STATEMENT OF ACCOUNTS




2005/2006

South Tyneside Council

South Tyneside Council

2005/06 Statement of Accounts

Contents

Foreword by the Head of Finance

1. Introduction

This booklet contains the Council's principal financial statements for the year ended 31st March 2006. They have been prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom.

The main statements being published are as follows:

- 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;

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

- The **Consolidated Revenue Account** that reports the net cost in the year of the Authority's activities and how this has been financed;

- 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 **Consolidated 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 **Statement of Total Movement in Reserves** showing how these have changed over the year;

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

- 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.

2. Overview of Financial Position 2005/06

The financial performance of the Council has usually been very strong with most budget targets being achieved. However, at the start of the financial year the financial position of the Council had become worse due to our unplanned use of reserves at the end of 2004/05 financial year as a result of overspending in Social Care and Health. During the year, Members agreed a Budget Recovery Plan as soon as the situation came to light. The aim of the Budget Recovery Plan was to replenish reserves back to their previous levels and also to deal with in-year spending pressures of £3.331m.

In December 2005, Council agreed a budget restructure for 2005/06, which set a total Budget Recovery Plan target of £7.600m. Savings of £7.600m would allow us to fund our budget pressures of £3.331m and replenish our reserves by £4.300m at the end of March 2006.

This statement shows that we have been successful in replenishing our reserves by £4.162m and, in addition, we have managed revenue spending pressures of £3.331m during the year. Therefore, particular emphasis is placed on explaining the Budget Recovery Plan actions that took place during 2005/06, which has restored stability to the budget position.

3. Budget Monitoring

Revenue and capital budget holders monitor expenditure and income on a monthly basis with quarterly reports being submitted to Cabinet. More rigorous monitoring of revenue spending was put in place during 2005/06 following an overspend position that occurred in the previous year. The Council undertook a base budget review to identify key spending pressures that were not adequately funded and contributed to the overspend position in 2004/05. In order to fund these pressures and to replenish reserves back to their previous level, a moratorium on certain expenditure was put in place and value for money initiatives identified and implemented.

4. Revenue Financial Summary 2005/06

The next table summarises the revenue spending of the Council's five directorates during 2005/06 and how this has been financed. The revised budget reflects a number of amendments made during the year:

- The transfer of responsibility for Cultural and Community Services from Lifelong Learning to Corporate Development
- The outcome of the base budget review, which primarily transferred budgets from Resources to Social Care and Health and Lifelong Learning
- Reflection of the full liability facing the Council for the pension costs of current employees and the capital cost of assets utilised by each directorate. Whilst cost neutral, this has had the effect of transferring budgets out of Resources and into the other directorates
- The net movement from the contribution to, or use of, earmarked reserves retained by the Council to meet specific expenditure needs.

2005/06 Revenue Financial Summary	Original Budget £m	Revised Budget £m	Expenditure £m	Variance £m
Corporate Development	4.145	17.175	16.052	-1.123
Lifelong Learning	107.691	98.092	97.344	-0.748
Neighbourhood Services	26.748	28.471	26.533	-1.938
Resources	10.137	-1.677	-1.678	-0.001
Social Care and Health	53.588	59.659	59.307	-0.352
Total Revenue Spending	**202.309**	**201.720**	**197.558**	**-4.162**
Revenue Support Grant	102.063	102.063	102.063	-
National Non-Domestic Rates	50.548	50.548	50.548	-
Contribution from Collection Fund	0.002	0.002	0.002	-
Council Tax Payers	48.645	48.645	48.645	-
Contribution to/from Forward Planning Reserve	0.722	0.540	-3.382	-3.922
Contribution to/from other Earmarked Reserves	-0.186	-0.008	-0.248	-0.240
Contribution from Council General Reserves	0.515	-0.070	-0.070	-
Total Revenue Funding	**202.309**	**201.720**	**197.558**	**-4.162**

The underspends to budget, which were achieved in each Directorate without exception, arose from the successful delivery of our Budget Recovery Plan. The aim of the Budget Recovery Plan was to fund changes resulting from a base budget review in 2005/06 and also to replenish reserves back to their previous levels before our overspending in 2004/05.

Our Budget Recovery Plan included a staffing moratorium that delivered savings of £1.645m and also the delivery of a number of other budget savings or efficiency projects. In addition, a spending moratorium was put in place during December 2005, which realised further savings in-year.

The most significant **revenue spending variations** during the year, many of which arose from our Budget Recovery Plan, were as follows:

Corporate Development

- Savings of £0.125m were achieved through the staffing moratorium.

- Other Budget Recovery Plan savings of £0.655m were realised by the Directorate which included reducing spend on administration, reduced spend on the Tall Ships Event and reducing spend on Outreach Provision.
- In addition, due to the spending moratorium in place from December 2005, further savings of £0.343m contributed to the total Corporate Development underspend of £1.123m.

Lifelong Learning

- Savings of £0.190m were achieved through the staffing moratorium.
- Other Budget Recovery Plan savings were realised by the Directorate which included additional recharges to externally funded services such as Early Years Grant, reducing spend on equipment purchases in Outdoor Education and a reduction in LEA Initiatives.
- Adult and Community Learning overspent by £0.313m due to a reduction in Learning Skills Council and other income for adult learning.
- Community Education spend exceeded budgets by £0.204m due to lower than expected income from venue hire during 2005/06.

Neighbourhood Services

- Savings of £0.500m were achieved through the staffing moratorium.
- The requirement for accounting entries to reflect the prepayment of leasing costs resulted in a saving to budget of £0.390m.
- Other Budget Recovery Plan savings were realised by the Directorate, which included the generation of an additional profit on the Highways Maintenance Trading Account, savings relating to the Landfill Allowance Trading Scheme and a saving resulting from the delay in purchasing for the Vehicle Renewal Scheme.
- Additional income from Licensing, Planning Fees, Building Control and Pest Control contributed to an underspend of £0.384m within Strategic and Regulatory Services.

Resources

- Savings of £0.243m were achieved through the staffing moratorium.

- Other Budget Recovery Plan savings of £2.512m were realised by the Directorate. These included improved recovery of Benefit overpayments, additional pension recharges to the Housing Revenue Account and capitalisation of project staff.
- In addition, due to the spending moratorium in place from December 2005, further savings of £0.577m contributed to the Directorate final outturn position.
- The redirection of Budget Recovery Plan savings to fund in-year budget pressures of £3.331m is shown against the final outturn for Resources Directorate. This reduces the underspend against budget to £0.001m.
- A significant technical accounting adjustment was made during the year known as the Commutation Adjustment. This credited the Revenue Account with £1.859m and reduced our overall 2005/06 spending pressures to £3.331m.

Social Care and Health

- Savings of £0.588m were achieved through the staffing moratorium.
- Other Budget Recovery Plan savings of £1.841m were realised by the Directorate. These included a review of high cost packages, speeding up the closure of Murtagh Diamond and the introduction of new eligibility criteria.
- Spending pressures of £2.508m primarily associated with the cost of care for our elderly clients and those with learning and physical disabilities, reduced the Directorate underspend to £0.352m.
- Within the accounts for 2004/05, it was anticipated that the Council would recover £3.520m from the Primary Care Trust (PCT) for outstanding debts relating to contributions for care packages. The Council was in dispute with the PCT over these debts. During the year we have settled this dispute and have recovered £3.794m in relation to these debts. This is an increase of £0.274m over what we anticipated at 31st March 2005.

General

- The success of our Budget Recovery Plan and the resultant £4.162m revenue underspend restores stability to the Council's budgetary position and replenishes reserves back to previous levels.

5. Capital Financial Summary 2005/06

The table below summarises the capital spending of the Council's five directorates during 2005/06 and the capital funding the Council has used to finance this spending. The revised budget reflects the full impact of known contractual commitments, funding approvals and the transfer of Cultural and Community Services from Lifelong Learning to Corporate Development.

2005/06 Capital Financial Summary	**Original Budget £m**	**Revised Budget £m**	**Actual Expenditure £m**	**Carry Forward Element £m**	**Spend Variance £m**
Corporate Development	6.205	8.673	5.057	-3.615	-0.001
Lifelong Learning	16.221	19.335	12.927	-6.416	+0.008
Neighbourhood Services	22.605	33.813	27.735	-6.115	+0.037
Resources	11.939	9.691	5.979	-3.712	-
Social Care and Health	2.394	3.350	3.037	-0.315	+0.002
Total Capital Spending	**59.364**	**74.862**	**54.735**	**-20.173**	**+0.046**
Borrowing Approvals from Government	6.986	7.105	7.105	-	-
Unsupported Borrowing	6.239	2.675	1.466	-1.209	-
Capital Receipts	8.610	17.581	10.114	-8.012	+0.545
Funding from Housing Revenue Account	12.743	16.135	13.559	-2.118	-0.458
Funding from General Fund Revenue	-	0.452	0.488	-	+0.036
Government Grants	23.515	27.433	20.600	-6.857	+0.024
European Grants and Other Contributions	1.271	3.481	1.403	-1.977	-0.101
Total Capital Funding	**59.364**	**74.862**	**54.735**	**-20.173**	**+0.046**

The most significant **capital carry forwards** arising in 2005/06 were as follows:

Corporate Development

- The majority of outstanding capital commitments relate to schemes for Economic Development and Promotion. The most significant carry forwards are £1.063m relating to our transformation agenda which includes funding for a number of acquisitions due to be completed in 2006/07, £0.816m for the Tyne Gateway and £1.134m for the A19 Jobslink Corridor. The latter two schemes have been rephased due to a change in the profile of Single Programme funding over the life of the projects.

Lifelong Learning

- Capital commitments of £0.725 relate to the scheme to provide new Community and School Sports Facilities.
- Schools Devolved Formula Capital Commitments of £1.957m are required to be carried forward into 2006/07. This funding is ring fenced for schools and is 100% grant funded through Standards Fund.
- Horsley Hill School Redevelopment is progressing more slowly than anticipated and £2.019m is required to meet capital commitments arising in 2006/07.
- The Dunn Street School project will be completed in 2006/07. Recent negotiations with the contractor to avoid overspending have delayed the scheme.

Neighbourhood Services

- The Housing Investment Programme includes our schemes to deliver Decent Homes across the borough. Some rephasing has resulted in a carry forward of £2.117m.
- A rephasing of the Council's highways planned maintenance programme has also taken place.
- A further significant carry forward relates to Cleadon Park Regeneration where £1.843m is required to meet the cost of capital commitments due to delay in the programme.

Resources

- Payments due in 2006/07 relating to our ICT system replacement require a carry forward of £1.027m. In addition, due to a delay in implementation of certain schemes for E-Government strategy, a further carry forward of £1.013m is requested.
- Liabilities faced by the Council relating to Equal Pay necessitate a significant carry forward into 2006/07.

Social Care and Health

- A number of minor carry forwards, the majority concerned with Surestart schemes, are required.

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

Neighbourhood Services

- The installation of a wind turbine at Middlefields Depot exceeded budget by £0.040m. However, a reduction in energy costs is expected to be realised in future years as a result of this project.

Resources

- There are a number of spending variations against individual planned maintenance scheme headings. However, the overall planned maintenance programme budget has not been exceeded.

6. Capital Monitoring Improvements

The Council has a robust system for capital monitoring, starting from the initial bid for capital funding. Capital budgets are an integral part of our Strategic Planning process and are considered in the light of the Council's priorities in the same way as revenue spending. The Council's Capital Programme Monitoring Group assess capital bids and options and provide a framework for monitoring of capital spending.

The majority of capital schemes are delivered on budget and within planned timescales, however we continue to carry forward funding for a number of capital schemes into the following financial year. In 2004/05, 25% of the original programme budget was carried forward into 2005/06, which compared to a 38% carry forward in 2003/04. We have sustained a similar level of carry forward into 2006/07 at 27%, or £20.173m.

During 2006/07, we would like to make further improvements to reduce the number of schemes carried forward into the next financial year. The Council is implementing a new financial system during 2006 and this should allow for improvements in monitoring of capital expenditure. In addition, we plan to introduce a system of post completion reviews and measured outcomes for capital spending.

7. Long Term Reserves

As at 31st March 2006 the Council held £10.064m in capital receipts and other funding for the purposes of investing in our assets in future years. We also expect to receive £101.860m in Government support for our two Private Finance Initiatives (PFI) leaving £62.78m 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. This funding will be built into our Medium Term Financial Plan. The Council also holds a strategic reserve, which stood at £4.049m at 31st March 2006, which in emergencies could be used to meet longer-term financial liabilities such as capital projects or PFI.

8. Housing Revenue Account

The Housing Revenue Account is ringfenced and all expenditure must be met from rents or Government subsidy. The Housing Revenue Account generated a surplus of £0.459m, which increased the revenue balances to £3.856m at 31st March 2006. This will be used to support future years expenditure on Housing.

9. Tyne and Wear Pension Fund

The Council is the administering body for the Tyne and Wear Pension Fund. As at 31st March 2006, the Fund's net assets amounted to £3,420m – a rise of £745m on the previous year. This is the third 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.

10. Borrowing Facilities

During the year the Council was a net borrower having taken out ten loans totalling £43m to the Public Works Loans Board (PWLB) and one market loan for £5m. This borrowing was partially offset by the repayment of two PWLB loans totalling £9m.

11. Pension Liability

As at 31st March 2006 the Council had a pension liability of £181.82m, a decrease of £8.65m 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.

12. Medium Term Prospects

During 2005/06 the Council continued to develop its three-year Medium Term Financial Plan (MTFP) and align more of our spending towards our priorities. As in previous years, we consulted with a wide range of stakeholders to give them the opportunity to scrutinise our proposals before any final decisions were taken. A new development during 2005/06 was the use of a leading edge consultation process called SIMALTO modelling which gave more focus to our strategic planning.

The resulting MTFP for 2006-2009 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 non-priority areas. In addition the plans include our level of reserves and how these are to be utilised and identification of key risk areas and the actions taken to minimise these risks. Our funding forecasts are based upon indicative allowances notified by the Government for 2007/08 and inflation predictions for 2008/09.

The approach used in our base budget review for budgets in 2005/06 was followed again as part of our strategic planning for 2006-2009. All significant budgets were reviewed and revised as appropriate. This will ensure that the Council is best placed to manage future pressures and opportunities.

13. 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.

Brian Scott,

Interim Head of Finance

Independent Auditors' Report to the Members of South Tyneside Council

Opinion on the Financial Statements

We have audited the financial statements for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cashflow Statement, the Pension Fund's Fund Account and Net Assets Statement, 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 2005 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 2005, the financial position of the Council and its income and expenditure for the year.

We review whether the Statement of Assurance on Corporate Governance Arrangements and Systems of 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 judgments 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 2005:

- the financial position of South Tyneside Council as at 31 March 2006 and its income, expenditure and cash flows for the year then ended; and

- the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition at that date of the Fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the year.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

30 September 2006

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.

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 July 2005, 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 2006 except for the failure to put in place arrangements for managing performance against budgets.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2005/06 on 5 September 2005. 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
NE1 8HW

30 September 2006

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 2006, 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 2006, and their income and expenditure for the year ended 31st March 2006.

Signed: Date: 20th September 2006

Brian Scott, Interim Head of Finance

Chair of General Purposes Committee Certificate

I can confirm that these Audited Accounts were approved by the General Purposes Committee at its meeting held on 20th September 2006.

Signed: Date: 20th September 2006

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 2005/06

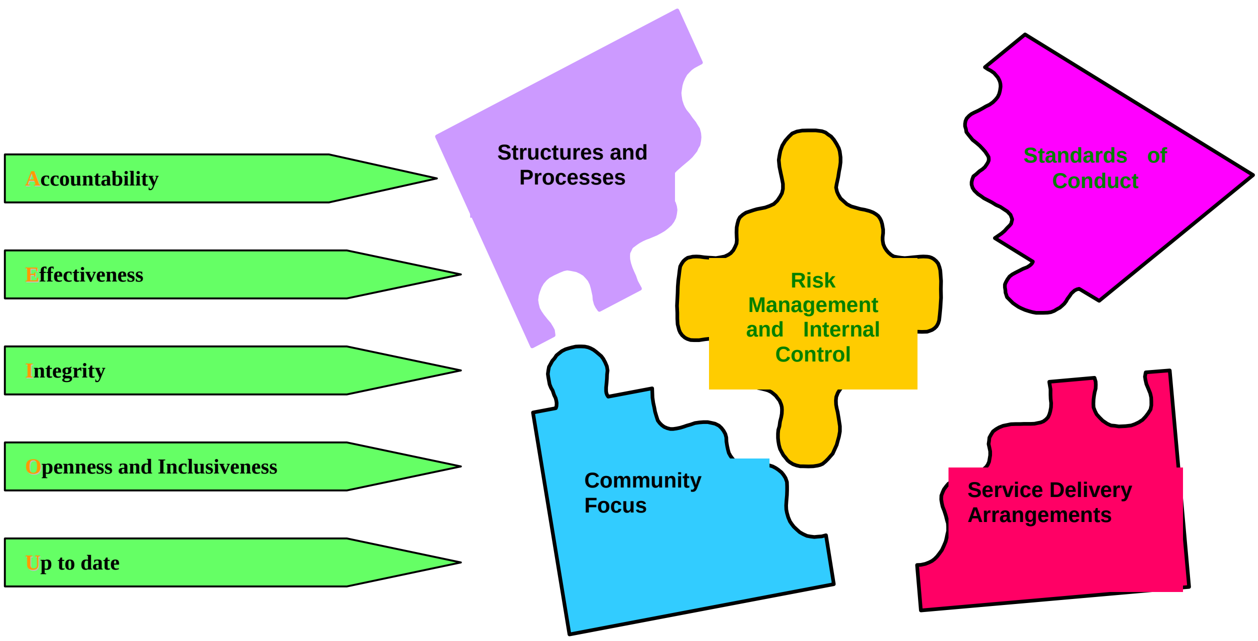
Scope of Responsibility

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 June 2006. 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 2006 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;
- Best Value 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;
- Whistle blowing Policy;
- An effective Internal Audit function that follows the professional standards as set out in CIPFA's Code of Practice for Internal Audit 2003;
- A scrutiny committee (Resources and Corporate Development) that oversees the Council's corporate governance arrangements. The committee receives reports from the Corporate Assurance Group on assurances and control improvements; it also monitors the services' performance. From March 2006 this role has been allocated to an Audit Committee that follows CIPFA's recommended practice for Audit Committee's published in December 2005; and
- 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 achieve objectives:

- The Council has systems in place for identifying and evaluating significant strategic and operational risks;
- 16 critical projects have been identified and are subject to rigorous management, and monitoring;

- The Council has approved a Risk Management Policy which explains the methodology to provide a comprehensive framework for the management of risk throughout the Council;
- Significant progress has been made in embedding risk management across the Council.

