

STATEMENT OF ACCOUNTS

2024/2025



South Tyneside Council



South Tyneside Council

2004/05 Statement of Accounts

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Foreword by the Executive Director Resources

1. Introduction

This booklet contains the Council's principal financial statements for the year ended 31st March 2005. 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 Executive Director Resources (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. Budget Monitoring

Revenue and capital budget holders monitor expenditure and income on a monthly basis with quarterly reports being submitted to Cabinet.

3. Revenue Financial Summary 2004/05

The following table summarises the revenue spending of the Council's five directorates during 2004/05 and how this has been financed. The revised budget reflects the full liability facing the Council for the pension costs of current employees and the capital cost of assets utilised by the directorates. Overall these adjustments are cost neutral however they have the effect of transferring budgets out of Resources and into the other directorates.

The revised budget also reflects the movement in a number of earmarked reserves to meet expenditure on certain commitments that arose during the year. These reserves had been set aside by the Council in prior years to specifically support such expenditure. Minor changes to directorate responsibilities and revenue savings identified and built into the funding for the Medium Term Financial Plan 2005 to 2008 have also been reflected.

2004/05	Revenue	Financial	Original Budget	Revised Budget	Expenditure	Variance
Summary			£m	£m	£m	£m
	Corporate Development		3.902	4.784	4.534	-0.250
	Lifelong Learning and Leisure		102.124	105.954	105.492	-0.462
	Neighbourhood Services		25.157	27.967	26.990	-0.977
	Resources		12.472	2.430	-1.823	-4.253
	Social Care and Health		49.472	51.199	62.130	+10.931
	Total Revenue Spending		193.127	192.334	197.323	+4.989
	Revenue Support Grant		101.193	101.193	101.193	-
	National Non-Domestic Rates		42.556	42.556	42.556	-
	Contribution from Collection Fund		0.002	0.002	0.002	-
	Council Tax Payers		46.471	46.471	46.471	-
	Contribution to/from Forward Planning Reserve		-	-1.479	3.935	+5.414
	Contribution to/from other Earmarked Reserves		-	0.986	0.561	-0.425
	Contribution from Council General Reserves		2.905	2.605	2.605	-
	Total Revenue Funding		193.127	192.334	197.323	+4.989

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

Corporate Development

- A delay in the start of the Youth Choice Programme meant that the Council contribution of £0.200m towards this project would not be required until 2006/07.

Lifelong Learning and Leisure

- A review of Standards Fund Grant held by the Council delivered a one off benefit totalling £0.419m primarily from the use of grant to offset the Councils required contribution to outstanding commitments on the programme. An earmarked reserve has been created to offset any potential recovery action undertaken by the Government in respect of this grant.
- Demands for Home to School transport and out of borough placement exceeded our expectations leading to a £0.424m overspend.
- A review of our Community education service contributed £0.145m towards the directorate underspend position. A delay in staffing appointments and additional income primarily from contracts awarded to our adult and youth training service generated the remaining underspend.

Neighbourhood Services

- The Building Works trading activity generated profit of £0.398m on the back of increased turnover in the last three months of the year.
- The Waste Service underspent by £0.225m primarily because of a delay in the implementation of regulations relating to the disposal of electrical and electronic equipment which would have added to our cost burden.
- The Head of Strategic and Regulatory Services reported a national problem of recruiting to technical officer posts. Delays in appointments contributed towards a £0.382m underspend.

Resources

- A review of the Council's self-insurance arrangements has been undertaken which has released £1.500m of the unused contingency provision to the benefit of the revenue budget.
- The implementation of a new Council Tax and Benefits System and a change in the Housing Benefit Grant regime has significantly benefited the Council. We

received more Housing Subsidy than previously anticipated and have identified more overpayments for which the Council can retain any income recovered. These issues contributed towards a total underspend of £1.112m on the service.

- Investments and other income sources secured £1.361m additional income primarily from increased interest earned on our cash balances and a review of creditors.
- Corporate Governance delivered £0.297m in efficiencies from the maximisation of income and extinguishing the Legal Costs provision, which is no longer required due to an annual budget being created.
- A number of budget issues were identified during the year in respect of Asset Management. Several factors including a reduction in rental income, delays in the achievement of procurement savings and an acceleration of repairs and maintenance contributed towards a £0.586m overspend.

Social Care and Health

- The total overspend shown in the Table on page 5 has been investigated in detail and this investigation has shown that a gross overspend of £8.282m has accumulated over several years and is not the result of single in year budget pressures. The overspend can be analysed as follows:

2002/03	£0.880m
2003/04	£3.954m
2004/05	£3.448m
Total	£8.282m

- The difference between the above analysis and the gross figure of £10.931m, i.e. £2.649m, relates to an increase in the SCH bad debt provision which has been increased to cover outstanding invoices due. The PCT have indicated that certain invoices are in dispute and whilst the Council will be pursuing its case vigorously, there is a reasonable doubt about full recovery. This set aside is a more prudent

figure than would have resulted from use of the standard method of calculating such provisions.

- No prior year adjustment has been made in the accounts, as the extent of the annual variance is not considered material in the context of the overall revenue expenditure of the Council. Furthermore these prior year amounts are largely changes in accounting estimates arising from a detailed balance sheet review carried out as part of the year-end process.
- The Executive Director budget overspent by £0.287m primarily due to staff costs relating to an Interim Director appointment and recruitment.
- Children's Services has overspent by a total of £1.941m with the largest variance being in respect of out of borough placements (£2.411m) as a result of in borough fostering targets not being met. This was offset by net underspends elsewhere in this service of £0.470m.
- Adults Services has overspent by a total of £6.117m and these overspends are in the following main areas;
 - Business Services £0.905m, mainly from staffing costs;
 - Older People £2.104m, mainly as a result of reductions in income to support the ongoing costs of this service;
 - Learning Disabilities £2.082m, mainly as a result of increased commissioning combined with reductions in income to support the ongoing costs of this service;
 - Mental Health £0.922m, primarily as a result of the level of support from the Primary Care Trust reducing;
 - Physically Disabled £0.466m; due to the additional cost of the Direct Payment Team.
 - There was also a net underspending of £0.362m in Commissioning and Quality due to staff turnover savings.
- The Head of Resources and Business delivered a minor underspend of £0.063m from a variety of sources bringing the total overspend in Social Care and Health to the £8.282m above.

General

- The level of overall overspend in 2004/05 at £4.989m is both regrettable and unacceptable. Significant actions are being taken in 2005/06 to redress the situation and to replenish reserves to the previously planned level. The 2005/06 budget will be reviewed as will the Council's Medium Term Financial Plan in the Autumn of 2005.

4. Capital Financial Summary 2004/05

The table below summarises the capital spending of the Council's five directorates during 2004/05 and the capital funding the Council has used to finance this spending.

2004/05 Capital Financial Summary	Original	Revised	Actual	Carry	Spend
	Budget	Budget	Expenditure	Forward	Variance
	£m	£m	£m	Element	£m
Corporate Development	9.348	8.964	6.829	-2.132	-0.003
Lifelong Learning and Leisure	5.461	8.928	6.063	-2.807	-0.058
Neighbourhood Services	22.430	24.185	21.423	-3.205	0.443
Resources	4.999	9.128	11.939	0.217	2.594
Social Care and Health	7.790	3.096	2.368	-0.691	-0.037
Total Capital Spending	50.028	54.301	48.622	-8.618	2.939
Borrowing Approvals from Government	9.064	9.050	9.171	-	0.121
Unsupported Borrowing and Finance Leasing	-	3.727	3.727	-	-
Capital Receipts	10.542	12.490	12.148	-2.765	2.423
Funding from Housing Revenue Account	11.879	12.173	10.673	-1.895	0.395
Funding from General Fund Revenue and Earmarked Reserves	0.043	-	-	-	-
Government Grants	13.163	12.747	9.631	-3.116	-
European Grants and Other Contributions	5.337	4.114	3.272	-0.842	-
Total Capital Funding	50.028	54.301	48.622	-8.618	2.939

The most significant **capital carry forwards** arising in 2004/05 were as follows:

Corporate Development

- The most significant carry forward of £1.35m relates to the transformational agenda which was reliant upon the findings of consultants reports finalised later

than expected in 2004/05. Consequently a number of the projects have been deferred into 2005/06. The remainder is primarily due to commitments of expenditure in relation to the Quadrus building and Business Support Grants.

Lifelong Learning and Leisure

- The most significant item relates to £1.78m in government grant awarded directly to schools. This money can be spent in any of the next three years and the Council has little control over the timing of the expenditure. The late settlement of the final account for the City Learning Centre and a delay in the commencement of a lottery funded arts project in Hebburn accounts for much of the remaining balance.

Neighbourhood Services

- The Housing Investment Programme was set out and approved as a two-year programme. Some rephasing has resulted in a carry forward of £1.90m. This along with the second year of the programme will be completed during 2005/06.
- A rephasing of the Council's highways planned maintenance programme has also taken place.
- Planning permission has only recently been granted for the new Recycling Plant near Middlefields Depot (which is expected to be operational by April 2006) resulting in a £0.379m carry forward.
- A number of grants awarded to residents for the renovation of their private housing were still awaiting financial completion by the end of the year.

Resources

- A review of our planned maintenance programme during the year identified a number of projects that needed to be accelerated from 2005/06.

Social Care and Health

- The final account for the Surestart facility in Primrose will not now be settled until 2005/06.

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

Lifelong Learning and Leisure

- Negotiations over the lifting of a covenant arrangement on land to be used as part of the Boldon School Private Finance Initiative Redevelopment secured a small saving.
- The final account settlement on the redevelopment of the South Shields Museum was lower than anticipated.

Neighbourhood Services

- The directorate undertook additional high priority essential work to Council Housing funded from the balances held in the Major Repairs Reserve.

Resources

- £2.35m of the variance relates to a major redevelopment of Cleadon Park housing estate. This project seeks to transform the area and involves the clearance and demolition of existing housing stock to be replaced by a mixture of rented and private properties and a state of the art community facility. The whole scheme will be self-financing with the receipts from the sale of the land to property developers offsetting our costs. However the first of these proceeds was delayed until 2005/06 hence the reported overspend position for 2004/05. The phasing of the remaining programme is being reviewed to improve the cash flow position arising from the timing of receipts and the incurring of expenditure.
- £0.15m relates to various health and safety issues relating to the Hebburn riverside area and asbestos surveys of the Council's property portfolio. Additional expenditure was warranted to address safety concerns and minimise potential risks.

Social Care and Health

- A number of small amounts set aside to meet final accounts were not required.

5. Capital Monitoring Improvements

In 2003/04, 38% of the original programme budget was carried forward into 2004/05. This reflected delays and constraints within directorates, which affected the efficient delivery of our major capital schemes. Due to improvements in the monitoring arrangements put in place during 2004/05 the amount of carry forward into 2005/06 (including £3.782m that was previously planned as part of our Medium Term Financial Plan) has significantly reduced, standing at £12.400m, which represents only 25% of the original programmed budget. However even this figure is still too high and further improvements are planned for 2005/06:

- Profiling of expenditure and external income generation.
- Greater clarity surrounding expected outcomes.
- Reporting of non-financial information at all levels of the organisation.
- Introduction of post completion reviews.

6. 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 small deficit of £0.006m, which decreased the revenue balances to £3.397m at 31st March 2005. This will be used to support future years expenditure on Housing.

7. Tyne and Wear Pension Fund

The Council is the administering body for the Tyne and Wear Pension Fund. As at 31st March 2005, the Fund's net assets amounted to £2,675m – a rise of £319m on the previous year. This is the second 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.

8. Borrowing Facilities

During the year the Council was a net redeemer having repaid three loans totalling £15m to the Public Works Loans Board (PWLB). This was partially offset by one new loan of £4m.

9. Medium Term Prospects

During 2004/05 the Council continued to develop its three-year Medium Term Financial Plan (MTFP) and align more of our spending towards our priorities. Our consultation exercise was expanded to allow each of our proposed decisions to be scrutinised by our stakeholders before any final decision was taken. The resulting MTFP for 2005-2008 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 now 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 national increases in funding identified in the Government's comprehensive spending review and inflation predictions where this was not available.

The MTFP will now have to be updated to take full account of the revenue overspend in 2004/05. The Council still retains significant reserves (£14.129m for revenue, £8.865m for capital and £3.397m for housing revenue), more than enough to fund all realisable outstanding commitments and so remains financially solvent. However clearly the overspend will require actions to be taken to restore stability to the Council's budgetary position and to replenish reserves and this will be reflected in a reviewed and revised MTFP. This review will be completed in the Autumn of 2005.

10. Further Information

The accounts are published, upon receipt of the audit opinion, and are available at libraries throughout the Borough and on the Council's Website (south tyneside.info) at www.southtyneside.gov.uk.

If you know someone who would like this information in a different format, please contact the Communications Unit on [0191 424 7385](tel:01914247385).

Julie Alderson,
Executive Director Resources

Auditor's Report



Independent Auditor's Report to South Tyneside Council and Tyne and Wear Pension Fund

I have audited the statement of accounts on pages 35 to 100, which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 24 to 34. I have also audited the Pension Fund accounts, on pages 101 to 125, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 111 to 113.

This report is made solely to South Tyneside Council in accordance with Part 2 of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 16 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- The financial position of the Council and its income and expenditure for the year.
- The financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement of assurance on pages 18 to 23 reflects compliance with CIPFAs guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2nd April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures. My review is not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of Audit Opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

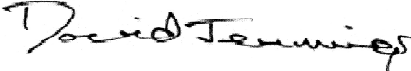
In my opinion the statement of accounts present fairly the financial position of South Tyneside Council as at 31st March 2005 and its income and expenditure for the year then ended.

