cost of services. To bring our management reporting in line with this requirement, we transferred budgets to Regeneration and Resources from the other Directorates.

2006/07 Revenue Financial Summary	Original Budget £m	Revised Budget £m	Actual £m	Variance £m
Chief Executive Office	0.744	0.200	0.096	(0.104)
Children and Young People	118.743	114.455	114.308	(0.147)
Neighbourhood Services	83.624	85.181	84.414	(0.767)
Regeneration and Resources	13.254	16.529	16.946	0.417
Total Revenue Spending	**216.365**	**216.365**	**215.764**	**(0.601)**
Revenue Support Grant	12.775	12.775	12.775	-
Dedicated Schools Grant	82.912	82.607	82.607	-
National Non-Domestic Rates	66.855	66.855	66.855	-
Contribution from Collection Fund	0.143	0.143	0.143	-
Council Tax Payers	50.490	50.490	50.490	-
Contribution to / from Other Earmarked Reserves	0.187	0.187	0.187	-
Contribution to / from Council General Reserves	3.003	3.308	2.707	(0.601)
Total Revenue Funding	**216.365**	**216.365**	**215.764**	**(0.601)**

Both types of budget adjustments are incorporated in the revised budget column in the following table:

The most significant **revenue spending variations** during the year were as follows:

Children and Young People

- The service faced £0.745m additional costs of redundancies for staff and teachers over the estimated budget provision due to increased numbers.
- There were also increased transport costs of £0.291m within the Directorate Support service.
- Adult and Community Learning suffered a reduction in grant income from the Learning and Skills Council.
- These were offset by savings in all areas within the budget recovery plan to produce an overall underspend.

Neighbourhood Services

- Whilst there were demand-led costs pressures within the Commissioning and Care budget especially for clients with Learning Disabilities, the service achieved a small underspend for the year.
- The Streetscape service experienced cost pressures within the Transport and Environmental Maintenance and Waste Management teams.
- Regulatory services produced an underspend position despite cost pressures within the area planning group due to reduced income.
- Community Education overspent by £0.239m due to increased energy costs and reduced income from the Learning and Skills Council.
- There have been overspends on indoor sports facilities, parks and libraries due to increased costs and reduced income. These costs were offset by other savings to produce an overall underspend within the Culture Service.

Regeneration and Resources

- Our asset portfolio faced additional office accommodation cost of £0.220m due to reorganisation and additional repairs and maintenance costs of £0.368m as well as a shortfall against estimated rental income of £0.229m. Savings elsewhere in the Directorate offset these cost pressures.
- Reduced insurance claims of £0.197m produced an overall underspend for the year for the Directorate before the year-end

adjustments set out in section 3. These adjustments took the Directorate into overspend for the year.

Chief Executive's Office

- The outturn showed significant savings from staffing costs and increased income from services provided to other bodies.

5. Capital Investment Financial Summary 2006/07

Expenditure on capital projects during the year was £61.446m of which £48.011m represented additions to fixed asset values. Receipts from the disposal of assets were used to fund 20% or £12.373m, grants and contributions 29% or £17.936m, Government borrowing approvals 12% or £7.388m, unsupported borrowing in line with the Prudential Code 16% or £9.540m, and the remaining 23% or £14.209m from revenue contributions. The following table summarises capital investment during 2006/07 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.

2006/07 Capital Investment Summary	Original Budget £m	Revised Budget £m	Actual Expenditure £m	Carry Forward Element £m	Spend Variance £m
Chief Executive Office	-	0.177	0.177	-	-
Children and Young People	7.880	16.068	13.400	2.703	0.035
Neighbourhood Services	41.626	34.430	30.124	4.244	(0.062)
Regeneration and Resources	11.249	21.203	17.745	3.453	(0.005)
Total Capital Spending	**60.755**	**71.878**	**61.446**	**10.400**	**(0.032)**

2006/07 Capital Financing Summary	Original Budget £m	Revised Budget £m	Actual Funding £m	Carry Forward Element £m	Spend Variance £m
Borrowing Approvals from Government	7.502	7.541	7.388	0.153	-
Unsupported Borrowing	6.845	9.817	9.540	0.276	-
Potential Supported ALMO Borrowing	17.277	-	-	-	-
Capital Receipts	7.337	19.707	12.373	7.304	(0.030)
Funding from Housing Revenue Account	12.033	13.877	13.858	0.020	-
Funding from General Fund Revenue	-	0.353	0.351	-	(0.002)
Government Grants	9.701	17.180	15.078	2.102	-
European Grants and Other Contributions	0.060	3.403	2.858	0.545	-
Total Capital Funding	**60.755**	**71.878**	**61.446**	**10.400**	**(0.032)**

Improvements made to the management of the Capital programme have ensured that not only have we underspent overall but we have delivered more of the programme during the year and therefore have a significantly smaller carry-forward position than last year.

The most significant **capital spending variations** during the year were as follows:

Chief Executive's Office

There were no over or underspends to be reported.

Children and Young People

The small overspend resulted primarily from the payment to release a restricted covenant on land to be used in the Boldon School PFI development.

Neighbourhood Services

There were variances on the following capital projects:

- Memorial Health and Safety expenditure was reclassified from capital to revenue saving £0.054m.
- Within the Housing Capital Programme there has been overspends of £0.496m on empty homes, £0.191m on replacing boilers and £0.147m on managing the capital programme. These were offset by savings in other areas such as communal aerials and provisions for outstanding payments in relation to older contracts.

Regeneration and Resources

There were no significant over or underspends to be reported.

Within the Capital programme there is £10.400m of funding to carry forward. This is significantly lower than the £20.173m that was carried forward last year.

The most significant **capital carry forwards** arising in 2006/07 were as follows:

Chief Executive's Office

There are no items to report.

Children and Young People

- There has been a delay in settling the final account with the Contractor at Horsley Hill Learning Campus. This has resulted in a carry forward of around £0.403m.
- The funding for Schools Devolved Capital commitments is ring fenced and £1.322m will be carried forward.
- There is slippage of £0.353m for the Building Schools for the Future programme.

Neighbourhood Services

- The most significant carry forward relates to the Cleadon park regeneration project where £2.353m is required to meet the costs of known capital commitments. The Boldon Colliery project also requires a carry forward of £0.220m.
- There has been some re-phasing of the Council's highways capital programme especially concerning work on bridges resulting in a carry-forward of £0.337m.
- Delays in take up of Private Sector Housing Improvement grants has led to a carry forward of £0.374m.
- Other carry forwards commitments include Fountain Park £0.135m, the Junior Gym £0.083m, the Integrated Transport Programme £0.120m and the retention payments for the Civic Amenities Site £0.211m.

Regeneration and Resources

- There are a number of carry forwards relating to the regeneration and transformation fund £0.608m and Tyne Gateway schemes £0.294m due to changes in external funding.
- We have provided for £0.479m from the Business Support Fund for known commitments.
- There is £1.373m carry forward of capital commitments from the ICT system and E-Government strategy projects.
- Other carry forward commitments include Riverside Maintenance £0.130m, Boiler Replacement programme £0.276m and other planned maintenance projects £0.174m.

6. Significant Matters

Pension Liability

As at 31st March 2007 the Council had a pension liability of £170.970m, (£181.820m in 2006) a decrease of £10.850m on the previous year. 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. Were the Council to cease operations this liability would have to be taken over by the successor body or ultimately funded by Central Government. The improved position on the liability reflects a better return on Pension Fund investments and additional contributions being made by the Council following the last triennial valuation of the Pension Fund.

Claims under the Equal Pay Act 1970

The Council has received a significant number of claims under the Equal Pay Act 1970. We have 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. Payments totalling £6.114m were capitalised in 2006/07 (£3.614m in 2005/06). The full cost of any forward looking element (which does not qualify for capitalisation) has been included in the Income and Expenditure Account

South Tyneside Homes Limited

On the 1st April 2006, the Council set up a new company, South Tyneside Homes Limited, to provide over 19,000 customers with excellent housing services and to maintain and improve their homes. South Tyneside Council is a 100% shareholder in South Tyneside Homes Limited.

Airport Shareholding

During the year the Council received a one-off special dividend of £7.8m from Newcastle Airport. This resulted in a downward revaluation of £3.385m in the value of the Council's shareholding.

7. Material Assets and Liabilities Acquired in Year

- At 31st March 2007 the Council held an additional £21.979m in short-term investments. This is primarily due to the investment of cash resources that were held in high interest earning deposit accounts in the previous year.
- Creditor balances have increased by £13.475m as a result of monies due to our newly created subsidiary company South Tyneside Homes Limited and an increase in general creditors as at 31st March.

8. Reserves and Balances

Council agreed a risk based reserves strategy alongside the Medium Term Financial Plan for 2007-2010. The Council's target level for a strategic reserve at 31st March 2007 was £4.327m and this has been achieved. In addition, specific reserves have been established to manage the strategic financial risks facing the Council including meeting potential equal pay claims and funding the costs of structural change within the Council. As at the 31st March 2007 the Council held earmarked reserves of £29.300m.

As at 31st March 2007 the Council held £1.043m in capital receipts for the purposes of investing in our assets in future years. We also expect to receive £98.489m in Government support for our two Private Finance Initiatives (PFI) leaving £63.095m for the Council to fund over the next 25 years. It is intended that we will retain some of the up-front Government support as a means of smoothing the required Council funding over the life of the contract.

9. Group Results

The Group results revealed a deficit for the year of £21.188m (N/A in 2005/06) incorporating a net deficit of £0.745m (N/A in 2005/06) from Council subsidiaries and joint ventures. The net assets of the Group stood at £626.856m at 31st March 2007 (£516.611m at 31st March 2006).

10. Housing Revenue Account

The Housing Revenue Account is ringfenced and all expenditure must be met from rents or Government subsidy. After the planned use of balances the Housing Revenue generated a budget deficit of £0.332m (surplus of £0.459m in 2005/06). Revenue balances at 31st March 2007 stood at £3.070m and this will be used to support future year's expenditure on Housing.

11. Tyne and Wear Pension Fund

The Council is the administering body for the Tyne and Wear Pension Fund. As at 31st March 2007, the Fund's net assets amounted to £3,727m – a rise of £307m on the previous year (£3,420m 2006). This is the fourth year in a row when investments have shown a strong positive return as a result of increased confidence in the global economy leading to a rise in Equity markets worldwide.

12. Private Finance Initiative Expenditure for the Year

Expenditure on our two Private Finance Initiatives during the year was £3.155m. Revenue contributions provided funding of £1.678m, or 53% and the remaining 47% or £1.477m was funded using PFI credits from Government.

13. 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 key 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 2006/07.

During the year the Council was a net borrower having taken out 17 loans totalling £84m to the Public Works Loans Board (PWLB). This borrowing was partially offset by the repayment of 18 PWLB loans totalling £78m.

14. Medium Term Prospects

Our Medium Term Financial Plans for 2007-2010 were agreed by full Council and published in February 2007. Our key stakeholders, including our Trades Union, Business Sector and Voluntary Sector colleagues, 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 2007-2010 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 is 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

15. The Main Financial Statements

This booklet contains the Council's financial statements for the year ended 31st March 2007. They have been prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom.

The main statements are as follows:

- A **Statement of Accounting Policies** that explains the relevant bases and policies on which the accounts have been prepared.

- A **Statement of Responsibilities** that identifies the respective responsibilities of the Council and the Head of Finance (the Council's Chief Finance Officer).

- A **Statement of Assurance** 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.

- An **Income and Expenditure Account** that reports the net surplus or deficit in the year of the Authority's activities in line with UK accounting practice.

- The **Statement of Movement in the General Fund Balance** that 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** that reflects specific gains and losses experienced by the Authority that are not reflected in the Income and Expenditure Account.

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

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

- A set of **Group Accounts** and associated notes showing the position of the Council incorporating its related group entities.

- The **Housing Revenue Account** reporting in more detail the activities of this service, our spend and the method of financing.

- The **Collection Fund Revenue Account** where we account for transactions in relation to the local taxes (Council Tax and National Non-Domestic Rates) administered by the Authority.

- The **Tyne and Wear Pension Fund Accounts** are separate to the Council's main accounts and show the assets and liabilities available to meet future pension liabilities. The accounts are produced here as South Tyneside Council acts as the Administering Body for the Fund.

16. Compliance with UK Accounting Practice

The Statement of Recommended Practice 2006 introduced changes, which bring further convergence between Local Authority Accounting and UK General Accepted Accounting Practice. Notable changes are:

- An Income and Expenditure Account has replaced the Consolidated Revenue Account in order to produce a surplus or deficit figure for the year. This is calculated using net operating expenditure (which would previously have been shown on the Consolidated Revenue Account) plus Government grant and local taxation income. The new Statement of Movement on the General Fund Balance summarises the differences between the surplus or deficit on the Income and Expenditure Account and the movement on the General Fund Balance for the year. The General Fund Balance shows whether the Council has over or under spent against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure;

- The Statement of Total Recognised Gains and Losses replaces the Statement of Movement in Reserves. This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and other investments, the re-measurement of the net liability to cover the cost of retirement benefits and the surplus or deficit from the Collection Fund;

- The core financial statements have now been grouped together to provide the reader with a full picture of the financial position of the organisation over a few pages. As a result there is now only one set of notes covering all of these statements.

17. Changes in Accounting Policies

The 2006 SORP also introduces changes to the way in which we account for capital expenditure and funding resulting in the following changes in accounting policies:

- Capital grants and contributions are now written-off to the Income and Expenditure Account in line with depreciation. In prior years there was no direct link between the level of depreciation charged against individual assets and the amount of government grant deferred released into revenue.

- In prior years the reduction in value of a building due to dilapidation was reflected as an impairment of the asset. However if the use of that building has not been impeded such dilapidation is now reflected as a negative revaluation rather than impairment. Whilst the opening net value of the asset remains the same the effect has been to remove most prior years' impairment charges from the accounts.

- Previous guidelines required a notional capital charge for the consumption of assets to be calculated based on an agreed percentage of asset value. This requirement has now been removed and is no longer reflected in the Net Cost of Services in the Income and Expenditure Account.

- The release of Government Grant Deferred to the Income and Expenditure Account is now shown as a Net Cost of Service rather than a Net Operating Cost.

- Any profit or loss on the sale of a fixed asset is now highlighted as a Net Operating Cost on the face of the Income and Expenditure Account.

- Shop leases previously accounted for as finance leases and shown in long-term debtors have now been reclassified as fixed assets following a review that demonstrates that the risks and rewards of ownership remain with the Council.

The financial impact of these changes to the Income and Expenditure Account can be found in the Accounting Policies section of these accounts.

18. Further Information

The audited accounts are available on the Council's Website (south tyneside.info) 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**.

19. 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.

Brian Scott,
Head of Finance

Auditor's Report

Independent Auditors' Report to the Members of South Tyneside Council

We have audited the financial statements of South Tyneside Council and its Group for the year ended 31 March 2007 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 Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund, the Pension Fund Account and Net Assets Statement, the Group Accounts and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities for the Financial Statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom 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 36 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 applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Council and its income and expenditure for the year and 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.

We review whether the Statement on Internal Control reflects the Council's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA 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 whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council'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 Foreword by the Head of Finance. 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 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom 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. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of South Tyneside Council as at 31 March 2007 and its income and expenditure and cash flows for the year then ended.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

29 February 2008

Notes:

a. The maintenance and integrity of 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.

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

Council's Responsibilities

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

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Qualified Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, South Tyneside Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007 except that it did not put in place arrangements to maintain a sound system of internal control.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 in December 2006. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

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
89 Sandyford Road
Newcastle upon Tyne
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29 February 2008

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2006/07 financial year and its position at the year-end of 31 March 2007. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice 2006 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

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

- 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 in the year to which it relates, on a basis that reflects the overall effect of the loan or investment.
- Where income and expenditure has 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.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

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 2007 has not been accrued. However, the last week of March 2006 is included in the 2006/07 accounts, which results in wages expenditure of 52 weeks.

- Day of Action – on 28th March 2006 many employees of the Council took part in a day of action resulting in the deduction of a day's pay. Due to the lateness of the action, the deduction to pay took place in April 2006 and is included in these accounts.
- Community Education Salaries – In 2006/07 these employees were paid monthly in arrears but from 1st April will be paid in the current month. This has resulted in a 13 month pay year for 2006/07 for these employees.
- 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.

These transactions amount to approximately £0.177m overall so their exclusion does not materially affect our 2006/07 accounts.

3. Estimation Techniques

Estimation techniques are the methods adopted by accountants to assess the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. As a general principle the estimation technique chosen should be the one that most closely reflects the economic reality of the transaction. These techniques are applied on a case-by-case basis depending on the nature of the transaction and those used in the production of these accounts are discussed more fully in the following notes.

4. 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 authority 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 now 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.

5. 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.

All reserves are reviewed on a regular basis to ensure that they are still relevant and fit for purpose and that adequate balances are maintained to support our future expenditure.

Certain reserves are kept to manage the accounting processes for retirement benefits and tangible fixed assets and that do not represent usable resources for the council. These particular reserves are explained in the relevant policy notes 7 and 11 respectively.

6. 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 Authority 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.

7. 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.

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 5.3% (based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index).
- 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 - mid-market value
    - Unquoted securities - professional estimate
    - Unitised securities - average of the bid and offer rates
    - 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

- 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.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. 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.

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.

8. VAT

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

9. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. 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 surplus assets.

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

10. 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. The assets are valued on a cost basis and amortised to the relevant service revenue account over the economic life of the investment.

11. 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.

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 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.

A de minimis level of £10,000 has been used in the recognition of Council capital expenditure. A lower de minimis level of £2,000 has been used for devolved school capital spending in line with Government guidelines.

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 land and buildings, - lower of net current replacement cost or net realisable value in existing use. For Council dwellings, an assessment of housing prices in the Borough has been undertaken and any material variation has been reflected in the valuations stated in these accounts.
- 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 Fixed Asset Restat ement Account to recognise unrealised gains.

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 accounted for as follows:

- Where attributable to the clear consumption of economic benefits, the loss is charged to the relevant service revenue account.
- Otherwise, written off against the Fixed Asset Restatement Reserve.

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).

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 Financing Account from the Statement of Movement on the General Fund Balance.

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.

Deprecation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the life of the property (between 20 to 50 years) as estimated by the valuer.
- Vehicles, plant and equipment – straight-line allocation over 5 years.
- Infrastructure - straight-line allocation over 40 years.

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 offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

12. 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.
- 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 make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to HRA activity). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

13. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax. Any external funding associated with the capital expenditure has also been credited in full to the Income and Expenditure Account.

14. Leases

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 asset's estimated useful life.

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.

The Authority as Lessor

The Authority also acts as lessor in relation to property rentals and the reverse rationale applies. Where beneficial ownership has effectively been transferred to the lessee, this is accounted for as a finance lease and the outstanding lease payments are shown as long-term debtors.

15. Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place in relation to the Housing Revenue Account, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over no more than ten years, in line with statutory guidance.

16. Investments

Investments are carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

The risk from a revaluation of our investment in the Airport is fully accounted for by the Investment Revaluation Reserve.

17. 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. However, the Council has no material work in progress.

18. 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.

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 authority 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 respective 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 or rents.

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.

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.

19. 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.

20. 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.

21. 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 & 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 Financing Account in relation to charges for fixed assets held by South Tyneside Homes Limited. Any amounts debited and credited to Income and Expenditure are reflected in the Profit/loss of other Reserves and Group Entities.

22. Changes to Accounting Policies

The SORP requires changes to the way in which the Council accounts for capital expenditure and funding. This has resulted in the following changes to accounting practice:

- All capital grants and contributions are now written off to the Income and Expenditure Account in line with depreciation. As a result £56.556m has been transferred from the Government Grants Deferred Account to the Capital Financing Account, in 2006/07, in relation to prior years.

- Prior years' impairment of assets has now been reclassified as a negative revaluation leading to a transfer, in 2006/07, of £28.841m from the Capital Financing Account to the Fixed Asset Restatement Account.

- The notional capital charges for the use of assets has been removed and is no longer reflected in the net cost of services in the Income and Expenditure Account. Whilst this has not impacted on the Net Operating Expenditure, the Net Cost of Services has reduced by £29.640m.

- The release of Government Grant Deferred to Income and Expenditure is now to be taken to the Net Cost of Services. This has reduced prior years by £0.968m although again the Net Operating Expenditure remains unaffected.

- The disposal of assets at less than asset value must now be recognised in the Income and Expenditure Account resulting in a prior period adjustment of £0.560m to Net Operating Expenditure. This amount is removed in the Statement of Movement in General Fund Balance so there is no impact on Council Tax Payers.

- The reclassification of shop rental leases has transferred £3.501m from long term debtors to fixed assets, other land and buildings.

