STATEMENT OF ACCOUNTS 2011/2012

Gateshead Council
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Part 1

Explanatory Foreword

Introduction

The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation of the Council's financial position, and assists in the interpretation of the accounting statements. It also contains a commentary on the major influences affecting the Council's income and expenditure and cashflow, and information on the financial needs and resources of the Council.

The Statement of Accounts which follow demonstrate the Council's financial performance for the year ended 31 March 2012, and present its overall financial position at the end of that period and the cost of services it provides. The statement has been prepared in accordance with the International Financial Reporting Standards (IFRS)-Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA[1]/LASAAC[2] Board and approved by FRAB[3]. The Code constitutes proper accounting practice[4].

When read in conjunction with the Council's Annual Report[5], the publications provide an insight into the many activities and achievements of the Council during the year.

The Statement of Accounts

The Statement of Accounts[6] is set out on pages 18 to 88. The statement covers the financial year from 1 April 2011 to 31 March 2012, with comparative figures included for previous periods where appropriate. Note that all figures are rounded to the nearest thousand (£000s) unless otherwise stated. The accounts consist of the following statements that are required to be prepared under the Code of Practice:

Statement of Responsibilities (Page 17)
This explains both the Council's and the Strategic Director, Finance & ICT's responsibilities in respect of the Statement of Accounts.

Core Financial Statements (pages 18 to 80):

Movement in Reserves Statement (Page 19)
This statement shows the movement in the year across the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other, 'unusable' reserves.

Comprehensive Income and Expenditure Statement (Page 21)
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from

[1] The Chartered Institute of Public Finance and Accountancy
[2] CIPFA's Local Authority (Scotland) Accounts Advisory Committee
[3] Financial Reporting Advisory Board, an independent board within HM Treasury
[4] Under the terms of the Accounts and Audit (England) Regulations 2011 & the Local Government and Housing Act 1989
[5] See http://www.gateshead.gov.uk/Council%20and%20Democracy/PerformanceThemes/OurPerformanceReports.aspx
[6] Note that this is the single entity Statement of Accounts; the Council does not prepare Group Accounts at present

taxation. Authorities raise council tax to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in CIPFA's Service Accounting Code of Practice (SeRCOP).

Balance Sheets as at 1 April 2010, 31 March 2011 and 31 March 2012 (Page 22)
These show the Council's financial position and net assets at the financial year-end. They summarise the long-term and current assets, which are used in carrying out the Council's activities, together with its liabilities.

Cash Flow Statement (Page 23)
This summarises the cash and cash equivalent receipts and payments of the Council arising from transactions with third parties for both capital and revenue purposes. Cash is defined for the purpose of this statement as cash in hand; cash equivalents are deposits repayable on demand.

Notes to the Core Financial Statements (Page 25)
The notes provide additional information for significant items to support the core statements above.

Supplementary Financial Statements (pages 81 to 88):

Housing Revenue Account (HRA)
- **HRA Income and Expenditure Statement (Page 82)**
  This account deals with the provision and maintenance of the Council's housing stock. There is a statutory requirement to produce this account, which separates housing from all other Council services.

- **Statement of Movement on the HRA Balance (Page 82)**
  This shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement in the HRA balance for the year.

- **Notes to the Housing Revenue Account (Page 83)**
  The notes provide additional information to support the HRA statements.

Collection Fund
- **The Collection Fund Statement (Page 87)**
  The Council is required[7] to establish and maintain a Collection Fund, which shows the transactions of the Council in relation to national non domestic rates and council tax and illustrates the way in which these have been distributed to precepting authorities and the General Fund.

- **Notes to the Collection Fund Statement (Page 88)**
  These provide additional information to support the Collection Fund.

[7] In accordance with section 89 of the Local Government Finance Act 1988 (as amended in 1992)

Documents Supporting the Statement of Accounts

Annual Governance Statement (Page 90)
This statement, required by regulations[8] to accompany the Statement of Accounts, outlines the Council's approach to corporate governance and internal control.

Independent Auditor's Report (Page 98)
This report details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (Page 101)
This section includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terminology.

Summary of the Financial Year

The Council classifies its expenditure and income as either revenue or capital. Revenue relates to the purchase of goods and services that are consumed within one year, financed from council tax, grants, business rates and other income such as fees and charges. Capital relates to assets which have a useful life in excess of one year, financed by capital receipts, borrowing or grants / contributions.

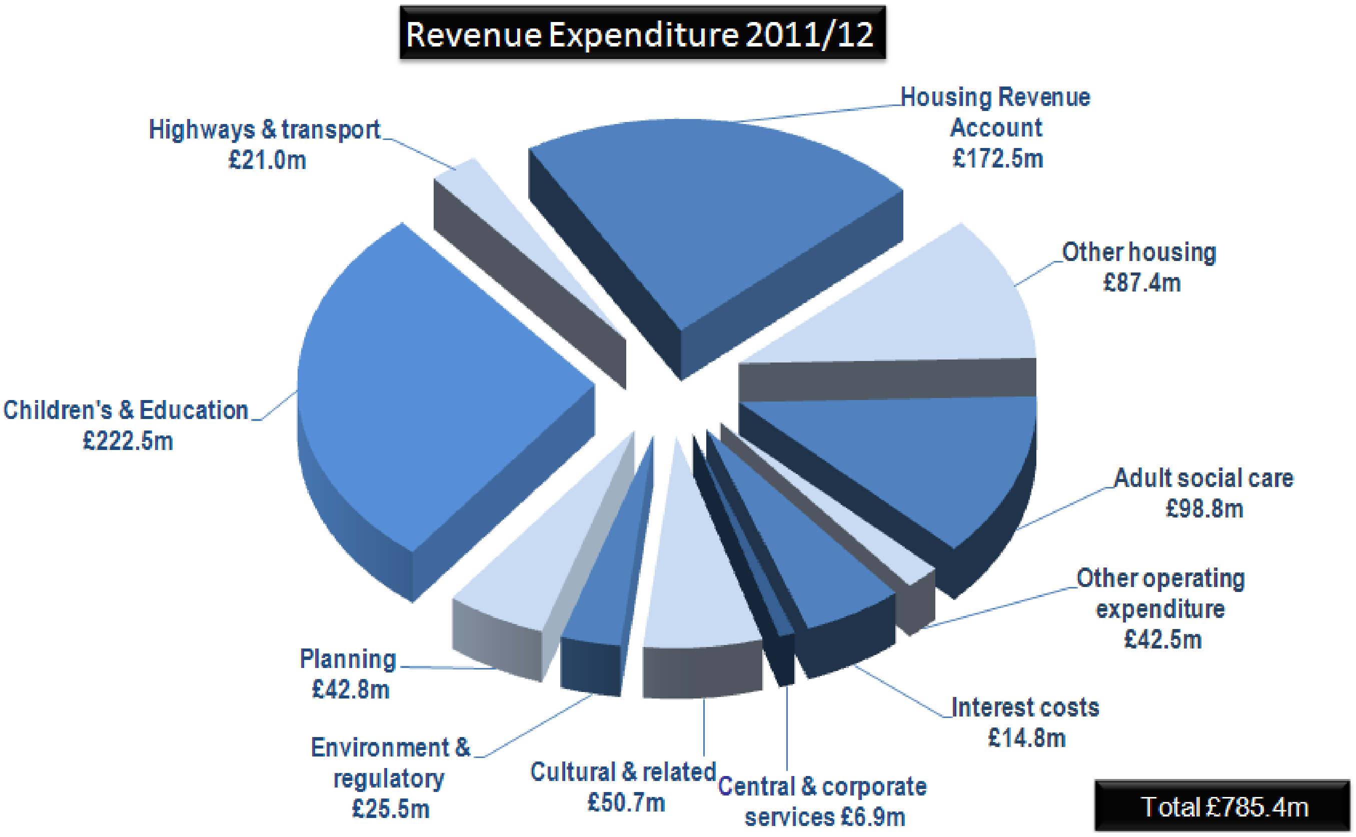
Revenue Income and Expenditure Summary
The following section offers a summary of the income and expenditure presented within the Comprehensive Income and Expenditure Statement (page 21), the Movement in Reserves Statement (page 19) and the Housing Revenue Account (HRA) statements (page 82). The information reconciles to the net movement in the General Fund and HRA reserves, presented here in a consolidated form for illustrative purposes.

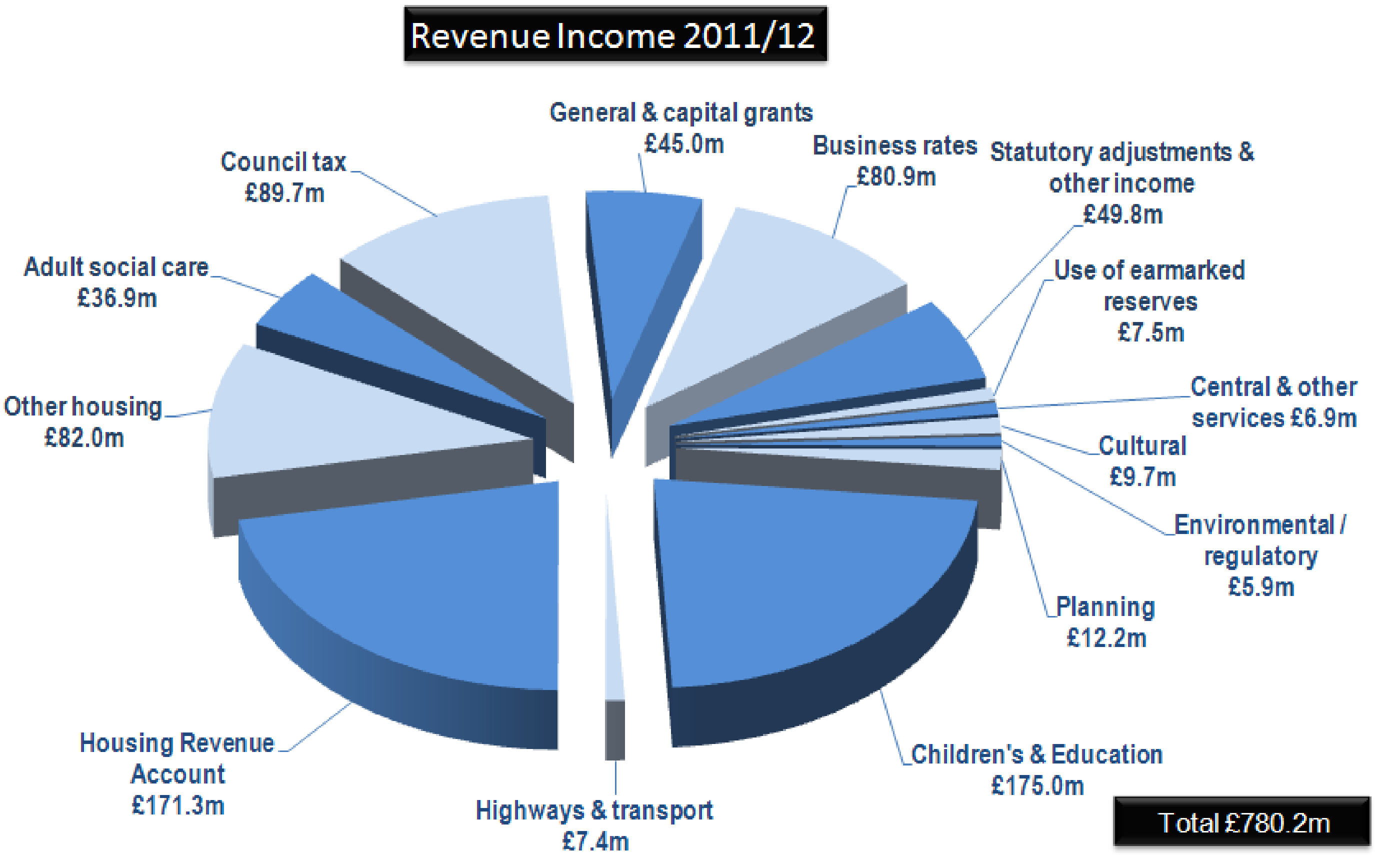
Total expenditure in 2011/12 was £785.4m, which includes both General Fund services and the HRA. This was funded by income and earmarked reserves of £780.2m, the difference of £5.2m being the use of reserves as shown below:

	Opening balance (£000s)	2011/12 movement (£000s)	Closing balance (£000s)
General Fund - General Reserve	(15,994)	2,680	(13,314)
General Fund - Schools / LMS Reserve	(10,891)	1,365	(9,526)
HRA Reserve	(16,327)	1,156	(15,171)
	(43,212)	**5,201**	**(38,011)**

The following charts show the services on which money was spent and how it was funded, analysed by service where relevant:

[8] Paragraph 4(4)(a) of Accounts and Audit (England) Regulations 2011





Revenue Outturn

The Comprehensive Income and Expenditure Statement (CIES) is a statutory account reflecting proper accounting practice in accordance with the IFRS-Based Code of Practice. The account includes expenditure in relation to schools which is ring-fenced and spending on

HRA which again is a ring-fenced account funded by housing rents. The main measure of the Council's financial performance is reflected in the movement in the General Reserve. The General Reserve budget is reported internally to management and Cabinet in relation to Strategic Directorates and is different to the statutory reporting requirements in the CIES. Note 8 Segmental Analysis provides a reconciliation between the revenue outturn position reported internally (£205.559m) and the cost of services in the CIES (£298.132m):

Summary of 2011/12 Financial Position against Budget

	Gross exp. £000s	Gross income / financing £000s	Net exp. £000s	Net budget £000s	Budget variance £000s
Learning & Children	190,784	(163,907)	**26,877**	**28,457**	(1,580)
Community Based Services	198,153	(125,782)	**72,371**	**66,493**	5,878
Development & Enterprise	23,511	(16,865)	**6,646**	**7,224**	(578)
Local Environmental Services	55,317	(28,150)	**27,167**	**27,961**	(794)
Central Services	48,452	(7,179)	**41,273**	**41,933**	(660)
Net Service expenditure	516,217	(341,883)	**174,334**	**172,068**	2,266
Capital financing	28,472	0	**28,472**	**30,902**	(2,430)
Other operating expenditure	15,876	0	**12,871**	**12,871**	0
Other adjustments	0	(13,684)	**(10,118)**	**(10,976)**	858
	560,565	(355,567)	**205,559**	**204,865**	694
Financing					
Formula grant	0	(105,904)	**(105,904)**	**(105,904)**	0
Council tax	0	(85,498)	**(85,498)**	**(85,498)**	0
Council tax freeze grant	0	(2,137)	**(2,137)**	**(2,137)**	0
Use of reserves	0	(8,802)	**(8,802)**	**(8,826)**	24
Budgeted use of General Reserve	560,565	(557,908)	**3,218**	**2,500**	718
Use of one-off income	0	(3,543)	**(3,543)**	**0**	(3,543)
Redundancy cost balance	3,005	0	**3,005**	**0**	3,005
Use of General Reserve	563,570	(561,451)	**2,680**	**2,500**	180
General Reserve balance brought forward			**(15,994)**	**(15,994)**	**0**
In-year movement			2,680	2,500	180
General Reserve balance carried forward			**(13,314)**	**(13,494)**	**180**

The estimated net revenue expenditure for 2011/12 to be met from government grants and local taxpayers was approved at £204.865m (excluding schools), supported by the use of £2.5m from the General Reserve and £8.803m from earmarked reserves. Band D council tax was set at £1,443.20 (excluding precepts) for 2011/12, unchanged from 2010/11 due to the receipt of £2.1m council tax freeze grant.

The final revenue outturn on services is £205.559m, an overspend of £0.694m (0.3%). Variations in the use of earmarked reserves resulted in the actual requirement from the General Reserve of £0.718m for the year. One-off income including a surplus on the Construction Services trading account and reductions in insurance costs and expenditure related to the unfunded cost of redundancies together reduce the overspend to £0.18m

(0.1%) as shown in the table above. This outcome means the General Reserve reduced by £2.68m compared to a planned reduction of £2.5m when the budget was set.

Further details can be found in the Council's Revenue Outturn report to Cabinet dated 19 June 2012[9]. A reconciliation between the net cost of services reported internally of £205.559m and the net cost of services of £298.132m in the CIES is set out in Note 8 *Segmental Analysis*.

Capital Income and Expenditure Summary

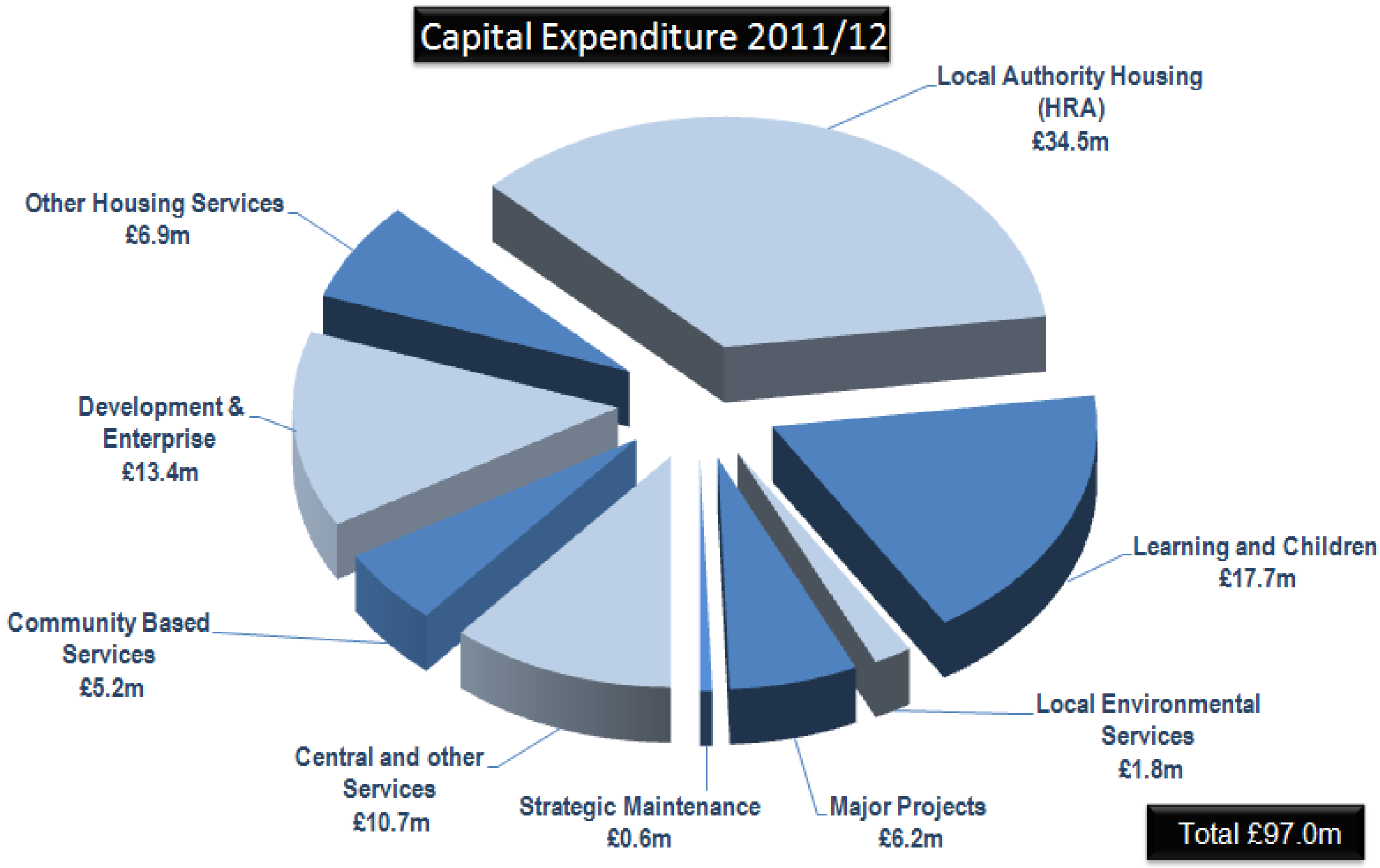
In 2011/12, Gateshead Council spent £97.031m on capital schemes, compared with £156.645m in 2010/11. This included £94.113m on the purchase of or improvements to assets and £2.918m relating to the capitalisation of statutory redundancy costs as part of an approved capitalisation direction.

Whilst the level of capital spend has reduced when compared to previous years, the 2011/12 capital programme made a significant contribution to the delivery of Vision 2030 and capital investment was focused on the delivery of high priority schemes for the Council.

Actual capital expenditure for the year on the Council's non-current assets totalled £84.072m (2010/11: £137.362m). This expenditure was invested in the provision and maintenance of the Council's assets such as housing, schools, residential homes, roads and leisure and cultural facilities.

In addition, £10.041m (2010/11: £12.475m) was spent on schemes where no asset of the Council was created such as grants to private individuals and voluntary organisations, works to voluntary aided schools and children's centres, together with master planning feasibility work and capitalisation in accordance with government requirements.

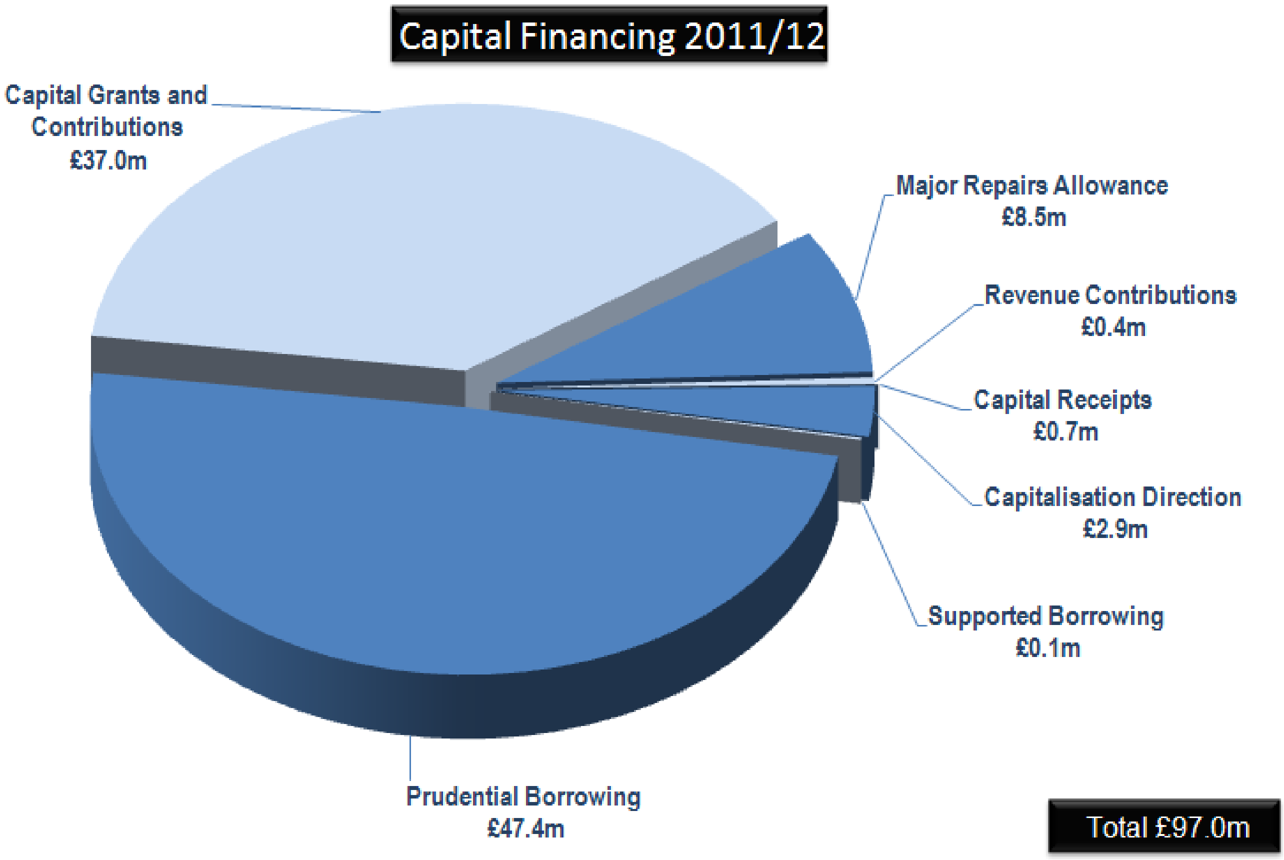
The following chart indicates the split of capital expenditure:



9 http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-32220/Item+08+-+Revenue+Outturn+2011-12.doc

The use of available external capital resources and capital receipts to fund the 2011/12 Capital programme has been maximised, ensuring that the Council does not lose any of the external funding that has been awarded, and where possible reductions have been made to schemes which are not considered to be essential to help reduce the pressure on revenue resources which would be required to support additional prudential borrowing.