Opinion on the Pension Fund Accounts

In my opinion the financial statements present fairly the financial transactions of the Tyne and Wear Pension Fund during the year ended 31st March 2005, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Audit Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed: 

Date: **28th October 2005**

David Jennings, Relationship Manager and District Auditor

**Audit Commission
Nicholls House
Metro Centre
Gateshead
Tyne and Wear
NE11 9BR**

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 currently the Executive Director Resources.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The responsibilities of the Executive Director Resources

The Executive Director Resources is currently responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2005. The Executive Director Resources is also the responsible officer for the proper administration of the financial records of the Tyne and Wear Pension Fund.

In preparing this Statement of Accounts, the Executive Director Resources has;

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Executive Director Resources 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 2005 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 2005, and its income and expenditure for the year ended 31st March 2005.



Signed:

Date: 27th October 2005

Jul

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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 27th October 2005.



Signed:

Date: 27th October 2005

Councillor Paul Waggott, Chair of General Purposes Committee

South Tyneside Council and Tyne and Wear Pension Fund Statement of Assurance 2004/05

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.

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. In discharging this overall responsibility the Council has designated an officer as the Chief Financial Officer for the purposes of S151 of the Local Government Act 1972. During 2004/05 and for most of the period up to the date of approval of the accounts the designated S151 officer was the Executive Director Resources (EDR).

A Corporate Assurance Review Team (CART) has been established which, under the supervision of the EDR, is responsible for reviewing the Council's corporate governance framework and the effectiveness of the system of internal control.

Corporate Governance

The Council has an established corporate governance framework, which follows the recommendations by CIPFA/SOLACE, identifying the principles of corporate

governance: openness; inclusivity; integrity and accountability, across the various dimensions of the Council's business. The framework was reviewed and agreed by the CART in January 2005. The review assessed the adequacy and effectiveness of the arrangements and the Council's compliance with the framework. On the basis of the CART's work the Council is satisfied that the framework is operating effectively. The CART proposes over the coming year to seek to further enhance corporate governance arrangements.

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 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 and 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 (**Workforce Development Plan**);
- 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 Risk Management and Internal Audit Teams (IAT) on assurances and control improvements, it also monitors the teams performance;
- Pensions Committee oversees the corporate governance arrangements for the Tyne and Wear Pension Fund. The committee receives reports from IAT 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 CART. The review is informed by the work of the IAT 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:

Establishing 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;
- An established framework is in place to ensure that the Council operates legally and that statutory obligations are met;
- The Council has designated an officer as the 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. During 2004/05 the designated officer was the EDR;
- 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.

Identifying principal risks to achieve objectives:

- The Council has systems in place for identifying and evaluating significant strategic and operational risks;
- 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.

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.

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;
- The IAT have completed a plan of risk-assessed audits of the Council's financial and other systems and has processes in place to follow up recommendations and ensure improvements are implemented. The IAT has concluded that they can give reasonable assurance that internal controls were operating effectively across the Council during the 2004/05;
- Finance managers have carried out a self-assessment of the adequacy of a selection of key internal financial controls and have produced action plans to improve controls where appropriate.

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

- Effective procedures are in place to enable control weaknesses to be reported to relevant parties.

Continuous improvement of the system of internal control:

- Effective mechanisms are in operation to ensure that appropriate action is taken to address and monitor the implementation of identified control weaknesses.

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 2005, and up to the date of approval of the annual report and accounts on 27th July 2005. However, the review has identified several areas where the control environment needs to be improved as detailed below:

- During the preparation of the accounts for the year ended 31st March 2005 a significant overspend against budget, that had not been previously forecast, was identified within Social Care and Health. As a result our procedures to ensure the reliability of actual and forecast expenditure recorded and reported against the budget are currently being overhauled to ensure that this cannot happen again;
- The Council has a Strategic Procurement Team, which carries out a robust pre-qualification review of contractor information for all procurements. However, where procurements are carried out within directorates, this process may not always be consistently applied thereby exposing the Council to potential risks. The Strategic Procurement Team is currently establishing a control/monitoring framework to promote good practice across the Council;
- The Council does not have a consistent approach to the management of projects that incorporates risk management. This has been recognised as a weakness and the development and implementation of a consistent project management process is a 'Performing Together' action. A project management 'toolkit' has been produced and training of over 100 officers started in June 2005;
- The Council is on target to meet the requirements of the Civil Contingencies Act. However, full implementation and embedding of the Business Continuity Strategy is required to strengthen the resilience of the Council. Progress has been made towards its implementation and is included as actions within 'Performing Together' and the Corporate Assurance Team's operational plan;
- The Council's existing assurance framework and control environment is to be strengthened by further development of the self-assurance process from Managers to cover both key financial and non-financial controls; and

- The Council currently does not have a consistent approach to the formation and operation of Partnerships that ensures that the Council's risks in relation to partnerships are identified and managed. The need for improvement in this area has been recognised and is included as a 'Performing Together' action.

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

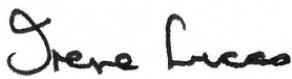
Signed:



Date: 27th October 2005

Councillor Paul Waggott, Leader of the Council

Signed:



Date: 27th October 2005

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 2004](#).

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 2005 for 2004/05), and approved by a resolution of the General Purposes Committee, no later than 31st July 2005.

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 certain 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 £3.863m** 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 MTFP from 2005/06.

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. As a consequence of the final outturn for 2004/05 this reserve has been almost fully utilised in the year. Plans are underway in 2005/06 to generate resources that will be used to replace these reserves.

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 £5.174m.

Provisions are maintained for two primary purposes being insurance liabilities and costs 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 £1.500m 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. An additional £3.726m was contributed towards our bad debt provisions in 2004/05.

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. 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 2004 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 19% in 2004 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 capital expenditure and receipts.

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. Non-operational assets are valued at either historical cost in the case of work in progress or open market value in the case of 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**.

The capital charges made to service revenue accounts, central support and trading services, equate to the sum of impairment, depreciation, deferred charges written off and a notional interest rate charge of 3.5% per annum (4.8% for assets valued at historical cost). The overall effect of capital charges is neutral to the Council Tax Payer.

5. Deferred Charges

Deferred charges represent expenditure, which may be properly capitalised, but does not result in the creation or enhancement of a fixed asset.

Deferred charges have under the capital accounting rules, been taken to the Fixed Asset Restatement Account for assets no longer in the Authority's ownership, or to

the Capital Financing Account in respect of other assets.

6. Receipts from Sale of Fixed Assets

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

Usable 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.

7. Government Grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account. In the case of capital grants the income has been credited to a Government Grants Deferred Account, in respect of grant relating to depreciating assets, or to the Capital Financing Account in relation to assets that do not attract depreciation charges. 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 also unringfenced 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.

8. 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.

9. 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.

10. Leasing

The Authority operates a number of operating leases for equipment. This is a means of procuring a capital asset and 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. From 2004/05 any lease not in compliance with SSAP21 has been accounted for as a finance lease. Prior to this date leasing has been accounted for as operating leases on the grounds of materiality.

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.

11. Private Finance Initiative (PFI)

The Council is committed to utilising all procurement options at its disposal including Private Finance Initiative where appropriate. Whilst at 31st March 2005 no contracts were in place, in April we had signed a contract for the redevelopment of a secondary school. A second deal relating to our street lighting stock is also well developed with a closure date expected of September 2005.

During 2004/05 the Authority was also successful in joining the first wave of the Governments Building Schools for the Future programme, which will ultimately lead to the redevelopment of all of our secondary schools. The exact funding package, totalling £136m, has yet to be clarified although it is expected that PFI will form part of the overall sum.

PFI deals will be accounted for in accordance with FRS5 Application Note F, which 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 will be disclosed in a note to the Consolidated Revenue Account.

12. 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.

13. Stocks and Work in Progress

Work in progress is the cost price of work carried out by Neighbourhood Services Trading Services that is rechargeable to outside bodies or persons and had not been completed at 31st March 2005.

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.

14. 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.

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.

15. 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 & Wear Pension Fund. In 2004/05 the amount reflected in the consolidated revenue account is £5.51m more than the amount paid over (£2.80m in 2003/04) whilst our liability rose by £56.64m (42%). These costs are ultimately removed from the account so that there is no

additional cost to the Council Tax Payer.

16. Group Accounts

The Council has an option to report its relationships with other organisations under separate Group Accounts in 2004/05. 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.

17. External Investments

Investments are valued at the lower of cost price or current market value. The risk from a revaluation in our investment in the Airport is fully accounted for by the Newcastle Airport Capital Reserve. Movement in the value of other investments are not material.

18. Accruals of Income and Expenditure

For capital and revenue transactions the Council operates a system of income and converted payments.

At the year-end, payments are converted to expenditure by the addition of amounts

representing unpaid creditors as at 31st March. The systems allow for the accrual of debtors and creditors for three weeks after the year-end. The efficiency and effectiveness of the operation of the accruals system and processes will however now be reviewed in light of the revenue overspend for 2004/05 and the extent to which accounting estimates in prior years impacted on that overspend.

This accrual concept is in accordance with SSAP2. 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 2004/05 there were 52 weeks.
- **Public Utility Invoices** - no apportionment is made of public utility invoices where the period covered by the invoice overlaps the year-end. The charges included in the accounts relate to twelve months, or four quarters.
- **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. 2004/05 had 48 paying weeks.

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

19. Value Added Tax

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

20. 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 2005 the only debt held by the Tyne and Wear County Debt Administration Fund related to the Probation Service and the Airport Residual Debt.

The Fund's balance sheet has been consolidated with that of the Council, although the Fund debt and the Council's debt are operated as discrete, separate entities.

21. Changes to Accounting Practices

In 2004/05 the Council changed its policy so that the Housing Revenue Account is charged the full share of the Councils backdated pension costs based upon its proportion of current employee contributions to the Tyne and Wear Pension Fund. This is deemed more appropriate than in previous years where the account was only charged for a nominal sum in respect of these costs. An additional £0.413m has been charged as a result of this change in policy, which is not a material adjustment.

The discount rate used in the Pension liabilities calculations has been changed from a rate determined each year by the Governments Actuaries Department to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. This has resulted in a significant increase in liabilities and the current service costs charged to the accounts although the actuary has not provided comparative figures that allow for the exact impact on either the current or prior years figures to be assessed.

Consolidated Revenue Account year ended 31st March 2005

2003/04	2004/05 Consolidated Revenue Account	2004/05	2004/05	2004/05
Net		Expenditure	Income	Net
Expenditure		Expenditure	Income	Expenditure
£m		£m	£m	£m
General Fund Services				
2.338	Central Services to the Public (see note 2)	18.806	(14.948)	3.858
27.527	Cultural, Environmental and Planning Services (see note 2)	49.073	(15.053)	34.020
88.340	Education Services	126.819	(35.180)	91.639
9.094	Highways, Roads and Transport Services	10.031	(0.877)	9.154
2.834	Housing General Fund Services	46.293	(42.575)	3.718
50.146	Social Services (see notes 2, 3 and 14)	94.060	(30.250)	63.810
0.756	Court Services	1.096	(0.243)	0.853
5.494	Corporate and Democratic Core	10.019	(4.290)	5.729
1.373	Non Distributed Cost	2.610	(0.658)	1.952
-	Equal Pay Compensation (see note 5)	3.614	-	3.614
0.209	Contribution to Bad Debt (Non Service)	-	-	-
188.111	Cost of General Fund Services	362.421	(144.074)	218.347
15.444	Housing Revenue Account	62.931	(43.949)	18.982
203.555	Net Cost of all Services	425.352	(188.023)	237.329
Other Operating Costs				
6.572	Passenger Transport Authority Precept			7.017
0.419	Environmental Agency Precept			0.048
(1.079)	(Surplus)/Deficit from Trading Operations (see note 9)			(0.554)
(14.425)	Asset Management Revenue Account Balance (see note 6)			(19.981)
-	Contribution to Housing Pool			17.549
0.232	(Gains)/Losses on Borrowing Transactions			0.161
20.600	Interest on Pension Liabilities			23.360

(2.313)	Interest and Investment Income	(3.489)
(13.400)	Expected Return on Pension Assets	(16.080)
200.161	Net Operating Expenditure c/fwd	245.360
200.161	Net Operating Expenditure b/fwd	245.360
Appropriations		
0.919	Transfer to/(from) Housing Revenue Account	(0.006)
3.670	Contributions to/(from) Earmarked Reserves (see note 22)	(4.486)
(14.612)	Contributions to/(from) Capital Reserves	(8.709)
0.728	Revenue Contributions to Capital	1.393
(2.229)	Contributions to/(from) Major Repairs Reserve	(5.902)
(2.800)	Contributions to/(from) Pension Reserve	(5.510)
-	Transfer from Useable Capital Receipts	(17.549)
185.837	Amount to be met from Government Grants and Local Tax Payers	204.591
Sources of Finance		
(44.056)	Council Tax Receipts from Collection Fund	(46.471)
(0.172)	Other Collection Fund	(0.002)
(92.330)	Revenue Support Grant	(101.193)
-	Unringfenced Grants (see note 2)	(11.764)
(44.731)	Contribution from Non-Domestic Rate Pool	(42.556)
4.548	Deficit/(Surplus) for the Year	2.605
(8.672)	General Fund Balance at Start of Year	(4.124)
(4.124)	General Fund Balance at End of Year	(1.519)

Notes to the Consolidated Revenue Account

1. Best Value Accounting Code of Practice

The Consolidated Revenue Account has been compiled under the 2004 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 £11.764m 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 and Social Services have been most affected by this revised presentation.

