GATESHEAD COUNCIL

STATEMENT OF ACCOUNTS

2009/10

(DRAFT)

GATESHEAD COUNCIL

STATEMENT OF ACCOUNTS - 2009/10

CONTENTS

Introduction

The Statement of Accounts which follows demonstrates the Council's financial performance for the year ended 31 March 2010, and presents 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 *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009* (the SORP), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The SORP constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003 and is prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2003 and the Local Government and Housing Act 1989. From 2010/11, the SORP will be replaced by International Financial Reporting Standards (IFRS) which will result in significant changes to local authorities accounting.

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

The foreword provides a guide to the most significant matters in the financial statements.

Changes to the Statement of Recommended Practice (SORP) 2009

The SORP 2009 has introduced a small number of changes to the format of the statements. The substantive changes that affect Gateshead Council's Statement of Accounts for 2009/10 are:

a. The accounting requirements for Private Finance Initiatives (PFI) are no longer based on UK Financial Reporting Standard 5, but on an interpretation of IFRS. The impact on the Council's accounts is that the assets used to deliver schools PFI schemes are now included in the statements (see Notes 9 and 27).

b. Accounting for local taxes – National Non Domestic Rates (NNDR) and Council Tax. The SORP has been changed for 2009/10 to reflect the fact that the Council collects income on behalf of other bodies. Council tax income is collected on behalf of both Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority, and NNDR income is solely collected on behalf of central government. In these cases, the Council acts as agent only; the entries within the financial statements now simply reflect the net cash owed to/from the other party. This has required a restatement of the 2008/09 financial statements to comply with the new requirements.

In addition to the above, the Local Authority Accounting Panel (LAAP) Bulletin 85 sets out the new disclosure requirements for remuneration reporting for Public Bodies in England Wales. The new requirements have been introduced to provide greater transparency and accountability to local taxpayers in respect of the total remuneration package for the senior team charged with the stewardship of the organisation. The new provisions, which came into effect on 31 March 2010, requires local authorities to include the remuneration information of senior employees in a note to the statement of accounts. For senior employees whose salary is £50,000 or more per year but less than £150,000, they are required to be listed individually by way of job title. Persons whose salary is £150,000 or more per year must also be identified by name.

Financial Statements

The Statement of Accounts of the Council is set out between pages 1 to 100. It consists of the following financial statements that are required to be prepared under the SORP:

1. **Explanatory foreword**
   The purpose of the foreword is to offer an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms 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 cash flow, and information on the financial needs and resources of the Council.

2. **Statement of Responsibilities for the Statement of Accounts (Page 14)**
   This explains both the Council's and the Strategic Director, Finance & ICT's responsibilities in respect of the Statement of Accounts.

3. **Annual Governance Statement (Page 15)**
   This statement outlines the Council's approach to corporate governance and internal control, in line with Regulation 4 of the Accounts and Audit Regulations 2003. The statement was reviewed and approved by the Council's Audit Committee on 21 June 2010.

4. **Independent Auditor's Report to the Council (Page 21)**
   This report details the basis of the external auditor's opinion on the financial statements.

5. **Statement of Accounting Policies (Page 24)**
   This statement discloses the accounting policies that are significant to the understanding of the Statement of Accounts and the Council's financial position.

The Core Financial Statements

6. **Income and Expenditure Account (Page 38)**
   The purpose of this account is to report income and expenditure relating to all services provided by the Council and how the net costs of these services have been financed by local taxpayers and central government grants.

   The Income and Expenditure Account is presented using the service expenditure analysis set out in CIPFA's *Best Value Accounting Code of Practice* (BVACOP).

7. **Statement of Movement on the General Fund Balance (Page 39)**
   This statement reconciles the surplus or deficit on the Income and Expenditure Account to the movement in the General Fund balance.

8. **Statement of Total Recognised Gains and Losses (STRGL) (Page 40)**
   Not all gains and losses experienced by the Council are reflected in the Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the financial results during the year.

9. **Balance Sheet (Page 41)**
   This statement summarises the Council's financial position as at 31 March 2010. It shows the balances and reserves available to the Council, fixed and current assets employed in its operations, and its borrowing position.

10. **Cash Flow Statement (Page 43)**
    This summarises the cash receipts and payments of the Council arising from transactions with third parties for both capital and revenue purposes.

11. **Notes to the Core Financial Statements (Page 45)**
    The notes provide additional information to support the core statements.

Supplementary Financial Statements

12. **Housing Revenue Account (HRA) Income and Expenditure Account (Page 91)**
    This account deals with the provision and maintenance of council housing. There is a statutory requirement to keep this account separate from the account for other council services, as defined in schedule 4 of the Local Government and Housing Act 1989.

13. **Statement of Movement on the Housing Revenue Account (HRA) Balance (Page 92)**
    This shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement in the HRA balance for the year.

14. **Notes to the Housing Revenue Account (Page 93)**
    The notes provide additional information to support the HRA statements.

15. **The Collection Fund (Page 98)**
    The Local Government Finance Act 1992 requires each billing authority to establish and maintain a Collection Fund. It 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 the General Fund and precepting authorities (Northumbria Police Authority and Tyne & Wear Fire and Rescue Authority).

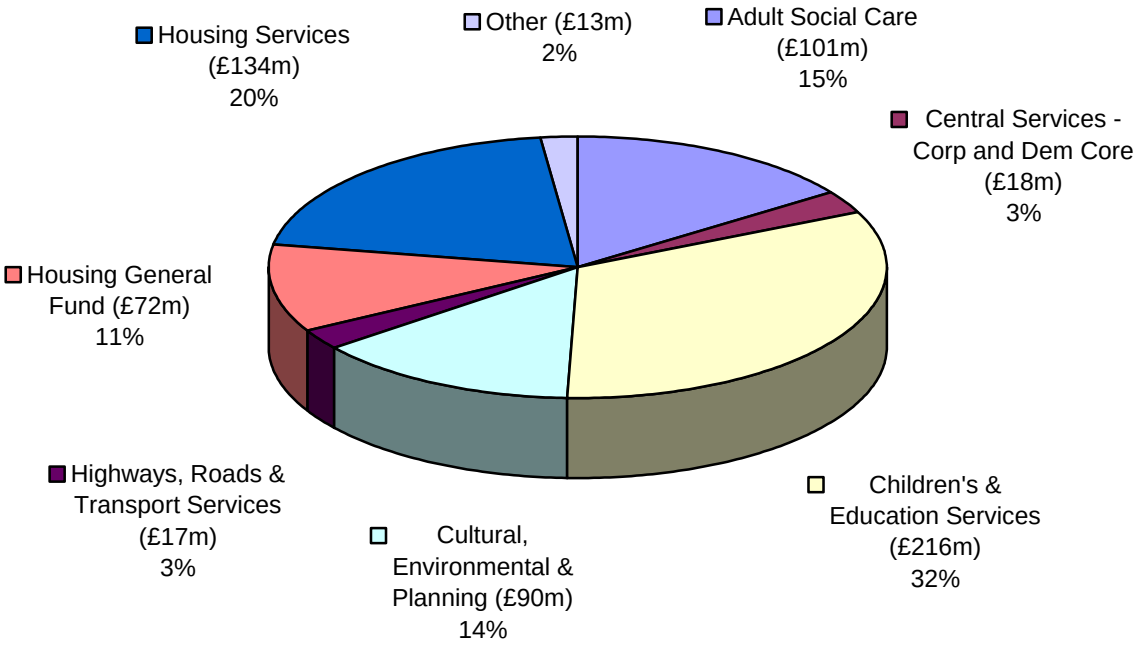
    The Collection Fund is like a trust fund; it is managed by the billing authority but its accounts must be kept separate from the Council's accounts.

16. **Notes to the Collection Fund (Page 99)**
    The notes provide additional information to support the Collection Fund.

Revenue Income and Expenditure Summary

Revenue expenditure is the day-to-day running costs of providing the Council's services and includes expenses such as salaries, wages, heating, cleaning, and repairs & maintenance. The Council incurred gross expenditure in 2009/10 of £661m on its services to the public, which is summarised in the chart below:

Services on which money was spent (£661m)



For 2009/10, the net revenue budget to be met from government grants and local taxpayers was approved by the Council at £223.043m (£223.051m including parish precepts), including budgeted net appropriations of £1.0m from the General Reserve and £13.771m from earmarked reserves. This meant that band D council tax was set at £1,416.28 (excluding precepts) for 2009/10. This represented an increase of 2.99% over the 2008/09 band D council tax.

Budget monitoring is carried out monthly during the year and is supplemented by formal budget monitoring reports which are made quarterly to the Council's Cabinet which detail the outcome of the review of budgets and spending forecasts for both capital and revenue expenditure.

From the summary table on page 7, it can be seen that the financial position at the year-end is an increase in the General Fund balance of £6.115m, made up of £6.061m General Reserve and £0.054m of balances held by schools, which make up the Local Management of Schools (LMS) balances.

A report to Cabinet on 22 June 2010 reported that the General Reserve increased by £6.061m, compared to a planned reduction of £1m. This position included a number of appropriations to and from earmarked reserves, some of which were budgeted and some of which were as a result of previous decisions or accounting requirements. These appropriations are detailed below:

	To £000s	From £000s
Appropriations to/from Earmarked Reserves		
MTFS Review of reserves		(3,578)
Service contribution to Pensions Reserve for strain on the fund	1,002	
Service contribution from Pensions Reserve for strain on the fund		(1,147)
Service contribution to Gateshead Development Pool	384	
Local Area Agreement (LAA) reward grant	39	
Developers contributions	667	(11)
Dedicated Schools Grant (DSG) under spend 2009/10	181	
Grant clawback		(387)
DSG reserve to fund premature retirement costs		(390)
Cultural development	500	(475)
Pensions		(4,500)
Gateshead Development Pool (matching expenditure - budgeted)		(2,413)
Gateshead Development Pool (not aligned to expenditure - budgeted)		(900)
Gateshead Development Pool transitional growth - technical costs		(500)
Gateshead Development Pool transitional growth - fleet review		(596)
Gateshead Development Pool transitional growth - neighbourhood nurseries		(330)
Gateshead Development Pool transitional growth - adults		(500)
Gateshead Development Pool transitional growth - demographics		(500)
	2,773	**(16,227)**
Appropriation per Revenue Outturn Report		
Local Authority Business Growth Incentive (LABGI) grant 2009/10	258	
Economic downturn funding Ten Point Plan		(291)
Gateshead Development Pool – Local Community Fund		(39)
Gateshead Development Pool (matching expenditure - ward-based schemes)		(185)
	258	**(515)**
Total Appropriations	**3,031**	**(16,742)**

The Education Reform Act 1988 allows for the carry forward of individual school balances. These earmarked reserves are held by schools to support future spending decisions. However, the level of the reserve, in accordance with the SORP, forms part of the Statement of Movement on the General Fund Balance (page 39).

Although some services have spent in excess of their original estimate, the action taken during the year combined with the generation of additional income means that the overall spending of the Council has been contained within the original estimate. This is a significant achievement given the financial pressures faced by all services and enables the Council's sound financial position to be maintained during a difficult period for public spending and the economy. A summary of the main areas of service variances is as follows:

- The Education and Young People's Service under spent by £0.241m which relates to home to school / college transport and salary slippage.

- Business Support under spent by £0.366m in relation to salary slippage.

- Adults' Social Services overspent by £3.875m, mainly due to the additional costs of care packages for Older People and People with Disabilities.

- The Housing General Fund under spent by £0.646m mainly as a result of the inclusion of debtors to reflect the recovery of overpaid housing benefits.

- Regulatory Services overspent by £0.238m as a result of reduced planning fees income in Building Control and Development Control. This had been anticipated as a result of the recession and was included as a contingency, funded in the short term from earmarked reserves.

- Economic Development has under spent but this masks a number of significant variances, in particular additional repairs and maintenance costs at business centres and a shortfall of Business Centre income. These unfavourable variances were offset by maximisation of external funding against mainline spend.

- Local Environmental Services overspent by £1.057m mainly in relation to four areas, the implementation of an integrated transport management system to support the review of fleet, consultants fees for the South of Tyne and Wear Waste Partnership, additional winter maintenance due to the adverse weather and a shortfall on the agreed saving to generate income from managing packed lunches in schools coupled with a shortfall in school meals income as a result of the inclement weather.

- Within Central Services there are underspends in the Chief Executive's Department as a result of reduced publicity and design communications and grant maximisation. In addition, Customer and Building Services overspent due to additional repairs and maintenance and utilities costs in the Civic Centre.

- Other services under spent by £2.836m which reflects unused contingency mainly in relation to the pay award. In addition, contingency was made for the impact of the economic downturn, funded from reserves, and this is reflected in individual services.

- Capital financing expenditure reduced by £4.627m, reflecting the fact that the budget included £3.0m prudential borrowing costs, of which only an estimate of £0.567m was incurred, although this is committed to support major investment in areas such as Building an Active Future. This was to be funded by the use of earmarked reserves and a corresponding adjustment has been made in reserves. In addition, debt restructuring has been undertaken to respond to changing market conditions which has resulted in reduced external interest payments to partially offset a significant fall in interest earned on investments.

The following table summarises the financial position for the year:

2008/09 Actual Outturn (Restated) £000s		2009/10 Original Estimate £000s	2009/10 Actual Outturn £000s
312,462	**Net Expenditure on Services**	**210,690**	**257,290**
12,306	Levies and precepts	12,491	12,521
361	(Gain) / loss on disposal of fixed assets	0	(278)
(1,236)	(Surplus) / deficit from trading operations and dividends	(417)	(2,714)
38,387	Interest payable and similar charges	30,478	26,705
(8,627)	Interest and investment income	(5,424)	(2,150)
15,270	Return on pension assets	26,580	26,580
1,264	Other operating costs	623	623
370,187	**Net Operating Expenditure**	**275,021**	**318,577**
	Net Expenditure Financed By:		
(12,529)	Revenue support grant	(19,554)	(19,554)
(80,855)	Council tax receipts	(83,632)	(82,851)
(90,003)	National non-domestic rates	(84,717)	(84,717)
(1,600)	LAA reward grant	0	(39)
(5,208)	LABGI grant	0	(258)
(17,327)	Area based grant	(18,869)	(19,456)
(1,000)	Collection Fund transfer	(1,500)	(1,500)
(208,522)		**(208,272)**	**(208,375)**
161,665	**(Surplus) / deficit for the year**	**66,749**	**110,202**
(5,539)	Net transfer to / (from) earmarked reserves debited / (credited) to the General Fund balance for the year	(13,771)	(13,711)
(154,302)	Other additional amounts required to be debited or (credited) to the General Fund balance for the year	(51,978)	(102,606)
1,824	**(Increase)/Decrease in General Fund Balance for the Year**	**1,000**	**(6,115)**
(11,444)	General Reserve brought forward	(11,444)	(11,444)
(12,677)	LMS Reserve brought forward	(10,853)	(10,853)
(11,444)	**General Reserve carried forward**	**(10,444)**	**(17,505)**
(10,853)	**LMS Reserve carried forward**	**(10,853)**	**(10,907)**

The decrease in net service expenditure between 2008/09 and 2009/10 is mainly as a result of lower capital charges due to the impairment review of assets which was undertaken in 2008/09 to reflect the impact of market conditions.

Impact of the Current Economic Climate

The country moved back into positive gross domestic product (GDP) growth in the fourth quarter of 2009/10 and official statistics show that the contraction of the economy and the first stage of the recession may be over. However, in line with other local authorities, the full impact of the recession and the impact on the Council has been delayed due to the three year funding settlement, of which 2009/10 was the second year.

The results of the next Comprehensive Spending Review (CSR) will be announced in autumn 2010 and it's widely anticipated that significant cuts in public spending will impact on the Council's budget. This will be considered as part of the review of the Council's Medium Term Financial Strategy (MTFS).

The Council's sound financial position has enabled it to respond positively to the challenges presented as a consequence of the significant downturn in the economy during the year. The main impacts on the Council are an increase in demand for services such as housing and council tax benefits, reduced receipts from sale of Council assets such as land and surplus properties, and reduced availability of private sector investment for major development schemes.

In February 2009, the Council launched a wide-ranging economic plan to help businesses and local people cope with the current recession. The £200m, Ten-Point Plan is designed to make Gateshead more resilient to the unprecedented challenges facing economies across the UK and the rest of the world. The Council and it's partners have received regular reports on progress.

A valuation of the Newcastle Airport holding company, NIAL Holdings Ltd, concluded that the current trading conditions had contributed to a significant reduction in the book value of the shareholding. Based on this valuation, the value of the Council's share of the holding has reduced from £1.059m to £0.559m. This reduction has no impact on cash backed reserves.

Housing Revenue Account Performance

This account showed a deficit for the year of £1.337m (2008/09 deficit of £0.096m). The expenditure on this service was financed by housing rents, government grant, housing subsidy and housing revenue account balances. The main reason for the increase in the deficit of £1.241m is an increase in repairs and maintenance costs associated with void properties and also a reduction in the amount of investment income.

Material Assets and Liabilities

As at 31 March 2010, the Council holds £1,684.020m of fixed assets, long-term investments of £13.629m and short-term investments amounting to £107.437m. Fixed assets have reduced by £32.846m, largely due to the net downward revaluations of the Council's housing stock as a result of the five-year full revaluation which has been carried out in 2009/10. The total effect on the Income and Expenditure Account is £71.2m.

Long-term investments have increased by £9.748m reflecting the change in the Council's Treasury Management Strategy to increase investments from the three month limit that was introduced in 2008/09 in response to the banking crisis. The level of short-term investments has reduced by £2.915m from 2008/09, due to the application of some of these funds to repay outstanding borrowing and generate savings on interest costs.

The Council also has current liabilities of £167.765m, long term borrowing of £426.712m and provisions for future liabilities of £19.112m. Current liabilities have increased by £53.612m from 2008/09, due to the maturity profile of outstanding loans resulting in an increase in short term borrowing of £21.754m from 2008/09.

Long-term borrowing has increased by £33.537m from 2008/09, mainly due to increased borrowing to fund the Council's and The Gateshead Housing Company's capital programme, to take advantage of the higher approved borrowing allocation. Provisions for future liabilities have increased by £12.384m from 2008/09, mainly due to a number of legal claims relating to equal pay. In accordance with FRS17 the Council's pension liability is also recorded in the balance sheet. A full description of the Council's material assets and liabilities is provided in the Notes to the Core Financial Statements.

Pensions Liability

The cost of pensions to the Council continues to increase year on year, and it is one of the major items of expenditure the Council has to meet.

The Council makes employer contributions on the basis of an agreed percentage of its employees' contributions to the 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, on the basis of a clear business case, and also makes additional contributions to make good the shortfall in the pension fund, known as deficiency payments.

The Tyne and Wear Pension Fund is classified as a defined benefit scheme, and is accounted for in accordance with the requirements of Financial Reporting Standard 17 (FRS17).

Capital Expenditure

In addition to spending on day-to-day activities, the Council incurs expenditure on the acquisition of fixed assets that will be used in providing services beyond the current accounting period or expenditure that adds value to an existing fixed asset.

The Council approved a capital programme of £163.1m at its meeting in January 2009, which was revised to £178.0m at the third quarter. The final capital outturn for the year of £153.1m is £24.8m less than the third quarter revised budget, due to re-phasing of schemes.

The programme has had to be managed to reflect a reduction in resources arising from the impact of the economy on capital receipts. It has also been possible to avoid any loss of time limited resources with most of the major slippage being matched by flexible resources, which can be carried forward into 2010/11 and future years.

Actual capital expenditure for the year on fixed assets and investments totalled £140.947m (2008/09 £125.692m). 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, £12.223m (2008/09 £12.022m) 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. This resulted in total capital expenditure of £153.170m to be financed (2008/09 £137.714m).

A summary of how the £153.170m was financed is as follows:

	£000
Capital Grants and Contributions	43,623
Supported Borrowing	43,109
Prudential Borrowing	34,870
Major Repairs Allowance	27,704
Revenue Contributions	1,390
Gateshead Development Pool Capital Receipt	974
Capital Receipts	1,215
Gateshead Development Pool Reserve	185
Provisions	100
	153,170

The increased investment in the Council's housing stock resulting from the successful award of two-star status to the Gateshead Housing Company (TGHC) during 2005/06 has continued in 2009/10. Total Housing Revenue Account capital spending in 2009/10 was £72.704m (2008/09 £68.963m).

The Council also acquires the use of assets through operating lease agreements. Leasing rentals on vehicles and equipment during the year totalled £0.426m and payments for buildings on an operating lease basis totalled £0.628m.

The Prudential Code for Capital Finance in Local Authorities

The prudential framework for local authority capital investment was introduced through the Local Government Act 2003 and became effective from 1 April 2004. The basic principles of the *Prudential Code for Capital Finance in Local Authorities* is that local authorities are 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.