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 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 Best Value 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 2005/06, Internal Audit conclude that a sufficiently wide range of audits was conducted in the necessary depth to give assurance that internal controls in the respective areas were operating effectively across the Council during the year.

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.

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 restructured to more closely focus on priorities and deliver improved services for the community;
- The Council has identified 16 critical projects that receive close attention from Senior Management and Members. These projects are rigorously managed, monitored and evaluated;

- The Council has made good progress in recovering 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;
- A project management toolkit ‘Delivering together’ has been developed and staff training provided;
- The Council’s significant partnerships have been identified and recorded on a partnerships register and a partnerships code of practice has been adopted;
- Service continuity plans have been developed for all the Council’s critical activities;
- The Constitution, local code of corporate governance, risk management policy, anti-fraud and corruption policy and whistle blowing policy have been updated;
- Progress has been made in developing a consistent and co-ordinated approach to procurement, promoting good practice across the Council.

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 2006, and up to the date of approval of the Statement of Accounts on 28th June 2006. However, the Council has identified some areas where the control environment could be improved as detailed below:

Significant Control Weaknesses

- A significant control weakness was identified at the closure of the 2004/05 accounts relating to the then Social Care and Health Directorate budget, which resulted in a significant budget overspend. The Council immediately responded to this and a recovery plan was developed, agreed by Cabinet and implemented. The plan was monitored and reported on a regular basis to the former Resources and Corporate Development Scrutiny Committee and was subject to external audit. As a result of the recovery plan and the robust arrangements in place to monitor it, the Council quickly recovered the budget overspend.

Control Improvements

- The Council has made significant progress in improving budget management in the former Social Care and Health Directorate. An action plan approved by the Resources and Corporate Development Scrutiny Committee has been implemented. Further work on improving budget monitoring systems, identifying key financial cost drivers and developing the client database will ensure that the improved good practices in budget management are embedded;

- The Council has made progress on improving value for money and has exceeded its target of £3.5m in efficiency savings. The Council recognises that further work is required to fully embed value for money into everyday processes and has made the delivery of value for money a critical project;
- Internal Audit has assessed the Council's financial systems as effective. However, the current IT systems are, in many instances no longer adequate for the needs of a modern Council. Replacement of the financial systems is a high priority for the Council and is one of the Council's critical projects. Financial systems are due to be replaced by October 2006. The new systems will be embedded with full controls;
- Significant progress has been made in developing the Council's service continuity arrangements. Plans are in place for all of the Council's critical services. Further work is being undertaken to develop corporate plans, test the plans and ensure that service continuity is embedded throughout the Council.

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 2005-06

Signed: P Waggott Date: 20th September 2006

Councillor Paul Waggott, Leader of the Council

Signed: Irene Lucas Date: 20th September 2006

Irene Lucas, Chief Executive

Statement of Accounting Policies

1. General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005.

The Code sets out the practices required by Section 66 (4) of the Local Government and Housing Act 1989. It is prepared in accordance with the statutory framework, established for England and Wales, by the Accounts and Audit Regulations 2003 (as amended in 2004) and by Sections 41 and 42 of the Local Government and Housing Act 1989.

The Code is based upon approved accounting standards, except where these conflict with specific statutory accounting requirements, so that a Council's accounts 'present fairly' the financial position and transactions of the Authority.

The accounts must be prepared as soon as practicable after the end of the financial year (31st March 2006 for 2005/06), and approved by a resolution of the General Purposes Committee, no later than 30th June 2006. Although these accounts are dated 31st March 2006 all material changes that have occurred since that date and the date of approval have been incorporated into the figures presented.

The Council follows the standards of FRS18, the accounting standard covering Accounting Policies. This means that our policies are reviewed annually and amended where appropriate. In deciding whether to amend any of our policies due account is taken of relevance, reliability, comparability, understandability and materiality.

Three further concepts play a key role in the financial statements and hence in the selection and application of accounting policies, estimation techniques and the exercise of professional judgement.

Accruals: This means that transactions are reflected in the accounts of the period in which they take place, as opposed to the period in which payments were made or received.

Going Concern: This means the accounts are prepared on the assumption that the Council will continue its operations for the foreseeable future.

Primacy of Legislature: The Council, in common with all other local authorities, derives its powers from statute. Its financial and accounting framework is closely controlled by primary and secondary legislation. Where legislative requirements and accounting principles conflict, legislative requirements take precedence.

2. Material Reserves and Provisions

The Council maintains a number of reserves and provisions to meet known and potential liabilities. A reserve is created by appropriation, after the net operating expenditure has been calculated and is set aside for specific policy purposes. A provision is set aside for liabilities or losses, which are likely to arise but owing to their inherent nature cannot be quantified with any certainty. The Council reviews its reserves and provisions as part of the Medium Term Financial Planning process to ensure adequate balances are maintained to support our expenditure.

The Council maintains a strategic reserve of £4.049m equating to 2% of the net revenue budget. This represents the amount that the Council has agreed necessary to cover emergency events such as unforeseen financial liabilities or natural disasters. The Council has made arrangements to increase this reserve annually as part of its Medium Term Financial Plan.

The Council also maintains a forward planning reserve to help offset medium term financial risks that it faces and to maintain the strategic reserve at 2% of budget level. Due to the success of the expenditure moratorium during 2005/06 the vast majority of this reserve, utilised to fund overspending in 2004/05, has now been replenished.

General reserves are to be used to support one-off and limited ongoing revenue spending.

Earmarked reserves are amounts that the Council deems necessary to meet future identified liabilities. Many of these reserves are created to meet known commitments that remain unpaid as at the 31st March but for which the Authority has an obligation to pay. By far the largest of these reserves is the balance of unspent school funding standing at £5.211m.

Provisions are maintained for two primary purposes; namely insurance liabilities and cover for the non-payment of Council debt. The provision for Insurance Claims is based on the potential cost to the Council of all identified claims at the date of the Consolidated Balance Sheet. A review of this provision during the year identified £0.699m that was no longer required. The provisions for bad debt take account of the nature of debt, our past history as regards write-offs and a risk analysis of the recoverability of debt outstanding at 31st March.

All earmarked reserves and provisions are reviewed on a regular basis to ensure that they are still relevant and fit for purpose.

3. Basis of Valuation of Real Property and Investments

Real property has been included in the Balance Sheet at cost price.

Investments are valued at the lower of cost price or current market value.

4. Intangible Fixed Assets

The procurement of computer software can now be reflected as an intangible fixed asset. These assets are valued at cost price and amortised over their remaining useful life. The useful life of computer software has been assumed to be 5 years.

5. Tangible Fixed Assets and Capital Charges

These accounts have been compiled in accordance with CIPFA's Code of Practice, FRS11 Impairment of Fixed Assets and Goodwill and FRS15 Tangible Fixed Assets.

All fixed assets are valued as at 1st April 2005 except for Council Dwellings. These property values have been adjusted upwards to reflect a material increase in the value of housing generally within the Borough, which rose by over 6.9% in 2005 as calculated by the Land Registry.

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. A de minimis level of £10,000 has been used in the recognition of council capital expenditure and receipts. A lower de minimis level of £2,000 has been used for devolved school capital spending. Where fees and other associated costs are incurred in the creation or enhancement of fixed assets they have not always been added to the value of those assets but instead held in the fixed asset restatement account. This is a variation from accepted practice but eliminates significant movements in asset values upon revaluation. In 2005/06, £3.190m of expenditure was treated in this way.

All operational assets have been included in the balance sheet at net current replacement cost or net realisable value in existing use, except for infrastructure, community assets and equipment, which are included at historical cost and dwellings, which are valued utilising selected beacon properties. Non-operational assets are valued at either historical cost in the case of work in progress or open market value in the case of investment property and assets deemed surplus to requirements.

Depreciation has been applied to all assets with the exception of land and investment property. A straight-line basis has been adopted based upon the expected remaining useful life of the asset. The expected life is based on surveys of the properties concerned.

Asset values reflect any known impairment. Any loss arising from impairment is written off to the Consolidated Revenue Account in the year that it is recognised. Any subsequent adjustment to impairment is credited to the same service line in revenue in line with SORP guidance.

The net movement in asset values as a result of additions, disposals, depreciation and impairment is reflected in the Fixed Asset Restatement Account and the Capital Financing Account.

The capital charges made to service revenue accounts, central support and trading services, equate to the sum of depreciation, deferred charges written off, the movement in impairment and a notional interest rate charge of 3.5% per annum (4.95% for assets valued at historical cost). The overall effect of capital charges is neutral to the Council Tax Payer.

6. Deferred Charges

Deferred charges represent expenditure, which may be properly capitalised, but does not result in the creation or enhancement of a fixed asset. As the Authority does not control any economic benefit from such expenditure these charges have been fully written off to revenue in the financial year in line with accounting standards.

7. Receipts from Sale of Fixed Assets

All useable receipts from the sale of fixed assets have been utilised in the financing of the capital programme or retained in the Useable Capital Receipts Reserve.

Useable receipts represent the net sum of total receipts after paying over to the Government up to 75% of any receipts from Council Housing. The Council retains all income from housing land receipts by reinvesting them in the regeneration of the Borough. Interest on capital receipts unapplied is credited to the General Fund and Housing Revenue Account, in accordance with statutory guidance.

Any profit or loss from the sale of an asset is reflected in the Fixed Asset Restatement Account.

8. Government Grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to match the expenditure to which they relate. In the case of capital grants the income has been credited to a Government Grants Deferred Account.

General government grants in the form of Revenue Support Grant and National Non-Domestic Rates redistribution are disclosed separately in the Consolidated Revenue Account. In 2004/05 the Government started on a programme to unringfence a number of specific grants, which meant they could be spent on any service at the discretion of the Council. Given their general nature in application, these grants are also now separately disclosed.

9. Basis of Interest Charges

The Council pools its borrowing and lending and all General Fund debt charges are aggregated. Interest payable on external borrowings and interest income has been accrued and accounted for in relation to the period to which it relates.

10. The Redemption of Debt

The accounts have been drawn up in compliance with the SORP requirement that revenue accounts (excluding the Housing Revenue Account) shall bear at least an amount equivalent to cover the Minimum Revenue Provision, as required by the Local Government and Housing Act 1989. Debt is normally redeemed on the due date. However when market conditions appear suitable, early redemption of debt will be considered. The repurchase of borrowing is in accord with FRS4.

11. Leasing

The Authority has a number of operating leases for equipment. This is a means of procuring the use of a capital asset whilst deferring payment over a number of years. All payments are accounted for under the Consolidated Revenue Account in the year that they are incurred based on a fixed amount rental basis in accordance with SSAP21. Any lease not in compliance with SSAP21 has been accounted for as a finance lease. Only the reduction in outstanding obligation and interest charges of such arrangements are charged to the Consolidated Revenue Account in any given year.

The Authority acts as both lessee and lessor in relation to property. The same tests from SSAP21 are applied to these rentals and where beneficial ownership has effectively been transferred this is accounted for as a finance lease. The vast majority of property leases entered into by the Council are operating leases.

12. Long Term Contracts

The accounting for long-term contracts such as Private Finance Initiatives (PFIs) is in accordance with FRS5 Application Note F. This specifies that properties used to provide services under PFI contracts should be recognised as an asset by whichever party has access to the risks and benefits of the property. Any amounts of outstanding undischarged obligations arising from PFI are disclosed in a note to the Consolidated Revenue Account.

As at 31st March 2006 the Council had entered into two PFI arrangements; one for the replacement and upgrade of street lighting throughout the borough and a second for the replacement of a secondary school and community facility in Boldon. In both these cases the majority of risks and benefits of the assets have been transferred to the operator.

In addition, the Authority is part of the first wave of the Government's Building Schools for the Future programme, which will ultimately lead to the redevelopment of all of our remaining secondary schools. Total investment is expected to be in the region of £112m of which £38m will come from PFI.

13. Landfill Allowance Trading Scheme

The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities to reduce the amount of biodegradable municipal waste disposed to landfill. On 1st April 2005 the Government introduced the Landfill Allowance Trading Scheme, which allows local authorities to trade in allowances in order to stay within set targets for waste disposed via landfill. Failure to meet these targets in any given year results in a significant financial penalty payment for the authority concerned.

As this is the first year of operation there has been limited trading activity. 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 (£20.20) in accordance with CIPFA guidance.

14. Significant Estimation of Debtors and Creditors

Where possible, debtors and creditors are based on system generated entries of actual transactions raised or accrued prior to 31st March. Manual accruals of debtors and creditors only take place where either actual or secure estimates are known.

15. Stocks and Work in Progress

Work in progress is the cost price of work carried out by Neighbourhood Services Trading Services or Resources Asset Management that is rechargeable to outside bodies or schools and had not been completed at 31st March 2006.

Stocks and stores held in depots and stores, plus provisions in educational and leisure establishments are included in the accounts at cost price. Provisions held by Social Care and Health residential properties and directorate stationery stocks are not included.

16. Cost of Support Services/Overheads

All central costs of management and administration are subject to a Service Level Agreement and have been fully allocated to services with the exception of corporate costs, which are reported on a separate line in the Consolidated Revenue Account. Non-material balances on support costs have been shown against the Corporate and Democratic Core line.

Wherever possible a direct allocation method has been used. Where this is not possible apportionments have been made in line with guidance issued in the Best Value Accounting Code of Practice.

17. Pensions

South Tyneside Council is responsible for the administration of the Tyne and Wear Pension Fund. The accounts, as now presented, include a summary of the Fund activities for the year. A separate, more detailed annual report on the Fund is available on the Council's website.

The Council participates in the Tyne and Wear Pension Fund and the unfunded scheme for teaching staff as administered by Central Government. There are also costs levied by the Durham County Council Pension Fund in relation to former staff employed before the 1974 Local Government Re-organisation.

The value of pension costs payable are determined by the Tyne and Wear Pension Fund Actuaries in accordance with FRS17, the Financial Reporting Standard on retirement benefits. The net pension costs that are charged to the Council's Consolidated Revenue Account in respect of its employees are equal to the contributions paid to the funded pension scheme for these employees plus any further costs arising from pensions paid to retired employees on an unfunded basis.

Under FRS17, the liability of the Council to meet pension costs as at the date of the accounts is fully reflected. This tends to be significantly higher than the actual contribution that the Council makes towards the Tyne and Wear Pension Fund. In 2005/06 the amount reflected in the consolidated revenue account is £3.544m more than the amount paid over (£5.51m in 2004/05) whilst our liability fell by £8.65m (5%). These costs are ultimately removed from the account so that there is no additional cost to the Council Tax Payer.

New regulations implemented on 1st April 2006 allow scheme members to commute some of their annual pension into a larger lump sum. This impacts on the actuary's projection of the pension liability at the balance sheet date. As there is no evidence in support of the number of members likely to take up this facility an assumption of 50% has been used. This assumption will be refined over time.

18. Group Accounts

There is now a requirement to publish certain relationships with other organisations under separate Group Accounts. Following a review of relationships the Council identified a number of subsidiaries where group accounts would normally be required. However due to the insignificant nature of the amounts involved it was deemed that no additional benefit would be gained from the publication of such accounts. The relationships identified were as follows:

- The Council has a minority shareholding in Newcastle Airport and has accounted for this as a simple investment.
- In conjunction with other Councils the Authority operates a number of joint ventures. The most significant of these are Beamish Museum and the Tyne and Wear Economic Development Company.
- 27 youth and community associations operate from premises provided by the Council. Whilst these organisations essentially act as separate entities the Council does retain the option of winding them up should they veer significantly from the Council's priorities for the service.

19. External Investments

Investments are valued either at cost price or lower, where appropriate, to reflect a loss in value over time. The risk from a revaluation in our investment in the Airport is fully accounted for by the Investment Revaluation Reserve. The risk from a movement in the value of other investments is not considered material.

