

GATESHEAD COUNCIL
STATEMENT OF ACCOUNTS – 2006/07

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Introduction

The Statement of Accounts which follow demonstrate the Council's financial performance for the year ended 31 March 2007 and present its overall financial position at the end of that period and the cost of services it provides. The statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice constitutes proper accounting practice under the terms of the Accounts and Audit Regulations 2003 and the Local Government and Housing Act 1989.

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 and financial summary provide a guide to the most significant matters in the financial statements.

Changes to the Statement of Recommended Practice (SORP) 2006

The SORP for 2006 has introduced a number of substantive changes to the format of the statements which significantly alter the presentation of the accounts for the reader as follows:

1. The replacement of the Consolidated Revenue Account and Statement of Total Movement on Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses (STRGL);
2. Changes to the format of the Housing Revenue Account to bring it into line with the new single entity format. The Housing Revenue Account now comprises:
 - Housing Revenue Account Income and Expenditure Account.
 - Statement of Movement on the Housing Revenue Account Balance;
3. A requirement to group the 'core' single entity financial statements together (i.e. Income and Expenditure Account, Statement of Movement on the General Fund Balance, STRGL, Balance Sheet and Cash Flow Statement) followed by the notes to the core financial statements, followed by the 'supplementary' statements (e.g. Housing Revenue Account and Collection Fund) along with the relevant notes to each supplementary statement;
4. The removal of the requirement to make a capital financing charge in respect of notional interest;
5. Government grants deferred are now posted direct to service income in the Income and Expenditure Account rather than the Asset Management Revenue Account (AMRA); and
6. Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

The comparative figures in the accounts for 2005/06 have been adjusted to comply with the 2006 SORP to enable the reader to compare performance between 2005/06 and 2006/07 on a consistent basis.

Financial Statements

The Accounts of the Council are set out on pages 9 to 79. They consist of the following financial statements that are required to be prepared under the Code of Practice:

1. Statement of Responsibilities For The Statement of Accounts (Page 9)

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

2. Annual Governance Statement (Page 10)

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, which replaces the former Statement on Internal Control, was reviewed and agreed by the Council's Audit Committee on 18 June 2007.

3. Independent Auditors Report to the Council (Page 14)

This report details the basis of the External Auditor's opinion on the Financial Statements.

4. Statement of Accounting Policies (Page 18)

This explains the basis of the figures in the accounts. The accounts can only be properly appreciated if the policies, which have been followed in dealing with material items, are explained.

The Core Financial Statements

5. Income and Expenditure Account (Page 25)

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).

6. Statement of Movement on the General Fund Balance (Page 26)

This statement reconciles the surplus or deficit on the Income and Expenditure Account to the movement in the general fund balance.

7. Statement of Total Recognised Gains and Losses (STRGL) (Page 27)

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.

8. Balance Sheet (Page 28)

This shows the Council's financial position and net assets at 31 March 2007. It summarises the fixed and current assets, which are used in carrying out the Council's activities, together with its liabilities.

9. Cash Flow Statement (Page 30)

This summarises the cash receipts and payments of the Council arising from transactions for both capital and revenue purposes.

10. Notes to the Core Financial Statements (Page 32)

The notes provide additional information to support the core statements.

Supplementary Financial Statements

11. Housing Revenue Income and Expenditure Account (Page 70)

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.

12. Statement of Movement on the Housing Revenue Account (HRA) Balance (Page 71)

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.

13. Notes to the Housing Revenue Account (Page 72)

The notes provide additional information to support the Housing Revenue Account statements.

14. The Collection Fund Account (Page 77)

The Local Government Finance Act 1992 requires each charging authority to establish and maintain a Collection Fund, which shows the transactions of the Council in relation to National Non Domestic Rates and Council Tax and illustrates the way in which these have been distributed to precepting authorities and the General Fund.

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

The Collection Fund receives all income in respect of Council Tax and National Non Domestic Rates. The Fund then pays out the demands and precepts made upon it by Gateshead Council, Northumbria Police Authority and Tyne & Wear Fire and Civil Defence Authority.

15. Notes to the Collection Fund Account (Page 78)

The notes provide additional information to support the Collection Fund Account.

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.

For 2006/07 the net revenue budget to be met from Government Grants and local taxpayers was approved by the Council at £174.217m, (£174.224m including Parish Precepts), resulting in budgeted net appropriations of £2m from the Insurance reserve and £3m from the General reserve to balance the budget.

From the summary table on page 5, it can be seen that the financial position at the year end is an increase in the General fund balance of £0.323m after a net transfer to strategic reserves from the General fund of £17.148m. The net increase of £17.937m in the General fund balance before transfers to strategic reserves is mainly due to the receipt of additional income during the year, which was not reflected in the Council's budget. The most significant items of additional income in 2006/07 are a one-off Airport dividend of £10.431m and Local Authority Business Growth Initiative (LABGI) income of £6.6m. The Council's Cabinet have agreed to appropriate these sums to the key strategic reserve, the Gateshead Development Pool, to support prudential borrowing and investment in future years.

A number of Council services faced increasing budget pressures in 2006/07, resulting in the expenditure on these services exceeding the original budget estimate. However this difference does not take account of the planned use of the General Fund balance. In addition, although some services have spent in excess of their original estimate, action taken during the year combined with the additional income outlined above means that overall spending of the Council was contained within the original estimate. This is a significant achievement given the financial pressures faced by all Council services and enables the Council's sound financial position to be strengthened.

Appropriations to / from strategic reserves are as follows:

In accordance with the Council's Medium Term Financial Strategy and the annual review of reserves £2.00m has been appropriated from the Insurance reserve, £1.50m from the Pensions reserve, £0.625 from the DLO General reserve, £0.451m from the School Trading Account, £0.424m from the Grant Clawback reserve, and £0.349m from the DSO reserve.

£3.576m from the Renewals reserve and £1.392m from the Repairs and Maintenance reserve have been appropriated to the Capital Reserve as agreed in the Medium Term Financial Strategy.

£18.623m has been appropriated to the Gateshead Development Pool.

£1.767m has been appropriated to the Landfill Allowance Trading Scheme (LATS) reserve.

£1.524m has been appropriated to the LPSA Reward Grant reserve.

£0.466m has been appropriated to the LMS Budget Share reserve.

£0.402m has been appropriated to the Dedicated Schools Grant (DSG) reserve.

£0.173m has been appropriated to the Capital reserve.

£0.006m has been appropriated to the Developers Contribution reserve.

£0.002m has been appropriated to the Cultural Development reserve

Following the appropriations outlined above the increase in the General fund balance for the year

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allows appropriations of £0.323m to the General reserve, which compares favourably with the original budget position, which forecast a net decrease in the General Fund of £3m. The Council's Medium Term Financial Strategy (MTFS) sets out the proposed use of the General reserve to 2009/10.

The following table summarises the financial position for the year:

2005/06 Actual Outturn £000s		2006/07 Original Estimate £000s	2006/07 Actual Outturn £000s
244,342	Expenditure on Services	146,921	155,984
9,242	Levies and Precepts	11,560	11,582
1,235	(Gain) loss on disposal of fixed assets	0	558
94	(Surplus) / Deficit from Trading Operations and Dividends	0	803
19,906	Interest Payable and similar charges	20,121	21,193
(5,511)	Interest and investment income	(4,378)	(17,259)
9,010	Return on pension assets	0	5,770
12,447	Other operating costs	0	8,364
290,765	Net Operating Expenditure	174,224	186,995
	Net Expenditure Financed By:		
(114,248)	Revenue Support Grant	(15,202)	(14,792)
(69,734)	Council Tax Collection Fund Receipts	(73,266)	(73,266)
(63,662)	National Non Domestic Rates	(78,756)	(78,756)
0	LPSA Reward Grant	0	(2,483)
(1,352)	LABGI Grant	0	(6,655)
(3,000)	Collection fund transfer	(2,000)	(2,000)
(251,996)		(169,224)	(177,952)
38,769	(Surplus) / deficit for the year	5,000	9,043
1,888	Net transfer to / (from) Strategic reserves debited / (credited) to the General Fund balance for the year	(2,000)	17,148
(42,977)	Other additional amounts required to be debited or (credited) to the General Fund balance for the year	0	(26,514)
(2,320)	(Increase) / decrease in General Fund Balance for the Year	3,000	(323)

Housing Revenue Account Performance

This account showed a surplus for the year of £8.578m (2005/06 surplus of £5.172m). The expenditure on this service was financed by housing rents, government grant, housing subsidy and

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housing revenue account balances. The main reasons for the increase in the surplus are higher income than budgeted of £2.9m and additional housing subsidy of £4.3m. Some of the additional subsidy in 2006/07 relates to borrowing costs to be incurred in 2007/08.

Material Assets and Liabilities

As at 31 March 2007, the Council holds £1,564.731m of fixed assets, long-term investments of £4.361m and short-term investments amounting to £151.541m. Short-term investments have increased by £50.415m from 2005/06. This is mainly due to the receipt of two exceptional items in relation to the one-off Airport dividend and Local Authority Business Growth Initiative (LABGI), which are detailed in the notes to the core financial statements and borrowing in respect of The Gateshead Housing Company.

The Council also has current liabilities of £88.541m, long term borrowing and deferred liabilities of £316.356m and provisions for future liabilities of £9.160m. Long-term borrowing has increased by £68.540m from 2005/06, mainly due to increased borrowing in respect of The Gateshead Housing Company's decent homes works programme, to take advantage of the higher approved borrowing allocation.

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 has now become one of the major items of expenditure the Council has to meet.

The Council, like many other bodies, 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 Government introduced changes to the local government pension scheme in April 2006. Further significant changes are planned for April 2008 to ensure the pension scheme remains affordable.

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 £126.5m at its meeting in February 2006, which was revised to £109.316m at the third quarter. Managed slippage in the programme during the year to match available resources resulted in a final capital outturn for the year of £99.9m, £9.416m less than the revised budget.