Housing Market Renewal

Gateshead and Newcastle Councils are working in partnership with Bridging NewcastleGateshead (BNG), a Housing Market Renewal Pathfinder set up by the Government in 2002, to tackle issues of low housing demand and provide better quality and choice of housing in the urban core of the region. The two authorities work in close partnership to ensure expenditure and output targets are met. In 2009/10, funding of £32m was provided to the initiative and an award of funding for 2010/11 has been announced totalling £29m. The level of funding in 2010/11 and beyond is currently under review by the government. Gateshead Council is the accountable body for this initiative.

Joint Venture

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

The procurement of the joint venture partner is being conducted through the public procurement directives competitive dialogue process. During 2009/10, the Council moved from the *invitation to participate in dialogue* (ITPD) stage of the procurement to the *invitation to continue dialogue* (ITCD) stage. During this process, the number of potential partners moved from nine to four. It is anticipated that during 2010/11 a preferred partner will be selected with a view to establishing a limited liability partnership (LLP) which will become active in 2011/12.

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 City and South Tyneside Councils) to jointly procure a service for the treatment and disposal of residual municipal waste. The partnership has been provisionally awarded £73.5m of PFI credits by the Department for Environment, Food and Rural Affairs (Defra) following the approval of the outline business case in July 2008. The partnership, led by Gateshead, is currently continuing dialogue with the final two bidders. It is anticipated that the procurement process will be completed by the end of 2010.

Building Schools for the Future (BSF)

In December 2007, the Council entered into a public / private partnership with InspiredSpaces to create a Local Education Partnership (LEP) for the redevelopment of schools in Gateshead and South Tyneside. The arrangement is the standard model under the government's initiative, Building Schools for the Future, which aims to rebuild or substantially refurbish all secondary schools in England.

The LEP is currently remodelling two schools within Gateshead, Thomas Hepburn Community School and Heworth Grange Comprehensive School, for which government grant is available. The LEP will also provide an ICT-managed service to the two refurbished schools and to two PFI schools, Lord Lawson of Beamish (whose ICT service commenced in June 2008) and Kingsmeadow (whose ICT service commenced in September 2008). These will be funded from a combination of government grant and school contributions.

In March 2010, the Council was successful in its bid to bring forward BSF funding and has been awarded £80m to rebuild or refurbish a number of secondary schools (Whickham, St Thomas More, Joseph Swan and a school in the west of Gateshead). Since the funding was announced, the government have stated their intention to review all approvals since January 2010 with a likely outcome expected in the autumn of 2010.

Cashflow

Cashflow is monitored closely during the year to ensure that optimum investment returns are obtained. The Council's surplus cash balances were deposited with banks and building societies for periods ranging from overnight up to a maximum of three years. In the current economic climate it was identified that there is an increased risk that funds deposited by the Council in banks and building societies could be lost due to the collapse of the financial institution. The risk is mitigated by the controls in the Treasury Management Strategy, which prioritises risk and liquidity of deposits ahead of returns. The potential impact is limited by the strategy of a diverse portfolio with top rated banks and building societies, which are also covered by government guarantees.

Landfill Usage

In 2009/10, Gateshead Council was allocated 70,938 tonnes worth of allowances. Due to the large number of surplus allowances on the market and the scarcity of buyers, the trading value of allowances has been set at zero. These allowances are therefore valued at nil. At the year-end it was estimated that 47,667 tonnes were used, valued at nil.

In accordance with the SORP, the Council has a provision to recognise the liability, which arises from the obligation to hold landfill allowances equal to usage. This however, stands at zero due to the nil value of the allowance. Likewise, a current asset of nil value represents the total allowances allocated to the Council and a reserve of nil value represents the unused allowances as at 31 March 2010.

Efficiency

The Council's approach to securing efficiency and Value for Money (VFM) is set out in the Council's Efficiency and Value for Money Strategy.

The Council continues to seek and achieve efficiency savings in its budget and spending plans and has an excellent past record of achievement of efficiencies and improving services by using resources more effectively.

The Council has a framework in place to meet the efficiency challenges set by the government in its Comprehensive Spending Review (CSR07), whereby an overall target was been set for local government of 3% cashable efficiencies for each of the three years commencing 2008/09. The 3% target was increased in the 2009 Budget to 4% cashable efficiencies by 2010/11. This increased the cumulative target for the Council from £28m to £31m for three years 2008/09 – 2010/11. The Council has achieved cumulative efficiencies of £22.6m for 2008/09 and 2009/10, exceeding the target for this period of £18.4m.

Prospects for 2010/11 and Beyond

For the financial year 2010/11, the Council has approved a net revenue budget of £232.589m, and a council tax at the headline rate of band D of £1,443.20 (excluding precepts), an increase of 1.9%, the lowest ever annual rise levied by the Council. The budget provides for growth of £3.6m, which covers the Council's priority services of Children & Families, Older People and Waste Management & Sustainability. The budget also includes efficiency savings of £10.715m, including £4.4m from the Council's Fit for Future programme.

The Council approved a capital budget of £158.3m, reflecting the substantial investment in decent homes. The budget provides for ongoing commitments of £149.6m including £48.5m on housing projects, £21.6m on Building Schools for the Future, £13.8m on leisure projects, and £13.4m on housing market renewal and area block improvement projects. The budget also provides for new starts of £8.7m, which includes expenditure of £5.7m on the development of Gateshead Quays and town centre regeneration.

The resources available to achieve the Council's key priorities are contained in the Council's current Medium Term Financial Strategy (MTFS), which is part of the Corporate Plan. 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 Sustainable Community Strategy for Gateshead. The MTFS describes the financial direction of the Council and outlines the financial pressures over a three year period.

Medium term financial planning continues to be difficult. 2010/11 is the final year of a three-year settlement and there is a great deal of uncertainty beyond March 2011. What is clear is that public sector funding will fall and local authorities will be expected to deliver substantial savings to ensure frontline services are protected. In addition, the Council is experiencing reduced income due to the economic downturn whilst demand for services is increasing. These issues will be considered as part of the refresh of the MTFS during 2010.

The coalition government has announced that, in its first step in tackling the UK's unprecedented budget deficit, cuts of £6.2 billion will be needed in 2010/11 and that local authorities' share of these cuts will be £1.165 billion. These cuts will be taken by reducing grants to local authorities in 2010/11, and local authorities will be required to make savings without affecting the quality of key frontline services. The government has also announced that ringfencing will be removed from some grants to allow greater flexibility to local authorities to allow them to re-shape their budgets and find savings, while maintaining the quality of services.

Although the Council's MTFS for the period 2010/11 to 2012/13 must continue to build upon the existing strategy to ensure resources are redirected to deliver Vision 2030 and the Corporate Plan, external pressures also need to be addressed. Following the emergency budget and the CSR in the autumn, the extent of the challenge facing the Council will become much more apparent. It's likely though that it will amount to a significant challenge.

A key part of the MTFS is the Council's Fit For Future programme. Fit For Future is the Council's transformation programme which will ensure that the Council re-directs resources to deliver Vision 2030 in the challenging economic context. The programme has been re-focused to be based around 4 strategic projects and initial estimates are that the programme will deliver at least £15m efficiencies in the first 3 years. The 4 strategic projects are:-

- Front office
- Back office
- Trading Company and income generation
- Business improvement

As part of the programme, the Council has incorporated the Gateshead Trading Company to carry out work in partnership with the private sector.

This is the final year where the Council's accounts will be prepared under UK GAAP and the SORP. From 2010/11, the statement will be prepared using International Financial Reporting Standards (IFRS), which will result in significant changes to the presentation of next year's Statement of Accounts (including restatement of 2009/10 to allow meaningful comparison). The Council has a detailed action plan to allow for IFRS preparedness.

Further Information

This publication provides a review of the financial performance of the Council for 2009/10. Given the complexity of these accounts, a summary set of the accounts has been produced and published on the Council's website, and can be found at **www.gateshead.gov.uk**. These will also be included in the Council's Annual Report. Comments will be invited on the usefulness and readability of this summary document.

D V Coates, BA CPFA IRRV
Strategic Director, Finance & ICT

Dated: 17/6/10

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.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts

I certify that the Council's Accounts Committee approved this Statement of Accounts at its meeting on 25 June 2010.

Signed…….. Date……..

Councillor M Henry
Leader of the Council

The Strategic Director, Finance & ICT's Responsibilities

The Strategic Director, Finance & ICT is responsible for the preparation of the Council's Statement of Accounts and, by regulation 10(2) of the Accounts and Audit Regulations, is required to certify that the accounts present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

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 Code.

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 2010, required by the Accounts and Audit Regulations are set out in the following pages.

I further certify that the Statement of Accounts present a true and fair view of the financial position of the Council at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Signed:

D V Coates, BA CPFA IRRV
Strategic Director, Finance & ICT

Date: 17/6/10

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 at **www.gateshead.gov.uk**. 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 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2010 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 Vision 2030 owned by the Gateshead Strategic Partnership. 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 the Sustainable Community 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.

The behaviour of Councillors is regulated through a Code of Conduct (approved by Parliament) 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. Employees are also subject to a Code of Conduct and number of specific policies (e.g. on

bullying and harassment) set out in the Employee Handbook. Advice on these matters is embedded in training courses such as Modern Gateshead Management. 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 Fraud and Corruption Policy.

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.

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.

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 soundness of the Council's risk management arrangements.

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 Comprehensive Area Assessment; the Council's own reviews such as Best Value reviews, service reviews and scrutiny reviews, external inspections such as those undertaken by the Audit Commission; 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 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 Council has a performance management framework through which quality of service is measured through 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 Council-wide performance management ICT system bringing together performance indicators, action and financial information to provide real time reporting.

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 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.

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 the 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 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 say 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.

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 System of Internal Audit;
- Corporate Risk Management;
- Performance Management and Data Quality information;
- The District 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 his appointed 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.

A report was presented to the Audit Committee of 21st June 2010 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.

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.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, which is incorporated in the Annual Internal Audit Report to the Audit Committee. This opinion is based on audit reviews undertaken during the year which found all systems reviewed to be operating well or satisfactorily, except in twenty-three cases in where significant weaknesses were identified. Eight of these audits were in the area of Adult Social Care and of these eight, four areas had strong links with one another. These were as follows: -

- Commissioning
- Direct Payments & Individual Budgets
- Panel Governance (Disabilities)
- Financial Assessment of Adult Care Clients

The Annual Internal Audit Report for 2009/2010, which was presented to Committee 21st June 2010, concluded that, based on the work undertaken the Council's internal control systems are considered to be satisfactory with the exception of certain specific systems operating within the area of Adult Social Care.

The Annual Risk Management Report was presented to the Audit Committee on 21st June 2010, in which it was concluded that risk management arrangements are sound.

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 21st June 2010, which concluded that based on the self assessments Heads of Service agreed that effective controls were in place although some areas for improvement were identified. One of these areas was Adult Social Care.

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. Based on the information provided during the year and 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 has allowed the Monitoring Officer to raise concerns in respect of weaknesses identified in the area of Adult Social Care, notably:

- No comprehensive contract database is in place
- Lack of knowledge of what written contracts exist
- Non-Compliance with Contract Procedure Rules
- Commissioning Cycle - Lack of forward planning
- The effect of the above weaknesses on Personalisation and Safeguarding issues contributing to the legal liability of the Council

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. 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. 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 21st June 2010, which concluded that based on the self assessments Heads of Service 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 satisfactory and effective with the exception of certain specific systems and arrangements operating within Adult Social Care.

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

Actions currently underway and proposed future actions to deal with significant governance issues and their target implementation dates are: -

Action for Improvement	Deadline for Implementation
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
Identify all written contractual arrangements that are currently in place.	August 2010
Develop a checklist of clauses that should be included in all contracts for adult social care provision for inclusion in all new contractual arrangements. This should include how safeguarding plans are to be monitored. Revise existing contracts to include at next possible review stage.	Draft clauses to be agreed by September 2010 Ongoing
Ensure supporting documentation is provided by clients receiving individual budgets and direct payments to validate all expenditure incurred. Continuously review and investigate clients with high credit balances.	August 2010 November 2010

Develop the existing written procedures and systems to include controls, roles and responsibilities of all staff involved in the award and monitoring of personal budgets.	November 2010
Develop clear written guidelines for the administration and operation for the awarding of care packages through the Panel responsible for clients with disabilities, including arrangements for approval of care in emergency cases.	June 2010
Ensure all awards of personal budgets are reviewed at least annually and prioritise outstanding reviews for existing clients.	Outstanding reviews completed by November 2010
Review all arrangements in both Commissioning and panel processes to ensure compliance with the Council's Contract Procedure Rules.	August 2010
Review current systems in operation for the financial assessment of adult social care clients as part of the consolidation arrangements under the Fit for Future programme.	August 2010

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: **Signed:**

Leader Chief Executive

Dated 21 June 2010 Dated 21 June 2010

Introduction

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

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.

Estimation techniques implement the measurement aspects of accounting policies. An accounting 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**.** Estimation techniques are sometimes used when determining provisions and accruals.

General Principles

The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice* (2009 SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and conform with the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) relevant to local authorities except where such standards conflict with specific statutory requirements and except for accounting for Private Finance Initiative (PFI) which is accounted for in accordance with the 2009/10 IFRS-based government Financial Reporting Manual (iFReM). The accounting convention adopted is historic cost, modified by the revaluation of certain categories of tangible fixed assets. 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 *Best Value Accounting Code of Practice* (BVACOP).

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

1. Accruals of Income and Expenditure

The financial statements, other than cash flow, are prepared on an accruals basis. This means that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

a) Interest

Interest payable on external borrowings and interest income is accrued and accounted for in the accounts of the period to which it relates on a basis, which reflects the overall economic effect of the borrowings.

b) Supplies and Services

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. Where there is a gap between the date supplies are received and their consumption, they are carried as stock on the Balance Sheet.

c) Employee Costs

The full costs of employees are charged to the accounts of the period within which the employee worked. Accruals are made for wages earned but unpaid at the year-end.

d) Customer and Client Receipts

Customer and client receipts in the form of sales, fees and charges and rents are accrued and accounted for in the period to which they relate. Payments received in advance are recognised as a liability in the Balance Sheet.

e) Work in Progress

Works are charged as expenditure when they are completed, before which they are carried as work in progress on the Balance Sheet.

f) Debtors and Creditors

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2. Acquired/Discontinued Operations

Income and expenditure directly related to any acquired or discontinued operations during the accounting period are shown separately on the face of the Income and Expenditure Account under the headings acquired operations and discontinued operations. Any liabilities in respect of discontinued operations are disclosed separately in the notes to the core financial statements.

3. Area Based Grant

In 2008/09, a number of specific grants were replaced by an Area Based Grant (ABG). ABG is a non-ringfenced general grant and no conditions on use are imposed as part of the grant determination ensuring full local control over how funding can be used.

ABG is included in the Income and Expenditure Account with other general income sources such as income from the Collection Fund and NNDR distribution. Further information can be found in Note 4 to the core financial statements.

4. Back Pay Arising from Equal Pay Claims

The Council has made a provision for equal pay claims under the provisions of FRS12. The Income and Expenditure Account reflects the SORP requirements (the provisions) and the Statement of Movement on the General Fund reflects the effect of the regulations (and the capitalisation direction that has been obtained) on the amount to be borne by the General Fund each year.

5. Capital Assets

a) Intangible Assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council are capitalised at cost. The only category of intangible assets the Council holds is software licences. Intangible assets are amortised to revenue over their useful economic lives on a straight-line basis. The asset life used for software licences is between 3 and 5 years depending on the nature of the asset. Any corresponding grant or contribution is written off over the same period.

b) Tangible Fixed Assets – land, buildings and other assets.

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

Recognition - All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the Council and the services it provides, for a period of more than one year, or in accordance with government capitalisation requirements. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

Measurement - Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (6th Edition). Fixed assets are classified into the groupings required by the SORP:

- Operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value;
- Non-operational properties (including investment properties) and other non-operational assets that are surplus to requirements, are included in the balance sheet at net realisable value;
- Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

When an asset is included in the balance sheet at current value, it is formally re-valued at intervals of not more than five years and the revised amount is included in the balance sheet with any surpluses arising on the revaluation being credited to the Revaluation Reserve.

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

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, Housing Revenue Account dwellings, the Civic Centre and other major assets are valued annually.

However, due to the current economic climate, a full revaluation of all assets took place as at 31 March 2009, rather than the usual 20% due according to the rolling programme. This approach was considered to be the most prudent approach to ensure the Council was not overstating the value of its assets in light of falling property prices.

Council dwellings are valued every year with reference to indices in relation to comparable properties with a full detailed valuation every five years. In 2009/10 a detailed valuation was undertaken resulting in a £68.303m impairment of Council dwellings.

The housing stock is valued on the basis of *Existing Use Valuation – Social Housing*. In accordance with government guidance on housing resource accounting, a sample of properties was chosen to be representative of each type of property and were 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 and IRRV.

Revaluations and Impairment - Financial Reporting Standard 11 (FRS11 *Impairment of Fixed Assets and Goodwill)* requires the Council to consider on an annual basis whether there has been a permanent diminution in the value of its assets to ensure that assets recorded in its accounts are at no more than realisable value and any impairment loss is measured and recognised on a consistent basis.

Where impairment is identified as part of the review or as part of the valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account;
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Disposal of Assets - Upon the disposal of assets, the fixed assets account is adjusted by the value of the asset. Any gain or loss on disposal is identified within the Income and Expenditure Account.

Income from the disposal of fixed assets is accounted for on an accruals basis. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the government. The balance of receipts is credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement).

Depreciation - Financial Reporting Standard 15 (FRS15 *Tangible Fixed Assets*) requires depreciation to be provided for all fixed 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;
    - Computers 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 houses: 50 years; and
    - Gateshead Millennium Bridge: 120 years.

The residual value of a fixed asset is the estimated net realisable value of the asset at the end of its useful economic life. In general, this has been estimated at 10% for buildings.

Another requirement of FRS15 is that separate charges should be made for the depreciation of major elements of a single asset, which have materially useful economic lives.

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.

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

c) Charges to Revenue

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

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

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute to the reduction in its overall borrowing requirement. Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction in the Capital Adjustment Account for the difference between the two.

d) 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 fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amount charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

e) Basis of Charges for Capital

The Council administers a consolidated advances and borrowing pool into which all loans raised are pooled. The average rate of interest charged by the pool was 5.17% in 2009/10 (6.37% in 2008/09).

As required under the Prudential Code, the Council makes a charge to revenue for annual principal repayments (minimum revenue provision). No additional voluntary contributions have been made in 2009/10. However, in the case of advances to housing associations the principal repaid by the housing association is the minimum revenue provision required to be repaid to the consolidated advances and borrowing pool.

f) Capitalised Housing Repairs

Certain items of renovation work are charged to capital.

g) Capital Receipts

Receipts from the sale of capital assets or the repayment of financial assistance are in general excluded from the revenue accounts. The usable part of capital receipts is used as required to finance capital expenditure. Interest earned on the capital receipts is credited to the General Fund. In accordance with the Local Authorities (Capital Finance and Accounting) (Amendments) Regulations 2007, which update previous regulations, pooled housing capital receipts are paid to CLG and shown within the Income and Expenditure Account.

6. Collection Fund Income

Council Tax
The fund's key features relevant to accounting for council tax in the core financial statements are:

(a) In its capacity as a billing authority, the Council acts in part as an agent: it collects and distributes council tax income on behalf of the major preceptors (Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority) as well as itself.

(b) While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund or paid out of the Collection Fund to major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus it's share of the surplus on the Collection Fund for the previous year (or less its share of the deficit); and this amount may be more or less than the accrued income for the year in accordance with UK GAAP. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance.

The collection of council tax is in part an agency arrangement; the cash collected by the Council belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the Council and the major preceptors, since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

The change of accounting policy for council tax requires prior year adjustment to the 2008/09 corresponding amounts in the Statement of Accounts.

National Non Domestic Rates (NNDR)
The Council collects NNDR under what is in substance an agency arrangement. It therefore follows that:

(a) NNDR income is not the income of the Council and shall not be included in its Income and Expenditure Account. The cost of collection allowance received by the Council is the Council's income and shall be included in the Income and Expenditure Account.

(b) NNDR debtor and creditor balances with taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and shall not be recognised in the Balance Sheet.

(c) Cash collected from NNDR taxpayers by the Council (net of the cost of collection allowance) belongs to the government and the amount not yet paid to the government at the Balance Sheet date shall be included as a creditor; similarly, if cash paid to the government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

(d) Cash collected from NNDR taxpayers and payments into the NNDR national pool are not revenue activities and shall not be included in the Cash Flow Statement except for the cash retained in respect of the cost of collection allowance.

The Council has made prior year adjustments to the 2008/09 Balance Sheet and Cash Flow Statement. No prior year adjustment to the Income and Expenditure Account or Statement of Movement on the General Fund Balance is required in respect of NNDR income.

The Council has recognised either a creditor with the government for cash collected from NNDR taxpayers (less cash retained in respect of the billing authority's cost of collection allowance) not yet paid to the government at the Balance Sheet date, or a debtor if it has 'overpaid' the government.