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 Authority'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 which 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 2007, 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 2007, and their income and expenditure for the year ended 31st March 2007.

Signed: Date: 19th December 2007

Brian Scott, Head of Finance

Chair of General Purposes Committee Certificate

I can confirm that these Unaudited Accounts were approved by the General Purposes Committee at its meeting held on 19th December 2007.

Signed: P Waggott Date: 19th December 2007

Councillor Paul Waggott, Chair of General Purposes Committee

South Tyneside Council and Tyne and Wear Pension Fund:
Statement of Assurance on Corporate Governance Arrangements and Systems of Internal Control 2006-07

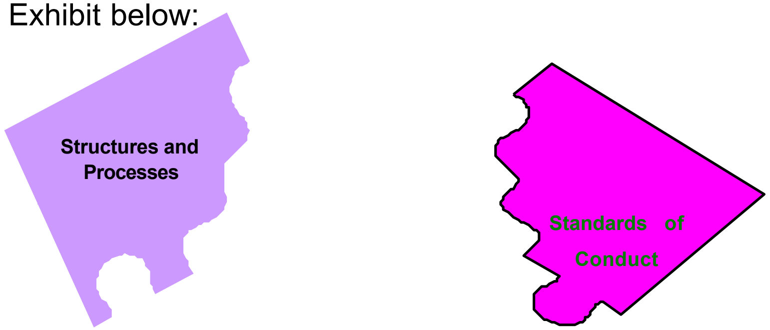
Scope of Responsibility

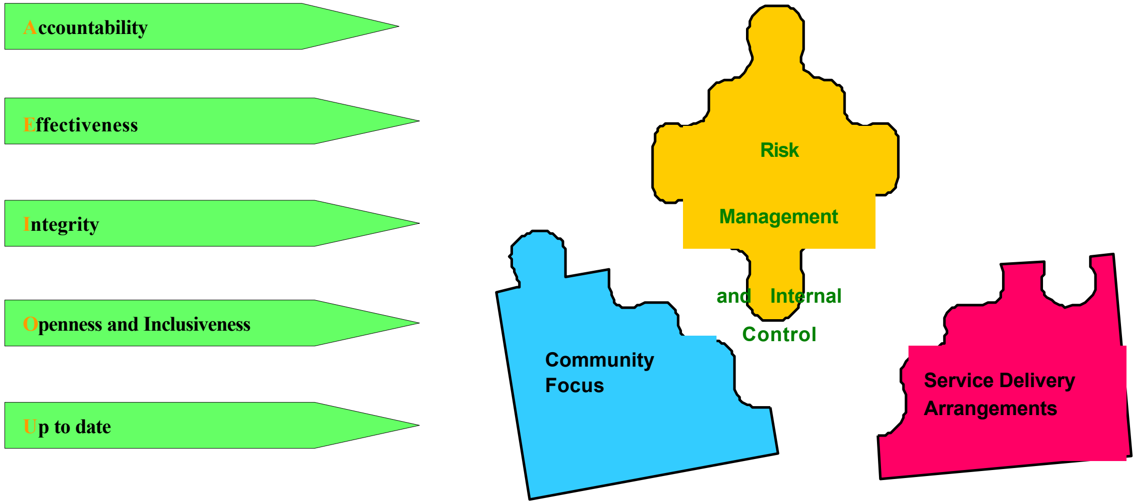
South Tyneside Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council has a duty under the Local Government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

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

Corporate Governance

Corporate governance is the system by which organisations direct and control their functions and relate to their communities. The Council has an established corporate governance framework, which follows the recommendations by CIPFA/SOLACE.
The framework is illustrated in the Exhibit below:





The Council's framework is documented in the Local Code of Corporate Governance available for inspection on the Council's web site.

The framework, established in March 2003, is overseen by the Council's Corporate Assurance Review Team, which is comprised of senior officers from across the Council and is chaired by the Head of Corporate Governance as the Council's Monitoring Officer. The Corporate Assurance Review Team assessed the adequacy and effectiveness of the Council's governance arrangements and the Council's compliance with the framework, in May 2007. On the basis of the Corporate Assurance Review Team's work the Council is satisfied that the framework is operating effectively. The CIPFA/SOLACE framework is to be updated during 2007 and the Corporate Assurance Review Team will update the Council's framework in the light of the new guidance.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It 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 Internal Control Environment

The key elements of the internal control environment at South Tyneside Council include the following:

- The Community Strategy, Spirit of South Tyneside, is the key driver to identify the Council's aims and objectives based upon consultation with the Council's partners and stakeholders. The Corporate Plan, Performing Together, sets out the key actions and performance targets established to monitor the achievement of the Community Strategy.
- A sound Constitution with a clear delegation scheme that allows the facilitation of policy and decision-making.
- A robust system of financial planning in the form of a Medium Term Financial Plan which is fully integrated with the corporate planning process.
- Compliance with established policies, procedures, laws and regulations including the adoption of a Risk Management Framework embedded in the activity of the Council.
- Value for money reviews ensuring the economical, effective and efficient use of resources and securing continuous improvement in the way in which the Council's functions are exercised.
- A system of budgetary control including formal monitoring of periodic and annual reports that enable actual and forecast financial performance to be monitored against budgets and appropriate actions taken.
- A robust performance management framework with regular performance reporting against the Council's priorities.
- Adoption of the principles of the CIPFA/SOLACE guidelines on Corporate Governance.
- Investment in people management and training.

- Maintenance of the Verification Framework for the administration of Council Tax and Housing Benefit.
- Participation in the National Fraud Initiative and subsequent investigations.
- Codes of Conduct for Employees and Members.
- Risk management, Anti Fraud and Corruption and Whistle blowing Policies.
- An effective Internal Audit function that follows the professional standards as set out in CIPFA's Code of Practice for Internal Audit 2003.
- An Audit Committee that oversees the Council's corporate governance arrangements. The committee receives reports from the Corporate Assurance Group on risks, assurances and control improvements; it also monitors the services' performance. The Audit Committee complies with CIPFA's recommended practice for Audit Committee's published in December 2005.
- A Pensions Committee that oversees the corporate governance arrangements for the Tyne and Wear Pension Fund. The committee receives reports from Internal Audit on the Pension Fund's systems of internal control.

Review of Effectiveness

Under the Accounts and Audit Regulations 2003 the Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is carried out under the supervision of the Council's Corporate Assurance Review Team. The review is informed by the work of the Internal Audit and other assurance functions within the Council that have responsibility for the development and maintenance of the internal control environment. It is also informed by comments made by the external auditors and other review agencies or inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is summarised as follows:

Establishment of principal statutory obligations and organisational objectives:

- A Corporate Master-plan (Performing Together) has been established in consultation with stakeholders and partners which sets out the long-term corporate objectives.
- Key forward-looking performance indicators are established.
- All key targets are subject to close scrutiny and monitoring.
- Systems and procedures ensure that the Council operates legally and that statutory obligations are met.
- The Council has designated the Head of Finance as Chief Financial Officer for the purposes of S151 of the Local Government Act 1972, whose role is to ensure the proper administration of the Council's financial affairs.
- The Council has designated the Head of Corporate Governance as Monitoring Officer, whose role is to ensure compliance with established policies, procedures, laws and regulations.
- The Council has adopted a 'Local Code of Corporate Governance' in accordance with the CIPFA/SOLACE framework for Corporate Governance. The code contains appropriate monitoring and reporting procedures.

Identification of principal risks to achieving objectives:

- The Council has approved a Risk Management Strategy which outlines the methodology to provide a comprehensive framework for the identification, evaluation and management of strategic and operational risk throughout the Council.
- Significant progress has been made in embedding risk management across the Council.
- 10 critical projects have been identified and are subject to rigorous management, and monitoring.

Identification of key controls to manage principal risks:

- Policies and procedures for key systems/processes are in place which identify controls and ensure that employees conduct their business in a transparent manner.
- Risk registers are in place throughout the Council ie at strategic, directorate, service and project level and identify controls in place to minimise risk.

Sources of assurance on the effectiveness of key controls:

- Through reviews by the Audit Commission, external agencies, and the Value for Money Review teams, the Council constantly seeks to ensure the efficient and effective use of resources and to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- Heads of Service and Assistant Heads of Finance have carried out a self assessment of the adequacy of internal control within their service and have produced action plans to improve controls where appropriate.
- Internal Audit have completed a plan of risk-assessed audits of the Council's systems of internal control and has processes in place to follow up recommendations and ensure improvements are implemented. For 2006-07, Internal Audit concludes that a sufficiently wide range of audits was conducted in the necessary depth to give 'substantial assurance', that there is a sound system of internal control in place but some of the controls are not consistently applied or fully effective.

Evaluation of assurances and identification of gaps in control/assurances:

- Assurances have been provided on the Council's key risk areas and effective mechanisms are in operation to ensure that appropriate action is taken to address and monitor the implementation of identified control weaknesses.

- Due to the changeover in financial systems the procedure of reconciling the Council's bank account with the general ledger broke down such that at year-end an £867,000 discrepancy was discovered. This discrepancy has now been investigated. Assurance has been obtained from an independent outside body that fully agreed bank balances to the bank reconciliation system. Virtually all of the discrepancy was found to be between the bank reconciliation system and general ledger originating directly as a result of manual adjustments inherent in the old systems not being cleared and year-end procedural changes required by the new systems but not adopted. There was no evidence that there is a problem with the new financial systems and that they are not balancing correctly on an ongoing basis. However amounts in relation to the source of income collected were never fully reconciled to source records.

Continuous improvement of the system of internal control.

The Council has made a number of significant control improvements over the last year:

- The Council has identified 10 critical projects that receive close attention from Senior Management and Members. These projects are rigorously managed, monitored and evaluated.
- The Council has recovered from the budget overspend in the former Social Care and Health Directorate which was identified at the end of 2004-05. Budget savings have been delivered and reserves replenished. Significant improvements have also been made in budget and accounting procedures.
- Service continuity plans have been developed, tested and improved for all the Council's critical activities.
- The Constitution, Local Code of Corporate Governance, Risk Management Policy, and Whistle Blowing Policy have been updated and publicised.
- An Audit Committee has been established to oversee the Council's Corporate Governance arrangements.

Conclusion

The review of the effectiveness of the system of internal control has found that, in most respects, a sound system of internal control was in place for the year ended 31st March 2007, and up to the date of approval of the Statement of Accounts. However, the Council has identified some areas where the control environment could be improved.

Control Improvements

- The Council has identified significant spending pressures over the next few years, and is continuing to develop systems, to identify key financial cost drivers and develop the client database to ensure that the budget is not exceeded.

- The Council has made progress on improving value for money and has exceeded its cumulative target of £7.063m in efficiency savings for 2006-07. The Council recognises that further work is required to fully embed value for money into everyday processes and has identified five high cost areas. Work is underway to reduce costs in these areas whilst maintaining performance.

- Further work is required to ensure that the Council implements all control improvements provided by the new financial systems.

- Action plans have been established to further embed:
    - Partnerships Code of Practice.
    - Procurement Strategy.
    - Information Policy.

The Council has action plans in place to ensure that the above areas are addressed. The Corporate Assurance Review Team monitors these plans.

Statement of Assurance on Corporate Governance Arrangements and Systems of Internal Control 2006-07

P Waggott

Signed: Date: 19th December 2007

Councillor Paul Waggott, Leader of the Council

Irene Lucas

Signed: Date: 19th December 2007

Irene Lucas, Chief Executive

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last 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.

Previous Year Net Expenditure As restated £m		Gross Expenditure £m	Gross Income £m	Note	Net Expenditure £m
4.440	Central Services to the Public	18.259	(15.762)		2.497
32.885	Cultural, Environmental and Planning Services	68.220	(27.987)		40.233
94.279	Education Services	138.042	(122.855)	55	15.187
8.110	Highways, Roads and Transport Services	11.268	(2.498)		8.770
(1.980)	Housing Services	93.979	(93.537)		0.442
46.513	Adult Social Services	76.287	(32.229)		44.058
17.148	Children's Social Services	26.703	(8.368)		18.335
0.307	Court Services	0.607	(0.290)		0.317
6.299	Corporate and Democratic Core	7.048	(0.567)		6.481
(0.541)	Non Distributed Costs	3.513	(17.153)		(13.640)
11.466	Exceptional Items - Equal Pay Legislation	13.621	-	4	13.621
218.926	**Net Cost of Services**	**457.547**	**(321.246)**		**136.301**

Previous Year Net Expenditure As restated £m		Gross Expenditure £m	Gross Income £m	Note	Net Expenditure £m
-	Loss on the Disposal of Fixed Assets				1.072
7.132	Passenger Transport Authority Precept				9.078
0.058	Environmental Agency Precept				0.068
(2.210)	(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services			9	(8.115)
12.646	Interest Payable and Similar Charges				13.153
0.105	Amortisation of Premiums and Discounts				(0.084)
9.938	Contribution of Housing Capital Receipts to Government Pool				7.370
(3.809)	Interest and Investment Income				(4.693)
24.980	Interest on Pension Liabilities			15	24.210
(19.360)	Expected Return on Pension Assets			15	(21.390)
248.406	**Net Operating Expenditure**				**156.970**
(48.647)	Demand on the Collection Fund				(50.633)
(123.184)	General Government Grants				(34.845)
(50.548)	Non-domestic Rates Redistribution				(66.855)
26.027	**Deficit or (Surplus) for the Year**				**4.637**

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 over the last twelve months. However, the Authority 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.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future liabilities are recognised.

The General Fund balance shows whether the Council has over or under spent against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This statement is significant as it shows the net expenditure of the Authority needing to be taken into account for the purposes of setting our council tax.

Previous Year £m		Note	Current Year £m
26.027	Deficit or (Surplus) for the Year on the Income and Expenditure Account		4.637
(26.097)	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	(3.789)
(0.070)	**(Increase)/ Decrease in general fund balance for the Year**		**0.848**
(1.519)	General fund balance brought forward		(1.589)
(1.589)	**General fund balance carried forward**		**(0.741)**

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 increase 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.

Previous Year £m		Current Year £m
26.027	Deficit or (Surplus) for the Year on the Income and Expenditure Account	4.637
(0.089)	Deficit or (Surplus) for the Year on the Collection Fund Account	0.078
	Prior Period Adjustment Government Grants Deferred	(56.556)
35.986	Deficit or (Surplus) arising on Revaluation of Fixed Assets	(70.775)
-	Deficit or (Surplus) arising on Unwinding Equal Pay Costs	(9.600)
-	Gain on use of Capital Receipts to Redeem Debt	(0.110)
0.002	Deficit or (Surplus) arising on Revaluation of Investments	3.384
(12.030)	Actuarial (Gains)/Losses on Pension Fund Assets and Liabilities	1.900
49.896	**Total Recognised (Gains)/Losses for the Year**	**(127.042)**

Balance Sheet

This statement provides a summary of the Council's financial position as at 31st March 2007. 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 2006 as restated £m		Note	31 March 2007 £m	31 March 2007 £m
0.918	**Intangible Fixed Assets**	32		1.504
	Tangible Fixed Assets			
	Operational Assets			
581.492	Council Dwellings	24 & 33	651.433	
218.488	Other Land and Buildings	24 & 33	227.857	
9.918	Vehicles, Plant and Equipment	24 & 33	11.453	
43.499	Infrastructure	24 & 33	47.585	
0.944	Community Assets	24 & 33	1.519	939.847
	Non-Operational Land and Buildings			
0.378	Investment Properties	24 & 33	0.378	
8.816	Assets under Construction	24 & 33	1.204	
43.692	Surplus Assets Earmarked for Disposal	24 & 33	46.709	48.291
908.145	**Total Fixed Assets**			**989.642**
6.775	Long Term Investments	37		3.390
	Long Term Debtors			
1.440	Airport Loan Notes	34	1.200	
1.247	Other Long Term Debtors	44	3.925	5.125
917.607	**Total Long Term Assets**			**998.157**

31 March 2006 as restated £m		Note	31 March 2007 £m	31 March 2007 £m
	Current Assets			
1.022	Stocks and Work in Progress	45	0.491	
32.548	Debtors	46	30.033	
53.371	Investments	58	75.350	
22.344	Cash and Bank	60	6.250	112.124
1,026.892	**Total Assets**			**1,110.281**
	Current Liabilities			
(0.111)	Borrowing Repayable within 12 months		-	
(43.857)	Creditors	47	(57.332)	
(3.377)	Bank Overdraft	60	(0.746)	(58.078)
979.547	**Total Assets Less Current Liabilities**			**1,052.203**
(201.575)	Long-Term Borrowing	38	(207.676)	
(63.093)	Government Grants Deferred Account		(18.924)	
(5.512)	Deferred Liabilities	35	(5.672)	
(0.345)	Deferred Credits	36	(0.218)	
(13.171)	Provisions	39	(7.670)	
(181.820)	Pension Liability	15	(170.970)	(411.130)
514.031	**Total Assets Less Liabilities**			**641.073**

31 March 2006 as restated £m		Note	31 March 2007 £m	31 March 2007 £m
	Financed By			
(528.875)	Fixed Assets Restatement Account	51		(555.106)
(127.657)	Capital Financing Account	52		(223.802)
(6.770)	Usable Capital Receipts Reserve	53		(1.043)
-	Equal Pay Account			4.579
181.820	Pension Reserve	15		170.970
(1.150)	Housing Major Repairs Reserve			-
(6.762)	Investment Revaluation Reserve			(3.378)
(17.607)	Earmarked Reserves	22		(29.300)
(0.260)	Collection Fund			(0.182)
(1.589)	General Fund Balances			(0.741)
(5.181)	Housing Revenue Account Balances			(3.070)
(514.031)	**Total Net Worth**			**(641.073)**

Cash Flow Statement

This statement provides a summary of the cash received and payments made by the Council to third parties for both revenue and capital purposes.

2005/06 as restated £m		Note	2006/07 £m
	Revenue Activities		
	Cash Outflows		
176.568	Cash Paid in relation to Employees		167.267
138.515	Other Operating Cash Payments		162.866
14.006	Council Tax Benefit Paid		14.447
41.771	Housing Benefit Paid		43.353
21.557	National Non-Domestic Rate Payments to Government Pool		19.943
13.144	Precepts Paid		15.315
10.690	Housing Capital Receipt Payments to Government Pool		7.948
416.251			**431.139**
	Cash Inflows		
(44.613)	Rents (after Rebates)		(49.176)
(40.532)	Council Tax Receipts		(41.905)
(50.548)	National Non-Domestic Rate Receipts from Government Pool		(66.855)
(19.507)	Non-Domestic Rate Receipts		(21.625)
(102.063)	Revenue Support Grant		(12.775)
(28.524)	Department for Work and Pensions Revenue Grant for Benefits		(28.673)
(28.043)	Housing Revenue Account Subsidy		(28.618)

2005/06 as restated £m		Note	2006/07 £m
(57.838)	Other Government Grants	61	(147.923)
(19.438)	Cash received for Goods and Services		(22.780)
(10.690)	Income from Useable Capital Receipts to meet Pool Payments		(7.948)
(34.355)	Other Operating Cash Receipts		(29.502)
(436.151)			**(457.780)**
(19.900)	**Total Revenue Activities**	**56**	**(26.641)**
	Dividends from Joint Ventures and Associates		
	Cash Inflows		
(0.278)	Newcastle International Airport Limited Dividend		(8.199)
	Dividends from Joint Ventures and Associates	**56**	**(8.199)**
	Returns on Investment and Servicing of Finance		
	Cash Outflows		
0.002	Finance Lease Interest Paid		0.002
12.420	Other Interest Paid		7.651
	Cash Inflows		
(4.029)	Interest Received		(4.696)
8.393	**Returns on Investment and Servicing of Finance**	**56**	**2.957**
	Capital Activities		
	Cash Outflows		
45.835	Purchase of Fixed Assets		49.434
8.900	Other Capital Cash Payments		12.012
54.735			**61.446**

2005/06 as restated £m		Note	2006/07 £m
	Cash Inflows		
(7.151)	Sale of Fixed Assets		(13.930)
(20.820)	Capital Grants Received		(15.078)
(1.716)	Other Capital Cash Receipts		(2.858)
(29.687)			**(31.866)**
25.048	**Total Capital Activities**		**29.580**
	Acquisitions and Disposals		
	Cash Inflows		
(0.240)	Sale of Newcastle International Airport Limited Shares		(0.241)
(0.240)	**Acquisitions and Disposals**		**(0.241)**
13.301	**Net Cash Outflow / (Inflow) before Financing**		**(2.544)**
	Management of Liquid Resources		
7.849	Net Increase/(Decrease) in Short Term Deposits		21.979
7.849	**Management of Liquid Resources**	**58**	**21.979**
	Financing		
	Cash Outflows		
9.575	Repayments of Amounts Borrowed		78.010
0.018	Capital Element of Finance Lease Rental Payments		0.018
	Cash Inflows		
(48.000)	New Loans Raised		(84.000)
(38.407)	**Financing**	**59**	**(5.972)**
(17.257)	**Net Increase / (Decrease) in Cash**	**60**	**13.463**

Notes to the Core Financial Statements

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.