A summary of how the capital expenditure was financed is as follows:



Further details can be found within the Capital Outturn Report[10].

Council's Borrowing Position

The Budget and Council Tax Level Report submitted to Council on 3 March 2011 detailed the 2011/12 borrowing limits for the Council.

The specific borrowing limits set relate to two of the prudential indicators, which are required under the Prudential Code introduced on 1 April 2004. The Council is required to set borrowing limits for the following three financial years. The limits for 2011/12 were as follows:

- Authorised limit for external debt of £780m
- Operational boundary for external debt of £735m

As part of the Council's Treasury Management operation, these indicators are monitored on a daily basis, and neither were exceeded during 2011/12. The highest level of external debt incurred by the Council was £583.076m for the period 31 October 2011 to 3 January 2012.

South Tyne and Wear Waste Management Partnership

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. In April 2011,

[10] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-32218/Item+07+-+Capital+Outturn+report.doc

the partnership, led by Gateshead, signed a £727m PFI-funded contract with a consortium led by SITA UK. The contract is focussed on the development of an energy-from-waste facility on Teesside which will treat 190,000 tonnes a year of waste generated by the three councils.

The facility is expected to be operational in 2014 and is currently under construction. More details can be found within Note 20.

Gateshead Regeneration LLP

At its meeting on 17 June 2008, Cabinet approved the procurement of a joint venture limited liability partner to work alongside the Council with the overall remit to manage and deliver housing regeneration across the borough.

The procurement of the joint venture partner was conducted through the public procurement directives competitive dialogue process. During 2011/12 the Council formally appointed its preferred partner Evolution Gateshead, a consortium of Home Group and Galliford Try. The partnership was incorporated on 29 March 2012 as Gateshead Regeneration LLP (company no. OC373914). Over the next 15 to 20 years, the partnership will build around 2,400 new homes, including affordable housing, on 19 different sites in Gateshead.

Material Assets and Liabilities

As at 31 March 2012, the Council holds £1,348.902m of long-term assets, £91.694m of current assets, £124.432m of current liabilities and £1,050.671m of long-term liabilities.

Long-term assets have reduced by £95.511m, largely due to a reduction of £98.835m in property, plant and equipment, resulting from downward revaluations of the Council's housing stock.

Current assets have decreased by £54.327m, reflecting the following:

- A decrease of £70.303m in short-term investments, reflecting the application of these funds to temporarily support the capital programme due to the difference between borrowing costs relative to the return on investments and the increased uncertainty in the economy;
- A increase of £5.361m in short-term debtors some of which is due to increases in council tax and NNDR arrears; and
- An increase of £12.820m in cash and cash equivalents (asset element) due to fluctuations in cash balances.

The Council’s current liabilities have decreased by £25.470m, reflecting the following:

- A decrease of £10.653m in the equal pay provision reflecting the settlement of legal claims and the utilisation of the £10m workforce management provision;
- Cash and cash equivalents have reduced by £5.530m;
- An increase of £11.207m in short-term borrowing reflects the maturity profile of the borrowing; and
- A decrease of £10.954m in short-term creditors due to the reduction in non-essential expenditure.

Long-term liabilities have increased by £94.921m, mainly reflecting a reduction of £113.781m actuarial valuations and assumptions in relation to pension liabilities offset by a reduction in long term creditors.

Workforce Management
On 7 December 2010, the Council made an offer of voluntary redundancy (VR) to all employees with the exception of those working in schools. The offer was time limited with a view to having a confirmed number of leavers by 31 March 2011, with the remainder by 30 June 2011. The 2010/11 Statement of Accounts included a cost of £22.237m which was made up of £12.237m for the cost of those employees who left the Council or received a formal offer by 31 March 2011, and a provision of £10m in relation to the estimated cost of those employees who would leave under VR by 30 June 2011. The actual cost of those leaving was £27.880m with the additional cost being borne in the Statement of Accounts for 2011/12.

As a result of the funding cuts and the required level of savings, on 1 December 2011, the Council issued 2,404 staff with Section 188 Notice of Potential Redundancy letters. At the same time, an offer of voluntary redundancy was made in an attempt to minimise potential compulsory redundancies. Consultation on the proposals ended on 23 February 2012 and 195 staff were given notice of redundancy on 2 March 2012. All staff that were selected for redundancy were put on a redeployment register during their notice period. Effective management and monitoring of this process reduced further the number of employees that were actually made redundant.

Exit Packages
The 2011/12 Code has introduced a new requirement to disclose, in bands, the numbers of exit packages agreed and the cost of those exit packages to the Council in the financial year. Disclosure Note 14 relates to the financial consequences of the exit packages recognised and reported in the Comprehensive Income and Expenditure Statement to which the Council is demonstrably committed. This included the estimated cost of all staff who were given a formal notice of redundancy and all staff who had been offered and accepted an offer of voluntary redundancy.

The 2011/12 Statement of Accounts recognises a cost of £11.538m in relation to an estimated 136 compulsory redundancies, 384 voluntary redundancies and non renewal of 9 fixed term contracts. This cost includes the cost of redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund. It should be noted, however, that 196 of the voluntary redundancies relate to leavers under the 2010/11 offer of redundancy with a total cost of £5.643m. In addition, the costs were estimated based on the number of employees given notice of compulsory redundancy and a number of these staff have subsequently been redeployed which will be reflected in the 2012/13 statement of accounts.

Pension Liability
Council employees are members of the Tyne and Wear Pension Fund, administered by South Tyneside Council. The Council makes employer contributions on the basis of an agreed percentage of its employees' contributions to the Tyne and Wear Pension Fund, based on an independent actuarial revaluation of the fund every three years. It also has to meet the pension costs of employees who have left employment due to ill health or where early retirements have been agreed, and also makes additional contributions to make good the shortfall in the pension fund, known as deficiency payments.

Teachers employed by the Council are part of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency (TPA). The Council makes contributions based on a percentage of the member's pensionable salaries. The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each authority. As such, it is not possible for the Council to identify a share of the underlying liabilities of the scheme attributable to its own employees.

Accounting for Pensions

Both the Tyne and Wear Pension Fund, part of the Local Government Pension Scheme, and the Teachers' Pension Scheme are classified as defined benefit schemes, and accounted for in accordance with the requirements of IAS19 Employee Benefits.

IAS19 is an accounting standard that requires the Council to account for retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. Inclusion of the Pension Fund assets and liabilities in the accounts represents the Council's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit through reduced contributions from a surplus in the Pension Fund. The Council complies fully with the standard and note 25 provides details of the disclosures required.

The last full actuarial valuation of the Tyne and Wear Pension Fund was carried out as at 31 March 2010 by independent actuaries to take into account the requirements of IAS19 in order to assess liabilities as at 31 March 2011. During 2011/12 an assessment has been made on the impact of scheme members leaving under voluntary redundancy. The Council's actuary has undertaken a full valuation of the LGPS pension benefits to accurately calculate a curtailment arising from a significant number of redundancies that have occurred, or to which the Council has become demonstrably committed, over the accounting period.

The Council's actuary has also estimated the impact of those schools that have converted to academy status over the accounting period, namely Cardinal Hume Catholic School, St Thomas More Catholic School, Whickham School and Sports College, Lord Lawson of Beamish and Joseph Swan, on the Council's accounting figures by adjusting the assets and liabilities attributable to the converting schools at the valuation date. The assets set out as being transferred from an accounting viewpoint are smaller than the liabilities which reduces the pension deficit on the Council's Balance Sheet.

The net overall impact of IAS19 accounting entries is neutral in the accounts, and in reality, as the Council is making the necessary pension deficiency payments to address any assessed shortfall in the Pension Fund by the actuary, then the Balance Sheet net worth is in effect reporting future years' deficits, which are being addressed.

The reported financial health of the Council is consequently being affected by the accounting requirements of IAS19. However, the Pensions Reserve deficit reflected in the Balance Sheet, as assessed by the actuary as at 31 March 2012, is being addressed by the Council whereby at the date of revaluation a period of 22 years was agreed to correct the deficit position.

Material Charges and Credits in the Accounts

The Comprehensive Income and Expenditure Statement includes the following material charges and credits:

- A downward revaluation of £96.298m is included as a charge in the Local Authority Housing (HRA) line, reflecting a material change in the valuation of Council dwellings; and
- An £11.562m charge is included within the relevant cost of service in relation to the cost of voluntary and compulsory redundancy for those employees who left the Council or received a formal offer by 31 March 2012.

Significant Changes since 2010/11

Key accounting changes within the 2011/12 Code of Practice on Local Authority Accounting include:

- The Code has introduced a requirement to disclose the number and cost of exit packages agreed. Details can be found within Note 14 to the accounts; and
- The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. Heritage assets are carried at valuation where possible and additional disclosures are required. A third Balance Sheet has been prepared to reflect the change in accounting policy with regard to heritage assets. The inclusion of these assets with a carrying value of £20.220m represents a material change to the Balance Sheet, and as such further disclosures have been made in Note 18.

Significant Issues for 2012/13 and Beyond

Government Funding

The Council's formula grant for 2011/12 reduced by £13.724m, equivalent to 11.5% when compared to the 2010/11 adjusted grant. This reduction was well above the national average of 9.9% despite the Council being within the top 15% of deprived authorities. The formula grant for 2012/13 reduces by a further £8.036m or 7.6%. On top of this the Council has been impacted by the ending of most of the targeted grants aimed at more deprived areas.

Due to the number of changes to grant funding, the settlement was complex and lacked transparency. To aid comparison, the government introduced the concept of "Revenue Spending Power" The aim of this calculation, which is an aggregate of council tax, formula grant, other specific grants and NHS funding, is to determine eligibility for Transition Grant. This is payable to councils who had a reduced spending power of more than 8.8% in 2011/12.

The government has reported that the Council's reduction in Revenue Spending Power for 2012/13 will be £7.793m, a reduction of 3.63%. This means that the Council was not eligible for transition grant.

In addition to grants included within Revenue Spending Power, changes to other grant streams mean that the Council's grant funding will reduce by £8.035m in 2012/13. This is on top of the £17.038m reduction in Revenue Spending Power in 2011/12.

There is uncertainty around future funding reductions, not only for the next two years of the Comprehensive Spending Review but for the foreseeable future. Assumptions made within the MTFS 2012/13 – 2014/15 are based on national indicators as part of the spending review. This assumes formula grant reductions of 0.8% for 2013/14 and 5.37% for 2014/15. The MTFS will be refreshed in July and subject to full review in December when there will be more certainty of the next two-year settlement.

The resources available to achieve the Council's key priorities are contained in the Council's current Medium Term Financial Strategy (MTFS)[11], which is part of the Council Plan[12]. The MTFS sets out the Council's approach to achieving a sustainable budget over the medium term whilst ensuring that all revenue resources are directed towards corporate priorities and the delivery of Vision 2030. The MTFS describes the financial direction of the Council over the planning period and outlines the financial pressures it will face.

[11] http://www.gateshead.gov.uk/Council%20and%20Democracy/finance/mtfs.aspx

[12] http://www.gateshead.gov.uk/Council%20and%20Democracy/policies/council-plan.aspx

Medium term financial planning continues to be difficult and takes place against the background of significant funding cuts for local government. The Spending Review[13] on 20 October 2010 outlined substantial cuts to local government funding over the next four years to 2014/15. In addition, the Council, in common with most local authorities, continues to be at risk from financial pressures in a number of service areas, in particular Adult Social Care and Looked After Children.

Details of the Council's expenditure plans for 2012/13 are set out in the Budget Plan[14].

Revenue Budget 2012/13
The Council approved a revenue base budget of £190.504m for 2012/13, a reduction of £14.361m (7%) on the 2011/12 base budget, which includes £22.344m budget savings and a council tax freeze in 2012/13.

Capital Programme 2012/13
The Council approved a capital programme of £61m for 2012/13 (including £23m HRA capital programme), with the level of investment over the three years to 2014/15 forecast to be £143m[15]. This represents a reduction of £35m (20%) on the 2011/12 original capital budget.

The Housing Revenue Account (HRA)
From 1 April 2012, the current housing subsidy system was replaced with a new scheme called self-financing. The HRA account remains a separate ring fenced account and local authorities are still required to account for income and expenditure on council housing separate from other functions and services.

Instead of collecting rents and then receiving or paying housing subsidy from or to central government (based on a needs based formula), councils will keep the money raised from rents locally and use it to manage their housing stock.

In order to bring about this change, there was a one off readjustment of each local authority's housing debt. The Council received a settlement payment of £21.450m to repay loans held with the Public Works Loans Board (PWLB).

Borrowing is limited under the new self financing system. The government have set a cap on borrowing for all authorities and for Gateshead the cap is £345.505m. The Council was at this cap on the 28 March 2012 after the £21.450m was repaid. This means that no further borrowing to support investment in the housing stock can be taken out until some existing borrowing is repaid. 2012/13 projects within the capital programme will be met from either rents or reserves held within the HRA.

These reforms will have major implications for the operation and management of the HRA. The Council and the Gateshead Housing Company are working jointly to prepare a 30-year business plan to support the implementation of self-financing.

On 9 February, Council approved the HRA for 2012/13[16] (£23m) and a proposed five year capital programme. The housing capital programme will continue to be reviewed on an annual basis depending on the availability of resources within the HRA.

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[13] http://hm-treasury.gov.uk/spend_index.htm
[14] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-31603/Item+05+-+Budget+and+Council+Tax+Level+2012-13.doc
[15] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-31556/Item+03+-+Capital+Programme+report.doc
[16] http://online.gateshead.gov.uk/docushare/dsweb/Get/Document-31616/Item+01+-+Housing+Revenue+Account.doc

Transfer of Public Health Responsibilities
The Health and Social Care Bill received royal ascent on 27 March 2012 which legislates for the intention for Public Health responsibility to move to local authorities from 1 April 2013.

On 7 February 2012 the Department of Health issued Public Health baseline spend estimates of £14.5m for Gateshead. This is based on the 2010/11 actual spend submitted by Gateshead PCT, which at £14.9m is £0.4m higher than the estimate. Work is ongoing to share information with Gateshead PCT to understand the implications of this allocation on the current budget position.

It is proposed that the distribution of funding will eventually move to a needs based formula. Based on these proposals currently under consultation, this could result in a significant reduction for Gateshead from allocations based on historical spend.

Gateshead Public Health transition plans were submitted to the Strategic Health Authority (SHA) at the end of March and have been assured against the national checklist. The SHA have commended Gateshead on their plans to date.

There are some key risks associated with the transfer of public health responsibilities and a risk register is currently being worked on jointly to ensure that they are adequately captured and action is taken to mitigate the risks.

Welfare Reform
The Welfare Reform Bill contained provisions for reforming welfare benefit payments. The introduction of a 'Universal Credit' will replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013.

The key impacts for the Council are:

- Approximately 3,748 council tenants (18%) in Gateshead would be affected by under-occupation. This would add a total of £2.1 million to the annual rent to be collected and could increase the risk of rent arrears significantly;
- Of the 3,748 tenants affected by under-occupation changes, 2,933 have one extra bedroom and 815 have at least two extra bedrooms; and
- Around two–thirds of tenants currently have housing benefit credited directly to rent accounts, accounting for over 55% of rental income (in 2010/11 this equated to around £41 million of a total £72 million).

The Council has undertaken considerable work to understand the impact of Welfare Reform, working with partners such as the Gateshead Housing Company and this work will continue.

Localisation of Council Tax
Localising support for council tax is part of the government's wider policy of decentralisation and, as part of the Spending Review 2010, the government announced it would localise support for council tax from 2013/14 with a 10% reduction in funding which could equate to a £2.5m reduction for the Council.

In order to implement local council tax support schemes from April 2013, the Council will prepare its proposed scheme and embark on consultation with major precepting authorities and its taxpayers.

Business Rates Retention

The introduction of a business rates retention scheme will involve major change to the current Local Government Finance system replacing formula grant with a scheme which incorporates business rate retention. The scheme seeks to remove the centralised control of funding for local authorities with greater autonomy over locally raised resources.

From April 2013, local authorities will keep 50% of the business rates that they receive from local business ratepayers. There are potentially negative financial implications for the Council in relation to the level of the safety net threshold, given that the Council is a net recipient of funding from the current pooled arrangements.

School Funding Reform

The schools funding system will be reformed from 2013/14. The proposal is for a national funding formula for schools, a simplification of the formula and the reduction in the number of allowable factors.

The government have not yet finalised their proposals to change schools funding, however there will be simplification of the funding formula for primary and secondary schools, a change to the funding for special educational needs, the Dedicated Schools Grant (DSG) will be divided into 3 blocks: Schools, High Needs Pupils and Early Years and there is possibility of the revenue support grant (RSG) part of Education to be moved from the DCLG to DfE and issued as a separate ringfenced grant.

The consultation period for the Schools Funding Reform ended on 21 May 2012.

Academies

As part of the 2011/12 and 2012/13 settlement, the government top sliced formula grant to fund the transfer of schools to academy status. This was done regardless of whether a local authority had academies in its area. For Gateshead, this was a reduction in formula grant of £0.473m for 2011/12.

This top slice has been disputed and a number of authorities, including Gateshead, have asked for a judicial review of the government's actions. The government said that it would consult on the top slicing so the judicial review was stayed pending the outcome of the consultation. To date the outcomes of the consultation have not been announced.

In addition to this, top slice in year recoupment of the relevant proportion of the converting schools budget share and the associated Local Authority Central Spend Equivalent Grant has been taken by the DfE. This amounted to £6.1m in relation to the converted schools in Gateshead during 2011/12; a further amount will be taken within 2012/13 depending on the number of converting schools.

Gateshead currently has six academy schools with two further schools progressing towards conversion.

Police Reform and Social Responsibility Act

The Council currently provides professional and technical support services to Northumbria Police Authority to support the statutory and delegated roles of Chief Officers.

The Police Reform and Social Responsibility Act 2011[17] sets out the requirement to replace police authorities with directly elected Police and Crime Commissioners (PCC) on 22 November 2012.

[17] http://www.legislation.gov.uk/ukpga/2011/13/contents/enacted

The Council is supporting the Authority in overseeing the effective transition to the Office of Police and Crime Commissioner, ensuring adequate governance and accounting arrangements are in place up to and beyond the transition date. The support arrangements will be reviewed as part of this process to ensure they remain fit for purpose so as to meet the requirements of the PCC.

Conclusion

The Council's MTFS covers the remaining three years of the government's spending review period. Grant funding for the first of the three years, 2012/13, has been fixed but there is still a great deal of uncertainty for 2013/14 and 2014/15. This is compounded by proposed changes to local authority funding in many specific areas.

Future pressures facing the Council have been considered and budgets have been approved based on savings of £38m over the two years 2012/13 and 2013/14. The refresh of the MTFS will take account of the updated position in relation to spending pressures to inform the work on the 2013/14 budget.

Further Information

This publication provides a review of the financial performance of the Council for 2011/12. Given the complexity of these accounts, a set of summary accounts has been produced and published on the Council's website. These will also be included in the Council's Annual Report. Comments are invited on the usefulness and readability of this summary document.

Signed: Date:

Derek Coates
Strategic Director, Finance & ICT

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Director, Finance & ICT;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Strategic Director, Finance & ICT's Responsibilities

The Strategic Director, Finance & ICT is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Strategic Director, Finance & ICT has:

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

The Strategic Director, Finance & ICT has also:

- kept proper accounting records which are up to date; and
- 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 31 March 2012, required by the Accounts and Audit (England) Regulations 2011 are set out in the following pages.

I further certify that the Statement of Accounts give a true and fair view of the financial position of the Council at 31 March 2012 and of its income and expenditure for the year ended 31 March 2012.