7. Contingent Assets and Liabilities

Contingent assets are not recognised in the Statement of Accounts but are disclosed within the notes to the core financial statements if the inflow of a receipt or economic benefit is probable.

Contingent liabilities are disclosed within the notes to the core financial statements if there is a possible obligation that may require a payment or transfer of economic benefit.

8. Estimation Techniques

Estimation techniques are the methods adopted to access the values of assets, liabilities, gains and losses and changes in reserves in situations where there is uncertainty as to their exact value. The Council has not employed any estimation techniques for the income and expenditure account, which is based on outturn figures. Estimation techniques have been used to determine provisions, reserves and pension liabilities, as there is uncertainty over the monetary amounts.

Except where specified in the SORP, the Council has determined the estimation techniques that most closely reflect the economic reality of the transactions.

9. 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, normally by the end of September each year.

10. Exceptional Items, Extraordinary Items and Prior Period Adjustments

Exceptional items are included in the cost of services to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. A description of any exceptional items is given within Note 6 to the Core Financial Statements.

Extraordinary items are disclosed and described on the face of the Income and Expenditure Account after dealing with all items within the ordinary activities of the Council and are explained fully in Note 7 to the Core Financial Statements.

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. The cumulative effect of the adjustments is also noted at the foot of the Statement of Total Recognised Gains and Losses of the current period. A description of prior period adjustments is given in Note 8 to the core financial statements.

11. Financial Instruments

Financial Assets

The Council classifies its financial assets into the following categories, as determined at initial recognition:

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

Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective interest 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 Income and Expenditure Account 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 Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund balance is the interest receivable for the financial year – the reconciliation of the amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund balance is managed by a transfer to or from the Financial Instrument Adjustment Account in the Statement of Movement on the General Fund Balance.
The Council has set a de minimis levels of £100,000; loans with a value below this amount have been measured at cost.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-Sale Assets

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles with a de-minimis level of £100,000:

a) Instruments with quoted market prices – the market price
b) Other instruments with fixed and determinable payments – discounted cash flow analysis
c) Equity shares with no quoted market prices – independent appraisal of company valuations

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

Any gains or losses that arise on derecognition of an asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial Liabilities
Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account 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 Income and Expenditure Account 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.

Repurchase of Borrowing
Gains or losses on the repurchases or early settlement of borrowing are recognised in the Income and Expenditure Account 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 written down to the Income and Expenditure Account over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund balance to be spread over future years. Premiums are spread over the longer of the outstanding term of on the replaced loan or the term of the replacement loans and a maximum of ten years in respect of the HRA. Discounts

are spread over a minimum period equal to the outstanding term on the replaced loan, or ten years, if this is shorter.

The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund balance, is managed by a transfer to or from the Financial instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Financial Guarantees
Local authorities give financial guarantees to make specified payments to reimburse the holder of a debt if a debtor fails to make payment when due in accordance with the terms of the contract. These arrangements are entered into for policy reasons rather than commercial reasons.

Financial guarantees are initially recognised at fair value taking into consideration the probability of the guarantee being called and the likely amount payable under the guarantee.

Impairment of Financial Assets
A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset.

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

Regulations issued in March 2009 allow the authority not to charge amounts relating to impaired investments to the Income and Expenditure account. Such amounts are instead transferred to the Financial Instrument Adjustment Account.

Fair Value
For each class of financial assets and financial liabilities the Council is required to disclose the fair value of that class of assets and liabilities in a way that permits it to be compared to its carrying amount. The Council assess the fair value 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 35 to the core financial statements.

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 an MRP calculated in accordance with the Prudential Code (Local Government Act 2003).

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.

12. Government Grants and Other Contributions

Revenue grants are matched with the expenditure to which they relate. Grants made to finance general activities or to compensate for a loss of income are credited to the revenue account of the period of which they are payable. Where the precise amount is not known at the accounting date they are estimated and provided for in the accounts.

Grants or other contributions are accounted for on an accruals basis and are recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

General government grants not aligned to any particular service are included as a separate line on the Income and Expenditure Account. This includes Revenue Support Grant (RSG), Local Authority Business Growth Incentive Grant (LABGI) and Area Based Grant (ABG).

13. Group Accounts

The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which are contained in Notes 15 and 16 to the core financial statements. There are a number of criteria by which the Council must determine whether its interest in such bodies is significant enough to be included in the Council's consolidated accounts. After consideration of these criteria, the Council has determined that the consolidation of related companies would have no material effect on the Council's financial position and therefore it is not necessary to produce group accounts for 2009/10.

14. Landfill Allowances Schemes (LATS)

The Government introduced the Landfill Allowance Trading Scheme on 1 April 2005 for all Waste Disposal Authorities (WDAs) in England. The scheme is intended to underpin the duty on WDAs to reduce the amount of Biodegradable Municipal Waste disposed of to landfill. Under the scheme, councils receive an annual allocation of tradable allowances and have to account for the value of these allowances, together with the value of any allowances traded, and the liability for allowances utilised for actual landfill disposal.

Due to the large number of surplus allowances on the market and the scarcity of buyers, the trading value of allowances has been set at zero.

These financial statements account for LATS in accordance with LAAP Bulletin 64 – Accounting for the Landfill Allowances Trading Scheme 2005/06.

15. Leases

Finance Leases

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

- a charge for the acquisition of the interest in the property (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rent becomes payable); and
- a finance charge (debited to net operating expenditure in the Income and Expenditure Account as the rent becomes payable).

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

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

16. Overheads

In line with the Best Value Accounting Code of Practice, the costs of support services have been fully allocated to the Council's services as follows:

Support Services	Basis
Office Accommodation	Floor area
ICT	Charge per user
Customer Services	Charge per enquiry
Financial Management, Legal and Corporate Services and technical staff	Time spent
All other Services	Charge per employee

Support service costs identified as Corporate and Democratic Core are not recharged to services and are shown separately in the Income and Expenditure Account.

17. Pension Costs

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. These consist of the Tyne and Wear Pension Fund and the Teachers' Pension Scheme.
The Tyne and Wear Pension Fund is classified as a defined benefit scheme, and is accrued in accordance with the requirements of Financial Reporting Standard 17 (FRS17). FRS17 accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. FRS17 also includes the Council's attributable share of the funds assets and liabilities.

The Teachers' Pension Scheme (Teachers' Pensions Agency) is accounted for as a defined contribution scheme where contributions payable for the year are recognised in the accounts when payment is made and there is no accruing of any pension asset or liability. Where discretionary benefits have been awarded these amounts are accrued in accordance with the requirements of FRS17.

Following guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of accounting for retirement benefits in the Housing Revenue Account, the HRA includes an apportionment of FRS17 current year service costs. The actuary's assessment of the additional current service cost above the cash cost is reversed out of the HRA through a contribution from the Pension Reserve. This pension reserve appropriation ensures that the Council complies with Regulation 30 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, which 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.

Further information relating to pension costs is included as Note 42 to the Core Financial Statements.

18. Private Finance Initiative (PFI)

Gateshead Schools PFI

This scheme provides for seven new schools, all of which became operational in 2007/08 and 2008/09. The contract with Pinnacle Schools (Gateshead) Limited has an end date of August 2033.

The Gateshead PFI schools were previously accounted for in accordance with the provisions of Application Note F to Financial Reporting Standard (FRS) 5. FRS 5 specifies that assets used to provide services under PFI contracts should be recognised as an asset of whichever party has access to the risks and benefits of the asset.

However, the accounting requirements for the Private Finance Initiative (PFI) and similar contracts are no longer based on FRS 5 but on International Financial Reporting Standards (IFRS). The requirements are based on IFRIC 12 *Service Concession Arrangements* (which addresses concession operator accounting) interpreted for concession grantors, and is consistent with the approach adopted by the Government's IFRS-based Financial Reporting Manual (the iFReM).

The seven PFI schools which were previously 'off Balance Sheet' are now recognised on the Council's Balance Sheet (along with a liability for the financing provided by the PFI operator), with the exception of St Joseph's (which is controlled by the Diocese, and as such will be shown on their balance sheet). Prior periods adjustments have been made to restate the accounts to bring the schools onto to the Balance Sheet and treat the assets as if they had always been treated as 'on Balance Sheet'. Regulations mitigate the impact on the Council's funding positions.

19. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet.

Estimated settlements are reviewed annually by the Council to ensure they are adequate to meet the anticipated liabilities. Any amount subsequently not required is reversed and credited back to the relevant service revenue account.

The provisions made by the Council are reflected in Note 36 to the Core Financial Statements.

20. Reserves

The Council sets aside specific amounts as reserves for specific strategic purposes and to cover contingencies and cash flow management. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure is incurred for which the reserve was created, it is charged to the cost of service in the Income and Expenditure Account and the reserve is appropriated back into the Statement of Movement on the General Fund Balance.

The Council's general and earmarked reserves are explained in Notes 37, 38 and 39 to the Core Financial Statements.

21. Stocks and Long Term Contracts

Stocks and stores are included in the accounts at the latest known price. Spares for the Council's plant and vehicle fleets are also included at the latest known price.

The work in progress shown in the accounts represents the cost price of private rechargeable works being undertaken by the Council, which will ultimately be charged to outside parties and also includes other work carried out be LES Construction. The amount at which work in progress is included in the accounts is cost less any foreseeable losses and progress payments received.

22. Trading Accounts

The Council consolidates any surplus or deficit made on trading activities on a gross income and expenditure basis.

23. Value Added Tax (VAT)

VAT is included in the Income and Expenditure Account, whether of a capital or revenue nature, only to the extent that it is irrecoverable from HM Revenue & Customs.

Income and Expenditure Account

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

2008/09 Restated Net Expenditure £000s	Service	2009/10 Gross Expenditure £000s	Income £000s	Net Expenditure £000s	Notes
65,846	Adult Social Care	101,370	(34,787)	66,583	1
9,524	Central Services - Corporate & Democratic Core Costs	9,592	(524)	9,068	
3,357	Central Services - Central Services to the Public	6,580	(3,421)	3,159	
1,800	Central Services - Non Distributed Costs	1,650	0	1,650	
50,386	Children's and Education Services	215,740	(173,115)	42,625	
70,663	Cultural, Environment and Planning Services	90,512	(35,123)	55,389	
15,994	Highways, Roads and Transport Services	17,298	(2,283)	15,015	
979	Housing General Fund	72,020	(71,453)	567	
92,953	Housing Revenue Account	133,603	(83,008)	50,595	
960	Exceptional Item - Job Evaluation	0	0	0	
0	Exceptional Item - Equal Pay	12,639	0	12,639	6
312,462	**Net Cost of Services**	**661,004**	**(403,714)**	**257,290**	
361	(Gains) / Losses on the Disposal of Fixed Assets			(278)	
114	Environment Agency levy			136	
23	Tyne Port Health Authority levy			23	
12,161	Tyne and Wear Integrated Transport Authority levy			12,354	
8	Parish council precept			8	
(1,236)	(Surpluses) / deficits on trading undertakings not included in Net Cost of Services			(2,714)	10
38,387	Interest payable and similar charges			26,705	
1,264	Amounts payable into the housing capital receipts pool			623	
(8,627)	Interest and investment income			(2,150)	
15,270	Pensions interest cost and expected return on pensions assets			26,580	42
370,187	**Net Operating Expenditure**			**318,577**	
(81,855)	Income from Collection Fund			(84,351)	
(36,664)	Government grants not attributable to specific services			(39,307)	4
(90,003)	Distribution from non-domestic rate pool			(84,717)	
161,665	**(Surplus) / Deficit for the Year**			**110,202**	

Statement of Movement on the General Fund Balance

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

- capital investment is accounted for as it is financed, rather than when the fixed assets are consumed;
- the payment of a share of housing capital receipts to the government scores as a loss in the Income and Expenditure Account, but is met from the Capital Receipts Reserve balance rather than council tax; and
- retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance:

2008/09 Restated £000s		2009/10 £000s	Notes
161,665	(Surplus) / deficit for the year on the Income and Expenditure Account	110,202	
(159,841)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund balance for the year	(116,317)	2
1,824	**(Increase) / decrease in General Fund balance for the year**	**(6,115)**	
(24,121)	General Fund balance brought forward	(22,297)	
(22,297)	**General Fund balance carried forward**	**(28,412)**	

Analysis of the movement on the General Fund balance between the amount generally available to the Council and the net amount held by schools:

(10,853)	Amount held by schools under Local Management Scheme (LMS Budget Share Reserve)	(10,907)
(11,444)	Amount generally available for new expenditure (General Reserve)	(17,505)
(22,297)		(28,412)

Statement of Total Recognised Gains and Losses

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

2008/09 Restated £000s		2009/10 £000s
161,665	Deficit on the Income and Expenditure Account for the year	110,202
43,536	(Gains) / losses arising on revaluation of fixed assets	(6,743)
135,900	Actuarial losses on pension fund assets and liabilities	117,480
7,035	Other (gains) / losses required to be included in the STRGL	(1,067)
348,136	**Total recognised (gains) and losses for the year**	**219,872**
(234)	Prior period adjustment Collection Fund (see note 8)	
(1,479)	Prior period adjustment PFI (see note 8)	
346,423	Total gains and losses recognised since published Statement of Accounts for 2008/09	

The loss for the year reconciles to the movement in the total net worth in the Balance Sheet.

Balance Sheet

This statement summarises the Council's financial position as at 31 March 2010. It shows the balances and reserves available to the Council, fixed and current assets employed in its operations, and the Council's borrowing position:

31/03/2009 Restated £000s		31/03/2010 £000s	£000s	Notes
311	**Intangible Assets**	435		23
	Tangible Fixed Assets			
	Operational assets			
1,046,779	- Council dwellings	1,028,999		19
451,212	- Other land and buildings	456,556		19
19,920	- Vehicles, plant, furniture and equipment	19,970		19
92,580	- Infrastructure	96,634		19
5,602	- Community assets	6,105		19
	Non-operational assets			
2,229	- Assets under construction	40,240		19
8,487	- Investment properties	8,361		19
24,054	- Surplus assets held for disposal	26,720		19
1,651,174			1,684,020	
3,881	Long-term investments		13,629	31
1,752	Long-term debtors		1,459	52
1,656,807	**Total Long-Term Assets**		1,699,108	
	Current Assets			
4,086	Stocks and work in progress	2,445		53
527	Cash	7,610		59
54,903	Debtors	46,221		51
110,352	Short-term investments	107,437		31
169,868			163,713	
	Current Liabilities			
(31,697)	Short-term borrowing	(53,451)		31
(17,687)	Bank overdraft	(20,939)		59
(64,769)	Creditors	(93,375)		54
(114,153)			(167,765)	
1,712,522	**Total Assets less Current Liabilities**		**1,695,056**	
	Long-Term Liabilities			
(6,728)	Provisions	(19,112)		36
(47,581)	Long-term creditors	(46,720)		9
(393,175)	Long-term borrowings	(426,712)		31
(238,148)	Government grants deferred	(265,716)		
(378,914)	Defined benefit pension scheme liability	(508,692)		42
647,976	**Total Assets less Liabilities**		**428,104**	

31/03/2009 Restated £000s		31/03/2010 £000s	Notes
	Financed by:		37
(18,455)	Revaluation Reserve	(24,417)	
(903,751)	Capital Adjustment Account	(821,613)	40
9,549	Financial Instruments Adjustment Account	7,298	41
(1,340)	Deferred Capital Receipts	(1,337)	43
(3,957)	Capital Receipts Reserve	(3,328)	44
378,914	Pensions Reserve	508,692	42
	General Fund:		
(11,444)	- General Reserve	(17,505)	38
(10,853)	- LMS Budget Share Reserve	(10,907)	38
(918)	Collection Fund Adjustment Account	(130)	
(18,191)	Housing Revenue Account	(16,854)	
(2,616)	Major Repairs Reserve	0	
0	Equal Pay Back Pay Account	2,700	55
(1,059)	Newcastle International Airport	(559)	45
(63,855)	Earmarked reserves	(50,144)	39
(647,976)	**Total Net Worth**	**(428,104)**	

D V Coates BA CPFA IRRV
Strategic Director, Finance and ICT

Dated: 17/6/10

Cash Flow Statement

2008/09 Restated £000s		2009/10 £000s	2009/10 £000s	Notes
	Revenue Activities			
	Cash Outflows			
262,495	Cash paid to and on behalf of employees	272,457		
267,464	Other operating cash payments	272,505		
22,787	Housing benefit paid out	26,190		
2,326	Payments to capital receipts pool	616		
555,072		571,768		
	Cash Inflows			
(32,088)	Rents (after rebates)	32,246		
(64,937)	Council tax receipts	(72,914)		
(90,003)	Non-domestic rate receipts from national pool	(80,892)		
(12,529)	Revenue support grant	(19,554)		
(20,518)	DSS grants for benefits	(28,319)		
(209,513)	Other government grants	(220,273)		61
(122,493)	Cash received for goods and services	(187,076)		
(289)	Other operating cash receipts	(291)		
(552,370)		(577,073)		
2,702	**Net Cash Inflow - Revenue Activities**		**(5,305)**	56
	Dividends from Joint Ventures and Associates			
	Cash Inflows			
0	Dividend from NIAL Holdings	(144)		
0	**Net Cash Flow - Joint Ventures and Associates**	**(144)**		56
	Returns on Investments and Servicing of Finance			
	Cash Outflows			
33,821	Interest paid	24,325		
	Cash Inflows			
(10,156)	Interest received	(3,599)		
23,665	**Net Cash Flow - Servicing of Finance**	**20,726**		
	Capital Activities			
	Cash Outflows			
119,358	Purchase of fixed assets	139,898		
12,022	Other capital cash payments	12,223		
131,380		152,121		
	Cash Inflows			
(5,405)	Sale of fixed assets / investments	(2,317)		
(71,233)	Other capital cash payments	(113,701)		
(76,638)		(116,018)		
54,742	**Net Cash Flow - Capital Activities**	**36,103**		
	Acquisitions and Disposals			
	Cash Inflows			
(310)	Sale of investments and joint ventures	**(620)**		
80,799	**Net Cash Outflow / (Inflow) Before Financing**		**50,760**	
	Management of Liquid Resources			
(31,620)	Net increase in short term deposits	8,277		
36	Net increase/decrease in other liquid resources	0		
(31,584)			**8,277**	

2008/09 Restated £000s		2009/10 £000s	2009/10 £000s	Notes
	Financing			
	Cash Outflow			
77,978	Repayments of amounts borrowed	44,794		
	Capital element of finance lease rental payments	0		
	Cash Inflow			
(122,000)	New loans raised	(100,000)		58
0	New short term loans	0		
(44,022)			**(55,206)**	
5,193	**Net (Increase) / Decrease in cash**		**3,831**	60

1. Service Expenditure Analysis

CIPFA'S *Best Value Accounting Code of Practice* requires a service expenditure analysis to be reported at the mandatory division of service level. The following information outlines the net cost of services, as reported in the Income and Expenditure Account:

2008/09 Restated Net £000s	Service	2009/10 Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	Adult Social Care			
581	Service strategy	395	(145)	250
38,423	Older people (aged 65 or over) inc older mentally ill	54,841	(17,188)	37,653
6,940	Adults aged under 65 with a physical disability or sensory impairment	10,045	(1,639)	8,406
15,742	Adults aged under 65 with learning disabilities	29,030	(12,856)	16,174
3,493	Adults aged under 65 with mental health needs	4,532	(1,083)	3,449
372	Other adult services	2,093	(1,843)	250
295	Supported employment (inc sheltered employment)	434	(33)	401
65,846	**Total Adult Social Care**	**101,370**	**(34,787)**	**66,583**
	Central Services			
	Corporate and Democratic Core Costs			
7,750	Democratic representation and management	7,581	(248)	7,333
947	Corporate management	555	(71)	484
827	Other corporate and central costs	1,456	(205)	1,251
9,524	**Total Corporate and Democratic Core Costs**	**9,592**	**(524)**	**9,068**
	Central Services to the Public			
1,756	Local tax collection	5,108	(3,092)	2,016
536	Registration of births, deaths and marriages	434	(182)	252
429	Elections	443	(2)	441
96	Emergency planning	96	0	96
(38)	Local land charges	99	(145)	(46)
578	General grants, bequests and donations	400	0	400
3,357	**Total Central Services to the Public**	**6,580**	**(3,421)**	**3,159**
1,800	**Non Distributed Costs**	**1,650**	**0**	**1,650**
14,681	**Total Central Services**	**17,822**	**(3,945)**	**13,877**
	Children's and Education Services			
	Education			
107	Nursery schools	585	(432)	153
6,804	Primary schools	77,804	(72,589)	5,215
9,221	Secondary schools	74,000	(70,821)	3,179
3,733	Special schools	15,637	(11,243)	4,394
8,889	Non-school funding	21,066	(14,008)	7,058
0	Management and support services	0	0	0
28,754	**Total Education Services**	**189,092**	**(169,093)**	**19,999**
	Children's Social Care			
194	Service strategy	217	(2)	215
3,333	Commissioning and social work	4,477	(985)	3,492
10,332	Children looked after	11,771	(708)	11,063
4,371	Family support services	5,240	(949)	4,291
929	Youth justice	2,108	(1,061)	1,047
5	Asylum seekers	121	(66)	55
2,468	Other children's and families services	2,714	(251)	2,463
21,632	**Total Children's Social Care**	**26,648**	**(4,022)**	**22,626**
50,386	**Total Children's and Education Services**	**215,740**	**(173,115)**	**42,625**