20. Accruals of Income and Expenditure

Both revenue and capital transactions are recorded on a system of income and payments during the year. At the year-end, payments are converted to expenditure by the inclusion of invoices paid within the first two weeks of the following year, together with any further known outstanding items. Accruals of income are system generated in the first week of the following year and manually generated thereafter.

This accrual concept is in accordance with FRS18. However, there are a number of exceptions that merit special comment.

- Apportionment of Employee Costs – due to earlier closedown, all wages paid in April for work relating to March are no longer accrued as a matter of course. However a minimum of 52 weeks is included in the accounts and any variance between the year-end weekly pay bills is not material. No apportionment is made for due costs where the weekend date does not coincide with 31st March and this occasionally results in a 53 pay week year. In 2005/06 there were 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. All services were affected and the total saving for the Council was £0.171m. This amount has not been accrued to the previous year on the grounds of materiality.

- 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. 2005/06 had 48 paying weeks.

None of these exceptions to the accrual concept materially affect the accounts.

21. Value Added Tax

Value Added Tax has not been included in income or expenditure figures except where irrecoverable. This is in accordance with SSAP5.

22. 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.

23. Tyne and Wear County Debt Administration Fund

On 1st April 1986, the Council took over responsibility for the administration of the debt of the former Tyne and Wear County Council. At 31st March 2006, all outstanding debt became due for repayment. Any unpaid balances at this date have been consolidated with that of the Council.

24. Commutation Adjustment

The Commutation Adjustment was used in the calculation of the level of debt we must set aside in the accounts each year. An error in this calculation has now been discovered dating back to 1992/93, the cumulative effect of which up to 2003/04, when the adjustment was abolished, has been to overstate costs by £1.8m. The Council has decided that, given the material nature of the cumulative effect of this error, a correction should be made in the 2005/06 accounts. This has had the effect of reducing reported costs in the Consolidated Revenue Account by £1.8m.

25. Post Balance Sheet Events

The accounts incorporate all known events between the balance sheet date and the date on which the accounts were approved. If that event pre dates 31st March 2006, its impact has been included within the appropriate financial statement.

26. Changes to Accounting Practices

In order to meet the tighter deadline for publication of the accounts, the length of time allowed in the following year for system accruals was reduced. System generated debtor accruals were reduced from three weeks to one week and creditor accruals from three weeks to two weeks. Manual accruals of significant items not meeting these deadlines ensure that the accounts still ‘present fairly’ the financial position and transactions of the Authority for the year.

Consolidated Revenue Account year ended 31st March 2006

2004/05 Net Spend £m	2005/06 Consolidated Revenue Account	Note	2005/06 Gross Spend £m	2005/06 Gross Income £m	2005/06 Net Spend £m
	General Fund Services				
3.858	Central Services to the Public	2	19.525	(14.764)	4.761
34.020	Cultural, Environmental and Planning Services	2	51.476	(16.958)	34.518
91.639	Education Services	2	132.523	(33.609)	98.914
9.154	Highways, Roads and Transport Services		11.192	(1.104)	10.088
3.718	Housing General Fund Services		47.739	(43.832)	3.907
63.810	Social Services	2,3 & 15	94.662	(30.218)	64.444
0.853	Court Services		0.757	(0.250)	0.507
5.729	Corporate and Democratic Core		13.358	(7.033)	6.325
1.952	Non Distributed Cost		4.216	(4.175)	0.041
-	Contribution to Corporate Provisions		0.895	-	0.895
3.614	Equal Pay Compensation Payments	6	11.466	-	11.466
218.347	**Cost of General Fund Services**		**387.809**	**(151.943)**	**235.866**
18.982	Housing Revenue Account		60.632	(46.962)	13.670
237.329	**Net Cost of all Services**		**448.441**	**(198.905)**	**249.536**
	Other Operating Costs				
7.017	Passenger Transport Levy				7.132
0.048	Environmental Agency Levy				0.058
(0.554)	(Surplus)/Deficit from Trading Operations	10			(2.085)
(19.981)	Asset Management Revenue Account Balance	7			(19.112)
17.549	Contribution to Housing Pool				9.938
0.161	(Gains)/Losses on Borrowing Transactions				0.105
23.360	Interest on Pension Liabilities				24.980
(3.489)	Interest and Investment Income				(3.687)
(16.080)	Expected Return on Pension Assets				(19.360)
245.360	**Net Operating Expenditure c/fwd**				**247.505**

Consolidated Revenue Account year ended 31st March 2006

2004/05 Net Spend £m	2005/06 Consolidated Revenue Account	Note	2005/06 Gross Spend £m	2005/06 Gross Income £m	2005/06 Net Spend £m
245.360	**Net Operating Expenditure b/fwd**				**247.505**
	Appropriations				
(0.006)	Transfer to/(from) Housing Revenue Account				1.784
(5.902)	Contributions to/(from) Major Repairs Reserve				(2.473)
(4.486)	Contribution to/(from) Earmarked Reserves	23			5.168
(17.549)	Transfer from Useable Capital Receipts				(9.938)
1.393	Revenue Contributions to Capital				1.569
(8.709)	Reconciling Provisions for Loan Repayment				(17.917)
-	Street Lighting PFI Prepayment				(0.009)
(5.510)	Contribution to/(from) Pension Reserve	16			(3.380)
204.591	**Amount to be met from Government Grants and Local Taxation**				**222.309**
	Sources of Finance				
(101.193)	Revenue Support Grant				(102.063)
(11.764)	Other Unringfenced Grants	2			(21.121)
(42.556)	Contribution from Non-Domestic Rate Pool				(50.548)
-	(Surplus)/Deficit from Collection Fund				-
(46.473)	Council Tax Receipts				(48.647)
2.605	**General Fund Deficit/(Surplus) for Year**				**(0.070)**
(4.124)	General Fund Balance at Start of Year				(1.519)
(1.519)	**General Fund Balance at End of Year**				**(1.589)**

Notes to the Consolidated Revenue Account

1. Best Value Accounting Code of Practice

The Consolidated Revenue Account has been compiled under the 2005 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, and
- provision of a service expenditure analysis for the accumulation of costs.

2. Unringfenced Grants

In 2004/05, the Government decided to unringfence a number of grants that previously had been awarded for a specific purpose. This gave the Authority total discretion over how the money could be spent. As a result, £21.093m (£11.764m in 2004/05) grant receipts are now reported in the Consolidated Revenue Account as an additional source of finance rather than included in the income for individual services. Central Services, Cultural Environmental and Planning Services, Education and Social Services have been most affected by this revised presentation.

3. Social Services

Last year Social Services made a one off contribution of £2.649m towards the bad debt provisions in relation to a dispute over services with the South Tyneside Primary Care Trust (PCT). This dispute has now been resolved and the provision utilised. No further contribution is required in the 2005/06 accounts.

4. Prior Period Adjustments

There are no prior period adjustments included within these accounts.

5. Contribution to Corporate Provisions

The Council has made contributions of £0.619m towards a provision for redundancies and early retirement and £0.276m towards the general bad debt provision.

6. Equal Pay Compensation Payments

The Authority has agreed compensatory schemes in relation to employees who potentially had a liability claim against the Council under equal pay legislation. The majority of employees are covered by an initial scheme negotiated with our Trades Union partners. A second scheme however was agreed in March 2006 in order to settle those employees that had refused the Trade Union deal and continued to pursue claims via the Employments Tribunal. As at 31st March 2006, the Council had paid out £1.466m and had estimated unpaid liabilities of £10.000m in relation to these two schemes. The Council has secured a capitalisation directive in 2005/06 to cover the £1.466m actually paid. In August 2006 the Council received an in principal approval for a capitalisation directive totalling £9.600m for 2006/07. These directives allow us to account for the expenditure as capital rather than revenue however as no asset is created, the costs are written out to revenue as a deferred charge. The capital amounts are then appropriated out of the Consolidated Revenue Account and transferred to the Capital Financing Account. Spending not covered by a capitalisation directive, totalling £0.400m, has been met from earmarked reserves.

7. Transactions on the Asset Management Revenue Account

The transactions for the year were as follows:

2004/05 £m	Asset Management Revenue Account	2005/06 £m
	Income	
(15.740)	Capital Charges (General Fund)	(20.934)
(37.699)	Capital Charges (Housing Revenue Account)	(34.163)
(1.926)	Transfer from Government Grant Deferred Account	(0.977)
(0.025)	Interest Received from Other Local Authority	(0.123)
(55.390)	**Total Income**	**(56.197)**
	Expenditure	
23.429	Provision for Depreciation	21.136
0.579	Deferred Charges and Impairment General Fund	3.303
11.387	External Interest on Borrowing	12.638
0.014	Other Interest Charges	0.008
35.409	**Total Expenditure**	**37.085**
(19.981)	**Balance to Consolidated Revenue Account**	**(19.112)**

8. Capital Charges

Capital charges are made to service revenue accounts for the use of fixed assets and relevant impairment losses. Charges for the use of fixed assets are made up of an annual provision for depreciation, where appropriate, plus a capital financing charge. The capital financing charge is determined by applying a specified notional rate of interest to the net amount at which the asset is shown in the Consolidated Balance Sheet.

The notional interest charge is intended to reflect the fact that the level of capital investment is strictly rationed; i.e. when capital is tied up in providing a fixed asset for a particular service it cannot be used for investment in another service. For 2005/06, the notional interest rate used equated to 3.50% (3.50% in 2004/05) for all assets except those held at historical cost where the rate was 4.95% (4.80% in 2004/05).

Charges are made for the impairment of assets where this impairment is considered to be similar to depreciation (e.g. physical damage) and therefore due to the clear consumption of economic benefits. The full value of the impairment loss is charged in these instances. Where capital enhancement work has addressed some of these impairment issues, the value of expenditure has been returned to the service originally charged, in line with SORP guidance.

9. Leasing

The Council has accounted for its operating leases in accordance with SSAP21. Operating leases are primarily used for the acquisition of vehicles and hire of property. Printing machinery and schools computer equipment are also sometimes funded through operating leases.

Any lease that does not comply with SSAP21 has been accounted for as a finance lease. The Council has identified its rental of Landreth House Office Building as being a finance lease.

The table below shows the amount of expenditure on leasing by category of asset. A review of the level of prepayments in 2005/06 has led to a reduction in costs compared to those charged in 2004/05.

2004/05 £m	Leasing	2005/06 £m
	Other Land and Buildings	
0.050	Finance Lease Payments	0.050
0.043	Operating Lease Rentals and Commissions	0.078
	Vehicles and Equipment	
1.196	Operating Lease Rentals and Commissions	0.603
0.021	Finance Lease Payments	0.052
-	Other Lease Related Costs	0.054
1.310	**Total Expenditure on Leasing**	**0.837**

The Council also acts as lessor for a number of properties and land that it owns. In 2005/06 this generated income of £15.972m (£12.992m in 2004/05) from operating leases and £0.413m (£0.437m in 2004/05) from finance leases.

10. Trading Operations

The Council's Neighbourhood Services directorate operates a number of contracts formerly subject to Compulsory Competitive Tendering legislation. The turnover of these activities is shown below.

2004/05 Turnover £m	Neighbourhood Services Trading Services Turnover Statement	2005/06 Turnover £m
(28.634)	Building Works	(28.172)
(0.276)	Security Services	(0.028)
(4.923)	Highways Works	(4.052)
(2.886)	Cleaning of Buildings	(3.043)
(36.719)	**Total**	**(35.295)**

In addition, the Neighbourhood Services Directorate operates an open-air market in South Shields on several days of the week. Income is generated from rent received from stallholders. The directorate also operates a number of other smaller trading operations that have never formally been subject to competition.

The Lifelong Learning Directorate has a school catering trading service. The service is managed with a view to achieving a breakeven position over a three-year period.

A summary of the deficit / (surplus) earned by each of our trading services is shown on the next page. Company dividends paid to the Council arising from its shareholding of Newcastle International Airport Limited Holding Company are also shown.

2004/05 (Surplus)/Deficit £m	Trading Services Deficit / (Surplus)	2005/06 (Surplus)/Deficit £m
	Neighbourhood Services	
(0.827)	Building Works	(1.032)
0.010	Security Services	-
(0.035)	Highways Works	(0.251)
(0.125)	Cleaning of Buildings	(0.102)
(0.037)	South Shields Open Air Market	0.036
(0.186)	Other Trading Services	(0.428)
	Lifelong Learning	
(0.062)	School Catering	(0.050)
	Resources	
(0.278)	Newcastle Airport Dividend	(0.355)
(1.540)	**Actual Trading Surplus**	**(2.182)**
1.301	Trading Services Share of Current Pension Cost Liabilities	0.643
(0.315)	Traded Services Share of Insurance Provision Income	(0.546)
(0.554)	**Trading Surplus in Consolidated Revenue Account**	**(2.085)**

Under the requirements of FRS17, the cost of Current Pension Liabilities must be shown against the appropriate service line of the Consolidated Revenue Account. The traded activities are a major employer and therefore a significant element of the liability is rightly chargeable against this activity. No account is taken in trading activities for the recovery of the pension liability, as it does not impact on the overall cost of the Council. The traded services share of the reduction in the Insurance provision is also shown as a below the line adjustment.

11. 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 cannot exceed £3.80 per head of population. Expenditure in 2005/06 was £0.546m (£0.466m in 2004/05) against a limit of £0.576m (£0.576m in 2004/05).

12. Publicity

Section 5 (1) of the Local Government Act 1986, requires the Council to maintain a record of expenditure on publicity. This is a memorandum item. The actual expenditure incurred is included as service expenditure within the Consolidated Revenue Account. Expenditure on recruitment advertising in 2005/06 was much lower due to the staffing moratorium being in place for most of the year. In addition, the process for recruitment advertising has been streamlined during 2005/06, resulting in cost efficiencies.

2004/05 £m	Publicity Account	2005/06 £m
0.221	Press and Promotions	0.213
0.928	Recruitment Advertising	0.518
1.149	**Total Expenditure on Publicity**	**0.731**

13. Building Control Regulations Charging Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for administration of the building control function. However, certain activities performed by the Building Control Unit 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 unit 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.

2004/05 Total £m	Building Control Regulations Charging Account	2005/06 Chargeable £m	2005/06 Non-Chargeable £m	2005/06 Total £m
0.616	Employees	0.282	0.322	0.604
0.022	Premises	0.014	0.013	0.027
0.102	Supplies and Services	0.073	0.017	0.090
0.010	Transport	0.008	0.004	0.012
0.148	Central Services Charges	0.066	0.073	0.139
0.898	**Total Expenditure**	**0.443**	**0.429**	**0.872**
(0.395)	Building Regulation Charges	(0.450)	-	(0.450)
(0.005)	Miscellaneous Income	-	(0.004)	(0.004)
(0.400)	**Total Income**	**(0.450)**	**(0.004)**	**(0.454)**
0.498	**(Surplus)/Deficit for the Year**	**(0.007)**	**0.425**	**0.418**

14. 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 2005/06.

15. Pooled Budgets

The Council has five 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 Mental Health Team to integrate the commissioning of staff and services to fulfil the National Policy Implementation Guidance.

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 Council operates as the lead body for four of these budgets and the gross costs, together with the income from the PCT, are fully reflected in the Social Services line of the Consolidated Revenue Account. Details of the expenditure is shown on the next page:

2004/05 Total Council Share £m	Pooled Budget	Lead Body	2005/06 Gross Income £m	2005/06 Gross Cost £m	2005/06 Council Share of Net Cost £m
0.389	Joint Equipment Store	Council	(0.587)	1.194	0.607
0.562	Community Mental Health Team	South Tyneside PCT	(1.531)	1.531	0.595
0.199	Community Learning Disabilities Team	Council	(0.162)	0.392	0.230
0.402	Balgownie Employment and Education Team	Council	(0.143)	0.275	0.132
-	Nursing Care & Continuing Care	Council	(4.614)	4.614	-
1.552	**Totals**		**(7.037)**	**8.006**	**1.564**

In addition to these pooled arrangements the 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 Consolidated Revenue Account.

16. 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.

Disclosures of pension costs in the accounts are in line with FRS17 and incorporated into the Consolidated Revenue 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:

2004/05 £m	Net Cost of Services	2005/06 £m
	Contributions Paid to Pension Fund	
(16.05)	- Funded Liabilities	(17.59)
(1.88)	- Unfunded Liabilities	(1.63)
(17.93)	**Total Contributions Paid**	**(19.22)**
15.19	Current Service Cost	16.13
0.97	Past Service Cost	0.85
-	Settlement/Curtailments (gains) or losses	-
16.16	**Total Costs FRS17**	**16.98**
(1.77)	**Impact for Net Cost of Services**	**(2.24)**

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

2004/05 £m	Pension Appropriation	2005/06 £m
(1.77)	Impact for Net Cost of Services	(2.24)
	Other Operating Costs	
(16.08)	- Expected Return on Fund Assets	(19.36)
23.36	- Interest on Pension Scheme Liabilities	24.98
7.28	**Total Other Operating Costs**	**5.62**
(5.51)	**Pension Appropriation**	**(3.38)**

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.