3. Social Services

In addition to the removal of unringfenced grants our contributions to bad debt provisions has increased year on year spending on Social Services by £2.649m in order to prudently cover invoices issued to South Tyneside Primary Care Trust (PCT) and which the PCT are disputing, although the Council is pursuing collection

vigorously.

4. Prior Period Adjustments

There are no prior period adjustments included within these accounts.

5. Equal Pay Compensation Payments

The Authority received permission from the Government to capitalise these payments. However as no asset is created the costs are written out to revenue in the year they are paid. As the payments are material but one-off in nature the cost has not been shown against individual services.

6. Transactions on the Asset Management Revenue Account

The transactions for the year were as follows:

2003/04 £m	Asset Management Revenue Account	2004/05 £m
	Income	
(19.038)	Capital Charges (General Fund)	(15.740)
(36.459)	Capital Charges (Housing Revenue Account)	(37.699)
(0.632)	Transfer from Government Grant Deferred Account	(1.926)
-	Interest Received from Other Local Authority	(0.025)
(56.129)	Total Income	(55.390)
	Expenditure	
19.091	Provision for Depreciation	23.429
11.098	Impairment Charges	0.579
11.490	External Interest on Borrowing	11.387
0.025	Other Interest Charges	0.014
41.704	Total Expenditure	35.409

(14.425) Balance to Consolidated Revenue Account

(19.981)

7. 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 2004/05 the notional interest rate used equated to 3.50% (3.50% in 2003/04) for all assets except those held at historical cost where the rate was 4.80% (4.625% in 2003/04).

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.

8. 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 leases by category of asset.

2003/04 £m	Leasing	2004/05 £m
	Other Land and Buildings	
0.050	Finance Lease Payments	0.050
0.037	Operating Lease Rentals and Commissions	0.043
	Vehicles and Equipment	
1.040	Operating Lease Rentals and Commissions	1.196
-	Finance Lease Payments	0.021
1.127	Total Expenditure on Leasing	1.310

The Council also acts as lessor for a number of properties and land that it owns. In 2004/05 this generated income of £12.992m (£13.824m in 2003/04) from operating leases and £0.437m (£0.433m in 2003/04) from finance leases.

9. 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.

2003/04 Turnover £m	Neighbourhood Services Trading Services Turnover Statement	2004/05 Turnover £m
(27.116)	Building Works	(28.634)
(0.453)	Security Services	(0.276)
(4.538)	Highways Works	(4.923)
(4.147)	Cleaning of Buildings	(2.886)
(36.254)	Total	(36.719)

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 and Leisure Directorate have 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 given below. Company dividends paid to the Council arising from its shareholding of Newcastle International Airport Limited Holding Company are also shown.

2003/04 (Surplus) / Deficit £m	Trading Services Deficit / (Surplus)	2004/05 (Surplus) / Deficit £m
	Neighbourhood Services	
(0.567)	Building Works	(0.827)
0.020	Security Services	0.010
(0.126)	Highways Works	(0.035)
(0.045)	Cleaning of Buildings	(0.125)
(0.128)	South Shields Open Air Market	(0.037)
(0.411)	Other Trading Services	(0.186)
	Lifelong Learning and Leisure	
(0.058)	School Catering	(0.062)
	Resources	
(0.170)	Newcastle Airport Dividend	(0.278)
(1.485)	Actual Trading Surplus	(1.540)
0.406	Trading Services Share of Current Pension Cost	1.301
	Liabilities	
	- Traded Services Share of Insurance Provision Income	(0.315)

(1.079) Trading Surplus in Consolidated Revenue Account (0.554)

Under the new 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.

10. Section 137 Expenditure

The Local Government Act 2000 granted new powers to Authorities to promote well-being in their area. With effect from 18th October 2000 most of the powers contained in Section 137 of the Local Government Act 1972 (as amended) were removed.

It is nevertheless still a requirement to disclose payments made under Section 137 primarily relating to revenue grants. Expenditure cannot exceed £3.80 per head of population. Expenditure in 2004/05 was £0.466m (£0.449m in 2003/04) against a limit of £0.576m (£0.581m in 2003/04).

11. 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.

2003/04 £m	Publicity Account	2004/05 £m
0.249	Press and Promotions	0.221
0.835	Recruitment Advertising	0.928
1.084	Total Expenditure on Publicity	1.149

12. 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 loss on the chargeable activity has been met from surpluses retained from previous years.

2003/04	Building Control Regulations Charging Account	2004/05	2004/05	2004/05
Total		Chargeabl	Non-	Total
£m		e	Chargeabl	£m
		£m	e	
			£m	
0.534	Employees	0.255	0.361	0.616
0.084	Premises	0.010	0.012	0.022
0.106	Supplies and Services	0.077	0.025	0.102
0.010	Transport	0.007	0.003	0.010
0.120	Central Services Charges	0.068	0.080	0.148
0.854	Total Expenditure	0.417	0.481	0.898
(0.387)	Building Regulation Charges	(0.395)	-	(0.395)
(0.008)	Miscellaneous Income	-	(0.005)	(0.005)
(0.395)	Total Income	(0.395)	(0.005)	(0.400)
0.459	(Surplus)/Deficit for the	0.022	0.476	0.498
	Year			

13. Local Authority (Goods and Services) Act 1970

The Council provided a number of services to other public bodies under the provisions of the Local Authority (Goods and Services) Act 1970. None of the works gave rise to material income.

14. Pooled Budgets

The Council has four 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.

The Council operates as the lead body for three 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 below:

2003/04 Total Council Share £m	Pooled Budget	Lead Body	2004/05 Gross Income £m	2004/05 Gross Cost £m	2004/05 Council Share of Net Cost £m
0.445	Joint Equipment Store	Council	(0.647)	1.036	0.389
0.273	Community Mental Health Team	South Tyneside PCT	(1.498)	1.498	0.562
0.101	Community Learning Disabilities Team	Council	(0.203)	0.402	0.199
-	Balgownie Employment and Education Team	Council	(0.065)	0.467	0.402
0.819	Totals		(2.413)	3.403	1.552

In addition to these pooled arrangements the Directorate works in close partnership with the PCT on the delivery of nursing and continuing care. The Directorate also work 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.

15. Local Government Pension Scheme Costs

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

Disclosures of pension costs in the accounts are in line with FRS17. The Net Operating Expenditure includes the full cost of retirement benefits for both current and past service employment. It also includes any gains or losses on curtailments or settlements and the net return on the assets and liabilities of the Fund. 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.

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.

Components of Defined Benefit Cost

The following table represents an analysis of the value of the appropriation made to the Consolidated Revenue Account as a result of FRS17:

2003/04 £m	Defined Benefit Cost	2004/05 £m
(16.10)	Contributions paid	(17.93)
10.40	Current service cost	15.19
1.30	Past service cost	0.97
-	Settlements/Curtailments (gains) or losses	-
(13.40)	Expected return on Fund assets	(16.08)
20.63	Interest on pension scheme liabilities	23.36

2.83	Value of Appropriation in Consolidated Revenue Account	5.51
(24.90)	Actuarial (gain)/loss	51.13
(22.07)	Overall Charge/(Income) to Pension Liability	56.64
155.90	(Surplus)/deficit in the Fund at beginning of the period	133.83
133.83	(Surplus)/deficit in the Fund at the end of period	190.47

Reconciliation of the closing deficit to the Council's share of the estimated assets and liabilities of the Fund can be found in note 25 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 2004/05, 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 £0.861m (£0.428m in 2003/04), which the Council has elected to pay in the year.

16. 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. In 2004/05 the rate of employers contribution increased by 0.1%. The relevant details are given below:

2003/04		Teachers Pension Scheme Contributions	2004/05	
Employer's Contribution	Added Years		Employer's Contribution	Added Years
£6.0m	£1.2m	Amount Paid	£6.2m	£1.3m
13.4%	2.7%	Percentage of pensionable pay	13.5%	2.7%

17. Minimum Revenue Provision

Following the implementation of the Prudential Code for Capital there is no longer a requirement to make a Minimum Revenue Provision in respect of the Housing Revenue Account. The totals set aside are as follows:

2003/04	Minimum Revenue Provision	2004/05
£m		£m
2.130	Housing Revenue Account (2% of Credit Ceiling)	-
0.032	Further Education Funding Council	0.032
3.260	All Other Services (4% of Credit Ceiling)	3.232
5.422	Total Minimum Revenue Provision	3.264

18. Members' Allowances

The following basic and special responsibility allowances were paid in respect of the 54 elected Councilors 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 2004/05 have been published on the Council's website.

	2003/04	2004/05
	£m	£m
Total Members' Basic and Special Responsibility Allowances paid	0.594	0.601

19. Officers' Emoluments

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

	Number of Employees	
	2003/04	2004/05
£50,000-£59,999	29	40
£60,000-£69,999	4	6
£70,000-£79,999	-	2
£80,000-£89,999	3	3
£90,000-£99,999	1	-
£100,000-£109,999	-	-
£110,000-£119,999	1	2

20. Related Party Transactions

Under FRS8 the Council is required to disclose material transactions with related parties not disclosed elsewhere in these accounts. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to act freely.

From examinations of returns completed by Elected Members and Executive Directors, together with details included in the Register of Members Interests, there are no cases where it is felt disclosure is required under the stated Standard.

Central Government has effective control over the general operations of the Council, as it is responsible for setting the statutory framework within which the Council operates and for providing the majority of funding. In addition to the Revenue Support Grant, Non-Domestic Rate income and other unringfenced general grants shown in the Consolidated Revenue Account, the Council received £92.345m (£99.562m in 2003/04) in respect of Government support for specific activities.

The Authority administers the Tyne and Wear Pension Fund and charged £0.917m (£0.916m in 2003/04) in respect of support services provided – primarily financial, legal and information technology. 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.

21. Audit Commission Fees

The Audit Commission is the regulatory body that controls the financial actions of the Authority. The following table shows the fees paid for the various services received 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.

2003/04	Audit Commission Fees	2004/05
£m		£m
0.330	External Audit Services	0.357
0.071	Statutory Inspection Services	0.076
0.149	Grant Claims Audit	0.142
0.012	Non Statutory Services	-
0.562	Total Audit Commission Fees	0.575

In addition to the above, £0.034m (£0.066m in 2003/04) was also paid to the Audit Commission 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 later in these accounts.

22. Movement in Earmarked Reserves

The movement in earmarked reserves is explained in the Statement of Total Movements in Reserves.

Housing Revenue Account year ended 31st March 2005

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.

2003/04 £m	Housing Revenue Account	2004/05 £m
	Income	
(41.692)	Rent Income from Dwellings	(41.454)
(0.846)	Rent Income from Non-Dwellings	(0.853)
(1.658)	Charges for Services and Facilities	(1.561)
(0.898)	Contributions towards Expenditure	(0.830)
(0.334)	General Fund Contributions (Amenities Shared by the Community)	(0.390)
	- Subsidy Receivable (Housing Element)	-
(26.659)	Subsidy Receivable (Rent-Rebate Element)	(0.010)
(0.067)	Housing Benefit Transfers from General Fund	-
	- Transfers from Housing Repairs Account	(0.042)
(72.154)	Total Income	(45.140)
	Expenditure	
9.282	Repairs and Maintenance	10.318
0.866	Contribution to Housing Repairs Account	-
6.063	Supervision and Management (General)	6.981
3.641	Supervision and Management (Special Services)	4.067
0.344	Supervision and Management (Contribution to Corporate Costs)	0.837
0.921	Rents, Rates, Taxes and Other Charges	1.092
3.305	Negative Subsidy Payable to the Secretary of State	3.601
26.409	Rent Rebates	-
0.423	Increased Provision for Bad or Doubtful debts	0.457
17.565	Cost of Capital Charge	19.962
11.750	Depreciation of Fixed Assets (Dwellings)	15.245

1.417	Depreciation of Fixed Assets (Other)	1.536
5.727	Impairment of Fixed Assets	0.438
0.568	Amortisation of Deferred Charges	0.519
0.037	Debt Management Costs	0.038
88.318	Total Expenditure	65.091
16.164	Net Cost of Services c/fwd	19.951
16.164	Net Cost of Services b/fwd	19.951
	Interest Adjustments	
(23.860)	Asset Management Revenue Account (Capital Asset Charges Accounting Adjustment)	(20.918)
6.142	Asset Management Revenue Account (Loan Charges Interest)	5.763
0.388	Amortised Premiums	0.332
(0.156)	Amortised Discounts	(0.171)
(0.076)	HRA Investment Income: Mortgage Interest	(0.051)
(0.150)	Cash Balances Interest	(0.283)
(17.712)	Total Interest Adjustments	(15.328)
(1.548)	Net Operating Expenditure / (Surplus)	4.623
	Appropriations	
-	Contributions to/(from) Pensions Reserve	(0.108)
0.728	Revenue Contribution to Capital Expenditure	1.393
2.130	HRA Contribution to Minimum Revenue Provision	-
(2.229)	Transfer from Major Repairs Reserve	(5.902)
0.629	Total Appropriations	(4.617)
(0.919)	Housing Revenue Account Deficit / (Surplus) for the Year	0.006
(2.484)	Balance brought forward 1st April	(3.403)
(3.403)	Housing Revenue Account Balance carried forward at 31st March	(3.397)