2008/09 Restated Net £000s	Service	2009/10 Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	Cultural, Environmental, Regulatory and Planning Services			
	Cultural and Related Services			
4,238	Culture and heritage	7,501	(4,052)	3,449
11,781	Recreation and sport	18,577	(9,138)	9,439
6,023	Open spaces	9,231	(1,840)	7,391
385	Tourism	346	(36)	310
5,362	Library services	5,128	(592)	4,536
27,789	**Total Cultural and Related Services**	**40,783**	**(15,658)**	**25,125**
	Environmental Services			
(160)	Cemetery, cremation and mortuary services	528	(1,177)	(649)
3,642	Environmental health	3,294	(917)	2,377
638	Community safety (crime reduction)	2,683	(1,164)	1,519
3,401	Community safety (safety services)	2,745	(1,088)	1,657
67	Flood defence and land drainage	0	0	0
922	Trading standards	946	(310)	636
5,004	Street cleansing (not charged to highways)	7,052	(2,302)	4,750
3,682	Waste collection	5,406	(377)	5,029
6,736	Waste disposal	7,662	(1,511)	6,151
(133)	Trade waste	0	(305)	(305)
1,680	Recycling	569	(1)	568
10	Waste minimisation	0	0	0
25,489	**Total Environmental and Regulatory Services**	**30,885**	**(9,152)**	**21,733**
	Planning and Development Services			
128	Building control	1,065	(772)	293
805	Development control	1,562	(603)	959
1,624	Planning policy	2,041	(233)	1,808
1,327	Environmental initiatives	1,533	(497)	1,036
11,287	Economic development	10,113	(7,865)	2,248
2,214	Community development	2,530	(343)	2,187
17,385	**Total Planning and Development Services**	**18,844**	**(10,313)**	**8,531**
70,663	**Total Cultural, Environmental, Regulatory and Planning Services**	**90,512**	**(35,123)**	**55,389**
	Highways, Roads & Transport Services			
1,904	Transport planning, policy and strategy	2,206	(63)	2,143
2,203	Structural maintenance	3,057	(24)	3,033
1,035	Capital charges relating to construction projects	0	0	0
3,530	Environment, safety and routine maintenance	4,059	(404)	3,655
3,592	Street lighting (including energy costs)	2,803	0	2,803
502	Winter service	776	(57)	719
2,436	Traffic management and road safety	3,046	(523)	2,523
663	Parking services	1,263	(1,212)	51
129	Public transport	88	0	88
15,994	**Total Highways, Roads & Transport Services**	**17,298**	**(2,283)**	**15,015**

2008/09 Restated Net £000s	Service	Gross Expenditure £000s	2009/10 Gross Income £000s	Net Expenditure £000s
	Housing Services			
	Housing General Fund			
259	Housing strategy	220	0	220
44	Housing advice	55	0	55
(7)	Housing advances	0	(7)	(7)
589	Private sector housing renewal	2,367	(1,425)	942
286	Homelessness	260	(39)	221
(179)	Housing benefits payments	68,898	(69,909)	(1,011)
(13)	Other council property	206	(51)	155
0	Supporting people	14	(22)	(8)
979	**Total Housing General Fund**	**72,020**	**(71,453)**	**567**
	Housing Revenue Account			
	Income			
(60,402)	Dwellings rent (gross)	0	(62,163)	(62,163)
(1,110)	Non-dwelling rents (gross)	0	(1,193)	(1,193)
(2,245)	Tenants charges for services and facilities	0	(2,197)	(2,197)
(333)	Leaseholder's charges for services and facilities	0	(535)	(535)
(2,001)	Contribution towards expenditure	0	(2,275)	(2,275)
(5,844)	HRA subsidy receivable	0	(14,645)	(14,645)
	Expenditure			
16,719	Repairs & maintenance	18,544	0	18,544
15,144	Supervision & management	17,599	0	17,599
5,764	Special services	5,220	0	5,220
1,915	Rents, rates, taxes and other charges	2,009	0	2,009
1,059	Increase / (decrease) in provision for bad or doubtful debts	363	0	363
123,968	Depreciation and impairments of fixed assets	89,534	0	89,534
319	Debt management costs	334	0	334
92,953	**Total Housing Revenue Account**	**133,603**	**(83,008)**	**50,595**
93,932	**Total Housing Services**	**205,623**	**(154,461)**	**51,162**
960	**Exceptional Item – Job Evaluation**	**0**	**0**	**0**
0	**Exceptional Item – Equal Pay**	**12,639**	**0**	**12,639**
312,462	**TOTAL NET COST OF SERVICES**	**661,004**	**(403,714)**	**257,290**

2. The amounts in addition to the Income and Expenditure Account surplus or deficit for the year that are required by statute and non-statutory proper practices to be charged or credited to the General Fund in determining the movement on the General Fund balance for the year are:

2008/09 Restated £000s		2009/10 £000s
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year:	
(112)	Amortisation of intangible fixed assets	(171)
(45,334)	Depreciation and impairment of fixed assets (excluding HRA services)	(23,947)
(109,808)	Excess of depreciation charged to HRA services over the major repairs allowance element of housing subsidy	(65,524)
15,892	Government grants deferred amortisation matching depreciation and impairments	16,009
(11,776)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (i.e. deferred charges)	(11,636)
(361)	Net gain on sale of fixed assets	278
(7,957)	Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	(11,657)
(2,684)	Amount by which pension costs calculated in accordance with the SORP (i.e. in accordance with FRS 17) are different from the contributions due under the pension scheme regulations	(12,299)
(334)	Amount by which council tax income in the Income and Expenditure Account is different from the amount taken to the General Fund in accordance with regulation	(788)
(162,474)		(109,735)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund balance for the year:	
7,587	Statutory provision for repayment of debt (minimum revenue provision)	7,457
1,945	Capital expenditure charged to the General Fund balance	1,633
(1,264)	Transfer from Capital Receipts Reserve equal to the amount payable into the Housing Capital Receipts Pool	(623)
8,268		8,467
	Transfers to or from the General Fund balance that are required to be taken into account when determining the movement on the General Fund balance for the year:	
(96)	Statutorily required transfer of the surplus or deficit for the year on the Housing Revenue Account calculated in accordance with statute to the HRA balance	(1,338)
(5,539)	Net transfer to or (from) earmarked reserves	(13,711)
(5,635)		(15,049)
(159,841)	**Net additional amount required to be credited to the General Fund balance for the year**	**(116,317)**

3. Significance of the Statement of Movement in the General Fund Balance

The increase in the General Fund balance of £6.115m, made up of an increase in the General Reserve of £6.061m and an increase in the LMS Budget Share Reserve of £0.054m, is not considered significant but along with the existing balance of £10.8m (LMS) and a balance of £11.4m (General Reserve) will continue to allow the Council to meet any unforeseen expenditure without destabilising the budget in the short term or increasing the burden on local taxation.

4. Government Grants (not Attributable to Specific Services)

During 2009/10, the Council received various government grants that were not directly attributable to specific services:

	2008/09 £000s	2009/10 £000s
Revenue Support Grant	(12,529)	(19,554)
Area Based Grant	(17,327)	(19,456)
LAA Reward Grant	(1,600)	(39)
LABGI Grant	(5,208)	(258)
	(36,664)	**(39,307)**

5. Acquired and Discontinued Operations

The Council did not acquire any operations during the financial year, and all operations of the Council are categorised as continuing operations.

6. Exceptional Items

- **Equal Pay**

The Council has received a number of legal claims from previous and current 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. The Income and Expenditure Account includes a provision to reflect the potential cost of claims currently received by the Council. A Capitalisation Direction has been received to enable the Council to spread the potential cost of these claims over a number of years. The provision for the potential cost against the General Reserve is shown as a separate line on the Income and Expenditure Account. Provisions for the impact on Schools and the Housing Revenue Account are shown in the relevant service expenditure analysis within the net cost of services.

The Council has used the powers included in the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 (SI 2007 No 573) Regulation 30A which gives discretion not to charge to revenue the impact of equal pay claims until such time as they become payable. A new Balance Sheet account called the Equal Pay Back Pay Account is used to hold amounts which have been deferred from being charged to the General Fund under the powers.

- **Impairments**

The Council values it’s assets on a five year rolling programme providing for a full revaluation every five years. Council Dwellings are valued every year with reference to indices in relation to comparable properties with a full detailed valuation every five years. In 2009/10 a detailed valuation was undertaken resulting in a £68.303m impairment of Council Dwellings. This is shown in the respective service expenditure analysis within the net cost of services.

7. Extraordinary Items

There have been no extraordinary items during 2009/10.

8. Prior Period Adjustments

The SORP 2009 incorporated a number of changes which require restatement of the previous year's accounts. These include:

PFI - the SORP now requires authorities to comply with international standards regarding the Balance Sheet treatment of PFI contracts. For the Council, this has resulted in six PFI schools being brought on to the Balance Sheet.

Collection Fund – the SORP has been amended to recognise the fact that collection of council tax for preceptors and NNDR for the government are agency transactions. As such, they should only impact on the Council's accounts to the extent that there is a net debtor or creditor with the other party.

These changes have resulted in the following adjustments to the 2008/09 figures:

	Original Figures £000s	Restatement		Restated Figures £000s
		Collection Fund	PFI	
Income and Expenditure Account				
Net Cost of Services	314,919		(2,457)	312,462
Interest payable	35,133		3,254	38,387
Income from Collection Fund	(82,189)	334		(81,855)
Statement of Movement on the General Fund Balance				
Depreciation and impairment of fixed assets (excluding HRA services)	(44,297)		(1,037)	(45,334)
Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	(6,646)		(1,311)	(7,957)
Transfers to / from the Collection Fund Adjustment Acc	0	(334)		(334)
Statutory provision for repayment of debt	6,830		757	7,587
Capital expenditure charged to the General Fund Balance	1,151		794	1,945
Statement of Total Recognised Gains and Losses				
Other (gains) / losses required to be included in the STRGL	348,136	(234)	(1,479)	346,423
Balance Sheet				
Other land and buildings	399,468		51,744	451,212
Long term Debtors	3,294		(1,542)	1,752
Debtors	56,285	(1,382)		54,903
Creditors	(65,243)	1,282	(808)	(64,769)
Long Term Liabilities	(1,016,965)		(47,581)	(1,064,546)
Capital Adjustment Account	(901,938)		(1,813)	(903,751)
Collection Fund Reserve	(1,018)	1,018		0
Collection Fund Adjustment Account	0	(918)		(918)

9. Un-discharged Obligations Arising from Long-Term Contracts

Schools PFI

In February 2006, the Council entered into a contract with Pinnacle Schools (Gateshead) Limited to design, build, finance and operate seven new schools in Gateshead. The contract expires in August 2033. The scheme is provided under the private finance initiative (PFI) and will benefit from government grants of around £65m (uninflated – at 2005 prices) over its lifetime. The actual level of payments to Pinnacle depends on inflation and the company's performance in providing the services under the contract.

The anticipated minimum future payments for the contract (split into the constituent revenue and capital elements of the charge) are: -

	Repayment of Liability (Capital)	**Interest Payment** (Revenue)	**Service Charges** (Revenue)	**Total**
	£000s	**£000s**	**£000s**	**£000s**
– within 1 year	(861)	(3,151)	(3,250)	(7,262)
– within 2-5 years	(4,053)	(11,994)	(13,566)	(29,613)
– within 6-10 years	(6,772)	(13,288)	(18,339)	(38,399)
– within 11-15 years	(9,331)	(10,728)	(20,063)	(40,122)
– within 16-20 years	(12,858)	(7,201)	(22,013)	(42,072)
– within 21-25 years	(13,706)	(2,342)	(15,523)	(31,571)
	(47,581)	**(48,704)**	**(92,754)**	**(189,039)**

Balance Sheet entries in 2009/10:	**£000s**
Short-term creditor:	(861)
Long-term creditor:	(46,720)
	(47,581)

Building Schools for the Future

In December 2007, the Council entered into a public private partnership with InspiredSpaces to create a Local Education Partnership (LEP) for the redevelopment of schools in Gateshead and South Tyneside. The arrangement is the standard model under the government's initiative called Building Schools for the Future to rebuild or substantially refurbish all secondary schools in England. The LEP is for 10 years and is currently refurbishing two secondary schools in Gateshead and ten schools in South Tyneside, together with a number of primary schools. It is envisaged that the LEP will also redevelop other schools within both authorities in the future.

The LEP is currently designing and building the two refurbished secondary schools within Gateshead. These are Thomas Hepburn and Heworth Grange for which government grant of around £34.7m is available. The set up and running costs of the LEP will be recovered proportionally against the capital cost of each scheme. These are estimated to be around £0.5m for the two schools. In addition there will be around £0.25m development and supervision costs relating to the two schools. Most of these costs will be funded from the capital grant.

The LEP also provides an ICT managed service to the two refurbished schools and to two PFI schools, Lord Lawson of Beamish whose ICT service commenced in June 2008 and Kingsmeadow School whose ICT service commenced in September 2008. Grant funding of £3.4m is available for ICT at Lord Lawson and Kingsmeadow and £3.3m is available for ICT at Thomas Hepburn and Heworth Grange. The schools will also be required to make an annual contribution in total of around £0.3m for the 5 years of the ICT contract, or £60 per pupil per annum (indexed using RPIX with a base date of 1st April 2007).

In March 2010, the Council was successful in its bid to bring forward BSF funding and has been awarded £80m to rebuild or refurbish a number of secondary schools (Whickham, St Thomas More, Joseph Swan and a school in the west of Gateshead). Since the funding was announced, the government have stated their intention to review all approvals since January 2010 with a likely outcome expected in the autumn of 2010.

10. Nature, Turnover and Profit/Losses of any Significant Trading Operations

The Council operates one major trading operation, Local Environmental Services (Construction). The financial performance of this operation for 2009/10 is as follows: -

	2008/09 (Surplus) / Deficit	2009/10 Income	2009/10 Expenditure	2009/10 (Surplus) / Deficit
	£000s	£000s	£000s	£000s
Local Environmental Services (Construction)	(581)	(41,816)	39,686	(2,130)
FRS 17 Adjustment	(380)	0	(378)	(378)
Total	**(961)**	**(41,816)**	**39,308**	**(2,508)**

The *Best Value Accounting Code of Practice* requires trading account balances to be reapportioned to services if it would result in a material misstatement in the reported total cost of service. The surplus of £2.508m is not considered material and is shown separately in the Income and Expenditure Account.

The Council operates various other trading operations. The financial performance of these trading operations for 2009/10 is as follows:-

Trading Operations	2008/09 (Surplus) / Deficit	2009/10 Income	2009/10 Expenditure	2009/10 (Surplus) / Deficit
	£000s	£000s	£000s	£000s
Building Cleaning	(20)	(6,045)	5,885	(160)
Security	5	(1,880)	1,839	(41)
School Meals	254	(4,651)	4,991	340
Fleet	(345)	(8,216)	8,041	(175)
FRS 17 Pension Adjustment	(169)	0	(170)	(170)
Total	**(275)**	**(20,792)**	**20,586**	**(206)**

11. Pooled Funds and Similar Arrangements

Under Section 75 of the NHS Act 2006, Local Authorities and NHS bodies can establish pooled funds for partnership working. This legislation reinforces the duty established originally under Section 31 of the Health Act 1999.

Learning Disability Services

Gateshead Council and Gateshead Primary Care Trust are operating a pooled fund for providing service developments for people with learning disabilities. The Council is the host partner with responsibility for administering the fund. In 2009/10, the total expenditure from the

pooled fund was £0.277m (2008/09 £0.252m). This was funded from contributions from the PCT of £0.050m (2008/09 £0.215m) and £0.227m from the Council (2008/09 £0.037m). The increase in the Council funding and corresponding decrease in the PCT contribution is due to the funding for the Service being directed through area based grant.

Integrated Community Equipment Service

Gateshead Council, Gateshead Primary Care Trust and Gateshead Health NHS Foundation Trust are also operating a pooled fund to support an integrated community equipment service. Gateshead PCT is the host partner with responsibility for administering the fund. In 2009/10, the Council's contribution to the fund was £0.736m (2008/09 £0.550m).

12. Members' Allowances

Members' allowances paid in the year were as follows:

	2008/09 £000s	2009/10 £000s
Basic allowance	641	643
Special responsibility allowance	359	359
Other allowances	259	252
Total	**1,259**	**1,254**

A schedule of payments made to individual members for 2009/10 is available from the Civic Centre, Gateshead.

13. Senior Officer Remuneration

The numbers of employees whose remuneration (excluding pension contributions) that were £50,000 or more in bands of £5,000 were:

Remuneration Band	2008/09	2009/10
£50,000 - £54,999	64	72
£55,000 - £59,999	50	48
£60,000 - £64,999	25	30
£65,000 - £69,999	21	15
£70,000 - £74,999	10	22
£75,000 - £79,999	1	5
£80,000 - £84,999	6	3
£85,000 - £89,999	4	6
£90,000 - £94,999	0	2
£95,000 - £99,999	3	1
£100,000 - £104,999	1	3
£105,000 - £109,999	1	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	1

The above list excludes the senior employees, as listed below:

14. Senior Employees

Remuneration of the Chief Executive and Strategic and Group Directors in 2009/10 is shown below:

Title	Salary, Fees & Allowances	Benefits in Kind	Other Emoluments	Total Excluding Pension	Employers Pension	Total Remuneration
	£	£	£	£	£	£
			(Note 2)	(Note 3)		
Chief Executive - R Kelly (Note 1)	194,015	12,208	7,376	213,599	31,982	245,581
Assistant Chief Executive	107,211	5,054		112,265	16,082	128,347
Strategic Director, Finance & ICT (Note 1)	132,358	13,189		145,547	19,840	165,387
Group Director, Development & Enterprise (Note 1) and (note 8)	128,665	12,342		141,007	183,874	324,881
Group Director, Learning & Children (Note 4)	103,270	5,216		108,486	15,478	123,964
Group Director, Learning & Children (Note 5)	17,883	846		18,729	2,680	21,409
Group Director, Local Environmental Services	112,658	10,926		123,584	16,885	140,469
Strategic Director, Legal & Corporate (Note 1)	106,669	5,635		112,304	16,000	128,304
Group Director, CBS (Note 6)	85,044	4,230		89,274	12,746	102,020
Group Director, CBS (Note 7)	15,372	1,021		16,393	2,306	18,699
Totals	**1,003,145**	**70,667**	**7,376**	**1,081,188**	**317,873**	**1,399,061**

Note 1 - Posts include responsibility for Northumbria Police Authority. Full remuneration is shown here and figures are not included on NPA statement of accounts. Included within the Salaries, Fees & Allowances are Police payments as follows:

	2008/09	2009/10
Chief Executive - R Kelly	£27,704	£27,704
Strategic Director, Finance & ICT	£19,700	£19,700
Group Director, D&E	£11,257	£11,257
Strategic Director, Legal & Corporate	£6,917	£9,697
Strategic Director, Legal & Corporate (retired)	£2,617	£0

Note 2 - Returning Officer Fee and payments in relation to By-election and European election.

Note 3 - No payments were made for bonuses, expense allowances or compensation for loss of office.

Note 4 - Left employment 28/02/2010. Annualised basic salary £112,569.

Note 5 - Commenced 01/02/2010. Annualised basic salary £107,211.

Note 6 - Left post 31/01/2010. Annualised basic salary £101,964.

Note 7 - Commenced 01/02/2010. Annualised basic salary £92,229.

Note 8 – Pension includes £165,300 in relation to the cost of pension augmentation due to discretionary added years.

Comparative figures for 2008/09 are shown below:

Title	Salary, Fees & Allowances £	Benefits in Kind £	Other Emoluments £ (Note 2)	Total Excluding Pension £ (Note 3)	Employers Pension £	Total Remuneration £
Chief Executive - R Kelly (Note 1)	191,377	13,435	6,644	211,456	31,336	242,792
Assistant Chief Executive (Note 4)	88,407	5,012		93,419	13,261	106,680
Assistant Chief Executive (Note 5)	21,719	931		22,650	3,258	25,908
Strategic Director, Finance & ICT (Note 1)	132,358	11,050		143,408	19,840	163,248
Group Director, D&E (Note 1)	123,915	12,968		136,883	18,574	155,457
Group Director, Learning & Children	112,658	5,840		118,498	16,885	135,383
Group Director, LES	107,300	9,694		116,994	16,082	133,076
Strategic Director, Legal & Corporate (Notes 1 & 6)	76,089	2,795		78,884	11,413	90,297
Strategic Director, Legal & Corporate (Notes 1, 7 & 8)	30,086	472		30,558	78,224	108,782
Group Director, CBS	95,480	4,770		100,250	14,309	114,559
Totals	**979,389**	**66,967**	**6,644**	**1,053,000**	**223,182**	**1,276,182**

Note 1 - Posts include responsibility for Northumbria Police Authority. Details in Note 1 for 2009/10 Table. Full remuneration is shown here and figures are not included on NPA statement of accounts.