Signed: Date:

Derek Coates
Strategic Director, Finance & ICT

Part 2: Core Financial Statements

Comprising:

- **Movement in Reserves Statement**
- **Comprehensive Income and Expenditure Statement**
- **Balance Sheet**
- **Cash Flow Statement**
- **Notes to the Core Financial Statements**

Movement in Reserves Statement

2011/12 movements:

	Note	General Fund Balance	Earmarked GF Reserves	Airport Reserve	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves restated	Total Authority Reserves restated
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2011		**(26,885)**	**(23,156)**	**(559)**	**(16,327)**	**0**	**(451)**	**(23,041)**	**(90,419)**	**(394,363)**	**(484,782)**
(Surplus) or deficit on provision of services		58,625	0	0	70,728	0	0	0	129,353	0	129,353
Other comprehensive (income) and expenditure	6a	0	322	0	0	0	0	0	322	89,614	89,936
Total comprehensive (income) and expenditure		**58,625**	**322**	**0**	**70,728**	**0**	**0**	**0**	**129,675**	**89,614**	**219,289**
Adjustments between accounting basis & funding basis under regulations	6b	(47,107)	0	0	(69,572)	(5,609)	(653)	14,748	(108,193)	108,193	0
Net (increase) / decrease before transfers to earmarked reserves		**11,518**	**322**	**0**	**1,156**	**(5,609)**	**(653)**	**14,748**	**21,482**	**197,807**	**219,289**
Transfers (to) / from earmarked reserves		(7,473)	7,473	0	0	0	0	0	0	0	0
(Increase) or decrease in year		**4,045**	**7,795**	**0**	**1,156**	**(5,609)**	**(653)**	**14,748**	**21,482**	**197,807**	**219,289**
Balance as at 31 March 2012	**6c**	**(22,840)**	**(15,361)**	**(559)**	**(15,171)**	**(5,609)**	**(1,104)**	**(8,293)**	**(68,937)**	**(196,556)**	**(265,493)**

2010/11 movements:

	Note	General Fund Balance	Earmarked GF Reserves	Airport Reserve	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Total Useable Reserves	Unusable Reserves restated	Total Authority Reserves restated
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance as at 31 March 2010		**(28,412)**	**(49,253)**	**(559)**	**(16,854)**	**0**	**(3,328)**	**(29,799)**	**(128,205)**	**(591,575)**	**(719,780)**
(Surplus) or deficit on provision of services		(72,729)	0	0	327,474	0	0	0	254,745	0	254,745
Other comprehensive (income) and expenditure	6a	0	0	0	0	0	0	0	0	(19,747)	(19,747)
Total comprehensive (income) and expenditure		**(72,729)**	**0**	**0**	**327,474**	**0**	**0**	**0**	**254,745**	**(19,747)**	**234,998**
Adjustments between accounting basis & funding basis under regulations	6b	100,353	0	0	(326,947)	0	2,877	6,758	(216,959)	216,959	0
Net (increase) / decrease before transfers to earmarked reserves		**27,624**	**0**	**0**	**527**	**0**	**2,877**	**6,758**	**37,786**	**197,212**	**234,998**
Transfers (to) / from earmarked reserves		(26,097)	26,097	0	0	0	0	0	0	0	0
(Increase) or decrease in year		**1,527**	**26,097**	**0**	**527**	**0**	**2,877**	**6,758**	**37,786**	**197,212**	**234,998**
Balance as at 31 March 2011		**(26,885)**	**(23,156)**	**(559)**	**(16,327)**	**0**	**(451)**	**(23,041)**	**(90,419)**	**(394,363)**	**(484,782)**

Comprehensive Income and Expenditure Statement

2010/11 Gross Exp. £000s	2010/11 Gross Income £000s	2010/11 Net Exp. £000s	Service	2011/12 Gross Exp. £000s	2011/12 Gross Income £000s	2011/12 Net Exp. £000s	Notes
8,059	(3,880)	4,179	Central services to the public	6,749	(3,487)	3,262	
52,759	(8,062)	44,697	Cultural and related services*	50,703	(9,730)	40,973	
30,776	(6,354)	24,422	Environmental and regulatory services*	25,553	(5,891)	19,662	
24,971	(14,282)	10,689	Planning services*	42,815	(12,160)	30,655	
246,790	(177,798)	68,992	Children's and education services	222,491	(174,991)	47,500	
23,911	(8,037)	15,874	Highways & transport services	20,963	(7,358)	13,605	
62,759	(68,495)	(5,736)	Local authority housing (HRA)	54,092	(71,892)	(17,800)	
318,110	0	318,110	- asset revaluation	96,298	0	96,298	
85,898	(75,667)	10,231	Other housing services	87,452	(82,023)	5,429	
105,326	(32,891)	72,435	Adult social care	98,763	(36,908)	61,855	
10,000	0	10,000	Exceptional items	0	0	0	
6,927	(98)	6,829	Corporate & democratic core	3,303	(3,430)	(127)	
(110,312)	0	(110,312)	Non-distributed costs	(3,180)	0	(3,180)	
865,974	**(395,564)**	**470,410**	**Cost of services**	**706,002**	**(407,870)**	**298,132**	8
		12,885	Other operating expenditure			36,060	7b
		43,295	Financing and investment income & expenditure			40,457	7b
		(271,845)	Taxation and non-specific grant income			(245,296)	7b
		254,745	**(Surplus) or deficit on provision of services**			**129,353**	
		(12,117)	(Surplus) or deficit on revaluation of non-current assets			(38,546)	6
		(7,630)	Actuarial (gains) or losses on pension assets & liabilities			128,160	25
		0	Other (gains) or losses			322	
		(19,747)	**Other comprehensive (income) and expenditure**			**89,936**	
		234,998	**Total comprehensive (income) and expenditure**			**219,289**	

* In 2010/11, these three categories were included on one line; the figures for 2010/11 have been split as in 2011/12 to provide a meaningful comparison (SeRCOP change)

Balance Sheets

31/03/10 restated £000s	31/03/11 restated £000s		31/03/12 £000s	Notes
1,663,210	1,420,211	Property, plant & equipment	1,321,376	17
20,220	20,220	Heritage assets	20,220	18
148	148	Investment property	148	
435	968	Intangible assets	1,122	
10,713	564	Long-term investments	564	26
2,722	2,302	Long-term debtors	5,472	22
1,697,448	**1,444,413**	**Long-term assets**	**1,348,902**	
110,353	92,150	Short-term investments	21,847	26
701	701	Assets held for sale	1,757	
2,445	4,131	Inventories	870	
47,779	43,939	Short-term debtors	49,300	22
7,610	5,100	Cash and cash equivalents	17,920	21
168,888	**146,021**	**Current assets**	**91,694**	
(20,939)	(15,574)	Cash and cash equivalents	(10,044)	21
(53,451)	(48,146)	Short-term borrowing	(59,353)	26
(14,442)	(21,170)	Short-term provisions	(977)	24
(69,527)	(65,012)	Short-term creditors	(54,058)	23
(158,359)	**(149,902)**	**Current liabilities**	**(124,432)**	
(46,989)	(45,896)	Long-term creditors	(26,423)	23
(4,670)	(4,541)	Long-term provisions	(3,680)	24
(426,712)	(512,972)	Long-term borrowing	(508,968)	26
(508,691)	(391,118)	Other long-term liabilities	(504,899)	23
(1,135)	(1,223)	Capital grants receipts in advance	(6,701)	
(988,197)	**(955,750)**	**Long-term liabilities**	**(1,050,671)**	
719,780	**484,782**	**Net assets**	**265,493**	
		Usable reserves:		6
(3,328)	(451)	Capital Receipts Reserve	(1,104)	
(29,799)	(23,041)	Capital Grants Unapplied	(8,293)	
(17,505)	(15,994)	General Fund - General Reserve	(13,314)	
(10,907)	(10,891)	General Fund - LMS Reserve	(9,526)	
(16,854)	(16,327)	Housing Revenue Account	(15,171)	
(49,253)	(23,156)	Earmarked Reserves	(15,361)	
(559)	(559)	Newcastle International Airport Reserve	(559)	
0	0	Major Repairs Reserve	(5,609)	
(128,205)	**(90,419)**	**Total usable reserves**	**(68,937)**	
(591,575)	**(394,363)**	**Unusable reserves**	**(196,556)**	6
(719,780)	**(484,782)**	**Total reserves**	**(265,493)**	

Signed: Date:

Derek Coates
Strategic Director, Finance & ICT

Cash Flow Statement

2010/11 £000s		2011/12 £000s	Notes
254,745	**Net (surplus) or deficit on the provision of services**	**129,353**	
	Adjustments to net surplus or deficit on the provision of service for non-cash movements:		11
(38,566)	Depreciation of non-current assets	(36,931)	
(351,380)	Impairment of non-current assets	(139,578)	
(343)	Amortisation of intangible non-current assets	(415)	
110,295	Pension adjustments	11,240	
(385)	Impairment losses on loans & advances debited to the CIES in year	0	
12	Increase/decrease in impairment for provision for bad debts	(684)	
(6,599)	Contributions (to) / from provisions	21,054	
(1,656)	Carrying amount of PP&E, investment property and intangible assets sold	(43,343)	
(2,210)	Non-cash component of trading operation results	1,831	
(13,501)	Other non-cash movement	(11,963)	
(304,333)		**(198,789)**	
	Accruals adjustments:		
1,686	(Decrease)/increase in inventories	(3,261)	
(3,954)	(Decrease)/increase in debtors	9,518	
6	(Decrease)/increase in interest debtors	(320)	
3,378	Decrease/(increase) in creditors	10,954	
(1,150)	Decrease/(increase) in interest creditors	107	
(34)		**16,998**	
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:		
2,437	Proceeds from the disposal of PP&E, investment property and intangible assets	21,158	
56,703	Capital grants credited to surplus or deficit on the provision of services	43,865	
59,140		**65,023**	
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:		
(24,530)	Reversals of amounts disclosed separately below	**(26,878)**	
	Cash flows from operating activities includes the following items:		
25,987	Interest paid	27,663	
(1,457)	Interest received	(859)	
24,530		**26,804**	

9,518	**Net cash flows from operating activities**	**12,511**
	Net cash flows from investing activities:	
137,361	Purchase of PP&E, investment property and intangible assets	84,072
461,791	Purchase of short term and long term investments	471,464
16,099	Other payments for investing activities	10,040
(2,437)	Proceeds from the sale of PP&E, investment property and intangible assets	(2,329)
(490,182)	Proceeds from the sale of short term and long term investments	(541,316)
(55,836)	Capital grants received (government)	(46,180)
(310)	Other receipts for investing activities	(310)
66,486	**Net cash flows from investing activities**	**(24,559)**
	Net cash flows from financing activities:	
(120,500)	Cash receipts of short and long term borrowing	(55,000)
-	Other receipts from financing activities	0
946	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	1,008
40,695	Repayment of short and long term borrowings	47,690
(78,859)	**Net cash flows from financing activities**	**(6,302)**
(2,855)	**Net (increase)/ decrease in cash and cash equivalents**	**(18,350)**

(13,329)	**Cash and cash equivalents at the beginning of the period**	**(10,474)**
(10,474)	**Cash and cash equivalents at the end of the period**	**7,876**

Notes to the Core Financial Statements

1. Statement of Significant Accounting Policies

a) General

Accounting policies are the principles, bases, conventions, rules and practices applied by an authority that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves.

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, issued by CIPFA, and are prepared in accordance with International Financial Reporting Standards (IFRSs).

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. Any departure from the relevant standards is stated in the notes below.

In line with CIPFA's best practice approach to accounting for Best Value, the accounts are presented in compliance with the service expenditure analysis set out in CIPFA's Service Accounting Code of Practice (SeRCOP).

Except where specified in the Code, the Council has determined the estimation techniques that most closely reflect the economic reality of the transactions based on all known facts available.

The accounting concepts and policies which have a material impact on the accounts are as follows:

b) Accruals of expenditure and income

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- The cost of supplies and services are accrued and accounted for in the period that they consumed or received. Accruals are made for all material sums unpaid at the year-end for goods and services received or work completed.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Due to the risk of lost income from reduced interest earned or the cost of penalties charged for early redemption of fixed term investments the Council do not considered fixed term investments to be highly liquid. Fixed term investments are shown on the Balance Sheet as either long or short-term investments depending on the remaining term to maturity of the investment.

d) Charges to revenue for non-current assets

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

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

e) Employee benefits

Benefits payable during employment

Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis within the Cost of Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed, without realistic possibility of withdrawal, to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post-employment benefits (pensions)

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. To do this, it participates in two different pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF)
- The Tyne and Wear Pension Fund (part of the Local Government Pension Scheme), administered by South Tyneside Council

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

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

The Local Government Pension Scheme

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

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

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

f) Events after the Balance Sheet date

Where an event occurs after the balance sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the balance sheet date, an adjusting event occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any new information about that adjusting event.

Where an event occurs after the balance sheet date that is indicative of conditions that arose after the balance sheet date, the amounts recognised in the Statement of Accounts are not adjusted but are disclosed as a separate note to the accounts.

Events after the balance sheet date are reflected up to the date when the Statement of Accounts are authorised for issue and published.

g) Prior period adjustments

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions in the year in which they are identified, and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect.

h) Financial instruments

Financial assets

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

However, the Council has made a number of loans to voluntary organisations at less than market rates for policy reasons rather than as financial instruments and these loans may be interest free or at rates below prevailing market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of the amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instrument Adjustment Account in the Movement in Reserves Statement.

The Council has set a de-minimis level of £100,000; loans with a value below this amount are measured at cost.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Financial liabilities

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

Amortised cost is adjusted for any premiums, discounts, material transaction costs and accrued interest. Where financial liability interest rates are fixed until maturity they are deemed not to require an effective interest rate calculation to be carried out.

The transaction costs of the financial liabilities held on the Council's Balance Sheet are considered to be immaterial.

Fair value
For each class of financial asset and financial liability, the Council is required to disclose the fair value of that class of asset and liability in a way that permits it to be compared to its carrying amount. The Council assesses the fair value by calculating the present value of the cash flows that take place over the remaining life of the instruments, using a number of assumptions detailed in Note 26.

Fair values have not been calculated for assets or liabilities where the carrying amount is a reasonable approximation of fair value, such as trade creditors and debtors.

Redemption of debt
The Council is required by statute to set aside a minimum revenue provision (MRP), for the repayment of debt for General Fund services. Provision is made for principal repayments by charging a MRP calculated in accordance with CIPFA's Prudential Code (which follows the provisions of the Local Government Act 2003).

Repurchase of borrowing
Gains or losses on the repurchases or early settlement of borrowing are recognised in the Comprehensive Income and Expenditure Statement in the periods during which the repurchase or early settlement is made. However, where repurchase has taken place as part of a restructure of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the amount written down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. Premiums are spread over the longer of the outstanding term of the replaced loan or the term of the replacement loans and a maximum of 10 years in respect of the HRA. Discounts are spread over a minimum period equal to the outstanding term on the replaced loan, or 10 years, if this is shorter.

The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance, is managed by a transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

External interest
Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

i) Government grants and other contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants or contributions) or *Taxation and Non-Specific Grant Income* (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

The Council has immaterially deviated from the Code with regard to the treatment of unspent, non-conditional revenue grant income and contributions. The prescribed treatment, defined within the Code of Practice, is to appropriate any income unspent at the year-end into an earmarked reserve. However, the Council has set a threshold of £0.1m: any grants below this level are classified as receipts in advance (within creditors on the Balance Sheet). The reasons for this are operational: approval from Cabinet is required to appropriate funds from reserves, which is not practical for small amounts on a regular basis, and it would increase the complexity and reduce the transparency of the Council's budget monitoring processes.

j) Heritage assets

The Council holds a number of heritage assets to increase the knowledge, understanding and appreciation of the Council's history and local area. Heritage assets are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Council maintains a register for all heritage assets which records the nature, cost, valuation and current locations of each asset. Heritage assets are classified into three categories:

- **Civic Regalia**
  - These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually.
  - The collection is relatively static and acquisitions and donations are rare. Where they do occur they are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.
- **Museum Collections**
  - These items are reported in the Balance Sheet at insurance valuation which is based on market values and is reviewed annually.
  - Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

- **Public Artwork**
  - These items are reported in the Balance Sheet based on insurance valuations for any significant items where possible, or by valuations provided by the Council's Public Art Curator, which are informed by commercial markets and the estimated replacement cost.
  - Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with reference to appropriate commercial markets.

The items within each collection are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation.

Where a valuation cannot be provided at a cost that is commensurate with the benefits to users of the financial statements, the Council will use insurance valuations, acquisition costs or replacement cost estimates provided by the Public Arts Curator.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment such as where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

The disposal of heritage assets is rare, but will also be accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital receipts.

k) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as lessee

Finance leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability, and
- a finance charge (debited to the *Financing and Investment Income and Expenditure* line of the Comprehensive Income and Expenditure Statement)

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and impairment losses are therefore replaced by revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as lessor

Finance leases
Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant item is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease liability (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the *Other Operating Expenditure* line in the Comprehensive Income and Expenditure Statement.

Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

l) Overheads

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Accounting Code of Practice 2010/11 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- *Corporate and Democratic Core* – costs relating to the Council's status as a multi-functional, democratic organisation; and
- *Non-Distributed Costs* – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

m) PFI schemes

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into the following elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement; and
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

n) Property, plant and equipment

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

- **Recognition** - Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. The Council has a de-minimis level of £10,000 for the initial recognition of an asset on the Balance Sheet, although individual assets with a value less than this may be capitalised if they form part of a larger investment programme which exceeds the de-minimis level (such as the acquisition of vehicles or ICT equipment). Any expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

- **Measurement** - Property, Plant and Equipment are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (6th edition).

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

  - Infrastructure assets, community assets and assets under construction (excluding investment property) are included in the Balance Sheet at historical cost, net of depreciation, where appropriate;
  - Dwellings are measured at fair value, determined using the basis of existing use value for social housing (EUV-SH); and
  - All other classes of asset are measured at fair value. For land and buildings, the fair value is considered to be the amount that would be paid for the asset in its existing use.

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

  Where there is a decrease in valuations, the carrying amount of the asset is written down against the balance of any accumulated gains in the Revaluation Reserve and then against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

  Valuations are carried out on a rolling programme basis, with 20% of assets (by quantity) valued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, HRA dwellings (housing stock), the Civic Centre and other significant assets (assets where the Council's valuation officer considers a five yearly valuation may not be sufficient to keep pace with potential material changes in value) are valued annually. Property with a value of less than £40,000 is treated as de-minimis.

  The housing stock is valued on the basis of Existing Use Value as Social Housing (EUV–SH). In accordance with government guidance on housing resource accounting, a sample of properties was chosen to be representative of each type of property and valued as 'beacons'. The full valuation was obtained by extrapolating these beacon values across the whole housing stock. These beacon values are reviewed annually to reflect movements in property market values.

  Valuations are carried out by the Council's valuation officer, D Gillbanks BSc(Hons) FRICS IRRV, as at 1 April in the reporting period.

- **Disposal of Assets** - when an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any income arising from the disposal of an asset in excess of £10,000 is categorised as a capital receipt. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

- **Depreciation** - IAS 16 *Property, Plant and Equipment* requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:

  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use;
  - Depreciation is calculated using the straight-line method;
  - Generally, assets are depreciated in accordance with the following estimate of useful lives:

    - Computer and other equipment: 3-10 years
    - Vehicles: 3-10 years depending on make, model and use
    - Buildings: 20-50 years depending on use, construction type and condition
    - Infrastructure Assets: straight-line over 30 years
    - Council dwellings: 50 years
    - Gateshead Millennium Bridge: 120 years

  An exception to the above policy is made for assets without a determinable finite useful life such as land, which is not depreciated.

  Another requirement of IAS 16 is that separate charges are made for the depreciation of major components of a single asset, where significant components of the asset have materially different useful economic lives. The Council has split its assets into separate components where the following criteria are met:

  - The total asset has a value greater than £1 million;
  - The component has a value of greater than 20% of the total asset; and
  - The component has a useful life which differs by 10 years or more from any other component of the asset.

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

o) Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

The provisions made by the Council are reflected in Note 24 to the core financial statements.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

p) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year and hence to the *Surplus/Deficit on the Provision of Services* in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits that do not represent usable resources for the Council.

q) Revenue expenditure funded from capital under statute

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

r) Value Added Tax

VAT is included in the Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable from HM Revenue and Customs.

2. Critical judgements in applying accounting policies

In applying its accounting policies the Council has had to make certain judgements about the complex transactions or those involving uncertainty about future events. The most significant areas where judgements have been necessary are:

- Accounting for pension liabilities
- Property valuations
- Provisions for future expenditure

Where judgement has been applied, the key factors taken into consideration are disclosed in the accounting policies and the appropriate note in the financial statements.

3. Impact of changes in accounting policies and prior period adjustments

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period (see Note 7).

Prior Period Adjustment
The implementation of FRS 30 *Heritage assets* in 2011/12 has been a material change in accounting policy, requiring a prior period adjustment. It has had a material impact on the Balance Sheet (£19.034m net increase in long-term assets). As a result, a third Balance Sheet has been prepared to comply with IFRS accounting rules (see also Notes 7 and 18).

4. Accounting standards issued but not yet adopted

A number of amendments to IFRS 7 *Financial Instruments* may affect the Statement of Accounts in future years. However, the adoption is not a change in accounting policy that will require the publication of a third Balance Sheet in 2012/13.

5. Assumptions made about future and other major sources of estimation uncertainty

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

The item in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Pension liabilities

Pensions liabilities included in the Balance Sheet have been assessed on an actuarial basis using the roll forward method which results in an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The

Pension Fund liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries, who also estimate the Pension Fund position as at 31 March 2012 based on their last full valuation of the scheme carried out as at 31 March 2010 and also includes their assessment of future movements in the return on pension assets and future pension liabilities as at 31 March 2012. Further details are included within Note 25.

6. Movement in Reserves Statement adjustments

The Movement in Reserves Statement details all movements in the Council's useable reserves, and provides a summary of the movements in unusable reserves. The following tables provide further detail of the amounts disclosed in the Movement in Reserves Statement.

a. Other comprehensive income and expenditure: This comprises items of expense and income (including reclassification adjustments) that are not recognised in the surplus or deficit on the provision of services as required or permitted by the Code. The following tables detail the transactions during 2011/12 and 2010/11:

2010/11 £000s Total		2011/12 Movements (£000s)		
		Earmarked GF Reserves	Unusable Reserves	Total
(7,630)	Actuarial (gains) / losses on pension fund liabilities	0	128,160	128,160
(12,117)	(Gains) / losses arising on revaluation of non-current assets	0	(38,546)	(38,546)
0	Other (gains) / losses	322	0	322
(19,747)	**Other comprehensive income and expenditure**	**322**	**89,614**	**89,936**

b. Adjustments between accounting basis and funding under regulations: this section of the Movement in Reserves Statement details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure:

Note 6 continued…

	2011/12 movements (£000s)						
	General Fund balance	Earmarked GF reserves	HRA	Earmarked HRA reserves	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
Depreciation of non-current assets charged to surplus/deficit on the provision of services	(24,566)	0	0	(12,365)	0	0	36,931
Impairment and revaluation losses of non-current assets charged to surplus/deficit on the provision of services	(43,280)	0	(96,298)	0	0	0	139,578
The excess of depreciation charged to HRA services over the Major Repairs Allowance element of housing subsidy	0	0	1,573	(1,573)	0	0	0
Amortisation of intangible assets	(415)	0	0	0	0	0	415
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	20,009	0	23,856	0	0	(1,318)	(42,547)
Revenue expenditure funded from capital under statute (REFCUS)	(9,321)	0	0	0	0	0	9,321
Net gain or loss on sale or derecognition of non-current assets	(22,727)	0	542	0	(2,366)	0	24,551
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(32)	0	1,063	0	132	0	(1,163)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	14,258	0	122	0	0	0	(14,380)
Amount by which council tax income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	2,023	0	0	0	0	0	(2,023)
Statutory provision for repayment of debt	13,633	0	0	0	0	0	(13,633)
Capital expenditure charged to the General Fund / HRA	400	0	1	0	0	0	(401)
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool	0	0	(973)	0	973	0	0
Amount by which amounts charged for equal pay claims to the Comprehensive Income & Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements	2,164	0	536	0	0	0	(2,700)
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	747	0	6	0	0	0	(753)
Transfers (to)/from other reserves required by legislation	0	0	0	8,329	608	16,066	(25,003)
Adjustments between accounting basis & funding basis under regulations	**(47,107)**	**0**	**(69,572)**	**(5,609)**	**(653)**	**14,748**	**108,193**
Net transfer (to) or from earmarked reserves required by legislation	**(7,473)**	**7,473**	**0**	**0**	**0**	**0**	**0**

Note 6 continued…

	2010/11 movements (£000s) General Fund balance	Earmarked GF reserves	HRA	Earmarked HRA reserves	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
Depreciation of non-current assets charged to surplus/deficit on the provision of services	(24,930)	0	0	0	0	0	24,930
Impairment and revaluation losses of non-current assets charged to surplus/deficit on the provision of services	(33,270)	0	(318,110)	0	0	0	351,380
Amortisation of intangible assets	(343)	0	0	0	0	0	343
The excess of depreciation charged to HRA services over the Major Repairs Allowance element of housing subsidy	0	0	(10,378)	0	0	0	10,378
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	55,143	0	0	0	0	(16,644)	(38,499)
Revenue expenditure funded from capital under statute	(19,071)	0	(212)	0	0	0	19,283
Net gain or loss on sale of non-current assets	278	0	503	0	(2,437)	0	1,656
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	336	0	1,127	0	0	0	(1,463)
Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations	109,875	0	69	0	0	0	(109,944)
Statutory provision for repayment of debt	10,988	0	0	0	0	0	(10,988)
Capital expenditure charged to the General Fund balance	2,783	0	53	0	0	0	(2,836)
Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool	(985)	0	0	0	985	0	0
Amount by which council tax income included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with regulation	(588)	0	0	0	0	0	588
Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	137	0	1	0	0	0	(138)
Capital expenditure financed from usable capital receipts	0	0	0	0	21	0	(21)
Transfers (to)/from other reserves required by legislation	0	0	0	0	4,308	23,402	(27,710)
Adjustments between accounting basis & funding basis under regulations	**100,353**	**0**	**(326,947)**	**0**	**2,877**	**6,758**	**216,959**
Net transfer (to)/from earmarked reserves required by legislation	**(26,097)**	**26,097**	**0**	**0**	**0**	**0**	**0**

Note 6 continued…

c. **Reserves:** the Council maintains a number of reserves, which are classified as either usable (backed by cash) or unusable (notional adjustment accounts not supported by cash):

Usable Reserves

The **General Fund** is the statutory fund into which all the receipts of an authority are required to paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

The General Fund is split between a general Council reserve and reserves attributable to schools (LMS reserve). Spending on the provision of housing is also split, between the General Fund and the Housing Revenue Account.

The **Housing Revenue Account (HRA)** reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

Earmarked Reserves are reserves set aside from General Fund resources in order to fund future, specific activities or cost pressures.