Actual capital expenditure for the year on fixed assets and investments totalled £90.921m (2005/06 £92.022m). 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, £8.979m (2005/06 £11.984m) was spent on schemes where no asset of the Council was created such as grants to private individuals and voluntary organisations, works to voluntary

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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 to be financed of £99.900m (2005/06 £104.006m).

The successful award of two star status to the Gateshead Housing Company during 2005/06 has allowed increased investment in the Council's housing stock during 2006/07. Total Housing Revenue Account capital spending in 2006/07 was £62.217m (2005/06 £32.273m).

A summary of how the £99.900m was financed is as follows:

	£000s
Supported Borrowing	49,415
Prudential Borrowing	5,758
Capital Receipts	10,565
Grants and Other Contributions	20,499
Revenue Contributions	13,663
Total	<u>99,900</u>

The acquisition or improvement of Council assets is also achieved though leasing, the costs of which are not shown above. Leasing rentals on vehicles and equipment during the year totalled £1.2m and payments for buildings on an operating lease basis totalled £0.755m.

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 1st 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.

Housing Market Renewal

In March 2006, the Newcastle/Gateshead Pathfinder (Bridging Newcastle/Gateshead) was awarded a further tranche of funding for 2006/07 totalling £23m, as part of a negotiated award of £64m to March 2008 to tackle issues of low housing demand in the urban core of the region. Gateshead Council is acting as Accountable Body for this Initiative.

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 364 days.

Euro Currency

Costs associated with the potential introduction of the Euro into the UK are not considered significant at this stage and when incurred will be charged to the income and expenditure account.

Group Accounts

The Council has considered the SORP requirements for local authorities to produce group accounts from 2004/05 onwards. The outcome of the review is that the Council does not have any material interests in outside companies or organisations that are sufficiently material to require the production of group accounts in 2006/07.

Landfill Allowance Trading Scheme (LATS)

The Government introduced the Landfill Allowance Trading Scheme on 1 April 2005 for all Waste Disposal Authorities (WDA's) in England. The scheme is intended to underpin the duty on WDA's to reduce the amount of Biodegradable Municipal Waste disposed of to landfill. Under the scheme, councils receive an annual allocation of tradeable 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.

These financial statements account for LATS in accordance with LLAP Bulletin 64 – Accounting for the Landfill Allowances Trading Scheme in 2006/07.

Prospects for 2007/08 and Beyond

For the financial year 2007/08 Gateshead Council has approved a net revenue budget of £190.703m, and a council tax at the headline rate of Band D of £1,323.58 (excluding precepts), an increase of 3.5%, the lowest since council tax was introduced in 1993. The budget provides for growth and investment in services of £6.8m, service efficiency savings of £2.7m and cross cutting efficiency savings of £3.5m.

The Council approved a capital budget of £139.8m, the highest level ever to reflect the substantial investment in decent homes. The budget provides for new starts of £118m, which includes expenditure of almost £89m on new housing and housing market renewal projects, £6m on new education projects, £4m on new transport projects as well as funding Gateshead @ Your Service and further implementation of the Disability Discrimination Act.

The Gateshead Strategic Partnership of which Gateshead Council is a partner have agreed a sustainable Community Strategy titled Vision 2030. This sets out how all partners will deliver the vision of “Local people realising their full potential enjoying the best quality of life in a healthy, equal, safe, prosperous and sustainable Gateshead”.

The Council has agreed a Corporate Plan, which supports the delivery of Vision 2030. The plan is based on the six key priorities of:

- Building stronger communities
- Empowering children and young people
- Empowering older people and ensuring healthier communities
- Improving accessibility, connectivity and economic prosperity
- Serving our customers
- Ensuring a sustainable Gateshead

The resources available to achieve these key priorities are contained in the Council's Medium Term Financial Strategy (MTFS), which is part of the Corporate Plan. In particular, the MTFS sets out the Council's approach to achieving a sustainable budget over the medium term and value for money.

Further Information

This publication provides a review of the financial performance of the Council for 2006/07. 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.

Statement of Responsibilities

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Strategic Director, Finance & ICT.
- 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 28th September 2007.

Signed.....

Councillor M Henry
Leader of the Council

Date.....

The Strategic Director, Finance & ICT's Responsibilities

The Strategic Director Finance & ICT is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007.

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 2007, required by the Accounts and Audit Regulations are set out in the following pages.

I further certify that the Statement of Accounts presents fairly the financial position of the Council at 31 March 2007 and its income and expenditure for the year ended 31 March 2007.

Signed.....

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

Date.....

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 and for ensuring that there is a sound system of internal control which facilitates 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 *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 of the Accounts and Audit Regulations 2003 in relation to the publication of a statement on internal control. The Statement of Recommended Practice (SORP) 2006 allows Councils to produce a wider ranging statement than the statement on internal control to include Governance.

The purpose of the governance framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

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 2007 and up to the date of approval of the statement of accounts.

The governance environment

A clear statement of the Council's purpose and vision is set out in its Sustainable Community Strategy, Towards 2010 (revised for 2007 onwards as "Vision 2030"). 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 is required to prepare annually. The achievement of these objectives is monitored by individual services and by 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 management and development courses such as Modern Gateshead Management.

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 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 Comprehensive Performance 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, publicity and budget issues; giving financial information; and acting as the Council's money laundering reporting officer.

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 is currently implementing a Council-wide performance management ICT system that will bring together all performance indicators, action and financial information to provide real time reporting.

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 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 the external auditors and other review agencies and inspectorates.

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 issues relating to the control environment and submits an annual report to the Cabinet and Council, based on the Annual Governance Statement.

The Chief Internal Auditor reports to the Council's Chief Finance Officer, but in order to ensure independence has direct access to the Chief Executive, 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. The Annual Internal Audit Report for 2006/2007, which was presented to Committee on 18 June 2007, concluded that, based on the work undertaken, the Council's internal control systems are considered to be satisfactory.

A review of the effectiveness of the system of internal audit has been undertaken for 2006/07 in accordance with the Accounts and Audit Regulations 2006. This was presented to the Audit Committee on 18 June 2007 and concluded that the Authority's system of Internal Audit was effective.

The Annual Risk Management Report was presented to the Audit Committee on 18 June 2007, in which it was concluded that risk management arrangements are sound.

Heads of Service have carried out self assessments of the processes and controls they have in place to allow them to achieve their service objectives. A report was submitted to the Audit Committee on 18 June 2007, which concluded that based on the self assessments Heads of Service agreed that effective controls were in place.

Annual Governance Statement

Reporting on performance management information has taken place to Overview and Scrutiny Committees over the course of the year. Based on the information provided during the year and reviews of data quality controls are in place.

The review of the effectiveness of the system of internal control is informed by:

The work of managers within the Council;

The work of the Internal Audit Service;

The work of Corporate Risk Management;

Performance Management Information; and

The external auditors in their annual audit letter and other reports.

The results of the review of the Council's system of internal control have concluded that it is satisfactory and effective.

The dynamic nature of controls and the environment in which they operate, requires that they are always improved upon, in conjunction with the Council's Senior Management, we will endeavour to ensure that any recommendations for improvement to the system of internal control arising from the review process are implemented to support continuous improvement of the system.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Audit Committee.

Signed Signed Signed

Leader Chief Executive Strategic Director, Finance and ICT

Dated Dated Dated

Opinion on the financial statements

I have audited the financial statements of Gateshead Metropolitan Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Gateshead Metropolitan Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditor

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

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the Annual Governance Statement (containing the Statement on Internal Control) reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Independent Auditor's Report To the Members of Gateshead Metropolitan Borough Council

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

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

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

28 September 2007

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Gateshead Metropolitan Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 20 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

28 September 2007

The Statement of Accounting Policies

General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice (the SORP), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and conform with the Statements of Standard Accounting Practice (SSAP's) and Financial Reporting Standards (FRS's) relevant to Local Authorities. Any departure from the relevant standards is stated in the notes below.

CIPFA's Best Value Accounting Code of Practice

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).

Income and Expenditure

– Revenue Account

The revenue accounts are maintained on a Receipts and Payment basis during the year and converted at the end of the year to an Income and Expenditure basis by the creation of debtors and creditors. Exceptions to this are for wage costs not coinciding with 31 March and certain other items such as gas and electricity. Such exceptions are not material (i.e. less than ½%) when compared with total net expenditure.

– Capital Account

All capital expenditure is accounted for on an accruals basis during the year.

– Estimation Techniques

The Council has not employed any estimation techniques for the income and expenditure account, which is based on outturn figures. Estimation techniques are used to determine provisions, reserves and pension liabilities.

– Support Services

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.

Private Finance Initiative (PFI)

– **Gateshead Schools PFI**

This scheme provides for seven new schools, four of which became operational in April 2007. The contract with Pinnacle Schools (Gateshead) Limited has an end date of August 2033. The Gateshead Schools PFI contract is accounted for in accordance with the provisions of Application Note F to Financial Reporting Standard (FRS) 5. FRS5 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. For the Schools PFI contract it has been concluded that the risks and their associated financial consequences are retained by the contractor. Therefore the assets associated with the scheme are to be included in the contractor's balance sheet and the Council will account for the associated revenue costs, which will be incurred in April 2007 onwards.

– **Building Schools for the Future (BSF)**

This is a scheme in partnership with South Tyneside Council and will provide substantial improvements to 12 schools, 2 of which are within Gateshead. The scheme is under negotiation and financial close is planned for March 2008.

Capital Assets

– **Fixed Assets – land, buildings and other assets.**

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.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards. Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

- 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;
- intangible assets are capitalised and included in the balance sheet at cost; and
- infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation, where appropriate.

Income from the disposal of fixed assets is accounted for on an accruals basis. Such income that is not required to be paid to the Government, and has not been used to finance capital expenditure, is included in the balance sheet as usable capital receipts.