Note 2 - Returning Officer fee and payments in relation to by-election and Council election.

Note 3 - No payments were made for bonuses or compensation for loss of office.

Note 4 - Maternity leave part year (maternity payment of £5,702 incl. in salary). Annualised basic salary £101,964.

Note 5 – Until 30/06/08, annualised salary £86,875.

Note 6 – From 01/07/08, annualised salary £92,229.

Note 7 – Retired 30/06/08, annualised salary £107,211.

Note 8 – Pension includes £73,711 in relation to the cost of pension augmentation due to discretionary added years.

15. Related Parties

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 has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, 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. housing benefits. Details of transactions with government departments are set out in Note 60.

Members of the Council have direct control over the Council's financial and operating policies. A survey of Councillors' (and Group and Strategic Directors') declared interests has been carried out and there are no disclosures to be made under FRS8 in respect of material related party transactions with the Council.

Chief Officers: it should be noted that:

- The Chief Executive of Gateshead Council is also the Chief Executive of Northumbria Police Authority.
- The Strategic Director Legal and Corporate Services of Gateshead Council is also the Deputy Chief Executive and Solicitor to Northumbria Police Authority.
- The Strategic Director, Finance & ICT of Gateshead Council is also the Treasurer to Northumbria Police Authority.
- The Deputy Director, Finance & ICT of Gateshead Council is also the Deputy Treasurer to Northumbria Police Authority.
- The Director of Corporate Services of Gateshead Council is also the Human Resources Adviser to Northumbria Police Authority.
- The Group Director Development and Enterprise of Gateshead Council is also the Property Adviser to Northumbria Police Authority.

Other public bodies:

North East Improvement and Efficiency Partnership (NEIEP)

The Council acts as accountable body for the North East Improvement and Efficiency Partnership (NEIEP). The partnership is funded by central government and works with local authorities on shared improvement and efficiency priorities. Although the Council acts as the accountable body, it has no control over how the funds are spent and the income and expenditure is excluded from the Council's Income and Expenditure Account. The balance of £14,404m at March 2010 is shown as a creditor on the Council's Balance Sheet.

	2008/09 £000s	2009/10 £000s
B/fwd	(624)	(6,632)
Expenditure	2,021	7,759
Income	(8,029)	(15,531)
C/fwd	**(6,632)**	**(14,404)**

Any interest earned on the NEIEP funds held by the Council is ringfenced for use by the partnership. During 2009/10 this totalled £0.041m (2008/09 £0.15m).

Further information is available at: **www.northeastiep.gov.uk**

16. Related Companies and Organisations

The Gateshead Housing Company

The Council's housing stock is managed and maintained by the Gateshead Housing Company (TGHC). In respect of this, the Council paid a management fee of £34.182m to the company in 2009/10 (£31.511m in 2008/09). This sum is shown in full in the Council's accounts as part of the Housing Revenue Account, as disclosed in Note 17 to the HRA.

In addition to this, TGHC managed capital works totalling £62.629m in 2009/10 (£66.759m in 2008/09) in respect of Decent Homes works. This expenditure is reclaimed from Gateshead Council and forms part of the total HRA capital expenditure of £72.741m as disclosed in Note 6 to the HRA. TGHC receive a management fee to cover management and administration costs incurred in respect of these works. This totalled £3m in 2009/10 (£3.164m in 2008/09), which is included within the £72.741m and is in addition to the revenue management fee of £34.182m.

TGHC purchases goods and services totalling £28.577m (£28.464m in 2008/09) from the Council as part of its operating activities, this includes capital work undertaken by LES. The trade balance outstanding at the year-end was £7.283m (£2.524m in 2008/09).

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

1NG - City Development Company

1NG, Gateshead and Newcastle's City Development Company, has been set up to realise the vision for Gateshead and central Newcastle by coordinating a major economic development programme to transform the area. Lord Falconer was appointed as the Chair in June 2008. 1NG's Chief Executive, Jim McIntyre, was appointed in October 2008 and board members were announced in December 2008. The Company became formally incorporated and independent in March 2009.

The three partner organisations, Gateshead Council, Newcastle City Council and One North East have committed to develop and establish 1NG with the objective of transforming the performance of the NewcastleGateshead economy over the next 15 years. Initial funding for 1NG comes from the three founding partners each committing £0.5m for the first three years.

Newcastle International Airport Ltd/NIAL Holdings Ltd

Under the Airport Act 1986, Newcastle International Airport Ltd (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 £4.355m worth of shares.

On 4 May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Ltd for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Ltd, which the LA7 owned 51%.

The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the LA7. The Newcastle Airport Local Authority Holding Company Ltd 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 13.04% interest in the company. The shares are not held for trading outside of the LA7.

At the time of acquisition of the new shares, the net worth of NIAL Holdings Ltd was £134m and the Council's share of this valuation (13.04% of 51%) was £8.912m.

Authority	Shares	Share %	Share in Holding %	Cost of Shares 51% Holding £000s
Sunderland	1,845	18.5	9.4	12,609
Newcastle	1,731	17.3	8.8	11,830
Northumberland	1,508	15.1	7.7	10,305
Durham	1,408	14.1	7.2	9,622
Gateshead	1,304	13.0	6.7	8,912
North Tyneside	1,214	12.1	6.2	8,296
South Tyneside	990	9.9	5.0	6,766
	10,000	**100**	**51.0**	**68,340**
Copenhagen Airport			49.0	65,660
Total			**100**	**134,000**

The valuation of NIAL Holdings Ltd is reviewed annually and any movement in the value of our shareholdings is reflected in the Newcastle International Airport Reserve. During 2009/10, the reduction in the estimated valuation of the Council's shareholding is £0.500m, giving a revised valuation of £0.559m. This amount has been reflected on the Balance Sheet and taken through the Statement of Total Recognised Gains and Losses.

The LA7 received £95m in cash for the 49% shareholding in NIAL Holdings and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in NIAL over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the Council will receive £3.103m.

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

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

Dividends paid for year-end 31 December 2009 amounted to nil. The dividend payable for year ended 31 December 2008 was also nil.

There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Ltd made a loss after tax of £3,161m for the year ended 31 December 2009.

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

InspiredSpaces
InspiredSpaces is the private element of the public/private partnership creating the Local Education Partnership (LEP) for the refurbishment of schools in Gateshead and South Tyneside (BSF Programme), further information can be found in note 9 of these accounts. The Council has a 5% share of the LEP, which is 500 shares at £1 each share.

Tyne and Wear Economic Development Company (TWEDCo)
The Tyne and Wear Development Company Ltd (TWEDCo) was established in 1986 by Tyne and Wear County Council and the five District Councils of Tyne and Wear. TWEDCo is a company limited by guarantee and does not have a share capital. Sunderland has three representatives on the Board of Directors as does each of the other four districts of Tyne and Wear.

The Company's objectives are:
(i) The assistance, promotion, encouragement and security of the economic development and regeneration of Tyne and Wear, of new industry and commerce, and employment opportunities within Tyne and Wear;
(ii) The investigation of the needs of industry and commerce, and the advertising and promotion of the benefits of Tyne and Wear as a location for the expansion and promotion of industry and commerce;
(iii) The promotion of the interests of industry and commerce in all circles of local and central government and administration

Members of the Company have a limited guarantee of £1. If, however, the Company was ever wound up or dissolved by the agreement of at least a majority of its members, then all liabilities and debts would have to be satisfied before any remaining interests in land of the Company could be transferred to the Council in which they are located. Any other funds and property not so covered (in the memorandum of association) would be distributed in proportion to the populations of each constituent Council's area. As the portfolio of assets of the Company is considerable and its residual liabilities are not considered to be significant then the Council would anticipate a distribution of net assets/proceeds should this event occur at any time.

17. Audit Costs

In 2009/10, the Council incurred the following fees relating to external audit and inspection:

	2008/09 £000s	2009/10 £000s
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	279	298
Fees payable to the Audit Commission in respect of statutory inspection	22	17
Fees payable to the Audit Commission for the certification of grant claims and returns	60	62
Fees payable in respect of other services provided by the appointed auditor	0	3
Total	**361**	**380**

The £0.298m represents the fixed fee chargeable by the Audit Commission for the audit of the Council's 2008/09 Accounts.

18. Summary of Capital Expenditure

Capital expenditure in 2009/10 totalled £153.170m, of which £12.223m was in relation to revenue expenditure funded from capital under statute, which in accordance with proper accounting practice has been debited to the Income and Expenditure Account. This expenditure was split between Council services as shown below:

	2008/09 £000s	2009/10 £000s
Capital Expenditure		
Learning and Children	15,954	25,455
Economic Development and Planning	7,029	1,499
Local Environmental Services	4,478	3,156
Transport and Highways	5,652	6,373
Major Projects	6,017	2,156
Central Services	8,125	7,692
Community Support	658	976
Adult Social Services	427	83
Cultural Services	3,286	16,795
Housing Revenue Account	68,963	72,740
Housing (Excluding HRA)	17,125	16,245
Total	**137,714**	**153,170**
Sources of Finance		
Supported Borrowing	49,365	43,109
Prudential Borrowing	18,100	34,870
Capital Receipts	11,139	2,189
Capital Grants and Other Contributions	39,977	43,623
Major Repairs Allowance	17,979	27,704
Revenue Contributions	1,154	1,575
Provisions	0	100
Total	**137,714**	**153,170**

19. Tangible Fixed Assets- Movements in the year were as follows: -

	Council Dwellings	Land and Buildings	Assets under Construction	Vehicles Plant and Equipment	Infra - structure	Community Assets	Non Operational Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross Book Value at 01/04/09	**1,068,142**	**484,443**	**2,229**	**50,493**	**116,407**	**5,602**	**32,674**	**1,759,990**
Reclassification	0	(11,731)	10,455	0	0	0	1,276	0
Upward and Downward Revaluations	(89,627)	(4,907)	0	0	0	0	1,452	**(93,082)**
Additions	72,121	24,079	29,277	7,221	7,066	503	387	**140,654**
Disposals	(637)	0	0	(1,007)	0	0	(534)	**(2,178)**
Gross Book Value at 31/03/10	**1,049,999**	**491,884**	**41,961**	**56,707**	**123,473**	**6,105**	**35,255**	**1,805,384**
Depreciation at 01/04/09	**(21,363)**	**(24,300)**	**0**	**(30,573)**	**(23,827)**	**0**	**(133)**	**(100,196)**
Reclassification	0	1,820	(1,721)	0	0	0	(99)	**0**
Depreciation Write Out on Revaluation	21,323	7,288	0	0	0	0	58	**28,669**
Depreciation Write Out on Disposal	40	0	0	967	0	0	0	**1,007**
Depreciation for the Year	(21,000)	(11,100)	0	(7,131)	(3,012)	0	0	**(42,243)**
Depreciation at 31/03/10	**(21,000)**	**(26,292)**	**(1,721)**	**(36,737)**	**(26,839)**	**0**	**(174)**	**(112,763)**
Impairments at 01/04/09	**0**	**(8,931)**	**0**	**0**	**0**	**0**	**0**	**(8,931)**
Impairment due to Consumption of Economic Benefits in current year	0	(105)	0	0	0	0	0	**(105)**
Impairment Write Out on Disposal	0	0	0	0	0	0	0	**0**
Impairments at 31/3/10	**0**	**(9,036)**	**0**	**0**	**0**	**0**	**0**	**(9,036)**
Net Book Value at 31/03/10	**1,028,999**	**456,556**	**40,240**	**19,970**	**96,634**	**6,105**	**35,081**	**1,683,585**
Net Book Value at 31/03/09	**1,046,779**	**451,212**	**2,229**	**19,920**	**92,580**	**5,602**	**32,541**	**1,650,863**

A review of the Council's fixed assets identified nine assets that had been impaired due to the consumption of economic benefits. In accordance with the SORP, the impairment value of these assets totalling £0.105m has been written off to the Income and Expenditure Account.

In 2009/10, a detailed valuation was undertaken resulting in a £68.303m impairment of Council dwellings which has been taken to the HRA Income and Expenditure Account.

20. Capital Financing Requirements

The Local Government Act 2003 provided a new prudential regime for the control of local authority capital expenditure. Under the prudential framework, local authorities are free to borrow without specific government consent if they can afford to service the debt without additional government support. Investment plans need to be affordable, sustainable and prudent and as a control mechanism the Council sets prudential indicators on an annual basis, which are approved by Council prior to start of the financial year. These indicators are monitored regularly throughout the year.

The capital financing requirement is one of those indicators, measuring the Council's underlying need to borrow. Reconciliation of the opening and closing capital financing requirement is shown below:

	2008/09 £000s	2009/10 £000s
Opening Capital Financing Requirement at 1 April 2009	381,820	442,455
Capital Investment		
Operating Assets	125,184	140,267
Non Operating Assets	268	387
Intangible Assets	240	295
Revenue Funded from Capital under Statute	12,022	23,964
Sources of Finance		
Capital Receipts	(9,596)	(2,189)
Government Grants and Other Contributions	(59,499)	(71,328)
Direct Revenue Financing (includes MRP)	(7,984)	(9,134)
Closing Capital Financing Requirement at 31 March 2010	**442,455**	**524,717**
Explanation of Movements in Capital Financing Requirement		
Increase in underlying need to borrow supported by Government financial assistance	42,785	36,616
Increase in underlying need to borrow unsupported by government financial assistance	17,850	45,646
Movement in Capital Financing Requirement	**60,635**	**82,262**

21. Commitments under Capital Contracts

It is estimated that the Council has continuing capital contractual arrangements of approximately £11.6m in relation to the completion of its Building an Active Future project. The project will deliver two new leisure pools at Blaydon and Felling and enable the refurbishment of Dunston Pool, Birtley Pool. The recently refurbished Gateshead Leisure Centre re-opened at the beginning of 2010/11. The costs will be incurred over the next three years as follows:

2010/11:	£11.2m
2011/12:	£0.4m

22. Assets Held

Fixed assets owned by the Council: -

	Number as at 31 March 2009	Number as at 31 March 2010
Council Dwellings	21,471	21,352
Operational Assets		
Civic Centre	1	1
Other Offices	10	10
Social Services Homes and Hostels	8	7
Leisure Centres and Swimming Pools	10	10
International Stadium	1	1
Libraries	17	17
Primary Schools	47	50
Secondary Schools	6	10
Special Schools	6	8
Depots	17	12
Off Street Car Parks	36	36
Cemeteries	10	10
Crematoria	2	2
Art Galleries	1	1
Music Centre	1	1
Operational Equipment		
Vehicles	411	433
Infrastructure		
Highways (Kilometres)	931	954
Bridges	157	158
Permanent Ways	500	500
Community Assets		
Parks & Open Space (Hectares)	959	959
Allotments (Plots)	1,329	1324
Civic Regalia (Items)	77	77

23. Intangible Fixed Assets

Intangible fixed assets movements during 2009/10 are shown below:

	Purchased Software Licences £000s
Original cost	470
Amortisation to 1 April 2009	(159)
Balance at 1 April 2009	311
Expenditure on software in 2009/10	295
Amortisation 2009/10	(171)
Balance at 31 March 2010	**435**

24. Ownership of Fixed Assets

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

	Council Dwellings	Land and Buildings	Assets Under Construction	Vehicles Plant and Equipment	Infra - structure	Community Assets	Non Operational Assets	Intangibles	**Total**
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	**£000s**
General Fund	0	449,509	40,240	16,082	96,634	6,105	33,287	413	**642,270**
H.R.A.	1,028,999	4,408	0	141	0	0	443	0	**1,033,991**
Trading Accounts	0	2,639	0	3,747	0	0	1,351	22	**7,759**
Net Book Value at 31/03/10	**1,028,999**	**456,556**	**40,240**	**19,970**	**96,634**	**6,105**	**35,081**	**435**	**1,684,020**

Remaining useful lives have been assigned to individual or classes of assets by the Council's Chief Valuer.

25. Leasing - Disclosure by Lessee

The Council has held in 2009/10 various assets under operating leases.
The Council uses machinery and equipment financed under terms of an operating lease. The amount paid under these arrangements in 2009/10 was £0.426m (£0.910m 2008/09). This amount was charged to the Income and Expenditure Account.

The Council was committed at 31 March 2009 to making payments of £0.103m under operating leases, comprising of the following elements:

	Vehicles, Plant & Machinery £000s	**Buildings £000s**
Less than 1 year	64	43
2 to 5 years	39	297
Over 5 years	0	288
Balance at 31 March 2010	**103**	**628**

Where assets are held on an operating lease basis, they are not included within the Council's tangible fixed assets. There are no assets held under finance leases by the Council and no outstanding obligations to make any payments for finance leases at 31 March 2010.

26. Leasing - Disclosure by Lessors

There are no instances where the Council acts as lessor that involve finance leases or hire purchase contracts. Although the Council is a lessor in a number of other instances, in these cases the Council has accounted for the rental income from the lease on a straight-line basis. It has accounted for any capital expenditure in accordance with the Council's other capital assets and accounting policies.

27. PFI Assets

The value of the schools PFI assets at each Balance Sheet date, and an analysis of the movement in those values, was as follows:

	31/03/2008 £000s	31/03/2009 £000s	31/03/2010 £000s
Opening Value:	0	41,448	51,744
Movements:			
Additions	42,125	11,333	0
Revaluations	0	0	0
Depreciation	(677)	(1,037)	(1,000)
Closing Value:	**41,448**	**51,744**	**50,744**

The value of the schools PFI liabilities at each Balance Sheet date, and an analysis of the movement in those values, was as follows:

	31/03/2008 £000s	31/03/2009 £000s	31/03/2010 £000s
Opening Value:	0	(38,607)	(48,389)
Movements:			
New liabilities	(39,318)	(10,538)	0
Repayment of capital	710	757	808
Closing Value:	**(38,608)**	**(48,388)**	**(47,581)**

28. Depreciation

There has been no change in the depreciation method used during 2009/10.

29. Capital Instruments

There have been no capital instruments issued by the Council.

30. Nature and Extent of Risk Arising from Financial Instruments

Key Risks

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

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

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 set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code 2009, the Revised CIPFA Treasury Management in the Public Services Code of Practice 2009 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 of Practice;
- 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
- its maximum annual exposures to investments maturing beyond a year
- by approving an annual investment strategy for the forthcoming year setting out its criteria for both investing and selecting investments counterparties in compliance with the government guidance.

These are required to be reported and approved at or before the Council's annual council tax setting budget meeting. These items are reported with 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 utilise 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. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria previously outlined in the TMPs. The Council's investment priorities are the security of capital and the liquidity of its investments. Counter parties are assessed taking into account their financial position and credit limits are set in accordance with internal ratings.

At the 31 March 2010 £10.325m (8.58%) of the Council's £120.315m of deposits were with financial institutions domiciled outside of the UK.

Country of Domicile	**Amount £000s**	**%**
Singapore	10,325	8.58
	10,352	**8.58**

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 value £000s	**Impairment Value £000s**	**Net Value £000s**
Deposits with financial institutions	120,852	350	120,502
Long term debtors	1,459	0	1,459
Debtors	51,722	5,501	46,221

The debtors balance represents the amount due to the Council from customers. A bad debt provision of £5.501m is held on the balance sheet to provide against the risk of default on debt outstanding.

During the reporting period the Council held no collateral as security.

Liquidity Risk

The Council has ready access to borrowings from the Co-operative Bank to cover any day-to-day cash flow need they are also able to borrow from other Banks and Building Societies on the wholesale markets should the need arise, and whilst the PWLB provides access to longer-term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). 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 it will be unable to raise finance to meet its commitments under financial instruments.

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 of Practice.

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 prudential indicator limits for the maturity structure of debt and the limits placed on 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 profiles of financial liabilities and financial assets are detailed in Note 31 Financial Instruments Balances.

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. The current interest rate risk for the Council is summarised below:

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure Account.
- Increases in interest rates will affect interest paid on variable rate borrowings, potentially increasing interest expense charged to the Income and Expenditure Account.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for the majority of assets held at amortised cost, but will impact on the

disclosure note for fair value. It would have a negative affect on the Balance Sheet for those assets held at fair value on the Balance Sheet, which would also be reflected in the STRGL.

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

Assets and liabilities are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL.

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 prudential indicator is set which provides maximum and minimum 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, fixed rate loans will be repaid to limit exposure to losses.

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 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.

The Council holds a small number of various gilts with a value at cost of £5,000 which are classified as 'available for sale', meaning that all movements in price would, if considered material, impact on the gains and losses recognised in the STRGL. The market value of these holdings as at 31 March 2010 was £9,000 and the movement in price is deemed immaterial.