Reconciliation of the closing deficit to the Council's share of the estimated assets and liabilities of the Fund can be found in note 24 to the Consolidated Balance Sheet. The resulting movement in the Pension Reserve as a result of these transactions can be found in note 4 to the Statement of Movement in Reserves.

In 2005/06, 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 £0.169m (£0.861m in 2004/05), which the Council has elected to pay in the year.

17. Teachers Pension Costs

The Council pays employer's contributions to the Department for Education and Skills and added years payments to the Tyne and Wear Pension Fund in respect of teachers pension costs, a defined benefit scheme. The relevant details are given below:

2004/05		Teachers Pension Scheme Contributions	2005/06	
Employer's Contributions	Added Years		Employer's Contributions	Added Years
£6.2m	£1.3m	Amount Paid	£6.4m	£1.3m
13.5%	2.7%	Percentage of pensionable pay	13.5%	2.7%

18. 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 amount set aside for the repayment of debt in 2005/6 was £3.486m. This amount has been offset by a reduction of £1.859m. This reduction relates to an accumulated adjustment required in respect of the over provision of MRP made in previous years accounts arising as a result of the Commutation Adjustment required under the Local Authorities (Capital Finance) (Amendment) Regulations 1993. The totals set aside are as follows:

2004/05 £m	Minimum Revenue Provision	2005/06 £m
0.032	Further Education Funding Council	0.032
3.232	General Fund (4% of Capital Financing Requirement)	3.486
-	Commutation Adjustment	(1.859)
3.264	**Total Minimum Revenue Provision**	**1.659**

19. Members' Allowances

The following basic and special responsibility allowances were paid in respect of the 54 elected Councillors in relation to their role within the Council's Corporate Governance Structure. The level of allowances is based on recommendations from an Independent Members' Allowances Panel. There are 18 wards, with three members representing each ward. The new ward boundaries came into effect after the local elections in June 2004. Details of the amounts paid to individual members in 2005/06 have been published on the Council's website.

	2004/05 £m	2005/06 £m
Total Members' Basic and Special Responsibility Allowances paid	0.601	0.621

20. Officers' Emoluments

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

	Number of Employees	
	2004/05	2005/06
£50,000-£59,999	40	42
£60,000-£69,999	6	15
£70,000-£79,999	2	3
£80,000-£89,999	3	2
£90,000-£99,999	-	-
£100,000-£109,999	-	-
£110,000-£119,999	2	1
£120,000-£129,999	-	-
£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 the above figures. This cost however represents a one off payment whilst the restructure will result in annual savings of £0.5m.

21. 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 Consolidated Revenue Account, the Council received £91.985m (£92.345m in 2004/05) in respect of Government support for specific activities.

The Authority administers the Tyne and Wear Pension Fund and charged £0.783m (£0.917m in 2004/05) in respect of support services provided – primarily financial, legal and information technology. It also paid to the Fund £0.047m (£0.056m in 2004/05) 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.

22. 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 (PwC) to act as the external auditors for the Authority. The following table shows the fees paid for the various services received from each body and chargeable to the Consolidated Revenue 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.

2004/05 £m	External Audit Fees	2005/06 £m
0.357	Fees payable to PwC in respect of External Audit Services	0.287
0.142	Fees payable to PwC in respect of Grant Claim Certification	0.095
0.499	**Total fees payable to External Auditors**	**0.382**
0.076	Fees payable to the Audit Commission in respect of Statutory Inspection	0.065
-	Non Statutory Services	-
0.575	**Total Audit Fees**	**0.447**

In addition to the above, £0.040m (£0.034m in 2004/05) was also 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.

23. Earmarked Reserves

Earmarked reserves include schools general balances. This is to reflect the fact that such balances are generally not available to the Council to spend on other service areas. The movement in earmarked reserves is explained in the Statement of Total Movements in Reserves.

24. Long Term Contracts (PFI)

The Council secured its first two PFI deals during the year. Under such agreements the Council will pay an annual sum to the operator, known as a unitary charge, and will receive 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.

No payments are to be made until the new building becomes operational in November 2006 hence there are no costs incorporated within the Consolidated Revenue Account for 2005/06. However unitary charge payments over the life of the contract will total £64.5m of which £38.6m will be recovered in the form of PFI credits. The contractor will build and operate 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 Consolidated Revenue 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.

As the contract commenced late in the financial year, only £0.188m had been paid out as a unitary charge whilst £0.112m was recovered through PFI credits. The unitary charge includes £0.028m 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.

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

Period	Unitary Payments £m	PFI Credits £m	Net Cost £m
Within one year (2006/07)	3.18	(3.12)	0.06
2007/08 to 2010/11	21.57	(16.32)	5.25
2011/12 to 2015/16	31.76	(20.39)	11.37
2016/17 to 2020/21	33.59	(20.39)	13.20
2021/22 to 2025/26	35.56	(20.39)	15.17
2026/27 to 2030/31	37.28	(20.28)	17.00
2032/33	1.70	(0.97)	0.73
Totals	**164.64**	**(101.86)**	**62.78**

Housing Revenue Account year ended 31st March 2006

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.

2004/05 £m	Housing Revenue Account	Note	2005/06 £m
	Income		
(41.454)	Rent Income from Dwellings		(42.359)
(0.853)	Rent Income from Non-Dwellings		(0.836)
(1.561)	Charges for Services and Facilities		(1.554)
(0.830)	Contributions towards Expenditure		(0.950)
(0.010)	Subsidy Receivable (Rent-Rebate Element)		-
(0.042)	Credits from Housing Repairs Account	5	(1.792)
(0.390)	General Fund Contributions (Amenities Shared by the Community)		(0.419)
(45.140)	**Total Income**		**(47.910)**
	Expenditure		
10.318	Repairs and Maintenance		11.983
7.005	Supervision and Management (General)		8.775
4.067	Supervision and Management (Special Services)		4.968
0.813	Supervision and Management (Contribution to Corporate Costs)		0.763
1.092	Rents, Rates, Taxes and Other Charges		1.213
3.601	Negative Subsidy Payable to the Secretary of State	12	0.250
0.457	Increased Provision for Bad or Doubtful debts		0.606
19.962	Cost of Capital Charge		19.796
15.245	Depreciation of Fixed Assets (Dwellings)	9	11.516
1.536	Depreciation of Fixed Assets (Other)	9	1.950
0.438	Impairment of Fixed Assets	10	0.419
0.519	Amortisation of Deferred Charges	11	0.483
0.038	Debt Management Costs		0.047
65.091	**Total Expenditure**		**62.769**
19.951	**Net Cost of Services c/fwd**		**14.859**

Housing Revenue Account year ended 31st March 2006

2004/05 £m	Housing Revenue Account	Note	2005/06 £m
19.951	**Net Cost of Services b/fwd**		**14.859**
	Interest Adjustments		
(20.918)	Asset Management Revenue Account (Capital Asset Charges Accounting Adjustment)		(20.697)
5.763	Asset Management Revenue Account (Loan Charges Interest)		5.680
0.332	Amortised Premiums		0.220
(0.171)	Amortised Discounts		(0.172)
(0.051)	HRA Investment Income: Mortgage Interest		(0.032)
(0.283)	Cash Balances Interest		(0.300)
(15.328)	**Total Interest Adjustments**		**(15.301)**
4.623	**Net Operating Expenditure / (Surplus)**		**(0.442)**
	Appropriations		
(0.108)	Contributions to/(from) Pensions Reserve	13	(0.164)
1.393	Revenue Contribution to Capital Expenditure		1.295
(5.902)	Transfer from Major Repairs Reserve	4	(2.473)
(4.617)	**Total Appropriations**		**(1.342)**
0.006	**Housing Revenue Account Deficit / (Surplus) for the Year**		**(1.784)**
(3.403)	**Balance brought forward 1st April**		**(3.397)**
(3.397)	**Housing Revenue Account Balance carried forward at 31st March**		**(5.181)**

31st March 2005 £m	Housing Revenue Account Balances	31st March 2006 £m
(0.100)	Tenant Participation Earmarked Reserve	(0.100)
(0.320)	Restructure Costs Earmarked Reserve	-
-	Pensions Contributions	(0.621)
(1.000)	Capital Programme Earmarked Reserve	(1.135)
-	Housing Repairs Reserve	(1.325)
(1.000)	Housing Revenue Account Strategic Reserve	(1.000)
(0.977)	Housing Revenue Account Working Balance	(1.000)
(3.397)	**Housing Revenue Account Balance carried forward at 31st March**	**(5.181)**

Notes to the Housing Revenue Account

1. Housing Stock

The Council was responsible for managing an average of 19,189 dwellings in 2005/06. The variations during the year were:

Housing Stock Movements	2005/06
Opening Balance	
Housing Revenue Account	19,415
Housing Revenue Account Shared Ownership	4
Other Services	10
Opening Balance as at 1st April 2005	**19,429**
Less Reductions	
Sales Right to Buy	(332)
Demolition / Redevelopment	(148)
	(480)
Add Additions	
Housing Reinstated	-
Net Reduction in Stock	**(480)**
Closing Balance	
Housing Revenue Account	18,935
Housing Revenue Account Shared Ownership	4
Other Services	10
Closing Balance as at 31st March 2006	**18,949**

Analysis of Housing Stock Type	31st March 2006
Houses	11,259
Bungalows	2,847
Flats and Maisonettes	4,843
Total Housing Stock as at 31st March 2006	**18,949**

2. Movement of Fixed Assets 2005/06

	Operational Assets		Other Assets	Non Operational Assets		
	Social Housing Dwellings	Garages	Vehicles, Plant and Equipment	Open Market Value Land	Existing use value - Other assets	Total
	£m	£m	£m	£m	£m	£m
Gross book value at 31st March 2005	**700.108**	**2.727**	**9.547**	**31.911**	**0.404**	**744.697**
Accumulated Depreciation and Impairment	(57.850)	(0.377)	(4.640)	-	(0.404)	(63.271)
Net book value at 31st March 2005	**642.258**	**2.350**	**4.907**	**31.911**	**-**	**681.426**
Additions	14.101	-	1.563	4.357	-	20.021
Disposals	(12.468)	-	-	(0.755)	-	(13.223)
Material Revaluation in Year	25.937	-	-	-	-	25.937
Other Revaluation	(80.392)	0.006	-	(2.960)	-	(83.346)
Depreciation	(10.153)	(0.105)	(1.844)	-	-	(12.102)
Impairment	2.159	-	-	-	-	2.159
Net book value at 31st March 2006	**581.442**	**2.251**	**4.626**	**32.553**	**-**	**620.872**

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 only covers items including information technology, security systems, warden call, sheltered accommodation and disabled adaptations. The value of intangible assets in the form of computer software is not included. In 2005/06, £0.018m (nil in 2004/05) was added to these assets and their net book value stood at £0.016m (nil in 2004/05) as at 31st March 2006.

Dwellings have been revalued as at 1st April 2005 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, which are included in the statement above. The factor applying prior to 1st April 2005 was 65%.

The Land Registry has calculated that housing prices in the Borough rose by more than 6.9% in 2005. Applying this to Council dwellings increases their book value by £26m (£102m in 2004/05), which has been incorporated into the above figures due to its material nature.

3. 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 2004 £m	1st April 2005 £m
Vacant Possession Value	873.686	1,103.647
Existing Use Social Housing Value	(567.896)	(562.860)
Economic Cost to the Government	**305.790**	**540.787**

4. Major Repairs Reserve

Major Repairs Reserve	**£m**
Balance at 1st April 2005	**(2.421)**
Depreciation All HRA Assets	(13.466)
Capital Expenditure from MRA (Houses)	12.264
Depreciation Higher than MRA	2.473
Balance at 31st March 2006	**(1.150)**

5. Housing Repairs Account Provision

Housing Repairs Account Provision	**£m**
Balance at 1st April 2005	**(1.792)**
Transfer to Support Capital Programme	-
Transfer to Housing Revenue Account	1.792
Transfer from Housing Revenue Account	-
Balance at 31st March 2006	**-**

6. Housing Capital Expenditure Summary

Spending 2004/05 £m	Capital Expenditure	Spending 2005/06 £m
	Expenditure	
10.511	Operational Dwellings	14.101
0.273	Demolition and Area Redevelopment	4.357
2.289	Other Assets	0.069
-	Equipment and Intangible Assets	1.580
0.518	Deferred Charges	0.483
13.591	**Total Spending Accruals Basis**	**20.590**
0.147	Add Capital Creditors (net)	-
13.738	**Total Spending Cash Basis**	**20.590**

Funding 2004/05 £m	Capital Funding	Funding 2005/06 £m
	Funding Source	
(9.280)	Major Repairs Reserve	(12.264)
(2.326)	Borrowing	(2.696)
(0.739)	Capital Receipts	(4.235)
(1.393)	Revenue Contributions	(1.295)
-	Grants	(0.100)
(13.738)	**Total Funding**	**(20.590)**

7. Capital Receipts Summary

2004/05		Capital Receipts Summary	2005/06	
Nos.	£m		Nos.	£m
731	(23.982)	House Sales	333	(13.532)
-	-	Shared Ownership Sales	-	-
-	-	Other Property Sale	-	-
-	(3.461)	Land Sales	-	(0.880)
-	(0.291)	Mortgage Principal Repayments	-	(0.197)
-	(0.206)	Discount Repayments	-	(0.221)
	(27.940)	**Total Receipts for the Year**		**(14.830)**

8. Cost of Capital Charge

The cost of Capital Charge is determined by the Secretary of State in accordance with the Item eight Credit and Item eight Debit (General) Determination 2005/06. 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	(0.172)	Interest adjustments-amortised discounts
Mortgage Interest	(0.032)	Interest adjustments-mortgage interest
Interest on Cash Balances	(0.300)	Interest adjustments-cash balances interest
Total Interest Adjustments	**(0.504)**	
Transfer from the Major Repairs Reserve		
Dwellings Depreciation > Major Repairs Allowance	(0.523)	Appropriations
Depreciation - Other Assets	(1.950)	Appropriations
Total Item eight Credit 2005/06	**(2.977)**	
Debit Items		
Capital Asset Charges		
3.5% of value Operational Assets	19.796	Net cost of services-capital asset charges
Impairment Charges	0.419	Net cost of services-impairments
Amortisation of Deferred Charges	0.483	Net cost of services-deferred charges
Total Capital Charges	**20.698**	
Depreciation Charges		
Dwellings	11.516	Net cost of services-depreciation
Other Assets	1.950	Net cost of services-depreciation
Total Depreciation Charges	**13.466**	
Debt Repayment and Management Costs		
Debt Management Expenses	0.047	Net cost of services-debt management
Amortised Premiums	0.220	Interest adjustments-amortised premiums
Total Debt Repayment and Management	**0.267**	

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	5.680	Interest adjustments loan charges interest
Less Capital Asset Charges	(20.698)	Interest adjustments loan charges interest
Total Adjustments	**(15.018)**	
Transfer to Major Repairs Reserve		
Only applies if depreciation for operational assets is less than the Major Repairs Allowance	-	Appropriations
Total Transfer to M.R.A.	**-**	
Total Item eight Debit 2005/06	**19.413**	

9. 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 2005/06, 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		Other Assets	Non-operational Assets		Total
	Existing Use Value Social Housing Dwellings	Existing Use Value Garages	Vehicles, Plant And Equipment	Existing Use Value Shops	Open Market Value Land	
	£m	£m	£m	£m	£m	£m
Balance at 1st April 2005	**(53.233)**	**(0.377)**	**(4.640)**	**(0.404)**	**-**	**(58.654)**
Charges in year	(11.516)	(0.105)	(1.843)	-	-	(13.464)
Charges written out	1.363	-	-	-	-	1.363
Balance at 31st March 2006	**(63.386)**	**(0.482)**	**(6.483)**	**(0.404)**	**-**	**(70.755)**

Type of Asset	Basis of Depreciation
Operational Assets	
Existing Use Value Social Housing Dwellings	Useful Life for Dwellings – Straight Line Depreciation
Existing Use Value Garages	30 Year Life – Straight line Depreciation
Other Assets	
Vehicles, Plant and Equipment	5 Year Life – Straight line Depreciation
Infrastructure	Fully Depreciated
Non-Operational Assets	
Land	No Depreciation

10. 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 2005/06 due to redevelopment proposals, the values held in the balance sheet for certain dwellings have been reduced.

Impairment Charges	£m
Balance at 1st April 2005	**(4.617)**
Additions (houses)	(0.419)
Written Off (houses)	2.578
Balance at 31st March 2006	**(2.458)**

11. Deferred Charges

Capital Expenditure in 2005/06 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 revenue account.