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 re-valuation being credited to the fixed asset restatement account.

The Statement of Accounting Policies

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 assets, the Civic Centre and other major assets are valued annually by the Council's Chief Valuer, D Gillbanks BSc (Hons), FRICS, IRRV.

The freehold and leasehold properties, which comprise the Council's property portfolio, were completely revalued during 2004/05 by the Council's then Chief Valuer S Brown BSc, MRICS. The valuation was in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards. It was neither practicable nor considered by the valuer to be necessary to inspect each property for the purposes of the valuation.

– Deferred Charges

Deferred charges represent capital expenditure, which does not result in the creation of fixed assets. The charges are initially written off in full to service revenue accounts in the year of expenditure and then transferred to the capital financing account thus having no impact upon the amount to be raised from local taxation.

– Charges to Revenue

General fund service revenue accounts, central support services and trading operations accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation and any impairment charge. As a result of the introduction of the SORP 2006, notional interest is no longer required to be charged in the accounts. The charge made to the Housing Revenue Account is an amount equivalent to the statutory capital financing charges.

External interest payable and the provision for depreciation are charged to the Income and Expenditure Account. The net effect is that these capital accounting charges do not alter the amounts required to be raised from local taxation. Prior to 2006/07, Councils were required to keep an Asset Management Revenue Account. This requirement has been removed following the introduction of the SORP 2006.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed within the Income and Expenditure Account, and shown separately after net operating expenditure.

– Fixed Assets – 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;
- Council Houses: 50 years;
- Buildings: 20-50 years depending on use, construction type and condition;
- Computer and other equipment: 5 years;
- Vehicles: 3-10 years depending on make, model and use; and
- Gateshead Millennium Bridge: 120 years.

The Statement of Accounting Policies

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. A review of the Council's fixed assets revealed no new instances of component depreciation during 2006/07.

– Residual Values

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.

– 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.

A review of the Council's fixed assets in 2006/07 revealed no instances of impairment.

– Basis of Charges for Capital

The Council administers a consolidated advances and borrowing pool into which all the loans raised by the Authority are pooled. The average rate of interest charged by the pool was 7.34% in 2006/07 (7.71% in 2005/06).

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 2006/07. 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.

– Capitalised Housing Repairs

Certain items of renovation work are charged to capital.

– Capital Grants

SSAP4 requires grants relating to fixed assets to be credited to revenue over the useful life of the project. Capital grants received by the Council are in general used to finance the assets to which they relate

Government grants and other contributions are accounted for on an accruals basis and 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. Government Grants Deferred are now posted direct to service income in the Income and Expenditure Account.

– 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 the DCLG (formerly ODPM) and shown within the Income and Expenditure Account.

The Statement of Accounting Policies

– 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.

Current Assets

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. Work in Progress in relation to private rechargeable works are valued at cost less anticipated liquidated damages and progress payments received.

Provisions

Provisions are made to cater for liabilities, which are likely or certain to be incurred, but the amount of which cannot yet be accurately determined. They are also made for irregular but recurring types of expenditure.

Reserves

The major reserves are as follows: -

– 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. Further details relating to the Airport investment is shown in note 30 to the core financial statements.

– Insurance

To allow for possible claims against the Council, which are not covered by external policies.

– Gateshead Development Pool

Following the sale of shares in Newcastle International Airport Ltd the Council agreed to use the proceeds of the airport capital receipt to set up Gateshead Development Pool. The Pool has been used as a strategic reserve to support both an on-going programme of local initiatives and projects such as respite care homes and play areas. The Development Pool increased by £18.6m in 2006/07 and will be applied in future years in line with a set of revised principles agreed by the Council's Cabinet.

– Grant Clawback

Grant received which may need to be repaid.

– Pensions

The Council is required to pay a lump sum employers contribution into the Tyne & Wear Pensions Fund (administered by South Tyneside MBC) to meet increases in back funding requirements. Costs have been determined on the basis of the latest Triennial Value of the Pension Fund in 2004.

Investments

Investments are shown at the original cost price plus brokers' commission and stamp duty.

Leases

The rental payable under both operating and finance leases are charged to revenue over the term of the lease.

Group Accounts

The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which are contained in the disclosure notes to the Accounts.

There are a number of criteria by which the Council must determine whether its interest in such companies, joint ventures and joint arrangements 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 2006/07. It is possible that it may be necessary to produce Group Accounts in future years.

Redemption of Debt

The Council is required by statute to set aside a Minimum Revenue Provision (MRP), for the repayment of debt for general fund services. Provision is made for principal repayments by charging a MRP calculated in accordance with the Prudential Code (Local Government Act 2003).

External Interest

Interest paid on external borrowing and interest earned on investments is accrued and charged to the Income and Expenditure Account.

Pooled Arrangements

Since 1986 the Council has taken out all borrowing on behalf of Northumbria Police Authority and managed this within a consolidated borrowing pool. Interest was charged at an average rate of 7.34% for 2006/07 (2005/06 7.71%). During 2006/07, the Police Authority agreed to transfer its outstanding debt of £32.844m from the Council into their own name. The transfer was approved by both the Council and Northumbria Police Authority and took place on 31st March 2007. Surplus funds are pooled for investment purposes and managed by the Council. This included £122.029m relating to Northumbria Police Authority as at 31st March 2007. This amount is represented as short term investment on the Police Authority's balance sheet and interest in respect of these investments is paid.

The Council's housing stock is managed and maintained by the Gateshead Housing Company. In respect of this, the Council paid a management fee of £29.202m to the Company in 2006/07. 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.

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. Where however the repurchase of borrowing was coupled with a refinancing of borrowing with substantially the same overall economic effect, gains or losses are recognised over the life of the replacement borrowing for the general fund and a maximum of 10 years in respect of the HRA.

Pensions 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 Local Government Pension Scheme and the Teachers Pension Scheme. The Local Government Pension Scheme (Tyne and Wear Pension Fund) is classified as a defined benefit scheme, and is accrued in accordance with the requirements of Financial Reporting

The Statement of Accounting Policies

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 fund 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.

DSO Trading Accounts

The Council consolidates any surplus or deficit made on former DSO trading activities on a gross income and expenditure basis within the Net Cost of Services.

VAT

VAT is included in the income and expenditure accounts only to the extent that it is irrecoverable from HM Revenue & Customs.

SORP 2006

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

- Capital financing charges for the use of fixed assets are no longer made to revenue accounts;
- Credits for government grants deferred are now posted direct to the Income and Expenditure Account instead of through the asset management revenue account (AMRA); and
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts:

	CRA in 2005-06 Accounts	Comparative figures in 2005-06 Income & Expenditure Account
	£000s	£000s
Net Cost of Services	308,489	244,342
(Gain) / Loss on disposal of fixed assets		1,235
AMRA (interest payable and similar charges)	(41,594)	24,107
Impact on Net Operating Expenditure	266,895	269,684

Income and Expenditure Account

In accordance with the Best Value Accounting Code of Practice (BVACOP) these accounts are presented in a format which allocates and apports expenditure over operational service headings.

Restated 2005/06 Net Expenditure £000s	Service	2006/07			Notes
		Gross Expenditure £000s	Income £000s	Net Expenditure £000s	
2,206	Central Services to the Public	7,089	4,591	2,498	}
40,187	Cultural, Environmental and Planning Services	75,311	31,107	44,204	}
103,141	Education Services	166,830	149,913	16,917	}
14,091	Highways, Roads and Transport Services	20,841	7,160	13,681	} 1
1,398	Housing Services	117,443	121,193	(3,750)	}
62,923	Social Services	103,306	34,113	69,193	}
20,396	Corporate and Democratic Core	15,605	2,364	13,241	}
244,342	Net Cost of Services	506,425	350,441	155,984	
1,235	(Gain) / Losses on the Disposal of Fixed Assets			558	
74	Environment Agency Levy			89	
19	Tyne Port Health Authority Precept			23	
8,983	Passenger Transport Authority Levy			11,463	
166	Parish Council Precept			7	
94	Total Net (Surplus)/Loss on Trading Undertakings			803	
19,906	Interest payable and similar charges			21,193	
358	Losses on the Repurchase of Borrowing			516	
12,089	Amounts payable into the Housing Capital Receipts Pool			7,848	
(5,511)	Interest and Investment Income			(17,259)	
9,010	Pensions Interest Cost and Expected Return on Assets			5,770	
290,765	Net Operating Expenditure			186,995	
(69,734)	Demand on the Collection Fund			(73,266)	
(3,000)	Collection Fund Transfer			(2,000)	
(114,368)	Revenue Support Grant			(15,202)	
120	Adjustment to Revenue Support Grant			410	
0	LPSA Reward Grant			(2,483)	
(1,352)	LABGI Grant			(6,655)	
(63,662)	Distribution from Non-Domestic Rate Pool			(78,756)	
38,769	(Surplus) / Deficit for the Year			9,043	

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 resources consumed and generated over the last twelve months.

However, this accounting basis is out of line with the statutory provisions that specify the net expenditure that authorities need to take into consideration when setting council tax levels. The main differences are shown in the following reconciliation:

Restated 2005/06 £000s		2006/07 £000s
38,769	(Surplus) / Deficit for the year on the Income and Expenditure Account	9,043
(43,285)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year (see note 2 to the core financial statements)	(9,832)
<u>(4,516)</u>	(Increase) / Decrease in General Fund Balance for the Year	<u>(789)</u>
<u>(17,004)</u>	General Fund Balance brought forward	<u>(21,520)</u>
<u>(21,520)</u>	General Fund Balance carried forward	<u>(22,309)</u>
(11,040)	Amount of General Fund balance held by schools under Local Management Scheme	(11,506)
(10,480)	Amount of General Fund balance generally available for new expenditure	(10,803)
<u>(21,520)</u>		<u>(22,309)</u>

Statement of Total Recognised Gains and Losses

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 result during the year.