Foreign Exchange Risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

31. Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Current	
	31/3/09 £000s	**31/3/10 £000s**	**31/3/09 £000s**	**31/3/10 £000s**
Financial Liabilities at amortised cost	393,175	426,712	31,697	53,451
Total Borrowing	**393,175**	**426,712**	**31,697**	**53,451**
Loans and Receivables	2,817	13,065	110,352	107,437
Available for Sale Assets	5	5	-	-
Unquoted equity investment at cost	1,059	559	-	-
Total Investments	**3,881**	**13,629**	**110,352**	**107,437**

Analysis of Financial Liabilities at Amortised Cost

	Range of Interest Rates Payable (%)	Total Outstanding 31 March	
		2009 £000s	2010 £000s
Source of Loan			
Public Works Loans Board	1.49% - 13.75%	364,334	379,443
Loans Serviced by Other Local Authorities	7.631%	-	-
Other Loan Instruments	0.645% - 4.52%	60,538	100,720
		424,872	**480,163**
An analysis of loan by maturity is: -			
Maturing within one year		**31,697**	**53,451**
Maturing in 1 – 2 years		38,695	42,240
Maturing in 2 – 5 years		101,282	110,232
Maturing in 5 – 10 years		54,362	85,023
Maturing in more than 10 years		198,836	189,217
Long Term Borrowings		**393,175**	**426,712**

Loans and Receivables
As at 31st March 2010 £13.629m (£3.881m 2008/09) of loans and receivables over 364 days are outstanding. These financial instruments were placed in accordance with the treasury management strategy. All of these loans mature within 2 year.

Available-for-Sale
Available-for-sale assets are carried at cost in the Balance Sheet due to the re-measurement in relation to fair value being immaterial, market value as at 31 March 2010 was £8,403 (£9,292 2008/09).

32. Financial Instruments Gains/Losses

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	2008/09 £000s	2009/10 £000s
Interest and investment income	8,554	1,599
Interest payable and similar charges	(27,060)	(24,291)
Total	**(18,506)**	**(22,692)**

Income received in relation to the available-for-sale assets held is considered to be immaterial.

33. Financial Guarantee Liability

This provides for financial guarantees that the Council enters into that are assessed as being likely to become due in the next financial year. There have been no new guarantees entered into during 2009/10.

34. Impairment of Investments

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing, Singer and Friedlander went into administration.

Heritable Bank is a UK-registered bank under Scottish law. When the company was placed in administration on 7 October 2008 all monies held within Heritable Bank became subject to the respective administration and receivership processes. The administrators will determine the amounts and timing of payments to depositors such as the Council.

On the 7 October 2008, the Council had £2.762m deposited with Heritable Bank with varying maturity dates and interest rates.

The creditor progress report issued by the administrators Ernst and Young dated 17 April 2009 outlined that the return to creditors was projected to be 80p in the pound by end 2012 with the first dividend payment of 15p in the pound due in the summer of 2009.

Since this report was issued, dividends paid have exceeded initial predictions and the final return is now expected to exceed the projected 80p in the pound, therefore the Council has decided to recognise an impairment based on recovering 89.98p in the pound. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. In calculating the impairment, the Council has made the following assumptions regarding timing of further recoveries:

July 2010	10%
Dec 2010	10%
Mar 2011	10%
July 2011	10%
Dec 2011	10%
Mar 2012	5%

The following table includes details of the initial investments, the total impairment based on the repayment assumption outlined above and the current carrying value of the investments:

Date Invested	Maturity Date	Amount Invested £000s	Interest Rate	Total Impairment £000s	Carrying Amount £000s
24/06/08	19/12/08	596.612	6.25%	101.116	311.662
21/07/08	19/01/09	217.767	6.06%	36.323	113.433
22/07/08	19/01/09	255.808	6.06%	42.663	133.227
25/07/08	26/01/09	106.430	6.05%	17.731	55.407
19/08/08	19/02/09	316.816	6.00%	52.434	164.338
22/08/08	23/02/09	634.155	6.02%	105.047	328.721
22/08/08	23/02/09	634.155	6.02%	105.047	328.721
Totals		2,761.743		460.361	1,435.509

To date, the Council has received actual dividends totalling £976,615.49 (including £10,597.44 relating to interest).

The impaired investments are included in the current assets figure in the Balance Sheet, the amount of the investments included in the balance sheet have been calculated using the present value of the expected repayments, discounted using the investments original interest rate. The expected repayments have been estimated as £0.803m in 2010/11 and £0.632m in 2011/12.

In 2009/10 accrued interest of £0.115m (£0.110m 2008/09) and actual interest received of £0.011m have been credited to the Income and Expenditure Account.

Regulations issued in March 2009 allow the Council not to charge amounts relating to impaired investments to the General Fund. Such amounts are instead transferred to the Financial Instrument Adjustment Account. This account records the timing differences between charging these amounts to the General Fund in accordance with proper practice and in accordance with the regulations. The Council has taken advantage of the regulations and has transferred £0.312m from this account leaving a balance of £0.460m (£0.772m 2008/09) in relation to deposits placed with Heritable Bank.

Under the regulations, the authority must transfer the balance on the account relating to the impaired investments to the General Fund no later than 31 March 2011, and must also credit the account with interest earned until such time as the balance has been transferred to the General Fund. The Council estimates that the following credits will be made to the account in relation to Heritable Bank:

	£000s
Balance as at 31/03/10	1.435
Transfers 2010/11	(0.803)
Transfers 2011/12	(0.632)
	0

35. 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.

	31 March 2009 Restated		31 March 2010	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
PWLB Debt	364,334	411,843	379,443	414,242
Non-PWLB Debt	60,538	60,031	100,720	110,012
Total Debt	424,872	471,874	480,163	524,254
Trade Creditors	64,769	64,769	140,095	140,095
Total Financial Liabilities	**489,641**	**436,643**	**620,258**	**664,349**
Market Loans < 1 year	110,351	110,806	107,437	107,553
Market Loans > 1 year	2,817	3,033	13,065	13,095
Trade Debtors	54,903	54,903	46,221	46,221
Total Loans and Receivables	**168,071**	**168,742**	**166,723**	**166,869**

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

36. Provisions

In addition to the bad debt provision there are the following: -

	Balance at 01/04/09 £000s	Receipts £000s	Payments £000s	Balance at 31/03/10 £000s
Insurance	(3,974)	(217)	0	(4,191)
Job Evaluation	(960)	0	960	0
Job Evaluation Schools	(757)	0	757	0
Improvement Contracts	(595)	(418)	595	(418)
LES Construction Remedial Work	(277)	0	277	0
Sundry	(165)	0	104	(61)
Equal Pay General Fund	0	(12,639)	0	(12,639)
Equal Pay Schools	0	(1,267)	0	(1,267)
Equal Pay HRA	0	(536)	0	(536)
Total Provisions	**(6,728)**	**(15,077)**	**2,693**	**(19,112)**

- **Insurance**. 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.

- **Job Evaluation**. The Council has now completed and implemented phases 2 and 3 of Job Evaluation, and payments backdated to 1 April 2007 in relation to this have been made. During 2008/09, a number of appeals in relation to this process were ongoing, and in accordance with FRS12, a provision was created based on an estimate provided by Human Resources. The payments in relation to successful appeals have now been made.

- **Job Evaluation Schools.** During 2008/09, the Council was consulting on Job Evaluation in relation to Schools non-teaching staff and the proposals for a new pay and grading structure and other terms and conditions were subject to trade union consultation. There were no set timescales for how long this process would take. It had previously been agreed with the trade unions that the new grades arising from the proposals would be backdated to 1 April 2007. In accordance with FRS12, a provision was created based on an estimate provided by Human Resources. The payments in relation to the new pay and grading structure have now been paid.

- **Improvement Contracts.** The Council undertakes two of the Decent Homes contracts on behalf of the Gateshead Housing Company. This provides for the potential liability for disputed works and potential repayments under the Pain / Gain Share mechanism which forms part of the overall contract conditions. The Pain / Gain share benefits are calculated on completion of each scheme. The liability regarding five contracts has been finalised in 2009/10. In addition, new provisions have been created for seven on-going contracts.

- **LES Construction Remedial Work.** During 2008/09, the Gateshead Housing Company identified problems with work undertaken by its contractors on Decent Homes contracts. This may have required remedial work on work undertaken by Local Environmental Services, which was subject to survey. Indications showed that the situation existed on six contracts with a total of 1,278 dwellings. The provision was estimated based on similar work, which was undertaken on other Decent Homes contracts operated by other contractors. This work has now been undertaken and the provision written back to revenue.

- **Sundry.** The Sundry Provision is made up of: -

  - **Bottle Bank Compulsory Purchase Orders** – This provision of £0.100m was to cover the cost of a claim made by former owner of a plot of land at Bottle Bank, which was acquired under a compulsory purchase order. The costs were originally to be recovered from Collingwood Developments, who are now in administration. The case has now been settled and a claim for costs has been submitted to the administrators for Collingwood Developments.

  - **Frozen Holiday Pay (£0.061m)** - Pay that was frozen when the craft and manual employees holiday entitlement changed to current year rather than a year in arrears. The provision is written down as and when employees leave.

  Equal Pay – The Council has received a number of 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. The Income and Expenditure Account includes a provision to reflect the claims currently received by the Council.

37. Movement in Reserves

Reserve	Balance as at 01/04/09 Restated	MTFS Review of Reserves	Appropriation to Reserves	Appropriation from Reserves	Balance as at 31/03/10
	£000s	£000s	£000s	£000s	£000s
General Fund					
General Reserve	(11,444)	(3,578)	(2,483)	0	(17,505)
LMS Budget Share Reserve	(10,853)	0	(1,547)	1,493	(10,907)
Total General Fund	**(22,297)**	**(3,578)**	**(4,030)**	**1,493**	**(28,412)**
Earmarked Reserves					
Pensions	(8,353)	(3,000)	(1,002)	5,647	(6,708)
Capital	(3,578)	3,578	0	0	0
Insurance	(3,878)	878	0	0	(3,000)
Grant Clawback	(5,884)	3,784	0	387	(1,713)
Gateshead Development Pool	(33,217)	0	(642)	5,963	(27,896)
Cultural Development Reserve	(726)	0	(500)	475	(751)
Bridge Maintenance	(920)	0	0	0	(920)
Developers' Contributions	(1,551)	0	(667)	11	(2,207)
LAA Reward Grant Reserve	(600)	0	(39)	0	(639)
Economic Downturn	(4,359)	(1,662)	0	291	(5,730)
DSG Reserve	(789)	0	(181)	390	(580)
Total Earmarked Reserves	**(63,855)**	**3,578**	**(3,031)**	**13,164**	**(50,144)**
Other Reserves					
Revaluation Reserve	(18,455)	0	(7,047)	1,085	(24,417)
Capital Adjustment Account	(903,751)	0	(60,583)	142,721	(821,613)
Financial Instrument Adjustment Account	9,549	0	(3,256)	1,005	7,298
Deferred Capital Receipts	(1,340)	0	0	3	(1,337)
Capital Receipts Reserve	(3,957)	0	(11,102)	11,731	(3,328)
Pensions Reserve (FRS 17)	378,914	0	0	129,778	508,692
Collection Fund Adjustment Account	(918)	0	(836)	1,624	(130)
HRA Surplus	(18,191)	0	0	1,337	(16,854)
Major Repairs Reserve	(2,616)	0	(25,087)	27,703	0
Equal Pay Back Account	0	0	0	2,700	2,700
Newcastle International Airport	(1,059)	0	0	500	(559)
Total Other Reserves	**(561,824)**	**0**	**(107,911)**	**320,187**	**(349,548)**
TOTAL RESERVES	**(647,976)**	**0**	**(114,972)**	**334,844**	**(428,104)**

38. General Fund (£28.412m)

- **General Reserve (£17.505m)**
  This reserve acts as a contingency and allows the Council to meet any unforeseen expenditure without destabilising the budget in the short term. It has been assessed at a minimum of 3% of net revenue budget (excluding schools) in line with the Council's reserves policy and MTFS principles.

- **LMS Budget Share Reserve (£10.907m)**

  This amount represents the cumulative net unspent element of school budget shares which, under LMS, must be carried forward into the following financial year.

39. Earmarked Reserves

A review of strategic reserves is undertaken twice a year in line with the CIPFA guidance on reserves and balances (LAAP bulletin No. 77 November 2008) and the requirements of the SORP.

The review process covers each individual strategic reserve and identifies:

- The purpose for which the reserve is held
- An assessment of the appropriate level of the reserve to meet potential future liabilities
- A risk assessment of each reserve
- The reviewed level of reserve following this risk assessment

A number of strategic reserves were restated as part of the Medium Term Financial Strategy (MTFS) in December 2009 and these are shown in Note 37.

- **Pensions (£6.708m).** This reserve is earmarked to meet increases in employer's liability and increases in back funding requirements, with £4.5m earmarked in 2009/10 and £4.5m in 2010/11. The reserve exists to ensure potential increases in back funding payment to the Tyne and Wear Pension Fund are provided for. In addition, the reserve is used as a smoothing mechanism to fund Strain on the Fund payments, which must be made at the date of retirement. The reserve is replenished by a contribution from services, which is offset by a permanent saving equal to one fifth of the total payment.

- **Capital (£0m).** This reserve was to provide for future development on large capital projects as an alternative to borrowing. The level of reserve was based on minimum 10% of anticipated capital receipts over the 3-year capital programme. This reserve has been reallocated to the General Reserve as part of the MTFS review of reserves.

- **Insurance (£3m).** The reserve is to allow for possible claims against the Council, which are not covered by external policies such as claims for liability, and to cover insured liability claims falling within the claims excess and policy stop loss. The reserve is based on an assessment of both insured and uninsured liabilities and claims potentially falling on the Council. This reserve was reduced as part of the MTFS review of reserves to reflect the fact that the Council has taken external cover for storm damage.

- **Grant Clawback (£1.713m).** The reserve is for grant received, which may need to be repaid. The reserve exists to mitigate the risk of potential clawback of funding following audit of European Regional Development Fund (ERDF) grant claims and is based on the value of claims in respect of Baltic and the Sage Gateshead and other projects subject to audit. Some of the risks covered by the reserve have been dealt with and this reserve was reduced as part of the MTFS review of reserves.

- **Gateshead Development Pool (£27.896m).** The reserve was established following the sale of shares in Newcastle International Airport Ltd when the Council agreed to use the proceeds of the airport capital receipt to set up Gateshead Development Pool. This strategic reserve represents the revenue contributions to date to the pool. The reserve is available to allow the Council to achieve its key priorities. The reserve is used to meet the costs of prudential borrowing identified in the MTFS and to support sustainability and invest to save schemes in line with principles agreed by the Council.

- **Cultural Development Reserve (£0.751m).** In addition to establishing the Gateshead Development Pool, the Council also agreed that interest earned from investing the airport capital receipt would be used to establish a Cultural Development Fund to be used for cultural initiatives within the Borough. The reserve was earmarked for Gateshead contributions to Culture 10 initiatives and has been established to mitigate the risk of insufficient financial resources for this programme. £0.5m has been appropriated to this reserve in 2009/10 to support the continued delivery of key sporting and cultural events including the host city bid for the 2018 World Cup.

- **Bridge Maintenance (£0.92m).** This reserve was established to meet the costs of future bridge maintenance work in partnership with Newcastle Council. Historically, major bridge refurbishment works have been carried out with support from Local Transport Plan funding. The current proposal is that £0.6m of the reserve will be earmarked to support the removal of the Gateshead Millennium Bridge pylons which was reported to Cabinet in September 2009. The remainder of this reserve will be used to cover future liabilities of the Gateshead Millennium Bridge which is the sole responsibility of the Council.

- **Developer Contributions (£2.207m).** This reserve consists of developer contributions in respect of agreed regeneration schemes following Section 106 agreements and relates to developers contributions to play schemes on future residential developments and other contributions arising from Development Control decisions.

- **LAA Reward Grant (£0.639m).** Gateshead Strategic Partnership (GSP) agreed the reward element of its Local Area Agreement on 1 April 2006. This agreement covers the period 1 April 2006 to 31 March 2009 and is between the GSP and central government and is awarded on the basis of achieving stretched performance in 13 targets. The reserve was created based on an estimate of those targets that have been achieved at 31 March 2009.

- **Economic Downturn (£5.730m).** This reserve was established to mitigate against the potential impact on the Council's budget during the economic downturn and to fund short-term initiatives in the Council's Ten Point Plan. The reserve was increased as part of the MTFS review of reserves to further support the impact of the recession which is expected to extend at least into 2010/11.

- **Dedicated Schools Grant (£0.580m).** From 2006/07, school funding for Local Authorities in England is provided by a ring-fenced grant called Dedicated Schools Grant (DSG) from the Department of Children, Schools and Families, whereas previously such support was paid as part of Revenue Support Grant. DSG meets the definition of service-related income and should be accounted for as part of the net cost of services under the *Children's and Education Services* heading on the Income and Expenditure Account.

  The DSG 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 devolved budget share. Over and under spends on each element are required to be accounted for separately.

  Due to the significant value of job evaluation (JE) arrears relating to school employees for 2007/08 and 2008/09 and the adverse impact that these significant amounts could have on school budgets Schools Forum agreed to fund the arrears from DSG reserves. A JE provision of £757k was created in 2008/09 to fund these arrears. This reserve was used in full in 2009/10.

  Details of the deployment of DSG receivable for 2009/10 are as follows:

	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Final DSG for 09/10	12,364	92,750	105,114
Brought Forward from 08/09	789	0	789
Carry Forward to 10/11	0	0	0
Agreed Budgeted Distribution 09/10	13,153	92,750	105,903
Actual Central Expenditure	12,570	0	12,570
Actual ISB deployed to Schools	0	92,753	92,753
Local Authority Contribution 09/10	0	0	0
Carry Forward to 10/11	**583**	**(3)**	**580**

40. Capital Adjustment Account

This account accumulates the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It also accumulates the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account therefore represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

	£000s	£000s
Balance as at 1 April 2009 (Restated)		**(903,751)**
Capital financing		
Revenue Contributions to Capital	(1,575)	
Useable capital receipts	(2,189)	
Government Grants applied amortisation	(16,055)	
Major repairs reserve	(27,704)	(47,523)
Other movements		
Depreciation and Impairment	113,687	
Minimum revenue provision	(7,457)	
PFI	(808)	
Revenue expenditure funded from capital under statute	12,222	
Excess of current cost over historic cost depreciation	(724)	
Revaluation Reserve Balance write off on disposal	(35)	
Disposal of Fixed Assets	1,135	
Compulsory Purchase Order	(101)	
Equal Pay	11,742	129,661
Balance as at 31 March 2010		**(821,613)**

41. Financial Instrument Adjustment Account

This is a statutory reserve required to account for the changes in accounting policies implemented by the SORP 2007. The balance relates to £7.298m relating to deferred liabilities that regulations specify can continue to be recognised over the life of the replacement borrowing for the general fund and a maximum of 10 years in respect of the HRA. The balance contains a further £0.120m 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.

42. Pension Costs

The Tyne and Wear Pension Fund is administered by South Tyneside Metropolitan Borough Council. This is a funded scheme, meaning that the Council and employees pay contributions into the fund calculated at a level estimated to balance the pension liabilities with investment assets. In 2009/10, the Council paid £30.431m (£28.176m 2008/09) to the Pension Fund in respect of pension contributions, representing 16.4% of pensionable pay.

The scheme is classified as a defined benefit scheme, and is accrued in accordance with the requirements of FRS17. FRS17 accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. FRS17 also includes the Council's attributable share of the fund assets and liabilities.

Further information on the Tyne and Wear Pension Fund can be found in their Annual Report which is available upon request from South Tyneside Metropolitan Borough Council, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL.

Transactions Relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge which is 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 Income and Expenditure Account as an appropriation after net operating expenditure. The following transactions have been made in the Income and Expenditure Account during the year:

	Funded Liabilities: Tyne and Wear Pension Fund £m		Unfunded Liabilities: Tyne and Wear Pension Fund £m	
	31 March 2009	**31 March 2010**	**31 March 2009**	**31 March 2010**
Net cost of services:				
Current service cost	16.66	17.66	-	-
Past service cost	0.38	0.62	1.42	1.03
Net operating expenditure:				
Interest cost	46.42	48.32	4.74	4.78
Expected return on scheme assets	(35.89)	(26.52)	-	-
Net charge to the Income and Expenditure Account	**27.57**	**40.08**	**6.16**	**5.81**

	Funded Liabilities: Tyne and Wear Pension Fund £m		Unfunded Liabilities: Tyne and Wear Pension Fund £m	
	31 March 2009	**31 March 2010**	**31 March 2009**	**31 March 2010**
Statement of Movement on the General Fund Balance:				
Reversal of net charges made for retirement benefits in accordance with FRS17	1.28	11.54	1.41	0.76
Actual Amount charged against the General Fund Balance for Pensions in year:				
Employers contributions payable to scheme	28.54	-	-	-
Retirement benefits payable to pensioners	-	-	5.05	-

Statement of Total Recognised Gains and Losses

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £117.5m (£135.9m 2008/09) were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial losses recognised in the statement since its introduction in 2006/07 is £192.4m.