Deferred Charges	£m
Balance at 1st April 2005	**-**
Additions	0.483
Written Off	(0.483)
Balance at 31st March 2006	**-**

12. 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 2005/06 has been used:

Actual Entitlement 2004/05 £m	Notional Housing Revenue Account	Estimated Entitlement 2005/06 £m
	Subsidy Allowances for Expenditure Items	
(8.343)	Management Allowance	(9.006)
(14.369)	Maintenance Allowance	(16.978)
(10.879)	Major Repairs Allowance	(10.993)
(0.085)	Admissible Allowance	(0.056)
(0.001)	Anti Social Behaviour Allowance	-
(8.054)	Charges for Capital	(7.766)
-	Others items of Reckonable Expenditure	-
(41.731)	**Total Subsidy Allowance Expenditure Items**	**(44.799)**
	Subsidy Withdrawn for Income Items	
45.275	Rent Income	45.050
0.069	Interest on Receipts	0.043
45.344	**Total Subsidy Withdrawn Income Items**	**45.093**
3.613	**Net Subsidy Withdrawn**	**0.294**
(0.012)	**Prior Year Adjustment**	**(0.044)**
3.601	**Negative Subsidy Payable to the Secretary of State**	**0.250**

13. HRA Share of Contributions to the Pension Reserve

The HRA is charged the full share of the Council's lump sum pension costs based upon it proportion of current employee contributions to the Tyne and Wear Pension Fund. The contribution totals £0.403m (£0.505m in 2004/05)

An apportionment has been made to reflect FRS17 liability to current pension costs. This has been included in the net cost of services for the HRA under management costs. The value of £0.164m (£0.108m in 2004/05) is reversed out as a contribution from the Pensions Reserve so that the HRA surplus only reflects contributions payable.

14. Rent Arrears

Rent arrears at the end of 2005/06 represented 5.63% of the gross rent income collectable for the year of £50.474m (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.

2004/05 Actual £m	Rent Arrears	2005/06 Estimate £m
49.404	Gross Rent Collectable (including water and sewerage charges)	50.474
2.555	Overall Arrears as at 31st March (including water and sewerage charges)	2.841
5.17%	**Overall Arrears as a percentage of gross rent collectable**	**5.63%**
2.326	Rent Arrears as at 31st March (excluding water and sewerage rates)	2.578
0.348	**Amounts written off during the year**	**0.254**
(1.550)	**Balance Sheet Provision for Bad debts**	**(1.903)**

15. Rent Income

Rents were increased with effect from Monday 4th April 2005 to achieve the Government Rent Guideline of an average of £47.40 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 £1.551m, 2.91% of the total net rent collectable for Housing Revenue Account dwellings (£1.212m and 2.84% in 2004/05).

16. Formation of South Tyneside Homes Limited

The Council have set up a wholly owned Arms Length Management Organisation (ALMO), South Tyneside Homes Limited, and received approval 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 gives access to significant investment support through the Governments ALMO decent homes programme. In June 2005 the Council received conditional approval from the Government of £167m additional funding from 2006/07 to 2010/11. The management agreement between the Council and South Tyneside Homes Limited will take effect from 1st April 2006.

Within HRA management costs, significant expenditure totalling £0.9m has been incurred in preparation of the successful ALMO funding bid. This included preparing the Section 27 application and the management agreement, implementing necessary service improvements and establishing the Company and transfer of employees. An earmarked balance within the Housing Revenue Account has also been set aside to accommodate potential additional employers pension contributions from 2006/07 as a result of a new actuarial valuation for employees transferring to South Tyneside Homes Limited.

Collection Fund Revenue Account year ended 31st March 2006

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 Consolidated Revenue Account. The Collection Fund is compiled on an accruals basis and consolidated with other accounts of the billing authority.

2004/05 £m	Collection Fund Revenue Account	Note	2005/06 £m
	Income		
(38.687)	Council Tax	1	(40.831)
(13.679)	Transfers from General Fund – Council Tax Benefit		(14.006)
(19.483)	Non-Domestic Rates	2	(19.482)
(71.849)	**Total Income**		**(74.319)**
	Expenditure		
46.473	South Tyneside Council Precept		48.647
2.949	Northumbria Police Authority Precept		3.079
2.745	Tyne and Wear Fire and Civil Defence Authority Precept		2.875
52.167	**Total Precepts**		**54.601**
19.330	Non-Domestic Rates – Payment to National Pool		19.330
0.153	Non-Domestic Rates – Cost of Collection Allowance		0.152
19.483	**Total Non-Domestic Rates**		**19.482**
0.038	Council Tax Written Off		0.115
-	Other Payment Adjustments		(0.033)
(0.043)	Transfer to/(from) Council Tax Bad debt Provision		0.065
(0.005)	**Total Bad and Doubtful Debts**		**0.147**
71.645	**Total Expenditure**		**74.230**
(0.204)	**(Surplus) / Deficit for the year**		**(0.089)**
0.033	Balance brought forward from previous year		(0.171)
(0.171)	**Collection Fund Balance as at 31st March**	**3**	**(0.260)**

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: 43,967 in 2005/06 and 44,057 in 2004/05). 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 £1,241.82 (£1,184.04 in 2004/05).

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

Band	Proportion of Band D	Number of Dwellings (October 2005)
A	6/9ths	46,265
B	7/9ths	8,677
C	8/9ths	7,311
D	9/9ths	3,942
E	11/9ths	1,551
F	13/9ths	699
G	15/9ths	322
H	18/9ths	40
		68,807

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 2005/06 was set at 41.5p for small businesses and 42.2p for all other businesses. In 2004/05 there was a single rate of 45.6p for all businesses. The national poundage has decreased because from 1st April 2005 a revalued rating list was in force, which meant a large increase in rateable values.

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 £19.442m (£19.483m in 2004/05) was based on an average rateable value of 60.7m as at 31st March 2006 (50.6m at 31st March 2005). Relief given, normally empty property and mandatory relief, significantly reduced the contribution to the pool.

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.

Consolidated Balance Sheet at 31st March 2006

This statement provides a summary of the Council's financial position as at 31st March 2006. 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.

As restated 31st March 2005 £m	Consolidated Balance Sheet	Note	31st March 2006 £m	31st March 2006 £m
-	**Intangible Fixed Assets**	12		0.918
	Tangible Fixed Assets			
	Operational Assets			
642.310	Council Dwellings	1	581.492	
190.071	Other Land and Buildings	1	214.987	
10.094	Vehicles, Plant and Equipment	1	9.918	
40.335	Infrastructure	1	43.499	
0.877	Community Assets	1	0.944	850.840
	Non-Operational Land and Buildings			
0.378	Investment Properties	1	0.378	
5.553	Assets under Construction	1	8.816	
42.668	Surplus Assets Earmarked for Disposal	1	43.692	52.886
932.286	**Total Fixed Assets**			**904.644**
6.777	Long Term Investments	18		6.775
	Long Term Debtors			
3.432	Shop Rents Due	9	3.501	
1.680	Airport Loan Notes	14	1.440	
2.144	Other Long Term Debtors	27	1.247	6.188
946.319	**Total Long Term Assets**			**917.607**
	Current Assets			
1.195	Stocks and Work in Progress	28	1.022	
26.217	Debtors and Prepayments	29	32.548	
45.522	Investments		53.371	
3.692	Cash and Bank		22.344	109.285
1,022.945	**Total Assets c/fwd**			**1,026.892**

Consolidated Balance Sheet at 31st March 2006

As restated 31st March 2005 £m	Consolidated Balance Sheet	Note	31st March 2006 £m	31st March 2006 £m
1,022.945	**Total Assets b/fwd**			**1,026.892**
	Current Liabilities			
(4.576)	Borrowing Repayable within 12 months		(0.111)	
(46.419)	Creditors	30	(43.857)	
(2.260)	Bank Overdraft		(3.377)	(47.345)
969.690	**Total Assets Less Current Liabilities**			**979.547**
(158.686)	Long-Term Borrowing	19	(201.575)	
(3.218)	Deferred Liabilities	15	(2.218)	
(0.542)	Deferred Credits	16	(0.345)	
(7.536)	Provisions	20	(13.171)	
(190.470)	Pension Liability	24	(181.820)	(399.129)
609.238	**Total Assets Less Liabilities**			**580.418**
	Financed by*			
(585.658)	Fixed Assets Restatement Reserve			(528.875)
(133.163)	Capital Financing Account			(127.657)
(42.017)	Government Grant Deferred Account			(63.093)
(8.865)	Useable Capital Receipts Reserve			(6.770)
(3.294)	Secondary Schools Capital Financing Reserve			(3.294)
190.470	Pension Reserve			181.820
(2.421)	Housing Major Repairs Reserve			(1.150)
(6.764)	Investment Revaluation Reserve			(6.762)
(12.439)	Earmarked Reserves			(17.607)
(0.171)	Collection Fund			(0.260)
(1.519)	General Fund Balances			(1.589)
(3.397)	Housing Revenue Account Balances			(5.181)
(609.238)	**Total Net Worth**			**(580.418)**

* See Statement of the Total Movement in Reserves

The prior year balances for Investments and Investment Revaluation Reserve have been restated. See note 18 for further details.

Notes to the Consolidated Balance Sheet

1. Movement of Tangible Fixed Assets

	Operational Assets					Non Operational Land and Buildings	Total
	Council Dwelling	Other Land and Buildings	Comm. Assets	Infra-structure	Vehicles Plant & Equip.		
	£m	£m	£m	£m	£m	£m	£m
Gross Book Value 31st March 2005	700.166	237.845	0.877	46.800	21.394	49.285	1,056.367
Accumulated Depreciation and Impairment	(57.856)	(47.774)	-	(6.465)	(11.300)	(0.686)	(124.081)
Net Book Value at 31st March 2005	**642.310**	**190.071**	**0.877**	**40.335**	**10.094**	**48.599**	**932.286**
Additions	14.101	7.411	0.067	4.332	3.314	14.666	43.891
Disposals	(12.468)	(0.928)	-	(2.763)	-	(2.356)	(18.515)
Revaluations	(54.456)	21.117	-	2.783	-	(7.960)	(38.516)
Depreciation	(10.154)	(4.608)	-	(1.188)	(3.490)	(0.063)	(19.503)
Impairment	2.159	1.924	-	-	-	-	4.083
Net Book Value at 31st March 2006	**581.492**	**214.987**	**0.944**	**43.499**	**9.918**	**52.886**	**903.726**

The Land Registry has calculated that housing prices in the Borough rose by more than 6.9% in 2005 (19% in 2004). Applying this to Council dwellings increases their book value by £28m (£102m in 2004/05), which has been incorporated into the above figures due to its material nature. The Council is also redeveloping Cleadon Park Estate and repurchases of former Council Houses sold under the right to buy scheme have been revalued in year to reflect the true open market value of the site.

2. Fixed Asset Analysis

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

	2005	2006			2005	2006
Council Dwellings	19,429	18,949		Sports Stadia	2	2
Town Hall and Civic Offices	15	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	6	4
Depots	3	3		Surestart Facilities	2	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 Scheme	2	2
Libraries	8	8		Market	1	1
Schools	71	72		Industrial Estates	11	11
Youth and Community Centres	27	27		Managed Workshops	2	3
Shops	215	214				

3. Capital Finance

The following table analyses capital expenditure for 2005/06 together with the method of financing and the impact on the Council's underlying need to borrow.

2004/05 £m	Funding Source	2005/06 £m
166.240	**Opening Capital Financing Requirement**	**174.880**
	Capital Investment	
-	Intangible Assets	1.020
29.155	Operational Assets	30.150
8.421	Non Operational Assets	14.665
7.159	Deferred Charges	5.710
3.887	Other Capital Costs	3.190
48.622	**Total Capital Investment**	**54.735**
	Sources of Finance	
(12.611)	Capital Receipts	(10.114)
(13.334)	Government Grants and other Contributions	(22.003)
(10.673)	Housing Revenue Account	(13.559)
(3.364)	General Fund Revenue	(2.286)
(39.982)	**Total Finance Used**	**(47.962)**
174.880	**Closing Capital Financing Requirement**	**181.653**
	Explanation of Movement in Year	
5.158	Increase in underlying need to borrow (supported by Government)	5.446
3.482	Increase in underlying need to borrow (unsupported by Government)	1.327
8.640	**Increase/(Decrease) in Capital Financing Requirement**	**6.773**

4. Significant Items of Capital Expenditure

The total expenditure on the capital programme was £54.735m (£48.622m in 2004/05). The most significant items, excluding planned maintenance, during 2005/06 are shown in the table below.

	£m			£m
Construction of a Managed Workspace	0.442		Cleadon Park Regeneration	4.083
A19 Jobslink	0.406		Transformation Projects	1.070
Tyne Gateway	1.024		Business Support Fund	0.366
ICT developments and E-Government	1.806		Equal Pay Compensation	1.466
Schools Devolved Formula Grant	1.395		Riverside Surestart	1.123
Primary School Reorganisation	6.455		Primrose Surestart	0.588
Secondary School Reorganisation	0.391		Biddick Surestart	1.087
Grants for Private Sector Housing	1.524		New Recycling Village	0.814
Boldon Children's Centre	0.912		Construction of New Sports Facilities for School and Community use	2.536

5. 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 and Housing Grants e.g. for disabled facilities. The total of deferred charges for the year of £5.710m (£7.159m in 2004/05) have been amortised to the Consolidated Revenue Account.

6. Capital Commitments

Details of commitments over £0.5m under capital contracts as at 31st March 2006:

	£m			£m
Horsley Hill Learning Campus	2.019		Replacement of Dunn Street School	0.864
ICT Systems Replacement	0.825			

7. Finance Leases

The Authority is 23 years into a 35-year lease for the office accommodation at Landreth House. In addition a finance lease was taken out in respect of a new refuse collection vehicle during 2004/05. The value of fixed assets held by the Authority and funded through finance leases is as follows:

Finance Lease	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Gross Value at 1st April 2005	**1.750**	**0.133**
Accumulated Depreciation	(1.100)	(0.031)
Net Value at 1st April 2005	**0.650**	**0.102**
Additions	-	-
Depreciation in Year	(0.050)	(0.022)
Net Value at 31st March 2006	**0.600**	**0.080**

Outstanding obligations to make payments under these finance leases, excluding finance costs at 31st March, accounted for as long term liabilities, are as follows:

Finance Lease	Other Land and Buildings £m	Vehicles, Plant and Equipment £m
Repayable within 1 year	0.050	0.019
Repayable in 1-2 years	0.050	0.019
Repayable in 2-5 years	0.150	0.038
Repayable in more than 5 years	0.350	-
Total Repayable	**0.600**	**0.076**

The liability for future repayments against other land and buildings is based upon current rental levels. The terms of the lease for Landreth House allow for rent reviews to take place every five years at which point our liability will be recalculated. In addition on the equipment lease the Council is obligated to pay a financing charge over the period of the lease equivalent to £0.002m per annum until 2009/10.

The Council has not entered into any finance leases before 31st March for which payments would become due in 2005/06 and beyond.

8. Operating Leases

The Authority was committed at 31st March to making payments of £1.534m (£1.991m in 2004/05) under equipment operating leases against an initial investment of £5.431m (£6.575m in 2004/05). A further £0.717m (£0.337m in 2004/05) is committed on the rental of property of which £0.422m relates to a new 13-year lease for 23/25 Grange Road. A breakdown of the commitments in 2006/07 based on the date of expiry of the lease is as follows:

Operating Lease	**Other Land and Buildings £m**	**Vehicles, Plant and Equipment £m**
Lease expires within 1 year	0.006	0.270
Lease expires in 2-5 years	-	0.430
Lease expires in more than 5 years	0.072	0.002
Total Repayable	**0.078**	**0.702**

9. The Authority as Lessor

The Authority has granted a number of short and long-term leases on commercial premises. Our shop portfolio is usually let for a standard 21 years and these have been accounted for as finance leases. The outstanding liability for these leases has been shown as a long-term debt to the Authority and totals £3.501m (£3.432m in 2004/05). The majority of our other commercial property portfolio, primarily consisting of industrial units, are let for a period of no more than 3 years and are accounted for as operating leases.

The Authority has not acquired any properties that are subject to finance leases in 2005/06 however shops have been enhanced by £0.069m.

10. Valuation Details

The valuations have been undertaken in-house and approved by the Property Services Manager N. Wood F.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 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 2005. The total revaluation for 2005/06 decreased asset values by £39.132m (£14.046m increase in 2004/05). Dwellings have been revalued in line with new Government guidelines that impose a downward adjustment factor of 51% on vacant possession values. This is the main reason for the negative revaluation. All assets are revalued as part of a five year rolling programme.

11. 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 charge of £21.136m has been made to the accounts for 2005/06 (£21.728m in 2004/05).

- Depreciation has not been allocated where the resulting charge is not material.

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

The following table shows the movement in depreciation and impairment.

	Depreciation Account			Impairment Account		
	Dwellings	Land and Buildings	Other Assets	Dwellings	Land and Buildings	Other Assets
	£m	£m	£m	£m	£m	£m
Opening Balance 1st April 2005	(53.239)	(17.009)	(18.451)	(4.617)	(30.765)	-
Charges in Year	(11.517)	(4.608)	(4.741)	(0.419)	-	-
Charges written out	1.363	-	-	2.578	1.924	-
Closing Balance 31st March 2006	**(63.393)**	**(21.617)**	**(23.192)**	**(2.458)**	**(28.841)**	**-**

12. 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 relate to software licences, which are amortised to revenue on a straight-line basis using an average useful life of 5 years.