31 st March 2004 £m	Housing Revenue Account Balances	31 st March 2005 £m
(0.137)	Tenant Participation Earmarked Reserve	(0.100)
	- Restructure Costs Earmarked Reserve	(0.320)
(0.100)	Capital Programme Earmarked Reserve	(1.000)
(1.000)	Housing Revenue Account Strategic Reserve	(1.000)
(2.166)	Housing Revenue Account Working Balance	(0.977)
(3.403)	Housing Revenue Account Balance carried forward at 31st March	(3.397)

Notes to the Housing Revenue Account

1. Housing Stock

The Council was responsible for managing an average of 19,829 dwellings in 2004/05. The variations during the year were:

Housing Stock Movements	2004/05
Opening Balance	
Housing Revenue Account	20,214
Housing Revenue Account Shared Ownership	4
Other Services	10
Opening Balance as at 1st April 2004	20,228
Less Reductions	
Sales Right to Buy	(731)
Conversion	-
Demolition / Redevelopment	(77)
	(808)
Add Additions	
Housing Reinstated	9
Net Reduction in Stock	(799)

Closing Balance	
Housing Revenue Account	19,415
Housing Revenue Account Shared Ownership	4
Other Services	10
Closing Balance as at 31st March 2005	19,429

Analysis of Housing Stock Type	31st March 2005
Houses	11,640
Bungalows	2,840
Flats and Maisonettes	4,949
Total Housing Stock as at 31st March 2005	19,429

2. Movement of Fixed Assets 2004/05

	Operational Assets		Non-operational Assets			Total
	Social Housing Dwellings	Garages	Open Market Value Land	Existing use value - Other assets	Vehicles, Plant and Equipment	
	£m	£m	£m	£m	£m	£m
Gross book value at 31st March 2004	613.318	2.728	22.500	3.633	7.258	649.437
Revaluations	-	-	13.012	(3.229)	-	9.783
Gross book value at 1st April 2004	613.318	2.728	35.512	0.404	7.258	659.220
Impairment	(5.727)	-	-	-	-	(5.727)
Depreciation	(39.695)	(0.276)	-	(0.314)	(3.295)	(43.580)
Net book value at 1st April 2004	567.896	2.452	35.512	0.090	3.963	609.913
Gross book value at 1st April 2004	613.318	2.728	35.512	0.404	7.258	659.220

Additions	10.511	-	0.273	-	2.289	13.073
Sales	(25.189)	-	(3.874)	-	-	(29.063)
Demolitions and Other	(0.780)	(0.001)	-	-	-	(0.781)
Material Revaluation in Year	102.248	-	-	-	-	102.248
Gross book value at 31st March 2005	700.108	2.727	31.911	0.404	9.547	744.697
Impairment	(4.617)	-	-	-	-	(4.617)
Depreciation	(53.233)	(0.377)	-	(0.404)	(4.640)	(58.654)
Net book value at 31st March 2005	642.258	2.350	31.911	-	4.907	681.426

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 Land Registry has calculated that housing prices in the Borough rose by more than 19% in 2004. Applying this to Council dwellings increases their book value by £102m (£102m in 2003/04), 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 2003 £m	1st April 2004 £m
Vacant Possession Value	768.149	873.686
Existing Use Social Housing Value	(499.297)	(567.896)
Economic Cost to the Government	268.852	305.790

4. Major Repairs Reserve

Major Repairs Reserve	£m
Balance at 1st April 2004	(0.822)
Depreciation All HRA Assets	(16.781)
Capital Expenditure from MRA (Houses)	9.280
Transfer to Housing Revenue Account	5.902
Balance at 31st March 2005	(2.421)

5. Housing Repairs Account Provision

Housing Repairs Account Provision	£m
Balance at 1st April 2004	(1.834)
Transfer to Support Capital Programme	-
Transfer to Housing Revenue Account	0.042
Transfer from Housing Revenue Account	-
Balance at 31st March 2005	(1.792)

6. Housing Capital Expenditure Summary

Spending 2003/04 £m	Capital Expenditure	Spending 2004/05 £m
	Expenditure	
12.148	Operational Dwellings	10.511
0.098	Demolition and Area Redevelopment	0.273
1.704	Other Assets	2.289
0.568	Deferred Charges	0.518
14.518	Total Spending Accruals Basis	13.591
0.217	Add Capital Creditors (net)	0.147
14.735	Total Spending Cash Basis	13.738

Funding 2003/04 £m	Capital Funding	Funding 2004/05 £m
	Funding Source	
(10.116)	Major Repairs Reserve	(9.280)
(3.182)	Borrowing	(2.326)
(0.599)	Capital Receipts	(0.739)
(0.728)	Revenue Contributions	(1.393)
(0.110)	Grants	-

(14.735) Total Funding**(13.738)****7. Capital Receipts Summary**

2003/04		Capital Receipts Summary	2004/05	
Nos.	£m		Nos.	£m
1,016	(25.712)	House Sales	731	(23.982)
1	(0.028)	Shared Ownership Sales	-	-
-	-	- Other Property Sale	-	-
-	(0.075)	Land Sales	-	(3.461)
-	(0.365)	Mortgage Principal Repayments	-	(0.291)
-	(0.151)	Discount Repayments	-	(0.206)
(26.331)		Total Receipts for the Year	(27.940)	

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 2004/05. 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	(0.171)	Interest adjustments-amortised discounts
Mortgage Interest	(0.051)	Interest adjustments-mortgage interest

Interest on Cash Balances	(0.283)	Interest adjustments-cash balances interest
Total Interest Adjustments	(0.505)	
Transfer from the Major Repairs Reserve		
Dwellings Depreciation > Major Repairs Allowance	(4.366)	Appropriations
Depreciation - Other Assets	(1.536)	Appropriations
Total Item eight Credit 2004/05	(6.407)	
	£m	Revenue Account Item

Debit Items		
Capital Asset Charges		
3.5% of value Operational Assets	19.962	Net cost of services-capital asset charges
Impairment Charges	0.438	Net cost of services-impairments
Amortisation of Deferred Charges	0.519	Net cost of services-deferred charges
Total Capital Charges	20.919	
Depreciation Charges		
Dwellings	15.245	Net cost of services-depreciation
Other Assets	1.536	Net cost of services-depreciation
Total Depreciation Charges	16.781	
Debt Repayment and Management Costs		
Debt Management Expenses	0.038	Net cost of services-debt management
Amortised Premiums	0.332	Interest adjustments-amortised premiums
Total Debt Repayment and Management	0.370	
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	5.763	Interest adjustments loan
Financing Requirement		charges interest
Less Capital Asset Charges	(20.919)	Interest adjustments loan
		charges interest

Total Adjustments	(15.156)
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Transfer to Major Repairs Reserve

Reserve

Only applies if depreciation for operational assets is less than the Major Repairs Allowance - Appropriations

Total Transfer to M.R.A.	-
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Total Item eight Debit 2004/05	22.914
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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 values because of house price inflation for 2004/05, 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		Non-operational Assets					Total
Existing Use Value Housing Dwellings	Existing Use Value Garages	Existing Use Value Shops	Open Market Value Land	Vehicles, Plant And Equipment	Infra-Structure		
£m	£m	£m	£m	£m	£m	£m	

Balance at 1st April 2004	(39.694)	(0.276)	(0.314)	-	(3.295)	-	(43.579)
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Depreciation for the year	(15.245)	(0.101)	(0.090)	-	(1.345)	-	(16.781)
Depreciation written off (following sale/demolition)	1.649	-	-	-	-	-	1.649
Depreciation written off for Impairment	0.057	-	-	-	-	-	0.057
Balance at 31st March 2005	(53.233)	(0.377)	(0.404)	-	(4.640)	-	(58.654)

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
Non-Operational Assets	
Existing Use Value Shops	40 Year Life – Straight line Depreciation
Land	No Depreciation
Vehicles, Plant and Equipment	5 Year Life – Straight line Depreciation
Infrastructure	Fully Depreciated

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 2004/05 due to redevelopment proposals, the values held in the balance sheet for certain dwellings have been reduced.

Impairment Charges	£m
Balance at 1st April 2004	(5.727)
Additions (houses)	(0.438)
Written Off (houses)	1.548
Balance at 31st March 2005	(4.617)

11. Deferred Charges

Capital Expenditure in 2004/05 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 2004	-

Additions	0.518
Written Off	(0.518)
Balance at 31st March 2005	-

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. Entitlement to rent rebate was transferred to general fund housing services in 2004/05. In preparation of the final accounts the following estimate of Housing Subsidy entitlement for 2004/05 has been used:

Actual Entitlement 2003/04 £m	Notional Housing Revenue Account	Estimated Entitlement 2004/05 £m
Subsidy Allowances for Expenditure Items		
(5.744)	Management Allowance	(8.343)
(14.506)	Maintenance Allowance	(14.369)
(10.938)	Major Repairs Allowance	(10.879)
	- Admissible Allowance	(0.085)
	- Anti social Behaviour Allowance	(0.001)
(9.930)	Charges for Capital	(8.054)
	- Others items of Reckonable Expenditure	-
(41.118)	Total Subsidy Allowance Expenditure Items	(41.731)
Subsidy Withdrawn for Income Items		
44.327	Rent Income	45.275
0.096	Interest on Receipts	0.069
44.423	Total Subsidy Withdrawn Income Items	45.344
(to be deducted from Rent Rebate Entitlement)		
3.305	Net Subsidy Withdrawn	3.613
	- Prior Year Adjustment	(0.013)

3.305	Negative Subsidy Payable to the Secretary of State	3.600
(26.665)	Rent Rebate Entitlement before adjustments	-
0.006	Prior year adjustments- Rent Rebates	(0.010)
(26.659)	Rent Rebate Entitlement after adjustments	(0.010)

13. HRA Share of Contributions to the Pension Reserve

In 2004/05 the Council changed its policy so that the HRA is charged with the full share of the Council's backdated pension costs based upon its proportion of current employees contributions to the Tyne and Wear Pension Fund. In prior years the HRA was only charged a nominal sum in respect of these costs. An additional £0.413m has been charged as a result of this change in policy.

An apportionment has also 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 £0.108m (zero in 2003/04) 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 2004/05 represented 5.17% of the gross rent income collectable for the year, including water and sewerage charges. The estimated arrears (excluding charges) have been calculated utilising the relative proportion of such charges within the gross rent collectable for the year.

2003/04 Actual £m	Rent Arrears	2004/05 Estimate £m
49.177	Gross Rent Collectable (including water and sewerage charges)	49.404
2.156	Overall Arrears as at 31 st March (including water and sewerage charges)	2.555
4.38%	Overall Arrears as a percentage of gross rent collectable	5.17%
1.974	Rent Arrears as at 31 st March (excluding water and sewerage rates)	2.326

0.353	Amounts written off during the year	0.348
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(1.440)	Balance Sheet Provision for Bad debts	(1.550)
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15. Rent Income

Rents were increased with effect from Monday 5th April 2004 to achieve the Government Rent Guideline of an average of £44.93 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 £1.212m, 2.84% of the total net rent collectable for Housing Revenue Account dwellings (£1.094m and 2.56% in 2003/04).

16. Rent Rebates

With effect from 1st April 2004 as determined by the Local Government Act 2003, rent rebates were transferred to the General Fund. In 2003/04 the financial position under regulations in force at that time, resulted in a net credit to the Housing Revenue Account. This occurred as a product of subsidy overpayments and recovery of overpayments. The relevant items are:

Rent Rebates	2003/04
	£m
Rent Rebates (net of overpayment recovery)	26.409
Rent Rebates Subsidy entitlement	(26.659)
Net credit to the Housing Revenue Account	(0.250)

Collection Fund Revenue Account year ended 31st March 2005

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.

2003/04 £m	Collection Fund Revenue Account	2004/05 £m
	Income	
(49.836)	Council Tax (see note 1)	(52.366)
(19.324)	Non-Domestic Rates (see note 2)	(19.483)
(69.160)	Total Income	(71.849)
	Expenditure	
44.228	South Tyneside Council precept	46.473
2.807	Northumbria Police Authority precept	2.949
2.594	Tyne and Wear Fire and Civil Defence Authority precept	2.745
49.629	Total Precepts	52.167
19.170	Non-Domestic Rates – Payment to National Pool	19.330
0.154	Non-Domestic Rates – Cost of Collection Allowance	0.153
19.324	Total Non-Domestic Rates	19.483
0.211	Community Charge Written Off (see note 3)	-
0.034	Council Tax Written Off	0.038
(0.211)	Transfer to/(from) Community Charge Bad debt Provision (see note 3)	-
0.236	Transfer to/(from) Council Tax Bad debt Provision	(0.043)
0.270	Total Bad and Bad debts	(0.005)

69.223	Total Expenditure	71.645
0.063	(Surplus) / Deficit for the year	(0.204)
(0.030)	Balance brought forward from previous year	0.033
0.033	Collection Fund Balance as at 31st March	(0.171)

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: 44,057 in 2004/05 and 43,835 in 2003/04). Council tax is calculated by multiplying the basic amount of council tax for Band D by the proportion for that particular band. In 2004/05 the Band D equivalent was £1,184.04 (£1,127.79 in 2003/04).

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

Band	Proportion of Band D	Number of Dwellings (October 2003)
A	6/9ths	46,204
B	7/9ths	8,305
C	8/9ths	6,901
D	9/9ths	3,793
E	11/9ths	1,536
F	13/9ths	687
G	15/9ths	320
H	18/9ths	51
		67,797

The income from Council Tax of £52.366m (£49.836m in 2003/04) is receivable from the following sources:

2003/04	Council Tax Income	2004/05
£m		£m
(37.031)	Billed to Council Taxpayers	(38.504)
(12.805)	Council Tax Benefits	(13.679)
(49.836)	Total Council Tax Income	(52.183)

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 transitional 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 2004/05 was set at 45.6p (44.4p in 2003/04). 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 £19.483m (£19.324m in 2003/04) was based on an average rateable value of 50.6m as at 31st March 2005 (50.6m at 31st March 2004). Relief given, normally empty property and mandatory relief, significantly reduced the contribution to the pool.