Results under the FRS17 reporting standard can change dramatically depending on market conditions. The liabilities are linked to yields on AA-rated corporate bonds whereas the majority of the assets of the Fund are invested in equities. This will lead to volatility in the net pension asset on the Balance Sheet and the actuarial gains / (losses) in the Statement of Total Recognised Gains and Losses.

Assets and Liabilities in Relation to Retirement Benefits
Reconciliation of the present value of the scheme liabilities:

	Funded Liabilities: Tyne and Wear Pension Fund £m		**Unfunded Liabilities: Tyne and Wear Pension Fund £m**	
	31 March 2009	**31 March 2010**	**31 March 2009**	**31 March 2010**
Opening present value	681.95	733.14	71.32	74.41
Current service cost	16.66	17.66	-	-
Interest cost	46.42	48.32	4.74	4.78
Contributions by scheme participants	7.85	8.31	-	-
Actuarial (gains) and losses	3.24	240.42	1.68	10.90
Benefits paid	(23.36)	(28.65)	(4.75)	(5.03)
Past service costs	0.38	0.61	1.42	1.02
Closing present value	**733.14**	**1,019.81**	**74.41**	**86.08**

Reconciliation of fair value of the scheme assets:

	Tyne and Wear Pension Fund £m	
	31 March 2009	**31 March 2010**
Opening fair value	512.94	428.63
Expected rate of return	35.89	26.52
Actuarial gains and (losses)	(130.98)	133.84
Employer contributions	26.29	28.54
Contributions by scheme participants	7.85	8.32
Benefits paid	(23.36)	(28.65)
Closing fair value	**428.63**	**597.20**

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. 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 £160.36m (£95.09m loss in 2008/09).

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

	31 March 2009	31 March 2010
	%	%
Equity investments	66.1	67.8
Property	8.4	7.4
Government bonds	10.2	9.3
Corporate bonds	10.4	11.4
Cash / other assets	4.9	4.1
	100.0	**100.0**

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, reducing the overall balance by £508.7m. 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.

	2005/06 £m	Restated 2006/07 £m	Restated 2007/08 £m	2008/09 £m	2009/10 £m
Present Value of Liabilities:					
Tyne and Wear Pension Fund: Funded Liabilities	(718.90)	(762.45)	(681.95)	(733.14)	(1,019.81)
Tyne and Wear Pension Fund: Unfunded Liabilities	(72.80)	(75.70)	(71.32)	(74.41)	(86.08)
Fair Value of Assets in the Tyne and Wear Pension Fund	504.60	541.77	512.94	428.63	597.20
Surplus (Deficit) in the Scheme:					
Tyne and Wear Pension Fund: Funded Liabilities	(214.30)	(220.68)	(169.01)	(304.51)	(422.61)
Tyne and Wear Pension Fund: Unfunded Liabilities	(72.80)	(75.70)	(71.32)	(74.41)	(86.08)
Total Pension Liability	**(287.10)**	**(296.38)**	**(240.33)**	**(378.92)**	**(508.69)**

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

History of Experience Gains and Losses

The actuarial gains / losses identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

Funded Liabilities: Tyne and Wear Pension Fund	2005/06 %	2006/07 %	Restated 2007/08 %	2008/09 %	2009/10 %
Experience gains / (losses) on assets	14.9	(0.6)	(14.3)	(30.6)	22.4
Experience gains / (losses) on liabilities	(0.4)	(0.3)	1.8	(0.5)	1.0

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

Unfunded Liabilities: Tyne and Wear Pension Fund	**Restated 2007/08 %**	**2008/09 %**	**2009/10 %**
Experience gains (losses) on assets	-	-	-
Experience gains and (losses) on liabilities	(1.2)	(0.7)	2.9

In accordance with paragraph 79 of FRS17, unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. This disclosure note presents the history of liabilities and experience gains / (losses) on liabilities, for periods ending in 2008 and 2009. For periods ending in 2007 and earlier, unfunded liabilities are included in the disclosure note for funded benefits.

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 2011 are estimated to be £29.960m. In addition, strain on the fund contributions may be required. It is also expected that the Council will pay £4.850m 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 dependent on assumptions about mortality rates, salary levels etc. Hewitt Associates Limited, an independent firm of actuaries, has valued the Tyne and Wear Pension Fund's assets and liabilities in accordance with FRS17 based upon the latest actuarial valuation of the fund as at 31 March 2007.

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 2010.

The main assumptions used in their calculations have been:

	Funded Liabilities: Tyne and Wear Pension Fund		Unfunded Liabilities: Tyne and Wear Pension Fund	
	31 March 2009	31 March 2010	31 March 2009	31 March 2010
Long-term Expected Rate of Return				
Equity investment	7.0%	8.0%	-	-
Bonds	4.9%	5.0%	-	-
Other	3.8%	5.7%	-	-
Mortality Assumptions:				
Longevity at 65 for current pensioners:				
Men	19.9	20.0	19.9	20.0
Women	22.8	22.9	22.8	22.9
Longevity at 65 for future pensioners (currently aged 45):				
Men	22.1	22.2	22.1	22.2
Women	25.0	25.1	25.0	25.1
Financial Assumptions:				
Rate of inflation	3.4%	3.9%	3.4%	3.8%
Rate of increase in salaries	4.9%	5.4%	-	-
Rate of increase to pensions in payment	3.4%	3.9%	3.4%	3.8%
Rate of increase to deferred pensions	3.4%	3.9%	-	-
Rate for discounting scheme liabilities	6.6%	5.5%	6.6%	5.5%
Take-up of option to convert annual pension into retirement lump sum	75%	75%	75%	75%

Teachers' Pensions

Teachers employed by the Council are members of the Teachers' Pension Scheme, 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.

In 2009/10, the Council paid £9.091 million to the TPA in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2008/09 were £8.972 million and 13.9%. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2009/10, these amounted to £3.161 million, representing 4.9% of pensionable pay (£2.869 million and 4.5% in 2008/09).

43. Deferred Capital Receipts

These are amounts derived from sales of assets, which will be received in instalments over agreed periods of time. The amounts shown in the balance sheet represent the sale proceeds yet to be received in respect of council house sales, industrial advances, Housing Act advances, loans to housing associations and Newcastle International Airport long-term loan notes.

44. Capital Receipts Unapplied

This represents receipts held to finance future capital expenditure. The total figure shown in the Balance Sheet is £3.328m, of which £2.763m relates to the balance of the capital receipt realised from the sale of assets in relation to Bridging NewcastleGateshead, which have been ring-fenced for use on Housing Market Renewal schemes in Gateshead.

45. Newcastle International Airport

The Council holds a reserve to reflect the shares issued by Newcastle International Airport, which would only be realisable if any part of the shareholding is sold. In prior years accounting for this investment, it was assumed that the original valuation of the airport shares (£4.355m) was retained in the new company. The deal entered into by the 7 local authorities represented a disposal of existing shares and an acquisition of new shares and the value was then restated (£8.9m). However, during 2009/10 the Airport has been re-valued by Grant Thornton to reflect current market conditions.

46. Contingent Liabilities

Repairs and Maintenance Contracts

Under agreements associated with the repairs and maintenance contracts between the Council and Morrison's Ltd, 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 and Wear Pension Fund to fund deficiencies in the funding of pension benefits. The potential costs associated with this liability are currently unknown.

Bottle Bank Compulsory Purchase Orders

As disclosed in Note 36, the Council had made a provision of £0.100m for the estimated cost of a claim made in relation to a plot of land at Bottle Bank, which was acquired under a compulsory purchase order. This provision represented the Council's best estimate of the costs, which would be incurred in settling the claim, and also the amount, which the Council would claim from the administrators for Collingwood Developments. The case has now been settled and a claim for costs has been submitted to the administrators for Collingwood Developments.

The Council previously had a contingent liability, which arose from the possibility that the former owner of the land may disagree with the Council's assessment of the value of the plot, and may subsequently choose to pursue claims via Lands Tribunal. The case has now been settled and this contingent liability has expired.

Equal Pay Claims

The Council has received a number of legal claims from previous and current 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. The Income and Expenditure Account includes a provision to reflect the claims currently received by the Council.

In addition, a contingent liability exists to reflect the fact that additional claims may be received in the future. The timing and cost of these potential claims are uncertain.

Lands Tribunals at Sunderland Road

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 NewcastleGateshead (BNG), the Housing Market Renewal Pathfinder. To ensure delivery of the strategy, a compulsory purchase order (CPO) was made in support of the proposal.

The CPO process provided 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 additional compensation i.e. to challenge the value of their property. The timing of the claim could be anytime within this period, and the value unknown. In addition, interest accrues from the date of vesting with the Council. BNG have agreed to fund all outstanding compensation, up to the Council's valuation plus a potential 40% uplift, but any settlement above this will have to be met by the Council.

The Council has a contingent liability arising from properties where settlement has yet to be agreed as a consequence of owners being unwilling to accept the payment offered, or due to the owners being untraceable. The cases are currently going through the Lands tribunal and the timing and cost of this liability remains uncertain.

Judicial Review – SAVE Britain's Heritage

The Council is being pursued for costs in relation to a Judicial Review claim, lodged by SAVE Britain's Heritage, with regard to demolition of properties in Bensham and Saltwell. The timing and costs of this liability are uncertain.

47. Contingent Assets

Claim to HMRC for Overpaid VAT

In 1996, the government introduced a time limit for claiming overpaid VAT to three years from the date of the overpayment, introducing the same time limit for input tax claims from 1997. Both provisions applied to claims that arose in accounting periods both before and after the enactment of the legislation, neither containing transitional provisions to allow claims to be made for a limited period under the old rules, before the new time limits came in to effect.

Following legal challenge, the House of Lords ruled that claims could be made up to 31 March 2009 for:

- Output tax overpaid or over declared in accounting periods before 4 December 1996;
- Input tax in respect of which entitlement to deduct arose in accounting periods ending before 1 May 1997.

The Council employed VAT consultants to identify potential claims and submit to Her Majesty's Revenue and Customs (HMRC). The consultants subsequently submitted claims of £0.965m to HMRC. Successful claims will be also be subject to statutory interest from HMRC, which will further increase the scale of any refund.

As at March 2010, the Council has received £0.70m in respect of overpaid VAT and £0.67m in backdated interest. Consultants fees were £0.133m. These amounts are included in the Net Cost of Services within the Income and Expenditure Account.

48. Authorisation of Accounts for Issue

These accounts were reviewed by the Council's Audit Committee on 21 June 2010, approved by the Accounts Committee on 25 June 2010, and were authorised for issue by the Leader of the Council.

49. Events after the Balance Sheet

On 11 June 2010, the government announced funding cuts in its first step in tackling the UK's budget deficit. This included notification that the second instalment of the LAA reward grant, due December 2010, will not be paid. This covered the period April 2006 to March 2009 and is accrued in the statement of accounts to reflect achievement of the targets. In accordance with accounting policy, this is classified as a non-adjusting event. The total financial impact of this announcement will be a cost to the General Fund of £0.181m and will be reflected in the 2010/11 statement of accounts.

50. Amenity and Trust Funds

The Council administers funds relating to specific services:

- **Social Services Amenity Funds** are varied in nature and relate principally to sums held on behalf of Social Services clients and legacies left by individual inhabitants over a period of years.
- **Children & Families** are varied in nature and relate principally to sums held of behalf of Children & Families clients.
- **Shipley Gallery Charity** used to contribute to the care and development of the Gallery's collection.
- **Blind Welfare Trust Fund** used to purchase equipment to aid persons with visual impairments.

The funds do not represent assets of the Council and are not included in the Balance Sheet, and are summarised below: -

Fund	Balance at 01/04/09	Receipts	Expenditure	Balance at 31/03/10
	£000s	£000s	£000s	£000s
Social Services Amenity Fund	(24)	(45)	43	(26)
Children & Families	(275)	(1)	100	(176)
Shipley Gallery Charity	(14)	0	0	(14)
Blind Welfare Trust Fund	(26)	0	0	(26)
Other	(64)	0	0	(64)
Total Trust Funds	**(403)**	**(46)**	**143**	**(306)**

Trust fund balances are mainly invested along with the Council's funds.

51. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments:

	31 March 2009 Restated £000s	31 March 2010 £000s
Amounts falling due within one year		
Government departments	22,059	12,769
Other local authorities	7,616	1,839
Other public bodies	2,528	5,761
Housing rents	5,624	5,037
Sundry debtors	22,208	26,268
Car loans to employees	13	45
	60,048	**51,719**
Amounts falling due after one year		
Car loans to employees	20	3
	60,068	**51,722**
Provision for bad and doubtful debts	(5,165)	(5,501)
Total Debtors	**54,903**	**46,221**

The provision for bad and doubtful debts is revised on an annual basis, and is determined by an assessment of changes in the average value of outstanding debtors' balances and the age profile of the debt. The bad debt provision as at 31 March 2010 is made up as follows:

	Gross Debtors £000s	Bad Debt Provision £000s	Net Debtors £000s
Council tax	7,322	(1,335)	5,987
Housing Revenue Account	5,246	(3,376)	1,870
Sundry debtors	39,154	(790)	38,364
Total	**51,722**	**(5,501)**	**46,221**

52. Long Term Debtors

	31 March 2009 Restated £000s	31 March 2010 £000s
Mortgages	99	96
Newcastle International Airport long-term loan notes	1,241	931
Soft loans	412	432
Total Long Term Debtors	**1,752**	**1,459**

Soft loans above the Council's stated de-minimis level of £100,000 have been re-measured at amortised cost. These relate to the North Music Trust and a North East Enterprise Bond. The increase in the carrying value has been accounted for in line with the SORP 2009.

53. Stocks and Work in Progress

	31 March 2009 £000s	31 March 2010 £000s
Work in Progress		
Rechargeable Works	629	175
LES Construction	2,583	1,712
Stocks		
LES Construction	429	244
Salt	203	52
Other	242	262
Total Stocks and Work in Progress	**4,086**	**2,445**

54. Creditors

These amounts represent sums owing to other bodies and receipts in advance:

	31 March 2009 Restated £000s	31 March 2010 £000s
Government departments	(19,605)	(37,809)
Pension fund	(1,208)	(1,411)
Other local authorities	(7,033)	(5,605)
Sundry creditors	(36,923)	(48,550)
Total Creditors	**(64,769)**	**(93,375)**

55. Equal Pay Back Pay Account

The Council has received a number of legal claims form previous and current employees relating to equal pay. The Income and Expenditure Account includes a provision to reflect the potential cost of claims currently received by the Council. A Capitalisation direction has been received to enable the Council to spread the potential cost of these claims over a number of years.

The Council has used the powers included in the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 (SI 2007 No 573) Regulation 30A which gives discretion not to charge to revenue the impact of equal claims until such time as they become payable. The Equal Pay Back Pay Account is used to hold the amounts which have been deferred from being charged to the General Fund, after using the Capitalisation Direction, under the powers.

56. Reconciliation of net surplus / deficit on the Income and Expenditure Account to the movement in cash

This note reconciles the surplus or deficit shown in the Income and Expenditure Account to the total cash transactions for all the Council's revenue activities.

2008/09 Restated £000s		2009/10 £000s	£000s
161,557	(Surplus)/Deficit for Year - General Fund	110,139	
108	(Surplus)/ (Deficit) for Year - Housing Revenue Account	63	
161,665			110,202
	Non-Cash Transactions		
(167,187)	Depreciation and Impairment of fixed assets	(113,456)	
(112)	Amortisation of intangible fixed assets	(108)	
(334)	Adjustment to Collection Fund balance	(788)	
(361)	Net gain or loss on sale of fixed assets	278	
15,892	Government Grants Deferred	16,009	
(12,022)	Amounts treated as Revenue Expenditure but which are classified as Capital Expenditure by Statute	(12,223)	
(2,684)	Pension Adjustments re SORP	(12,299)	
(7,957)	Financing costs adjustment re SORP	(11,655)	
(7,166)	HRA depreciation adjustment	3,916	
(1,264)	Heritable Impairment	804	
(1,160)	Contributions (to) / from Provisions / Reserves	641	
(184,355)			(128,881)
	Items on an accrual basis		
(2,629)	Decrease / (Increase) in Stock	1,641	
5,824	Decrease / (Increase) in Debtors	8,682	
3,566	(Decrease) / Increase in Creditors	28,609	
318	Decrease / (Increase) in Landfill Allowance Asset	0	
492	Decrease / (Increase) in Long-term Debtors	2	
47,581	Decrease / (Increase) in Long-term Creditors	(861)	
55,152			38,073
	Items Classified in Another Classification in the Cash Flow Statement		
0	Dividends from Joint Ventures	(144)	
(29,760)	Interest Paid (net)	(24,555)	(24,699)
2,702	**Net Cash Inflow from Revenue Activities**		**5,305**

57. Reconciliation of net cash flow to movement in net debt

2008/09 £000s		2009/10 £000s
5,193	(Decrease) / Increase in cash during the year	3,831
79,264	Cash inflow from debt	112,137
84,457		115,968
283,793	Net Debt at 1 April 2009	368,250
368,250	**Net Debt at 31 March 2010**	**484,218**

58. Reconciliation of Financing and Management of Liquid Resources

Movement 2008/09 £000s		Short Term Deposits £000s	Long Term Borrowing (& due <1yr) £000s
(232,522)	Opening Balance 1 April 09	112,038	(420,202)
	Cash Flow Items:		
457,399	Loans Raised	1,018,718	(100,000)
(533,041)	Loans Repaid	(1,010,440)	44,794
(308,164)	**Closing Balance 31 March 10**	**120,316**	**(475,408)**

59. Liquid Resources

These relate to investments, which are of a short-term nature and can be disposed of at reasonably short notice without curtailing or disrupting the Council's activities. The investments are readily convertible into known amounts of cash at or close to.

60. Increase / Decrease in Cash

Movement 2008/09 £000s		Balance 01/04/2009 £000s	Balance 31/03/2010 £000s	Movement 2009/10 £000s
(2,549)	Cash	527	7,610	7,083
7,742	Bank Overdraft	(17,687)	(20,939)	(3,252)
5,193	**(Decrease) / Increase in cash**	**(17,160)**	**(13,329)**	**3,831**

61. Analysis of Other Government Grants

2008/09 £000s		2009/10 £000s
(8,801)	Central Services to the Public	(8,722)
(151)	Cultural, Environmental and Planning Services	(179)
(138,962)	Education Services	(145,164)
(175)	Highways, Roads and Transport Services	(51)
(39,368)	Housing Services	(41,728)
(2,571)	Social Services	(2,534)
(367)	Other Corporate Services	(402)
(19,118)	Council Tax Benefits	(21,493)
(209,513)		**(220,273)**

Housing Revenue Income and Expenditure Account

2008/09 £000s		2009/10 £000s	Note
	Income		
(60,402)	Dwelling rents (gross)	(62,163)	15
(1,110)	Non-dwelling rents (gross)	(1,193)	
(2,245)	Tenants charges for services and facilities	(2,197)	
(333)	Leaseholders charges for services and facilities	(535)	
(2,001)	Contributions towards expenditure	(2,276)	
(5,844)	HRA subsidy receivable	(14,644)	10, 14
0	Sums directed by the Secretary of State that are income in accordance with UK GAAP	0	
(71,935)		**(83,008)**	
	Expenditure		
16,719	Repairs and maintenance	18,544	
15,144	Supervision and management	17,599	
5,764	Special Services	5,220	
1,915	Rents, rates, taxes and other charges	2,009	
0	Negative Subsidy Payable to the Secretary of State	0	
0	Negative Subsidy Transferable to the General Fund under the transitional arrangements	0	
21,363	Depreciation on Dwellings	21,000	7
166	Depreciation on Other Assets	171	7
102,439	Impairment of Fixed Assets	68,363	8
319	Debt management charges	334	
1,059	Increased provision for bad or doubtful debts	363	
0	Sums directed by the Secretary of State that are expenditure in accordance with UK GAAP	0	
164,888		**133,603**	
92,953	**Subtotal: Net Cost of Services I&E Account**	**50,595**	
0	HRA share of other amounts included in the whole authority Net	0	
0	Cost of Services but not allocated to specific services	0	
92,953	**Subtotal: Net Cost of HRA Services**	**50,595**	
(840)	(Gain) or loss on sale of HRA Fixed Assets	(822)	
17,055	Interest Payable or other similar charges	14,694	
(1,275)	HRA Interest and Investment Income	(294)	
0	HRA share of pensions interest cost and expected return on pensions assets	0	
107,893	**(Surplus) or deficit for the year on HRA services**	**64,173**	

Statement of Movement on the Housing Revenue Account Balance

This statement shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year.