Intangible Assets	**Software Licences £m**
Gross Book Value 31st March 2005	-
Accumulated Amortisation and Impairment	-
Net Book Value at 31st March 2005	**-**
Additions	1.020
Disposals	-
Revaluations	-
Amortisation	(0.102)
Impairment	-
Net Book Value at 31st March 2006	**0.918**

Amortisation and Impairment Provision	**Software Licences £m**
Provision at 31st March 2005	-
Amortisation in year	(0.102)
Impairment in year	-
Provision at 31st March 2006	**(0.102)**

13. 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	
	Council Dwellings	Other Land and Buildings	Comm. Assets	Infra-structure	Vehicles Plant and Equip.	Oper-ational Land and Buildings	Total
	£m	£m	£m	£m	£m	£m	£m
General Fund	0.050	212.736	0.944	43.499	5.292	20.333	282.854
Housing Revenue Account	581.442	2.251	-	-	4.626	32.553	620.872
Net Book Value 31st March 2006	**581.492**	**214.987**	**0.944**	**43.499**	**9.918**	**52.886**	**903.726**

14. Airport Loan Notes

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

15. Deferred Liabilities

The table below summarises the Council's deferred liabilities:

31st March 2005 £m	Deferred Liabilities	31st March 2006 £m
(1.920)	Newcastle Airport Loan Notes	(1.680)
(0.200)	Loans provided to Industry	-
(0.647)	Rate Revaluation Deferred Liability	-
(0.376)	Debt Rescheduling	(0.481)
(0.075)	Outstanding Finance Lease	(0.057)
(3.218)	**Total Deferred Liabilities**	**(2.218)**

The Newcastle Airport Loan Notes are an amount set aside in lieu of the loan notes described in note 14 being repaid.

Loans to industry represented monies received from external organisations in lieu of lending by the Council to businesses in the Borough. This amount is now included in the provisions for bad debts.

The Rate Revaluation Deferred Liability related to an expected rate refund that has now been paid in 2005/06.

The debt rescheduling represents net discounts achieved by this activity, which are being released as a credit to revenue over the life of the replacement loans.

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.

16. Deferred Credits

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

17. Group Accounts and Related Companies

Group accounts relate to situations where a local authority has a major controlling or influencing interest in another organisation. When this is the case, a separate set of group accounts should be prepared which incorporate a share of the assets and liabilities of the other organisations.

A review of our relationships has revealed:

- That the Authority operates a number of joint ventures in partnership with other Councils from the region. Were these joint ventures to wind up, the Authority would be liable for a share of any outstanding liabilities. In the case of the Tyne and Wear Economic Development Company, assets in the form of industrial estate property would also accrue;
- 27 youth and community associations are operating from premises provided by the Council. Whilst these organisations essentially act as separate entities, the Council does retain the option of winding them up should they veer significantly from the Council's priorities for the service. Any outstanding assets or liabilities would accrue to the Council.

The table below shows all of the Council's interests in other organisations and the extent of any assets or liabilities as at 31st March 2006. The figures are based on audited accounts for the period ending 31st March 2005 in relation to the Youth and Community Associations and draft unaudited accounts for 2005/06 elsewhere. Were these figures to be based on 2005/06 audited accounts any differences are not expected to be material.

Group Account Relationships	Share of Net Expenditure/ (Income) £m	Share of Assets 31st March 2006 £m	Share of (Liability) 31st March 2006 £m
Joint Ventures			
Beamish Museum	-	-	(0.148)
Tyne and Wear Economic Development Company	(0.011)	1.808	(0.262)
North East Consortium for Asylum and Refugee Support	0.007	-	(0.004)
Council Operations			
Youth and Community Associations	(0.344)	1.409	(0.223)
Total Group Accounts	**(0.348)**	**3.217**	**(0.637)**
Council Gross Asset/(Liabilities)		**1,025.317**	**(442.366)**
Group Accounts as Share of Council Accounts		**0.31%**	**0.14%**

In assessing whether to declare these interests in the form of published Group Accounts, the Council took due account of materiality and the beneficial impact that such accounts would have in explaining the nature of the Council's overall operations. Given that our share was less than 0.5% of the Council's own balance sheet, it was concluded that the inclusion of such accounts would not benefit the readership.

18. Long Term Investments

The Council's external investments are shown in the table below.

As restated 31st March 2005 £m	Long Term Investments	31st March 2006 £m
6.766	Newcastle Airport Local Authority Holding Company Limited	6.766
0.011	Government Securities	0.009
6.777	**Total Long Term Investments**	**6.775**

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. As at 31st March 2006, the value of Council shareholding stood at £8.628m. However, accounting policy only allows us to show our investments at no more than cost value.

In prior years accounting for this investment, it was assumed that the original valuation of the airport of £3.306m was retained in the new company and this has formed the basis of our reporting since 4th May 2001. However new advice suggests that this treatment was incorrect and that the deal entered into by the Councils represented a sale of existing shares and a purchase of new shares. The value of the new acquisition has therefore now been reflected in the prior years figures based on the estimated valuation of NIAL Holdings Limited at 31st March 2005 using the aforementioned method. The corresponding increase in valuation is now held in a restated opening balance for 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 2005, Newcastle Airport Local Authority Holding Company declared a net dividend of £3.585m (£2.815m in 2004/05) to the Local Authority shareholders. South Tyneside Council's share of the dividend was £0.355m (£0.279m in 2004/05).

The Newcastle Airport Local Authority Holding Company Limited accounts for the year ended 31st December 2005 revealed profit before dividends of £7.588m (£4.441m profit in 2004). Consolidated net assets stood at £73.681m (£76.702m in 2004) with equity minority interests accounting for £36.097m (£37.568m in 2004). 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.

19. Long Term Borrowing

Source of Loan	Percentage Range of Interest Rate Payable %	Amounts Outstanding 31st March 2005 £m	Amounts Outstanding 31st March 2006 £m
Public Works Loans Board	4.45 – 9.375	(153.575)	(191.575)
Market Loans	9.4375 – 9.50	(5.000)	(10.000)
Special Financing	-	(0.111)	-
Total Long Term Borrowing		**(158.686)**	**(201.575)**

An analysis of loans by maturity is:

31st March 2005 £m	Analysis of Long Term Borrowing	31st March 2006 £m
(0.111)	1 – 2 years	-
-	2 – 5 years	(5.000)
(47.150)	5 – 10 years	(58.150)
(111.425)	Over 10 years	(138.425)
(158.686)	**Total Long Term Borrowing**	**(201.575)**

20. Provisions

The Council's provisions amounting to £13.171m comprise the following.

Provisions	Balance 1st April 2005 £m	Amount Received During Year £m	Amount Applied During Year £m	Balance 31st March 2006 £m
Insurances	(5.744)	(1.810)	5.002	(2.552)
HRA Repairs Account	(1.792)	-	1.792	-
Redundancy and Early Retirement	-	(0.619)	-	(0.619)
Equal Pay	-	(10.000)	-	(10.000)
Total Provisions	**(7.536)**	**(12.429)**	**6.794**	**(13.171)**

The Council maintains an insurances provision to meet any excess payments applying to anticipated future 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 2006, the Council faced outstanding claims of £2.552m. Based on our past history of claims we expect £1.326m to be settled in 2006/07, £0.736m to be settled in 2007/08 and £0.490m to be settled in future years. The level of insurance provision held at the start of the year to cover the potential for future claims has now been reclassified as an earmarked reserve.

The Housing Repairs Account is a discretionary ring-fenced provision for Council Housing repairs and maintenance. Its purpose is to meet the cost of unforeseen damage due to severe weather conditions. As there is no identified liability this provision has been reclassified as an earmarked reserve within the Housing Revenue Account.

The Council is restructuring in 2006/07 and has therefore set aside a provision to meet the cost of redundancies and early retirements agreed prior to 31st March 2006.

The Council is facing significant liabilities in relation to equal pay claims. This provision has been created to meet estimated costs arising from negotiated settlements with employees prior to the balance sheet date.

Whilst the Council has now settled on most low paid manual grade female workers, claims for equal pay still exist in relation to male employees and low paid women in office based employment. The Employment Tribunal is currently assessing the merits of these claims and whilst the Council is legally refuting the basis of most of these claims it is possible that some may eventually be successful. Given the uncertain nature over the legal status and the potential number and value of any successful claims no allowance for additional costs has been made in these accounts.

21. Authorisation of Accounts

These audited accounts were authorised for issue on 27th September 2006 by Councillor Paul Waggott, chair of General Purposes Committee.

22. Trust Funds

The Council acts as sole trustee for legacies left by inhabitants of the Borough, the value of which at 31st March 2006 is £0.653m (£0.505m in 2004/05). Trust Fund Balances are invested in the Council's Consolidated Loans Pool and various Government Stock.

The largest of these legacies is the Westoe Trust that has investments worth £0.352m as at 31st March 2006 (£0.351m in 2004/05). As agreed with the Charities 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.

Trust Funds	Balance 1st April 2005 £m	Amount Received During Year £m	Amount Applied During Year £m	Balance 31st March 2006 £m
Westoe Trust	(0.351)	(0.015)	0.014	(0.352)
Marine Park Trust	-	(0.157)	-	(0.157)
Other Trust Funds	(0.154)	(0.019)	0.029	(0.144)
Total Trust Funds	**(0.505)**	**(0.191)**	**0.043**	**(0.653)**

23. School Balances

As at 31st March 2006, the Council was holding £5.211m in relation to unspent school balances (£5.174m at 31st March 2005). This amount forms part of the earmarked reserves balances.

24. Pensions FRS17 Disclosures at 31st March 2006

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.

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 2006

	1st April 2005 % per annum	31st March 2006 % per annum
Inflation rate	2.9	3.0
Rate of general long-term increase in salaries	4.4	4.5
Rate of increase to pensions in payment	2.9	3.0
Rate of increase to deferred pensions	2.9	3.0
Proportion of Employees opting to take a commuted lump sum	N/A	50.0
Discount rate	5.3	4.9

Changes to the Local Government Pension Scheme

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 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 6 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 Movements in Reserves. The change has not affected the figures in the Consolidated Revenue Account.

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

	At 1st April 2005			At 31st March 2006		
	Actual Market Value		Expected rate of return	Estimated Market Value		Expected rate of return
	£m	%	% per annum	£m	%	% per annum
Equities	1,737.3	65.0	7.7	2,341.3	68.4	7.3
Property	209.8	7.8	6.7	315.1	9.2	6.3
Government Bonds	399.3	14.9	4.7	406.3	11.9	4.3
Corporate bonds	272.3	10.2	5.3	299.6	8.7	4.9
Other Investments	55.8	2.1	4.8	60.7	1.8	4.6
Total	**2,674.5**	**100.0**	**6.9**	**3,423.0**	**100.0**	**6.6**

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

2004/05 £m	Defined Benefit Cost	2005/06 £m
133.83	**(Surplus)/deficit in the Fund at 31st March 2005**	**190.47**
5.51	Value of Appropriation in Consolidated Revenue Account	3.38
51.13	Actuarial (gain)/loss	(12.03)
56.64	**Overall Charge/(Income) to Pension Liability**	**(8.65)**
190.47	**(Surplus)/deficit in the Fund at 31st March 2006**	**181.82**

	1st April 2005 £m	31st March 2006 £m
Estimated Funded benefits under the LGPS regulations	(441.93)	(512.94)
Estimated Unfunded discretionary benefits awarded by means of additional benefits under the LGPS regulations	(25.34)	(26.41)
Actuarial value of Fund liabilities	**(467.27)**	**(539.35)**
South Tyneside Council share of Market Value of Fund Assets	276.80	357.53
Surplus/(deficit) in the Fund	**(190.47)**	**(181.82)**

The outstanding liability of the Council for the local government scheme stands at £181.82m at 31st March 2006. This has reduced the reported net worth of the Council by 24% 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.

25. Teachers Pensions

For the defined benefits scheme in respect of teachers pensions, 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.

26. 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.

27. Other Long Term Debtors

	At 1st April 2005 £m	Expenditure During year £m	Repaid or Written Off During year £m	At 31st March 2006 £m
Assisted Vehicle Purchase	0.318	0.136	(0.222)	0.232
Social Care and Health Fees	0.455	0.347	(0.157)	0.645
Loans to Industry	0.800	-	(0.800)	-
Housing Advances (Including Council Houses)	0.571	-	(0.201)	0.370
Total Other Long Term Debtors	**2.144**	**0.483**	**(1.380)**	**1.247**

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 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 issued two loans to local businesses, funded from external sources, in an attempt to retain and expand jobs in the borough. In both cases the businesses involved have gone into administration and the Council is now seeking full recovery based on the assets on which the loan was secured. The amounts have been transferred to short term debtors with the external funding transferred to bad debt provisions to fully cover any loss arising from unpaid amounts.

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.

28. Stock and Work in Progress

An analysis of stock and work in progress is shown below:

31st March 2005 £m	Stock	31st March 2006 £m
0.717	Neighbourhood Services	0.642
0.385	Social Care and Health	0.272
0.093	Other Directorates	0.108
1.195	**Total Stock**	**1.022**

29. Debtors and Prepayments

Prepayments have significantly increased due to £2.772m in relation to the transfer of street lighting PFI assets and £1.170m for Landfill Tax Credits. The latter represents a new Government scheme whereby each local authority is given a target for the amount of waste it sends to landfill sites. Failure to meet these targets results in a significant financial penalty. The Council met its target for 2005/06 and the prepayment relates to our targeted liability only.

An analysis of all debtors and prepayments is shown below:

31st March 2005 £m	Debtors and Prepayments	31st March 2006 £m
	Amounts falling due in one year	
17.731	Government Bodies	15.418
2.159	Other Local Authorities	0.339
2.555	Housing Tenants	2.841
2.886	Council Tax Payers	3.430
0.456	National Non-Domestic Rate Payers	0.487
1.152	Pension Fund	1.608
6.610	Sundry Debtors	10.173
33.549	**Total Amounts falling due in one year**	**34.296**
	Provisions for Bad debts	
(1.550)	Housing Rents	(1.903)
(1.292)	Council Tax	(1.119)
(0.193)	National Non-Domestic Rates	(0.329)
(5.178)	All other Debtors	(3.616)
(8.213)	**Total Bad Debt Provisions**	**(6.967)**
25.336	**Net Debtors**	**27.329**
0.881	Prepayments	5.219
26.217	**Total Debtors and Prepayments**	**32.548**

31st March 2005 £m	Debts Written Off During the Year	31st March 2006 £m
	Amounts written off during the year	
0.348	Housing Rents	0.254
0.049	Council Tax	0.115
0.249	National Non-Domestic Rates	0.138
0.180	All Other Debtors	0.062
0.826	**Total Amounts written off during the year**	**0.569**

30. Creditors

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

31st March 2005 £m	Creditors	31st March 2006 £m
(20.685)	Government Bodies	(22.272)
(0.439)	Other Local Authorities	(0.614)
(0.312)	Housing Tenants	(0.419)
(0.694)	Council Tax Payers	(0.759)
(0.198)	National Non Domestic Rates	(0.409)
(1.689)	Pension Fund	(1.918)
(22.402)	All Other Creditors	(17.466)
(46.419)	**Total Creditors**	**(43.857)**

31. 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 implemented on 1st January 2007. This will allow the Council to manage the financial costs associated with implementation of the Single Status Agreement.

32. Post Balance Sheet Events

As part of its Medium Term Financial Planning, the Council has embarked on a phased programme of voluntary redundancies and retirements. Whilst a number were agreed prior to 31st March 2006, for which a provision has been created in the accounts, the majority of leavers are post balance sheet date. Had these employees left before 1st April, it would have had the effect of increasing the pension liability arising from FRS17. The full financial impact is not yet known, however its effect will be reflected in next years financial statements.

On 1st April 2006, the Council created South Tyneside Homes Limited, an at Arms Length Management Organisation, to run its housing service. The company has semi autonomy from the Council and will be able to secure significant additional resources to invest in our housing stock. The existence of this company will necessitate a review of our accounting position on Group Accounting in next year's accounts.

Statement of Total Movement in Reserves year ended 31st March 2006

The Statement of Total Movement in Reserves brings together all the recognised gains and losses of the Authority during the period and identifies those that have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves and realisable and non-realisable funds.

Statement of Total Movement in Reserves	Capital Non Realisable Reserves (note 1)	As restated Capital Realisable Reserves (note 2)	Revenue Reserves (note 3)	Total Reserves
	£m	£m	£m	£m
Balance at 1st April 2005	**(760.838)**	**(21.344)**	**172.944**	**(609.238)**
Net (Increase)/Decrease in Revenue Resources	-	-	(15.761)	**(15.761)**
Unrealised (Gains)/Loss from Revaluation of Fixed Assets	85.190	-	-	**85.190**
Impairment (Gain)/Loss on Revaluation	(4.083)	-	-	**(4.083)**
Unrealised (Gains)/Loss from the Revaluation of Investments	-	0.002	-	**0.002**
Effects of Disposal of Fixed Assets	5.293	(17.957)	-	**(12.664)**
Effects of Amount Paid to Housing Pool	-	9.938	-	**9.938**
Financing of Fixed Assets	(24.111)	10.114	-	**(13.997)**
Movement on Government Grant Deferred	(21.076)	-	-	**(21.076)**
Movement on Major Repairs Reserve	-	1.271	-	**1.271**
Balance at 31st March 2006	**(719.625)**	**(17.976)**	**157.183**	**(580.418)**

Notes to the Statement of Total Movement in Reserves

1. Capital Non Realisable Reserves

The table below shows the movement in Council's capital accounting reserves during 2005/06.