The **Capital Receipts Reserve** holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

The **Capital Grants Unapplied** reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The **Newcastle International Airport Reserve** is a reserve reflecting the estimated market value of the Council's holding in the Airport.

The **Major Repairs Reserve** is an earmarked HRA reserve, and controls the application of the Major Repairs Allowance (MRA). The MRA is restricted to being applied to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the MRA that has yet to be applied at the year-end.

Unusable Reserves

The **Capital Adjustment Account** absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is charged with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to/from the account.

The **Equal Pay Back Pay Account** is used to hold the amounts which have been deferred from being charged to the General Fund. It compensates for differences between the rate at which the Council provides for the potential costs of back pay settlements in relation to equal pay cases and the ability under statutory provisions to defer the impact on the General Fund until such time as cash might be paid out to claimants.

The **Collection Fund Adjustment Account** manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council taxpayers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The **Pensions Reserve** absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The **Financial Instruments Adjustment Account** is a statutory reserve that absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The balance relates to deferred liabilities that regulations specify can continue to be recognised over the life of the replacement borrowing, and amounts relating to the re-measurement of soft loans entered into by the Council, which regulations allow to be recharged over the life of the loans.

The **Revaluation Reserve** contains gains made by the Council arising from increases in non-current asset values. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Deferred Capital Receipts are created when Council dwellings are sold and a mortgage is advanced to enable tenants to purchase the property. An amount equal to this is called a deferred capital receipt. They are written down each year by the amount of debt repaid.

An analysis of the Council's reserves and details of any transfers to or from earmarked reserves are set out below:

Analysis of the transfers to / from reserves

Balance as at 31/03/11 £000s		Transfers to reserve £000s	Transfers from reserve £000s	Balance as at 31/03/12 £000s
	Useable Reserves			
	General Fund balance:			
(15,994)	General Reserve	0	2,680	**(13,314)**
(10,891)	LMS Budget Share Reserve	(1,456)	2,821	**(9,526)**
(26,885)	**General Fund reserves**	(1,456)	5,501	**(22,840)**
	Earmarked General Fund reserves:			
(3,002)	Pensions	0	3,002	**0**
(3,000)	Insurance	0	0	**(3,000)**
(1,375)	Grant Clawback	0	0	**(1,375)**
(10,219)	Gateshead Development Pool	0	5,384	**(4,835)**
(265)	Cultural Development Reserve	0	265	**0**
(920)	Bridge Maintenance	0	0	**(920)**
(1,595)	Developers' Contributions		742	**(853)**
0	Workforce Development	(1,400)	1,400	**0**
0	Equal pay	(1,400)	0	**(1,400)**
0	Unapplied revenue grants / contributions[18]	(1,711)	0	**(1,711)**
(2,255)	Economic Downturn	0	1,548	**(707)**
(525)	DSG Reserve	(35)	0	**(560)**
(23,156)	**Total Earmarked General Fund reserves:**	**(4,546)**	**12,341**	**(15,361)**
(16,327)	Housing Revenue Account (HRA) balance	0	1,156	**(15,171)**
	Earmarked HRA reserves:			
0	Major Repairs Reserve	(5,609)	0	**(5,609)**
(451)	Capital Receipts Reserve	(29,898)	29,245	**(1,104)**
(23,041)	Capital Grants Unapplied	(1,318)	16,066	**(8,293)**
(559)	Newcastle International Airport Reserve	0	0	**(559)**
(90,419)	**Total usable reserves**	**(42,827)**	**64,309**	**(68,937)**
	Unusable reserves			
(50,237)	Revaluation Reserve	(38,544)	9,083	**(79,698)**
(746,263)	Capital Adjustment Account	(90,807)	210,796	**(626,274)**
5,835	Financial Instrument Adjustment Account	(1,163)	0	**4,672**
2,700	Equal Pay Back Pay Account	(2,700)	0	**0**
(2,473)	Deferred Capital Receipts Reserve	0	138	**(2,335)**
458	Collection Fund Adjustment Account	(2,024)	0	**(1,566)**
4,499	Accumulated Absences Account	(753)	0	**3,746**
391,118	Pensions Reserve	128,160	(14,379)	**504,899**
(394,363)	**Total unusable reserves**	**(7,831)**	**269,947**	**(265,493)**
(484,782)	**Total reserves of the Council**	**(50,658)**	**269,947**	**(265,493)**

[18] The balance on the reserve excludes £1.40m relating to unspent grants accounted for as creditors. This immaterial deviation from the Code of Practice has been disclosed within accounting policy (i).

7. Comprehensive Income and Expenditure Statement information

a. Material items of income or expense:

Any material items of income or expense within the accounts have been disclosed elsewhere within the notes; these relate to depreciation and downward revaluations (£36.931m and £157.813m respectively - see Notes 6b, 17 and HRA Notes 6 and 7), actuarial pension adjustments (£128.160m - see Notes 6a and 25), and surpluses on revaluation (£56.782m - see Notes 6a, 17 and 18).

A material item relating to downward revaluations of HRA properties has been separately disclosed on the face of the Comprehensive Income and Expenditure Statement; the details of this can be found in Note 7 to the HRA. The HRA also includes material, one-off income relating to the transfer to the self-financing system (£21.450m).

b. Analysis of items below Cost of Services:

2010/11 £000s		2011/12 £000s
	Other Operating Expenditure	
(781)	Gains / losses on the disposal of non-current assets	22,185
0	Precepts and levies:	0
140	Environment Agency levy	145
23	Tyne Port Health Authority precept	23
12,500	Tyne and Wear Integrated Transport Authority levy	12,726
8	Lamesley Parish Council precept	8
995	Payments to the housing capital receipts pool	973
12,885		**36,060**
	Financing and Investment Income and Expenditure	
30,298	Interest payable and similar charges	36,496
56,020	Pensions interest cost	55,660
(43,710)	Expected return on pensions assets	(48,780)
(1,524)	Interest receivable and similar income	(1,088)
0	Changes in the fair value of investment properties	0
2,211	(Surpluses) / deficits on trading activities	(1,831)
43,295		**40,457**
	Taxation and Non-Specific Grant Income	
(86,173)	Council Tax income	(89,689)
(36,572)	Government grants not attributable to Services	(25,006)
(56,703)	Capital grants and contributions	(49,703)
(92,397)	NNDR re-distribution	(80,898)
(271,845)		**(245,296)**

c. Prior Period Adjustments

A third Balance Sheet has been prepared to reflect the change in accounting policy with regard to heritage assets. The inclusion of these assets with a carrying value of £20.220m represents a material change to the Balance Sheet, and as such further disclosures have been made in Note 18.

8. Segmental analysis

This note reports revenues against budgets analysed in line with the Council's internal management reporting arrangements and reconciles this with the Comprehensive Income and Expenditure Statement. The format of the information is in line with the quarterly reports received by the Council's Cabinet:

Note 8 continued…

Service	2011/12 Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Net Budget £000s	Budget Variance £000s
Learning & Children					
Individual Schools Budget	115,703	0	115,703	115,703	0
Dedicated Schools Grant (DSG)	0	(130,019)	(130,019)	(129,901)	(118)
Centrally Held DSG	14,316	0	14,316	14,198	118
Access & Inclusion	3,343	(539)	2,804	3,239	(435)
Raising Achievement	8,123	(6,310)	1,813	2,466	(653)
Children & Young People's Services	5,759	(4,409)	1,350	1,748	(398)
Early Years	5,479	(5,970)	(491)	885	(1,376)
Children & Families	24,335	(3,681)	20,654	18,983	1,671
Youth Offending Team	1,677	(1,065)	612	757	(145)
Business Support	12,049	(11,914)	135	379	(244)
	190,784	**(163,907)**	**26,877**	**28,457**	**(1,580)**
Community Based Services					
Adults' Social Services	71,733	(30,162)	41,571	33,178	8,393
Business Support Services	1,018	(56)	962	1,156	(194)
Libraries & Arts	6,167	(508)	5,659	5,672	(13)
Sport & Leisure	30,713	(12,676)	18,037	20,000	(1,963)
Housing General Fund	84,025	(81,461)	2,564	2,704	(140)
Community Support	4,497	(919)	3,578	3,783	(205)
	198,153	**(125,782)**	**72,371**	**66,493**	**5,878**
Development & Enterprise					
Transport Strategy	6,866	(4,389)	2,477	3,239	(762)
Development & Public Protection	4,495	(2,180)	2,315	2,177	138
Environment & Regeneration	3,370	(1,417)	1,953	2,151	(198)
Property & Design	5,407	(7,439)	(2,032)	(2,749)	717
Economic Development	3,373	(1,440)	1,933	2,406	(473)
	23,511	**(16,865)**	**6,646**	**7,224**	**(578)**
Local Environmental Services	**55,317**	**(28,150)**	**27,167**	**27,961**	**(794)**
Central Services					
Chief Executives & Communications	3,726	(190)	3,536	3,729	(193)
Legal, HR & Corp Procurement	9,592	(2,224)	7,368	7,528	(160)
Finance & ICT	17,409	(4,765)	12,644	13,455	(811)
Other Services & Contingencies	17,725	0	17,725	17,221	504
	48,452	**(7,179)**	**41,273**	**41,933**	**(660)**
Capital Financing Costs	**28,472**	**0**	**28,472**	**30,902**	**(2,430)**
Investment Income	**0**	**(785)**	**(785)**	**(824)**	**39**
Support Services	**0**	**(9,333)**	**(9,333)**	**(10,152)**	**819**
Sub Total before Levies	**544,689**	**(352,001)**	**192,688**	**191,994**	**694**
Total Levies	12,871	0	12,871	12,871	0
Net Spend Before Financing	**557,560**	**(352,001)**	**205,559**	**204,865**	**694**
Financing	**0**	**(202,341)**	**(202,341)**	**(202,365)**	**24**
Net Spend	**557,560**	**(554,342)**	**3,218**	**2,500**	**718**

Note 8 continued…

Service	2010/11 Gross Exp. £000s	Gross Income £000s	Net Exp. £000s	Net Budget £000s	Budget Variance £000s
Learning & Children					
Individual Schools Budget	95,225	0	95,225	95,225	0
Dedicated Schools Grant (DSG)	0	(108,335)	(108,335)	(108,335)	0
Centrally Held DSG	13,110	0	13,110	13,110	0
Access & Inclusion	4,659	(1,002)	3,657	3,731	(74)
Raising Achievement	9,643	(7,106)	2,537	2,493	44
Children & Young People's Service	7,479	(2,660)	4,819	5,822	(1,003)
Early Years	7,870	(7,592)	278	514	(236)
Children & Families	23,431	(3,456)	19,975	19,660	315
Youth Offending Team	2,133	(1,034)	1,099	1,163	(64)
Business Support	16,130	(10,773)	5,357	4,850	507
	179,680	**(141,958)**	**37,722**	**38,233**	**(511)**
Community Based Services					
Adults' Social Services	93,087	(32,159)	60,928	56,105	4,823
Business Support Services	1,730	(99)	1,631	1,815	(184)
Libraries & Arts	7,387	(797)	6,590	6,606	(16)
Sport & Leisure	12,718	(5,657)	7,061	6,881	180
Housing General Fund	79,746	(75,812)	3,934	4,399	(465)
Community Support	5,633	(1,212)	4,421	4,817	(396)
	200,301	**(115,736)**	**84,565**	**80,623**	**3,942**
Development & Enterprise					
Transport Strategy	8,798	(4,912)	3,886	4,810	(924)
Development & Public Protection	4,876	(2,143)	2,733	2,169	564
Environment & Regeneration	3,122	(975)	2,147	2,000	147
Property & Design	6,260	(8,604)	(2,344)	(2,002)	(342)
Economic Development	5,180	(2,322)	2,858	2,641	217
	28,236	**(18,956)**	**9,280**	**9,618**	**(338)**
Local Environmental Services	**65,059**	**(30,605)**	**34,454**	**33,910**	**544**
Central Services					
Chief Executives & Communications	4,851	(585)	4,266	4,296	(30)
Legal, HR & Corp Procurement	11,695	(3,415)	8,280	8,243	37
Finance & ICT	20,034	(5,316)	14,718	14,864	(146)
Other Services & Contingencies	19,210	0	19,210	18,693	517
	55,790	**(9,316)**	**46,474**	**46,096**	**378**
Capital Financing Costs	**21,493**	**0**	**21,493**	**22,280**	**(787)**
Investment Income	**0**	**(1,047)**	**(1,047)**	**(196)**	**(851)**
Support Services	**0**	**(10,901)**	**(10,901)**	**(10,616)**	**(285)**
Sub Total before Levies	**550,559**	**(328,519)**	**222,040**	**219,948**	**2,092**
Total Levies	12,641	0	12,641	12,641	0
Net Spend Before Financing	**563,200**	**(328,519)**	**234,681**	**232,589**	**2,092**
Financing	**0**	**(229,863)**	**(229,863)**	**(230,589)**	**726**
Net Spend	**563,200**	**(558,382)**	**4,818**	**2,000**	**2,818**

Note 8 continued…

2010/11 Total	Service	2011/12 Service analysis	Not reported in service accounts	Not included in CI&E	Support services' reallocation	Other	Net cost of services	Corporate amounts	Total
	Reconciliation between the segmental reporting analysis and an analysis of total income & expenditure (subjective analysis)								
(278,502)	Government grants & contributions	(249,952)	(35)	0	0	0	(249,987)	(25,006)	**(274,993)**
(87,715)	Other grants	(23,212)	(1,711)	0	0	0	(24,923)	(49,703)	**(74,626)**
(51,324)	Customer & client receipts	(50,576)	0	0	0	0	(50,576)	0	**(50,576)**
(303)	Interest received	(868)	0	785	0	0	(83)	0	**(83)**
(27,629)	Internal recharges	(28,429)	0	0	14,732	0	(13,697)	0	**(13,697)**
(10,973)	Misc recharges	(9,736)	0	0	0	0	(9,736)	0	**(9,736)**
(1,524)	Investment income	0	0	0	0	0	0	(1,088)	**(1,088)**
(86,173)	Council tax	0	0	0	0	0	0	(89,689)	**(89,689)**
(92,397)	NNDR	0	0	0	0	0	0	(80,898)	**(80,898)**
(636,540)	**Total income**	(362,773)	(1,746)	785	14,732	0	(349,002)	(246,384)	**(595,386)**
187,788	Employee expenses	239,766	(16,654)	0	0	0	223,112	6,880	**229,992**
28,845	Premises	27,721	(1,821)	0	0	0	25,900	0	**25,900**
15,319	Transport	13,415	0	0	0	0	13,415	0	**13,415**
58,378	Supplies & services	51,376	448	0	0	88	51,912	0	**51,912**
173,173	Third party / transfer payments	177,995	0	0	0	0	177,995	0	**177,995**
0	Support services	14,732	0	0	(14,732)	0	0	0	**0**
433	Capital financing	28,875	0	(28,472)	0	0	403	0	**403**
70,630	Capital charges	1,581	72,954	0	0	0	74,535	0	**74,535**
12,671	Precepts & levies	12,871	0	(12,871)	0	0	0	12,902	**12,902**
2,348	Trading	0	0	1,637	0	0	1,637	(1,831)	**(194)**
(1,256)	Other	0	0	(401)	0	0	(401)	0	**(401)**
30,298	Interest payable	0	0	0	0	0	0	36,496	**36,496**
995	Payments to Housing Capital Receipts Pool	0	0	0	0	0	0	973	**973**
(781)	Gain / loss on disposal of assets	0	0	0	0	0	0	22,185	**22,185**
312,444	Housing Revenue Account (HRA)	0	78,626	0	0	0	78,626	0	**78,626**
891,285	**Total operating expenses**	568,332	133,553	(40,107)	(14,732)	88	647,134	77,605	**724,739**
254,745	**Surplus or deficit on the provision of services**	**205,559**	**131,807**	**(39,322)**	**0**	**88**	**298,132**	**(168,779)**	**129,353**

Note 8 continued…

The following tables provide a reconciliation of the above table with amounts presented in the Comprehensive Income and Expenditure Statement:

2010/11 £000s		2011/12 £000s
234,681	**Cost of Services in Service Analysis**	205,559
276,277	Amounts not included in the analysis but included in the Comprehensive Income & Expenditure Statement	131,807
(40,467)	Amounts included in the analysis but not included in the Comprehensive Income & Expenditure Statement	(39,322)
(81)	Other	88
470,410	**Net Cost of Services**	**298,132**

9. Councillors' allowances

The total of councillors' allowances (and expenses) paid in the year was as follows:

2010/11 £000s		2011/12 £000s
662	Basic allowance	668
373	Special responsibility allowance	369
45	Other allowances and expenses	33
1,080	**Total**	**1,070**

10. Dedicated Schools Grant

School funding for local authorities in England is provided by a ring-fenced grant called Dedicated Schools Grant (DSG) from the Department for Education, whereas previously such support was paid as part of Revenue Support Grant. DSG meets the definition of service-related income is accounted for as part of the cost of services under the Children's and Education Services heading in the Comprehensive Income and Expenditure Statement.

The grant can only be applied to meet expenditure included in the Schools Budget, which provides for two elements. *Central expenditure*, which is a restricted range of services provided on a council-wide basis, and *Individual Schools Budget (ISB),* whereby each school is allocated a delegated budget share. Over- and under-spends on each element are required to be accounted for separately.

Details of the deployment of DSG receivable for 2011/12 are as follows:

	Central expenditure £000s	ISB £000s	Total £000s
Final DSG for 2011/12	**(14,316)**	**(115,703)**	**(130,019)**
Plus Brought forward from 2010/11	(525)	0	**(525)**
Less carry-forward to 2012/13 agreed in advance	0	0	0
Agreed initial budgeted distribution in 2011/12	**(14,841)**	**(115,703)**	**(130,544)**
Less In year adjustments	3	6,111	6,114
Final budget distribution for 2011/12	**(14,838)**	**(109,592)**	**(124,430)**
Less Actual central expenditure	14,273	0	14,273
Less Actual ISB deployed to schools	0	109,597	109,597
Carry-forward to 2012/13	**(565)**	**5**	**(560)**

11. External audit costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and for non-audit services provided by the Council's external auditors, the Audit Commission:

2010/11 £000s		2011/12 £000s
308	Fees payable with regard to external audit services carried out for the year	287
65	Fees payable for the certification of grant claims and returns for the year	62
373		349

12. Government and non-government grants

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

2010/11 £000s		2011/12 £000s
	a) General government grants not attributable to Services	
(13,417)	Revenue Support Grant	(25,006)
(92,397)	Distribution from the national business rates pool	(80,898)
(23,155)	Area Based Grant	0
(128,969)		(105,904)
	b) Specific government grants attributable to Services	
(7,702)	Department of Communities & Local Government	(5,881)
(141,011)	Department for Education	(147,937)
(74,773)	Department for Work and Pensions	(81,657)
(18,444)	Joint / Other	(13,996)
(241,930)		**(249,471)**
	c) Specific non-government grants attributable to Services	
0	European Regional Development Fund	(372)
0	Other non-government grants	(109)
0		**(481)**
	d) Capital grant income not attributable to Services	
(15,979)	Department of Communities & Local Government	(24,139)
(24,263)	Department for Education	(6,533)
0	European Regional Development Fund	(4,773)
(4,037)	Other government grants	(6,762)
(9,581)	Other non-government grants	(354)
(1,976)	Other non-Government contributions	(1,304)
(55,836)		**(43,865)**
(426,735)	**Total grants and government contributions**	**(399,721)**
	e) Other contributions	
(32,572)	Other revenue contributions attributable to Services	(23,212)
693	Other capital contributions not attributable to Services	(5,838)
(31,879)	**Total other contributions**	**(29,050)**

13. Leases

The Council's material lease arrangements are set out below:

Lessor – operating leases:

The Council leases out property and equipment under operating leases for the following purposes:
- for the provision of community services, such as garage sites
- for economic development purposes to provide suitable affordable accommodation for local businesses

The total values of future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31/03/11 £000s	31/03/12 £000s
Leases expiring within one year	1,746	1,294
Leases expiring between one year and five years	3,943	1,291
Leases expiring after five years	95,634	61,984
	101,323	**64,569**

14. Officers' remuneration

The number of employees (including schools) whose remuneration (excluding pension contributions) was over £50,000 was as follows:

Remuneration Band	Number of Employees: Including redundancies 2010/11	Including redundancies 2011/12	Excluding redundancies 2010/11	Excluding redundancies 2011/12
£50,000 - £54,999	82	61	69	57
£55,000 - £59,999	54	37	43	36
£60,000 - £64,999	30	24	19	21
£65,000 - £69,999	26	20	15	19
£70,000 - £74,999	22	13	17	12
£75,000 - £79,999	9	6	6	6
£80,000 - £84,999	4	2	2	2
£85,000 - £89,999	1	2	1	1
£90,000 - £94,999	6	4	5	4
£95,000 - £99,999	0	3	1	3
£100,000 - £104,999	3	0	4	0
£105,000 - £109,999	3	1	2	1
£110,000 - £114,999	0	1	0	1
£115,000 - £119,999	0	0	0	0
£120,000 - £124,999	0	0	0	0
£125,000 - £129,999	1	0	0	0
£130,000 - £134,999	1	0	0	0

The table above has been prepared including and excluding the effect of any redundancies taking place in 2011/12 to indicate the cost impact on senior staff. Remuneration of the Chief Executive and Strategic and Group Directors has been excluded above; these are as follows:

Note 14 continued…

2011/12: Post holder information	Notes	Salary (including fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	Total remuneration 2011/12 £
Chief Executive, R Kelly	1,2	194,015	14,237	11,963	171,190	391,405
Assistant Chief Executive		112,569	0	5,703	16,548	134,820
Strategic Director, Finance and ICT		137,987	0	11,272	20,271	169,530
Strategic Director, Legal & Corporate Services		117,932	0	6,311	17,336	141,579
Group Director, Community Based Services		101,964	0	6,207	14,989	123,160
Group Director, Learning and Children		112,658	0	4,087	16,548	133,293
Group Director, Local Environmental Services		129,544	0	10,742	19,030	159,316
Group Director, Development & Enterprise		106,669	0	6,249	15,680	128,598
		1,013,338	**14,237**	**62,534**	**291,592**	**1,381,701**

Note 1: Returning Officer Fees for Council Election and General Election
Note 2: Pension Contributions include £139,993 concerning a strain on the fund payment to the pension fund in relation to retirement costs

2010/11: Post holder information	Notes	Salary (Including fees & allowances) £	Expense allowances £	Benefits in kind £	Pension contributions £	Total remuneration 2010/11 £
Chief Executive, R Kelly	1	194,015	13,756	11,750	33,317	252,838
Assistant Chief Executive		112,569	0	5,284	17,091	134,944
Strategic Director, Finance and ICT		137,987	0	13,589	20,937	172,513
Strategic Director, Legal & Corporate Services		112,161	0	5,870	17,029	135,060
Group Director, Community Based Services		95,391	0	5,896	14,483	115,770
Group Director, Learning and Children		112,658	0	5,344	17,091	135,093
Group Director, Local Environmental Services		118,287	0	11,290	17,946	147,523
Group Director, Development & Enterprise		101,452	0	5,228	15,403	122,083
		984,520	**13,756**	**64,251**	**153,297**	**1,215,824**

Note 1: Returning Officer Fees for Council Election and General Election

Note 14 continued…

Payments for Northumbria Police Authority Responsibilities - included in above	2010/11	2011/12
	£	£
Chief Executive	27,704	27,704
Strategic Director, Finance and ICT	19,700	19,700
Strategic Director, Legal & Corporate Services	10,196	10,721
Group Director, Development & Enterprise	9,223	9,697

Exit packages

This disclosure relates to the financial consequences of the exit packages recognised and reported in the Comprehensive Income and Expenditure Statement to which the Council is demonstrably committed. This includes the estimated cost of all staff who were given a formal notice of redundancy and all staff who had been offered and accepted an offer of voluntary redundancy.