3. Community Charge

The Council wrote off all outstanding debt on Community Charge during 2003/04. A bad debt provision had been created to meet this cost.

4. 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.

Of the small surplus £0.171m at the end of 2004/05 (£0.063m deficit in 2003/04), the most significant sum is attributable to South Tyneside Council due to its relatively high precept.

Consolidated Balance Sheet at 31st March 2005

This statement provides a summary of the Council's financial position as at 31st March 2005. It shows the balances and reserves at the Council's disposal, fixed assets and current assets employed in its operations and the Council's long term borrowing position.

31 st March 2004 £m	Consolidated Balance Sheet	31 st March 2005 £m	31 st March 2005 £m
	Fixed Assets		
	Operational Assets		
567.949	Council Dwellings	642.310	
179.766	Other Land and Buildings	190.071	
0.862	Community Assets	0.877	
35.486	Infrastructure	40.335	
8.336	Vehicles, Plant and Equipment	10.094	
37.247	Non-Operational Land and Buildings (see note 2)	48.599	
829.646	Total Fixed Assets (see notes 1 and 13)		932.286

3.316	Long Term Investments (see note 19)		3.318
Long Term Debtors			
3.753	Shop Rents Due (see note 10)	3.432	
1.920	Airport Loan Notes (see note 14)	1.680	
0.585	Rate Revaluation Refund (see note 15)	-	
0.681	Advances for Former County Services (see note 21)	-	
2.154	Other Long Term Debtors (see note 28)	2.144	7.256
842.055	Total Long Term Assets		942.860
Current Assets			
1.060	Stock (see note 29)	1.195	
27.659	Debtors and Prepayments (see note 30)	26.217	
66.230	Investments	45.522	
5.781	Cash and Bank	3.692	76.626
942.785	Total Assets c/fwd		1,019.486
31st	Consolidated Balance Sheet	31st	31st
March		March	March
2004		2005	2005
£m		£m	£m
942.785	Total Assets b/fwd		1,019.486
Current Liabilities			
(42.461)	Creditors (see note 31)	(46.401)	
(2.983)	Bank Overdraft	(2.260)	
(4.750)	Borrowing Repayable within 12 months	(4.594)	(53.255)
892.591	Total Assets Less Current Liabilities		966.231
(170.297)	Long-Term Borrowing (see note 20)	(158.686)	
(3.783)	Deferred Liabilities (see note 16)	(3.218)	
(0.833)	Deferred Credits (see note 17)	(0.542)	
(133.830)	Pension Liability (see note 25)	(190.470)	
(8.931)	Provisions (see note 22)	(7.536)	(360.452)
574.917	Total Assets Less Liabilities		605.779
Equity*			
(500.349)	Fixed Assets Restatement Reserve		(585.658)

(136.201)	Capital Financing Reserve	(133.163)
(30.609)	Government Grant Deferred Account	(42.017)
(9.551)	Usable Capital Receipts Reserve	(8.865)
(3.489)	Secondary Schools Capital Financing Reserve	(3.294)
(0.822)	Housing Major Repairs Reserve	(2.421)
(3.307)	Investment Revaluation Reserve	(3.305)
133.830	Pension Reserve	190.470
(16.925)	Earmarked Reserves	(12.439)
0.033	Collection Fund	(0.171)
(4.124)	General Fund Balances	(1.519)
(3.403)	Housing Revenue Account Balances	(3.397)
(574.917)	Total Equity	(605.779)

* See Statement of the Total Movement in Reserves

Notes to the Consolidated Balance Sheet

1. Movement of Fixed Assets

	Operational Assets					Non Oper- ational Land and Buildings	Total
	Council Dwellings	Other Land and Buildings	Comm. Assets	Infra- structure	Vehicles Plant and Equip.		
	£m	£m	£m	£m	£m	£m	£m
Gross Book Value 31 st March 2004	613.376	222.905	0.862	40.874	16.730	37.786	932.533
Revaluations and Restatements	-	7.343	-	-	0.001	10.727	18.071
Value on 1st April 2004	613.376	230.248	0.862	40.874	16.731	48.513	950.604
Material Revaluation in Year	102.248	-	-	-	-	(2.168)	100.080
Additions	10.511	8.040	0.015	5.926	4.663	8.421	37.576
Disposals	(25.969)	(0.443)	-	-	-	(5.481)	(31.893)
Gross Book Value at 31st March 2005	700.166	237.845	0.877	46.800	21.394	49.285	1,056.367
Prior Years Impairment	(5.727)	(30.186)	-	-	-	-	(35.913)
Impairment loss on revaluations	(0.438)	(0.579)	-	-	-	-	(1.017)
Impairment written back	1.548	-	-	-	-	-	1.548
Prior Year Depreciation	(39.700)	(12.953)	-	(5.388)	(8.391)	(0.539)	(66.971)
Depreciation for Year	(15.245)	(4.056)	-	(1.077)	(2.909)	(0.147)	(23.434)
Depreciation on Assets Sold	1.706	-	-	-	-	-	1.706
Net Book Value at 31st March 2005	642.310	190.071	0.877	40.335	10.094	48.599	932.286

The Land Registry has calculated that housing prices in the Borough rose by more than 19% in 2004 (31% in 2003). Applying this to Council dwellings increases their book value by £102m (£102m in 2003/04), 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. Non Operational Assets

A breakdown of non-operational assets by category:

31 st March 2004 £m	Non Operational Assets	31 st March 2005 £m
5.165	Investment Properties	6.234
3.716	Assets under construction	5.553
28.366	Surplus Assets earmarked for disposal	36.812
37.247	Total Non Operational Assets	48.599

3. Fixed Asset Analysis

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

	2004	2005		2004	2005
Council Dwellings	20,228	19,429	Sports Stadia	2	2
Town Hall and Civic Offices	15	15	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	6
Depots	3	3	Surestart Facilities	-	2
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	75	71	Industrial Estates	11	11

Youth and Community Centres	27	27	Managed Workshops	2	2
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4. Capital Finance

The following table analyses capital expenditure for 2004/05 together with the method of financing and the impact on the Council's underlying need to borrow.

2003/04 £m	Funding Source	2004/05 £m
160.618	Opening Capital Financing Requirement	166.240
Capital Investment		
27.061	Operational Assets	29.155
3.764	Non Operational Assets	8.421
3.829	Deferred Charges	7.159
2.321	Other Capital Costs	3.887
36.975	Total Capital Investment	48.622
Sources of Finance		
(5.591)	Capital Receipts	(12.611)
(9.397)	Government Grants and other Contributions	(13.334)
(12.973)	Housing Revenue Account	(10.673)
(3.392)	General Fund Revenue	(3.364)
(31.353)	Total Finance Used	(39.982)
166.240	Closing Capital Financing Requirement	174.880
Explanation of Movement in Year		
5.754	Increase in underlying need to borrow (supported by Government)	5.158
(0.132)	Increase/(Decrease) in underlying need to borrow (unsupported by Government)	3.482
5.622	Increase/(Decrease) in Capital Financing Requirement	8.640

5. Significant Items of Capital Expenditure

The total expenditure on the capital programme was £48.622m (£36.975m on 2003/04). The most significant items excluding planned maintenance during 2004/05 are shown in the table below.

	£m		£m
Construction of a Managed Workspace	4.131	Cleadon Park Regeneration	2.846
Green Clean Composting Service	0.335	Transformation Projects	0.853
ICT developments and E-Government	0.991	Business Support Fund	0.477
Replacement Warden Call Equipment	0.592	Equal Pay Compensation	3.614
Schools Devolved Formula Grant	1.697	Bede Surestart	0.368
Primary School Reorganisation	0.995	Primrose Surestart	1.445
Secondary School Reorganisation	0.355	South Shields Museum	0.418
Grants for Private Sector Housing	1.573	Gateways to the Borough	0.372
Customer First Contact Facility	0.372	Single Programme Grants	0.336

6. 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 £7.159m (£3.829m in 2003/04) have been amortised to service revenue accounts in line with recommended practice.

7. Capital Commitments

Details of commitments over £0.5m under capital contracts as at 31st March 2005:

	£m		£m
Horsley Hill Learning Campus	12.182	New Recycling Village	1.179
ICT Systems Replacement	1.112	Primrose Surestart	0.639
Quadrus Building	0.561		

In addition to these commitments the Authority put in place a compensatory scheme for employees who potentially had a liability claim against the Council under equal pay legislation. At 31st March 2005 the Council was committed to pay £3.614m from those employees that had signed up to the scheme and this has been accounted for under an accruals basis in these accounts. As at the end of June the sign up rate for eligible employees stood at just over 88%. The Council has permission from the Government to capitalise up to £7.3m of these payments over the last year and the following two years.

8. Finance Leases

The Authority is 22 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
Value at 1 st April 2004	1.750	-
Additions	-	0.113
Prior Year Depreciation	(1.050)	-
Depreciation in Year	(0.050)	(0.011)
Value at 31st March 2005	0.650	0.102

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	0.057
Repayable in more than 5 years	0.400	-
Total Repayable	0.650	0.095

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.

9. Operating Leases

The Authority was committed at 31st March to making payments of £1.991m under equipment operating leases against an initial investment of £6.575m. A further £0.337m is committed on the rental of property. A breakdown of the amount still to be repaid based on the date of expiry of the lease is as follows:

Operating Lease	Other Land	Vehicles,
	and	Plant and
	Buildings	Equipment
	£m	£m
Lease expires within 1 year	-	0.026
Lease expires in 1-2 years	0.012	0.270
Lease expires in 2-5 years	-	1.695
Lease expires in more than 5 years	0.325	-
Total Repayable	0.337	1.991

10. 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 £3.432m (£3.753m in 2003/04). 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 enhanced or acquired any properties that are subject to finance leases in 2004/05.

11. 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 **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 2004. The total value of revaluation for 2004/05 was £14.046m (£59.952m in 2003/04). All assets are revalued as part of a five year rolling programme.

12. 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 £21.728m has been made to the accounts for 2004/05 (£16.824m in 2003/04).
- 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 at 1 st April 2004	(39.700)	(12.953)	(14.318)	(5.727)	(30.186)	-
Charges in Year	(15.245)	(4.056)	(4.133)	(0.438)	(0.579)	-
Charges written out	1.706	-	-	1.548	-	-
Closing Balance at 31st March 2005	(53.239)	(17.009)	(18.451)	(4.617)	(30.765)	-

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	Total
	Council Dwellings	Other Land and Buildings	Comm. Assets	Infra-structure	Vehicles Plant and Equip.	Oper-ational Land and Buildings	
	£m	£m	£m	£m	£m	£m	£m
General Fund	0.052	187.721	0.877	40.335	5.187	16.688	250.860
Housing Revenue Account	642.258	2.350	-	-	4.907	31.911	681.426
Net Book Value at 31st March 2005	642.310	190.071	0.877	40.335	10.094	48.599	932.286

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 eight years.

15. Rate Revaluation Refund

The Council is due a sum of money in relation to the revaluation of rates for its major leisure centre going back a number of years. This sum will be paid to the council during 2005/06.

16. Deferred Liabilities

The table below summarises the Council's deferred liabilities:

31 st March 2004	Deferred Liabilities	31 st March 2005
£m		£m

(2.160)	Newcastle Airport Loan Notes	(1.920)
(0.600)	Loans provided to Industry	(0.200)
(0.885)	Rate Revaluation Deferred Liability	(0.647)
(0.138)	Debt Rescheduling	(0.376)
	- Outstanding Finance Lease	(0.075)
(3.783)	Total Deferred Liabilities	(3.218)

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 represent monies received from external organisations in lieu of lending by the Council to businesses in the Borough. The £0.600m from 2003/04 represents monies from ONE North East that was loaned out in 2004/05. The £0.200m from 2004/05 is monies due from the Tyne & Wear Economic Development Company in respect of a loan deal finalised during the year.

The Rate Revaluation Deferred Liability relates to the refund described in note 15. The amount has been set-aside in recognition that no income has yet been received in the accounts.

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.

17. Deferred Credits

This amount relates to the outstanding balance of mortgages granted by the Council

for the sale of Council Houses.

18. 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 & Wear Economic Development Company, assets in the form of industrial estate property would also accrue.
- 27 youth and community associations 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 asset or liabilities as at 31st March 2005.

Group Account Relationships	Share of Assets 31st March 2005 £m	Share of (Liability) 31st March 2005 £m
Joint Ventures		
Beamish Museum	-	(0.085)
Tyne & Wear Economic Development Company	1.821	(0.096)
North East Consortium for Asylum and Refugee Support	0.017	(0.013)
Council Operations		
Youth and Community Associations	1.055	(0.205)
Total Group Accounts	2.893	(0.399)
Council Gross Asset/(Liabilities)	1,019.075	(458.687)

Group Accounts as Share of Council Accounts	0.28%	0.09%
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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. It was concluded given that our share was less than 0.5% of the Council's own balance sheet, such accounts would not benefit the readership.

19. Long Term Investments

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

31st March 2004 £m	Long Term Investments	31st March 2005 £m
3.307	Newcastle Airport Local Authority Holding Company Limited	3.307
0.009	Government Securities	0.011
3.316	Total Long Term Investments	3.318

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 Council's shareholdings remained at £3.306m but this together with the other Local Authorities now only represented 51% of the revised share capital of NIAL Holdings Plc. The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. South Tyneside Council has a shareholding of 990 shares representing a 9.9% interest in the company.