Previous Year £m		Current Year £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.	
(0.102)	Amortisation of Intangible Fixed Assets	(0.836)
(2.473)	Excess Depreciation from Housing Major Repairs Reserve	(3.976)
(6.063)	Other Depreciation and Impairment of Fixed Assets	(7.480)
0.977	Government Grants Deferred Amortisation	5.250
(5.709)	Write downs of Deferred Charges to be Financed from Capital Resources	(12.012)
(0.009)	Amortisation of Street Lighting Stock Residual Value	(0.090)
-	Net Loss on Sale of Fixed Assets	(1.072)
(9.600)	Equal Pay Costs due but not yet paid	(4.579)
(22.600)	Net charges made for Retirement Benefits in accordance with FRS17	(6.960)
(45.579)		**(31.755)**

Previous Year £m		Current Year £m
	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.	
1.659	Minimum Revenue Provision for Capital Financing	3.671
0.488	Capital Expenditure charged in-year to the General Fund Balance	0.351
(9.938)	Transfer from Usable Capital Receipts to meet Payments to the Housing Capital Receipts Pool	(7.370)
-	Transfer from Usable Capital Receipts to meet Special Financing Debt Repayment	(0.111)
19.220	Employer's Contributions payable to the Tyne and Wear Pension Fund and Retirement Benefits payable direct to Pensioners	19.710
11.429		**16.251**
	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.	
2.847	Housing Revenue Account Balance	(0.435)
0.038	Voluntary Revenue provision for Capital Financing	0.457
5.168	Net transfer (to) or from Earmarked Reserves	11.693
8.053		**11.715**
(26.097)	**Net Movement in General Fund Balance**	**(3.789)**

2. Best Value Accounting Code of Practice

The Income and Expenditure Account has been compiled under the 2006 Best Value Accounting Code of Practice. This is the primary publication informing the approach to the use and disclosure of financial information in Best Value Performance Plans and Best Value Reviews.

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.

3. Prior Period Adjustments

In the 2006/07 Statement of Accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts.

- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item.

- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes together with the reallocation of interest transactions, have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

Income and Expenditure Account Line	Consolidated Revenue Account in 2005/06 Statement of Accounts £m	Removal of Capital Financing Charges £m	Relocation of Government Grants Deferred Credits £m	Allocation of Interest Paid and Received £m	Recognition of Gains and Losses on Disposal of Fixed Assets £m	2005/06 Comparatives in Income and Expenditure Account £m
Central Services to the Public	4.761	(0.018)	(0.011)	-	-	4.732
Cultural, Environmental and Planning Services	34.518	(1.638)	(0.240)	-	-	32.640
Education Services	98.914	(4.506)	(0.277)	-	-	94.131
Highways, Roads and Transport Services	10.088	(1.883)	(0.146)	-	-	8.059
Housing Services	3.907	(19.888)	(0.038)	-	-	(16.019)
Social Services	64.444	(0.856)	(0.245)	-	-	63.343
Court Services	0.507	(0.194)	(0.007)	-	-	0.306
Corporate and Democratic Core	6.325	(0.076)	(0.003)	-	-	6.246
Non Distributed Costs	0.041	(0.581)	(0.001)	-	-	(0.541)
Impact on Net Cost of Services	**223.505**	**(29.640)**	**(0.968)**	**-**	**-**	**192.897**
Loss on the Disposal of Fixed Assets	-	-	-	-	0.560	0.560
Interest Payable and Similar Charges	-	-	-	12.646	-	12.646
Interest and Investment Income	(3.687)	-	-	(0.122)	-	(3.809)
(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services	(2.085)	(0.118)	(0.009)	-	-	(2.212)
Asset Management Revenue Account (Interest Payable and Similar Charges in 2006/07)	(19.112)	29.758	0.977	(12.524)	-	(0.901)
Impact on Net Operating Expenditure	**198.621**	**-**	**-**	**-**	**0.560**	**199.181**

4. Equal Pay Compensation Payments

By March 2006 the Council had in place agreements with both our union colleagues and those employees pursuing a claim through the employment tribunal in relation to Equal Pay Claims. During 2006/07 payments totalling £9.043m have been made in respect of Settlements including £1.981m for tax and national insurance for claims paid in 2005/06. Although initially being awarded a £9.6m Capitalisation directive, the government reduced our final allowance to £6.1m. This amount is reflected within our capital expenditure for the year, however no asset is created so it has been written out to Income and Expenditure as a deferred charge. In addition to actual payments, the Council has set aside provisions to meet any outstanding payments and tax liabilities arising from the payments made in 2006/07. Under new Government legislation these costs have been removed under the Statement of Movement on the General Fund Balance and transferred to an Equal Pay Account until the year they become paid.

There are currently a smaller number of claims outstanding, including equal value claims, which we are defending in Industrial Tribunals. We have prudently set aside reserves within our Medium Term Financial Plan to cover any potential liability.

5. Deferred Charges

The value of deferred charges included in the Net Cost of Services is £12.012m (£5.710m in 2005/06).

6. Operating Leases

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

2005/06 £m		2006/07 £m
0.078	Other Land and Buildings	0.087
0.657	Vehicles and Equipment	0.999
0.735	**Total Expenditure on Operating Leasing**	**1.086**

The Authority was committed at 31st March to making payments of £0.911m (£1.534m in 2005/06) under equipment operating leases against an initial investment of £2.319m (£5.431m in 2005/06). A further £0.783m (£0.717m in 2005/06) is committed on the rental of property of which £0.140 relates to a new 10-year lease for 5-7 Grange Road.

A breakdown of the commitments in 2007/08 based on the date of expiry of the lease is as follows:

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Lease expires within 1 year	0.005	0.281
Lease expires in 2 - 5 years	0.025	0.242
Lease expires in more than 5 years	0.061	0.002
Total Repayable	**0.091**	**0.525**

7. Finance Leases

The Authority is 24 years into a 35-year lease for office accommodation at Landreth House. The Council entered into a new 20 year lease with effect from 19th May 2006 for 9-10 Charlotte Terrace. In addition, the Council has a finance lease in respect of a refuse collection vehicle.

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

2005/06 £m		2006/07 £m
0.050	Other Land and Buildings	0.110
0.052	Vehicles and Equipment	0.021
0.102	**Total Expenditure on Finance Leasing**	**0.131**

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

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Gross Value at 1st April 2006	**1.750**	**0.133**
Accumulated Depreciation	(1.150)	(0.053)
Net Value at 1st April 2006	**0.600**	**0.080**
Additions	1.200	-
Depreciation in Year	(0.110)	(0.022)
Net Value at 31st March 2007	**1.690**	**0.058**

A breakdown of the commitments in 2007/08 based on the date of expiry of the lease is as follows:

	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Repayable within 1 year	0.110	0.021
Repayable in 2 - 5 years	0.440	0.042
Repayable in more than 5 years	1.140	-
Total Repayable	**1.690**	**0.063**

The liability for future repayments against other land and buildings is based upon current rental levels. The terms of the Other Land and Buildings leases allow for rent reviews to take place every five years at which point our liability will be recalculated.

The aggregate finance charge paid in the year on Finance Leases was £0.002m (£0.002m in 2005/06).

8. The Authority as Lessor

The Authority has granted a number of short-term leases on commercial premises such as shops and industrial units, which are accounted for as operating leases. In 2006/07 income of £3.238m (£2.992m in 2005/06) has been generated from these leases.

The Authority has not let any properties that would be accounted for as finance leases in 2007/08.

9. Trading Operations

In previous years the Council has reported a number of services formerly subject to Compulsory Competitive Tendering legislation along the lines of a traded activity. With the creation of South Tyneside Homes on 1st April, over 80% of this activity was transferred. As a result the Council has reviewed its approach to accounting for trading activities to bring them more in line with guidance in the Best Value Accounting Code of Practice. None of the activities concerned have been subject to external competition for a number of years therefore the most appropriate approach is to reallocate any surplus or deficit back to the service line in the Income and Expenditure Account. The following table shows the activities reported in previous years and the action now taken in these accounts.

	2005/06 (Surplus)/ Deficit £m	2006/07 (Surplus)/ Deficit £m	Action for 2006/07
Building Works	(1.046)	-	Service transferred to South Tyneside Homes
Highways Works and Street Cleansing	(0.252)	(0.060)	Allocated to Highways
Cleaning of Buildings	(0.102)	(0.034)	Apportioned back to service users
Other Traded Activities	(0.436)	0.174	Apportioned back to service users
Total	**(1.836)**	**0.080**	

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

2005/06 (Surplus) / Deficit £m		2006/07 (Surplus) / Deficit £m
0.035	South Shields Open Air Market	0.007
(0.054)	School Catering	0.077
(0.355)	Newcastle Airport Dividend	(8.199)
(0.374)	**Actual Trading (Surplus)**	**(8.115)**

The Council operates an open-air market in South Shields town centre. Income is generated from rent received from stallholders.

The School catering service is subject to a buy back arrangement with the Borough's schools. Essentially this means that it has to secure the majority of its income by selling its service to those schools. A loss has been generated in the year because of the impact of FRS17 pension charges amounting to £0.098m. The service is managed with a view to achieving a breakeven position, net of FRS17 pension costs, over a three-year period and has generated a surplus of £0.021m this year under this arrangement.

Company dividends paid to the Council arising from its shareholding in Newcastle International Airport Limited Holding Company are also shown. The surplus for 2006/07 includes a special dividend of £7.821m as a result of a refinancing exercise during the year.

10. Section 137 Expenditure

The Local Government Act 2000 granted new powers to Authorities to promote well being in their area. With effect from 18th October 2000, most of the powers contained in Section 137 of the Local Government Act 1972 (as amended) were removed. It is nevertheless still a requirement to disclose payments made under Section 137 primarily relating to revenue grants. Expenditure in 2006/07 was £0.379m (£0.546m in 2005/06).

11. Publicity

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

2005/06 £m		2006/07 £m
0.213	Press and Promotions	0.224
0.518	Recruitment Advertising	0.298
0.731	**Total**	**0.522**

12. 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.

2005/06 Total £m		2006/07 Chargeable £m	2006/07 Non-Chargeable £m	2006/07 Total £m
0.604	Employees	0.253	0.326	0.579
0.027	Premises	0.012	0.012	0.024
0.090	Supplies and Services	0.058	0.010	0.068
0.012	Transport	0.007	0.005	0.012
0.139	Central Services Charges	0.044	0.064	0.108
0.872	**Total Expenditure**	**0.374**	**0.417**	**0.791**
(0.450)	Building Regulation Charges	(0.381)	-	(0.381)
(0.004)	Miscellaneous Income	(0.001)	(0.004)	(0.005)
(0.454)	**Total Income**	**(0.382)**	**(0.004)**	**(0.386)**
0.418	**(Surplus) / Deficit for the Year**	**(0.008)**	**0.413**	**0.405**

13. 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 2006/07 (nil in 2005/06).

14. Pooled Budgets

The Council has six pooled arrangements with the South Tyneside Primary Care Trust (PCT) under Section 31 of the Health Act 1999.

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.

A Community Learning Disabilities Team to integrate the commissioning of staff and services to meet targets set out in the Government's White Paper "Valuing People".

The Balgownie Employment and Education Team to provide modernised employment and education services for those with learning disabilities also to meet "Valuing People" objectives.

An arrangement whereby the Council can commission Nursing and Continuing Care on behalf of the PCT.

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.

The Council operates as the lead body for all six of these budgets and the gross costs, together with the income from the PCT, are fully reflected in the Social Services line of the Income and Expenditure Account. Details of the expenditure are shown in the following table:

2005/06 Total Council Share £m		Lead Body	2006/07 Gross Income £m	2006/07 Gross Cost £m	2006/07 Council Share of Net Cost £m
0.607	Joint Equipment Store	Council	(0.655)	1.240	0.585
0.595	Community Mental Health Team	South Tyneside PCT	-	-	-
0.230	Community Learning Disabilities Team	Council	(0.236)	0.448	0.212
0.132	Balgownie Employment and Education Team	Council	(0.069)	0.279	0.210
-	The South Tyneside Arts Studio	Council	(0.055)	0.082	0.027
-	Perth Green	Council	(0.101)	0.985	0.884
-	Nursing Care & Continuing Care	Council	(4.580)	4.580	-
1.564	**Totals**		**(5.696)**	**7.614**	**1.918**

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 included in the Income and Expenditure Account.

15. Local Government Pension Scheme 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.

Components of Defined Benefit Cost

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 Pension Fund in the net cost of services as shown in the following table:

2005/06 £m	Net Cost of Services	2006/07 £m
	Contributions Paid to Pension Fund	
(17.59)	- Funded Liabilities	(17.49)
(1.63)	- Unfunded Liabilities	(2.22)
(19.22)	**Total Contributions Paid**	**(19.71)**
16.13	Current Service Cost	15.46
0.85	Past Service Cost	4.88
-	Settlement / Curtailments (gains) or losses	(16.20)
16.98	**Total Costs FRS17**	**4.14**
(2.24)	**Impact for Net Cost of Services**	**(15.57)**

The £16.2m settlement gain is a direct result of employee liabilities being transferred to South Tyneside Homes on 1st April 2006.

The net return on the Funds assets and interest charged against the scheme liabilities are shown under Net Operating Expenditure. The difference between the sum of these charges and the actual amount paid by the Council to the Fund is removed under the Statement of Movement on the General Fund Balance so that there is no impact on the amount to be found from the Council Tax Payer. This is shown in the following table:

2005/06 £m	Pension Movement	2006/07 £m
(2.24)	Impact for Net Cost of Services	(15.57)
	Other Operating Costs	
(19.36)	- Expected Return on Fund Assets	(21.39)
24.98	- Interest on Pension Scheme Liabilities	24.21
5.62	**Net Operating Costs**	**2.82**
3.38	**Pension Movement**	**(12.75)**

Under the projected unit method adopted by the actuaries, the current service cost will increase as members approach retirement. Demographic assumptions have been taken to be the same as those adopted for the actuarial valuation at March 2004.

In 2006/07, 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 the earlier payments of benefits. The sum paid was £1.077m (£0.169m in 2005/06), which the Council elected to pay in the year.

Under FRS17, the Council must show in the accounts its liability to meet the full future cost of all employees' pensions, in line with the terms and conditions of the Tyne and Wear Pension Fund. The figures disclosed below have been derived by the Fund's actuary Hewitt Bacon and Woodrow using a roll forward of liabilities from the last full actuarial valuation of the Fund at 31st March 2004.

The main financial assumptions adopted as at 31st March 2007

	1st April 2006 % per annum	31st March 2007 % per annum
Inflation rate	3.0	3.2
Rate of general long-term increase in salaries	4.5	4.7
Rate of increase to pensions in payment	3.0	3.2

Rate of increase to deferred pensions	3.0	3.2
Proportion of Employees opting to take a commuted lump sum	50.0	50.0
Discount rate	4.9	5.3

Changes to the Local Government Pension Scheme

Changes to the Local Government Pension Scheme permit employees retiring on or after 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

On the advice of our actuaries we have assumed 50% of employees retiring after 6th April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Statement of Total Recognised Gains and Losses. The change has not affected the figures in the Income and Expenditure Account.

Fund Assets and Expected Rate of Return (for the Fund as a whole):

	At 1st April 2006			At 31st March 2007		
	Actual Market Value £m		Expected Rate of Return % per annum	Estimated Market Value £m		Expected Rate of Return % per annum
Equities	2,341.30	68.3%	7.3%	2,493.10	67.0%	7.7%
Property	315.10	9.2%	6.3%	373.70	10.1%	6.7%
Government Bonds	406.30	11.9%	4.3%	504.80	13.6%	4.7%
Corporate Bonds	299.60	8.8%	4.9%	281.90	7.6%	5.3%
Other Investments	60.70	1.8%	4.6%	62.90	1.7%	5.6%
	3,423.00	100.0%	6.6%	3,716.40	100.0%	7.0%

The following tables explain the movement in the surplus/(deficit) of the Fund:

2005/06 £m	Defined Benefit Cost	2006/07 £m
190.47	**(Surplus) / Deficit in the Fund at 31st March 2006**	**181.82**
3.38	Value of Appropriation in Income and Expenditure Account	(12.75)
(12.03)	Actuarial (gain) / loss	1.90
(8.65)	**Overall Charge / (Income) to Pension Liability**	**(10.85)**
181.82	**(Surplus) / Deficit in the Fund at 31st March 2007**	**170.97**

2002/03	2003/04	2004/05	2005/06	History of Experience Gains and Losses	2006/07 £m
N/K	**(30.20)**	**(10.44)**	**(51.13)**	**Difference between expected and actual return on scheme assets**	**(2.09)**
N/K	-13.2%	-3.8%	-14.3%	Expressed as a percentage of scheme assets	0.6%
N/K	**0.40**	**5.09**	**(0.37)**	**Experience gains (losses) on scheme liabilities**	**(1.27)**
N/K	0.1%	1.1%	-0.1%	Expressed as a percentage of present value of scheme liabilities	-0.2%
N/K	**4.90**	**56.48**	**39.47**	**Change in assumptions**	**1.46**
N/K	1.3%	12.1%	7.3%	Expressed as a percentage of present value of scheme liabilities	0.3%
53.00	**(24.90)**	**51.13**	**(12.03)**	**Total amount recognised in Movement in Reserves**	**(1.90)**
16.2%	***-6.9%***	***10.9%***	***-2.2%***	***Expressed as a percentage of present value of scheme liabilities***	***-0.4%***

	1st April 2006 £m	31st March 2007 £m
Estimated Funded benefits under the LGPS regulations	(512.94)	(492.26)
Estimated Unfunded discretionary benefit awarded by means of additional benefits under the LGPS regulations	(26.41)	(29.54)
Actuarial Value of Fund liabilities	**(539.35)**	**(521.80)**
South Tyneside Council share of Market Value Assets	357.53	350.83
Surplus (Deficit) in the Fund	**(181.82)**	**(170.97)**

The outstanding liability of the Council for the local government scheme stands at £170.97m at 31st March 2007. This has reduced the reported net worth of the Council by 21% for the year. 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.

16. Teachers' Pension Costs

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:

2005/06 Employer's Contributions	2005/06 Added Years		2006/07 Employer's Contributions	2006/07 Added Years
£6.4m	£1.3m	Amount Paid	£6.6m	£1.3m
13.5%	2.7%	Percentage of Pensionable Pay	14.1%	2.7%

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.

17. Minimum Revenue Provision

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. The following table shows the amount set aside for the repayment of debt in 2006/7. Although the minimum that must be provided for is 4% of the Capital Financing Requirement, the Council has chosen to make a further voluntary provision for the following:

- Directions given by the Secretary of State that allows us to capitalise expenditure that is usually revenue in nature. Set aside has been increased to 10% so that the debt will notionally be fully repaid in 10 years, reflecting the fact that no fixed asset has been created.

- Equipment and vehicles purchased using borrowing rather than leasing, to achieve better value for money from these assets. The debt set aside is based on the useful life of the assets concerned (normally 3 to 7 years) to bring it in line with the previous leasing repayment schedules.

- Former South Tyneside College debt, which will be fully redeemed in 10 years time. The Higher Education Funding Council reimburses the cost of this additional debt set aside.

In 2005/06, MRP was partially offset by the one-off Commutation Adjustment, which related to the correction of an accumulation of over provision of MRP in prior years.

2005/06 £m		2006/07 £m
3.518	General Fund (4% of Capital Financing Requirement)	3.671
(1.859)	Commutation Adjustment	-
1.659	**Total Minimum Revenue Provision**	**3.671**
0.038	Finance Lease Repaid	0.018
-	Other Voluntary Set Aside Provision	0.328
1.697	**Total Debt Set Aside**	**4.017**

18. Members' Allowances

The value of members' allowances paid is as follows:

Total Members' Basic and Special Responsibility Allowances paid	0.621	0.574

19. Officers' Emoluments

The number of employees whose remuneration by the Council, excluding pension contributions, was above £50,000 is as follows:

	Number of Employees	
	2005/06	2006/07
£50,000-£59,999	42	50
£60,000-£69,999	15	18
£70,000-£79,999	3	7
£80,000-£89,999	2	1
£90,000-£99,999	-	3
£100,000-£109,999	-	-
£110,000-£119,999	1	-
£120,000-£129,999	-	1
£130,000-£139,999	-	-
£140,000-£149,999	-	-
£150,000-£159,999	1	-

A restructure of senior management in 2005/06 led to the reduction of an Executive Director's post. The cost of the outgoing director is reflected in that year's figure. The cost represents a one off payment whilst the restructure resulted in annual savings of £0.5m.