Restated 2005/06 £000s		2006/07 £000s
38,769	(Surplus) / deficit for the year on the Income and Expenditure Account	9,043
286,820	(Surplus) / deficit arising on revaluation of fixed assets	(56,609)
(14,790)	Actuarial (gains) / losses on pension fund assets and liabilities	3,430
(39,141)	Any other (gains) / losses required to be included in the STRGL	(16,273)
271,658	Total recognised (gains) and losses for the year	(60,409)

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

Balance Sheet

31/03/2006 £000s		31/03/2007 £000s	£000s	Notes
	Long Term Assets			
	Operational Assets			
975,727	Council Dwellings	1,056,760		
351,981	Land and Buildings	358,337		
9,343	Vehicles, Plant, Furniture & Equipment	8,689		
84,055	Infrastructure	85,664		
4,212	Community Assets	4,720		
	Non-Operational Assets			
2,671	Assets under Construction	468		
9,954	Investment Properties	7,959		
47,299	Surplus Assets	42,134		
<u>1,485,242</u>			<u>1,564,731</u>	19
8,917	Long Term Investments		8,917	33
3,338	Long Term Debtors		2,507	43
<u>1,497,497</u>	Total Long Term Assets		<u>1,576,155</u>	
	Current Assets			
2,369	Landfill Allowances	4,233		
912	Stocks and Work in Progress	1,063		44
723	Cash	1,210		
51,025	Debtors	64,080		42
101,126	Short Term Investments	151,541		
<u>156,155</u>		<u>222,127</u>		
	Current Liabilities			
	Borrowing Repayable within one year			
(4,346)	Loans	(3,725)		32
(22,494)	Bank Overdraft	(29,822)		
(57,020)	Creditors	(54,994)		45
<u>(83,860)</u>		<u>(88,541)</u>		
<u>72,295</u>	Net Current Assets		<u>133,586</u>	
1,569,792	Total Assets less Current Liabilities		1,709,741	
	Long Term Liabilities			
(9,558)	Provisions	(9,160)		34
2,199	Deferred Liability	1,799		20
(249,615)	Long Term Borrowings	(318,155)		32
(185,292)	Government Grants Deferred	(188,920)		
(287,110)	Defined Benefit Pension Scheme	(294,480)		46
			<u>(808,916)</u>	
840,416	Total Assets Less Liabilities		900,825	

Balance Sheet

31/03/2006 £000s	Financed by:	31/03/2007 £000s	Notes
	Represented by:		
782,235	Fixed Asset Restatement Account	809,729	35
251,438	Capital Financing Account	251,715	35
2,792	Deferred Capital Receipts	1,973	47
5,457	Capital Receipts and Grants Unapplied	18,124	48
(287,110)	Pension Reserve	(294,480)	46
10,480	General Fund	10,803	35
11,040	LMS Budget Share Reserve	11,506	35
(206)	Collection Fund Reserve	1,439	
6,695	Housing Revenue Account	15,273	
57,595	Strategic Reserves	74,743	35
840,416	Total Net Worth	900,825	

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

Dated:

Cash Flow Statement

2005/06 £000s		2006/07 £000s	£000s	Notes
	Revenue Activities			
	Cash Outflows			
232,227	Cash paid to and on behalf of employees	243,021		
208,881	Other operating cash payments	212,804		
17,454	Housing Benefit paid out	17,930		
63,199	Non-Domestic Rate payments to National Pool	70,475		
9,243	Precepts paid	11,582		
12,384	Payments to Capital Receipts Pool	9,116		
<u>543,388</u>			564,928	
	Cash Inflows			
(20,748)	Rents (after rebates)	(28,696)		
(61,550)	Council Tax Receipts	(65,235)		
(1,229)	Precepts received	(1,231)		
(63,662)	Non-Domestic Rate Receipts from National Pool	(78,756)		
(63,480)	Non-Domestic Rate Receipts	(70,762)		
(114,368)	Revenue Support Grant	(14,792)		
(18,476)	DWP Grants for Benefits	(17,972)		
(115,825)	Other Government Grants	(219,375)		54
(117,389)	Cash received for goods and services	(83,167)		
<u>(576,727)</u>			<u>(579,986)</u>	
(33,339)	Net Cash Inflow – Revenue Activities		(15,058)	49
	Dividends from Joint Ventures and Associates			
	Cash Inflows			
(367)	Dividends from NIAL Holdings	(11,267)		
<u>(367)</u>	Net Cash Inflow – Dividends		(11,267)	
	Returns on Investments and Servicing of Finance			
	Cash Outflow			
19,679	Interest Paid	20,432		
	Cash Inflow			
(6,829)	Interest Received	(6,307)		
<u>12,850</u>	Net Cash Outflow / (Inflow) – Servicing of Finance		14,125	
	Capital Activities			
	Cash Outflows			
92,022	Purchase of fixed assets	90,921		
11,984	Other capital cash payments	8,979		
<u>104,006</u>			<u>99,900</u>	

Cash Flow Statement

2005/06 £000s		2006/07 £000s	2006/07 £000s	Notes
	Cash Inflows			
(18,319)	Sale of fixed assets / investments	(21,991)		
(56,176)	Other capital cash payments	(41,055)		
<u>(74,495)</u>			<u>(63,046)</u>	
29,511	Net Cash Outflow / (Inflow) – Capital Activities		36,855	
	Acquisitions and Disposals			
	Cash Inflows			
<u>(310)</u>	Sale of investments and joint ventures	<u>(310)</u>		
(310)	Net Cash Inflow Acquisitions and Disposals		(310)	
	Management of Liquid Resources			
<u>3,204</u>	Net Increase in Short Term Deposits		<u>50,415</u>	51
11,549	Net Cash Outflow / (Inflow) Before Financing		74,759	
	Financing			
	Cash Outflow			
13,910	Repayments of amounts borrowed	21,541		
<u>(24,654)</u>	Cash Inflow	<u>(89,459)</u>		
	New loans raised			
<u>(10,744)</u>	Net cash (inflow)/ outflow from financing		<u>(67,918)</u>	51
<u>805</u>	Net (increase)/ decrease in cash		<u>6,841</u>	53

1. Service Expenditure Analysis

CIPFA'S Best Value Accounting Code of Practice requires 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 at this Mandatory Division of Service.

Service Expenditure Analysis – Mandatory Division of Service 2006/07

Restated 2005/06 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Central Services to the Public				
780	Local tax collection	4,609	3,790	819
210	Registration of births, deaths and marriages	411	186	225
309	Elections	486	32	454
107	Emergency planning	97	0	97
(245)	Local land charges	131	398	(267)
1,045	General grants, bequests and donations	1,355	185	1,170
2,206	Total Central Services to the public	7,089	4,591	2,498
Cultural, Environmental and Planning Services				
1,167	Culture and heritage	6,291	4,980	1,311
9,208	Recreation and sport	13,402	5,075	8,327
5,653	Open spaces	10,327	3,537	6,790
270	Tourism	327	105	222
4,505	Library services	5,731	463	5,268
20,803	Sub total for Cultural and Related Services	36,078	14,160	21,918
234	Cemetery, cremation and mortuary services	655	843	(188)
2,596	Environmental health	3,364	649	2,715
73	Community safety (Crime Reduction)	512	383	129
746	Community safety (Safety Services)	4,241	3,047	1,194
196	Flood Defence and Land Drainage	180	77	103
695	Trading Standards	1,002	238	764
3,371	Street cleansing (not recharged to highways)	5,238	746	4,492
3,823	Waste collection	4,665	869	3,796
4,005	Waste disposal	6,564	2,718	3,846
15,739	Sub total for Environmental Services	26,421	9,570	16,851
179	Building control	1,590	1,206	384
584	Development control	1,823	826	997
962	Planning policy	1,382	39	1,343
768	Environmental initiatives	1,183	89	1,094
246	Economic development	4,369	3,513	856
1,228	Community development	2,465	1,704	761
(322)	Service Management and Support Services	0	0	0
3,645	Sub total for Planning and Development Services	12,812	7,377	5,435
40,187	Total Cultural, Environmental & Planning Services	75,311	31,107	44,204

Service Expenditure Analysis – Mandatory Division of Service 2006/07

Restated 2005/06 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Education Services				
248	Nursery Schools	650	314	336
48,763	Primary Schools	70,668	65,313	5,355
35,885	Secondary schools	65,343	61,285	4,058
10,901	Special Schools	13,882	11,607	2,275
7,344	Non - School Funding	16,287	11,394	4,893
103,141	Total Education Services	166,830	149,913	16,917
Highways, Roads & Transport Services				
0	Transport Planning, Policy and Strategy	5,641	2,578	3,063
2,662	Highways/roads (structural)	3,912	255	3,657
4,728	Highways/roads (routine)	3,390	11	3,379
2,887	Street lighting	3,301	4	3,297
1,001	Winter Maintenance	425	24	401
2,802	Traffic management & road safety	3,434	3,680	(246)
11	Parking services	589	608	(19)
0	Public Transport	149	0	149
14,091	Total Highways, Roads & Transport Services	20,841	7,160	13,681