Movement in Non Realisable Capital Reserves	Fixed Asset Restatement Account £m	Government Grant Deferred Account £m	Capital Financing Account £m	Total Non Realisable Capital Reserves £m
Balance at 1st April 2005	**(585.658)**	**(42.017)**	**(133.163)**	**(760.838)**
Unrealised (Gains)/Loss, from Revaluation of Fixed Assets	51.490	-	33.700	**85.190**
Impairment (Gain)/Loss on Revaluation	-	-	(4.083)	**(4.083)**
Value of Assets Sold or Disposed of	5.293	-	-	**5.293**
Financing of Fixed Assets	-	-	(24.111)	**(24.111)**
Movement on Government Grant Deferred	-	(21.076)	-	**(21.076)**
Balance at 31st March 2006	**(528.875)**	**(63.093)**	**(127.657)**	**(719.625)**

The **Fixed Asset Restatement Account** reflects the difference between the valuation of assets at the end of the last year and the revaluation as at the 1st April 2005.

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.

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.

2. Capital Realisable Reserves

The table below shows the movement in Council's realisable capital reserves during 2005/06. These are the reserves that the Council can rely upon to support future capital expenditure or repay debt costs.

Movement in Realisable Capital Reserves	Major Repairs Reserve £m	Secondary Schools Capital Financing Reserve £m	Useable Capital Receipts Reserve £m	As restated Investment Revaluation Reserve £m	Total Realisable Capital Reserves £m
Balance at 1st April 2005	**(2.421)**	**(3.294)**	**(8.865)**	**(6.764)**	**(21.344)**
Effects of Disposal of Fixed Assets	-	-	(17.957)	-	**(17.957)**
Effects of Amount Payable to Housing Pool	-	-	9.938	-	**9.938**
Financing of Fixed Assets	-	-	10.114	-	**10.114**
Unrealised (Gains)/Loss from the Revaluation of Investments	-	-	-	0.002	**0.002**
Movement on Major Repairs Reserve	1.271	-	-	-	**1.271**
Balance at 31st March 2006	**(1.150)**	**(3.294)**	**(6.770)**	**(6.762)**	**(17.976)**

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.

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.

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.

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 than 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 18 to the Consolidated Balance Sheet for more details).

3. Revenue Reserves

Movement in Revenue Reserves	Pension Reserve £m	Earmarked Reserves £m	Collection Fund Reserve £m	General Reserve £m	Housing Revenue Account £m	Total Reserves £m
Balance at 1st April 2005	**190.470**	**(12.439)**	**(0.171)**	**(1.519)**	**(3.397)**	**172.944**
Movement in Earmarked Reserves	-	(5.168)	-	-	-	(5.168)
Appropriation from Pension Reserve	3.380	-	-	-	-	3.380
Actuarial (Gains) and Losses relating to pensions	(12.030)	-	-	-	-	(12.030)
Net (Surplus)/Deficit for Year	-	-	(0.089)	(0.070)	(1.784)	(1.943)
Net (Increase) /Decrease in Revenue Resources	**(8.650)**	**(5.168)**	**(0.089)**	**(0.070)**	**(1.784)**	**(15.761)**
Balance at 31st March 2006	**181.820**	**(17.607)**	**(0.260)**	**(1.589)**	**(5.181)**	**157.183**

The **Pension Reserve** is the amount set aside to offset the FRS17 Pension Liability.

The **Earmarked Reserves** are explained in greater detail in note 5 to this statement.

The **Collection Fund Reserve** reflects the balance on the Collection Fund account described in the earlier statement.

The **General Reserve** represents balances held by the Council to support future spending. The Council's Medium Term Financial Plan identifies that £1.589m is the required balance to support planned revenue spending between 2006/07 and 2008/09.

The **Housing Revenue Account Reserves** are ringfenced and movements in this reserve are explained in the earlier statement.

4. Pension Reserve

The movement in the pension reserve can be further analysed as follows:

Movement in Pension Reserve	2002/03 £m	2003/04 £m	2004/05 £m	2005/06 £m	Expressed as a percentage
Actual Return less Expected Return on Assets	N/K	(30.20)	(10.44)	(51.13)	14.3% of scheme assets (3.8% 2004/05)
Experience (Gains) and Losses on Pension Liabilities	N/K	0.40	5.09	(0.37)	(0.1%) of scheme liabilities (1.1% 2004/05)
Changes in Assumptions underlying the Present Value of Pension Liabilities	N/K	4.90	56.48	39.47	(7.3%) of scheme liabilities (12.1% 2004/05)
Actuarial (Gain)/Loss	**53.00**	**(24.90)**	**51.13**	**(12.03)**	
(Gain)/Loss as Percentage of Scheme Liabilities	**16.2%**	**(6.9%)**	**10.9%**	**(2.2%)**	

5. Movement in Earmarked Reserves

	At 1st April 2005 £m	Contribution to Reserves £m	Contribution from Reserves £m	At 31st March 2006 £m
Council Strategic Reserve	(3.863)	(0.186)	-	(4.049)
Council Forward Planning Reserve	(0.743)	(3.935)	0.554	(4.124)
School Balances	(5.174)	(1.307)	1.270	(5.211)
Lifelong Learning	(0.218)	(0.120)	-	(0.338)
Maintenance Fund for former Development Corporation sites	(1.351)	-	0.003	(1.348)
Resources Finance	(0.260)	(0.015)	0.175	(0.100)
Street Lighting PFI	(0.120)	(0.012)	0.120	(0.012)
Insurance Reserve	-	(1.874)	-	(1.874)
Tyne and Wear ICT Partnership	(0.221)	(0.052)	-	(0.273)
Building Control Account	(0.005)	(0.007)	-	(0.012)
Housing Surveys Fund	(0.017)	-	0.017	-
Social Care and Health	(0.137)	-	0.137	-
Neighbourhood Services	(0.040)	(0.228)	0.040	(0.228)
Corporate Development	(0.290)	-	0.252	(0.038)
Total Earmarked Reserves	**(12.439)**	**(7.736)**	**2.568**	**(17.607)**

Cash Flow Statement year ended 31st March 2006

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

2004/05 £m	Cash Flow Statement	Note	2005/06 £m
	Revenue Activities		
	Cash Outflows		
175.208	Cash Payments in relation to Employees		176.568
129.535	Other Operating Cash Payments		138.515
13.679	Council Tax Benefit Paid Out		14.006
40.357	Housing Benefit Paid Out		41.771
19.330	National Non-Domestic Rate Payments to Pool		21.557
12.759	Levies Paid		13.144
14.522	Pooled Housing Capital Receipts Paid to Central Government		10.690
405.390			**416.251**
	Cash Inflows		
(44.438)	Rents Received		(44.613)
(38.504)	Council Tax Receipts		(40.532)
(42.556)	National Non-Domestic Rate Receipts from Pool		(50.548)
(19.483)	Non-Domestic Rate Receipts		(19.507)
(101.193)	Revenue Support Grant		(102.063)
(26.733)	Department for Work and Pensions Grants for Benefits		(28.524)
(24.255)	Housing Rent Rebate Subsidies		(28.043)
(53.121)	Other Government Grants	6	(57.838)
(15.223)	Cash received for Goods and Services		(19.438)
(14.522)	Income from Useable Capital Receipts		(10.690)
(34.241)	Other Operating Cash Receipts		(34.355)
(414.269)			**(436.151)**
(8.879)	**Net Cash Outflow / (Inflow) of Revenue Activities**	**1**	**(19.900)**

2004/05 £m	Cash Flow Statement	Note	2005/06 £m
(8.879)	**Net Cash Outflow / (Inflow) of Revenue Activities**	**1**	**(19.900)**
	Dividends from Joint Ventures and Associates		
	Cash Inflows		
(0.170)	Newcastle Airport Local Authority Holding Company Dividend		(0.278)
(0.170)	**Dividends from Joint Ventures and Associates**		**(0.278)**
	Returns on Investment and Servicing of Finance		
	Cash Outflows		
11.901	Interest Paid		12.422
	Cash Inflows		
(3.489)	Interest Received		(4.029)
8.412	**Returns on Investment and Servicing of Finance**		**8.393**
(0.637)	**Net Cash Outflow / (Inflow)**		**(11.785)**
	Capital Activities		
	Cash Outflows		
35.683	Purchase and Enhancement of Fixed Assets		45.835
12.939	Other Capital Cash Payments		8.900
48.622			**54.735**
	Cash Inflows		
(14.980)	Sale of Fixed Assets		(7.151)
(19.111)	Capital Grants Received		(20.820)
(3.272)	Other Capital Cash Receipts		(1.716)
(37.363)			**(29.687)**
11.259	**Capital Activities**		**25.048**
	Acquisitions and Disposals		
(0.240)	Sale of Newcastle International Airport Limited Shares		(0.240)
(0.240)	**Acquisitions and Disposals**		**(0.240)**
10.382	**Net Cash Outflow / (Inflow) before Financing**		**13.023**
	Management of Liquid Resources		
(20.708)	Net Increase/(Decrease) in Short Term Deposits		7.849
(20.708)	**Management of Liquid Resources**	**3**	**7.849**
	Financing		
	Cash Outflows		
15.805	Repayments of Amounts Borrowed		9.593
	Cash Inflows		
(4.113)	New Loans Raised		(48.000)
11.692	**Financing**	**4**	**(38.407)**
1.366	**Net (Increase) / Decrease in Cash**	**2**	**(17.535)**

Notes to the Cash Flow Statement

1. Revenue Activities

The revenue net Cash Flow can be reconciled to the Consolidated Revenue Account as follows:

2004/05 £m		2005/06 £m
2.605	**(Surplus)/Deficit per Consolidated Revenue Account**	**(0.070)**
	Returns on Investment and Service of Financing	
0.170	Newcastle Airport Dividend	0.278
(8.412)	Net Interest Payments	(8.393)
(8.242)	**Total Returns on Investment and Service of Financing**	**(8.115)**
	Non-Cash Transactions	
(3.232)	Minimum Revenue Provision	(1.659)
(2.331)	Contributions from / (to) Provisions	5.611
4.596	Contribution from / (to) Earmarked Reserves	(5.168)
(1.393)	Revenue Contributions to Capital Outlay	(14.186)
0.639	Other Items	(0.842)
(1.721)	**Total Non-Cash Transactions**	**(16.244)**
	Items on an Accruals Basis	
0.135	Stock increase/(decrease)	(0.173)
1.814	Debtors increase/(decrease)	0.345
(3.470)	Creditors (increase)/decrease	4.357
(1.521)	**Total Items on an Accruals Basis**	**4.529**
(8.879)	**Net Cash Flow from Revenue Activities**	**(19.900)**

2. Reconciliation of Movement in Cash to Net Debt

	£m
Increase/(Decrease) in cash during the year	17.535
Outflow from debt	(48.093)
Net cash outflow	**(30.558)**
Net Debt at 1st April 2005	(117.833)
Net Debt at 31st March 2006	(148.391)
Net cash outflow	**(30.558)**

3. Management of Liquid Resources

Management of Liquid Resources	**As at 1st April 2005 £m**	**As at 31st March 2006 £m**	**Movement in the year £m**
Short Term Investments	45.522	53.371	7.849

4. Financing

Financing	**As at 1st April 2005 £m**	**As at 31st March 2006 £m**	**Movement in the year £m**
Market Loans	(5.000)	(10.000)	(5.000)
Public Works Loans Board	(158.050)	(191.575)	(33.525)
Finance Leasing	(0.094)	(0.076)	0.018
Special Financing	(0.211)	(0.111)	0.100
Total Financing	**(163.355)**	**(201.762)**	**(38.407)**

5. Increase / (Decrease) in Cash

Increase in Cash	**As at 1st April 2005 £m**	**As at 31st March 2006 £m**	**Movement in the year £m**
Cash in Hand and at Bank	3.692	22.344	18.652
Bank Overdraft	(2.260)	(3.377)	(1.117)
Net Cash and Bank Position	**1.432**	**18.967**	**17.535**

6. Analysis of Other Government Grants

	£m		£m
Supporting People	(4.697)	Standards Fund	(16.724)
Access and Systems Capacity	(2.465)	Waste	(1.160)
Surestart	(5.729)	Residential Allowances	(0.820)
Single Programme	(1.611)	School Standards	(1.089)
Benefits Administration	(2.368)	Early Years Development	(0.945)
Neighbourhood Renewals Fund	(8.614)	Vocational Education	(0.695)
Carers	(0.721)	Preserved Rights	(0.710)
Adult and Community Learning	(0.658)	Other	(6.447)
Sixth Form Provision	(2.385)	**Total**	**(57.838)**

Tyne and Wear Pension Fund

Accounts for the Year Ended 31st March 2006

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 2006, there were 121 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 48,986 pensionable members, 29,563 pensioners and 18,887 former employees entitled to deferred benefits.

Further information on the Fund may be obtained from the Pension Fund Report and Accounts for 2005/06.

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 2005/06 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.

The next full actuarial valuation will be undertaken as at 31st March 2007.

Since the 2004 valuation, the Fund has been monitoring the estimated movements in the funding level. As at May 2006, 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.

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 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. The changes, which were set out in the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2004 and which took effect from 1st April 2005, removed the rule of 85 voluntary early retirement provision and increased the minimum retirement age from 50 to 55 for early retirement other than on grounds of ill health. The unions balloted their members over these changes. In the light of strong support for industrial action, the Deputy Prime Minister issued a statement on 18th March 2005 that set out his intention to revoke the changes and to consider and negotiate the long-term future of the Scheme.

The changes were law as at 1st April 2005. Accordingly, they were taken into account in the 2004 valuation and led to a reduction of about 30% in future service rates.

On 3rd August 2005, the Local Government Pension Scheme (Amendment) Regulations 2005 retrospectively revoked the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2004, thereby returning the Scheme to the position that existed prior to 1st April 2005.

On 31st March 2006, the Local Government Pension Scheme (Amendment) Regulations 2006 introduced a range of changes into the Scheme, including the removal of the rule of 85 voluntary early retirement provision and the introduction of the single tax regime.

As at June 2006, the Department for Communities and Local Government is consulting on improved protections for those members affected by the removal of the rule of 85. In addition, consultation on a new scheme, to be introduced from April 2008, is expected to begin shortly.

Statement of the Actuary

for the year ended 31st March 2006

Introduction

The Local Government Pension Scheme Regulations 1997 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

Rates of contributions paid by the participating Employers during 2005/06 were based on the actuarial valuation carried out as at 31st March 2004.

The valuation as at 31st March 2004 showed that the final 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.

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

for the year ended 31st March 2006

These figures were based on the Regulations that applied 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. For many employers, where the valuation indicated a significant increase in contributions from 1st April 2005, the Administering Authority has agreed with employers that the increase can be stepped over a period not exceeding 3 years.

If our assumptions are borne out in practice, the rate of contribution for each Employer would be expected to continue stepping up to the end of the relevant stepping period. The rate would subsequently increase, due to cessation of assumed short-term additional investment returns and continue at the resultant level for the balance of the relevant recovery period before reverting to the relevant long-term rate. In practice, each rate will be reviewed at the next valuation due as at 31st March 2007 and further assumptions may be made at that time concerning short-term additional investment returns.

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. New Regulations (the 2005 Regulations), backdated to 1st April 2005, have since been issued which increased the theoretical cost of Fund benefits relative to those on which the certificate was based. No adjustment has been 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.

Statement of the Actuary

for the year ended 31st March 2006

Further Regulations have recently been issued, effective at 6th April 2006 and 1st October 2006 which will, in theory, reduce the cost of Fund benefits to below that on which our certificate was based and will also recoup the additional costs arising from the 2005 Regulations. However, discussions are still ongoing between Government, Employer and Union representatives about improvements to benefits for existing members and there may be further changes to the Regulations. The impact of all of these changes will be taken into account at the next Fund valuation.

The vast majority of 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	
(in excess of Guaranteed Minimum Pensions)	2.9% per annum
Return over the three years following the valuation on	
- Equities/Property	6.45% per annum
- Other Assets	5.2% per annum
Valuation of assets	smoothed market value

Statement of the Actuary

for the year ended 31st March 2006

The next actuarial valuation of the Fund will be carried out as at 31st March 2007.

This statement has been prepared by the Actuary to the Fund, Hewitt Bacon and Woodrow Limited, 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

May 2006

Tyne and Wear Pension Fund

Fund Account for the Year Ended 31st March 2006

2004/05 £m		Note	2005/06 £m
	Contributions and Benefits		
(138.222)	Contributions Receivable – Employers	3	(164.798)
(45.464)	Contributions Receivable – Members	3	(48.784)
(21.355)	Transfers In	4	(17.147)
(205.041)			**(230.729)**
118.568	Benefits Payable	5	129.783
18.845	Payments To and On Account of Leavers	6	23.200
2.097	Administrative Expenses	7	2.031
139.510			**155.014**
(65.531)	**Net Additions from Dealings with Members**		**(75.715)**
	Returns on investments		
(52.842)	Investment Income	8	(64.710)
3.386	Non-Recoverable Tax	8	3.797
(209.139)	Change in Market Value of Investments	9	(614.600)
5.275	Investment Management Expenses	10	6.057
(253.320)	**Net Returns on Investments**		**(669.456)**
(318.851)	**Net (Increase) / Decrease in the Fund During the year**		**(745.171)**
2,355.676	**Net Assets of the Fund at 1st April**		**2,674.527**
2,674.527	**Net Assets of the Fund at 31st March**		**3,419.698**

Tyne and Wear Pension Fund

Net Assets Statement for the Year Ended 31st March 2006

As at 31st March 2005 £m	Net Assets Statement	Note	As at 31st March 2006 £m
	Investments	9	
244.432	Fixed Interest Securities		223.091
1,296.384	Equities		1,637.892
17.450	Index-Linked Securities		23.359
854.595	Pooled Investment Vehicles		1,162.568
207.479	Properties		306.170
36.539	Cash Deposits		88.238
4.636	Other investment balances		(34.979)
2,661.515	**Total Investments**		**3,406.339**
13.012	**Current Assets and Liabilities**	**11**	**13.359**
2,674.527	**Net Assets of the Fund at 31st March**		**3,419.698**

Notes to the 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 2005 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 statements prepared by the Actuary, which are attached. The financial statements should be read in conjunction with the Actuary's statements.