The 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 2004/05, of which the Council will receive £2.4m.

For the year ending 31st December 2004, Newcastle Airport Local Authority Holding Company declared a net dividend of £2.815m (£1.633m in 2003/04) to the Local Authority shareholders. South Tyneside Council's share of the dividend was £0.279m (£0.162m in 2003/04).

The Newcastle Airport Local Authority Holding Company Limited accounts for the year ended 31st December 2004 revealed profit before dividends of £1.418m (£0.812m loss in 2003). Consolidated net assets stood at £113.594m (£117.408mm in 2003) with equity minority interests accounting for £55.632m (£57.500m in 2003). 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.

20. Long Term Borrowing

Source of Loan	Percentage Range of	Amounts Outstanding
----------------	---------------------	---------------------

	Interest Rate Payable	31 st	31 st
		March	March
		2004	2005
	%	£m	£m
Public Works Loans Board	4.45 – 9.375	(165.086)	(153.575)
Market Loans	9.4375 – 9.50	(5.000)	(5.000)
Special Financing	-	(0.211)	(0.111)
Total Long Term Borrowing		(170.297)	(158.686)

An analysis of loans by maturity is:

31st March 2004	Analysis of Long Term Borrowing	31st March 2005
£m		£m
(0.612)	1 – 2 years	(0.111)
(5.111)	2 – 5 years	-
(20.150)	5 – 10 years	(47.150)
(144.424)	Over 10 years	(111.425)
(170.297)	Total Long Term Borrowing	(158.686)

21. Advances for Former County Services

South Tyneside Council is the designated lead authority for the management of the capital debt of the former Tyne and Wear County Council. The fund expires on 31st March 2006 and the remaining £0.750m outstanding at 31st March 2005 has been shown in the accounts against debtors.

Former Tyne and Wear County Debt Fund	31st March 2004	31st March 2005
	£m	£m
Probation	0.059	-
Airport	0.622	-
Total Advances	0.681	-

22. Provisions

The Council's provisions amounting to £7.536m comprise the following.

Provisions	Balance 1st April 2004	Amount Received During Year	Amount Applied During Year	Balance 31st March 2005
	£m	£m	£m	£m
Insurances	(7.031)	(2.347)	3.634	(5.744)

Legal Costs	(0.066)	-	0.066	-
HRA Repairs Account	(1.834)	-	0.042	(1.792)
Total Provisions	(8.931)	(2.347)	3.742	(7.536)

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.

The Housing Repairs Account is a discretionary ring-fenced account for Housing Revenue Account repairs and maintenance.

The Council also made a provision to protect against future legal costs. There is now an annual budget set aside for such costs and so the provision has been extinguished.

23. Trust Funds

The Council acts as sole trustee for legacies left by inhabitants of the Borough, the value of which at 31st March 2005 is £0.505m (£0.540m in 2003/04). 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 £0.351m as at 31st March 2005 (£0.359m in 2003/04). 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.

24. School Balances

As at 31st March 2005 the Council was holding £5.174m in relation to unspent school balances (£4.916m at 31st March 2004). This amount forms part of the earmarked reserves balances.

25. Pensions FRS17 Disclosures at 31st March 2005

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 2005

	1 st April 2004 % per annum	31 st March 2005 % per annum
Discount rate for scheme liabilities	6.4	5.3
Discount rate for pension cost over year	5.4	5.3
Expected rate of salary increases	4.7	4.4
Rate of pension increases	2.9	2.9
Inflation rate	2.9	2.9

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

	At 1 st April 2004		At 31 st March 2005	
	Actual Market Value %	Expected rate of return % per annum	Estimated Market Value %	Expected rate of return % per annum
Equities	63.0	7.7	65.0	7.7
Government Bonds	13.0	4.7	15.0	4.7

Corporate bonds	15.0	5.5	10.0	5.3
Property	7.0	6.7	8.0	6.7
Other Investments	2.0	4.2	2.0	4.8
Total	100.0	6.9	100.0	6.9

The following table reconciles the movement in the surplus/(deficit) of the Fund:

	1st April 2004 £m	31st March 2005 £m
Estimated Funded benefits under the LGPS regulations	(346.17)	(441.93)
Estimated Unfunded discretionary benefits awarded by means of additional benefits under the LGPS regulations	(16.84)	(25.34)
Actuarial value of Fund liabilities	(363.01)	(467.27)
South Tyneside Council share of Market Value of Fund Assets	229.18	276.80
Surplus/(deficit) in the Fund	(133.83)	(190.47)

The outstanding liability of the Council for the local government scheme stands at £190.47m at 31st March 2005. This has reduced the reported net worth of the Council by 12% 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.

26. 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.

27. 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.

28. Other Long Term Debtors

	At 1 st April 2004	Expenditur e during year	Repaid or Written Off During year	At 31 st March 2005
	£m	£m	£m	£m
Assisted Vehicle Purchase	0.361	0.166	(0.209)	0.318
Social Care and Health Fees	0.915	-	(0.460)	0.455
Loans to Industry	-	0.800	-	0.800
Housing Advances (Including Council Houses)	0.878	-	(0.307)	0.571
Total Other Long Term Debtors	2.154	0.966	(0.976)	2.144

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 has issued loans to local businesses as a means to retain and expand jobs. The funding for these loans has been met from external resources.

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.

29. Stock

An analysis of stock are shown below:

31 st March 2004 £m	Stock	31 st March 2005 £m
0.790	Neighbourhood Services	0.717
0.173	Social Care and Health	0.385
0.095	Lifelong Learning and Leisure	0.091
0.002	Other Directorates	0.002
1.060	Total Stock	1.195

30. Debtors and Prepayments

An analysis of debtors and prepayments is shown below:

31 st March 2004 £m	Debtors and Prepayments	31 st March 2005 £m
Amounts falling due in one year		
12.794	Government Bodies	17.731
1.370	Other Local Authorities	2.159
2.379	Housing Tenants	2.555
2.429	Council Tax Payers	2.886
0.590	National Non-Domestic Rate Payers	0.456
11.833	Sundry Debtors	7.762
31.395	Total Amounts falling due in one year	33.549
Provisions for Bad debts		
(1.440)	Housing Rents	(1.550)
(1.297)	Council Tax	(1.292)
(0.295)	National Non-Domestic Rates	(0.193)
(1.455)	All other Debtors	(5.178)

26.908	Net Debtors	25.336
0.751	Prepayments	0.881
27.659	Total Debtors and Prepayments	26.217

31st March 2004 £m	Debts Written Off during the Year	31st March 2005 £m
Amounts written off during the year		
0.353	Housing Rents	0.348
0.245	Council Tax and Community Charge	0.049
0.067	National Non-Domestic Rates	0.249
0.095	All other Debtors	0.180
0.760	Total Amounts written off during the year	0.826

31. Creditors

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

31st March 2004 £m	Creditors	31st March 2005 £m
(15.213)	Government Bodies	(20.685)
(0.620)	Other Local Authorities	(0.439)
(0.256)	Housing Tenants	(0.312)
(0.434)	Council Tax Payers	(0.694)
(25.938)	All other Creditors	(24.271)
(42.461)	Total Creditors	(46.401)

32. 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.

33. Post Balance Sheet Event

Revoking of Regulations

The Government has announced that they are revoking the Local Government Pension Scheme Regulations they introduced from 1st April 2005. This will have a significant impact on the pensions information included in these accounts in respect of future pension liabilities. It will also impact greatly on the information provided by the actuaries in complying with FRS17 Accounting for Pensions Requirement, as their base data was taken from their latest revaluation, which was based on the regulations that have now been revoked. The precise implications of this change will not be known for some time, as the Government is to review the position. It is only when the Government announce further information and guidance that the impact can be quantified by the actuaries in order to assess the implications on Pension Funds within local government.

Statement of Total Movement in Reserves year ended 31st March 2005

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.

Statement of Total Movement in Reserves	Capital Non Realisable Reserves (note 1) £m	Capital Realisable Reserves (note 2) £m	Revenue Reserves (note 3) £m	Total Reserves £m
Balance at 1st April 2004	(667.159)	(17.169)	109.411	(574.917)
Net (Increase)/Decrease in Revenue Resources	-	-	63.533	63.533
Unrealised Gains/Loss from Revaluation of Fixed Assets	(85.277)	-	-	(85.277)
Impairment Loss on Revaluation	1.017	-	-	1.017
Unrealised Gains/Loss from the Revaluation of Investments	-	0.002	-	0.002
Effects of Disposal of Fixed Assets	28.638	(29.474)	-	(0.836)
Effects of Amount Paid to Housing Pool	-	17.549	-	17.549
Financing of Fixed Assets	(26.649)	12.806	-	(13.843)
Movement on Government Grant Deferred	(11.408)	-	-	(11.408)
Movement on Major Repairs Reserve	-	(1.599)	-	(1.599)
Balance at 31st March 2005	(760.838)	(17.885)	172.944	(605.779)

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 2004/05.

Movement in Non Realisable Capital Reserves	Fixed Asset	Government	Capital	Total
	Restatement Account	Grant Deferred Account	Financing Account	Non Realisable Capital Reserves
	£m	£m	£m	£m
Balance at 1st April 2004	(500.349)	(30.609)	(136.201)	(667.159)
Unrealised Gains/Loss, from Revaluation of Fixed Assets	(113.947)	-	28.670	(85.277)
Impairment Loss on Revaluation	-	-	1.017	1.017
Value of Assets Sold or Disposed of	28.638	-	-	28.638
Financing of Fixed Assets	-	-	(26.649)	(26.649)
Movement on Government Grant Deferred	-	(11.408)	-	(11.408)
Balance at 31st March 2005	(585.658)	(42.017)	(133.163)	(760.838)

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 2004.

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.

The opening balance of these accounts have been adjusted to reflect a number of **prior period adjustments** namely

- £2.410m between the Government Grant Deferred Account and the Capital Financing Account in respect of deferred capital expenditure funded by external contributions.
- £0.083m adjustment to the Fixed Asset Restatement Reserve in respect of prior years depreciation on equipment.
- £1.100m between the Fixed Asset Restatement Account and the Capital Financing Account in respect of the repayment of long-term liabilities.

2. Capital Realisable Reserves

The table below shows the movement in Council's realisable capital reserves during 2004/05. 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	Investment Revaluation Reserve £m	Total Realisable Capital Reserves £m
Balance at 1 st April 2004	(0.822)	(3.489)	(9.551)	(3.307)	(17.169)
Effects of Disposal of Fixed Assets	-	-	(29.474)	-	(29.474)

Effects of Amount Payable to Housing Pool	-	-	17.549	-	17.549
Financing of Fixed Assets	-	0.195	12.611	-	12.806
Unrealised Gains/Loss from the Revaluation of Investments	-	-	-	0.002	0.002
Movement on Major Repairs Reserve	(1.599)	-	-	-	(1.599)
Balance at 31st March 2005	(2.421)	(3.294)	(8.865)	(3.305)	(17.885)

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 Reserve** contains an amount of capital resources set aside to meet any Council contribution required towards the Building Schools for the Future programme.

The **Usable 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 value as well as any difference in open market value compared to cost price of our other long term investments.

3. Revenue Reserves

Movement in Revenue Reserves	Pension Reserve	Earmarked Reserves	Collection Fund Reserve	General Reserve	Housing Revenue Account	Total
	£m	£m	£m	£m	£m	£m
Balance at 1st April 2004	133.830	(16.925)	0.033	(4.124)	(3.403)	109.411
Movement in Earmarked Reserves	-	4.486	-	-	-	4.486

Appropriation from Pension Reserve	5.510	-	-	-	-	5.510
Actuarial (Gains) and Losses relating to pensions	51.130	-	-	-	-	51.130
Net (Surplus)/Deficit for Year	-	-	(0.204)	2.605	0.006	2.407
Net (Increase) /Decrease in Revenue Resources	56.640	4.486	(0.204)	2.605	0.006	63.533
Balance at 31st March 2005	190.470	(12.439)	(0.171)	(1.519)	(3.397)	172.944

The **Pension Reserve** is the amount set aside to offset the FRS17 Pension Liability. A change in the accounting for such costs has resulted in a significant increase in liabilities.

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

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

The **General Reserves** are balances held by the Council to support future spending. The Council's Medium Term Financial Plan identifies that £1.5m of this reserve is needed to support planned revenue spending between 2005/06 and 2007/08.