Notes to the Core Financial Statements

Service Expenditure Analysis – Mandatory Division of Service 2006/07

Restated 2005/06 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Housing Services				
<u>Housing General Fund</u>				
172	Housing Strategy	329	60	269
4	Registered Social Landlords	0	0	0
36	Housing Advice	0	0	0
(15)	Housing Advances	76	103	(27)
6,282	Private Sector Housing Renewal	6,593	896	5,697
190	Homelessness	1,131	1,329	(198)
(520)	Housing Benefits Payments	52,431	53,289	(858)
197	Housing Benefits Administration	0	0	0
65	Other Council Property	88	56	32
0	Welfare Services	0	0	0
0	Housing Management and Support Costs	0	0	0
6,411	Housing General Fund Services Sub Total	60,648	55,733	4,915
<u>Housing Revenue Account</u>				
(53,662)	Dwellings Rent (Gross)	0	56,027	(56,027)
(1,011)	Non-dwelling Rents (Gross)	0	1,065	(1,065)
(1,810)	Tenants charges for services and facilities	0	1,971	(1,971)
(78)	Leaseholder's charges for services and facilities	0	185	(185)
(283)	Other charges for services and facilities	0	255	(255)
(637)	Contribution towards expenditure	0	1,266	(1,266)
(1,536)	HRA subsidy receivable	0	4,691	(4,691)
(59,017)	Housing Revenue Account Sub Total Income	0	65,460	(65,460)
17,371	Repairs & maintenance	17,574	0	17,574
11,947	Supervision & Management	11,566	0	11,566
2,935	Special services	4,031	0	4,031
1,363	Rents, rates, taxes and other charges	1,530	0	1,530
(638)	Subsidy limitation transfer to GF	0	0	0
0	Transfer of assumed surplus to DCLG	0	0	0
0	Rent Rebates	0	0	0
758	Increased provision for bad and doubtful debts	215	0	215
0	Cost of Capital Charge	0	0	0
19,913	Depreciation - Dwellings	21,566	0	21,566
147	Depreciation - Other assets	149	0	149
0	Amortisation of deferred charges and intangible assets	0	0	0
208	Debt Management costs	164	0	164
54,004	Housing Revenue Account Sub Total Expenditure	56,795	0	56,795
(5,013)	Housing Revenue Account Sub Total	56,795	65,460	(8,665)
1,398	Total Housing Services	117,443	121,193	(3,750)

Service Expenditure Analysis – Mandatory Division of Service 2006/07

Restated 2005/06 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
Social Services				
477	Service strategy	572	0	572
3,394	Children's services commissioning and social work	4,109	1,362	2,747
7,778	Children looked after	12,296	666	11,630
1,700	Family support services	2,920	232	2,688
475	Youth Justice	1,729	1,387	342
2,563	Other children's and families services	2,382	849	1,533
28,944	Older people (aged 65 or over) inc older mentally ill	47,040	15,900	31,140
4,679	Adults aged under 65 with a physical disability or sensory impairment	7,136	2,032	5,104
9,737	Adults aged under 65 with learning disabilities	20,712	10,247	10,465
2,500	Adults aged under 65 with mental health needs	3,616	1,199	2,417
57	Asylum seekers	31	24	7
571	Other adult services	642	170	472
48	Supported employment (inc sheltered employment)	121	45	76
62,923	Total Social Services	103,306	34,113	69,193
Other Corporate Services				
4,854	Democratic representation and management	2,451	57	2,394
4,425	Corporate management	587	0	587
5,665	Other Corporate and Central Costs	8,617	2,307	6,310
14,944	Sub Total Corporate and Democratic Core	11,655	2,364	9,291
5,452	Non Distributed Costs	3,950	0	3,950
20,396	Total Other Corporate Services	15,605	2,364	13,241
244,342	Net Cost of Services	506,425	350,441	155,984

Notes to the Core Financial Statements

2. 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

Restated 2005/06 £000s		2006/07 £000s
0	Amortisation of intangible fixed assets	0
(16,374)	Depreciation and impairment of fixed assets (excluding depreciation charged to HRA services)	(17,212)
(7,176)	Excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy	(8,641)
4,201	Government Grants Deferred amortisation matching depreciation and impairments	4,390
(11,984)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (i.e. Deferred Charges)	(8,979)
(1,235)	Net loss on sale of fixed assets	(558)
(10,380)	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	(3,940)
(42,948)		(34,940)

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

6,657	Statutory provision for repayment of debt	6,642
231	Capital expenditure charged to the General Fund Balance	588
(12,089)	Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool	(7,848)
(5,201)		(618)

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

5,172	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	8,578
0	Any voluntary provision for repayment of debt	0
(308)	Net transfer to or from earmarked reserves	17,148
4,864		25,726
(43,285)	Net additional amount required to be credited to the General Fund Balance for the year	(9,832)

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

The increase in the general fund balance of £323,000 is not considered significant but along with the existing balance of £10.480m it 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. Acquired or Discontinued Operations

On 1 April 2006 the assets and liabilities of the former Birtley Town Council transferred to Gateshead Council. The assets totalled £1,606,036 and included Birtley Leisure Centre, which has now been revalued and has a gross book value of £1,785,000 along with reserves of £30,743. The liabilities include outstanding debt of £68,966, which are reflected in the balance sheet.

5. Exceptional Items

– Local Authority Business Growth Initiative (LABGI)

LABGI is a central government grant, which allocates resources to individual local authorities to reflect increases in annual rateable values at 31 December each year. These allocations from central government are currently capped at 70% of eligibility and are not earmarked for individual services. In March 2007 Gateshead secured £6.6m in LABGI resources. This reflects a £21m increase in rateable value during 2006/07 as a result of a number of developments at the Metrocentre Red Mall, Team Valley Trading Estate and Follingsby. It has been agreed by Cabinet that the LABGI receipt forms part of the Gateshead Development Pool to support projects, which meet a set of principles agreed by the Council's cabinet.

– Newcastle International Airport

During 2006/07 the Council received £10.431m as a one off Newcastle Airport Dividend following a refinancing of the Airport business. On 1 March 2007 Council noted the proposed use of this sum to supplement the Gateshead Development Pool to support prudential borrowing to invest in leisure facilities in Gateshead.

6. Undischarged Operations

– Undischarged Obligations Arising from Long-Term Contracts

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 and the overall Net Present Value (NPV) of the anticipated future payments under the contract is around £99m (at a discount rate of 6.0875%). The scheme is provided under the Private Finance Initiative (PFI) and will benefit from government grants of around £65m (on the same NPV discounted basis) over its lifetime. The actual level of payments to Pinnacle Schools (Gateshead) Limited will depend on the company's performance in providing the services under the contract. Any funding surpluses generated in the early years of the contract are to be invested to finance anticipated deficits in later years to ensure the scheme remains affordable to the Council.

Notes to the Core Financial Statements

The anticipated future payments under the scheme for the next two years, plus the remaining contract in five year bandings are: -

Year	£m
2007-08	6.554
2008-09	7.648
2009-14	37.617
2014-19	39.262
2019-24	41.098
2024-29	43.177
2029-34	41.506

7. 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 2006/07 is as follows: -

	2005/06 (Surplus)/ Deficit £000s	2006/07 Income £000s	2006/07 Expenditure £000s	2006/07 (Surplus)/ Deficit £000s
Local Environmental Services (Construction)	(259)	39,150	39,434	284
FRS 17 Adjustment	353			519
	94			803

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 deficit of £0.803m is not considered material and is shown separately in the Income and Expenditure Account.

The Council operates various other trading operations, formerly DSOs under the provisions of the Local Government Acts. The financial performance of these trading operations for 2006/07 is as follows.

Trading Operations	2005/06 (Surplus)/ Deficit £000s	2006/07 Income £000s	2006/07 Expenditure £000s	2006/07 (Surplus)/ Deficit £000s
Cleaning of Buildings	5	6,122	6,054	(68)
Security	52	1,457	1,517	60
School Meals	116	4,287	4,859	572
FRS17 Adjustment	111			193
Total	284			757

The income and expenditure in relation to these other trading operations is in the Net Cost of Services line of the Income and Expenditure Account.

8. Section 137 Expenditure

Under Section 137 of the Local Government and Housing Act 1972, local authorities are allowed to spend a limited amount on services that they are not otherwise empowered to deliver but which they consider to be in the interests of the area and its residents. No expenditure was incurred in 2006/07 under Section 137 of the Act.

9. Publicity

Local Government Acts require a Local Authority to keep a separate account of expenditure on publicity.

The Council spent £1,071,607 (2005/06 £1,287,616) on all forms of publicity in 2006/07 of which 26% was spent on recruitment of staff advertising and 74% on other advertising.

10. Building Control Trading Account

The Local Authority Building Control regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

	Total Building Control 2005/06 £000s	Chargeable 2006/07 £000s	Non Chargeable 2006/07 £000s	Total Building Control 2006/07 £000s
Expenditure	801	624	226	850
Income	<u>609</u>	<u>463</u>	<u>3</u>	<u>466</u>
(Surplus)/Deficit for Year	<u>192</u>	<u>161</u>	<u>223</u>	<u>384</u>

The figures shown above do not include an adjustment for FRS17. Apportionment of the actuary's assessment of the difference between current service cost and cash paid to the pension fund would notionally increase expenditure on the building control account by £0.050m.

11. Business Improvement District Schemes (BIDS)

Under BIDS additional services or improvements to benefit the local community may be funded by a levy raised from non-domestic ratepayers. At present the Council has no BIDS in place.

12. Local Authority (Goods and Services) Act 1970

Under the above Act the following instances have occurred where the Council has entered into agreements with certain public bodies. The gross income received from each of these is listed below.

Service	2005/06 £	2006/07 £
Horticultural Services	18,030	16,194
Construction	22,192,760	16,848,530
Cleaning	1,902,850	2,179,276
Cleansing	288,030	108,549
Security	137,950	55,509
Winter Maintenance	5,200	7,075
Grounds Maintenance	32,780	95,191
Waste and Recycling Centre	130,840	132,163
Waste Collection	10,190	5,750
Waste Disposal	7,710	8,491
Fleet Hire	31,410	75,804
Total	24,757,750	19,532,532

Construction income relates mainly to work undertaken on behalf of the Gateshead Housing Company and cleaning income relates mainly to work undertaken on behalf of Northumbria Police Authority.

Expenditure applicable to each service is based on charge out rates which takes into consideration all direct and indirect costs. The income received for each service was sufficient to cover expenditure.

13. Pooled Funds

Under Section 31 of the Health Act 1999, Local Authorities and NHS bodies can establish pooled funds for partnership working.