20. Related Party Transactions

Under FRS8, 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 it is felt disclosure is required under the stated Standard.

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. In addition to the Revenue Support Grant, Non-Domestic Rate income and other unringfenced general grants shown in the Income and Expenditure Account, the Council received £162.238m (£91.985m in 2005/06) in respect of Government support for specific activities. In 2006/07, funding for Education switched from a general to a specific grant.

The Authority administers the Tyne and Wear Pension Fund and charged £0.725m (£0.783m in 2005/06) in respect of support services provided – primarily financial, legal and information technology. It also paid to the Fund £0.048m (£0.047m in 2005/06) in respect of treasury management duties. From 1st April 2004, the Fund operated a separate bank account to that of the Authority such that any interest earned on cash balances was taken directly into the Fund's accounts.

South Tyneside Homes Limited buys back services from the Authority and were charged £3.156m (nil in 2005/06) in respect of support services provided – primarily financial, legal and information technology. The Authority paid a management fee of £10.052m (nil in 2005/06) and £27.237m (nil in 2005/06) for the provision of construction services.

21. External Audit Fees

The Audit Commission is the regulatory body that controls the financial actions of the Authority. In 2005/06 the Commission appointed PricewaterhouseCoopers LLP to act as the external auditors for the Authority. 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.

2005/06 £m			2006/07 £m
0.239		Fees Payable in respect of External Audit Services	0.243
0.095		Fees Payable in respect of Grant Claim Certification	0.097
0.334		**Total Fees Payable to External Auditors**	**0.340**
0.113		Fees Payable in respect of Statutory Inspection	0.055
-		Non Statutory Services	-
0.447		**Total Costs**	**0.395**

In addition to the above, £0.043m (£0.041m in 2005/06) was paid in audit fees in respect of the Tyne and Wear Pension Fund. This amount is reflected in the total cost of services as shown in the relevant statement published in these accounts.

22. Earmarked Reserves

Earmarked reserves are held for specific commitments 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 2006/07 financial year.

	As at 1st April 2006 £m	Contribution to Reserves £m	Contribution from Reserves £m	As at 31st March 2007 £m
Strategic Reserve	(4.049)	(0.278)	-	(4.327)
Forward Planning Reserve	(4.125)	-	4.125	-
School Balances	(5.211)	(0.315)	0.457	(5.069)
Structural Change Reserve	-	(2.000)	-	(2.000)
Maintenance Fund	(1.348)	(0.011)	-	(1.359)
Insurance Reserve	(1.874)	(1.184)	0.238	(2.820)
Corporate Strategic Financial Risk Reserve	-	(2.500)	-	(2.500)
Private Finance Initiative	(0.012)	(2.005)	-	(2.017)
Partnership Working	(0.311)	(0.147)	0.095	(0.363)
Grant Clawback	(0.318)	(0.248)	0.100	(0.466)
Equal Pay and Job Evaluation Reserve	-	(6.275)	0.355	(5.920)
Retained Income	-	(0.827)	-	(0.827)
Other Reserves	(0.359)	(1.429)	0.156	(1.632)
Total Earmarked Reserves	**(17.607)**	**(17.219)**	**5.526**	**(29.300)**

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

Strategic Reserve – to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is held at 2% of the Council's net revenue budget (gross of dedicated schools grant), which Members have agreed is the minimum amount of reserves that should be retained by the Council as a contingency.

School Balances – cash balances held on behalf of schools

Structural Change – to manage the revenue cost of achieving the structural changes facing the Council. These changes are required to ensure that the Council has sufficient funds to achieve its objectives. Some of the specific 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 will also be used to finance significant "invest to save" projects.

Maintenance Fund – to cover any liabilities arising from assets transferring after the winding up of the Tyne and Wear Urban Development Corporation

Insurance Reserve – to cover any potential liabilities over and above known claims

Corporate Strategic Financial Risk Reserve – to cover known financial risks, which are both significant and volatile, such as a potential increase in demand for adult care services or childcare placements.

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 to cover the risk that the actual cost of job evaluation is higher than planned.

Other reserves include amounts set aside for specific expenditure commitments within Directorates.

23. Long Term Contracts (PFI)

The Council secured its first two PFI deals during 2005/06. Under such 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.

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 estimated capital value of the new facility is £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 and payments totalling £0.999m (nil in 2005/06) have been incorporated within the Education line on the Income and Expenditure Account, with PFI credits released of £0.707m (nil in 2005/06). Unitary charge payments over the life of the contract will total £64.9m of which £38.5m 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.

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, 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 2006/07 unitary charge payments of £2.156m (£0.188m in 2005/06) had been paid out whilst £0.770m (£0.112m in 2005/06) was recovered through PFI credits. The unitary charge includes £0.337 (£0.028m in 2005/06) 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 £100m of which £63m will be recovered in the form of PFI credits.

	Unitary Payments £m	PFI Credits £m	Net Cost £m
Within one year (2007/08)	4.823	(4.079)	0.744
2008/09 to 2011/12	22.984	(16.316)	6.668
2012/13 to 2016/17	32.151	(20.395)	11.756
2017/18 to 2021/22	34.000	(20.395)	13.605
2022/23 to 2026/27	36.007	(20.395)	15.612
2027/28 to 2031/32	31.619	(16.909)	14.710
Totals	**161.584**	**(98.489)**	**63.095**

The estimated outstanding contract payments for both PFI contracts are analysed in the following table.

On top of 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.

24. Movement of Tangible Fixed Assets

	Operational Assets					Non Operational Land and Buildings	Total
	Council Dwelling £m	Other Land and Buildings £m	Comm. Assets £m	Infra-structure £m	Vehicles Plant & Equip £m	£m	£m
Gross Book Value at 31st March 2006	647.343	268.946	0.944	51.152	24.708	53.635	1,046.728
Accumulated Depreciation and Impairment	(65.851)	(50.458)	-	(7.653)	(14.790)	(0.749)	(139.501)
Net Book Value at 31st March 2006	**581.492**	**218.488**	**0.944**	**43.499**	**9.918**	**52.886**	**907.227**
Additions	13.267	7.892	0.431	5.212	5.651	15.559	48.012
Disposals	(9.900)	(2.433)	-	-	(1.248)	(2.756)	(16.337)
Revaluations	76.633	(21.253)	0.144	(0.144)	0.001	(17.881)	37.500
Depreciation	(11.763)	(3.678)	-	(0.982)	(2.869)	0.641	(18.651)
Impairment	1.704	28.841	-	-	-	(0.158)	30.387
Net Book Value at 31st March 2007	**651.433**	**227.857**	**1.519**	**47.585**	**11.453**	**48.291**	**988.138**

Following an assessment of housing in the Borough, an increase factor of 14% (6.9% in 2005/06) has been applied. This reflects increases in both open market valuations for right to buy sales, and Building Society price indices. Applying this to Council dwellings increases their book value by £75m (£28m in 2005/06), which has been incorporated into the above figures due to its material nature.

25. Fixed Asset Analysis

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

	2006	2007		2006	2007
Council Dwellings	18,949	18,615	Sports Stadia	2	2
Town Hall and Civic Offices	14	14	Children's Homes	4	4
Homes for the Elderly	5	5	Family Centres	2	2
Leisure Centre/Pools	2	2	Day/Social Centres	16	16
Museums/Galleries	2	2	Homes for Adults	4	3
Depots	3	1	Surestart Facilities	5	5
Parks	14	14	Elderly Persons Homes	5	5
Early Years Excellence Centre	1	1	Child Protection Unit	1	1
Crematorium and Cemeteries	7	7	Special Placement Unit	2	2
Libraries	8	8	Market	1	1

Schools	72	71	Industrial Estates	11	11
Youth and Community Centres	27	29	Managed Workshops	3	3
Shops	214	187			

26. Capital Finance

2005/06 £m		2006/07 £m
174.880	**Opening Capital Financing Requirement**	**181.653**
	Capital Investment	
1.020	Intangible Assets	1.422
30.150	Operational Assets	32.453
14.665	Non Operational Assets	15.559
5.710	Deferred Charges	12.012
3.190	Other Capital Costs	-
54.735	**Total Capital Investment**	**61.446**
	Sources of Finance	
(10.114)	Capital Receipts	(12.373)
(22.003)	Government Grants and other Contributions	(17.936)
(13.559)	Housing Revenue Account	(13.858)
(2.286)	General Fund Revenue	(4.478)
(47.962)	**Total Finance Used**	**(48.645)**
6.773	**Movement in Capital Financing Requirement**	**12.801**
181.653	**Closing Capital Financing Requirement**	**194.454**
	Explanation of Movement in Year	
5.446	Increase in underlying need to borrow (supported by Government)	7.388
1.327	Increase in underlying need to borrow (unsupported by Government)	5.413
6.773	**Increase / (Decrease) in Capital Financing Requirement**	**12.801**

27. Significant Items of Capital Expenditure

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

The total expenditure on the capital programme was £61.446m (£54.735m in 2005/06). The most significant items during 2006/07, excluding planned maintenance, are shown in the following table.

	£m		£m
South Shields Business Factory	0.994	Cleadon Park Regeneration	3.282
Secondary School Reorganisation	1.695	Transformation Projects	1.945
Tyne Gateway	1.954	Redundancies	0.837
ICT Developments and E-Government	1.875	Equal Pay Compensation	6.114
Schools Devolved Formula Grant	1.864	Replacement Vehicles and Equipment	1.341
Primary School Reorganisation	5.853	Cleaner, Greener, Safer projects	0.970
Housing Grants	2.048	Construction of New Sports Facilities for School and community use	0.797
Replacements of Dunn Street School	1.136	Children's Centre's	0.911

28. Deferred Charges

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, and Housing Grants e.g. for disabled facilities. The total of deferred charges for the year of £12.012m (£5.710m in 2005/06) have been amortised to the Income and Expenditure Account.

29. Capital Commitments

Details of commitments over £0.5m under capital contracts as at 31st March 2007:

	£m		£m
Cleadon Park Regeneration	2.353	ICT System Replacements	0.532

30. Valuation Details

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 Authority 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 work in progress 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 2006. The total revaluation for 2006/07 increased asset values by £39.696m (£39.132m decrease in 2005/06). In 2005/06, dwellings were revalued in line with new Government guidelines that imposed a downward adjustment factor of 51% on vacant possession values. All assets are revalued as part of a five year rolling programme.

31. 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 calculated.

- A straight-line method of depreciation has been adopted based on the expected remaining useful life. For buildings, this is usually forty years and for equipment and vehicles, five years. A net movement of £18.366m has been made to the accounts for 2006/07 (£21.136m in 2005/06).

- 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. In 2006/07 the accounting treatment of impairment has been amended resulting in most prior years' charges being reclassified as asset revaluations.

The following table shows the movement in depreciation and impairment:

	Depreciation Account			Impairment Account		
	Dwellings £m	Land and Buildings £m	Other Assets £m	Dwellings £m	Land and Buildings £m	Other Assets £m
Opening Balance 1st April 2006	(63.393)	(21.617)	(23.192)	(2.458)	(28.841)	-
Reclassifications	-	(0.749)	0.749	-	-	-
Charges to Revenue	(12.888)	(5.914)	(5.233)	1.704	-	(0.158)
Other Movement in Balances	1.125	2.985	1.274	-	28.841	-
Closing Balance 31st March 2007	**(75.156)**	**(25.295)**	**(26.402)**	**(0.754)**	**-**	**(0.158)**

32. 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 Authority at 31st March 2007 relate to software licences, which are amortised to Income and Expenditure on a straight-line basis using an average useful life of 5 years. However in 2006/07 full amortisations have taken place in relation to assets transferred to South Tyneside Homes or superceded by new financial software implemented during the year.

	Software Licences £m
Gross Book Value 31st March 2006	1.020
Accumulated Amortisation and Impairment	(0.102)
Net Book Value at 31st March 2006	**0.918**
Additions	1.422
Disposals	-
Revaluations	-
Amortisation	(0.836)
Impairment	-
Net Book Value at 31st March 2007	**1.504**

Amortisation and Impairment Provision	Software Licences £m
Provision at 31st March 2006	(0.102)
Amortisation in Year	(0.836)
Impairment in Year	-
Provision at 31st March 2007	**(0.938)**

33. Ownership of Fixed Assets

The following table shows the net value of fixed assets split between the General Fund and the Housing Revenue Account:

	Operational Assets					Non Operational Land and Buildings	Total
	Council Dwelling £m	Other Land and Buildings £m	Comm. Assets £m	Infra-structure £m	Vehicles Plant & Equip £m	£m	£m
General Fund	0.059	222.574	1.519	47.585	6.879	13.181	291.797
Housing Revenue Account	651.374	5.283	-	-	4.574	35.110	696.341
Net Book Value at 31st March 2007	**651.433**	**227.857**	**1.519**	**47.585**	**11.453**	**48.291**	**988.138**

34. Airport Loan Notes

As part payment for the sale of a stake in Newcastle Airport, the Authority will receive a further £0.240m in the form of Loan Notes over the next six years.

35. Deferred Liabilities

The following table summarises the Council's deferred liabilities:

31st March 2006 £m		31st March 2007 £m
(3.294)	Secondary School Capital Financing	(3.294)
(1.680)	Newcastle Airport Loan Notes	(1.440)
(0.481)	Debt Rescheduling	(0.899)
(0.057)	Outstanding Finance Lease	(0.039)
(5.512)	**Total Deferred Liabilities**	**(5.672)**

The Council receives grants and other funding contributions towards its capital programme. These grants are credited to the Government Grants Deferred Account and released to the Income and Expenditure Account as the assets are consumed.

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 Newcastle Airport Loan Notes are an amount set aside in lieu of the loan notes described in note 34 being repaid.

The debt rescheduling represents net discounts achieved by this activity, which are being released as a credit to the HRA over ten years in line with Government Statute. All general fund discounts and premiums have been charged to the Income and Expenditure Account in the year in which they arise.

The outstanding finance lease relates to funding used to acquire a vehicle that has yet to be repaid.

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

36. Deferred Credits

This amount relates to the outstanding balance of mortgages granted by the Council for the sale of Council Houses.

37. Long Term Investments

The Council's external investments are shown in the following table:

31st March 2006 £m	Long Term Investments	31st March 2007 £m
6.767	Newcastle Airport Local Authority Holding Company Limited	3.382
0.008	Government Securities	0.008
6.775	**Total Long Term Investments**	**3.390**

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 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

Plc, to own 100% of the shares in NIAL and the creation of Newcastle Airport Local Authority Holding Company Limited to represent the Local Authority interests. The seven Local Authorities, via the new holding company, have retained a 51% interest in NIAL Holding plc with the remaining 49% held by Copenhagen Airports Limited. 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.

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 valuation of NIAL Holdings Limited is reviewed annually and any movement in the value of our shareholding is reflected in the Investment Revaluation Reserve.

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings 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 NIAL 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.

For the year ending 31st December 2006, Newcastle Airport Local Authority Holding Company declared a gross dividend of £4.000m (£3.400m in 2005/06) to the Local Authority shareholders. South Tyneside Council's share of the dividend is £0.396m (£0.337m in 2005/06).

During 2006, Newcastle Airport Local Authority Holding Company commissioned a refinancing exercise, which resulted in additional income to shareholders. The total income from refinancing was £79.000m and South Tyneside received a 9.9% share of this equating to £7.821m, resulting in a downward revaluation of £3.385m in the Council's shareholding.

The Newcastle Airport Local Authority Holding Company Limited accounts for the year ended 31st December 2006 reveal a loss before dividends of £15.126m (£7.588m profit in 2005). Consolidated net liabilities stood at (£25.147m) (£73.681m net assets in 2005). The consolidated accounts of Newcastle International Airport Limited and NIAL Holdings Plc can be obtained upon application to the Finance Director, Newcastle International Airport Limited, Woolsington, Newcastle-upon-Tyne, NE13 8BZ.

The Council also owns 100% of South Tyneside Homes Limited, which operates the Council's Housing Services. Accounts for the company for the year ended 31st March 2007 reveal a deficit of £15.552m after recognised gains and losses (nil in 2005/06). The main reason for this loss relates to the transfer of £16.2m Pension Liability from the Council to South Tyneside Homes on 1st April 2006. The Council acts as guarantor for this liability. Net liabilities for the company stood at (£0.452m) at 31st March 2007 (nil in 2005/06). The accounts of South Tyneside Homes Limited can be obtained upon application to the Company Secretary, South Tyneside Homes Limited, c/o South Tyneside Council, Town Hall and Civic Offices, Westoe Road, South Shields, NE33 2RL. The results of the company have been incorporated into the Group Accounts reported later in these accounts.

38. 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 2006 £m	31st March 2007 £m
Public Works Loan Board	4.45 - 9.375	(191.575)	(197.676)
Market Loans	9.4375 - 9.50	(10.000)	(10.000)
Total Long Term Borrowing		**(201.575)**	**(207.676)**

An analysis of loans by maturity is:

31st March 2006 £m			31st March 2007 £m
-		1 - 2 years	-
(5.000)		2 - 5 years	(0.150)
(58.150)		5 - 10 years	(51.000)
(138.425)		Over 10 years	(156.526)
(201.575)		**Total Long Term Borrowing**	**(207.676)**

39. Provisions

The Council's provisions amounting to £7.670m comprise the following:

	Balance 1st April 2006 £m	Amount Received During Year £m	Amount Applied During Year £m	Balance 31st March 2007 £m
Insurances	(2.552)	(1.859)	2.549	(1.862)
Redundancy and Early Retirement	(0.619)	-	0.619	-
Pay Settlements (including Equal Pay)	(10.000)	(5.808)	10.000	(5.808)
Total Provisions	**(13.171)**	**(7.667)**	**13.168**	**(7.670)**

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 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 of outstanding claims. As at 31st March 2007, the Council faced outstanding claims of £1.862m. Based on our past history of claims we expect £0.967m to be settled in 2007/08, £0.537m to be settled in 2008/09 and £0.358m to be settled in future years.

The Council is facing significant liabilities in relation to equal pay and equal value claims at employment tribunal. In addition we are also in negotiation with the unions to agree a job evaluation exercise that will ensure equal pay for equal value of work across the Council. The costs of this scheme will be backdated to 1st January 2007. Our provision therefore represents estimated costs of outstanding settled claims (including tax liabilities), ongoing claims at tribunal and the three-month additional wage bill cost from Job Evaluation. Finally, the provision includes an amount for settlement of a former manual workers' pay review. It is expected that all of this provision will be required in 2007/08.

40. Authorisation of Accounts

These accounts were authorised for issue on 19th December 2007 by Councillor Paul Waggott, chair of General Purposes Committee.

41. Trust Funds

The Council acts as sole trustee for legacies left by inhabitants of the Borough, the value of which at 31st March 2007 is £0.674m (£0.653m in 2005/06).

The largest of these legacies is the Westoe Trust that has investments worth £0.352m as at 31st March 2007 (£0.352m in 2005/06). 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.

	Balance 1st April 2006 £m	Amount Received During Year £m	Amount Applied During Year £m	Balance 31st March 2007 £m
Westoe Trust	(0.352)	(0.017)	0.017	(0.352)
Marine Park Trust	(0.157)	(0.008)	-	(0.165)
Other Trust Funds	(0.144)	(0.019)	0.006	(0.157)
Total Provisions	**(0.653)**	**(0.044)**	**0.023**	**(0.674)**

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

	Government Stock Investments £m	Invested in Council Funds £m	Total £m
Westoe Trust	-	0.352	0.352
Marine Park Trust	-	0.165	0.165
Other Trust Funds	0.024	0.133	0.157
Total as at 31 March 2007	**0.024**	**0.650**	**0.674**

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

42. School Balances

As at 31st March 2007, the Council was holding £5.069m in relation to unspent school balances (£5.211m at 31st March 2006). This amount forms part of the earmarked reserves balances.

43. Euro

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

44. Other Long Term Debtors

An analysis of our other long term debtors:

	At 1st April 2006 £m	Expenditure During Year £m	Repaid or Written Off During Year £m	At 31st March 2007 £m
Assisted Vehicle Purchase	0.232	0.164	(0.201)	0.195
Social Care and Health Fees	0.645	0.217	(0.379)	0.483
Housing Advances (including Council Housing)	0.370	-	(0.131)	0.239
Street Lighting Prepayment	-	3.008	-	3.008
Total Other Long Term Debtors	**1.247**	**3.389**	**(0.711)**	**3.925**

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.