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 31st March 2006.

Pooled investment vehicles have been included at the average of their bid and offer prices on 31st March 2006 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 31st March 2006.

Futures have been valued on the basis of associated economic exposure as at 31st March 2006. This associated economic exposure has been incorporated into the value of the relevant asset class.

Properties are shown as valued at 31st December 2005, with the exception of six properties purchased after that date which have been valued at cost. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Lambert Smith Hampton.

Investment Transactions

Investment transactions that were not settled as at 31st March 2006 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 31st March 2006.

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 2006 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2006.

Investment Management Expenses

Investment management expenses payable as at 31st March 2006 have been accrued.

Debtors and Creditors

The accounts have been prepared on an accruals basis, that is income and expenditure is included as it is earned or incurred, not as it is received or paid. 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 2006 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

2004/05 £m	Contributions Receivable	2005/06 £m
	Employers	
(86.105)	Normal	(115.047)
(52.117)	Additional	(49.751)
(138.222)		**(164.798)**
	Members	
(44.820)	Normal	(48.074)
(0.644)	In-House Additional Voluntary Contributions	(0.710)
(45.464)		**(48.784)**
(183.686)	**Total Contributions Receivable**	**(213.582)**

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

2004/05 £m	Member Body	2005/06 £m
(20.967)	South Tyneside Council (Administering Authority)	(22.902)
(115.066)	Other Metropolitan Councils	(131.170)
(28.339)	Other Scheduled Bodies	(34.483)
(6.361)	Resolution Bodies	(8.930)
(12.953)	Admitted Bodies	(16.097)
(183.686)	**Total Contributions Receivable**	**(213.582)**

4. Transfers In

During the year, individual transfers in from other schemes amounted to £17.147m (£21.355m in 2004/05). There were no group transfers during 2005/06 or 2004/05.

5. Benefits Payable

2004/05 £m	Benefits payable	2005/06 £m
111.029	Pensions	118.003
15.314	Commutations and Lump Sum Retirement Benefits	19.175
2.116	Lump Sum Death Benefits	3.355
(9.891)	Less: Recharges	(10.750)
118.568	**Total Benefits Payable**	**129.783**

The analysis of benefits by type of member body is not available. In this respect the accounts do not comply with the 2005 Code of Practice on Local Authority Accounting.

6. Payments To and On Account of Leavers

2004/05 £m	Payments To and On Account of Leavers	2005/06 £m
18.142	Individual Transfers to Other Schemes	22.719
0.509	Refunds to Members Leaving Service	0.297
0.194	State Scheme Premiums	0.184
18.845	**Total Payments To and On Account of Leavers**	**23.200**

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.

2004/05 £m	Administration Expenses	2005/06 £m
1.195	Employee Expenses	1.312
0.638	Support Services Recharge	0.514
0.034	Audit Fees	0.040
0.040	External ICT Costs	0.021
0.100	Printing/Publications	0.100
0.132	Professional Fees	0.057
0.055	Other Expenses	0.048
(0.097)	Income	(0.061)
2.097	**Total Administration Expenses**	**2.031**

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

8. Investment Income

2004/05 £m	Investment Income	2005/06 £m
(8.515)	Fixed Interest Securities	(10.492)
(32.498)	Equities	(39.239)
(0.360)	Index-Linked Securities	(0.663)
(0.067)	Pooled Investment Vehicles	(0.073)
(9.263)	Properties – Net Rents	(11.760)
(1.696)	Cash Deposits	(1.910)
(0.166)	Securities Lending	(0.394)
(0.277)	Commission Recapture	(0.170)
-	Underwriting Commission	(0.009)
(52.842)	**Sub-Total**	**(64.710)**
3.386	Less: Non-Recoverable tax	3.797
(49.456)	**Total Investment Income**	**(60.913)**

9. Investments

Investments	Value at 1st April 2005 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31st March 2006 £m
Fixed Interest Securities	244.432	598.213	(623.608)	4.054	223.091
Equities	1,296.384	699.210	(739.143)	381.441	1,637.892
Index-Linked Securities	17.450	49.958	(45.849)	1.800	23.359
Pooled Investment Vehicles	854.595	288.763	(186.702)	205.912	1,162.568
Properties	207.479	91.718	(13.100)	20.073	306.170
	2,620.340	**1,727.862**	**(1,608.402)**	**613.280**	**3,353.080**
Cash Deposits	36.539	52.096	-	(0.397)	88.238
Other Investment Balances	4.636	62.185	(103.517)	1.717	(34.979)
Total Investments	**2,661.515**	**1,842.143**	**(1,711.919)**	**614.600**	**3,406.339**

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

31st March 2005 £m	Investments	31st March 2006 £m
	Fixed Interest Securities	
130.116	UK Public Sector	101.290
-	UK Gilt Futures	13.956
42.663	UK Other	48.115
71.653	Overseas Public Sector	36.556
-	Overseas Bond Futures	23.174
244.432	**Total Fixed Interest Securities**	**223.091**
	Equities	
479.083	UK Quoted	554.094
817.301	Overseas Quoted	1,080.911
-	Overseas Unquoted	2.887
1,296.384	**Total Equities**	**1,637.892**
	Index-Linked Securities	
17.450	UK Quoted	23.359
17.450	**Total Index-Linked Securities**	**23.359**
	Pooled Investment Vehicles	
7.414	Unit Trusts	58.426
718.115	Unitised Insurance Policies	876.760
129.066	Other Managed Funds	227.382
854.595	**Total Pooled Investment Vehicles**	**1,162.568**
	Properties	
186.269	Freehold	278.250
21.210	Long Leasehold	27.920
207.479	**Total Properties**	**306.170**
	Cash Deposits	
26.154	Sterling	68.947
10.385	Foreign Currency	19.291
36.539	**Total Cash Deposits**	**88.238**
	Other Investment Balances	
-	Cash Backing Fixed Interest Futures	(37.130)
2.075	Currency Hedging	(0.154)
20.261	Debtors	18.547
(17.700)	Creditors	(16.242)
4.636	**Total Other Investment Balances**	**(34.979)**
2,661.515	**Total Investments**	**3,406.339**

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.

2004/05 £m	Investment Management Expenses	2005/06 £m
5.099	Administration, Management and Custody	5.923
0.060	Performance and Risk Measurement Services	0.055
0.116	Other Advisory Fees	0.079
5.275	**Total Investment Management Expenses**	**6.057**

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 2005 £m	Current Assets and Liabilities	31st March 2006 £m
3.836	Contributions and Recharges Due - Employees	4.136
13.760	Contributions and Recharges Due - Employers	14.609
(2.047)	Inland Revenue	(1.592)
(1.233)	Investment Management Expenses	(1.996)
(1.304)	Other	(1.798)
13.012	**Total Current Assets and Liabilities**	**13.359**

12. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

Additional years of service may 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.

Equitable Life has been experiencing significant financial difficulties over recent years. The problems 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 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.

As at 31st March 2006 the AVC funds provided by The Prudential were valued at £6.073 million (£5.097 million as at 31st March 2005) and the funds operated by Equitable Life were valued at £1.080 million (£1.207 million as at 31st March 2005). The funds are valued by each of the providers and take no account of accruals.

13. Analysis of Investments Over Managers

The Fund employs ten specialist external investment managers over a total of fifteen 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 currency managers were added during the year when the Fund invested into active currency management. The two managers are Barclays Global Investors and Record Currency Management.

In addition, the Fund has made a number of investments in Private Equity funds. So far, the Private Equity investment programme has been largely comprised of investments with HarbourVest. During the year, the Fund has made commitments to a range of global fund of funds managed by Pantheon Ventures and a secondary fund managed by Lexington Partners. In addition, the Fund also has a commitment to an Emerging Markets Private Equity fund managed by Capital International.

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

31st March 2005		Analysis of Investment Managers	31st March 2006	
£m	%		£m	%
		Investment Managers		
205.530	8	Arlington Property Investors	304.185	9
-	-	Barclays Global Investors	22.725	1
290.524	11	Capital International – Global Equities	386.672	11
73.496	3	Capital International – Emerging Markets	98.496	3
301.039	11	Fidelity Pensions Management	382.565	11
231.639	9	Henderson Global Investors	246.118	7
574.566	21	Legal and General Investment Management	642.666	19
269.205	10	Prudential M&G	289.951	9
-	-	Record Currency Management	23.162	1
215.503	8	Schroder Investment Management	322.766	10
468.825	18	UBS Global Asset Management	619.843	18
24.770	1	Private Equity	50.278	1
6.418	-	Managed In-House	16.912	-
2,661.515	**100**	**Total Investments**	**3,406.339**	**100**

14. Investment Performance

Equity markets rose strongly over the past year, continuing the impressive gains from the low point in markets in March 2003. This period of recovery followed three years of negative returns, during which Equity values declined significantly from the high point attained in early 2000.

In this environment, pension funds have been able to post good positive returns for the third year in succession, with all of the major asset classes rising. Robust corporate earnings and sustained merger and acquisition activity were the main drivers of the markets. This occurred despite global concerns about the rising oil price and interest rates.

The Fund's return for the year was 25.4%, which was 0.4% below the benchmark return of 25.8%.

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 7.3% per annum. This return is 0.5% above the benchmark return for the period of 6.8% per annum. It is also above both inflation at 2.5% per annum and the increase in average earnings at 3.9% 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 2006 the Fund held 125 June 2006 Long Gilt Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £14.150m and a market value of £13.956m. The net variation margin paid to 31st March 2006 was £0.194m.

As at 31st March 2006 the Fund held 211 June 2006 US Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £12.921m and a market value of £12.831m. The net variation margin paid to 31st March 2006 was £0.090m.

As at 31st March 2006 the Fund held 91 June 2006 Euro Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £7.185m and a market value of £7.082m. The net variation margin paid to 31st March 2006 was £0.103m.

As at 31st March 2006 the Fund held 5,000 Japanese Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £3.286m and a market value of £3.261m. The net variation margin paid to 31st March 2006 was £0.025m.

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2006, the Fund held a range of positions that together showed an unrealised loss of £0.154m. Of the twenty seven positions open as at 31st March 2006, six have been settled showing an overall profit of £0.139m. At the time of finalising the accounts twenty one of these positions remained open. As at 31st May 2005 these positions were showing an unrealised profit of £1.414m.

17. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £295.969m were out on loan as at 31st March 2006, against collateral of £315.075m. The breakdown of securities on loan as at 31st March 2006 is set out below:

31st March 2005 £m	Securities Lending	31st March 2006 £m
92.834	Fixed Interest Securities	57.447
6.813	Index-Linked Securities	75.423
33.099	UK Equities	9.350
34.794	Overseas Equities	153.749
167.540	**Total Securities Lending**	**295.969**

The value of collateral against which the securities were lent out as at 31st March 2006 is set out below:

31st March 2005 £m	Securities Lending - Collateral	31st March 2006 £m
17.146	Cash	19.011
128.794	Fixed Interest	212.503
29.855	Equities	83.561
175.795	**Total Collateral**	**315.075**

18. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2006, no commitments were outstanding.

19. Significant Holdings

As at 31st March 2006, 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 2006 this was valued at £642.666m and represented 18.8% 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:

Fund Type	£m
UK Equities	296.009
North American Equities	166.808
AAA Fixed Interest	91.143
Index-Linked Gilts	88.706

- Prudential Pensions Limited – Corporate Bond All Stocks Fund. As at 31st March 2006 this was valued at £232.079m and represented 6.8% of the total net assets of the Fund.

20. Outstanding Commitments

As at 31st March 2006 the Fund had thirteen outstanding commitments to Private Equity Investments:

	Initial Commitment		As at 31st March 2006		
Name of Fund	**Year**	**Value**	**Drawdowns Made**	**Commitment Outstanding**	
HarbourVest International Private Equity Partners IV	2002	$55.0m	$31.9m	$23.1m	£13.3m
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0m	$13.1m	$32.9m	£19.0m
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0m	$1.5m	$6.5m	£3.7m
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0m	$7.4m	$20.6m	£11.9m
Capital North East	2002	£1.5m	£0.9m	£0.6m	£0.6m
HarbourVest Partners 2004 Direct Fund	2004	$30.0m	$14.6m	$15.4m	£8.9m
Capital International Private Equity Fund IV	2004	$18.0m	$7.0m	$11.0m	£6.3m
HarbourVest International Private Equity Partners V - Partnership	2005	€48.0m	€2.9m	€45.1m	£31.5m
HarbourVest International Private Equity Partners V - Direct	2005	€20.0m	€1.0m	€19.0m	£13.3m
Pantheon Asia Fund IV	2005	$10.0m	$0.0m	$10.0m	£5.8m
Pantheon Europe Fund IV	2005	€25.0m	€1.9m	€23.1m	£16.1m
Pantheon USA Fund VI	2005	$30.0m	$2.8m	$27.2m	£15.7m
Lexington Capital Partners VI-B	2005	$30.0m	$1.4m	$28.6m	£16.5m
Henderson PFI Secondary Fund II	2005	£15.0m	£0.0m	£15.0m	£15.0m
Total Outstanding Commitments					**£177.6m**

The Sterling figures for the commitment outstanding as at 31st March 2006 are based on the exchange rate at the close of business on that date.

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 2005/06 South Tyneside Council charged the Tyne and Wear Pension Fund £0.783m (£0.917m in 2004/05) in respect of services provided, primarily financial, legal and information technology. Tyne and Wear Pension Fund charged South Tyneside Council £0.047m (£0.056m in 2004/05) 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 6th June 2005. A copy is available on the Fund’s website www.twpf.info.

Organisations Participating in the Fund as at 31st March 2006

Councils
Gateshead Council
Newcastle City Council
North Tyneside Council
South Tyneside Council
City of Sunderland 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
Northumberland Magistrates Court
Northumbria Police Authority
Northumbria University
South Tyneside College
South Tyneside Education Action Zone
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
Wearside College
Your Homes Newcastle

Resolution Bodies
Birtley Town Council
Blakelaw and North Fenham Parish
Blue Square Trading
Learning World
Nexus

Admitted Bodies
Age Concern Newcastle
Assessment and Qualifications Alliance
Association of North East Council
Balfour Beatty Power Networks Limited
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
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
Mitie Cleaning (North) Limited
Mitie PFI Limited
Morrison Facilities Services Limited 1

Admitted Bodies
Morrison Facilities Services Limited 2
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 Museums, Libraries and Archives Council
North East Regional Employers Organisation
Northern Arts Association
Northern Council for Further Education
Northern Counties School
Northern Grid
North Tyneside Child Care Enterprise
North Tyneside City Challenge
North Tyneside Disability Advice Centre
Northumbria Tourist Board
One North East
Ouseburn Trust
Passenger Transport Company
Percy Hedley Foundation
Port of Tyne Authority
Praxis Service
Raich Carter Sports Complex
Saint Mary Magdalene and Holy Jesus Trust
Saint Mary the Virgin Estate Management Charity
Scolarest
Search Project
Simonside Community Centre
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
Viacom Outdoor Limited
Walker Profiles (North East) Limited
Wallsend Citizens Advice Centre
Wallsend Peoples Centre
Workshops for the Adult Blind (Palatine Products)

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.

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.

Asset Management Revenue Account

An account the Council is required to maintain under capital accounting arrangements to reconcile with debt interest paid. The balance on the account is charged to the Consolidated Revenue Account.

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.

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 revenue 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.

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 Non-Realisable Reserves

These are the accounts set up under capital accounting and comprise of the Fixed Asset Restatement Account, the Capital Financing Account and the Government Grants Deferred Account. These reserves represent the revaluation and financing arrangements of the fixed asset portfolio owned by the Council at the balance sheet date and they cannot be used to support future spending plans.

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.

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.

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.

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.

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.

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.

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.

Intangible Fixed Assets

Capital expenditure relating to the procurement of computer software. The value is written out to the Consolidated Revenue Account over a five year period.

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 Consolidated Revenue 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.

Operating Leasing

This is a method of financing capital expenditure that allows the Local Authority to use, but not own an asset; a third party purchases the asset on behalf of the Authority. The Authority then pays the lessor an annual rental over the life of the asset. Expenditure financed by operational leases, where the Authority never owns the asset, does not count as capital expenditure.

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.

Non-Distributed Costs

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

Precept

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

Private Finance Initiative

A method of 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.

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.

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.