The **Housing Revenue Account Reserve** is 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	Expressed as a percentage
Actual Return less Expected Return on Assets	N/K	(30.20)	(10.44)	3.8% of scheme assets (13.2% 2003/04)
Experience (Gains) and Losses on Pension Liabilities	N/K	0.40	5.09	1.1% of scheme liabilities (0.1% 2003/04)
Changes in Assumptions underlying the Present Value of Pension Liabilities	N/K	4.90	56.48	12.1% of scheme liabilities (1.3% 2003/04)
Actuarial (Gain)/Loss	53.00	(24.90)	51.13	
(Gain)/Loss as Percentage of Scheme Liabilities	16.2%	(6.9%)	10.9%	

5. Movement in Earmarked Reserves

	At 1 st April 2004	Contribution to Reserves	Contribution from Reserves	At 31 st March 2005
	£m	£m	£m	£m
Council Strategic Reserve	(3.863)	-	-	(3.863)
Council Forward Planning Reserve	(3.661)	(1.017)	3.935	(0.743)
School Balances	(4.916)	(1.513)	1.255	(5.174)
Lifelong Learning and Leisure	(0.867)	(0.208)	0.667	(0.408)
Maintenance Fund for former Development Corporation sites	(1.352)	-	0.001	(1.351)
Highways Agreements	(0.041)	-	0.041	-
Resources Finance	(0.583)	-	0.323	(0.260)
Street Lighting PFI	(0.300)	-	0.180	(0.120)
Tyne and Wear ICT Partnership	(0.184)	(0.037)	-	(0.221)
Building Control Account	(0.028)	-	0.023	(0.005)
Housing Surveys Fund	(0.032)	-	0.015	(0.017)
Gateways to the Borough	(0.276)	-	0.276	-
Social Care and Health	(0.137)	-	-	(0.137)
Neighbourhood Services	(0.585)	-	0.545	(0.040)
Corporate Development	(0.100)	(0.144)	0.144	(0.100)
Total Earmarked Reserves	(16.925)	(2.919)	7.405	(12.439)

Cash Flow Statement year ended 31st March 2005

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

2003/04	Cash Flow Statement	2004/05
£m		£m
	Revenue Activities	
	Cash Outflows	
164.056	Cash Payments in relation to Employees	175.208
109.224	Other Operating Cash Payments	129.643
12.805	Council Tax Benefit Paid Out	13.679
26.409	Housing Benefit Paid Out	40.357
19.170	National Non-Domestic Rate Payments to Pool	19.330
12.392	Precepts Paid	12.759
	- Pooled Housing Capital Receipts Paid to Central Government	14.522
344.056		405.498
	Cash Inflows	
(44.562)	Rents Received	(44.438)
(36.761)	Council Tax Receipts	(38.504)
(44.731)	National Non-Domestic Rate Receipts from Pool	(42.556)
(19.324)	Non-Domestic Rate Receipts	(19.483)
(92.330)	Revenue Support Grant	(101.193)
(12.063)	Department for Work and Pensions Grants for Benefits	(26.733)
(23.355)	Housing Rent Rebate Subsidies	(24.255)
(51.339)	Other Government Grants (see note 6)	(53.121)
(14.555)	Cash received for Goods and Services	(15.223)
	- Income from Useable Capital Receipts	(14.522)
(36.388)	Other Operating Cash Receipts	(34.241)
(375.408)		(414.269)

(31.352) Net Cash Outflow / (Inflow) of Revenue Activities (see note 1) (8.771)

2003/04	Cash Flow Statement	2004/05
£m		£m
(31.352)	Net Cash Outflow / (Inflow) of Revenue Activities (see note 1)	(8.771)
	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	
12.488	Interest Paid	11.901
	Cash Inflows	
(2.313)	Interest Received	(3.489)
10.175	Returns on Investment and Servicing of Finance	8.412
(21.347)	Net Cash Outflow / (Inflow)	(0.637)
	Capital Activities	
	Cash Outflows	
30.431	Purchase and Enhancement of Fixed Assets	35.683
6.543	Other Capital Cash Payments	12.939
36.974		48.622
	Cash Inflows	
(27.128)	Sale of Fixed Assets	(14.980)
(10.802)	Capital Grants Received	(19.111)
(1.415)	Other Capital Cash Receipts	(3.272)
(39.345)		(37.363)
(2.371)	Capital Activities	11.259
	Acquisitions and Disposals	
	Cash Inflows	
(0.240)	Sale of Newcastle International Airport Ltd Shares	(0.240)
(0.240)	Acquisitions and Disposals	(0.240)

(23.958)	Net Cash Outflow / (Inflow) before Financing	10.382
	Management of Liquid Resources	
22.430	Net Increase/(Decrease) in Short Term Deposits	(20.708)
22.430	Management of Liquid Resources (see note 3)	(20.708)
	Financing	
	Cash Outflows	
13.968	Repayments of Amounts Borrowed	15.805
	Cash Inflows	
(7.000)	New Loans Raised	(4.113)
6.968	Financing (see note 4)	11.692
5.440	Net (Increase) / Decrease in Cash (see note 2)	1.366

Notes to the Cash Flow Statement

1. Revenue Activities

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

2003/04		2004/05
£m		£m
4.548	(Surplus)/Deficit per Consolidated Revenue Account	2.605
	Returns on Investment and Service of Financing	
0.170	Newcastle Airport Dividend	0.278
(10.175)	Net Interest Payments	(8.412)
(10.005)	Total Returns on Investment and Service of Financing	(8.134)
	Non-Cash Transactions	
(5.390)	Minimum Revenue Provision	(3.232)
(1.634)	Contributions from / (to) Provisions	(2.331)
(3.670)	Contribution from / (to) Earmarked Reserves	4.596
(10.843)	Revenue Contributions to Capital Outlay	(1.393)
(2.353)	Other Items	0.639
(23.890)	Total Non-Cash Transactions	(1.721)
	Items on an Accruals Basis	
0.175	Stock increase/(decrease)	0.135
10.555	Debtors increase/(decrease)	1.814
(12.735)	Creditors (increase)/decrease	(3.470)
(2.005)	Total Items on an Accruals Basis	(1.521)
(31.352)	Net Cash Flow from Revenue Activities	(8.771)

2. Reconciliation of Movement in Cash to Net Debt

	£m
Increase/(Decrease) in cash during the year	(1.366)
Outflow from debt	(7.670)
Net cash outflow	(9.036)
Net Debt at 1 st April 2004	(108.817)
Net Debt at 31 st March 2005	(117.853)
Net cash outflow	(9.036)

3. Management of Liquid Resources

Management of Liquid Resources	As at 1st April 2004 £m	As at 31 st March 2005 £m	Movement in the year £m
Short Term Investments	66.230	45.522	(20.708)

4. Financing

Financing	As at 1st April 2004 £m	As at 31 st March 2005 £m	Movement in the year £m
Market Loans	(5.000)	(5.000)	-
Public Works Loans Board	(169.736)	(158.050)	11.686
Finance Leasing	-	(0.094)	(0.094)
Special Financing	(0.311)	(0.211)	0.100
Total Financing	(175.047)	(163.355)	11.692

5. Increase / (Decrease) in Cash

Increase in Cash	As at	As at	Movement in the year
	1st April 2004	31 st March 2005	
	£m	£m	£m
Cash in Hand and at Bank	5.781	3.692	(2.089)
Bank Overdraft	(2.983)	(2.260)	0.723
Net Cash and Bank Position	2.798	1.432	(1.366)

6. Analysis of Other Government Grants

	£m		£m
Supporting People	4.983	Standards Fund	12.509
Systems and Access Capacity	1.918	Teachers Threshold	3.338
Surestart	2.890	Residential Allowances	1.589
Single Regeneration Budget	1.388	School Standards	2.626
Benefits Administration	2.396	Early Years Development	3.390
Neighbourhood Renewals Fund	7.467	Education Maintenance	0.744
Single Programme	0.979	Preserved Rights	0.982
Mental Health	0.529	Other	5.393
		Total	53.121

Tyne and Wear Pension Fund Account year ended 31st March 2005

1. Introduction

South Tyneside Council is the administering authority of the Pension Fund 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.

2. As at 31st March 2005, there were 116 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 48,860 pensionable members, 29,022 pensioners and 16,471 former employees entitled to deferred benefits.

Further information on the Fund may be obtained from the 2004/05 Pension Fund Report and Accounts.

3. The Legal Framework of the Scheme

The framework for the Local Government Pension Scheme is contained in Regulations that are made by the Office of the Deputy Prime Minister. 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.

In July 2001, Ministers authorised a review or "stock take" 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 as the result of the stock take were relatively minor in nature and became effective from 1st April 2004.

A further set of Regulations, 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.

4. Employers' Contributions and the Valuation Process

Rates of contributions paid by the participating employers during 2004/05 were based on the actuarial valuation carried out as at 31st March 2001. Details of the contribution rates that were applied during the year are shown in the Statement of the Actuary for the year ended 31st March 2005.

The Scheme 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.

The latest full actuarial investigation into the financial position of the Fund was completed as at 31st March 2004. The value of the Fund as at this date was £2,355.676m. The results showed that the financial position of the Fund had deteriorated since the previous valuation, with the assets being shown to cover 64% of the liabilities. This represents a fall of 18% from the March 2001 valuation. This fall is 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 was expected because the Fund has undertaken a programme of annual interim valuations that are carried out 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 becomes 345% of employees' contributions, an increase of 30% over the rate of 315% that was set by the 2001 valuation.

5. Funding Strategy Statement

The strategy for the 2004 valuation is set out in the Funding Strategy 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

The requirement to prepare a Funding Strategy Statement was introduced in 2004/05. It is the responsibility of each administering authority to prepare, publish and maintain the Statement. The Fund consulted employers and considered their views in the formulation of the strategy.

The Fund has 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, the deficit recovery 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 weak covenant. For most contractors, this strategy was also subject to a maximum of the remaining contract period from 1st April 2005.

Other measures that have been used to assist in managing the increase in contributions are:

- a smoothing adjustment that takes account of asset values over the last three years and which slightly increases the funding level;
- the use of three annual steps in the past deficiency payments to assist with managing the impact of cost changes;
- the grouping of some smaller employers to protect such employers from the risk of high volatility of contribution rates.

The second phase of the stock take sought to contribute towards stabilising the

cost of the Scheme. The changes, which were to take effect from 1st April 2005, would have 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 this valuation and led to a reduction of about 30% in future service rates.

On 13th July 2005, the Office of the Deputy Prime Minister announced that the changes would be revoked with retrospective effect from 1st April 2005. At the time of writing, we are considering the impact of this revocation on the solvency of the Fund.

Statement of the Actuary for the year ended 31st March 2005

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 Scheme Regulations, was completed as at 31st March 2004.

Actuarial Position

Rates of contributions paid by the participating Employers during 2004/05 were based on the actuarial valuation carried out as at 31st March 2001.

The valuation showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1st April 2002 was as set out below:

210% of members' contributions to meet the liabilities arising in respect of service after the valuation date.

Plus

125% 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 13 years.

Less

20% of members' contributions in respect of higher assumed investment income over the short term.

Statement of the Actuary for the year ended 31st March 2005

Actual rates of contribution payable by each employer were set out in the actuary's certificate dated March 2002.

The valuation as at 31st March 2004 showed that the financial position of the Fund had deteriorated since the previous valuation with the market value of the Fund's assets, 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.

These figures are based on the Regulations in force at the time of signing the valuation report.

**Statement of the Actuary
for the year ended 31st March 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 the employer that increases will be stepped over a period not exceeding 3 years.

If the 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 then increase, due to the cessation of the short term additional investment income, and continue at the resultant level for the balance of the relevant recovery period before reverting to the relevant long term rate. In practice, contribution rates will be reviewed at the next valuation due at 31st March 2007 and further assumptions may be made at that time concerning short-term 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 were calculated using the projected unit actuarial method and 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 GMPs)	2.9% per annum
Short term return on equities/property	6.45% per annum
Short term return on other assets	5.2% per annum
Valuation of assets	smoothed market value

Statement of the Actuary for the year ended 31st March 2005

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 & Woodrow Ltd, 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 & Woodrow Ltd 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, July 2005

Tyne and Wear Pension Fund Account year ended
31st March 2005

2003/04 Tyne and Wear Pension Fund Account	Note	2004/05	
£m		£m	
Contributions and Benefits			
130.091	Contributions Receivable – Employers	3	138.222
42.482	Contributions Receivable – Members	3	45.464
14.875	Transfers In	4	21.355
187.448			205.041
(113.889)	Benefits Payable	5	(118.568)
(16.110)	Transfers Out (Leavers)	6	(18.845)
(2.112)	Administrative Expenses	7	(2.080)
(132.111)			(139.493)
55.337	Net Additions from Dealings with Members		65.548
Returns on investments			
50.345	Investment Income	8	52.842
(2.435)	Non-Recoverable Tax	8	(3.386)
392.068	Change in Market Value of Investments	9	209.139
(4.755)	Investment Management Expenses	10	(5.292)
435.223	Net Returns on Investments		253.303
490.560	Net Increase / (Decrease) in the Fund during the year		318.851
1,865.116	Net Assets of the Fund at 1st April		2,355.676
2,355.676	Net Assets of the Fund at 31st March		2,674.527

Tyne and Wear Pension Fund Account

Net Assets Statement year ended 31st March 2005

31 st March 2004	Tyne and Wear Pension Fund	Note	31 st March 2005
£m	Net Assets Statement		£m
	Investments	9	
233.879	Fixed Interest Securities		244.432
1,133.546	Equities		1,296.384
15.152	Index-Linked Securities		17.450
767.307	Pooled Investment Vehicles		854.595
157.740	Properties		207.479
25.274	Cash Deposits		36.539
7.651	Other investment balances		4.636
2,340.549	Total Investments		2,661.515
15.127	Current Assets and Liabilities	11	13.012
2,355.676	Net Assets of the Fund at 31st March		2,674.527

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) and follow the 2004 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 2005.

Unitised securities have been included at the average of their bid and offer prices on 31st March 2005.

Other unquoted investments have been valued with regard to latest dealings and other appropriate financial information.

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. This represents a change to accounting policy in 2004/05. Previously the value of fixed income investments has included interest earned but not paid over at the year-end. Accordingly the figures for 2003/04 have been restated to take account of the new accounting policy. Within the Fund Account, investment income has been increased by £0.285m with a corresponding reduction in the change in market value figure. Within the Net Assets Statement the value of fixed interest securities has been reduced by £3.603m and index-linked securities reduced by £0.119m. The value of other investment balances has been increased by £3.722m to reflect a corresponding increase in debtors.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2005.

Properties are shown as valued at 31st December 2004, with the exception of three 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 2005 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 2005.