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.

45. Stock and Work in Progress

With the transfer of the Building Works activity to South Tyneside Homes on 1st April 2006 the Council has no work in progress. An analysis of our stock balances is shown below:

31st March 2006 £m	Stock	31st March 2007 £m
0.271	Home Loan Equipment Centre	0.347
0.069	Catering Service	0.073
0.072	Other Stock	0.071
0.610	Building Works (transferred to South Tyneside Homes Limited)	-
1.022	**Total Stock**	**0.491**

46. Debtors

An analysis of all debtors is shown below:

31st March 2006 £m			31st March 2007 £m
		Amounts Falling Due in One Year	
15.418		Government Bodies	14.857
0.339		Other Local Authorities	0.997
2.841		Housing Tenants	2.775
3.430		Council Tax Payers	3.748
0.487		National Non-Domestic Rate Payers	0.866
-		South Tyneside Homes Limited	1.472
17.000		Sundry Debtors	11.784
39.515		**Total Amounts Falling Due in One Year**	**36.499**
		Provisions for Bad debts	
(1.903)		Housing Rents	(1.970)
(1.119)		Council Tax	(0.969)
(0.329)		National Non-Domestic Rates	(0.441)
(3.616)		All Other Debtors	(3.086)
(6.967)		**Total Bad Debt Provisions**	**(6.466)**
32.548		**Net Debtors**	**30.033**

31st March 2006 £m		Debts Written Off During the Year	31st March 2007 £m
		Amounts Written Off During the Year	
0.254		Housing Rents	0.550
0.115		Council Tax	0.075
0.138		National Non-Domestic Rates	0.086
0.062		All Other Debtors	0.319
0.569		**Total Amounts Written Off During the Year**	**1.030**

47. Creditors

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

31st March 2006 £m		31st March 2007 £m
(22.272)	Government Bodies	(22.871)
(0.614)	Other Local Authorities	(0.694)
(0.419)	Housing Tenants	(0.543)
(0.759)	Council Tax Payers	(1.089)
(0.409)	National Non-Domestic Rates	(0.944)
-	South Tyneside Homes Limited	(4.519)
(19.384)	All Other Creditors	(26.672)
(43.857)	**Total Creditors**	**(57.332)**

48. Single Status

As a consequence of the Single Status Agreement reached between National Employers and Trade Unions in 1997, South Tyneside Council has a responsibility to implement harmonised terms and conditions of employment for former APT and C and former Manual Workers. Key elements of this agreement include the requirement to complete local pay and grading reviews and the development of an equal pay proofed structure. Other key provisions within the Single Status agreement will require a review of terms and conditions, such as annual leave entitlements, which will have potential cost implications for the Council.

The approach being adopted to manage this key issue is a partnership with our recognised trade unions for the purposes of local consultation and negotiation to implement the key provisions contained within the original 1997 agreement, as augmented and adjusted by the three-year pay award agreed in 2004.

Following a local agreement, the key issues of harmonising local conditions of service and a revised pay and grading structure will be effective from 1st January 2007.

49. Post Balance Sheet Events

There are no post balance sheet events to disclose.

50. Net Worth

The net worth of the Authority at the Balance Sheet date stands at £641.073m, a growth of £127.042m on the previous year. The Statement of Total Recognised Gains and Losses analyses this growth in terms of surplus or deficit on the Income and Expenditure Account and Collection Fund Accounts, together with any revaluation of assets or liabilities.

	31 March 2006 £m	Movement in Year £m	31 March 2007 £m	Purpose of Reserve	Further detail of Movements
Fixed Assets Restatement Account	(528.875)	(26.231)	(555.106)	Store of gains on revaluation of fixed assets	Note 51 On Page 90
Capital Financing Account	(127.657)	(96.145)	(223.802)	Store of capital resources set aside to meet past expenditure	Note 52 On Page 90
Usable Capital Receipts Reserve	(6.770)	5.727	(1.043)	Proceeds of fixed asset sales available to meet future expenditure	Note 53 On Page 90
Equal Pay Account	-	4.579	4.579	Balancing account to allow recognition of costs only in the year that they are paid	Note 4 On Page 52
Pension Reserves	181.820	(10.850)	170.970	Balancing account to allow inclusion of Pension Liability in the accounts	Note 15 On Page 59
Housing Major Repairs Reserve	(1.150)	1.150	-	Resources available to meet capital investment in Council Housing	HRA statement Note 6 On page 128
Investment revaluation reserve	(6.762)	3.384	(3.378)	Recognition of airport investment in the accounts	Note 37 On Page 80
Earmarked Reserves	(17.607)	(11.693)	(29.300)	Resources set aside to support specific future cost pressures	Note 22 On Page 68
Collection Fund	(0.260)	0.078	(0.182)	Balance available to support future Council Tax	Collection Fund Statement Page 137
General Fund Balances	(1.589)	0.848	(0.741)	Resources available to meet future running costs of non HRA services	Statement of Movement in the General Fund Balance Page 40
Housing Revenue Account Balances	(5.181)	2.111	(3.070)	Resources available to meet future running costs of HRA services	HRA statement Page 121
Total Net Worth	**(514.031)**	**(127.042)**	**(641.073)**		

51. Fixed Asset Restatement Account

	2006/07 £m
Balance as at 1st April 2006	**(528.875)**
Reallocation to Capital Financing Account	29.535
Disposal of fixed assets	15.087
Prior Period Adjustment Government Grants Deferred	(56.556)
Deficit or (Surplus) arising on Revaluation of Fixed Assets	(14.297)
Balance as at 31st March 2007	**(555.106)**

52. Capital Financing Account

	2006/07 £m
Balance as at 1st April 2006	**(127.657)**
Reallocation to Fixed Asset Restatement Account	(29.535)
Financing of Capital Programme	(9.632)
Unwinding of Equal Pay Costs	(9.600)
Reversal of Charges made to the Income & Expenditure Account	9.100
Deficit or (Surplus) arising on Revaluation of Fixed Assets	(56.478)
Balance as at 31st March 2007	**(223.802)**

53. Usable Capital Receipts Reserve

	2006/07 £m
Balance as at 1st April 2006	**(6.770)**
Net receipts in year	(6.646)
Applied to support capital spending in year	12.373
Balance as at 31st March 2007	**(1.043)**

54. Contingent Liabilities

The Council is to implement a revised pay structure during 2007/08 following a comprehensive job evaluation review. This new pay structure will be effective from 1st January 2007 and a provision has been created for the estimated costs arising from the review.

The implementation of our new pay structure will help to protect the Council from future equal pay claims, although it is recognised that further liabilities may arise. We have been able to estimate the value of payments due to Her Majesty's Revenue and Customs from equal pay settlements made during 2006/07 and we have also calculated the anticipated cost of outstanding claims against the Council. We have provided for both amounts in these accounts. However, it remains difficult to determine the Council's potential future liability, and no provision has been made for potential future claims.

Although no provision has been made for potential future claims, the Council has sought to increase earmarked reserve balances where possible. The Authority holds an earmarked reserve to cover commitments arising from pay settlements, including equal pay and job evaluation.

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 2007, the Actuary assessed the deficit at £16.200m. This amount has been accounted for through the Income and Expenditure Account for South Tyneside Homes Limited as an exceptional item in 2006/07. 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.

55. Dedicated Schools Grant

Dedicated Schools Grant (DSG) provided by the Department for Children Schools and Families funds the Council's expenditure on schools. The 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 an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately

Our Schools Forum agreed that the 2006/07 clawback of DSG amounting to £0.305m would be funded from a reduction in Individual Schools Budgets of £0.200m and an agreed overspend of £0.105m in 2006/07 which would be carried forward to 2007/08 DSG. The net overspend of £0.090m is after offsetting £0.015m relating to provision for schools in financial difficulty.

Details of the deployment of DSG receivable for 2006/07 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure £m	Individual Schools Budget £m	Total £m
Original grant allocation to Schools Budget for the year in the Authority's budget	(8.505)	(74.407)	(82.912)
Adjustment to finalised grant allocation	-	(0.305)	(0.305)
Dedicated Schools Grant receivable for the Year	**(8.505)**	**(74.102)**	**(82.607)**
Actual expenditure against Dedicated Schools Grant for the Year	8.505	74.370	82.875
(Under) / overspend for the year	**-**	**0.268**	**0.268**
Planned top-up funding of Individual Schools Budgets from Council Resources	-	-	-
Use of Schools Balances brought forward	-	(0.178)	(0.178)
(Over) / underspend from prior year	-	-	-
(Under) / overspend against DSG carried forward to 2007/08	**-**	**0.090**	**0.090**

The Central Expenditure figure includes the Teachers' Threshold Grant of £3.472m.

For 2006/07, the arrangements for government support for the funding of schools changed. Previously funds were provided as part of the council's overall Revenue Support Grant. In 2006/07, the council has received a specific grant - the Dedicated Schools Grant. £82.607m has therefore been credited against the Education service outturn in the Income and Expenditure Account that would previously have been treated as part of Revenue Support Grant in corporate income. The difference between 2006/07 figures and comparative figures for 2005/06 for these two lines is substantially explained by this change.

56. Revenue Cash Flow Activities

The revenue net cash flow can be reconciled to the Income and Expenditure Account as follows:

2005/06 £m		2006/07 £m
26.027	**Deficit or (surplus) for the year on the income and expenditure account**	**4.637**
(26.097)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the general fund balance for the year	(3.789)
(0.070)	**Increase/Decrease in General Fund Balance**	**0.848**
	Returns on Investment and Service of Financing	
0.278	Newcastle Airport Dividend	8.199
(8.393)	Net Interest Payments	(2.957)
(8.115)	**Total Returns on Investment and Service of Financing**	**5.242**
	Non-Cash Transactions	
(1.659)	Debt Set Aside Provisions	(4.017)
5.611	Contributions from / (to) Provisions	5.501
(5.168)	Contribution from / (to) Reserves	(11.693)
(14.186)	Revenue Contributions to Capital Outlay	(2.026)
(0.842)	Other Items	(3.975)
(16.244)	**Total Non-Cash Transactions**	**(16.210)**
	Items on an Accruals Basis	
(0.173)	Stock Increase / (Decrease)	(0.531)
0.345	Debtors Increase / (Decrease)	(2.515)
4.357	Creditors (Increase) / Decrease	(13.475)
4.529	**Total Items on an Accruals Basis**	**(16.521)**
(19.900)	**Net Cash Flow from Revenue Activities**	**(26.641)**

57. 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	(13.463)
Outflow from Debt	29.470
Net Cash Outflow	**16.007**
Net Debt at 1st April 2006	(148.390)
Net Debt at 31st March 2007	(132.383)
Net Cash Outflow	**16.007**

58. Management of Liquid Resources

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

	As at 1st April 2006	As at 31st March 2007	Movement in Year
Short Term Investments	53.371	75.350	21.979

59. Financing

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

Financing	As at 1st April 2006	As at 31st March 2007	Movement in Year
Market Loans	(10.000)	(10.000)	-
Public Works Loan Board	(191.575)	(197.676)	(6.101)
Finance Leasing	(0.075)	(0.057)	0.018
Special Financing	(0.111)	-	0.111
Total Financing	**(201.761)**	**(207.733)**	**(5.972)**

60. Increase / (Decrease) in Cash

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

	As at 1st April 2006	As at 31st March 2007	Movement in Year
Cash in Hand and at Bank	22.344	6.250	(16.094)
Bank Overdraft	(3.377)	(0.746)	2.631
Net Cash and Bank Position	**18.967**	**5.504**	**(13.463)**

61. Analysis of Other Government Grants

The Council received the following cash receipts in relation to specific government grants:

	£m		£m
Dedicated Schools Fund	(82.607)	Waste	(0.958)
Supporting People	(4.599)	School Standards	(3.117)
Access & Systems Capacity	(2.554)	Children's Services	(1.111)
Surestart	(5.497)	Preserved Rights	(0.672)
Single Programme	(1.139)	PFI	(3.439)
Benefits Administration	(2.419)	Performance Reward	(2.255)
Neighbourhood Renewals Fund	(8.576)	Local Enterprise Growth	(3.858)
Carers	(0.719)	Business Rate Growth Incentive	(0.815)
Learning & Skills Council	(5.187)	Other	(4.413)
Standards Fund	(13.988)	**Total**	**(147.923)**

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
- North East Consortium for Asylum and Refugee Support

South Tyneside Homes Limited

South Tyneside Council established an Arms Length Management Organisation registered as South Tyneside Homes Limited on 3 March 2005 and transferred responsibility 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 Authority. South Tyneside Homes Limited accounting policies have been realigned in order to ensure they are consistent with the Group Accounting Policies. The subsidiary has been consolidated into the Group Financial Statements on a line by line basis as required by FRS2.

Other Entities

The Tyne and Wear Economic Development Company, the Beamish Museum, and the North East Consortium for Asylum and Refugee Support have all been incorporated as joint ventures using the gross equity method - a basis as the equity method, but requiring the disclosure of the council's share of the gross assets and liabilities and gross turnover and operating costs of the organisations.

	GROUP Gross Expenditure £m	GROUP Gross Income £m	GROUP Net Expenditure £m
Central Services to the Public	18.259	(15.762)	2.497
Cultural, Environmental and Planning Services	68.220	(27.987)	40.233
Education Services	138.042	(122.855)	15.187
Highways, Roads and Transport Services	11.268	(2.498)	8.770
Housing Services	110.133	(93.537)	16.596
Adult Social Services	76.287	(32.229)	44.058
Children's Social Services	26.703	(8.368)	18.335
Court Services	0.607	(0.290)	0.317
Corporate and Democratic Core	7.048	(0.567)	6.481
Non Distributed Costs	3.516	(17.153)	(13.637)
Share of operating results of Joint Ventures:			
- Turnover	-	(0.609)	(0.609)
- Cost of sales and operating expenses	0.702	-	0.702
Contribution to corporate bad debt provision	-	-	-
Equal pay compensation payments	-	-	-
Exceptional Items - Equal Pay Legislation	13.621	-	13.621
Net Cost of Services	**474.406**	**(321.855)**	**152.551**

Group Income and Expenditure Account

	GROUP Gross Expenditure £m	GROUP Gross Income £m	GROUP Net Expenditure £m
Loss on the Disposal of Fixed Assets			1.072
Passenger Transport Authority Precept			9.078
Environmental Agency Precept			0.068
(Surpluses) / Deficits on Trading Undertakings not included in Net Cost of Services			(8.115)
Interest Payable and similar Charges			13.261
Amortisation of Premiums and Discounts			(0.084)
Contribution of Housing Capital Receipts to Government pool			7.370
Interest and Investment Income			(4.740)
Interest on Pension Liabilities			26.700
Expected Return on Pension Assets			(23.640)
Net Operating Expenditure			**173.521**
Demand on the Collection Fund			(50.633)
General Government Grants			(34.845)
Non-domestic Rates Redistribution			(66.855)
Deficit or (Surplus) for the Year			**21.188**

Reconciliation of the Single Entity Surplus/Deficit to the Group Surplus/Deficit

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

	2007-08 £m
(Surplus) / deficit for the year on the Authority Income and Expenditure Account	4.637
Adjustments for the transactions with other Group Entities	15.806
(Surplus) / deficit in the Group Income and Expenditure Account attributable to the Authority	**20.443**
(Surplus) / deficit in the Group Income and Expenditure Account attributable to Group Entities:	
Subsidiaries	0.652
Joint Ventures	0.093
(Surplus) / deficit for the year on the Group Income and Expenditure Account	**21.188**

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 increase 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
(Surplus) / Deficit for the Year on the Income and Expenditure Account	21.188
(Surplus) / Deficit for the Year on the Collection Fund Account	0.078
Prior Period Adjustment Government Grants Deferred	(56.556)
(Surplus) / Deficit arising on the Revaluation of Fixed Assets	(70.775)
Deficit or (Surplus) arising on Unwinding Equal Pay Costs	(9.600)
Gain on use of Capital Receipts to Redeem Debt	(0.110)
(Surplus) / Deficit arising on the Revaluation of Investments	3.384
(Surplus) / Deficit arising on other Reserves of Group Entities	(1.424)
Actuarial (Gains) / Losses on Pension Fund Assets and Liabilities	0.990
Total Recognised (Gains) / Losses for the Year	**(112.825)**

Group Balance Sheet

This statement provides a summary of the Group's financial position as at 31st March 2007. 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.

31 March 2006 £m		Note	31 March 2007 £m	31 March 2007 £m
0.918	**Intangible Fixed Assets**	9		1.624
	Tangible Fixed Assets			
	Operational Assets			
581.492	Council Dwellings		651.433	
214.987	Other Land and Buildings		227.857	
9.918	Vehicles, Plant and Equipment		11.453	
43.499	Infrastructure		47.585	
0.944	Community Assets		1.519	939.847
	Non-Operational Land and Buildings			
0.378	Investment Properties		0.378	
8.816	Assets under Construction		1.204	
43.692	Surplus Assets Earmarked for Disposal		46.709	48.291
904.644	**Total Fixed Assets**			**989.762**
	Long Term Investments			
1.808	Long Term Investments: Joint Venture Assets	2	1.976	
(0.414)	Long Term Investments: Joint Venture Liabilities	2	(0.645)	
7.961	Other Long Term Investments		3.390	4.721
	Long Term Debtors			
3.501	Shop Rents Due		-	
1.440	Airport Loan Notes		1.200	
1.247	Other Long Term Debtors		3.925	5.125
920.187	**Total Long Term Assets**			**999.608**

31 March 2006 £m		Note	31 March 2007 £m	31 March 2007 £m
	Current Assets			
1.022	Stocks and Work in Progress	10	0.990	
32.548	Debtors	11	28.561	
53.371	Investments		75.350	
22.344	Cash and Bank	18	6.263	111.164
1,029.472	**Total Assets**			**1,110.772**
	Current Liabilities			
(0.111)	Borrowing Repayable within 12 months		-	
(43.857)	Creditors	12	(56.699)	
(3.377)	Bank Overdraft	18	(0.987)	(57.686)
982.127	**Total Assets Less Current Liabilities**			**1,053.086**
(201.575)	Long-Term Borrowing		(207.676)	
(63.093)	Government Grants Deferred Account		(18.924)	
(5.512)	Deferred Liabilities		(5.672)	
(0.345)	Deferred Credits		(0.218)	
(13.171)	Provisions		(7.670)	
(181.820)	Pension Liability	5	(186.070)	(426.230)
516.611	**Total Assets Less Liabilities**			**626.856**

31 March 2006 £m		Note	31 March 2007 £m	31 March 2007 £m
	Financed By			
(528.875)	Fixed Assets Restatement Account			(555.106)
(127.657)	Capital Financing Account			(223.802)
(6.770)	Usable Capital Receipts Reserve			(1.043)
-	Equal Pay Account			4.579
181.820	Pension Reserve	5		186.070
(1.150)	Housing Major Repairs Reserve			-
(6.762)	Investment Revaluation Reserve			(3.378)
(17.607)	Earmarked Reserves			(29.300)
(2.580)	Profit / Loss and other Reserves of Group Entities			(1.331)
(0.260)	Collection Fund			(0.182)
(1.589)	General Fund Balances			(0.741)
(5.181)	Housing Revenue Account Balances			(2.622)
(516.611)	**Total Net Worth**			**(626.856)**

Group Cash Flow Statement

This statement provides a summary of the cash received and payments made by the Group to third parties for both revenue and capital purposes.