The table below shows that the 2011/12 Statement of Accounts recognises a cost of £11.538m in relation to an estimated 136 compulsory redundancies (including 25 schools staff) and 393 other redundancies which include voluntary redundancies and the non renewal of fixed term contracts. This cost includes redundancy payments to employees and strain on the fund costs payable to the appropriate pension fund. It should be noted, however, that 196 of the voluntary redundancies relate to leavers under the 2010/11 offer of redundancy with a total cost of £5.643m.

2011/12				
Exit package cost band	**Number of compulsory redundancies**	**Number of other redundancies**	**Total number and cost of exit packages**	
			Number	**£000s**
£0 - £20,000	123	219	342	2,376
£20,001 - £40,000	11	85	96	2,914
£40,001 - £60,000	2	43	45	2,232
£60,001 - £80,000	0	19	19	1,292
£80,001 - £100,000	0	18	18	1,701
£100,001 - £150,000	0	9	9	1,023
£150,001 - £200,000	0	0	0	0
Total	**136**	**393**	**529**	**11,538**

2011/12: payment of £11.538m - comprised payments of £6.730m to individuals in relation to redundancies, and £4.808m to the appropriate pension funds in relation to strain on the fund.

The 136 compulsory redundancies include 21 staff who are temporarily redeployed.

Note 14 continued…

2010/11				
	Number of compulsory	Number of other	Total number and cost of exit packages	
Exit package cost band	redundancies	redundancies	Number	£000s
£0 - £20,000	24	288	312	3,183
£20,001 - £40,000	5	254	259	7,428
£40,001 - £60,000	3	97	100	4,787
£60,001 - £80,000	0	46	46	3,195
£80,001 - £100,000	0	25	25	2,215
£100,001 - £150,000	0	11	11	1,243
£150,001 - £200,000	0	1	1	186
Total	**32**	**722**	**754**	**22,237**

2010/11: payment of £22.237m - comprised payments of £14.111m to individuals in relation redundancies, and £8.126m to the appropriate pension funds in relation to strain on the fund.

15. Related party transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. 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 bargain freely with the Council.

Central government

The United Kingdom government has significant influence over the general operations of the Council: it is responsible for providing the statutory framework within which the Council operates, and provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 8 on reporting for resources allocation decisions, and are analysed in Note 12.

Councillors

Elected councillors have direct control over the Council's financial and operating policies. The total of councillors' allowances paid in 2011/12 is shown in Note 9.

During 2011/12, no works and services were commissioned from companies in which councillors had an interest, and the Council entered into no related party transactions with councillors. Details of councillors' interests are recorded in the Register of Councillors' Interests, open to public inspection at the Civic Centre during office hours.

Senior Officers

During 2011/12, no related party transactions were entered into with senior officers or their close family members.

Joint arrangements

The Council is involved with a number of entities that are not legally distinct bodies, such as joint committees. These have been established to aid joint working between local authorities,

Note 15 continued…

and as such any material assets or liabilities attributable to the Council will be included in the Balance Sheet. Any income or expenditure is accounted for within the Comprehensive Income and Expenditure Statement.

For the Council, the only significant asset attributable to the Council is the Shipley Art Gallery, held by Tyne and Wear Archives and Museums. This is included in the Council's Balance Sheet (it should be noted that the asset is held in trust in perpetuity by the Council). Assets attributable to the Council held by Tyne and Wear Archives and Museums are also held on the Balance Sheet (see Note 18).

The main joint arrangements identified during 2011/12 were as follows:

- Tyne & Wear Archives & Museums Joint Committee
- Clean Tyne Project
- Mountsett Crematorium
- T&W Trading Standards & Metrology Laboratory Joint Committee
- Tyne and Wear Materials Testing Laboratory
- North East Procurement Organisation

Entities controlled or significantly influenced by the Council

Newcastle Airport

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

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

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. Gateshead Council has a shareholding of 1,304 shares representing a 13.04% interest in the company. The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134m and the Council's share of this valuation (13.04% of 51%) was £8.912m. The valuation is reviewed each year to consider whether a full independent valuation of the holding is required. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.559m based upon the discounted cash flow method. There has been no significant change in external factors since this valuation that would materially affect the value of the shareholding.

The Local Authority shareholders received £95m in cash for the 49% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are

Note 15 continued…

being paid in ten annual instalments, starting in 2002/03, of which the Council will receive £3.1m over the 10 years.

Gateshead Council's 13.04% shareholding in Newcastle Airport Local Authority Holding Company Limited is an effective shareholding of 6.65% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Limited).

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

No dividends were payable for the year ended 31st December 2011.

The Gateshead Trading Company
The Gateshead Trading Company Ltd is a wholly owned subsidiary of Gateshead Council limited by shares. The Council owns all of the shares of the company and the share capital of the company is £100 divided into 100 ordinary shares of £1 each. 2010/11 was the first year of active trading and its activities included construction and design services.

There has been no transfer of assets and liabilities between the Council and the Gateshead Trading Company Ltd and the Council is the sole shareholder of the company, which does not hold any material balances outside of the Council's accounts.

The Gateshead Housing Company (TGHC)
The Gateshead Housing Company was formed in 2004 and is the Arms Length Management Company for Gateshead Council which means that they manage the Council's Housing Stock and are responsible for the maintenance of the Council houses.

TGHC are paid management fees in relation to managing the Council's stock, these are agreed annually.

In 2011/12 TGHC received £30.964m paid through the Council's HRA account in relation to the repairs and maintenance contract and supervision and management (see note 14 to the HRA). The repairs and maintenance contract was awarded to the Mears Group from 1 April 2012, in 2011/12 the contract was with Morrisons.

In 2011/12 TGHC also received £2.1m for managing £26.640m of the Council's housing capital programme, work in relation to Decent Homes and Housing Regeneration projects. Local Environmental Services carried out £13.523m of this work. The Council's total housing capital programme in 2011/12 was £34.811m (see note 5 to the HRA), the £8.171m part of the capital programme not managed by TGHC is managed by the Council.

TGHC purchase goods and services from the Council in relation to support functions such as IT, legal, office accommodation and finance functions the total charge to TGHC in 2011/12 was £1.054m.

TGHC also has a charitable subsidiary created in 2009, Keelman Homes, a company limited by guarantee. Its purpose is to provide new energy efficient homes. It began trading in June 2010 when they received part of their loan from the Homes and Communities Agency and started to build new properties at Kibblesworth. There is a management agreement between TGHC and Keelman Homes. Keelman Homes have also agreed a loan of £4.5m from Gateshead Council and had drawn down a total of £3.0m to 31 March 2012.

16. Trading operations

Trading operations are required to be re-apportioned across services if failure to do so would result in a material misstatement in the reported total cost of services. As the balances are not material, they are not re-apportioned in the Comprehensive Income and Expenditure Statement (see Note 7 for details). The Council operates one significant trading operation and a number of smaller ones as follows:

2010/11		2011/12		
(Profits) / Losses £000s		Income £000s	Expenditure £000s	(Profits) / Losses £000s
780	Construction	(50,231)	48,964	(1,267)
85	Cleaning of Buildings	(5,537)	5,401	(136)
103	Security	(1,424)	1,570	146
13	School Meals	(5,359)	4,967	(392)
39	Fleet	(7,564)	6,938	(626)
343	Civic Restaurants	(772)	834	62
848	IAS 19 pension adjustment	(2,579)	2,961	382
2,211		**(73,466)**	**71,635**	**(1,831)**

Construction
This covers the building maintenance of the Council's property portfolio, new build projects and major highways construction work.

Cleaning of buildings
This covers the cleaning of buildings for a number of clients including Gateshead Council, Northumbria Police and the Gateshead Housing Company.

Security
The provision of security services and CCTV monitoring across the borough including the Council's own assets and some small businesses in Council industrial estates.

School meals
The provision of a school meals service to schools in the Gateshead borough.

Fleet
This is the management and repairs and maintenance of the Council's vehicles including those owned by Schools and some voluntary organisations.

Civic Catering
This is the operation of Bewicks restaurants at Gateshead Civic Centre, Gateshead Old Town Hall and Gateshead Central Library.

17. Property, plant and equipment

	Other land and buildings at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost [restated] £000s	Surplus assets £000s	Total £000s
Cost or valuation									
Balance at 1 April 2010	496,809	14,959	56,680	350	1,050,000	123,471	4,920	24,636	**1,771,825**
Additions	58,928	24,626	8,406	0	37,061	6,862	301	302	**136,486**
Disposals	(651)	0	(1,328)	0	(970)	0	0	0	**(2,949)**
Revaluation increase/(decrease) to Revaluation Reserve	7,849	0	0	0	0	0	58	66	**7,973**
Revaluation increase/(decrease) to Comprehensive I&E	(37,677)	0	0	0	(339,091)	0	(770)	(831)	**(378,369)**
Balance at 1 April 2011	525,258	39,585	63,758	350	747,000	130,333	4,509	24,173	**1,534,966**
Reclassifications	(49,008)	(9,168)	0	0	5,525	(1)	0	51,163	**(1,489)**
Additions	33,617	165	5,077	0	34,769	7,732	212	1,931	**83,503**
Disposals	(44,118)	0	(3,993)	0	(813)	0	0	(150)	**(49,074)**
Revaluation increase/(decrease) to Revaluation Reserve	12,134	0	0	0	0	0	0	22,693	**34,827**
Revaluation increase/(decrease) to Comprehensive I&E	(30,958)	0	0	0	(109,481)	0	(206)	(16,989)	**(157,634)**
Balance at 31 March 2012	**446,925**	**30,582**	**64,842**	**350**	**677,000**	**138,064**	**4,515**	**82,821**	**1,445,099**

* Note that community assets have been restated by £1.186m due to the reclassification of a number of heritage assets previously classed as community assets

Note 17 continued…

	Other land and buildings at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost £000s	Surplus assets £000s	Total £000s
Accumulated depreciation									
Opening balance 1 April 2010	(23,743)	0	(36,636)	(88)	(21,000)	(26,840)	0	(308)	**(108,615)**
Disposals	0	0	1,274	0	19	0	0	0	**1,293**
Depreciation written out to Revaluation Reserve	4,144	0	0	0	0	0	0	0	**4,144**
Depreciation written out to Comprehensive I&E	5,863	0	0	0	20,981	0	0	145	**26,989**
Depreciation	(13,973)	0	(7,491)	(66)	(13,446)	(3,266)	0	(324)	**(38,566)**
Balance at 1 April 2011	(27,709)	0	(42,853)	(154)	(13,446)	(30,106)	0	(487)	**(114,755)**
Reclassifications	148	0	0	1	0	0	0	46	**195**
Disposals	3,493	0	2,496	0	14	0	0	0	**6,003**
Depreciation written out to Revaluation Reserve on Revaluation	2,546	0	0	0	0	0	0	43	**2,589**
Depreciation written out to Comprehensive I&E on Revaluation	5,701	0	0	0	13,432	0	0	43	**19,176**
Depreciation	(14,227)	0	(6,515)	(98)	(12,186)	(3,550)	0	(355)	**(36,931)**
Balance at 31 March 2012	**(30,048)**	**0**	**(46,872)**	**(251)**	**(12,186)**	**(33,656)**	**0**	**(710)**	**(123,723)**

	Other land and buildings at fair value £000s	Assets under construction at cost £000s	Vehicles, plant and equipment at cost £000s	Equipment under finance lease at cost £000s	Council dwellings at fair value £000s	Infrastructure at cost £000s	Community assets at cost [restated] £000s	Surplus assets £000s	Total £000s
Net Book Value at 31/03/2011	**497,549**	**39,585**	**20,905**	**196**	**733,554**	**100,227**	**4,509**	**23,686**	**1,420,211**
Net Book Value at 31/03/2012	**416,877**	**30,582**	**17,970**	**99**	**664,814**	**104,408**	**4,515**	**82,111**	**1,321,376**

Note 17 continued…

Revaluations

Valuations are carried out on a rolling programme basis, with 20% of assets valued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, HRA dwellings, the Civic Centre and other major assets are valued annually.

A full review of the Council's property assets was undertaken at the end of 2008/09 to assess the impact of the economic downturn on the Council's assets. The valuations in subsequent years have been completed as part of the rolling programme and the total valuations are summarised in the table below for the relevant year:

	Land and Buildings £000s	Council Dwellings £000s	Surplus Assets £000s	Total Valuation £000s
Assets valued 1 April 2011	249,140	677,000	33,911	**960,051**
Assets valued 1 April 2010	239,732	747,000	725	**987,457**
Assets valued 1 April 2009	221,794	1,050,000	1,768	**1,273,562**

Effects of Changes in Estimates

The componentisation of items of Property, Plant and Equipment as part of the valuation process in 2011/12 has resulted in a depreciation charge that is £0.936m higher than it would have been prior to the introduction of componentisation for the assets re-valued at 1 April 2011. The impact of this change will carry forward into future years.

18. Heritage assets

The Council has identified a total of 278 Heritage assets, held to increase the knowledge, understanding and appreciation of the Council's history and local area, which have been split into three distinct categories as follows:

Civic Regalia

The collection includes a number of artefacts such as the Mayoral chains, the Mace and various items of silverware.

Museum Collections

The museum collections include paintings (both oil and watercolour), sculptures and other artefacts and are managed by Tyne & Wear Archives & Museums on behalf of the Council. The collection includes two paintings by Hans Schäufelein from the 16th Century valued at £1.7m on display at the Shipley Art Gallery and a full list of exhibition listings and the Tyne and Wear Museums' access policy is available on their website.

Public Artwork

The collection includes a number of sculptures on display throughout Gateshead. The collection also includes the Angel of the North, which is valued at £1.6m, and the associated models, which have been valued based on insurance valuations. The Angel of the North is subject to a detailed structural check every 5 years.

The table below sets out the value of the Council's heritage assets that have been recognised on the Council's Balance Sheet following the change in accounting policy (see policy (j) in Note 1). As part of a prior period adjustment a total of £1.186m of existing assets have been reclassified from community assets, and an additional £19.034m of heritage assets have been recognised in 2009/10:

	Public Artwork £000s	Civic Regalia £000s	Museum Collections £000s	Total £000s
Cost or Valuation 2009/10				
1 April 2009	1,186	0	0	1,186
FRS 30 adjustments	5,566	306	13,162	19,034
31 March 2010	**6,752**	**306**	**13,162**	**20,220**
Cost or Valuation 2010/11				
1 April 2010	6,752	306	13,162	20,220
31 March 2011	**6,752**	**306**	**13,162**	**20,220**
Cost or Valuation 2011/12				
1 April 2011	6,752	306	13,162	20,220
31 March 2012	**6,752**	**306**	**13,162**	**20,220**

19. Capital commitments and capital financing

At 31 March 2012, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2012/13 budgeted to cost £13.0m. Similar commitments at 31 March 2011 amounted to £12.5m. The major commitments relate to the completion of the following schemes:

- Building Schools for the Future £3.3m
- Keelman Homes Housing Development £1.5m
- Saltwell Crematorium Mercury Abatement £1.3m
- Dunston Achieving the Vision £1.0m
- Town Centre Acquisitions £0.9m

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2010/11 £000s		2011/12 £000s
572,567	**Opening capital financing requirement**	**645,763**
	Capital investment	
136,486	Property, plant and equipment	83,503
0	Investment properties	0
876	Intangible assets	569
0	Assets held for sale	1
19,283	Revenue expenditure funded from capital under statute	9,321
0	Long Term Debtors relating to Capital transactions	3,637
	Sources of finance	
(4,877)	Capital receipts	(744)
(64,737)	Government grants and other contributions	(66,984)
	Sums set aside from revenue:	
(2,837)	Direct revenue contributions	(363)
(10,998)	MRP/loans fund principal	(13,633)
0	Other adjustments (PFI liability transfer)	(18,802)
645,763	**Closing capital financing requirement**	**642,268**

	Explanation of movements in year	
10,444	Increase/(decrease) in underlying need to borrowing (supported by government financial assistance)	(27,610)
63,698	Increase in underlying need to borrowing (unsupported by government financial assistance)	43,925
(85)	Assets acquired under finance leases	(90)
(861)	Assets acquired under PFI/PPP contracts	(918)
0	PFI Assets transferred	(18,802)
73,196	**Increase/(decrease) in capital financing requirement**	**(3,495)**

20. Public finance initiative (PFI) arrangements

Schools PFI

a) General

In February 2006, the Council entered into a contract with Pinnacle Schools (Gateshead) Limited (PSG) to design, build, finance and operate seven new schools in Gateshead. The schools were completed during 2007 and 2008: PSG will manage and maintain them until 2033.

The schools are provided under the PFI scheme. As such, they benefit from government grants for the period of the contract. The value of these grants was £65m at 2005 prices.

PSG are paid by the Council using a formula within the contract. Payments consist of a fixed element and an index-linked (RPIX) element which form a monthly “unitary charge”, covering the construction, financing and running costs of the schools. However, actual payments to PSG may vary due to the company’s performance, contract variations and additional works.

One school within the contract was built on behalf of the Roman Catholic Diocese of Hexham and Newcastle. As such, the asset, liability and any income or expenditure have been excluded from these accounts.

In addition, Lord Lawson of Beamish school has converted to an academy, which has resulted in the school and the associated PFI liabilities being removed from the Council’s Balance Sheet during 2011/12 (£20.0m & £19.2m respectively; see further details below).

b) Analysis of movements in PFI asset values

The values of the school buildings changed as follows during the year:

31/03/11 £000s		31/03/12 £000s
49,376	Opening value:	**48,789**
	Movements:	
86	Additions	70
0	Disposals (Lord Lawson Academy transfer)	(20,000)
0	Downward revaluations	(8,660)
3,957	Upward revaluations	3,493
(1,196)	Depreciation	(611)
(3,434)	Impairments	0
48,789	Closing value:	**23,081**

Note 20 continued…

c) Analysis of movements in PFI liabilities

The estimated value of outstanding contractual Balance Sheet liabilities (the capital element of unitary charge payments still to be made) is analysed below:

31/03/11 £000s		31/03/12 £000s
(47,581)	Opening value:	**(46,720)**
861	Repayment of capital	918
0	Transfer of liabilities relating to Lord Lawson	18,802
(46,720)	Closing value:	**(27,000)**

d) Analysis of unitary charge payments outstanding

The estimated value of outstanding unitary charge payments (at current prices) is analysed below. The liabilities have reduced by 41% following the Lord Lawson academy conversion:

	Repayment of Liability £000s	Interest Payment £000s	Service Charges £000s	Total £000s
– within 1 year	577	1,788	1,982	**4,347**
– within 2-5 years	2,716	6,744	8,277	**17,737**
– within 6-10 years	4,538	7,287	11,203	**23,028**
– within 11-15 years	6,253	5,572	12,270	**24,095**
– within 16-20 years	8,617	3,208	13,478	**25,303**
– within 21-25 years	4,299	431	3,605	**8,335**
	27,000	**25,030**	**50,815**	**102,845**

Note that the value of contingent rents (rents that are not fixed – in this case, those due to a general increase in prices[19]) within the arrangement were as follows:

	£000s
2010/11 value of contingent rentals	**505**
2011/12 value of contingent rentals	**660**

e) Significant contractual information

Significant terms of the arrangement

Market testing: from 1 April 2013 onwards, five-yearly market testing exercises must be carried out by an independent third party on behalf of PSG. Should the service costs (grounds maintenance, cleaning and waste management, and pest control) change by 5% or more, the unitary charge must be adjusted accordingly.

Pension liability: an adjustment is required for any changes in employer pension contributions from an agreed percentage of employees' pay.

Refinancing gains: should PSG choose to refinance its debts (subject to the Council's consent), the Council is entitled to a 50% share of any gains.

[19] The Schools PFI contract is inflated annually by RPIx, the retail price index excluding mortgage payments

Note 20 continued…

Rights to use specified assets

The Council has full rights to use the schools for the provision of educational services. However, a fee is payable to PSG for use outside normal hours (for example, community use).

Rights to expect provision of services

The Council has rights to expect the provision of managed facilities management (FM) services for the duration of the contract.

Rights to receive specified assets at the end of the concession period

The schools are under the operational control of PSG during the contract, with legal title to the land remaining with the Council throughout the contract. Any equipment procured by PSG for the operation of the schools will be transferred to the Council at the end of the contract period.

There are a number of agreements between the Council and the Diocese around the shared Highfield / St Joseph's site. They ensure that the Diocese has the right to use their half of the site indefinitely following hand back, along with rights to use shared areas for the duration of the contract.

The conversion of Lord Lawson to an academy has also resulted in an additional agreement between the Council and the school, similar to the one above. All relevant assets and liabilities have been transferred to the academy (which is a separate legal entity), without the need for changes to the PFI Agreement between PSG and the Council (i.e. the Council remains responsible for the Agreement but all Lord Lawson costs are fully reimbursed).

Renewal and termination options

The contract does not include an option to extend/renew beyond the contractual expiry date.

The contract allows the Council to terminate the contract on 20 business days' notice, or either party to terminate on the other party's default or in the event of force majeure. There are provisions within the contract allowing for compensation to be paid by the defaulting party to the other in the event of termination.

Other rights and obligations

It is anticipated that any staff employed by PSG or its subcontractors in running the schools will have the legal right to transfer over to the Council at the end of the contract.

Waste Management PFI

The South Tyne and Wear Waste Management Partnership was established to enable the three partner authorities (Gateshead, Sunderland and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste.

In April 2011, the Partnership, led by Gateshead Council, signed a £727m PFI contract with a consortium led by SITA UK. Gateshead Council is expected to utilise approximately 20% of the total capacity of the facility each year, resulting in estimated unitary charge payments of £236m over the duration of the contract.

The contract is focussed on the development of an energy-from-waste facility on Teesside which will treat approximately 190,000 tonnes of residual waste generated by the three councils each year until the expiry date in March 2039.

The energy-from-waste facility is currently under construction and is expected to be operational in April 2014.

The estimated contract payments for Gateshead Council relating to the PFI contract analysed over the life of the contract is shown in the table below:

	12/13	13/14 to 17/18	18/19 to 22/23	23/24 to 27/28	28/29 to 32/33	33/34 to 37/38	38/39	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Finance Lease Creditor Repayment	0	13,474	8,939	10,843	13,127	13,732	0	**60,115**
Finance Lease Creditor Interest	0	14,488	15,661	12,325	7,860	2,548	0	**52,882**
Lifecycle Maintenance Costs	0	449	2,074	4,042	3,739	4,309	545	**15,158**
Contingent Rentals	0	2,172	4,491	7,100	10,243	14,086	3,322	**41,414**
Operating Costs	0	9,667	10,184	9,797	12,565	17,125	7,033	**66,371**
Waste Infrastructure Credits	0	(7,944)	(9,078)	(9,078)	(9,079)	(9,078)	(1,740)	**(45,997)**
Total	**0**	**32,306**	**32,271**	**35,029**	**38,455**	**42,722**	**9,160**	**189,943**

21. Cash and cash equivalents

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

31/03/11 £000s		31/03/12 £000s
430	Cash held by officers	638
93	Bank current accounts	0
(15,574)	Bank overdraft	(10,044)
4,577	Short-term deposits	17,282
(10,474)	**Total cash and cash equivalents**	**7,876**

22. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments. It may also include payments in advance, such as invoices spanning financial periods:

31 March 2011 £000s			31 March 2012 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
12,324	0	Central government bodies	18,591	0
4,324	0	Other local authorities	1,412	0
2,605	0	NHS bodies	212	0
555	0	Other public bodies	414	0
24,131	2,302	Bodies external to general government	28,671	5,472
43,939	**2,302**		**49,300**	**5,472**

The debtors' balance represents the amount due to the Council from customers or grants outstanding from funding bodies.