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 2005 is credited to the Fund Account. Interest on cash deposits has been accrued up to 31st March 2005.

Investment Management Expenses

Investment management expenses payable as at 31st March 2005 have been accrued.

Debtors and Creditors

For Fund transactions, a system of income and converted payments is operated. Unless stated below, at the year-end, payments are converted to expenditure by the addition of unpaid creditors as at 31st March 2005.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2005 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 since not only do

they frequently apply to several past years but also, in the case of transfer values due, information is not available at the year end on which to make an accrual.

3. Contributions Receivable

2003/04 £m	Contributions Receivable	2004/05 £m
	Employers	
80.250	Normal	86.105
49.841	Additional	52.117
	Members	
41.818	Normal	44.820
0.664	In-House Additional Voluntary Contributions	0.644
172.573	Total Contributions Receivable	183.686

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

2003/04 £m	Member Body	2004/05 £m
18.737	South Tyneside Council (Administering Authority)	20.967
109.959	Other Metropolitan Councils	115.066
23.840	Other Scheduled Bodies	28.339
6.693	Resolution Bodies	6.361
	Admitted Bodies	
13.344		12.953
172.573	Total Contributions Receivable	183.686

4. Transfers In

During the year individual transfers in from other schemes amounted to £21.355m (£14.875m in 2003/04).

5. Benefits Payable

2003/04 £m	Benefits payable	2004/05 £m
106.096	Pensions	111.029
16.415	Commutations and Lump Sum Retirement Benefits	15.314
1.883	Lump Sum Death Benefits	2.116
(10.505)	Less: Recharges	(9.891)
113.889	Total Benefits Payable	118.568

The analysis of benefits by type of member body is not available. In this respect the accounts do not comply with the 2004 Code of Practice on Local Authority Accounting.

6. Transfers Out (Leavers)

2003/04 £m	Transfers Out (Leavers)	2004/05 £m
15.109	Individual Transfers to Other Schemes	18.142
1.001	Refunds to Members Leaving Service	0.703
16.110	Total Payments To and On Account of Leavers	18.845

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.

2003/04 £m	Administration Expenses	2004/05 £m
---------------	-------------------------	---------------

1.121	Employee Expenses	1.195
0.676	Support Services Recharge	0.638
0.016	Audit Commission Fees	0.017
0.105	External ICT Costs	0.040
0.081	Printing/Publications	0.100
0.088	Professional Fees	0.132
0.091	Other Expenses	0.055
(0.026)	SIB Pension Review	(0.029)
(0.040)	Other Income	(0.068)
2.112	Total Administration Expenses	2.080

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

8. Investment Income

2003/04	Investment Income	2004/05
£m		£m
(10.940)	Fixed Interest Securities	(8.515)
(27.408)	Equities	(32.498)
(0.571)	Index-Linked Securities	(0.360)
(0.044)	Pooled Investment Vehicles	(0.067)
(10.131)	Properties – Net Rents	(9.263)
(0.952)	Cash Deposits	(1.696)
(0.006)	Securities Lending	(0.166)
(0.279)	Commission Recapture	(0.277)
	Underwriting Commission	
(0.014)		
(50.345)	Sub-Total	(52.842)
2.435	Less: Non-Recoverable tax	3.386
(47.910)	Total Investment Income	(49.456)

9. Investments

Investments	Value at 1 st	Purchases	Sales	Change in	Value at 31 st
	April 2004	at Cost	Proceeds	Market	March 2005
	£m	£m	£m	Value	£m
Fixed Interest Securities	233.879	669.120	(662.149)	3.582	244.432
Equities	1,133.546	505.224	(448.884)	106.498	1,296.384
Index-Linked Securities	15.152	13.096	(11.552)	0.754	17.450
Pooled Investment Vehicles	767.307	26.554	(16.237)	76.971	854.595
Properties	157.740	50.568	(19.750)		207.479
				18.921	
	2,307.624	1,264.562	(1,158.572)	206.726	2,620.340
Cash Deposits	25.274	11.161	-	0.104	36.539
Other Investment Balances	7.651	7.716	(13.040)	2.309	4.636
Total Investments	2,340.549	1,283.439	(1,171.612)	209.139	2,661.515

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.

31 st March 2004	Investments	31 st March 2005
£m		£m
124.495	UK Public Sector	130.116
38.033	UK Other	42.663
71.351	Overseas Public Sector	71.653
233.879	Total Fixed Interest Securities	244.432
432.183	UK Quoted	479.083
0.002	UK Unquoted	0.000
701.361	Overseas Quoted	817.301
1,133.546	Total Equities	1,296.384
15.152	UK Quoted	17.450
15.152	Total Index-Linked Securities	17.450
8.581	Unit Trusts	7.414

653.186	Unitised Insurance Policies	718.115
105.540	Other Managed Funds	129.066
767.307	Total Pooled Investment Vehicles	854.595
139.600	Freehold	186.269
18.140	Long Leasehold	21.210
157.740	Total Properties	207.479
22.613	Sterling	26.154
2.661	Foreign Currency	10.385
25.274	Total Cash Deposits	36.539
1.629	Currency Hedging	2.075
12.549	Debtors	20.261
(6.527)	Creditors	(17.700)
7.651	Total Other Investment Balances	4.636
2,340.549	Total Investments	2,661.515

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.

2003/04 £m	Investment Management Expenses	2004/05 £m
4.606	Administration, Management and Custody	5.099
0.069	Performance and Risk Measurement Services	0.060
0.064	Other Advisory Fees	0.116
	Audit Fees	
0.016		0.017
4.755	Total Investment Management Expenses	5.292

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

31 st March 2004 £m	Current Assets and Liabilities	31 st March 2005 £m
17.228	Contributions and Recharges Due	17.596
(1.897)	Inland Revenue	(2.047)
(1.156)	Investment Management Expenses	(1.233)
0.952	Other	(1.304)
15.127	Total Current Assets and Liabilities	13.012

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.

Equitable Life has been experiencing significant financial difficulties over the past few 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 have had their balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable.

As at 31st March 2005 the AVC funds provided by The Prudential were valued at £5.097 million (£4.451 million as at 31st March 2004) and the funds operated by Equitable Life were valued at £1.207 million (£1.331 million as at 31st March 2004). The funds are valued by each of the providers and take no account of accruals.

13. Analysis of Investments Over Managers

The Fund employs eight specialist external investment managers over a total of thirteen different 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.

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, however, the Fund has made a commitment to an Emerging Markets Fund raised by Capital International. A decision has also been taken to make commitments to a range of global fund of funds managed by Pantheon Ventures and a secondary fund managed by Lexington Partners.

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

As at 31 st March 2004		Analysis of Investment Managers	As at 31 st March 2005	
£m	%		£m	%
Investment Managers				
156.091	7	Arlington Property Investors	205.530	8
267.006	12	Capital International – Global Equities	290.524	11
67.033	3	Capital International – Emerging Markets	73.496	3
261.061	11	Fidelity Pensions Management	301.039	11
218.576	9	Henderson Global Investors	231.639	9
510.239	22	Legal and General Investment Management	574.566	21
260.936	11	Prudential M&G	269.205	10
204.713	9	Schroder Investment Management	215.503	8
382.390	16	UBS Global Asset Management	468.825	18
7.566	-	Private Equity	20.237	1
4.938		Managed In-House	10.951	
2,340.549	100	Total Investments	2,661.515	100

14. Investment Performance

Equity markets rose over the past year, thereby consolidating impressive gains since 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. However, Equity markets are still valued about 30% below the peak of the market.

In this environment, pension funds have been able to post good positive returns for the second year in succession. The year started with continued confidence that the global economy was improving and this led to a rise in Equity markets. However, some concerns surfaced towards the end of the year over a US led slowdown. With the exception of the Japanese market, all of the major Equity markets posted

positive returns.

The Fund's return for the year was 10.9%, which was in line with the benchmark.

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 2.0% per annum. The decline in Equity markets from March 2000 to March 2003 is the main reason for this low return.

Whilst this return is disappointing in absolute terms and lags both the Retail Price Index at 2.5% per annum and the increase in average earnings at 4.2% per annum over the five year period, it is pleasing to note that it is above the benchmark return of 0.5% per annum.

15. Taxation

UK Tax

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

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

Overseas Tax

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

16. Derivatives

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2005, the Fund held a range of positions that together showed an unrealised profit of £2.075m. Of the 56 positions open as at 31st March 2005, 39 have been settled showing an overall profit of £1.869m. At the time of finalising the accounts seventeen of these positions remained open. As at 31st May 2005 these positions are showing an unrealised profit of £1.670m.

17. Securities Lending

The Fund started a securities lending programme in 2003/04 with the Fund's custodian, Northern Trust, acting as a securities lending manager and collateral manager. In August 2004, the Fund also started lending securities through its custodial arrangements with UBS Global Asset Management.

In late 2004, the Fund reviewed its custody arrangements and decided to consolidate the custody of all of its segregated assets with Northern Trust. As a consequence, from 1st February 2005, the lending arrangement with UBS was terminated and Northern Trust became responsible for all of the Fund's securities lending activities.

Securities totalling £167.540m were out on loan as at 31st March 2005, against collateral (in the form of financial instruments) of £175.341m.

The breakdown of securities on loan as at 31st March 2005 is as follows:

31 st March 2004 £m	Securities Lending	31 st March 2005 £m
58.979	Fixed Interest Securities	92.834
	- Index-Linked Securities	6.813

38.682	UK Equities	33.099
4.152	Overseas Equities	34.794
101.813	Total Securities Lending	167.540

18. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2005, no commitments were outstanding.

19. Significant Holdings

As at 31st March 2005, the Fund had two holdings that represented more than 5% of the total Fund value. Both of these holdings are insurance contracts, which provide access to a pool of underlying assets. These are:

Legal and General Assurance (Pensions Management) Limited – Managed Fund – as at 31st March 2005 this was valued at £493.130m and represented 18.4% of the total net assets of the Fund.

Prudential Pensions Limited – Corporate Bond All Stocks Fund – as at 31st March 2005 this was valued at £215.174m and represented 8.0% of the total net assets of the Fund.

20. Private Equity

As at 31st March 2005 the Fund had seven outstanding commitments to Private Equity Investments: -

Initial	
Commitment	As at 31st March 2005

Name of Fund	Year	Value	Drawdowns Made	Commitment Outstanding	
				Dollar	Sterling
HarbourVest International Private Equity Partners IV	2002	\$55.0m	\$20.5m	\$34.5m	£18.3m
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0m	\$6.2m	\$39.8m	£21.1m
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0m	\$0.8m	\$7.2m	£3.8m
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0m	\$3.2m	\$24.8m	£13.1m
HarbourVest Partners 2004 Direct Fund	2004	\$30.0m	\$3.7m	\$26.3m	£13.9m
Capital International Private Equity Fund IV	2004	\$18.0m	\$5.6m	\$12.4m	£6.6m
Capital North East	2002	£1.5m	£0.6m	N/A	£0.9m
Total Outstanding Commitments					£77.7m

The Sterling figures noted above for the commitment outstanding as at 31st March 2005 are based on the Dollar/Sterling 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 2004/05 South Tyneside Council charged the Tyne and Wear Pension Fund £0.917m (£0.916m in 2003/04) in respect of services provided; primarily financial, legal and information technology.

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 7th June 2005. A copy is available on the Fund's website www.twpf.info.

Organisations Participating in the Fund as at 31st March 2005

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
Newcastle Education Action Zone
Newcastle College
North Tyneside College
Northumberland Magistrates Court
Northumbria Police Authority
National Probation Service - Northumbria
Northumbria University
South Tyneside College
South Tyneside Education Action Zone
Sunderland Education Action Zone
Tyne Metropolitan College
Tyne and Wear Fire and Civil Defence Authority
Tyne and Wear Passenger Transport Authority
Tynemouth College
University of Sunderland
Wearside College
Your Homes Newcastle

Resolution Bodies

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

Admitted Bodies

Age Concern Newcastle
Assessment and Qualification Alliance
Association of North East Council
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
Compass Group UK and Ireland Limited
Disability North
Gateshead Law Centre
Higher Education Funding Council for England
Hebburn Neighbourhood Advice Centre
Information North (Northern Regional Library System)
International Centre for Life
Jarvis Accommodation Services Limited
Jarvis-Sandhill View
Kenton Park Sports Centre

Admitted Bodies

Morrisons Facilities Services Limited
National Car Parks Limited
Newcastle Healthy City Project
National Glass Centre
Newcastle International Airport Company Limited
Newcastle Theatre Royal Trust Limited
Newcastle Tenants Federation
Newcastle West End Partnership
Newcastle Youth Congress
Newcastle Family Service Unit
No Limits Theatre
Newcastle Law Centre
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 Informatics Application Agency
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
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 Bureau

Managed Business Space Limited
Mitie Cleaning (North) Limited
Mitie PFI Limited

Wallsend Citizens Advice Centre
Wallsend Peoples Centre
Workshops for the Adult Blind (Palatine Products)

Glossary of Financial Terms

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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.

Asset

Something an organisation owns or is due to own e.g. fixed assets, cash and debtors.

Asset Management Revenue Account

An account the Council is required to maintain under capital accounting arrangements. 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

Expenditure on the acquisition of a tangible asset or computing resources, or expenditure that enhances the value of an existing asset is treated as capital expenditure. 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 NNDR 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 depend 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 31st March 2004.

Debtors

Sums of money due to the Council but not received by 31st March 2004.

Deferred Charges

Items of capital expenditure that do not result in, or remain matched by, tangible 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.

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

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.

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 asset is never owned by the Authority, does not count against capital expenditure allocations.

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 loans 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.

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 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.