Group Cash Flow Statement Revenue Activities	Note	Group £m
Cash Outflows		
Cash Paid in relation to Employees		189.690
Other Operating Cash Payments		140.485
Council Tax Benefit Paid		14.447
Housing Benefit Paid		43.353
National Non-Domestic Rate Payments to Government Pool		19.943
Precepts Paid		15.315
Housing Capital Receipt Payments to Government Pool		7.948
		431.181
Cash Inflows		
Rents (after Rebates)		(49.176)
Council Tax Receipts		(41.905)
National Non-Domestic Rate Receipts from Government Pool		(66.855)
Non-Domestic Rate Receipts		(21.625)
Revenue Support Grant		(12.775)
Department for Work and Pensions Revenue Grant for Benefits		(28.673)
Housing Revenue Account Subsidy		(28.618)
Other Government Grants		(147.923)

Group Cash Flow Statement Revenue Activities	Note	Group £m
Cash received for Goods and Services		(22.780)
Income from Useable Capital Receipts to meet Pool Payments		(7.948)
Other Operating Cash Receipts		(29.502)
		(457.780)
Total Revenue Activities	**16**	**(26.599)**
Dividends from Joint Ventures and Associates		
Cash Inflows		
Newcastle International Airport Limited Dividend		(8.199)
Dividends from Joint Ventures and Associates	**16**	**(8.199)**
Returns on Investment and Servicing of Finance		
Cash Outflows		
Finance Lease Interest Paid		0.002
Other Interest Paid		7.651
Cash Inflows		
Interest Received		(4.635)
Returns on Investment and Servicing of Finance	**16**	**3.018**
Capital Activities		
Cash Outflows		
Purchase of Fixed Assets		49.434
Other Capital Cash Payments		12.012
		61.446

Group Cash Flow Statement	Note	Group
Revenue Activities		**£m**
Cash received for Goods and Services		(22.780)
Cash Inflows		
Sale of Fixed Assets		(13.930)
Capital Grants Received		(15.078)
Other Capital Cash Receipts		(2.732)
		(31.740)
Total Capital Activities		**29.706**
Acquisitions and Disposals		
Cash Inflows		
Sale of Newcastle International Airport Limited Shares		(0.241)
Acquisitions and Disposals		**(0.241)**
Net Cash Outflow / (Inflow) before Financing		**(2.315)**
Management of Liquid Resources		
Net Increase/(Decrease) in Short Term Deposits		21.979
Management of Liquid Resources		**21.979**
Financing		
Cash Outflows		
Repayments of Amounts Borrowed		78.010
Capital Element of Finance Lease Rental Payments		0.018
Cash Inflows		
New Loans Raised		(84.001)
Financing		**(5.973)**
Net Increase / (Decrease) in Cash	**18**	**13.691**

Notes to the Group Financial Statements

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.

Further information on the accounts 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 & 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.

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.

North East Consortium for Asylum and Refugee Support. Run by a Joint Committee of local authorities in the region. Its aim is to oversee the integration of Asylum Seekers into the regions' population.

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 100% share £m	Tyne & Wear Economic Development Company 14% share £m	Beamish Museum 8% share £m	NE Consortium for Asylum and Refugee Support 10% share £m	Total £m
Fixed Assets	0.120	1.325	-	-	1.445
Current assets	0.511	0.651	-	-	1.162
Liabilities due within one year	(4.090)	(0.467)	(0.178)	-	(4.735)
Liabilities due after one year	(15.100)	-	-	-	(15.100)
Reserves	**(18.559)**	**1.509**	**(0.178)**	**-**	**(17.228)**

3. Prior Period Adjustments

There are no prior period adjustments within the Group statements. South Tyneside Homes Limited was incorporated on 1st April 2006 and therefore there are no prior years for Income and Expenditure. Prior years' balance sheet figures are based on the Council and other entities combined.

4. Publicity

Section 5 (1) of the Local Government Act 1986, requires a record of expenditure on publicity. This is a memorandum item. The actual expenditure incurred is included as service expenditure within the Group Income and Expenditure Account.

	Group £m
Press and Promotions	0.269
Recruitment Advertising	0.320
Total	**0.589**

5. Local Government Pension Scheme Costs (including FRS17 disclosures)

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

Disclosures of pension costs in the accounts are in line with FRS17 and incorporated into the Group Income and Expenditure Account.

Components of Defined Benefit Cost

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 Pension Fund in the net cost of services as shown below:

Net Cost of Services	Group £m
Contributions Paid to Pension Fund	
- Funded Liabilities	(20.62)
- Unfunded Liabilities	(2.22)
Total Contributions Paid	**(22.84)**
Current Service Cost	18.13
Past Service Cost	4.91
Settlement / Curtailments (Gains) or Losses	-
Total Costs FRS17	**23.04**
Impact for Net Cost of Services	**0.20**

The net return on the Funds assets and interest charged against the scheme liabilities are shown under Net Operating Expenditure.

Pension Movement	Group £m
Impact for Net Cost of Services	0.20
Other Operating Costs	
- Expected Return on Fund Assets	(23.64)
- Interest on Pension Scheme Liabilities	26.70
Net Operating Costs	**3.06**
Pension Movement	**3.26**

Under the projected unit method adopted by the actuaries, the current service cost will increase as members approach retirement. Demographic assumptions have been taken to be the same as those adopted for the last actuarial valuation.

Under FRS17, the Group must show in the accounts its liability to meet the full future cost of all employees' pensions, in line with the terms and conditions of the Tyne and Wear Pension Fund. The figures disclosed below have been derived by the Fund's actuary Hewitt Bacon and Woodrow using a roll forward of liabilities from the last full actuarial valuation of the Fund at 31st March 2004 for Council employees and 31st March 2006 for South Tyneside Homes employees.

The main financial assumptions adopted as at 31st March 2007

	1st April 2006 % per annum	31st March 2007 % per annum
Inflation rate	3.0	3.2
Rate of general long-term increase in salaries	4.5	4.7
Rate of increase to pensions in payment	3.0	3.2

Rate of increase to deferred pensions	3.0	3.2
Proportion of Employees opting to take a commuted lump sum	50.0	50.0
Discount rate	4.9	5.3

Changes to the Local Government Pension Scheme

Changes to the Local Government Pension Scheme permit employees retiring on or after 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

On the advice of our actuaries we have assumed 50% of employees retiring after 6th April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Group Statement of Total Recognised Gains and Losses. The change has not affected the figures in the Group Income and Expenditure Account.

Fund Assets and Expected Rate of Return (for the Fund as a whole):

	At 1st April 2006			At 31st March 2007		
	Actual Market Value £m		Expected Rate of Return % per annum	Estimated Market Value £m		Expected Rate of Return % per annum
Equities	2,341.30	68.3%	7.3%	2,493.10	67.0%	7.7%
Property	315.10	9.2%	6.3%	373.70	10.1%	6.7%
Government Bonds	406.30	11.9%	4.3%	504.80	13.6%	4.7%
Corporate Bonds	299.60	8.8%	4.9%	281.90	7.6%	5.3%
Other Investments	60.70	1.8%	4.6%	62.90	1.7%	5.6%
	3,423.00	**100.0%**	**6.6%**	**3,716.40**	**100.0%**	**7.0%**

The following tables explain the movement in the surplus/(deficit) of the Fund:

Defined Benefit Cost	Group £m
(Surplus) / Deficit in the Fund at 31st March 2006	**181.82**
Value of Appropriation in Income and Expenditure Account	3.26
Actuarial (gain) / loss	0.99
Overall Charge / (Income) to Pension Liability	**4.25**
(Surplus) / Deficit in the Fund at 31st March 2007	**186.07**

History of Experience Gains and Losses	Group £m
Difference between expected and actual return on scheme assets	**(2.31)**
Expressed as a percentage of scheme assets	0.0%
Experience gains / (losses) on scheme liabilities	**(1.27)**
Expressed as a percentage of present value of scheme liabilities	-0.2%
Change in assumptions	**2.59**
Expressed as a percentage of present value of scheme liabilities	2.4%
Total amount recognised in Movement in Reserves	**(0.99)**
Expressed as a percentage of present value of scheme liabilities	1.3%

	1st April 2006 £m	31st March 2007 £m
Estimated Funded benefits under the LGPS regulations	(562.23)	(545.94)
Estimated Unfunded discretionary benefit awarded by means of additional benefits under the LGPS regulations	(26.41)	(29.54)
Actuarial Value of Fund liabilities	**(588.64)**	**(575.48)**
Group Share of Market Value Assets	406.82	389.41
Surplus (Deficit) in the Fund	**(181.82)**	**(186.07)**

The outstanding liability of the Group for the local government scheme stands at £186.07m at 31st March 2007.

6. Officers' Emoluments

The number of employees whose remuneration by the Group, excluding pension contributions, was above £50,000 is as follows:

	Number of Employees 2006/07
£50,000-£59,999	52
£60,000-£69,999	20
£70,000-£79,999	7
£80,000-£89,999	1
£90,000-£99,999	4
£100,000-£109,999	-
£110,000-£119,999	-
£120,000-£129,999	1

7. Related Party Transactions

Under FRS8, the group 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 Group 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 it is felt disclosure is required under the stated Standard.

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. In addition to the Revenue Support Grant, Non-

Domestic Rate income and other unringfenced general grants shown in the Income and Expenditure Account, the Council received £162.238m (£91.985m in 2005/06) in respect of Government support for specific activities. In 2006/07, funding for Education switched from a general to a specific grant.

The Authority administers the Tyne and Wear Pension Fund and charged £0.725m (£0.783m in 2005/06) in respect of support services provided – primarily financial, legal and information technology. It also paid to the Fund £0.048m (£0.047m in 2005/06) in respect of treasury management duties. From 1st April 2004, the Fund operated a separate bank account to that of the Authority such that any interest earned on cash balances was taken directly into the Fund's accounts.

8. External Audit Fees

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

	Group £m
Fees Payable in respect of External Audit Services	0.258
Fees Payable in respect of Grant Claim Certification	0.097
Total Fees Payable to External Auditors	**0.355**
Fees Payable in respect of Statutory Inspection	0.055
Non Statutory Services	-
Total Costs	**0.410**

9. 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.

	Group £m
Gross Book Value 31st March 2006	1.020
Accumulated Amortisation and Impairment	(0.102)
Net Book Value at 31st March 2006	**0.918**
Additions	1.548
Disposals	-
Revaluations	-
Amortisation	(0.842)
Impairment	-
Net Book Value at 31st March 2007	**1.624**

	Group £m
Provision at 31st March 2006	(0.102)
Amortisation in Year	(0.842)
Impairment in Year	-
Provision at 31st March 2007	**(0.944)**

10. Stock and Work in Progress

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

	31st March 2007 £m
Home Loan Equipment Centre	0.347
Catering Service	0.073
South Tyneside Homes Limited	0.499
Other Stock	0.071
Total Stock	**0.990**

11. Debtors

An analysis of Group debtors is shown below:

31st March 2006 £m		31st March 2007 £m
	Amounts Falling Due in one year	
15.418	Government Bodies	14.857
0.339	Other Local Authorities	0.997
2.841	Housing Tenants	2.775
3.430	Council Tax Payers	3.748
0.487	National Non-Domestic Rate Payers	0.866
17.000	Sundry Debtors	11.784
39.515	**Total Amounts Falling Due in one year**	**35.027**
	Provisions for Bad debts	
(1.903)	Housing Rents	(1.970)
(1.119)	Council Tax	(0.969)
(0.329)	National Non-Domestic Rates	(0.441)
(3.616)	All Other Debtors	(3.086)
(6.967)	**Total Bad Debt Provisions**	**(6.466)**
32.548	**Net Debtors**	**28.561**

12.Creditors

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

31st March 2006 £m		31st March 2007 £m
(22.272)	Government Bodies	(24.515)
(0.614)	Other Local Authorities	(0.694)
(0.419)	Housing Tenants	(0.543)
(0.759)	Council Tax Payers	(1.089)
(0.409)	National Non-Domestic Rates	(0.944)
(19.384)	All Other Creditors	(28.914)
(43.857)	**Total Creditors**	**(56.699)**

13.Taxation

In line with other Arms Length Management Organisations (ALMO), South Tyneside Homes Limited believes that its activities with South Tyneside Council do not amount to a trade for corporation tax purposes. This is on the basis of draft guidance issued to date by HM Revenue and Customs (HMRC) which states that the relationship between an ALMO and its parent Council, as they understand it, lacks the necessary level of commerciality for the activities to be considered a trade for corporation tax purposes. Any surplus arising, and similarly any losses, are therefore outside the scope of corporation tax. The draft guidance issued by HMRC does not provide any definitive list of the matters that will determine non-trading status.

External auditors for South Tyneside Homes Limited will undertake a review of the legal structure and financial relationship with South Tyneside Council in order to assess the company's corporation tax status. An approach will then be made to HMRC in order to secure their confirmation that the company's activities with South Tyneside Council amount to non-trading.

The directors of South Tyneside Homes Limited have prepared their accounts on the assumption that non-trading st atus will be granted and the company will therefore only be liable to corporation tax on its activities with third parties.

14. Post Balance Sheet Events

There are no post balance sheet events to disclose.

15. Net Worth

The net worth of the Group at the Balance Sheet date stands at £626.856m. 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.

16.Revenue Cash Flow Activities

The revenue net Cash Flow can be reconciled to the Group Income and Expenditure Account as follows:

2005/06 £m		Group £m
26.027	**Deficit or (Surplus) for the Year on the Income and Expenditure Account**	21.188
(26.097)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the Group Balance for the Year	(3.355)
-	Removal of Non Cash items from Subsidiaries and Joint Ventures	(16.020)
(0.070)	**Increase/Decrease in Group Balances**	**1.813**
	Returns on Investment and Service of Financing	
0.278	Newcastle Airport Dividend	8.199
(8.393)	Net Interest Payments	(3.004)
(8.115)	**Total Returns on Investment and Service of Financing**	**5.195**
	Non-Cash Transactions	
(1.659)	Debt Set Aside Provisions	(4.017)
5.611	Contributions from / (to) Provisions	5.501
(5.168)	Contribution from / (to) Reserves	(11.693)
(14.186)	Revenue Contributions to Capital Outlay	(2.026)
(0.842)	Other Items	(4.511)
(16.244)	**Total Non-Cash Transactions**	**(16.746)**
	Items on an Accruals Basis	
(0.173)	Stock Increase / (Decrease)	(0.032)
0.345	Debtors Increase / (Decrease)	(3.987)
4.357	Creditors (Increase) / Decrease	(12.842)
4.529	**Total Items on an Accruals Basis**	**(16.861)**
(19.900)	**Net Cash Flow from Revenue Activities**	**(26.599)**

17.Reconciliation of Movement in Cash to Net Debt

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

	Group £m
Increase/(Decrease) in Cash during Year	(13.691)
Outflow from Debt	29.470
Net Cash Outflow	**15.779**
Net Debt at 1st April 2006	(148.390)
Net Debt at 31st March 2007	(132.611)
Net Cash Outflow	**15.779**

18.Increase / (Decrease) in Cash

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

	As at 1st April 2006	As at 31st March 2007	Movement in Year
Cash in Hand and at Bank	22.344	6.263	(16.081)
Bank Overdraft	(3.377)	(0.987)	2.390
Net Cash and Bank Position	**18.967**	**5.276**	**(13.691)**

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.

2005/06 £m		Note	2006/07 £m
	Income		
(42.359)	Rent Income from Dwellings		(43.864)
(0.836)	Rent Income from Non-Dwellings		(0.883)
(1.554)	Charges for Services and Facilities		(1.597)
(0.950)	Contributions towards Expenditure		(0.708)
(1.792)	Transfer from Housing Repairs Account		-
(0.015)	Government Grant Deferred	9	(0.307)
(0.419)	General Fund Contributions (Amenities Shared by the Community)		(0.428)
(47.925)	**Total Income**		**(47.787)**
	Expenditure		
11.983	Repairs & Maintenance		13.008
8.611	Supervision & Management (General)		10.205
4.968	Supervision & Management (Special Services)		4.688
1.213	Rents, Rates, Taxes and Other Charges		0.885
0.250	Negative Subsidy Payable to the Secretary of State	13	1.482
0.606	Increased Provision for Bad or Doubtful Debts		0.587
11.516	Depreciation of Fixed Assets (Dwellings)	10	12.887
1.950	Depreciation of Fixed Assets (Other Assets)	10	2.122
0.419	Impairment of Fixed Assets	11	(1.704)
0.483	Amortisation of Deferred Charges	12	0.842
-	Amortisation of Intangible Assets	9	0.016
0.047	Debt Management Costs	9	0.036
42.046	**Total Expenditure**		**45.054**

(5.879)	**Net Cost of Services per Council Income and Expenditure**		**(2.733)**
0.360	HRA share of Corporate and Democratic Core		0.258
0.403	HRA share of Non Distributed Cost	14	0.475
(5.116)	**Net cost of HRA services**		**(2.000)**
-	Loss on the Disposal of Fixed Assets		1.312
5.680	Interest Payable and similar Charges	9	5.498
0.048	Amortisation of Premiums and Discounts	9	(0.009)
(0.332)	Interest and Investment Income	9	(0.220)
0.280	**(Surplus) or Deficit for the Year on HRA Services**		**4.581**

2005/06 £m			**2006/07 £m**
0.280	(Surplus) or Deficit for the year on the HRA Income and Expenditure Account		4.581
(2.064)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance for the Year	1	(2.470)
(1.784)	**(Increase)/Decrease in HRA Balance for the Year**		**2.111**
(3.397)	Housing Revenue Account Balance brought forward		(5.181)
(5.181)	**Housing Revenue Account Balance carried forward**		**(3.070)**

Notes to the Housing Revenue Account

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:

2005/06 £m		£m
	Amounts included in the HRA Income and Expenditure Account but required by statute to be excluded when determining the movement on the HRA Balance for the Year	
-	Amortisation of Intangible Fixed Assets	(0.016)
(0.419)	Impairment of Fixed Assets	1.704
0.015	Government Grants Deferred Amortisation	0.307
(0.482)	Write Downs of Deferred Charges to be Financed from Capital Resources	(0.842)
-	Net Loss on Disposal of Fixed Assets	(1.312)
-	Net charges made for Retirement Benefits in accordance with FRS17	(0.033)
(0.886)		**(0.192)**
	Transfers to or from the HRA Balance that are required to be taken into account when determining the movement on the HRA Balance for the Year	
(2.473)	Housing Major Repairs Reserve	(3.976)
-	Employer's contributions payable to the Tyne and Wear Pension Fund and Retirement Benefits payable direct to Pensioners	0.023
1.295	Capital Expenditure charged in-year to the HRA Balance	1.675
(1.178)		**(2.278)**
(2.064)	**Total Net Movement**	**(2.470)**

2. Housing Revenue Account Balance

The HRA balances are made up of the following reserves:

31 March 2006 £m		31 March 2007 £m
(0.100)	Tenant Participation Earmarked Reserve	(0.100)
(0.621)	Pension Contributions	-
(1.135)	Capital Programme Earmarked Reserve	(0.021)
(1.325)	Housing Repairs Reserve	(0.698)
(1.000)	Housing Revenue Account Strategic Reserve	(1.000)
(1.000)	Housing Revenue Account Working Balance	(1.251)
(5.181)	**Housing Revenue Account Balance carried forward at 31st March**	**(3.070)**

3. Housing Stock

The Council was responsible for managing an average of 18,782 dwellings in 2006/07. The variations during the year were:

		2006/07
Opening Balance		
Housing Revenue Account		18,935
Housing Revenue Account Shared Ownership		4
Other Services		10
Opening Balance as at 1st April 2006		**18,949**
Less Reductions		
Right to Buy Sales		(197)
Demolition / Redevelopment		(138)
		(335)
Additions		
Housing Reinstated		3
Net Reduction in Stock		**(332)**
Closing Balance		
Housing Revenue Account		18,603
Housing Revenue Account Shared Ownership		4
Other Services		8
Closing Balance as at 31st March 2007		**18,615**

		31st March 2007
Houses		10,971
Bungalows		2,844
Flats & Maisonettes		4,800
Total Housing Stock as at 31st March 2007		**18,615**

4. Movement of Fixed Assets 2006/07

	Operational Assets			Non Operational Assets	
	Social Housing Dwellings £m	Other Property £m	Vehicles, Plant and equipment £m	Open Market Value Surplus Land £m	Total £m
Gross book value at 31st March 2006	**647.286**	**3.137**	**11.110**	**32.553**	**694.086**
Accumulated Depreciation and Impairment	(65.844)	(0.886)	(6.484)	-	(73.214)
Net book value at 31st March 2006	**581.442**	**2.251**	**4.626**	**32.553**	**620.872**
Additions	13.267	0.082	1.808	3.652	18.809
Disposals	(9.900)	(1.699)	-	(0.298)	(11.897)
Material Revaluation in Year	74.638	-	-	-	74.638
Other Revaluation	1.992	4.910	-	(0.797)	6.105
Depreciation	(11.769)	(0.261)	(1.860)	-	(13.890)
Impairment	1.704	-	-	-	1.704
Net book value at 31st March 2007	**651.374**	**5.283**	**4.574**	**35.110**	**696.341**

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 April 1st 2006 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%.

An assessment of housing prices in the Borough for 2006 suggests a rise of 14%, reflecting increases in both open market valuations carried out for right to buy sales and building society price indices. This would increase the gross book value of Council dwellings by £74.638m (£26m in 2005/2006) and so has been incorporated into the reported valuations due to its material nature.

The Housing Revenue Account also holds some intangible fixed assets in the form of computer software. In 2006/07, £0.126m (£0.018m in 2005/06) was added to these assets and their net book value at 31st March 2007 stood at £0.126m (£0.016m in 2005/06).