A bad debt provision of £6.172m is held within the £28.671m figure above to provide against the risk of default on debt outstanding from trade, or non-government, debtors (2010/11: £5.488m).

23. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments. It also includes income received in advance, such as council tax relating to 2012/13:

31 March 2011 £000s			31 March 2012 £000s	
Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
(11,681)	0	Central government bodies	(11,447)	0
(3,566)	0	Other local authorities	(3,529)	0
(1,508)	0	NHS bodies	(58)	0
(10,597)	0	Other public bodies	(3,180)	0
(37,660)	(45,896)	Bodies external to general government	(35,844)	(26,423)
(65,012)	**(45,896)**		**(54,058)**	**(26,423)**
		Other long-term liabilities:		
0	(391,118)	Pension liability	0	(504,899)

24. Provisions and contingent liabilities

Provisions

31/03/11 £000s		Receipts	Payments	Reversals	31/03/12 £000s
0	Carbon Reduction Commitment	(460)	0	0	(460)
(10,000)	Workforce management	0	9,994	6	0
(9,542)	Equal Pay General Fund	(47)	6,985	2,329	(275)
(1,104)	Equal Pay Schools	0	974	0	(130)
(524)	Equal Pay HRA	0	412	0	(112)
(21,170)	**Total short-term provisions**	**(507)**	**18,365**	**2,335**	**(977)**
(418)	Improvement contracts	(39)	0	457	0
(50)	Sundry	0	0	16	(34)
0	LES remedial works	0	0	0	0
(4,073)	Insurance	0	0	427	(3,646)
(4,541)	**Total long-term provisions**	**(39)**	**0**	**900**	**(3,680)**
(25,711)	**Total provisions**	**(546)**	**18,365**	**3,235**	**(4,657)**

Equal pay (£0.52m)
The Council has a number of outstanding legal claims from employees relating to equal pay. The Council is taking legal advice and a response to these claims is being assessed in the light of similar claims and legal cases involving other local authorities.

Insurance (£3.65m)
Provision is made for known outstanding liability claims, the costs of which have been estimated by the Councils insurers. The timing of payments from the insurance provision will be determined by the settlement of claims and is therefore unknown at present. The insurance provision includes the cost of outstanding fire claims where there is no insurance cover.

Carbon reduction commitment (£0.46m)
A provision has been created in order to purchase the CRC allowances in 2012/13 relating to

Note 24 continued…

carbon emissions produced by the Council in 2011/12. The cost of allowances is £12 per tonne.

Contingent Liabilities

Equal pay claims

The Council continued to settle a number of equal pay claims during 2011/12. A relatively small number of claims remain outstanding, although it is possible that more could be received in the future. Assuming any new claims are similar to the existing claims they too will be settled. Although precise figures cannot be given at this stage, any new claims will be limited to a period from 2006 to 2009.

Neighbourhood nurseries

The Council has a potential legal liability relating to clawback provisions within the European Regional Development Fund and Big Lottery Fund grant conditions in respect of capital invested in four neighbourhood nurseries. Clawback will only be triggered if they fail to agree that a new provider/s is still fulfilling the terms of the grant or if that provider/s fails and a replacement cannot be found. This particular element subsists until 2025. The potential clawback is in the region of £0.5m.

Schools PFI contract

The Council has a potential legal liability relating to contractual provisions within the schools PFI contract. There are liabilities relating to changes prior to staff transfer (from the Council to the contractor) and relating to pension liabilities. The issues are subject to ongoing negotiations and as such the costs are as yet unknown.

Repairs and maintenance contracts

Under agreements associated with the repairs and maintenance contracts between the Council and Morrisons Facilities Services Ltd (contract awarded to Mears Group from 1 April 2012), there are potential pension liabilities which would revert back to the Council should the contracts return in-house. The Council entered into pension admission agreements under which it could be liable to the Tyne & Wear Pension Fund to fund deficiencies in the funding of pension benefits. The potential costs associated with this liability are currently unknown.

Lands Tribunals at Mill Road

To ensure delivery of development at Gateshead Quays, a compulsory purchase order (CPO) was made in respect of land at Mill Road.

The CPO process provides the owners with the opportunity to challenge the Council's valuations. Any owner may apply to Lands Tribunal up to six years from the date at which properties vested with the Council, to claim further compensation i.e. to challenge the value of their property. A claim was made in 2008 for £3.9m; the Council settled in 2011 at £0.65m plus interest. The Tribunal also awarded the Council to pay the claimants' costs. The Council has paid £0.129m towards these costs but the balance of the costs has yet to be supplied by the claimants' solicitors. It is not anticipated that these will exceed £0.15m.

Sunderland Road CPO unsettled compensation claims

The Council approved a strategy to regenerate Sunderland Road in 2002 in response to deteriorating living conditions in the area and a significant decline in the housing market. A key component of the strategy was the acquisition and clearance of properties to the north of Sunderland Road and redevelopment of the land for housing. Funding to meet the cost of acquiring and demolishing properties in this area was secured from Bridging Newcastle Gateshead (BNG), the Housing Market Renewal Pathfinder. To ensure delivery of the strategy, a compulsory purchase order (CPO) was made in support of the proposal.

Note 24 continued…

All those former owners who could challenge the Council's valuations have made their claims and those claims have been settled. Any former owner who did not make such a challenge is now out of time i.e. statute barred. There is no further liability in respect of the CPO.

Property search litigation
The Council is one of 371 councils defending claims made by APPS group relating to the above. The claims relate to a request for refunds in respect of fees for personal searches of the Local Land Charges Register dating back to 1 January 2005 (for which there was a statutory fee prescribed) and fees for inspecting CON29 data which the Claimant's claim are in breach of the European Public Access to Environmental Information Directive. The LGA is co-ordinating the litigation and Bevan Brittan are acting as advisors. Claims have currently been stayed pending the outcome of mediation.

The Council's liability will depend upon the outcome of litigation however the maximum liability to refund all fees made in respect of all local land charges undertaken amounts to £1.668m. Although £0.342m is the maximum refund liability that the Council could be ordered to pay in respect of personal search companies only. Part of the negotiation involves seeking recompense from the government by way of New Burdens Doctrine.

Northern Design Centre
The European Commission's Audit Authority has issued a draft report in connection with the development of the Northern Design Centre which benefited from ERDF funding. Whilst not yet confirmed, the Audit Authority have indicated their initial opinion, which is disputed, that the Council's conduct of procurement exercises associated with the site, and involving Terrace Hill (Baltic) Ltd and Terrace Hill Group plc, were in contravention of EU procurement legislation. The current position is that a response has been submitted to the Audit Authority by the Council which challenges the conclusions of their initial findings. However, 25% of the total contract value including construction costs is currently considered to be at risk. It has been indicated that a claw back would be applied to the ERDF funds which could result in a repayment of £2.152m.

Municipal Mutual Insurance - Scheme of Arrangement
On 28 March 2012, the Supreme Court ruled that MMI was liable for mesothelioma claims under employers' liability policies written up to 30 September 1992, when MMI ceased writing insurance business.

This judgement has potentially significant implications for MMI, its members and its 729 scheme creditors who are party to the contingent Scheme of Arrangement. Following the judgement, the Board of Directors are taking legal, financial and actuarial advice to determine the most appropriate way forward. If the MMI Board can no longer achieve a solvent run off of the company, then the Scheme Administrator could trigger the Scheme of Arrangement. Under this scheme, any payments by the Council would be based on a percentage levy of claims payments made to date by MMI on behalf of scheme creditors, in liaison with the MMI Creditors Committee.

At this stage there has been no decision taken to trigger the Scheme of Arrangement and therefore the potential financial risk to the Council cannot be quantified at this time.

Pension guarantees
On 23 June 2011, the Council agreed to act, in conjunction with the other Tyne and Wear councils, as guarantor to the following organisations in respect of their liability to the Tyne and Wear Pension Fund in the event of their failure:

Note 24 continued…

- North East Regional Employers Organisation: which serves and represents regional local authorities in relation to human resource management and employee relations
- Disability North: a charity which promotes social inclusion, independence and choice for disabled people
- The Percy Hedley Foundation: a charity providing specialist services for disabled people
- Tyne and Wear Enterprise Trust: a not for profit organisation which provides business and new enterprise support

The Council has agreed with the Tyne and Wear Pension Fund that, in the event of these organisations failing in the future, any deficits in their pension funds will be repaid over a long-term period. The Council will be liable for 17.25% of any liabilities.

25. Employee benefits

Benefits payable during employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlements by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services and reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. Details of this accrual are as follows:

2010/11 £000s		2011/12 £000s
292	Central services to the public	243
387	Cultural, environmental, regulatory and planning services	322
3,089	Education and children's services	2,572
41	Highways and transport services	34
38	Local authority housing	32
12	Other housing services	10
339	Adult social care	282
4,198	**Employee benefits accrued within Net Cost of Services**	**3,495**
301	Trading services	251
4,499	**Total employee benefits accrued at the Balance Sheet date**	**3,746**

Post-employment benefits
Employees of the Council are members of two separate pension schemes:

- **Defined Contribution Plan: Teachers' Pension Scheme**

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is administered by the Teachers' Pensions Agency (TPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of member's pensionable salaries. The TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by each authority. As such, it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees.

Note 25 continued…

In 2011/12, the Council paid £8.524m to the TPA in respect of teachers' retirement benefits, representing 13.9% of pensionable pay (the figures for 2010/11 were £9.265m and 14%). In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2011/12, these amounted to £3.365m, representing 5.5% of pensionable pay (£3.144m and 4.7% in 2010/11).

- **Defined Benefit Plan: Tyne and Wear Pension Fund**

The Tyne and Wear Pension Fund, part of the Local Government Pension Scheme, is administered by South Tyneside Metropolitan Borough Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the liabilities with investment assets.

In 2011/12, the Council paid £36.524m (£34.611m in 2010/11) to the Pension Fund in respect of pension contributions, representing 14.7% of pensionable pay (15% in 2010/11).

The scheme is accrued in accordance with the requirements of International Accounting Standard 19 Employee Benefits. IAS19 accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS19 also includes the Council's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available upon request from South Tyneside Metropolitan Borough Council.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive

Note 25 continued…

Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year:

Charges to the Comprehensive Income & Expenditure and Movement in Reserves Statements	Funded Liabilities		Unfunded Liabilities	
	31/03/11	31/03/12	31/03/11	31/03/12
	£m	£m	£m	£m
Comprehensive Income & Expenditure Statement				
Cost of Services:				
Current service cost	26.83	21.81	0.00	0.00
Past service cost	(105.12)	0.00	(7.15)	2.46
Curtailment / settlement cost or (gain)	0.94	(5.64)	0.00	0.00
Financing and investment income/expenditure:				
Interest cost	51.73	51.39	4.29	4.27
Expected return on assets	(43.71)	(48.78)	0.00	0.00
Total post-employment benefit charged to Surplus/Deficit on Provision of Services	**(69.33)**	**18.78**	**(2.86)**	**6.73**
Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement:				
Actuarial (gains) and losses	(7.77)	120.35	0.14	7.81
Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement	**(77.10)**	**139.13**	**(2.72)**	**14.54**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £427.95m.

Note 25 continued…

Movement in Reserves Charges				
	Funded Liabilities		Unfunded Liabilities	
	31/03/11 £m	31/03/12 £m	31/03/11 £m	31/03/12 £m
Movement in Reserves Statement				
Reversal of net charges made for retirement benefits in accordance with IAS 19	(102.60)	(15.85)	(7.30)	1.47
Actual amount charged against the General Fund balance for pension in the year				
Employer contributions payable to the scheme	33.32	34.63		
Retirement benefits payable to pensioners			4.44	5.26

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the present value of the scheme liabilities:

Changes to the present value of the defined benefit obligation during the period				
	Funded Liabilities		Unfunded Liabilities	
	31/03/11 £m	31/03/12 £m	31/03/11 £m	31/03/12 £m
Opening present value	**1,019.82**	**959.97**	**86.09**	**78.93**
Current service cost	26.83	21.81	0.00	0.00
Interest cost	51.73	51.39	4.29	4.27
Scheme participants' contributions	8.45	7.17	0.00	0.00
Actuarial (gains) and losses	(10.38)	82.36	0.14	7.81
Benefits paid	(32.30)	(45.97)	(4.44)	(5.26)
Past service costs	(105.12)	0.00	(7.15)	2.46
Curtailments / Settlements	0.94	(10.72)	0.00	0.00
Closing present value	**959.97**	**1,066.01**	**78.93**	**88.21**

Reconciliation of fair value of the scheme assets:

Reconciliation of the fair value of fund assets during the period			
	2009/10 £m	2010/11 £m	2011/12 £m
Opening fair value of fund assets	**428.63**	**597.19**	**647.76**
Expected return on assets	26.52	43.71	48.78
Actuarial gains and (losses) on assets	133.84	(2.61)	(37.99)
Employer contributions	28.54	33.32	34.63
Contributions by fund participants	8.31	8.45	7.17
Net benefits paid	(28.65)	(32.30)	(45.97)
Settlements	0.00	0.00	(5.08)
Closing fair value of fund assets	**597.19**	**647.76**	**649.30**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Note 25 continued…

Expected returns on equity investments reflect long-term real rate of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £10.79m (£41.10m gain in 2010/11).

The Tyne and Wear Pension Fund's assets consist of the following categories, by proportion of the total:

Expected return on assets						
	31/03/10		31/03/11		31/03/12	
	Asset Split	Rate of Return*	Asset Split	Rate of Return*	Asset Split	Rate of Return*
Equity investments	67.8%	8.0%	68.0%	8.4%	68.5%	8.1%
Property	7.4%	8.5%	8.1%	7.9%	9.2%	7.6%
Government bonds	9.3%	4.5%	7.0%	4.4%	7.1%	3.1%
Corporate bonds	11.4%	5.5%	11.7%	5.1%	11.6%	3.7%
Cash	1.3%	0.7%	1.2%	1.5%	1.9%	1.8%
Other assets**	2.8%	8.0%	4.0%	8.4%	1.7%	8.1%
	100.0%	**7.3%**	**100.0%**	**7.6%**	**100.0%**	**7.1%**

* These are long term rates of return. The overall expected rate of return is a weighted average of the individual expected rates of return on each asset class

** This category includes hedge funds, currency holdings, asset allocation futures & other

Scheme History Gains and Losses

The liabilities below show the underlying commitment that the Council has to pay retirement benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, increasing the overall balance by £113.78m to £504.92m. However, statutory regulations for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary:

Reconciliation of Balance Sheet		
	Value 31/03/11 £m	**Value 31/03/12 £m**
Funded		
Fair value of assets	647.76	649.30
Present value of funded defined benefit obligation	959.97	1,066.01
Pension liability recognised in Balance Sheet	(312.21)	(416.71)
Unfunded		
Net pension liability	(78.93)	(88.21)
Balance Sheet Liability	**(391.14)**	**(504.92)**[20]

[20] Note that there is a small imbalance between the Balance Sheet and the actuarial figures, due to rounding differences

Note 25 continued…

History of asset values, present value of defined benefit obligation and surplus / deficit	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
Fair value of fund assets	512.94	428.63	597.19	647.76	649.30
Present value of the defined benefit obligation:					
- Funded liabilities	(681.95)	(733.14)	(1,019.82)	(959.97)	(1,066.01)
- Unfunded liabilities	(71.32)	(74.41)	(86.09)	(78.93)	(88.21)
Surplus / (Deficit)	**(240.33)**	**(378.92)**	**(508.72)**	**(391.14)**	**(504.92)**[17]

History of Experience Gains and Losses

The actuarial gains / losses identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

History of experience gains and losses	2007/08	2008/09	2009/10	2010/11	2011/12
Experience gains / (losses) on assets					
Funded:					
- Amount (£m)	(73.37)	(130.98)	133.84	(2.61)	(37.99)
- Percentage of fund assets (%)	14.3%	(30.6%)	22.4%	(0.4%)	(5.9%)
Experience gains / (losses) on liabilities					
Funded:					
- Amount (£m)	12.04	(3.43)	9.73	9.86	(6.93)
- Percentage of fund liabilities (%)	1.8%	(0.5%)	1.0%	1.0%	(0.7%)
Unfunded:					
- Amount (£m)	(0.52)	(0.91)	2.47	0.59	(1.96)
- Percentage of fund liabilities (%)	(0.7%)	(1.2%)	2.9%	0.7%	(2.2%)

Expected Future Contributions

The expected contributions to be made to the Tyne and Wear Pension Fund by the Council for the accounting period to 31 March 2013 are estimated to be £24.75m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £5.53m directly to beneficiaries.

Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projection unit method, an estimate of the pensions that will be payable in future years is dependent on assumptions about mortality rates, salary levels etc. Aon Hewitt Limited, an independent firm of actuaries, has valued the Tyne and Wear Pension Fund's assets and liabilities in accordance with IAS19 based upon the latest actuarial valuation of the fund as at 31 March 2010.

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2012:

Note 25 continued…

Principal financial assumptions				
	Funded Liabilities		Unfunded Liabilities	
	2010/11	2011/12	2010/11	2011/12
Financial Assumptions (% per annum)				
Discount rate	5.4%	4.7%	5.5%	4.6%
Rate of inflation - RPI	3.7%	3.5%	3.6%	3.4%
Rate of inflation - CPI	2.8%	2.5%	2.7%	2.4%
Rate of increase to pensions in payment	2.8%	2.5%	2.7%	2.4%
Rate of increase to deferred pensions	2.8%	2.5%	N/A	N/A
Rate of increase in salaries	5.2%	5.0%	N/A	N/A
Take-up of option to convert annual pension into retirement lump sum (pre 1 April 2010)	50%	50%	N/A	N/A
Take-up of option to convert annual pension into retirement lump sum (post 31 March 2010)	75%	75%	N/A	N/A

Principal mortality assumptions				
	Funded Liabilities		Unfunded Liabilities	
	2010/11	2011/12	2010/11	2011/12
Longevity at 65 for current pensioners:				
Men	21.5	21.6	21.5	21.6
Women	23.7	23.8	23.7	23.8
Longevity at 65 for future pensioners (currently aged 45):				
Men	23.3	23.4	N/A	N/A
Women	25.6	25.7	N/A	N/A

26. Financial instruments

a. Nature and extent of risk arising from financial instruments

Key risks: the Council's borrowing and investment activities expose it to a variety of financial risks, the key risks being:

- Credit risk: the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity Risk: the possibility that the Council might not have the funds available to meet its commitments to make payments;
- Re-financing risk: the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market Risk: the possibility that the Council may suffer financial loss as a result of changes in measures such as interest rate.

Procedures for managing risk: the Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework within the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code 2011, the revised CIPFA Treasury Management in the Public Services Code of Practice 2011 and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code;
- by the adoption of a Treasury Policy Statement;

Note 26 continued…

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investments counterparties in compliance with government guidance; and
- by approving annually in advance prudential indicators for the following three years limiting:
  - the Council's overall borrowing;
  - its maximum and minimum exposure to fixed and variable rates;
  - its maximum and minimum exposures within the maturity structures of its debt; and
  - its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Council's annual council tax setting budget meeting[21]. These items are reported within the annual Treasury Management Strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instruments exposure. Actual performance is also reported annually to Council.

A central treasury team implements these policies. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through treasury management practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

The Council also uses treasury consultants to provide guidance in all areas of treasury management.

Credit risk: Credit risk arises from deposits with banks, building societies, other local authorities and the Debt Management Office, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The annual investment strategy also stipulates the maximum amount and time limits in respect of each financial institution.

The table below shows the gross amounts due to the Council from its financial assets, and the amounts which have been impaired due to likely non receipt. The net carrying value represents the maximum credit risk to which the Council is exposed:

Gross Amounts due to the Council from Financial Assets				
2010/11		2011/12		
Net Value £m		Gross value £m	Impairment Value £m	Net Value £m
96.115	Deposits with financial institutions	39.129	0.000	39.129
2.302	Long term debtors	5.472	0.000	5.472
35.310	Debtors	45.688	(6.172)	39.516

The debtors' balance represents the amount due to the Council from customers (excluding council tax and NNDR arrears). A bad debt provision of £6.172m is held on the Balance Sheet to provide against the risk of default on debt outstanding.

The following table summarises the Council's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by the Council's treasury advisors, Sector, and focuses on the long term investment grade rating issued to each financial institution by Fitch. The highest possible rating is AAA and the lowest rating is BBB:

[21] http://online.gateshead.gov.uk/docushare/dsweb/View/Collection-3971

Note 26 continued…

Spread of Credit Risk		
Rating	2010/11 £m	2011/12 £m
AAA	19.085	28.593
AA-	76.037	0.000
A+	0.000	4.732
A	0.000	4.597
Total (excluding impaired investments)	**95.122**	**37.922**

Liquidity risk: The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential and treasury indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the Public Work Loans Board (PWLB) and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

At 31 March 2012, £38.787m[22] of the Council's deposits were due to mature within 364 days.

Refinancing and maturity risk: The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer-term investments provide stability of maturities and returns in relation to the longer-term cash flow needs.

The maturity profile of the Council's financial liabilities is shown below:

Maturity Profile				
Maturity Period	Approved limits %	31-Mar-11 %	Approved limits %	31-Mar-12 %
< 1 year	20.00	6.53	20.00	9.52
1 – 2 years	20.00	7.93	20.00	6.02
2 – 5 years	60.00	23.12	60.00	25.05
5 – 10 years	60.00	20.60	60.00	19.04
+ 10 years	90.00	41.82	90.00	40.37

[22] Including impairments

Note 26 continued…

Market risk

Interest rate risk: The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing periods.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowing will not impact in the Comprehensive Income and Expenditure Statement.

However, changes in interest payable and receivable on variable rate borrowing and investments will affect the General Fund balance.

An example of the impact of a change in interest rates is calculated in the risk assessment shown below. The assessment has been carried out assuming a 1% increase in interest rates (with all other variables such as principal and maturity periods being held constant). The increase in interest rates will only affect the rate applied to variable rate borrowing and investments. The results of this assessment are shown in the following table:

Interest rate sensitivity analysis	2011/12 £m
Increase in interest payable on variable rate borrowing	0.366
Increase in interest receivable on variable rate investments	(0.166)
Increase in government grants receivable for financing costs (HRA only)	(0.139)
Impact on the (surplus)/deficit	**0.061**
Share of overall impact to the HRA	206.000
Decrease in fair value of fixed rate investments	0.757
Decrease in the fair value of fixed rate borrowing	(95.356)

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, the drawing of longer term fixed rates borrowing may be postponed.

The risk of interest rate loss is partially mitigated by the fact that a proportion of government grants payable on financing costs will normally move with prevailing interest rates of the Council's cost of borrowing and therefore provide 'compensation' for a proportion of any higher costs.

Price risk: The Council does not generally invest in equity shares but does have shareholdings to the value of £0.559m in Newcastle International Airport, which is not on the stock market. The Council is consequently only exposed to losses arising from movements in the price of these shares if a revaluation of the company showed a fall in its overall valuation.

Foreign exchange risk: The Council has no financial assets or liabilities denominated in foreign currencies. It has no exposure to loss arising from exchange rates movements.