2008/09 £000s		2009/10 £000s
107,893	(Surplus) or deficit for the year on HRA I & E account	64,173
(107,797)	Net additional amount required by statute to be debited or (credited) to the HRS balance for the year (Note 1)	(62,836)
96	(Increase) or decrease in the HRA balance for the year	1,337
(18,287)	HRA balance brought forward	(18,191)
(18,191)	**HRA balance carried forward**	**(16,854)**

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

2008/09 £000s		2009/10 £000s
	Items included in the HRA I&E account but excluded from the movement on HRA balance for the year	
661	Difference between amounts charged to I&E for amortisation of premiums and discounts and the charge for the year in accordance with statute	1,317
(102,640)	Difference between any other item of income and expenditure in accordance with the SORP and determined in accordance with statutory HRA requirements (if any)	(69,441)
840	Gain or loss on sale of HRA Fixed Assets	822
221	Net charges made for retirement benefits in accordance with FRS17	244
0	Sums directed by the Secretary of State to be debited or credited to the HRA that are not income or expenditure in accordance with UK GAAP.	0
(100,918)		**(67,058)**
	Items not included in the HRA I&E Account but included in the movement on HRA balance for the year	
(7,166)	Transfer to/(from) Major Repairs Reserve	3,916
0	Transfer to/(from) Housing Repairs Account	0
0	Employer's contributions payable to the Tyne & Wear Pension Fund and retirement benefits payable direct to pensioners	0
0	Voluntary set aside for debt repayment	0
287	Capital expenditure funded by the HRA	306
(6,879)		4,222
(107,797)	**Net additional amount required by statute to be debited or (credited) to the HRA balance for the year**	**(62,836)**

2. Housing Stock & Balance Sheet Valuation

The Council housing stock by type of dwelling is as follows:

	01/04/09	31/03/10
Houses	11,988	11,963
Flats	6,382	6,288
Bungalows	3,101	3,101
	21,471	**21,352**

The Balance Sheet valuation of HRA assets by type is as follows:

	01/04/09 £000s	31/03/10 £000s
Operational Assets - Dwellings	1,046,779	1,028,999
Operational Assets - Other, Land & Buildings	4,607	4,408
Operational Assets - Vehicles, Plant & Equipment	175	141
Non-Operational Assets	443	443
Total Balance Sheet value of land, houses & other property in the HRA	**1,052,004**	**1,033,991**

3. Vacant Possession Value

The Balance Sheet value is calculated based on rents receivable from existing tenants. These rents are lower than what would be available on the open market. The vacant possession value of the HRA dwellings at 1 April 2009 was £2,059m (£2,316m at 1 April 2008). The difference between the two values reflects the economic cost of providing social housing at less than market value.

4. Major Repairs Reserve

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

	2008/09 £000s	2009/10 £000s
Opening Balance at 1 April	(6,233)	(2,616)
Amounts transferred to MRR during year	(21,529)	(25,087)
Amounts transferred from MRR during year	7,166	0
Capital expenditure on land, houses & other property	17,980	27,703
Repayment of principal of any amount borrowed	0	0
Costs of liability arising from credit arrangements	0	0
Closing balance as at 31 March	**(2,616)**	**0**

5. Housing Repairs Account

The Council does not operate a ring-fenced Housing Repairs Account.

6. Capital Expenditure

The total HRA capital expenditure in 2009/10 was as follows:

	2008/09 £000s	2009/10 £000s
Land	0	0
Houses	68,611	72,121
Other Property	106	9
Vehicles, Plant and Equipment	0	24
Revenue Expenditure Funded from Capital Under Statute	246	587
Total Capital Expenditure	**68,963**	**72,741**

This was funded by: -

	2008/09 £000s	2009/10 £000s
Borrowing	(49,723)	(44,722)
Usable Capital Receipts	(26)	(9)
Revenue Contributions	(287)	(306)
Capital Grants	(947)	0
Major Repairs Reserve	(17,980)	(27,704)
Total Funding	**(68,963)**	**(72,741)**

During 2009/10 the total receipts from disposal of HRA assets by type were: -

	2008/09 £000s	2009/10 £000s
Land	(700)	(700)
Houses	(1,574)	(746)
Other Property	0	0
Total Receipts	**(2,274)**	**(1,446)**

7. Depreciation

The Council's policy is to depreciate HRA assets over 50 years based on their actual value. Land is not depreciated as it has an infinite life. The total depreciation charges are as follows:

	2008/09 £000s	2009/10 £000s
Dwellings	21,363	21,000
Other Land & Buildings	113	113
Subtotal - Depreciation for land, houses & other property	21,476	21,113
Other Operational Assets - Vehicles, Plant & Equipment	53	58
Non-Operational Assets	0	0
Total	**21,529**	**21,171**

8. Impairment Charges

The Council values its assets on a five year rolling programme providing for a full revaluation every five years. Council dwellings are valued every year with reference to indices in relation to comparable properties with a full detailed valuation every five years. In 2009/10 a detailed valuation was undertaken resulting in a £68,303m impairment of Council dwellings.

	2008/09 £000s	2009/10 £000s
Dwellings	102,061	68,303
Other Land & Buildings	351	60
Subtotal - Depreciation for land, houses & other property	102,412	68,363
Other Operational Assets - Vehicles, Plant & Equipment	0	0
Non-Operational Assets	27	0
Total	**102,439**	**68,363**

9. Revenue Expenditure Funded from Capital under Statute

There was revenue expenditure funded from capital under statute totalling £0.587m in 2009/10, of which £0.484m were home loss payments, £0.094m demolition works and £0.009m disabled access works.

10. HRA Subsidy

The HRA subsidy available is made up from:

	2008/09 £000s	2009/10 £000s
Allowance for Management & Maintenance	(34,555)	(34,727)
Allowance for Major Repairs	(14,363)	(25,087)
Admissible Allowance	0	0
Charges for Capital	(18,332)	(17,284)
Rental Constraint Allowance	0	0
Other Items of Reckonable Expenditure	0	0
	(67,250)	(77,098)
Assumed Rent Income	61,795	62,082
Interest on Receipts	1	1
	(5,454)	(15,015)
Defects Repurchases Loan	(2)	0
Adjustments (Previous Years)	(388)	371
Total Receivable	**(5,844)**	**(14,644)**

11. HRA share of contributions from/to the pension reserve

Council employees are eligible to join the Tyne and Wear Pension Fund and so are eligible for retirement benefit. This includes employees accounted for within the Housing Revenue Account. The benefits will not actually be paid until the employee retires but the requirements of Financial Reporting Standard 17 (FRS17) – Retirement Benefits, requires 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 Account.

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 £0.244m and has been reversed in the Statement of Movement on the Housing Revenue Account Balance through a contribution from the Pension Reserve. This pension reserve appropriation ensures that the Council complies with Regulation 30.

12. Rent Arrears

The amount of rent arrears at 31 March 2010 was £5.053m (£5.624m at 31 March 2009). The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2010 is £3.375m (£3.481m at 31 March 2009). Movement during the year relates to write-offs of uncollectable rent of £0.468m and an increase in provision of £0.363m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

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

There were no such items affecting the HRA in 2009/10.

14. Exceptional Items and Prior Year Adjustments

Exceptional items affecting the HRA for 2009/10 are impairment charges with regard to downward revaluations of the housing stock as per Note 8. Job evaluation costs in respect of The Gateshead Housing Company totaled £0.385m; this is included within the management fee breakdown as per Note 17. A provision of £0.536m has been made in relation to the settlement of equal pay claims.

15. Rent

The gross rent for dwellings is the total rent due for the year after allowance is made for voids and redecoration. During the year 1.4% of the lettable properties were vacant (1.5% in 2008/09). Average rents were £58.93 per week in 2009/10, an average increase of 3.1% on the previous year.

16. 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 67% of the Council's tenants receive some help with the cost of rent.

17. 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 £34.182m in 2009/10 (£31.511m in 2008/09) and is broken down as follows: -

	2008/09 £000s	2009/10 £000s
Repairs and Maintenance	16,601	18,420
Supervision and Management	11,807	13,096
Special Services	2,348	2,079
Rents, rates, taxes & other charges	755	587
Total Management Fee	**31,511**	**34,182**

Collection Fund Account

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax. It independently accounts for the income collected on behalf of the Council, Northumbria Police Authority and the Tyne & Wear Fire and Rescue Authority.

2008/09 £000s		2009/10 £000s	Notes
	Income		
(71,068)	Income from council tax	(72,022)	2
(19,712)	Transfer from General Fund - council tax benefit	(21,491)	
(76,594)	Income collectable from business ratepayers	(76,104)	1
(167,374)	**Total Income**	**(169,617)**	
	Expenditure		
	Precepts and Demands		
81,189	Gateshead Council (including parish council) demand	83,639	
4,621	Northumbria Police Authority precept	4,802	
4,227	Tyne and Wear Fire and Rescue Authority precept	4,281	
	Surplus Transfers		
1,000	Gateshead MBC (to General Fund)	1,500	
58	Northumbria Police Authority	86	
55	Tyne and Wear Fire and Rescue Authority	79	
	Business Rates		
75,973	Payments to national pool for business rates	75,613	1
289	Costs of collection	291	1
	Bad and Doubtful Debts / Appeals		
(321)	Write-offs	(382)	
653	Provisions	582	
167,744	**Total Expenditure**	**170,491**	
370	**Movement on the Collection Fund balance**	**874**	
	Collection Fund Balances		
(1,388)	Opening balance	(1,018)	
370	Deficit / (Surplus) for the Year	874	
(1,018)	**Balance carried forward 31 March**	**(144)**	3

1. National Non-Domestic Rates (NNDR)

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 areas 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.

	2008/09	2009/10
Rate in the pound	46.2p	48.5p
Total non-domestic rateable value	£185.2m	£183.7m

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		Band D Equivalent Properties	
		2008/09	2009/10	2008/09	2009/10
Band A	0.67	47,373	47,899	31,567	31,917
Band B	0.78	9,977	10,100	7,760	7,856
Band C	0.89	13,501	12,993	12,001	11,549
Band D	1.00	4,796	4,823	4,796	4,823
Band E	1.22	1,948	1,939	2,381	2,370
Band F	1.44	702	705	1,014	1,018
Band G	1.67	326	327	543	545
Band H	2.00	12	12	24	24
		78,635	**78,798**	**60,086**	**60,102**

	2008/09	2009/10
Council tax for a band D property	£1,525.04	£1,570.10

3. Agency relationship with preceptors

The 2009 SORP changes the way that authorities account for council tax in their accounts to reflect the fact that council tax income is collected on behalf of the preceptors as well as the billing authority (the Council). This agency relationship does not impact on the Collection Fund but does change the way that the Council must account for council tax and NNDR within the General Fund.

As the Collection Fund comprises income owed to the preceptors at the year-end, their respective balance sheets must reflect this (with the creation of debtors within the Council's Balance Sheet):

2008/09 £000s		2009/10 £000s
	Closing balance:	
(918)	Gateshead Council	(130)
(52)	Northumbria Police Authority	(7)
(48)	Tyne and Wear Fire and Rescue Authority	(7)
(1,018)		**(144)**

The amount due to the Council is shown on the Balance Sheet in the new Collection Fund Adjustment Account, which replaces the Collection Fund Reserve from 2009/10.

A number of other adjustments are also necessary within the Balance Sheet to correctly account for any agency transactions (arrears, bad debt provisions, overpayments and prepayments).

Accounting policies
These are the 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

- recognising;
- selecting measurement bases for; and
- 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 work done, but for which payment has not been made / received by the end of the period.

Acquired operations
Acquired operations are those operations of the local authority that are acquired in the period. Operations comprise of services and divisions of service as defined in BVACOP.

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
This is the process of writing-off an intangible asset over its projected life. It is analogous to depreciation of tangible fixed assets.

Appropriations
Within the Income and Expenditure Account an appropriation is a transfer to/from the Council's capital and revenue reserves. In addition appropriations include the reconciling transactions needed to convert expenditure to amounts required from council tax.

Area based grant is a general (non-ringfenced) grant allocated directly to local authorities from DCLG as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae (see also formula grant).

Assets
Assets are items of worth which are measurable in monetary terms. Current assets change in value on a day-to-day basis (e.g. cash, stocks, and work in progress). Fixed assets yield benefit to the Council and the services it provides for a period of more than one year.

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

Budget
A statement 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
The SORP 2007 introduced the Capital Adjustment Account, which essentially replaces the Capital Financing Account, and also accommodates some features of the former Fixed Asset Restatement Reserve (FARA) such as write outs on disposal and downwards revaluations in excess of the balance on the revaluation reserve. It also includes the accounting entries previously found in the Capital Financing Account such as depreciation over MRP adjustment, capital financing entries, deferred charges, HRA depreciation and Government Grants Deferred amortisation.

Capital charges
A charge to the revenue accounts to reflect the cost of using assets. It is based upon depreciation, which represents the cost of using the asset.

Capital expenditure
Expenditure on the acquisition, creation or enhancement of a fixed asset which adds to, and not merely maintains, the value of that asset, providing benefits to the authority and the services it provides for a period of more than one year.

Capital instruments – Financial Reporting Standard 4
This standard exists to ensure that financial statements provide a clear, coherent and consistent treatment of capital instruments, particularly the classification of instruments. The standard also seeks to ensure that redeemable instruments are allocated to accounting periods on a fair basis over the period the instrument is in issue, and that the statement of accounts provides relevant information concerning the nature and amount of the Council's sources of finance and associated costs, commitments and potential commitments.

Capital receipts
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 houses under the "Right to Buy" legislation.

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 public sector (and local government in particular). The institute provides financial and statistical information for local authority and other public sector bodies and advises central government and other bodies on local authority and public finance.

Community assets
Community assets are 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).

Constructive obligation
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
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 asset
A contingent asset is a possible asset 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
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
The Corporate and 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 of service.

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

Creditors
Amounts owed by the Council for goods and services received but where payment has not been made at the end of the financial year (31 March).

Current assets
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
Money owed to individuals or organisations that will be paid within 12 months of the Balance Sheet date.

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

Debtors
Money owed to the Council for goods and services supplied but where payment has not been received at the end of the financial year (31 March).

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

Defined benefit scheme
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
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
This is the systematic allocation of the depreciable amount of a tangible fixed asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, effluxion of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discretionary benefits
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.

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

- *Original Estimates* – the estimates for a financial year approved by the Council before the start of the financial year.
- *Revised Estimates* – an updated revision of the estimates for a financial year prepared within the financial year.

Estimation techniques
These 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
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
Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Extraordinary items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

Expected rate of return on pension assets
For a funded defined benefit scheme, the expected rate of return 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 actual assets held by the scheme.

Fair value
The value of an asset 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
Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of a fixed asset. Title may or may not eventually be transferred.

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

Financial Reporting Standards (FRSs)
These standards are accounting standards issued by the Accounting Standards Board (ASB). FRSs are the rules and regulations that govern the preparation and presentation of financial statements in the UK.

Fixed assets
These are tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

Formula grant
This 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 income. 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
This is the main fund into which council tax, government grant and other income is paid into and from which meets the day-to-day cost of providing services. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account.

Going concern
This is the concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of operations.

Government grant
Assistance by government and 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
The total cost of providing the council's services before taking into account income from government grants and fees and charges for services.

Housing Market Renewal (HMR)
A government initiative designed to tackle housing market failure in nine pathfinder areas across the north and midlands of England. The initiative will help improve areas that suffer from abandonment and poor quality or unpopular housing stock, creating sustainable communities that people will want to live, work and invest in.

Housing Revenue Account (HRA)
The HRA reflects a statutory obligation to account separately for Council housing provision. It shows the major elements of housing revenue expenditure: maintenance, administration and capital financing costs, and how rents, subsidy and other income meet these costs. The account is ring-fenced, preventing the subsidisation of rents from general income of the Council and vice versa.

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

Impairment
Impairment is a permanent reduction in the valuation of an asset, 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
Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Intangible assets
These 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.

Investment
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council for 365 days or more. A short-term investment occurs 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
Interest in land and/or buildings:

- in respect of which construction work and development have been completed; and
- that are held for its investment potential, with any rental income being negotiated at arm's length.

Job evaluation is an obligation on councils introduced in the 2004 local government pay agreement, developed specifically to comply with equal value and equality principles. All jobs within the Council are subject to re-evaluation, with any reductions in pay subject to a period of protection (which is a liability to the Council for the duration of this period).

Leasing
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.

Liquid resources
Current asset investments that are readily disposable by the authority 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.

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

Net book value
The net book value, or carrying amount, is the amount at which fixed 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
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
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
This is the open market value of the 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.

Non-operational assets
Those assets held by the Council not directly occupied, used or consumed in the delivery of services (e.g. land awaiting development, commercial property, investment property, surplus assets, capital work in progress).

Operating leases
An operating lease is a lease other than a finance lease.

Operational assets
These are assets that are held, used, occupied or contracted to be used on behalf of the Council in the direct delivery of services for which it has statutory or discretionary responsibility. Capital charges are required to be calculated for operational assets. Assets owned by the Council but used by another organisation are classified as non-operational assets.

Past service cost
For a defined benefit pension scheme, 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.

Pooled funds
Pooled funds can be established to support partnership working. A pooled fund will receive funds from a variety of sources and will be administrated by the host partner.

Precepts
A precept is an amount of council tax collected by the Council and paid to other bodies. The major precepting bodies are *Northumbria Police Authority* and *Tyne and Wear Fire and Rescue Authority*. Parish precepts are charged separately and only on the area of the Parish Council concerned e.g. Lamesley. Parish precepts are treated in the accounts as council expenditure.

Private finance initiative (PFI)
PFIs are public authority / 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 then merely being a replacement for existing funding.

Prior period adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

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

Prudential borrowing
All borrowing must remain within the Council's prudential borrowing limits, which are agreed by the Council annually.

Prudential Code for Capital Finance in Local Authorities
The prudential framework for local authority capital investment was introduced through the Local Government Act 2003 and became effective from 1 April 2004. The basic principles of the Prudential Code for Capital Finance in Local Authorities (the 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.

Public Service Agreement (PSA)
PSA's are statements of the aims, objectives and targets to be achieved by public bodies with the funding provided through the Comprehensive Spending Review.

Related parties
Two or more parties are related when at any time during the financial period:
(i) One party has direct or indirect control of the other party, or
(ii) The parties are subject to common control from the same source, or
(iii) One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
(iv) The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:
(i) Central government
(ii) Local authorities and other bodies precepting or levying demands on the council tax
(iii) Its subsidiary and associated companies
(iv) Its joint ventures and joint venture partners
(v) Its members (councillors)
(vi) Its chief officers, and
(vii) Its pension fund.

For individuals identified as related parties, the following are also presumed to be related parties:
(i) Members of the close family, or the same household, and
(ii) Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

Related party transaction
The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Examples of related party transactions include:
(i) The purchase, sale, lease, rental or hire of assets between related parties
(ii) The provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund
(iii) The provision of a guarantee to a third party in relation to a liability or obligation of a related party
(iv) The provision of services to a related party, including the provision of pension fund administration services
(v) Transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as council tax, rents and payments of benefits.

Remuneration
This is defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

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

Residual value
The net realisable value of an 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
These 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:

- an employer's decision to terminate an employee's employment before the normal retirement date; or
- 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
The SORP 2007 introduced the Revaluation Reserve, which accounts for upward revaluations previously contained within the Fixed Asset Restatement Account (FARA). The implementation of the Revaluation Reserve is intended to compliment the existing arrangements for capital accounting rather than change them in any substantial way.

Revenue expenditure
Such 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 legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset; for example improvement grants. They replaced the concept of deferred charges (2008 SORP onwards).

Revenue support grant (RSG)
A 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)
These 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.

Settlement
Settlement 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.

Stocks
The amount of unused or unconsumed stocks held in expectation of future use. 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 before normal retirement age (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 Council must make additional payments called strain on the fund costs.

Supported Borrowing
The Council receives revenue support grant to finance borrowing up to a specified limit, hence the borrowing is supported.

There are two types of supported capital expenditure (SCE):

- Supported Capital Expenditure (Revenue) known as SCE(R)
- Supported Capital Expenditure (Capital grant) known as SCE(C)

SCE(R) is the amount of expenditure towards which revenue support grant will be received from Central Government for the costs of borrowing.

SCE can be classified further as single pot SCE(R) and SCE(C) or ring fenced SCE(R) and SCE(C). The single pot means that the SCE can be used to fund the capital programme in general whereas ring fenced means that the SCE must be used to finance the capital scheme for which it was awarded.

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

Tangible assets
These are physical assets owned by the Council, which can be seen or touched e.g. buildings and equipment.

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.

Useful life (or useful economic life)
The period over which, the local authority will derive benefits from the use of a fixed asset.

Work in progress
Work in progress are works that are not complete and therefore held on the balance sheet. Within the Council they consist of private rechargeable works and other works carried out by LES Construction Services, which are valued at cost less anticipated liquidated damages and progress payments received.