5. Economic Cost to the Government of providing Council Housing

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

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

	1st April 2005 £m	1st April 2006 £m
Vacant Possession Value	1,103.647	1,140.082
Existing Use Social Housing Value	(562.860)	(581.442)
Economic Cost to the Government	**540.787**	**558.640**

6. Major Repairs Reserve

	£m
Balance at 1st April 2006	**(1.150)**
Depreciation all HRA assets	(15.009)
Capital expenditure from MRA (Houses)	12.183
Depreciation higher than MRA	3.976
Balance at 31st March 2007	**-**

7. Housing Capital Expenditure Summary

Spending 2005/06 £m		Capital Expenditure	Spending 2006/07 £m
		Expenditure	
14.101		Operational Dwellings	13.267
4.357		Demolition and Area Redevelopment	0.371
0.069		Other Assets	3.364
1.580		Equipment and Intangible Assets	1.934
0.483		Deferred Charges	0.842
20.590		**Total Spending Accruals Basis**	**19.778**

Funding 2005/06 £m		Capital Funding	Funding 2006/07 £m
		Funding Source	
(12.264)		Major Repairs Reserve	(12.183)
(2.696)		Borrowing	(2.326)
(4.235)		Capital Receipts	(2.990)
(1.295)		Revenue Contributions	(1.675)
(0.100)		Grants	(0.604)
(20.590)		**Total Funding**	**(19.778)**

8. Capital Receipts Summary

2005/06 Nos.	2005/06 £m			2006/07 Nos.	2006/07 £m
333	(13.532)		House Sales	197	(9.900)
	(0.880)		Land Sales		(0.372)
	(0.197)		Mortgage Principal Repayments		(0.127)
	(0.221)		Discount Repayments		(0.339)
	(14.830)		**Total Receipts for the Year**		**(10.738)**

9. 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 2006/07. It is made up of a number of components that are recorded in different sections of the housing revenue account.

	£m	Revenue Account Item
Credit Items		
Interest Adjustments		
Amortised Discounts	(0.194)	Income and Expenditure - Amortisation of Premiums and Discounts
Mortgage Interest	(0.020)	Income and Expenditure - Interest and Investment Income
Interest on Cash Balances	(0.200)	Income and Expenditure - Interest and Investment Income
Total Interest Adjustments	**(0.414)**	
Transfer from the Major Repairs Reserve		
Dwellings Depreciation > Major Repairs Allowance	(1.939)	Statement of Movement - Housing Major Repairs Reserve
Depreciation - Other Assets	(2.037)	Statement of Movement - Housing Major Repairs Reserve
Total Item 8 Credit 2006/07	**(3.976)**	
Debit Items		
Capital Asset Charges		
Impairment Charges	(1.704)	Net cost of services - Impairment of Fixed Assets
Amortisation of Deferred Charges	0.842	Net cost of services - Amortisation of Deferred Charges
Amortisation of Intangible Assets	0.016	Net cost of services - Amortisation of Intangible Assets
Government Grant Deferred Adjustment	(0.307)	Net cost of services - Government Grant Deferred
Total Capital Charges	**(1.153)**	
Depreciation Charges		
Dwellings	12.887	Net cost of services - Depreciation of Dwellings
Other Assets	2.122	Net cost of services - Depreciation of other Assets
Total Depreciation Charges	**15.009**	

	£m	Revenue Account Item
Credit Items		
Interest Adjustments		
Debt Repayment and Management Costs		
Debt Management Expenses	0.036	Net cost of services - Debt Management Costs
Amortised Premiums	0.185	Income and Expenditure - Amortisation of Premiums and Discounts
Total Debt Repayment and Management	**0.221**	
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	5.498	Income and Expenditure - Interest Payable and similar Charges
Removal of Capital Asset Charges	1.153	Statement of Movement
Total Adjustments	**6.651**	
Total Item 8 Debit 2006/07	**20.728**	

10. Depreciation

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 2006/07, 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:

	Operational Assets			
	Existing Use Value Social Housing Dwellings	Existing Use Value Other Property	Vehicles, Plant and Equipment	Total
	£m	£m	£m	£m
Balance at 1st April 2006	**(63.386)**	**(0.886)**	**(6.483)**	**(70.755)**
Charges in year	(12.888)	(0.261)	(1.860)	(15.009)
Charges written out	1.118	-	-	1.118
Balance at 31st March 2007	**(75.156)**	**(1.147)**	**(8.343)**	**(84.646)**

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

11. Impairment Charges

These charges occur where there is a material reduction in the value of a fixed asset during an accounting period. In the course of 2006/07 due to redevelopment proposals, the values held in the balance sheet for certain dwellings have been reduced.

	£m
Balance at 1st April 2006	**(2.458)**
Additions	-
Written Off	1.704
Balance at 31st March 2007	**(0.754)**

12. Deferred Charges

Capital expenditure in 2006/07 included the following with respect to deferred charges where no tangible asset was enhanced. The balance on the deferred charge was written down and is charged to cost of services in the HRA Income and Expenditure Account.

	£m
Balance at 1st April 2006	-
Additions	0.842
Written Off	(0.842)
Balance at 31st March 2007	-

13. 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 2006/07 has been used:

Actual Entitlement 2005/06 £m		Estimated Entitlement 2006/07 £m
	Subsidy Allowances for Expenditure Items	
(9.006)	Management Allowance	(9.414)
(16.978)	Maintenance Allowance	(17.536)
(10.993)	Major Repairs Allowance	(11.033)
(0.056)	Admissible Allowance	(0.028)
(7.766)	Charges for Capital	(7.399)
(44.799)	**Total Subsidy Allowance Expenditure Items**	**(45.410)**
	Subsidy Withdrawn for Income Items	
45.050	Rent Income	47.835
0.043	Interest on Receipts	0.025
45.093	**Total Subsidy Withdrawn Income Items**	**47.860**
0.294	**Net Subsidy Withdrawn**	**2.450**
(0.044)	Prior Year Adjustment	-
	Rental Constraint Allowance	(0.968)
0.250	**Negative Subsidy Payable to the Secretary of State**	**1.482**

14. 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 general management costs. The additional charge of £0.009m (£0.164m in 2005/06) has been reversed out in the Statement of Movement in the HRA balance so that there is no impact on Council rents. The reduction in cost reflects the fact that only a residual staffing element has been retained by the HRA following the creation of South Tyneside Homes Limited on 1st April 2006.

The HRA is also charged a share of the Council's back dated lump sum pension costs. The contribution in 2006/07 was £0.475m (£0.403m in 2005/06).

15. Rent Arrears

Rent arrears at the end of 2006/07 represented 5.55% of the gross rent income collectable for the year of £51.855m (includes water and sewerage charges). The estimated arrears (excluding external charges) have been calculated utilising the relative proportion of such charges within the gross rent collectable for the year.

2005/06 Actual £m		2006/07 Estimate £m
50.474	Gross Rent Collectable (including water and sewerage charges)	51.855
2.841	Overall Arrears as at 31st March (including water and sewerage charges)	2.880
0.056	**Overall Arrears as a percentage of gross rent collectable**	**0.056**
2.578	Rent Arrears as at 31st March (excluding water and sewerage rates)	2.612
0.254	**Amounts written off during the year**	**0.550**
(1.903)	**Balance Sheet Provision for Bad Debts**	**(1.970)**

16. Rent Income

Rents were increased with effect from Monday 3rd April 2006 to achieve the Government rent guideline of an average of £49.75 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 2012. Net income due for the year from all tenanted properties, excluding that with respect to water and sewerage charges is shown in the account. During the year, rent loss due to empty properties was £1.182m, 2.10% of the total net rent collectable for Housing Revenue Account dwellings (£1.551m and 2.91% in 2005/06).

17. Formation of South Tyneside Homes Limited

The Council set up a wholly owned Arms Length Management Organisation (ALMO) called South Tyneside Homes Limited from April 1st 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. Formation of the company will give access to significant investment support through the Governments ALMO decent homes programme subject to the organisation receiving a 2 star inspection rating. In June 2005 the Council received conditional approval from the Government of £167m additional funding from 2006 to 2011. The management agreement between the Council and South Tyneside Homes Limited took effect from 1st April 2006.

During 2006/07 South Tyneside Council paid South Tyneside Homes a management fee of £10.052m. This was £1.299m more than originally planned. This was mainly due to additional pension deficiency costs for staff transferred to South Tyneside Homes and the fees payable for the inspection. It was planned that these costs were to be funded from balances within the Housing Revenue Account reserves due to their unknown value when the budgets were set.

Under the housing management function, South Tyneside Homes manages the collection of rents (£46.314m in 2006/07), the repairs and maintenance of the homes (£12.967m in 2006/07) and the delivery of the capital programme (£16.125m in 2006/07).

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

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.

2005/06 £m		Note	2006/07 £m
	Income		
(40.831)	Council Tax	1	(42.223)
(14.006)	Transfer from General Fund		(14.447)
(19.482)	Non-Domestic Rate	2	(21.796)
(74.319)	**Total Income**		**(78.466)**
	Expenditure		
48.647	South Tyneside Council Precept		50.633
3.079	Northumbria Police Authority Precept		3.167
2.875	Tyne and Wear Fire and Civil Defence Authority Precept		3.012
54.601	**Total Precepts**		**56.812**
19.330	Non-Domestic Rates – Payment to National Pool		21.645
0.152	Non-Domestic Rates – Cost of Collection		0.151
19.482	**Total Non-Domestic Rates**		**21.796**
0.115	Council Tax Written Off		0.086
(0.033)	Other Payment Adjustments		-
0.065	Transfer to/(from) Council Tax Bad Debt Provision		(0.150)
0.147	**Total Bad and Doubtful Debts**		**(0.064)**
74.230	**Total Expenditure**		**78.544**
(0.089)	**(Surplus) / Deficit for the Year**		**0.078**
(0.171)	Balance brought forward from previous year		(0.260)
(0.260)	**Collection Fund Balance as at 31st March**	**3**	**(0.182)**

Notes to the Collection Fund Revenue Account

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: 43,977 in 2006/07 and 43,967 in 2005/06). Council tax is calculated by multiplying the basic amount of council tax for Band D by the proportion for that particular band. In 2005/06 the Band D equivalent was £1,288.17 (£1,241.82 in 2005/06).

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

Band	Proportion of Band D	Number of Dwellings (October 2006)
A	6/9ths	46,053
B	7/9ths	8,655
C	8/9ths	7,248
D	9/9ths	3,880
E	11/9ths	1,568
F	13/9ths	702
G	15/9ths	318
H	18/9ths	49
		68,473

2. National Non-Domestic Rates

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 2006/07 was set at 42.6p for small businesses (41.5p 2005/06) and 43.3p for all other businesses (42.2p 2005/06). In 2004/05 there was a single rate of 45.6p for all businesses.

Whilst the Local Authority is responsible for collection of Non-Domestic Rates, the proceeds are pooled on a national basis of an amount per head of population.

The Non-Domestic Rates income, after reliefs and provisions, of £21.796m (£19.442m in 2005/06) was based on an average rateable value of £64.8m as at 31st March 2007 (£60.7m at 31st March 2006). The increase in Non-Domestic Rates income is due to the annual reduction in transitional relief which is staged over 5 years from commencement of the new rating list on 1st April 2005.

3. Treatment of the Collection Fund Balance

Any surplus arising in the Collection Fund can be utilised to reduce future years' council tax. Any deficit can be carried forward and must be recovered either from any surplus generated in future years or from increased council tax. Any surplus or deficit is distributed to the billing and precepting authorities pro-rata to their precepts upon the Fund. The 2004/05 surplus of £0.171m has been distributed to precepting bodies in 2006/07.

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 established a Pensions Committee to deal with all matters arising from the Council's function and responsibilities as the administering authority for the Tyne and Wear Pension Fund.

As at 31st March 2007, there were 124 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 organisations participating in the Fund is shown later in this statement. At the year-end the Fund had 48,647 pensionable members, 31,221 pensioners and 21,151 former employees entitled to deferred benefits.

Further information on the Fund may be obtained from the Pension Fund Report and Accounts for 2006/07.

2. The Legal Framework of the Scheme

The framework for the Scheme is contained in Regulations that are made by the Department for Communities and Local Government. These Regulations apply nationally to all local authorities in England and Wales.

The Local Government Pension Scheme Regulations 1997, as amended, set out the rates of contribution and the method of calculation of benefits.

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.

3. Employers' Contributions and the Valuation Process

The Regulations require that an actuarial valuation is carried out every third year. The purpose of this is to establish 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 2006/07 were based on the valuation carried out as at 31st March 2004. The value of the Fund at that date was £2,355.676m.

The results showed that the financial position of the Fund had deteriorated since the 2001 valuation, with the assets being shown to cover 64% of the liabilities. This represented a fall of 18% from the 2001 valuation. This fall was largely attributable to investment returns being below the level assumed in 2001, although this was partially alleviated by the Fund's performance being stronger than the peer group return. Movements in interest rates also contributed to the fall.

The fall in the funding level between 2001 and 2004 was expected because the Fund had undertaken a programme of annual interim valuations in the years between the triennial valuations.

The employers' contributions that resulted from the 2004 valuation were implemented from 1st April 2005. The total rate of contribution is 345% of employees' contributions, an increase of 30% over the rate of 315% that was set by the 2001 valuation.

Since the 2004 valuation, the Fund has been monitoring the estimated movements in the funding level. As at May 2007, this monitoring was showing an improvement in the funding level, but with the possibility of some upward pressure on contribution rates at the 2007 valuation.

A valuation as at 31st March 2007 is currently being undertaken. The results will be available late in 2007/08.

4. Funding Strategy

The Fund has to prepare, publish and maintain a Funding Strategy Statement. The Fund consulted employers and considered their views in the formulation of the strategy.

The strategy for the 2004 valuation is set out in the Statement and in the valuation report, which is produced by the Actuary. Both documents may be viewed on the Fund's website www.twpf.info

At the 2004 valuation, the Fund deployed a number of measures to assist employers to manage the increase in contributions, the most significant being an increase in the deficit recovery period for employers with a suitably strong covenant. In summary, these periods were set within the range of 25 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 was also subject to a maximum of the remaining contract period from 1st April 2005.

Other measures that were used to assist in managing the increase in contributions were:

- A smoothing adjustment that took account of asset values over the previous three years and which slightly increased the funding level.
- The use of three annual steps in the past deficiency payments to assist with managing the impact of increases in contribution rates.
- The grouping of some smaller employers to protect such employers from the risk of high volatility of contribution rates.

The strategy for the 2007 valuation is currently being developed and will take into account the impact of changes in Regulations, affordability and updated financial, inflation, salary and mortality assumptions.

5. Changes to the Scheme Regulations

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

The first phase of changes took effect from 1st April 2004 and were relatively minor in nature.

The second phase of the Stocktake sought to contribute towards stabilising the cost of the Scheme and took effect from 1st April 2005. Accordingly the changes were reflected in the 2004 valuation and led to a reduction of about 30% in future service rates. However, in August 2005 the second phase changes were retrospectively revoked.

On 31st March 2006, the Local Government Pension Scheme (Amendment) Regulations 2006 introduced a range of changes, including the introduction of the single tax regime and the removal of the rule of 85 voluntary early retirement provision. Further regulations were issued later in the year, which set out protection measures for employees affected by the removal for the rule of 85.

In June 2006, the Department for Communities and Local Government issued a consultation document asking for comment on five possible models for the benefits structure of the proposed new look Local Government Pension Scheme that is planned to replace the existing Scheme with effect from 1st April 2008.

Following this consultation, it was announced in November 2006 that the new look Scheme would be a final salary scheme based upon a 1/60th benefits accrual rate. The new Scheme would not provide an automatic lump sum at retirement but would allow members to commute pension for lump sum.

The first of the four sets of regulations which will define the provisions of the new look Scheme, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, were made on 3rd April 2007.

Statement of the Actuary

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, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997, was completed as at 31st March 2004.

Actuarial Position

1. Rates of contributions paid by the participating employers during 2006/07 were based on the actuarial valuation carried out as at 31st March

2004.

2. The valuation as at 31st March 2004 showed that the financial position of the Fund had deteriorated since the previous valuation with the market value of the Fund's assets of £2,355.7m, after application of a smoothing adjustment, covering 64% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.

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 2005 was as set out below:

- 240% of members' contributions to meet the liabilities arising in respect of service after the valuation date. **Plus**
- 140% of members' contributions to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 25 years. **Less**
- 35% of members' contributions in respect of higher assumed investment income over the short term.

Statement of the Actuary

These figures are based on the Regulations in force at the time of signing the valuation report, and in particular allowed for changes to the Fund benefits effective from 1st April 2005.

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.

If the assumptions are borne out in practice, the rate of contribution for each employer would increase at the end of three years, due to cessation of the short-term additional investment income. It would then continue at the resultant level for the balance of the relevant recovery period before reverting to the relevant long-term rate. In practice, contribution rates will be reviewed at the next valuation which is being carried out as at 31st March 2007, and consideration is being given to making further assumptions concerning short-term investment returns.

4. The rates of contributions payable by each participating employer over the period 1st April 2005 to 31st March 2008 are set out in a certificate dated 30th March 2005, which is appended to our report of the same date on the actuarial valuation.

The contribution rates certified in our valuation as at 31st March 2004 were based on the benefit structure of the Fund as indicated by Regulations as at the date of signing our certificate. However new Regulations, backdated to 1st April 2005, were subsequently issued which increased the theoretical cost of Fund benefits relative to those on which the certificate was based. No adjustment was made to contribution rates in respect of that change as it was indicated by the Government that further changes would occur which would offset these additional costs. Further Regulations have since been issued which brought in various changes including:

- Allowing commutation of pension for additional lump sum.
- Extending the retention of the Rule of 85 age provisions to 31st March 2008, and the transitional protections, but only for existing members at 30th September 2006.

More recently the Government issued regulations setting out a new benefit structure to be introduced from 1st April 2008.

The impact of all of these changes will be taken into account at the Fund valuation as at 31st March 2007.

Statement of the Actuary

5. 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.

   The main actuarial assumptions were as follows:

Discount rate for periods	
- In service	6.2% per annum
- Left service	5.2% per annum
Rate of general pay increases	4.4% per annum
Rate of increases to pensions in payment	2.9% per annum
Short-term return on	
- Shares/Property	6.45% per annum
- Other Assets	5.2% per annum
Valuation of assets	smoothed market value

Statement of the Actuary

6. The next actuarial valuation of the Fund as at 31st March 2007 is currently underway.

7. This statement has been prepared by the Actuary to the Fund, Hewitt Bacon and Woodrow, for inclusion in the accounts of the Tyne and Wear Pension Fund. It provides a summary of the results of the actuarial valuation that was carried out as at 31st March 2004. 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 Bacon and Woodrow Limited does not accept any responsibility or liability to any party other than our client, the Council of the Borough of South Tyneside, in respect of this statement.

Hewitt Bacon and Woodrow Limited
June 2007

2005/06 £m		Note	2006/07 £m
	Contributions and Benefits		
(164.798)	Contributions Receivable - Employers	3	(180.298)
(48.784)	Contributions Receivable - Employees	3	(50.929)
(17.147)	Transfers In	4	(10.398)
(230.729)	**Total Contributions**		**(241.625)**
129.783	Benefits Payable	5	142.255
23.200	Transfers Out (Leavers)	6	11.760
2.031	Administrative Expenses	7	2.260
155.014	**Total Benefits**		**156.275**
(75.715)	**Net Additions from Dealings with Members**		**(85.350)**
	Returns on investments		
(64.710)	Investment Income	8	(83.802)
3.797	Non-Recoverable Tax	8	4.881
(614.600)	Change in Market Value of Investments	9	(150.525)
6.057	Investment Management Expenses	10	7.989
(669.456)	**Net Returns on Investments**		**(221.457)**
(745.171)	**Net (Increase) / Decrease in the Fund During the Year**		**(306.807)**
2,674.527	**Net Assets of the Fund at 1st April**		**3,419.698**
3,419.698	**Net Assets of the Fund at 31st March**		**3,726.505**

Tyne and Wear Pension Fund Account

Tyne and Wear Pension Fund Net Assets Statement

31st March 2006 £m		Note	31st March 2007 £m
	Investments	9	
223.091	Fixed Interest Securities		194.175
1,637.892	Equities		1,656.063
23.359	Index-Linked Securities		36.057
1,162.568	Pooled Investment Vehicles		1,426.838
306.170	Properties		373.675
88.238	Cash Deposits		57.347
(34.979)	Other investment balances		(31.665)
3,406.339			**3,712.490**
13.359	**Current Assets and Liabilities**	11	**14.015**
3,419.698	**Net Assets of the Fund at 31st March**		**3,726.505**

Notes to the Tyne & 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 (Financial Reports of Pension Schemes), revised November 2002, and subject to note 5 follow the 2006 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

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.