Note 26 continued…

b. Financial instrument balances

The borrowings and investments disclosed in the Balance Sheet were made up of the following categories of financial instruments, analysed into long- and short -term:

	Short-term		Long-term	
	31/3/11 £000s	31/3/12 £000s	31/3/11 £000s	31/3/12 £000s
Financial Liabilities at amortised cost	(48,146)	(59,353)	(512,972)	(508,968)
Total Borrowing	**(48,146)**	**(59,353)**	**(512,972)**	**(508,968)**
Loans and Receivables	96,728	39,129	0	0
Available-for-Sale Assets	0	0	5	5
Unquoted equity investment	0	0	559	559
Total Investments	**96,728**	**39,129**	**564**	**564**

Analysis of financial liabilities at amortised cost

Total outstanding at 31 March 2011 £000s	Source of loan	Interest rates payable	Total outstanding at 31 March 2012 £000s
(440,264)	Public Works Loans Board	1.49% - 13.75%	(442,447)
(120,854)	Other loan instruments	0.65% - 4.52%	(125,874)
(561,118)			**(568,321)**
	An analysis of loan by maturity is:		
(48,146)	**Short-term borrowings**		**(59,353)**
(44,022)	Maturing in 1 – 2 years		(33,851)
(128,378)	Maturing in 2 – 5 years		(140,929)
(108,368)	Maturing in 5 – 10 years		(107,117)
(232,204)	Maturing in more than 10 years		(227,071)
(512,972)	**Long-term borrowings**		**(508,968)**
(561,118)	**Total borrowings**		**(568,321)**

Loans and receivables

As at 31 March 2012, no loans and receivables over 364 days were outstanding.

c. Financial instruments gains and losses

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

2009/10 £000s		2010/11 £000s	2011/12 £000s
(1,599)	Interest and investment income	(1,426)	(783)
24,291	Interest payable and similar charges	27,137	27,555
22,692	**Total**	**25,711**	**26,772**

Note 26 continued…

d. Basis of charges for capital

The Council administers a consolidated advances and borrowing pool into which all loans raised by the Council are pooled. The average rate of interest charged by the pool was 4.59% in 2011/12 (4.86% in 2010/11).

e. Impairment of investments

When Heritable Bank entered administration in October 2008, the Council had £2.8m invested which was due to mature with interest by the end of 2008/09. The administrator is still running the business off and dividends are being paid quarterly.

The impaired investments are included in the current assets figure in the Balance Sheet at the present value of the expected repayments, discounted using the investments original interest rate.

To date dividends totalling £2.002m (71.71p in the £) have been received, with the next dividend due in July 2012. The prospects for a full recovery are still good with the latest forecast from the administrators being at least a 90% return. As there have been no material changes to the repayment expectations the impairment has not been amended during 2011/12.

f. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- the new borrowing rates from the PWLB have been applied to provide the fair value of PWLB debts to ensure that the rate used to calculate fair value is a rate currently available from a comparable lender for the same loan;
- for market loans the prevailing rate of a similar instrument with a published market rate has been used, where this was unavailable the assumption above has been applied;
- loans from sources other than the PWLB and the market have not been assessed for fair value and are included in the calculation at the carrying amount. The amounts involved are considered to be immaterial and would have a minimal impact on the calculation of the fair value of the debt held;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount;
- amounts relating to investments in Icelandic banks have been removed from the carrying amounts of total loans and receivables; and
- a consistent approach has been applied to assets and liabilities.

The fair value of the total financial liabilities is greater than the carrying amount because the Council's loans portfolio includes a number of fixed rate loans where the interest rate payable is higher than rates available for similar loans in the market at the Balance Sheet date.

The differences between the carrying amount and the fair value of total loans and receivables are attributable to fixed interest instruments being held by the Council whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of loans and receivables:

Note 26 continued…

	31 March 2011 Carrying Amount £000s	31 March 2011 Fair Value £000s	31 March 2012 Carrying Amount £000s	31 March 2012 Fair Value £000s
PWLB debt	(440,264)	(440,133)	(442,447)	(488,447)
Non-PWLB debt	(120,854)	(126,855)	(125,874)	(118,178)
Total financial liabilities	**(561,118)**	**(566,988)**	**(568,321)**	**(606,625)**
Market loans < 1 year	82,720	81,709	21,301	20,762
Market loans > 1 year	0	0	0	0
Total financial assets	**82,720**	**81,709**	**21,301**	**20,762**

The following table reconciles the figures used in this note (see above) to the values disclosed within the Balance Sheet (see also Note 21):

Reconciliation of Balance Sheet Items

	Principal £000s	Impairment £000s	Accrued Interest £000s	Total £000s
Short term investments 2011/12:				
Fixed-term deposits	20,653	0	98	20,751
Impaired investment	865	(309)		556
	21,518	**(309)**	**98**	**21,307**
Loans to external bodies	540		0	540
	22,058	**(309)**	**98**	**21,847**
Short term deposits (cash equivalents)	17,271	0	11	17,282
Total	**39,329**	**(309)**	**109**	**39,129**
Short term investments 2010/11:				
Fixed-term deposits	90,546		546	91,092
Impaired investment	1,378	(309)	(11)	1,058
	91,924	**(309)**	**535**	**92,150**
Short term deposits (cash equivalents)	4,576		2	4,578
Total	**96,500**	**(309)**	**537**	**96,728**

27. Revenue expenditure funded from capital under statute

2010/11 £000s		2011/12 £000s
7,355	Central Services (Capitalisation Direction)	2,918
1,448	Education Non-Schools	498
7,356	CBS	3,498
2,910	Development & Enterprise	2,271
2	LES	136
19,071		**9,321**
212	HRA	0
19,283		**9,321**

28. Authorisation of Accounts for issue

The Council's Statement of Accounts for the financial year ended 31 March 2012 was approved by the Accounts Committee and authorised for issue by the Chair of the Accounts Committee on 28 September 2012. The audited Balance Sheet was signed by the Chief Financial Officer on 28 September 2012.

Signed:

Date:

Derek Coates
Strategic Director, Finance & ICT

Signed:

Date:

Mick Henry
Chair of the Accounts Committee and Leader of Gateshead Council

Part 3: Supplementary Financial Statements

Comprising:

- Housing Revenue Account
  - HRA Income and Expenditure Statement
  - Movement on the HRA Statement
  - Notes to the HRA
- Collection Fund
  - Collection Fund Statement
  - Notes to the Collection Fund Statement

Housing Revenue Account

HRA Income and Expenditure Statement

2010/11 £000s		2011/12 £000s	Note
	Expenditure:		
16,790	Repairs and maintenance	16,953	
17,211	Supervision and management	15,430	
5,435	Special services	4,694	
2,359	Rents, rates, taxes and other charges	2,784	
6,733	Negative HRA subsidy payable	1,386	8
13,636	Depreciation on non-current assets	12,365	6
318,110	Downward revaluation of non-current assets	96,298	7
341	Debt management charges	411	
255	Increased provision for bad or doubtful debts	69	
380,870		**150,390**	
	Income:		
(63,167)	Dwelling rents (gross)	(66,476)	12 & 13
(1,174)	Non-dwelling rents (gross)	(1,325)	
(2,310)	Charges for services and facilities	(2,677)	
(526)	Leaseholders charges for services and facilities	(321)	
(1,036)	Contributions towards expenditure	(1,093)	
(282)	HRA subsidy receivable	0	8
(68,495)		**(71,892)**	
312,375	**Net Cost of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement**	**78,498**	
	HRA share of the operating income and expenditure included in the Council's Comprehensive Income and Expenditure Statement:		
(503)	(Gain) or loss on sale of HRA non-current assets	431	
15,767	Interest payable and similar charges	21,652	
(165)	HRA Interest and investment income	(159)	
0	Capital grants and contributions	(29,694)	
327,474	**Deficit for the year on HRA services**	**70,728**	

Movement on the HRA Statement

2010/11 £000s		2011/12 £000s	Note
(16,854)	**Balance on the HRA at the end of the previous reporting period**	**(16,327)**	
327,474	(Surplus) or deficit for the year on HRA Income and Expenditure Statement	70,728	
(326,947)	Adjustments between accounting basis and funding basis under regulations	(69,572)	1
527	Net increase or decrease before transfers to or from reserves	1,156	
527	**(Increase) or decrease in year on the HRA**	**1,156**	
(16,327)	**Balance on the HRA at the end of the current reporting period**	**(15,171)**	

Notes to the HRA

1. Net additional amount required by statute to be debited or (credited) to the HRA balance for the year

2010/11 £000s		2011/12 £000s
	Adjustments between accounting basis and funding basis under regulations:	
1,126	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	1,063
(318,320)	Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	(93,350)
503	Gain or loss on sale of HRA non-current assets	(431)
69	HRA share of contributions to or from the Pensions Reserve	122
53	Capital expenditure funded by the HRA	1
(10,378)	Transfer from the Major Repairs Reserve	0
0	Transfer to the Major Repairs Reserve (see Note 4)	1,573
0	Sums directed by the secretary of state to be credited to the HRA that are not income or expenditure in accordance with IFRS (see Note 11)	21,450
(326,947)	**Net additional amount to be credited to the HRA balance for the year**	**(69,572)**

2. Housing stock & Balance Sheet valuation

The number of council dwellings by type during 2011/12 was as follows:

31/03/11	Stock numbers:	31/03/12
11,900	Houses	11,826
5,980	Flats	5,626
3,104	Bungalows	3,111
20,984		**20,563**
2010/11 £000s	**Values:**	**2011/12 £000s**
733,554	Property plant & equipment - council dwellings	664,814
4,827	Property plant & equipment - other land & buildings	4,385
85	Property plant & equipment - vehicles & equipment	32
443	Property plant & equipment - surplus	443
180	Assets held for sale	180
739,089	**Total Balance Sheet value of land, houses & other property in HRA**	**669,854**

3. Vacant possession value

The vacant possession value of the HRA dwellings at 1 April 2011 was £1.795bn. However the existing use value for social housing (EUV-SH) at the same date was £0.664bn. The EVU-SH reflects the valuation for a property if it was sold with sitting tenants paying rents at less than open market rents and tenant's rights including the right to buy.

4. Major Repairs Reserve

The movement on the Council's Major Repairs Reserve (MRR) was as follows:

Major Repairs Reserve		
2010/11 £000s		**2011/12 £000s**
0	**Balance on the Major Repairs Reserve as at 1 April**	**0**
	Amounts transferred to the Major Repairs Reserve during the financial year:	
(13,636)	- Depreciation	(12,365)
0	- Other	(1,573)
10,378	Amounts transferred from the Major Repairs Reserve during the financial year	0
3,258	Debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses & other property within the HRA	8,329
0	**Balance on the Major Repairs Reserve as at 31 March**	**(5,609)**

5. Capital expenditure

The total HRA capital expenditure in 2011/12 was as follows:

2010/11 £000s		**2011/12 £000s**
	Expenditure:	
37,061	Dwellings	34,769
5,728	Other Property	33
1	Vehicles, plant and equipment	8
213	Revenue Expenditure funded from capital under statute	0
43,003	**Total Capital Expenditure**	**34,810**
	Funded by:	
(36,744)	Borrowing	(24,074)
0	Capital Receipts Reserve	0
(53)	Revenue Contributions	(1)
(2,948)	Capital Grants	(2,406)
(3,258)	Major Repairs Reserve	(8,329)
(43,003)	**Total Funding**	**(34,810)**

6. Depreciation

The Council charges depreciation on HRA assets in line with the accounting policy for property, plant and equipment. Council dwellings are depreciated over 50 years based on their actual value. Land is not depreciated as it has an infinite life. The total depreciation charges were as follows:

2010/11 £000s		**2011/12 £000s**
13,446	Operational assets - dwellings	12,186
126	Operational assets - other land & buildings	118
64	Non-operational assets	61
13,636	**Total**	**12,365**

7. Downward revaluations

The Council values its dwellings every year using the 'existing use value - social housing' basis and applies a specified regional adjustment factor (37%) as part of this process. The table below shows the downward revaluation of the housing stock:

2010/11 £000s		2011/12 £000s
318,110	Operational Assets - dwellings	96,049
0	Operational Assets - other land and buildings	249
0	Non-operational assets	0
318,110	**Total**	**96,298**

8. HRA subsidy

The HRA subsidy for the financial year can be broken down as follows:

2010/11 £000s		2011/12 £000s
(35,679)	Allowance for Management & Maintenance	(35,520)
(3,259)	Allowance for Major Repairs	(13,939)
(18,023)	Charges for Capital	(17,476)
(56,961)		**(66,935)**
63,694	Assumed Rent Income	67,693
0	Self Financing Interest payable to DCLG	10
0	Adjustment to previous year (subsidy payable)	618
6,733		**1,386**
(282)	Adjustment to previous year (subsidy receivable)	0
6,451	**Total HRA subsidy payable**	**1,386**

9. HRA share of contributions to/from the Pensions Reserve

Council employees are eligible to join the Local Government Pension Scheme (Tyne and Wear Pension Fund) and so are eligible for retirement benefit. This includes employees accounted for within the HRA. The benefits will not actually be paid until the employee retires but the requirements of International Accounting Standard 19 (IAS19) – Employee Benefits, call for the commitment to make these payments in the future to be disclosed within the HRA. The actuary's assessment of the commitment relating to employees accounted for within the HRA is included within the supervision and management line of the HRA Income and Expenditure Statement.

Regulation 30 of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 requires revenue accounts (including the HRA) to be charged with the cost of retirement benefits on the basis of the payments and contributions required by legislation. The actuary's assessment of the reduction in current service cost below the cash cost is £0.122m and has been reversed in the Movement on the Housing Revenue Account Balance Statement through a contribution from the Pensions Reserve. This transfer ensures that the Council complies with Regulation 30.

10. Rent arrears

The amount of rent arrears at 31 March 2012 was £4.511m (£4.753m at 31 March 2011).The aggregate Balance Sheet provision in respect of uncollectable debts at 31 March 2012 is £2.996m (£3.253m at 31 March 2011). Movement during the year relates to write-offs of uncollectable rent of £0.326m and an increase in provision of £0.069m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

11. Sums directed by the Secretary of State to be debited or credited to the HRA

The end of the subsidy system and introduction of self-financing resulted in a receipt from the Secretary of State. A settlement payment of £27.288m was received, comprising £21.450m debt repayment and £5.838m penalty for early repayment of this debt.

This has been treated as an exceptional item in 2011/12, and is included within the *Capital Grants and Contributions* line of HRA Income & Expenditure Statement.

These transactions have a neutral impact on the HRA balance.

12. Rent

The gross rent for dwellings is the total rent due for the year after allowance is made for voids (vacant properties) and redecoration. During the year 1.22% of the lettable properties were vacant (1.3% in 2010/11). Average rents were £64.85 per week in 2011/12, an increase of 7.38% on the previous year.

13. Rent Rebate

The Local Government Act 2003 transferred responsibility for administering rent rebates from the HRA to the General Fund from 1 April 2004. This brings together accounting for rent rebates and rent allowances within the General Fund. Rent rebates are available for those on low incomes. Some 68% of the Council's tenants receive some help with the cost of rent.

14. The Gateshead Housing Company

The Council's housing stock is managed and maintained by the Gateshead Housing Company. The HRA includes management fee payments to the company of £30.964m in 2011/12 (£32.273m in 2010/11) and is broken down as follows:

2010/11 £000s		2011/12 £000s
16,722	Repairs and maintenance	16,922
12,661	Supervision and management	11,091
1,977	Special services	1,819
913	Rents, rates, taxes & other charges	1,132
32,273	**Total management fee**	**30,964**

15. Item 8 adjustment

2010/11 £000s		2011/12 £000s
16,893	Interest payable and other similar charges	16,878
(165)	HRA interest and investment income	(159)
(10,378)	Difference between depreciation charged to HRA over the MRA element of subsidy	1,574
6,350		**18,293**

This amount comprises the capital asset charges accounting adjustment which is calculated in accordance with the *Item 8 Credit and Item 8 Debit (General) Determination 2011/12*.

Collection Fund Statement

2010/11 £000s		2011/12 £000s
	Amounts required by statute to be credited to the Collection Fund	
(73,256)	Income from Council Tax	(74,433)
(22,284)	Council tax benefit transferred from the General Fund	(22,633)
(79,727)	Income collectable from business ratepayers	(80,738)
(175,267)	**Total Income**	**(177,804)**
	Amounts required by statute to be debited to the Collection Fund	
	Precepts and demands:	
85,361	- Gateshead Council (including parish council)	85,505
4,949	- Northumbria Police Authority	4,957
4,327	- Tyne and Wear Fire and Rescue Authority	4,334
	Surplus transfers:	
1,400	- Gateshead Council (including parish council)	23
82	- Northumbria Police Authority	1
73	- Tyne and Wear Fire and Rescue Authority	1
	Business rate:	
79,440	- payments to national pool	80,451
287	- costs of collection	287
	Impairment of debts/appeals:	
(593)	- write-offs of uncollectable amounts	(997)
593	- allowance for impairment	997
175,919	**Total Expenditure**	**175,559**
652	**Movement on fund balance during the year**	**(2,245)**

(144)	**Brought Forward Balance**	**508**
508	**Balance Carried Forward**	**(1,737)**

Notes to the Collection Fund Statement

1. National Non-Domestic Rates (NNDR) / Business Rates

The government specifies an amount and, subject to the effects of small property relief and transitionary arrangements, local businesses pay rates calculated by multiplying their rateable value by this amount. The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into an NNDR pool administered by the government. The government redistributes the sums paid into the pool back to local authorities' general funds on the basis of a fixed amount per head of population.

2010/11		2011/12
41.4p	Rate in the pound	43.3p
£214.840m	Total non-domestic rateable value	£211.907m

2. Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands estimated at 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council and preceptors 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 further adjusted for discounts). The table below shows the calculation of the council tax base:

	Proportion of Band D Charge	Number of Properties[23]		Band D Equivalent Properties[24]	
		2010/11	2011/12	2010/11	2011/12
Band A - Up to £40,000 (disabled reductions)	$^5/_9$	152	148	85	82
Band A - Up to £40,000	$^6/_9$	47,759	47,609	31,839	31,739
Band B - £40,001 to £52,000	$^7/_9$	10,194	10,310	7,929	8,019
Band C - £52,001 to £68,000	$^8/_9$	12,985	13,046	11,542	11,597
Band D - £68,001 to £88,000	$^9/_9$	4,824	4,854	4,824	4,854
Band E - £88,001 to £120,000	$^{11}/_9$	1,946	1,949	2,378	2,382
Band F - £120,001 to £160,000	$^{13}/_9$	709	723	1,024	1,044
Band G - £160,001 to £320,000	$^{15}/_9$	331	336	552	560
Band H - Over £320,000	$^{18}/_9$	11	10	22	20
		78,911	**78,985**	**60,195**	**60,297**

	2010/11	2011/12
Council tax for a band D property	£1,600.04	£1,600.04

[23] Council tax charges are calculated as proportions of band D
[24] This column illustrates the weighted average number of properties in the borough

Part 4: Accompanying documents

Comprising:

- **Annual Governance Statement**
- **Independent Auditor’s Report**
- **Glossary of Terms**
- **Contacts**

Annual Governance Statement

Scope of Responsibility

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

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website[25].

This statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

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

The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

The governance framework

A clear statement of the purpose and vision for Gateshead is set out in the Sustainable Community Strategy, Vision 2030, owned by the Gateshead Strategic Partnership and published on the Council's website. The Council's objectives for the next three years are set out in the Corporate Plan, which documents the Council's role, working with its partners, in supporting the delivery of this Strategy. These are translated into more specific aims and objectives in the service plans which each Council service prepares annually. The achievement of these objectives is monitored by individual services and at a strategic level by the Cabinet and Overview and Scrutiny Committees.

[25] www.gateshead.gov.uk/Council%20and%20Democracy/policies/governance.aspx

During 2009 consultation took place with key stakeholders to ensure the ideas originally developed in 2007 were still the most important ones and what the priorities should be for the next three years. This included the distribution of 10,000 consultation documents, 58 consultation events and articles in the Council News and key partners' publications.

The Council has a corporate performance management framework through which quality of service is measured via corporate performance indicators which in turn are reported through the Annual Report. Performance is monitored by group and service management teams and scrutinised on a six-monthly basis by Overview and Scrutiny Committees, who report areas of concern to Cabinet. The Council has a performance management ICT system which brings together performance indicators, action and financial information to provide real time reporting. With changes to the national performance framework, the Council redesigned its performance management framework to ensure it was effective, fit for purpose and sustainable.

The Council's programme for securing continuous improvement in its services is set out in the Corporate Plan. Actions for improvement are drawn from a variety of sources including the Council's own scrutiny and PACE reviews (which apply Best Value principles) and external inspections. The Council also considers issues arising from performance management, consultation exercises and service improvements identified by the Council's complaints and compliments procedure. An annual assessment of performance, detailing future actions required, is set out in the Annual Report.

The behaviour of Councillors is regulated through a Code of Conduct (currently approved by Parliament but soon to be voluntary) which is supported by a number of protocols applying the principles of the Code to specific areas of Council activity. In addition, the Council's Standards Committee has the duty of maintaining high standards of conduct throughout the Council and arranging training on ethical matters. In support of open and transparent accountability arrangements complaints can be made to the Monitoring Officer where it is considered that a Councillor has not followed the Code of Conduct. The Standards arrangements are in the process of being reviewed in line with the provisions of the Localism Act 2011 and a revised governance framework will operate in its place with effect from 1st July 2012; however it has remained in place throughout 2011/12 financial year. Employees are also subject to a Code of Conduct and number of specific policies (e.g. on bullying and harassment) as set out in the Employee Handbook.

Policy and decision making are facilitated by a clear framework of delegation set out in the Council's Constitution. This sets out, among other things, where responsibility lies for developing and delivering policy, and for taking decisions. The Constitution provides for extensive delegation to officers but within a policy framework laid down by the Council, and with the more significant executive decisions being taken by the Leader and Cabinet.

Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk. Risk management awareness is an integral part of the Council's employee/management competency framework and a comprehensive training programme has been developed for employees at all levels. The Chairman of the Audit Committee, Councillor John Hamilton is the designated member Risk Champion for the Council. The Audit Committee receives quarterly reports on risk management and takes appropriate action to ensure that corporate business risks are being actively managed; the Committee also receives the annual corporate risk management report and agrees the effectiveness of the Council's risk management arrangements.

The Strategic Director, Finance and ICT is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety and budget issues; giving financial information; and acting as the Council's money laundering reporting officer. It also extends to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

The Audit Committee reviews and approves the Council's Code of Governance; the original code was reviewed by the Audit and Standards Committees and approved by the full Council following referral from the Cabinet. The terms of reference for the Audit Committee state it will "consider the effectiveness of the Council's risk management arrangements, the internal control environment and associated anti-fraud and anti-corruption arrangements". The Committee reviews control and governance issues relating to the Council and submits an annual report to the Cabinet and Council, based on its activity over the year and the Annual Governance Statement.

Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every report submitted to a decision-making body. The Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making.

The Council maintains an independent Internal Audit Service. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources. This is achieved through the delivery of a risk based annual audit plan which is agreed by the Audit Committee and monitored on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the Council's control environment based on the work undertaken by the Service throughout the year.

The Council has a Human Resources Strategy, which enables managers to realise the full potential of their team and employees participate in a regular review of their achievement and development needs. The Council's 'whistle blowing' procedure is set out in the employee handbook and contact details are on the web-site. Responsibilities for investigation of allegations are set out in the Council's Fraud and Corruption Policy which was updated in 2011/12.

The Council is committed to the learning, training and development of all of its Councillors. A Learning and Development Policy for Councillors was agreed by Cabinet and is included as part of the Councillor Handbook. All Councillors are encouraged to take the opportunity to draw up a Personal Development Plan (PDP) which is monitored on an annual basis. The PDP helps to identify areas where individuals would like extra training or development. Tailored training courses are available for Councillors in specific areas including Local Government Finance, Ethics & Probity and Risk Management. An induction programme also exists for new Councillors.

The Council is pro-active in its approach to community engagement with all stakeholders. The aim is to ensure all local people are well informed about the Council; actively involved in influencing what happens in their local area and ensuring delivery of the services that meet the needs of local people.