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 2006/07 the total expenditure from the pooled fund was £500,030 (2005/06 £224,746). This was funded from contributions from the PCT of £170,753 (2005/06 £93,112), £52,890 from the Council (2005/06 £52,890) and the use of £276,387 Learning Disability Developing Fund income (2005/06 £54,984).

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 2006/07 the Council's contribution to the fund was £524,830 (2005/06 £512,500).

14. Members' Allowances

The total amount of Members Allowances paid in the year was £946,110 (£894,334 in 2005/2006), which was represented by Basic Allowance of £607,088 and Special Responsibility Allowance of £339,022.

A schedule of payments made to individual members for 2006/07 is available from the Civic Centre, Gateshead.

15. Minimum Revenue Provision

The Prudential Code requires an Authority to set aside an amount from revenue provision (MRP) also known as the statutory charge to revenue, for the repayment of external loans. This is calculated by applying a specified set of rules as defined in the regulations.

	2005/06	2006/07
	£000	£000
General Fund	6,657	6,642
Housing Revenue Account	0	0
Minimum Revenue Provision	<u>6,657</u>	<u>6,642</u>
Less		
Amount charged as depreciation	16,375	17,211
Additional charge to Income and Expenditure Account	<u>(9,718)</u>	<u>(10,569)</u>
	<u>0</u>	<u>0</u>

16. Officers' Emoluments

The number of employees whose remuneration, excluding pension contributions was £50,000 or more in bands of £10,000 were:

Remuneration Band	Number of Employees			
	Teachers		Others	
	2005/06	2006/07	2005/06	2006/07
£50,000 - £59,999	30	37	15	23
£60,000 - £69,999	5	5	10	8
£70,000 - £79,999	4	5	2	5
£80,000 - £89,999	0	0	4	2
£90,000 - £99,999	0	0	2	3
£100,000 - £109,999	0	0	2	2
£110,000 - £119,999	0	0	1	1
£120,000 - £129,999	0	0	0	1
£170,000 - £179,999	0	0	1	1

17. Related Party Transactions

During the year transactions with related parties arose as follows in the form of Central Government and other Public Body revenue grant receipts and are included within the Income and Expenditure Account

	2005/06 £000s	2006/07 £000s
Department for Education and Skills	39,181	134,305
Department of Transport	574	1,768
Department of Health	8,295	7,064
Department for Work and Pensions	73,015	76,014
Department for Communities & Local Government	14,241	16,547
Home Office	1,032	2,119
Other Government Departments	784	863
Total	137,122	238,680

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.

Notes to the Core Financial Statements

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.

The Statement of Accounts 2006/07 for Northumbria Police Authority is available from the Treasurer at the Civic Centre, Gateshead.

18. Disclosure of Audit Costs

In 2006/07 the Council incurred the following fees relating to external audit and inspection:

	2005/06	2006/07
	£000s	£000s
External audit services carried out by the appointed Auditor	257	244
Statutory Inspection	0	99
Grant claims and returns	103	85
Other services	4	1
Total	364	429

The increase between 2005/06 and 2006/07 is mainly accounted for by the Audit Commission's Corporate Assessment carried out during 2006.

Notes to the Core Financial Statements

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

	Council Dwellings	Land and Buildings	Vehicles Plant and Equipment	Infra-structure	Community Assets	Non Operational Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Value @ 01/04/06	995,640	365,977	34,177	99,828	4,212	60,010	1,559,844
Reclassification	-	(2,756)	-	-	-	2,756	-
Additions	62,231	17,982	4,358	4,832	752	766	90,921
Revaluation	31,188	801	863	(299)	(244)	(346)	31,963
Disposals	(10,733)	(4,918)	(846)	-	-	(12,618)	(29,115)
Valuation at 31/03/07	1,078,326	377,086	38,552	104,361	4,720	50,568	1,653,613
Depreciation at 01/04/06	19,913	13,996	24,834	15,773	-	86	74,602
Reclassification	-	86	-	-	-	(86)	-
Depreciation Write Off	(19,913)	(4,733)	-	-	-	-	(24,646)
Charge for the Year	21,566	9,400	5,029	2,924	-	7	38,926
Impairment	-	-	-	-	-	-	-
Depreciation at 31/03/07	21,566	18,749	29,863	18,697	-	7	88,882
Net Book Value @ 31/03/07	1,056,760	358,337	8,689	85,664	4,720	50,561	1,564,731
Net Book Value @ 31/03/06	975,727	351,981	9,343	84,055	4,212	59,924	1,485,242

Ownership of Fixed Assets – The following table shows the net value of fixed assets split between the General Fund and the Housing Revenue Account

	Council Dwellings	Land and Buildings	Vehicles Plant and Equipment	Infra-structure	Community Assets	Non Operational Assets	Total
General Fund	-	352,494	4,508	85,664	4,720	50,261	497,647
H.R.A.	1,056,760	3,243	70	-	-	300	1,060,373
Trading Operations	-	2,600	4,111	-	-	-	6,711
Net Book Value @ 31/03/07	1,056,760	358,337	8,689	85,664	4,720	50,561	1,564,731

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

20. Deferred Charges and Deferred Liabilities

In accordance with the SORP, Deferred Charges are removed from the Balance Sheet, with the requirement to disclose movements only. Capital expenditure which has not resulted in the creation of a Fixed Asset has been amortised to revenue in year, as shown below

	Capital & Improvement Grants £000s
Balance at 1 April 2006	0
Expenditure in Year	8,979
Amounts amortised to revenue	<u>(8,979)</u>
Balance at 31 March 2007	0

The deferred liability shown in the balance sheet relates to premia on the early resettlement of debt. £0.400m was amortised to revenue during the year, as shown below:

	Deferred Liability £000s
Balance at 1 April 2006	(2,199)
Amounts amortised to revenue	<u>400</u>
Balance at 31 March 2007	(1,799)

21. Commitments Under Capital Contracts

Major contracts for future capital expenditure at 31 March 2007 include:

	£000s
Children's Centres	5,387
Development of Cowen Road Waste Reception Site	1,000
Gateshead @ Your Service/Customer Service Strategy and Contact Centre	3,861
Gateshead Heritage and Visitor Centre	1,076
Gateshead Quays – Gateshead Quays infrastructure	1,938

22. Assets Held

Fixed assets owned by the Council: -

	Number as at 31 March 2006	Number as at 31 March 2007
Council Dwellings	22,130	21,840
Operational Assets		
Civic Centre	1	1
Other Offices	12	10
Social Services Homes & Hostels	13	11
Leisure Centres & Swimming Pools	9	10
International Stadium	1	1
Libraries	17	14
Primary Schools	56	56
Secondary Schools	8	8
Special Schools	6	6
Depots	18	18
Off Street Car Parks	30	30
Multi-Storey Car Parks	1	1
Cemeteries	10	10
Crematoria	2	2
Art Galleries	2	1
Music Centre	1	1
Operational Equipment		
Vehicles	406	411
Infrastructure		
Highways (Kilometres)	888.8	925
Bridges and other Highways Structures	153	150
Permanent Ways	500	500
Community Assets		
Parks & Open Space (Hectares)	959	959
Allotments (Plots)	1,308	1,331
Civic Regalia (Items)	75	75

23. Leasing - Disclosure by Lessee

The Council has held in 2006/07 various assets under both operating and finance leases.

In 2006/07 the Council held various types of plant and machinery relating to the Civic Centre under Finance leases. The rentals payable under these arrangements in 2006/07 were £0.05m (£1.40m 2005/06). This amount was charged to the Income and Expenditure Account.

The Council uses machinery and equipment financed under terms of an operating lease. The amount paid under these arrangements in 2006/07 was £1.20m (£1.40m 2005/06). This amount was charged to the Income and Expenditure Account.

In 2006/07, the Council paid £755,011 (£649,816 2005/06) in respect of buildings leased for operational purposes.

The Council was committed at 31 March 2007 to making payments of £1.933m under operating leases, comprising of the following elements:

	Vehicles, Plant & Machinery £000s
Leases expiring in 2007/08	1,103
Leases expiring between 2008/09 and 2011/12	830
Leases expiring after 2012/13	0
	<u>1,933</u>

The Council holds a number of buildings on an operating lease basis, which are not included within the Council's tangible fixed assets. In respect of these assets, the Council has commitments to make payments in the forthcoming year as follows:

Commitment Expires	£000s
Less than 1 year	116
2 to 5 years	297
Over 5 years	329
Total	<u>742</u>

The following values of assets are held under finance leases by the Council:

	Vehicles, Plant & Machinery £000s
Due at 1 April 2006	2,484
Disposals	<u>(2,484)</u>
Value at 31 March 2007	<u>0</u>

There are no outstanding obligations to make any payments for finance leases at 31 March 2007.

24. Leasing - Disclosure by Lessors

There are no instances where the Council acts as lessor, which 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.

25. PFI Assets

As referred to in the Statement of Accounting Policies, the Council is of the opinion that the Schools PFI contract is off-balance sheet under the provisions of FRS5, so the assets are to be reflected on the balance sheet of the contractor. Once operational (2007/08) the Council will treat part of the Unitary Charge payable as the acquisition of the residual value of the assets, which will transfer to the Council at the end of the contract (August 2033).

26. Capital Expenditure

The main items of capital expenditure were: -

	£000s
Redevelopment and Regeneration	14,593
Housing	62,215
Bridges, Footpaths, Roads and Car Parks	4,114
School Buildings	5,180

Capital Expenditure was financed as follows: -

	2005/06 £000s	2006/07 £000s
Expenditure		
Fixed Assets	92,022	90,921
Deferred Charges (details shown in note 20)	<u>11,984</u>	<u>8,979</u>
Total	<u>104,006</u>	<u>99,900</u>
Financing		
Supported Borrowing	22,143	49,415
Prudential Borrowing	0	5,758
Capital Receipts	21,797	10,565
Capital Grants and Other Contributions	45,280	20,499
Revenue Contributions	<u>14,786</u>	<u>13,663</u>
Total	<u>104,006</u>	<u>99,900</u>

27. Tangible Fixed Assets

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 assets, the Civic Centre and other major assets are valued annually by the Council's Chief Valuer, D Gillbanks BSc (Hons), FRICS, IRRV.