2. Accounting Policies

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 mid-market closing price on 30th March 2007. The 31st March was a non business day and therefore the valuations are based on the closing price on the last business day of the reporting period.

Pooled investment vehicles have been included at the average of their bid and offer prices on 30th March 2007 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.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 30th March 2007.

Futures have been valued on the basis of associated economic exposure as at 30th March 2007. This associated economic exposure has been incorporated into the value of the relevant asset class.

Properties are shown as valued at 31st March 2007. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE.

Investment Transactions

Investment transactions that were not settled as at 31st March 2007 have been accrued.

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 30th March 2007.

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 2007 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2007.

Investment Management Expenses

Investment management expenses payable as at 31st March 2007 have been accrued.

Debtors and Creditors

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies, resolution 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 2007 have been accrued.

Benefits and Refunds

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

Transfer Values

Transfer values are accounted for on a payments/receipts basis.

3. Contributions Receivable

2005/06 £m		2006/07 £m
	Employers	
(115.047)	Normal	(121.323)
(49.751)	Additional	(58.975)
(164.798)		**(180.298)**
	Members	
(48.074)	Normal	(50.207)
(0.710)	In-House Additional Voluntary Contributions	(0.722)
(48.784)		**(50.929)**
(213.582)	**Total Contributions Receivable**	**(231.227)**

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

2005/06 £m		2006/07 £m
(22.902)	South Tyneside Council (Administering Authority)	(22.661)
(131.170)	Other Metropolitan Councils	(139.579)
(34.483)	Other Scheduled Bodies	(37.541)
(8.930)	Resolution Bodies	(9.435)
(16.097)	Admitted Bodies	(22.011)
(213.582)	**Total Contributions Receivable**	**(231.227)**

4. Transfers In

During the year, individual transfers in from other schemes amounted to £10.398m (£17.147m in 2005/06). There were no bulk transfers in during 2006/07 or 2005/06.

5. Benefits Payable

2005/06 £m		2006/07 £m
118.003	Pensions	123.713
19.175	Commutations and Lump Sum Retirement Benefits	27.289
3.355	Lump Sum Death Benefits	2.009
(10.750)	Recharges out	(10.756)
129.783	**Total Benefits Payable**	**142.255**

The analysis of benefits by type of member body is not available. In this respect the accounts do not comply with the 2006 Code of Practice on Local Authority Accounting.

6. Payments To and On Account of Leavers

2005/06 £m		2006/07 £m
22.719	Individual Transfers to Other Schemes	11.323
-	Bulk Transfers to Other Schemes	0.329
0.297	Refunds to Members Leaving Service	0.105
0.184	State Scheme Premiums	0.003
23.200	**Total Payments To and On Account of Leavers**	**11.760**

7. Administration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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:

2005/06 £m		2006/07 £m
1.312	Employee Expenses	1.456
0.514	Support Services Recharge	0.473
0.040	Audit Fees	0.043
0.021	External Computing Costs	0.085
0.100	Printing / Publications	0.131
0.057	Professional Fees	0.072
0.048	Other Expenses	0.052
(0.061)	Income	(0.052)
2.031	**Total Administration Expenses**	**2.260**

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

8. Investment Income

2005/06 £m		2006/07 £m
(10.492)	Fixed Interest Securities	(8.898)
(39.239)	Equities	(50.067)
(0.663)	Index-Linked Securities	(0.714)
(0.073)	Pooled Investment Vehicles	(3.335)
(11.760)	Net Rents from Properties	(17.707)
(1.910)	Cash Deposits	(2.476)
(0.394)	Securities Lending	(0.567)
(0.170)	Commission Recapture	(0.033)
(0.009)	Underwriting Commission	(0.005)
(64.710)	**Sub-Total**	**(83.802)**
3.797	Non-Recoverable Tax	4.881
(60.913)	**Total Investment Income**	**(78.921)**

9. Investments

	Value at 1st April 2006 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31st March 2007 £m
Fixed Interest Securities	223.091	602.882	(619.982)	(11.816)	194.175
Equities	1,637.892	735.167	(749.970)	32.974	1,656.063
Index-Linked Securities	23.359	24.961	(11.876)	(0.387)	36.057
Pooled Investment Vehicles	1,162.568	459.955	(274.029)	78.344	1,426.838
Properties	306.170	39.013	(18.392)	46.884	373.675
	3,353.080	**1,861.978**	**(1,674.249)**	**145.999**	**3,686.808**
Cash Deposits	88.238	-	(30.023)	(0.867)	57.348
Other Investment Balances	(34.979)	348.332	(350.411)	5.392	(31.666)
Total Investments	**3,406.339**	**2,210.310**	**(2,054.683)**	**150.524**	**3,712.490**

The change in market value of investments during the year comprises all increases and decreases in the market v alue of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

31st March 2006		31st March 2007
	Fixed Interest Securities	
101.290	UK Public Sector	107.312
13.956	UK Gilt Futures	50.347
48.115	UK Other	-
36.556	Overseas Public Sector	51.454
23.174	Overseas Bond Futures	(14.938)
223.091	**Total Fixed Interest Securities**	**194.175**
	Equities	
554.094	UK Quoted	610.861
1,080.911	Overseas Quoted	1,034.723
2.887	Overseas Unquoted	10.479
1,637.892	**Total Equities**	**1,656.063**

31st March 2006		31st March 2007
	Index Linked Securities	
23.359	UK Quoted	30.422
-	Overseas Quoted	5.635
23.359	**Total Index-Linked Securities**	**36.057**
	Pooled Investment Vehicles	
58.426	Unit Trusts	130.852
876.760	Unitised Insurance Policies	873.666
227.382	Other Managed Funds	422.320
1,162.568	**Total Pooled Investment Vehicles**	**1,426.838**
	Properties	
278.250	Freehold	342.875
27.920	Long Leasehold	30.800
306.170	**Total Properties**	**373.675**
	Cash Deposits	
68.947	Sterling	40.725
19.291	Foreign Currency	16.623
88.238	**Total Cash Deposits**	**57.348**
	Other Investment Balances	
(37.130)	Cash Backing Fixed Interest Futures	(35.409)
(0.154)	Currency Hedging	-
18.547	Debtors	18.047
(16.242)	Creditors	(14.304)
(34.979)	**Total Other Investment Balances**	**(31.666)**
3,406.339	**Total Investments**	**3,712.490**

10. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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:

2005/06 £m		2006/07 £m
5.923	Administration, Management and Custody	7.781
0.055	Performance and Risk Measurement Services	0.075
0.079	Other Advisory Fees	0.133
6.057	**Total Investment Management Expenses**	**7.989**

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

31st March 2006 £m		31st March 2007 £m
4.136	Contributions and Recharges Due - Employees	4.277
14.609	Contributions and Recharges Due - Employers	16.065
(1.592)	Inland Revenue	(0.918)
(1.996)	Investment Management Expenses	(2.653)
(1.798)	Other	(2.756)
13.359	**Total Current Assets and Liabilities**	**14.015**

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 a part of the Fund's assets.

In addition, the Pensions Committee has 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 Pension 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 2006/07, £0.813m of contribution income was received into the AVC funds provided by The Prudential (£0.6m during 2005/06). As at 31st March 2007 these funds were valued at £6.776m (£6.073m as at 31st March 2006).

During 2006/07, £0.005m of contribution income was received into the AVC funds operated by Equitable Life (£0.006m during 2005/06). As at 31st March 2007 these funds were valued at £0.743m (£1.080m as at 31st March 2006).

The funds are valued by each of the providers and take no account of accruals.

13. Analysis of Investments Over Managers

The Fund employs eight specialist external investment managers over a total of fourteen investment mandates. Each manager is a specialist in the market in which they invest. This broadly based management structure ensures that investment returns are not overly influenced by the performance of any one manager.

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 and Partners Group.

In addition, an investment has been made in an infrastructure fund managed by Henderson Global Investors.

The market values of investments in the hands of each manager were:

31st March 2006 £m			31st March 2007 £m	
		Investment Managers		
304.185	8.9%	Arlington Property Investors	373.675	10.1%
386.672	11.4%	Capital International - Global Equities	385.103	10.4%
98.496	2.9%	Capital International - Emerging Markets	110.417	3.0%
382.565	11.2%	Fidelity Pensions Management	418.582	11.3%
246.118	7.2%	Henderson Global Investors	296.736	8.0%
642.666	18.9%	Legal and General Investment Management	646.103	17.3%
289.951	8.5%	Prudential M&G	294.324	7.9%
322.766	9.5%	Schroder Investment Management	304.518	8.2%
619.843	18.2%	UBS Global Asset Management	614.599	16.5%
45.887	1.3%	Active Currency	123.515	3.3%
50.278	1.5%	Private Equity	113.907	3.1%
-	0.0%	Infrastructure	13.949	0.4%
16.912	0.5%	Managed In-House	17.062	0.5%
3,406.339	**100.0%**	**Total Investments**	**3,712.490**	**100.0%**

14. Investment Performance

The returns from global equity markets were mixed during the year. Pacific Rim ex Japan equities, Europe ex UK and UK equities all produced strong returns of between 11% and 13%. Japanese equities fell by approximately 10% and returns from US equities were marginally negative.

Global equity markets fell on two occasions during the year. The first fall was in May 2006 when investors became concerned about the rise in interest rates. The second fall was in February 2007 and was triggered by a downturn in the Chinese market. Markets recovered on both occasions, helped by strong earnings and bid speculation.

Property has continued to perform strongly and was the best performing asset class with a return of nearly 16%.

Bond markets generally struggled in an environment where interest rates were rising.

Overall, pension funds were able to post positive returns for the fourth year in succession.

The Fund's return for the year was 6.4%, which was 0.2% below the benchmark return of 6.6%, but above inflation, as measured by the Retail Price Index (RPI) at 4.8%, and average earnings at 3.5%.

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. The Fund's annual return over the last five years has been 8.5% per annum. This return is 0.2% below the benchmark return for the period of 8.7% per annum. This is attributable to below benchmark returns from certain of the Fund's active equity managers. It is however, above both inflation at 3.2% per annum and the increase in average earnings at 4.3% per annum over the five-year period.

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 futures instruments as part of its investment strategy and to assist with efficient portfolio management.

As at 31st March 2007 the Fund held 467 June 2007 Long Gilt Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £50.710m and a market value of £50.347m. The net variation margin paid on these outstanding contracts as at 31st March 2007 was £0.363m.

As at 31st March 2007 the Fund held 228 June 2007 Short US Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of -£12.643m and a market value of -£12.569m. The net variation margin received on these outstanding contracts as at 31st March 2007 was £0.074m.

As at 31st March 2007 the Fund held 96 June 2007 Short Euro Bond Futures and 60 June 2007 Long Euro Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of -£2.367m and a market value of -£2.369m. The net variation margin paid on these outstanding contracts as at 31st March 2007 was £0.002m.

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2007, the Fund held a range of positions that together showed no unrealised profit or loss. Of the seventy-eight positions open as at 31st March 2007, seventy-four have been settled showing an overall loss of £0.401m. As at 31st May 2007 four of these positions remained open and were showing an unrealised profit of £1.217m.

17. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £236.700m were out on loan as at 31st March 2007, against collateral of £249.579m. The breakdown of securities on loan as at 31st March 2007 is set out below:

31st March 2006 £m		31st March 2007 £m
57.447	Fixed Interest Securities	80.229
9.350	Index-Linked Securities	3.003
75.423	UK Equities	103.720
153.749	Overseas Equities	49.748
295.969	**Total Securities Lending**	**236.700**

The value of collateral against which the securities were lent out as at 31st March 2007 is set out below:

31st March 2006 £m		31st March 2007 £m
19.011	Cash	39.005
212.503	Fixed Interest	150.584
83.561	Equities	59.990
315.075	**Total Collateral**	**249.579**

18. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31^{st} March 2007, no commitments were outstanding.

19. Significant Holdings

As at 31st March 2007, the Fund had two holdings that represented more than 5% of the total Fund value. Both of these 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 2007 this was valued at £646.103m and represented 17.3% of the total net assets of the Fund. This insurance contract can be split into four individual funds, representing four different asset classes, as follows:

UK Equities	329.035
North American Equities	127.473
UK Gilts	35.994
AAA Fixed Interest	56.402
Index-Linked Gilts	97.199

- Prudential Pensions Limited – Corporate Bond All Stocks Fund. As at 31st March 2007 this was valued at £227.563m and represented 6.1% of the total net assets of the Fund.

20. Outstanding Commitments

As at 31st March 2007 the Fund had twenty-one outstanding commitments to investments:

Name of Fund	Initial Commitment Year	Initial Commitment Value	As at 31st March 2007 Drawdowns Made	As at 31st March 2007 Commitment Outstanding	
HarbourVest International Private Equity Partners IV	2002	$55.0m	$44.5m	$10.5m	£5.4m
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0m	$24.8m	$21.2m	£10.8m
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0m	$3.4m	$4.6m	£2.3m
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0m	$13.0m	$15.0m	£7.6m
Capital North East	2002	£1.5m	£1.2m	£0.3m	£0.3m
HarbourVest Partners 2004 Direct Fund	2004	$30.0m	$24.0m	$6.0m	£3.1m
Capital International Private Equity Fund IV	2004	$18.0m	$14.7m	$3.3m	£1.7m
HarbourVest International Private Equity Partners V – Partnership	2005	€100.0m	€19.5m	€80.5m	£54.6m
HarbourVest International Private Equity Partners V – Direct	2005	€30.0m	€14.2m	€15.8m	£10.7m
Pantheon Asia Fund IV	2005	$20.0m	$2.4m	$17.6m	£9.0m
Pantheon Europe Fund IV	2005	€25.0m	€6.0m	€19.0m	£12.9m
Pantheon USA Fund VI	2005	$30.0m	$8.1m	$21.9m	£11.2m

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
Lexington Capital Partners VI-B	2005	$30.0m	$6.4m	$23.6m	£12.0m
Henderson PFI Secondary Fund II	2005	£15.0m	£14.1m	£0.9m	£0.9m
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0m	$11.2m	$100.8m	£51.4m
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0m	$1.7m	$54.3m	£27.7m
Pantheon Europe Fund V	2006	€35.0m	€0.0m	€35.0m	£23.8m
Pantheon USA Fund VII	2006	$35.0m	$2.5m	$32.5m	£16.6m
Coller International Partners V	2006	$30.0m	$1.5m	$28.5m	£14.5m
Capital International Private Equity Fund V	2007	$35.0m	$0.0m	$35.0m	£17.8m
Partners Group 2006 Direct Fund	2007	€30.0m	€0.0m	€30.0m	£20.4m

The Sterling figures for these outstanding commitments are based on the exchange rate at the close of business on 30th March 2007, which was the last business day prior to the 31st March 2007.

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.

During 2006/07 South Tyneside Council charged the Tyne and Wear Pension Fund £0.725m (£0.783m in 2005/06) in respect of services provided, primarily financial, legal and information technology. Tyne and Wear Pension Fund charged South Tyneside Council £0.048m (£0.047m in 2005/06) in respect of treasury management.

There were no material contributions due from employer bodies outstanding at the year-end.

22. Statement of Investment Principles

The Pensions Committee first approved a Statement of Investment Principles (SIP) in October 1997. At this time, the legal requirement to have such a document applied only to private sector schemes, but it was considered good practice for local government funds to prepare one. With the introduction of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999, the legal requirement to produce a SIP was extended to local government funds. The Fund's SIP is a key document. It sets out the investment framework for the Fund. In the SIP the Fund states that it is fully compliant with the Myners Principles. The document is reviewed as new developments take place and was last updated as at 5th June 2007. A copy is available on the Fund's website www.twpf.info.

Organisations Participating in the Fund as at 31st March 2007

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

Other Scheduled Bodies
City of Sunderland College
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
Northumbria 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 Civil Defence Authority
Tyne and Wear Passenger Transport Authority
Tyne Metropolitan College
Tynemouth College
University of Sunderland

Resolution 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 Visual Arts Trust
Benton Grange School
Benwell Young Peoples Development Group
Bovis Lend Lease (BLL)
Brunswick Young Peoples Project
Catholic Care North East
CBS Outdoor Limited
Community Action on Health
Compass Group UK and Ireland Limited
Disability North
Gateshead Law Centre
Hebburn Neighbourhood Advice Centre
Higher Education Funding Council for England
Information North (Northern Regional Library System)
International Centre for Life
Jarvis Accommodation Services Limited
Jarvis-Sandhill View
Kenton Park Sports Centre
Managed Business Space Limited

Wearside College
Your Homes Newcastle

Admitted Bodies

Mitie PFI Limited
Morrison Facilities Services Limited 1
Morrison Facilities Services Limited 2
Museums Libraries and Archives North East
National Car Parks Limited
National Glass Centre
Newcastle Family Service Unit
Newcastle Healthy City Project
Newcastle International Airport Company Limited
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
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
Mitie Cleaning (North) Limited
Mitie PFI (Boldon)

Saint Mary the Virgin Estate Management Charity
Scolarest
Search Project
Simonside Community Centre
South Tyne Football Trust
South Tyneside Groundwork Trust
South Tyneside Victim Support
Southern Electric Contracting Limited
Stagecoach Travel Services (Busways)
Sunderland City Training and Enterprise Council
Sunderland Empire Theatre Trust Limited
Sunderland Housing Group
Sunderland Outdoor Activities Association
Sunderland Streetlighting Limited
The Ozanam House Probation Hostel Committee
Thomas Gaughan Community Association
Tyne and Wear Development Company Limited
Tyne and Wear Development Corporation
Tyne and Wear Enterprise Trust Limited
Tyne and Wear Play Association
Tyne and Wear Small Business Service
Tyneside Deaf Youth Project
Tyneside Training and Enterprise Council
Tyne Waste Limited
Valley Citizens Advice Centre
Walker Profiles (North East) Limited
Wallsend Citizens Advice Centre
Wallsend Peoples Centre
Workshops for the Adult Blind (Palatine Products)

Passenger Transport Company
Percy Hedley Foundation
Port of Tyne Authority
Praxis Service
Raich Carter Sports Complex
Saint Mary Magdalene and Holy Jesus Trust

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.

Asset
Something an organisation owns or is due to own 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.

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 Financing 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 Financing Requirement
The level of outstanding liability of the Council in relation to the financing of the capital programme up to the balance sheet date.

Capital Receipts
These receipts are generated by the disposal of fixed assets. 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.

Central Establishment Charges
Certain sections of the Authority are concerned with the whole range of the Council's services, e.g. Finance, Legal and Personnel. These costs are recharged to the Council services they support to reflect the full cost of providing that service.

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 Revenue Support Grant.

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 Liability
A contingent liability is wither (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or (ii) a present obligation from past events where it is not possible that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core
The corporate and democratic core comprises all activities that Local Authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

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

Council Tax
The Local Government Finance Act 1992 introduced 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 actuarially estimate of the present value of full pensions benefits earned b 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 being 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.

Deferred Charges
Items of capital expenditure that do not result in, or remain matched by, tangible or intangible fixed assets.

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.

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 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.

Fixed Asset Restatement Account
This account reflects the amount by which the value of the Council's assets have been revised following revaluation and disposal.

General Fund
The General Fund includes the expenditure and income relating to the services provided by the Authority. 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.

Impairment
A diminution in value of a fixed asset resulting from causes such as obsolescence or physical damage.

Infrastructure Assets
These are inalienable 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.

The **Investment Revaluation Reserve** reflects the Council's share capital in Newcastle Airport at cost as well as any difference in open market value of our investments at the balance sheet date, when this is less th an cost price. The opening balance of this reserve has been restated to reflect the new advice regarding the valuation of our shareholding in Newcastle Airport (see note 37 for more details).

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
The minimum revenue provision in any year is 4% of the Authority's non-housing capital financing requirement outstanding. The HRA is no longer required to set aside a minimum revenue provision.

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.

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.

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 leived 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 procuring 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.

Repurchase of Borrowing
FRS4 on Capital Investments states "Gains or losses arising on the repurchase or early settlement of debts should be recognised in the profit and loss accounts in the period during which the repurchase or early settlement is made".

Reserves
Amounts set aside for purposes falling outside the definition of Provisions are considered as Reserves – expenditure is not charged direct to any Reserve.

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 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.

The **Secondary Schools Capital Financing Account** contains an amount of capital resources set aside to meet any Council contribution required towards the Building Schools for the Future programme.

Specific Ring-fenced 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.

Statements of Standard Accounting Practice (SSAP)
Statements prepared by the Consultative Committee of Accountancy Bodies (CCAB) to ensure consistency in accountancy matters. Many standards are now applied to Local Authority accounts and any departure must be disclosed in the published accounts.

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.