A partnership register is maintained which is updated on an annual basis. Examples of partnerships on the register include the Gateshead Strategic Partnership, the Local Safeguarding Children Board and the Health and Social Care Partnership. A risk assessment model has been developed to assess the strength of each partnership arrangement in respect of governance, financial arrangements, reputation and delivery. The most significant partnerships to the Council have been identified from the Partnership Register and risk assessments have been completed for each of these.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by Cabinet Members, the work of managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

The review of the effectiveness of governance arrangements is informed by:

- The opinion of the Leader and Members of the Cabinet;
- The work of managers within the Council;
- The effectiveness and work of Internal Audit, incorporating the Internal Audit Service and the Audit Committee
- Corporate Risk Management;
- Performance Management and Data Quality information;
- The external auditor in his annual audit letter and other reports;
- Assurance from the Strategic Director, Legal and Corporate Services on the operation of Council's Legal and Regulatory Framework;
- Assurance from the Strategic Director, Finance and ICT on the operation of the Council's financial controls, and
- Partnerships arrangements.

The Council's Constitution sets out the role of the Leader and Cabinet as follows:

- To lead change and make recommendations for change to the Council, in consultation with a wide range of stakeholders;
- To ensure that the Council's priorities within the policy framework and budget are implemented, making decisions within that framework where appropriate;
- To monitor the implementation of the budget and policy framework through taking a lead role on Best Value and through co-ordination with the overview and scrutiny role;
- To provide a public face on specific issues.

The Council's Code of Corporate Governance is reviewed regularly and was last approved by the Audit Committee on 23rd April 2012. A report was presented to the Audit Committee of 18th June 2012 in which Members of the Cabinet identified that they felt reliance could be placed on the Council's corporate governance arrangements when carrying out their roles.

Heads of Service have carried out self assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. A report was submitted to the Audit Committee on 18th June 2012, which concluded that based on the self assessments Heads of Service agreed that effective controls were in place.

The Chief Internal Auditor reports to the Council's Strategic Director, Finance and ICT, but in order to ensure independence has direct access to the Chief Executive, Strategic Director, Legal and Corporate Services (Monitoring Officer), and the Audit Committee. A review of the effectiveness of Internal Audit, incorporating the Internal Audit Service and the Audit Committee, has been undertaken and was reported to the Audit Committee of 18th June 2012. This included an assessment of compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010). This concluded that the Council's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, which was incorporated in the Annual Internal Audit Report to the Audit Committee on 18th June 2012. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in fifteen cases where significant weaknesses were identified. These weaknesses were in specific areas and as such there are no new areas for improvement included in the action plan below for 2011/12, as a result of the work of the Internal Audit Service.

Despite this there are certain actions that remain outstanding in respect of weaknesses originally disclosed as part of the 2009/10 Annual Governance Statement and as a result the overall opinion, as reported to the Audit Committee of 18th June 2012, is that the Council's internal control systems and governance arrangements are considered to be effective with the exception of certain specific systems operating within the areas of Adult Social Care. These outstanding issues and an update on progress are reflected in the current action plan set out below.

The Annual Risk Management Report was presented to the Audit Committee on 18h June 2012, in which it was concluded that risk management arrangements are effective.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year. The Council has redesigned its performance management framework to ensure it continues to remain effective, fit for purpose and sustainable. Cabinet agreed the new framework in November 2011. An action plan has been developed and is currently being implemented by the performance management project team to ensure the new approach is embedded within the Council. Based on the information provided during the year and internal reviews of data quality, effective controls are in place.

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Legal and Corporate Services, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body. The effectiveness of this framework allowed the Monitoring Officer in 2009/10 to raise concerns in respect of weaknesses identified in the area of Adult Social Care, notably around contract management, commissioning and compliance with the Council's Contract Procedure rules. Outstanding issues continue to be reflected in the current action plan set out below.

Assurance on the effectiveness of the Council's financial controls has been provided by the Strategic Director, Finance and ICT (Chief Financial Officer) who is designated as the responsible officer for the administration of the Council's financial affairs under section 151 of the Local Government Act 1972. Effective systems are in place to ensure the lawfulness and financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Heads of Service review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Following extensive consultation and review, revised approaches to partnership working were agreed by Cabinet and the Gateshead Strategic

Partnership Steering Group in October 2011. This will ensure partnership arrangements are more business and action focused whilst retaining inclusive and effective engagement with the wider Gateshead community. Heads of Service have also been required to provide assurance on governance arrangements through self-assessments and returns to the Partnership Officer. A report was submitted to the Audit Committee on 18th June 2012, which concluded that based on the self assessments and evidence of other governance arrangements partnerships were found to be operating effectively.

The results of the review of the Council's governance arrangements, including the internal control environment, have concluded that it is effective with the exception of certain specific systems and arrangements operating within Adult Social Care. These issues were originally raised as part of the 2009/10 Annual Governance Statement and progress has been set out in the action plan below.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

Proposed future actions to deal with the remaining significant governance issues and their target implementation dates are: -

Action for Improvement	Original Deadline for Implementation	Update as at June 2012
1. Develop a database of all commissioned arrangements to include type of provision, name of provider, date of commencement, date of expiry and contract review dates.	September 2010	Part implemented. An interim Microsoft Access database has been developed to enable an easier migration of data to a new system. This covers contract type, status, start and end dates, review frequency and outcomes and a risk rating of the services provided. This will be in place by the end of June 2012 and will be subject to Internal Audit testing with a view to reporting on outcomes to the next Audit Committee. Capital funding has been agreed for the new contract management database which will go out to tender by August with an award confirmed by October 2012. Full implementation to be now delivered by February 2013. Alongside this option other potential add-on modules to existing IT systems are also being explored including Carefirst, Agresso, Trojan and the NEPO portal. There is now a specific IT analyst lead for this project and additional Commissioning support staff are in place to populate and maintain the system on an ongoing basis.
2. Identify all contractual arrangements that are currently in place.	August 2010	Part implemented. Linked to action 1 above.

3. Revise existing adult social care contracts to include new standard legal clauses at next possible review stage.	Ongoing	Ongoing. A model contract has been used in the domiciliary care contract which is now in place and will be used as a template for all future reviews of contractual arrangements. Other significant areas are currently being reviewed using a risk-based approach as follows: - Voluntary Sector – By the end of June 2012 every provider will have a revised contract in place. Independent Supported Living – the intention is now is to develop a framework arrangement. This will be going out to tender in Autumn 2012. Residential & Nursing – Older People project continues. A contract is currently in place but this requires updating. This is to be implemented by December 2012. Learning Disability arrangements will then be reviewed as a second phase.
4. Ensure all awards of personal budgets are reviewed at least annually and prioritise outstanding reviews for existing clients.	Outstanding reviews completed by November 2010	Action implemented in respect of personal budgets. Internal Audit testing was expanded to also cover traditional care packages during 2011/12 and this found a significant number of outstanding annual care reviews. The Service has developed a comprehensive strategy to review the adult care cycle within CareFirst as part of the Local Government Association's adult social care efficiency programme. This will include the care assessment process. Internal Audit will monitor progress in this area during 2012/13.
5. Review all arrangements in both Commissioning and panel processes to ensure compliance with the Council's Contract Procedure Rules.	August 2010	Part implemented. The introduction of new care and support guidance has overtaken the functions that panel previously carried out with full authorisation and delegated budget responsibility to improve financial accountability and reduce bureaucracy forming part of this new process. A procedure now exists to consolidate the commissioning of services in line with contract procedure rules. This procedure has been piloted and rolled out across the main Service areas. Further audit testing will be undertaken in this area in 2012/13 with a view to providing an update on outcomes to the next Audit Committee

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

Signed by: Date: 25.06.2012

Leader of the Council

Signed by: Date: 25/6/12

Chief Executive

Independent Auditor's Report

to the Members of Gateshead Council

Opinion on the Council's financial statements

I have audited the financial statements of Gateshead Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Gateshead Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Strategic Director, Finance and ICT and auditor

As explained more fully in the Statement of the Strategic Director, Finance and ICT responsibilities, the Strategic Director, Finance and ICT is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Gateshead Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.

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

Respective responsibilities of the Council and the auditor

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

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

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Gateshead Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Steve Nicklin
District Auditor
Nickalls House
Metro Centre
Gateshead
NE11 9NH

xx September 2012

Glossary of Terms

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

(i) recognising;

(ii) selecting measurement bases for; and

(iii) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the Comprehensive Income and Expenditure Statement or Balance Sheet it is to be presented.

Accruals: the accruals basis of accounting requires that the non-cash effects of transactions be recognised in the period that they affect, rather than when cash is paid or received. An accrual is a sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done, but for which payment has not been made / received by the end of the period.

Accumulated Absences Account *see Note 6c.*

Actuarial gains and losses: for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

Amortisation is the process of writing-off an intangible asset over its projected life. It is equivalent to depreciation of tangible non-current assets.

Appropriations are transfers to/from the Council's reserves from the Comprehensive Income and Expenditure Statement or the HRA. In addition, appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

Assets: an asset is "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity" (IASB definition). Current assets change in value on a day-to-day basis (e.g. cash). Non-current assets yield benefit to the Council and the services it provides for a period of more than one year (e.g. land and buildings).

Available for sale assets are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups).
- The sale is highly probable, with the Council committed to a plan to sell the asset
- An active programme to locate a buyer and complete the plan has been initiated

- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Bad debts and bad debt provisions: bad debts are those debts which are uncollectable, due to debtors going bankrupt or absconding; bad debt provisions are funds set aside to provide for debtors failing to pay.

Best Value provides a framework for the planning, delivery and continuous improvement of Council services. The overriding purpose is to establish a culture of good management in local government for the delivery of efficient, effective and economic services that meet the users' needs.

Under Best Value, the Council has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". This improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities.

Budgets are statements defining the Council's policies over a specified period of time in terms of finance. The budget also includes statements about the use of other resources (e.g. numbers of staff) and the methods of financing expenditure.

Capital Adjustment Account *see Note 6c.*

Capital charges are charges to the Comprehensive Income & Expenditure to reflect the cost of using assets. They are based upon depreciation, which represents the cost of using the asset**.**

Capital expenditure is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital grants and contributions are funds provided by the government or other bodies to undertake work of a capital nature (i.e. to create a non-current asset).

Capital Grants Unapplied reserve *see Note 6c.*

Capital receipts are proceeds from the sale of Council-owned land and buildings or from the repayment of loans and advances. A major element of the Council's capital receipts is from the sale of council dwellings under the "Right to Buy" legislation[26].

Capital Receipts Reserve *see Note 6c.*

Capitalisation directions: these occur when government, exceptionally, permits local authorities to treat revenue costs as capital, relaxing the general rule that revenue costs should be met from revenue resources. Such permissions, given through capitalisation directions, are issued by the Secretary of State under section 16(2)(b) of the Local Government Act 2003.

The effect of a direction is that specified revenue expenditure becomes treated as capital expenditure, so that instead of having to be charged to revenue, it may be funded from capital sources (e.g. borrowing or capital receipts), thereby increasing the Council's financial flexibility.

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26 www.communities.gov.uk/housing/buyingselling/ownershipschemes/righttobuy

Cash comprises cash on hand and demand deposits, including uncleared BACS payments and unpresented cheques.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CIPFA (the Chartered Institute of Public Finance and Accountancy) provides guidance in the interest of public services. It is the professional body for accountants working in the UK public sector (and local government in particular). It provides financial and statistical information for local authority and other public sector bodies, and advises central government and other bodies on public finance.

Collection Fund Adjustment Account *see Note 6c.*

Community assets are non-current assets that the Council intends to hold in perpetuity, that have no determinable useful life and which may have restrictions on their disposal (e.g. parks and historic buildings).

Componentisation is the allocation of the overall value of a significant non-current asset into separate components with materially different useful lives. This ensures that the depreciation charged more accurately reflects the consumption of economic benefits, recognising that some components will wear out more quickly than others.

There is no minimum requirement for the number of components for a non-current asset, and the number will vary depending on the nature and complexity of the asset.

Constructive obligation is an obligation that derives from an authority's actions where:
by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingencies are funds set aside as a reserve to meet the cost of unforeseen items of expenditure, or shortfalls in income and to provide for inflation. This is not included in individual budgets because their precise value cannot be determined in advance.

Contingent assets are possible assets arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent liabilities are either**:**

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control, or
- present obligations arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate & democratic core comprises all activities that the Council engage in specifically because it is an elected, multi-purpose authority. 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.

Corporate governance is the system by which an organisation directs and controls its functions and relates them to its communities.

Creditors are amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March). Creditors also include *receipts in advance*, where the Council receives income from external bodies or individuals in advance of service provision (e.g. payment of 2012/13 council tax bill in 11/12).

Current assets are items that can readily be converted into cash. These include items such as cash, debtors (net of bad debt provisions), investments, stock and work in progress.

Current liabilities are amounts owed to individuals or organisations that will be paid within twelve months of the Balance Sheet date.

Current service cost (pensions) is the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailments are pension adjustments which reduce the expected years of future service of current employees or eliminate the accrual of defined benefits for some or all of their future service. Gains or losses on curtailment must be immediately recognised.

Debtors are amounts owed to the Council for goods and services supplied but where payment has not been received at the end of the financial year. The technical definition is: financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Deferred Capital Receipts *see Note 6c.*

Deferred liabilities are liabilities that should have been paid to an individual or an organisation during the year but have been deferred to a later date.

Defined benefit scheme is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation is the systematic allocation of the depreciable amount of a non-current asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

Discretionary benefits are retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

Earmarked Reserves *see Note 6c.*

Equal Pay Back Pay Account *see Note 6c.*

Estimates are amounts that the Council expects to spend or receive as income during an accounting period:

- **Original Estimates** are the estimates for a financial year approved by the Council before the start of the financial year.

- **Revised Estimates** are an updated revision of the estimates for a financial year prepared within the financial year.

Estimation techniques are methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. A policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. They include, for example:

(a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a non-current asset consumed in a period; and

(b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected rate of return on pension assets: for a funded defined benefit scheme, is the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the scheme.

Fair value is the price at which it could be exchanged in an arm's length transaction less (where applicable) any grants receivable towards the purchase or use of the asset.

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred. Finance lease liabilities are equal to the net present value of minimum lease payments.

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Instruments Adjustment Account *see Note 6c.*

Force majeure is a common contractual clause that aims to protect both parties from liabilities when an extraordinary event beyond the control of the parties (for example, war, strike, riot, natural disaster) prevents one or both parties from fulfilling their contractual obligations.

Formula grant is the general grant given to support local authority spending on services other than schools. It comprises revenue support grant and national non-domestic rates. In addition, authorities also receive a wide range of specific grants from government departments towards particular service areas or government initiatives (see area based grant). Central government support in total is known as aggregate external finance (AEF), comprising specific grants and formula grant.

General Fund *see Note 6c.*

Grants are assistance by other bodies in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Grant determination is a schedule provided by a grant awarding body that indicates the funding to be awarded and any conditions or restrictions associated with the grant(s).

Government grant is assistance by government, inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Gross expenditure is the total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

Historical cost refers to the original monetary value of an asset.

Housing Revenue Account (HRA) *see Note 6c.*

HRA subsidy is government grant paid to the Council towards the cost of providing, managing and maintaining dwellings and paying housing benefits to tenants.

IASs (International Accounting Standards) are accounting pronouncements issued by the International Accounting Standards Board (IASB). They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole.

IFRSs (International Financial Accounting Standards) are accounting pronouncements issued by the IASB. They have been adopted (or, in some cases, interpreted or adapted) by the UK public sector in an attempt to make it more comparable with both the private sector and the international community as a whole.

Impairment is the amount by which the carrying value of an asset (i.e. its current value in the accounts) exceeds its recoverable amount, caused either by a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices.

Infrastructure assets are non-current assets that are inalienable; expenditure on such assets is only recoverable through continued use of the asset. Examples of infrastructure assets are highways and footpaths.

Intangible assets are identifiable, non-monetary, non-current assets without physical substance. Examples include software licences, patents and copyrights.

Interest cost (pensions) is, for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments are separated into the following categories:

- Long-term investments are investments intended to be held for use on a continuing basis in the activities of the Council for 365 days or more; and
- Short-term investments occur when surplus funds are invested for 364 days or fewer.

Investments (Pension Fund) in the Local Government Pension Fund are accounted for in the statements of that fund. However, the Council is also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with the underlying obligations.

Investment properties are interests in land and/or buildings, in respect of which construction work and development have been completed, and which is held solely for its investment potential, with any rental income being negotiated at arm's length.

Leases: leasing is the method of financing the provision of various capital assets to discharge the Council's functions outside normal borrowing procedures but within the criteria laid down in the Local Authorities (Capital Finance) Regulations. Leases are classified as either *finance leases* or *operating leases*.

Levies: similar to precepts, these sums are paid to other bodies. However, these amounts are not collected through council tax as with precepting bodies; they are items of expenditure on the face of the Income and Expenditure Account. The bodies that charge a levy on the Council are the Tyne and Wear Integrated Transport Authority, the Environment Agency and the Tyne Port Health Authority.

Liabilities are legally binding obligations to settle debts owed / commitments made.

Liquid resources are current asset investments that can be readily disposed of by the Council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

Local Government Pension Scheme (LGPS) is a nationwide public sector pension schemes for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities[27].

Long-term contract is a contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Major Repairs Allowance is the main housing subsidy for the Council, based on the cost of maintaining council dwellings.

Major Repairs Reserve *see Note 6c.*

Materiality: an item of information is material if its omission or misstatement from the accounts might reasonably affect the assessment of the Council's stewardship, economic decisions or comparison with other entities. Materiality is dependent on the size and nature of the item in question.

Minimum lease payments are payments over lease term that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

(a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or

(b) For a lessor, any residual value guaranteed to the lessor by:
  (i) The lessee;
  (ii) A party related to the lessee; or
  (iii) A third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

27 See http://www.twpf.info for further information

Net book value, or carrying amount, is the amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation / amortisation.

Net current replacement cost is the cost of replacing or recreating a particular asset in its existing condition and in its existing use i.e. the cost of its replacement or of the nearest equivalent asset adjusted to reflect the current condition of the existing asset.

Net debt is the Council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net realisable value is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Newcastle International Airport Reserve *see Note 6c.*

Non-current assets are those that yield benefits to the local authority and the services it provides for a period of more than one year.

Operating lease is a lease other than a finance lease.

Operational assets are non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Council.

Past service cost, for a defined benefit pension scheme, is the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension fund: an employees' pension fund is maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

Pensions Reserve *see Note 6c.*

Precepts are amounts of council tax collected by the Council and paid to other bodies. The major precepting bodies are *Northumbria Police Authority* and *the Tyne and Wear Fire and Rescue Authority*. Parish precepts are charged separately and only on the area of the parish council concerned. Parish precepts are treated in the accounts as council expenditure.

Private finance initiatives (PFIs) are public / private sector partnerships designed to procure new major capital investment resources for local authorities. They are intended to form a substantial and genuine additional source of funding to local authorities rather than merely being a replacement for existing funding.

Prior period adjustments are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provisions are amounts set aside in the accounts for liabilities that are likely to be incurred or assets that are likely to be received but where the amounts or the dates on which they will arise are uncertain.

Prudential borrowing is the current regime for council borrowing; it gives local authorities much more freedom than the previous system in deciding how much they can afford to borrow. All borrowing must remain within the Council's prudential borrowing limits (see Prudential Code), which are agreed annually by committee (Council).

Prudential Code for Capital Finance in Local Authorities is a framework for local authority capital investment introduced through the Local Government Act 2003.The basic principle of the Prudential Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice.

Prudential indicators: to demonstrate that local authorities have fulfilled the objectives of the Prudential Code, prudential indicators must be used. They are designed to support and record local decision making in a manner that is publicly accountable, but are not designed to be comparative performance indicators.

Related parties: A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Section of the Code referred to as the 'reporting entity').

a) A person or a close member of that person's family is related to a reporting entity if that person:
   - (i) has control or joint control over the reporting entity;
   - (ii) has significant influence over the reporting entity; or
   - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions apply:
   - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - (iii) Both entities are joint ventures of the same third party
   - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   - (vi) The entity is controlled or jointly controlled by a person identified in (a).
   - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

Remuneration (or allowance) is any consideration or benefit derived directly or indirectly by key management personnel from the authority for services provided in their capacity as elected members or otherwise as employees of the authority.

Reserves are monies set aside by the Council that do not fall within the definition of provisions.

Residual value is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits are all forms of consideration given by the Council in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(i) an employer's decision to terminate an employee's employment before the normal retirement date; or

(ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revaluation Reserve *see Note 6c.*

Revenue expenditure is incurred on the day-to-day running of the Council; the costs principally include employee expenses, premises costs, supplies and transport.

Revenue expenditure funded from capital under statute: this is expenditure that is legally allowed to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; for example, improvement grants.

Revenue funding is grant funding used to support the revenue expenditure of the Council. It may be 'ringfenced' to specific areas or may be general.

Revenue support grant (RSG) is grant paid by the government towards local services in general, as opposed to specific grants (which may only be used for a specific purpose).

Scheme liabilities (of a defined benefit scheme) are outgoings due after the valuation date. They are measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Section 106 agreements: Section 106 of the Town and Country Planning Act 1990 allows a local planning authority to enter into a legally binding agreement / planning obligation with a landowner in association with the granting of planning permission. The obligation is called a Section 106 Agreement.

Service Accounting Code of Practice (SeRCOP) provides guidance on financial reporting to ensure data consistency and comparability between local authorities. It was introduced by CIPFA in response to the demands placed upon local authorities to secure and demonstrate Best Value in the provision of services to the community.

Settlement (pensions) is an irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(a) A lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;

(b) The purchase of an irrevocable annuity contract sufficient to cover vested benefits; and

(c) The transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Slippage relates to capital spend; slippage occurs when capital budgets allocated to a particular financial year are not spent, and are carried forward into the next year.

Special Services cover services to HRA tenants such as cleaning, communal lighting, lifts, communal heating, laundry services, concierge schemes, ground maintenance and welfare services, excluding essential care and other special services.

Stocks are held on the Balance Sheet in expectation of future use when unused or unconsumed. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Strain on the fund: when a member of the LGPS is allowed to retire early (e.g. efficiency, redundancy or with the Council's consent), employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

Support services, or overheads, are those that support the delivery of front line services. Support services include finance, administration, ICT, legal and other central services.

Trust Funds: from time to time the Council receives donations from private individuals or companies on condition that they are used for specified purposes. Depending on the terms of the trust agreement either whole or part of the donation itself is used for the purpose specified or it is invested and the interest is so used. If the initial purpose of the donation is no longer appropriate or the beneficiaries no longer exist, an application can be made to the Charity Commissioners to vary the terms of the trust.

Unusable reserves are those reserves that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences. Note 6 provides further information on the individual reserves in this category.

Usable reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as 'cash-backed'. Note 6 provides further information on the individual reserves in this category.

Useful life, or useful economic life, is the period over which, the local authority will derive benefits from the use of a non-current asset.

Vision 2030 is Gateshead's Sustainable Community Strategy which sets out the following ambitious and aspirational vision for Gateshead:

"Local people realising their full potential, enjoying the best quality of life in a healthy, equal, safe, prosperous and sustainable Gateshead."

It reflects the views of thousands of people and is informed by evidence gathered from Gateshead, giving a picture of the quality of life and services across the borough.

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Leader of the Council:	**Councillor Mick Henry**
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Web links:

Gateshead Council	www.gateshead.gov.uk
Gateshead Housing Company	www.gatesheadhousing.co.uk
Tyne & Wear Archives and Museums	www.twmuseums.org.uk
Association of North East Councils	www.northeastcouncils.gov.uk/
Traffic Accident Data Unit	www.northeast-tadu.gov.uk
TWEDCO	www.tyne-wear.co.uk
Beamish	www.beamish.org.uk
Northumbria Safer Roads Initiative	www.safespeedforlife.co.uk
Newcastle Airport	www.newcastleairport.com
Clean Tyne Project	www.gateshead.gov.uk/CleanTyne
North East Procurement Organisation	www.qtegov.com

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