The freehold and leasehold properties, which comprise the Council's property portfolio, were completely revalued during 2004/05 by the Council's then Chief Valuer S Brown BSc, MRICS. The valuation was in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards. It was neither practicable nor considered by the valuer to be necessary to inspect each property for the purposes of the valuation.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards. Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

- 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.
- plant and machinery is included in the valuation of the buildings, except where there are major component items.

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 re-valuation being credited to the fixed asset restatement account.

The revaluation movements are recorded in the Council's Fixed Asset Register with the changes demonstrated, by class of fixed asset, in Note 19 to the Core Statements.

Previously accumulated depreciation has been written off in year for all assets that have been revalued and assigned new useful lives. Depreciation has then been charged on these assets using the straight-line method based on the revalued amount over the new useful life of the asset. Depreciation on all other assets has been charged using the straight-line method over the remaining useful life of the asset.

28. 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: -

- Council Houses: 50 years
- Buildings: 20-50 years depending on use, construction type and condition
- Computer and other equipment: 5 years
- Vehicles: 3-10 years depending on make, model and use
- Gateshead Millennium Bridge: 120 years.

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. A review of the Council's fixed assets revealed no new instances of component depreciation during 2006/07.

Depreciation is calculated using the Council's Fixed Asset Register with the amount charged for the period shown in Note 19 to the Balance Sheet, by class of fixed asset.

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.

A review of the Council's fixed assets in 2006/07 revealed no instances of impairment.

There has been no change in the depreciation method used during 2006/07.

29. Intangible Fixed Assets

There have been no material instances of intangible fixed assets recorded during 2006/07. Any future material intangible fixed assets will be capitalised and recorded in the Balance Sheet at cost and amortised over the relevant useful life of that asset.

There has been no change in the amortisation method used during 2006/07.

30. Interest in Companies

The Accounting Code of Practice requires information to be shown where the Council has an interest in Companies.

The Gateshead Housing Company

The Council's housing stock is managed and maintained by The Gateshead Housing Company. In respect of this, the Council paid a management fee of £29.202m to the Company in 2006/07. 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.

The Gateshead Housing Company purchases goods and services totalling £25.444m from the Council as part of its operating activities. The balance outstanding at the year end was £5.939m.

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

Newcastle International Airport Ltd/NIAL Holdings Plc

Under the Airport Act 1986, Newcastle International Airport Limited was formed and all property, rights and liabilities of the constituent Local Authorities were transferred to the Company. In consideration of this transaction the Council received an allocation of 4.355m £1 shares out of a total share capital of £33.395m with a book value of £4.355m.

On 4 May 2001, the seven local authority shareholders of Newcastle International Airport Limited entered into a strategic partnership with Copenhagen Airport Ltd. This involved the creation of a new company, NIAL Holdings Ltd, to own 100% of the shares in Newcastle International Airport Ltd. At the time of the acquisition of the shares, the net worth of NIAL Holdings Limited was £134m.

The original seven local authority shareholders have retained 51% of the shareholding of NIAL Holdings Ltd with 49% held by Copenhagen Airports. Gateshead Council's value of shares did not reduce as a result of this as an additional share allocation was issued to Copenhagen Airports Ltd. On 20 July 2001 NIAL Holdings became a Plc. This company holds all shares in Newcastle International Airport Ltd and distributes 49% of the dividend to Copenhagen Airports and the remaining 51% to the constituent local authorities who collectively own a separate Company known as the Local Authority NIAL Holdings Ltd. The Council holds a 13% shareholding in the Local Authority Holding Company, which equates to a 6.5% shareholding in NIAL Holdings Plc. with a value of £8.912m.

The local authority shareholders received £94.6m in 2001/02 from Copenhagen Airports Ltd in payment for 49% of NIAL Holdings Ltd. Gateshead Council's share of this was £11.735m. In addition to this NIAL Holdings issued £100m of loan notes to the local authority shareholders in recognition of the value built up in Newcastle International Airport Ltd over many years.

On 4 April 2002, NIAL Holdings Plc redeemed the short-term loan notes held by the seven local authority shareholders. This generated £75m cash that was allocated to the seven local authorities in proportion to their shareholding. The Council received £9.305m in respect of this sale. NIAL Holdings Plc issued long-term loan notes of £25m; these were split between the seven local authority shareholders based on shareholding value. The Council's share was £3.1025m. This is being repaid in equal instalments over ten years starting in 2003/04. The fourth instalment of £310,171 was received on 30 March 2007. Interest payable on the

Notes to the Core Financial Statements

Council's share of the long-term loan notes of £0.179m in 2006/07 (2005/06 £0.205m) was payable to the Council. On 19 December 2006 NIAL Holdings Plc re-registered as a private company and changed its name to NIAL Holdings Ltd.

The Holding Company Accounts for year ended 2006 show 'Total Shareholders' Equity' of £243.882m (2005 revised figure of £124.796m and £98.854m in 2004).

Authority	Shares	Share %	Share Equity 2006 B/S £m
Sunderland	1,845	18.5	44.996
Newcastle	1,731	17.3	42.216
Northumberland	1,508	15.1	36.778
Durham	1,408	14.1	34.339
Gateshead	1,304	13.0	31.802
North Tyneside	1,214	12.1	29.607
South Tyneside	990	9.9	24.144
Total	10,000	100	243.882

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.

Authority	Shares	Share %	Cost of shares £m
Sunderland	1,845	18.5	23.679
Newcastle	1,731	17.3	22.216
Northumberland	1,508	15.1	19.354
Durham	1,408	14.1	18.070
Gateshead	1,304	13.0	16.735
North Tyneside	1,214	12.1	15.580
South Tyneside	990	9.9	12.706
Total	10,000	100	128.340

The 51% shareholding in NIAL Holdings was valued at £128.340m and is shown as an investment in a subsidiary in the books of the Newcastle Airport Local Authority Holding Company Limited.

For the year ending 31 December 2006, Newcastle Airport Local Authority Holding Company declared a gross dividend and refinancing income of £83,265,306 (£3.633m for 2005), after deductions for LA7 activities and contingencies held in respect of refinancing expenses the local authority shareholders received payments in November 2006 and January 2007 as follows:

Notes to the Core Financial Statements

Authority	Shares	Share %	Dividend 2005 £	Dividend 2006 £	Refinancing 2006 £
Sunderland	1,845	18.5	627,300	738,000	14,575,500
Newcastle	1,731	17.3	588,540	692,400	13,674,900
Northumberland	1,508	15.1	512,720	603,200	11,913,200
Durham	1,408	14.1	478,720	563,200	11,123,200
Gateshead	1,304	13.0	443,360	521,600	10,301,600
N Tyneside	1,214	12.1	412,760	485,600	9,590,600
S Tyneside	990	9.9	336,600	396,000	7,821,000
Total	10,000	100	3,400,000	4,000,000	79,000,000

The accounts of NIAL Holdings Ltd can be obtained on application to the Finance Director, Newcastle International Airport, Woosington, Newcastle upon Tyne.

The accounts of Newcastle Airport Local Authority Holding Company can be obtained from the Head of Finance, South Tyneside Council, Town Hall and Civic Offices, South Shields.

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. However, the deal entered into by the 7 local authorities represented a disposal of existing shares and an acquisition of new shares. The value of the new acquisition has therefore been reflected in the restated prior years figures. The corresponding increase in valuation is now held in the Newcastle International Airport Strategic Reserve (£8.912m).

31. Capital Instruments

There have been no capital instruments issued by the Council.

32. Long Term Borrowing and Borrowing Repayable Within One Year

Source of Loan	Range of Interest Rates Payable (%)	Total Outstanding 31 March	
		2006 £000s	2007 £000s
Public Works Loans Board	3% - 13.75%	249,539	312,093
Loans Serviced by Other Local Authorities	7.631%	50	38
Other Loan Instruments	3.6% - 6.75%	102	6,097
		249,691	318,228

An analysis of loan by maturity is: -

Maturing within one year	75	73
Maturing in 1 – 2 years	25	4,031
Maturing in 2 – 5 years	37,015	61,596
Maturing in 5 – 10 years	72,207	58,183
Maturing in more than 10 years	140,368	194,345
Long Term Borrowings	249,615	318,155

Notes to the Core Financial Statements

The borrowing repayable within 1 year figure for 2006/07 is £3.725m (2005/06 £4.346m). This consists of loans maturing within one year of £0.073m (2005/06 £0.075m), and temporary loans £3.652m (2005/06 £4.27m).

33. Long Term Investments

The investments at 31 March 2007 consist of:	2006	2007
	£000s	£000s
Newcastle International Airport (NIAL Holdings)	8,911	8,911
Newcastle International Airport (Local Authority Holding Co)	1	1
Marketable Securities	<u>5</u>	<u>5</u>
(Market Value at 31 March 2007 - £8,965)	<u>8,917</u>	<u>8,917</u>

Further information on the airport investments is disclosed in Note 30 - Interest in Companies. 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. However, the deal entered into by the 7 local authorities represented a disposal of existing shares and an acquisition of new shares. The value of the new acquisition has therefore been reflected in the restated prior years figures. The corresponding increase in valuation is now held in the Newcastle International Airport Strategic Reserve (£8.912m).

34. Provisions

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

	Balance at 01/04/06	Receipts	Payments	Balance at 31/03/07
	£000s	£000s	£000s	£000s
Insurance	(5,658)	0	497	(5,161)
Landfill Usage	(1,937)	(896)	693	(2,140)
Waste Disposal	(967)	0	85	(882)
Sundry	(996)	0	19	(977)
Total Provisions	(9,558)	(896)	1,294	(9,160)

- **Insurance.** Provision is made for known outstanding liability claims, the costs of which have been estimated by the Councils insurers. The insurance provision includes the cost of claims arising from gradual pollution where there is no insurance cover, of which there has been one claim to date on the Council. The timing of payments from the insurance provision will be determined by the settlement of claims and is therefore unknown at present.
- **Landfill Usage.** As a Waste Disposal Authority (WDA), an obligation was placed on Gateshead Council by the Waste and Emissions Trading Act 2003 to reduce the amount of biodegradable municipal waste (BMW) that is put into landfill sites. It provided the legal framework for the Landfill Allowance Trading Scheme (LATS), which has been introduced from 1st April 2005.

Under the LATS scheme, an annual allocation in tonnes is given to Gateshead Council, representing the number of tonnes of BMW the Council is permitted to landfill. A system of buying and selling permits between waste disposal authorities, banking and borrowing between years and ultimately the payment of a 'fine' of £150 per tonne landfilled over targets means that permits have to be valued each year and accounted for correctly.

In 2006-07, Gateshead Council was allocated 109,572 tonnes worth of allowances. At the year-end it was estimated that 49,864 tonnes were used and the trading value of allowances was set at £17.98 per tonne. Therefore, the remaining 59,708 allowances are valued at £1,073,550.

In accordance with the LAAP Bulletin 64 the Council has a provision (£2.140m) to recognise the liability, which arises from the obligation to hold landfill allowances equal to usage. This is matched by a current asset (£4.233m) to represent the total allowances (less any sales or purchases, of which there were sales of £106k in 2006/07) allocated to the Council and a reserve (£2.200m), which represents the unused allowances as at 31 March 2007

- **Waste Disposal.** This provides for repayment of outstanding debt on former waste disposal assets, future pollution control and environmental works arising from former waste disposal activities and other liabilities. The provision will be written down by 2018.
- **Sundry.** The Sundry Provision is made up of: -

Dunston Riverside Land Sales (£0.690m) - For future potential liability owing to One North East for sale of land. The Council are in negotiation with One North East about the timing of the payment.

Bottle Bank Compulsory Purchase Orders (£0.116m) – To cover the cost of claims made by former owners of 3 plots of land at Bottle Bank, which were acquired under a compulsory purchase order. These costs were originally to be recovered from Collingwood Developments, who are now in administration. These costs will now be claimed from the administrators for Collingwood Developments. The Council has also disclosed a contingent liability, as shown in note 38.

Frozen Holiday Pay of (£0.085m) - 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.

Provision for debt repayment (£0.086m) - An annual debt write down of £12k arising from the transfer of property rights and liabilities from waste regulation authorities to the new Environment Agency on 1 April 1996. The provision will be written down by 2014.

35. Movement in Reserves

Reserve	Balance at 01/04/06	Gains or (Losses)	Transfers to / from other reserves	Balance at 31/03/07
	£000s	£000s	£000s	£000s
General Reserve	10,480	323	0	10,803
LMS Budget Share Reserve	11,040	466	0	11,506
Strategic Reserves				
DLO General	625	(625)	0	0
Renewals	3,576		(3,576)	0
Pensions	7,500	(1,500)	0	6,000
Capital	481	173	4,968	5,622
Newcastle International Airport	8,912	0	0	8,912
Insurance	9,931	(2,000)	0	7,931
Repairs and Maintenance	1,392		(1,392)	0
Grant Clawback	7,866	(424)	0	7,442
Landfill Allowance Trading Scheme	433	1,767	0	2,200
Gateshead Development Pool	11,285	18,623	0	29,908
Cultural Development Reserve	1,727	2	0	1,729
Schools Trading Account	451	(451)	0	0
Bridge Maintenance	2,117	0	0	2,117
Developers' Contributions	950	6	0	956
LPSA Reward Grant Reserve	0	1,524	0	1,524
DSG Reserve	0	402	0	402
Direct Service Organisations	349	(349)	0	0
Total Strategic Reserves	57,595	17,148	0	74,743
HRA Surplus	6,695	8,578	0	15,273
Pension Reserve (FRS 17)	(287,110)	(7,370)	0	(294,480)
Collection Fund	(206)	1,645	0	1,439
Fixed Asset Restatement Account	782,235	27,494	0	809,729
Capital Financing Account	251,438	277	0	251,715
Deferred Capital Receipts	2,792	(819)	0	1,973
Capital Receipts / Grants / Contributions Unapplied	5,457	12,667	0	18,124
Total Reserves	840,416	60,409	0	900,825

36. The General Reserve (£10.8m) 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 (£11.5m). This amount represents the cumulative net unspent element of school budget shares, which, under LMS, must be carried forward into the following financial year.

37. Strategic Reserves

- **DLO General (£0).** Risk assessment suggests this is no longer required as a specific reserve and is more appropriate to be held in the General Reserve.
- **Renewals (£0).** This has been consolidated within the Capital Reserve in 2006/07.
- **Pensions (£6m).** This reserve is earmarked to meet increases in employer's liability and increases in back funding requirements, with £1.5m earmarked in 2006/07, £3m in 2007/08 and £3m notionally in 2008/09 (pending triennial valuation). The Reserve is therefore earmarked for use over the period of the MTFs. The reserve exists to ensure potential increases in back funding payment to Tyne and Wear Superannuation Fund are provided for.
- **Capital (£5.6m).** This reserve is to provide for future development on large capital projects as an alternative to borrowing. The level of reserve is based on minimum 10% of anticipated capital receipts over the 3-year capital programme. The reserve exists to mitigate the risk of insufficient capital funds to finance the capital programme in any particular year, for example capital receipts not generated or capital grant not secured.
- **Newcastle International Airport (£8.9m).** 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. However, the deal entered into by the 7 local authorities represented a disposal of existing shares and an acquisition of new shares. The value of the new acquisition has therefore been reflected in the restated prior years figures.
- **Insurance (£7.9m).** The reserve is to allow for possible claims against the Council, which are not covered by external policies such as claims for liability and storm damage, 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. The risk assessment undertaken for 2006/07 proposes that this reserve be reduced to £4m over the life of the MTFs.
- **Repairs and Maintenance (£0).** This item has been consolidated within the Capital Reserve in 2006/07.
- **Grant Clawback (£7.4).** 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 European Audit of 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.
- **LATS (£2.2m).** This reserve represents the value of unused Landfill Allowances in accordance with LAAP Bulletin 64. It is based on the value of unused Landfill Allowances carried forward to future years.

- **Gateshead Development Pool (£29.9m).** 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. As well as the budgeted revenue contribution, the reserve has increased in 2006/07 due to the receipt of a one-off Newcastle Airport dividend and a significant receipt from the Local Authority Business Growth Initiative Scheme. It is proposed that the reserve be 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 (£1.7m).** 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 is earmarked for Gateshead contributions to Culture 10 initiatives and has been established to mitigate the risk of insufficient financial resources for this programme.
- **School Trading (£0).** Risk assessment suggests this is no longer required as a specific reserve and is more appropriate to be held in the General Reserve.
- **Bridge Maintenance (£2.1m).** This reserve was established to meet the costs of future bridge maintenance work. It is based on estimated future costs of replacing main bearings and protective systems on bridges and unplanned repairs and maintenance. The reserve exists to mitigate the risk of insufficient financial resources being available for these key structures.
- **Developer Contributions (£1.0m).** 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.
- **Direct Service Organisations (£0).** This reserve represented the cumulative operating surpluses of the Council's Direct Service Organisations, maintained to cover potential deficits in future years. Risk assessment suggests this is no longer required as a specific reserve and is more appropriate to be held in the General reserve.
- **LPSA Reward Grant (£1.5m).** Gateshead Council entered into a Local Public Service Agreement with Central Government in March 2005 covering the period 1 April 2003 to 31 December 2006. As a result of performance against the agreement, the Council has been awarded £5.0m Performance Reward Grant (50% capital and 50% revenue).

The reward grant has been awarded on the basis of achieving stretched performance in the agreed twelve target areas. Five of the twelve performance targets have been delivered with partners, namely the Northumbria Police, Gateshead PCT, Job Centre Plus and The Gateshead Housing Company. £0.95m of this sum has been earmarked for use in the Council's budget for 2007/08.

- **Dedicated Schools Grant (£0.4m).** For 2006-07, authorities in England have received a ring-fenced Dedicated Schools Grant (DSG) from the Department for Education and Skills, whereas previously such support was paid as part of Revenue Support Grant. DSG meets the definition of service related income and is therefore accounted for as part of the Net Cost of Services under the Education heading on the Income and Expenditure Account.

Notes to the Core Financial Statements

This is a change in grant payable rather than a change in accounting policy. As a result there are differences in the 2005-06 comparative figures for Education Services.

The DSG can only be applied to meet expenditure included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an council wide basis known as Central Expenditure. In addition each school is allocated a devolved budget known as the Individual Schools Budget. Over and underspends on the two elements are required to be accounted for separately.

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

	Central Expenditure	Individual Schools Budget	Total
	£000s	£000s	£000s
Original grant allocation	11,237	84,877	96,114
Adjustment to final grant allocation	(446)	0	(446)
DSG received	10,791	84,877	95,668
Expenditure	10,389	84,877	95,266
Underspend	402	0	402

38. Contingent Liabilities

Bottle Bank Compulsory Purchase Orders

As disclosed in note 34, the Council has made provision of £0.116m for the estimated cost of claims made in relation to 3 plots of land at Bottle Bank, which were acquired under a compulsory purchase order. This provision represents the Council's best estimate of the costs, which will be incurred in settling the claims, and also the amount, which the Council will claim from the administrators for Collingwood Developments.

The Council has a contingent liability which arises from the possibility that the former owners of the 3 remaining plots may disagree with the Council's assessment of the value of the plots, and may subsequently choose to pursue claims via Lands Tribunal.

Equal Pay Claims

The Council agreed a compensatory payments scheme in 2004/05 to mitigate the cost of potential equal pay claims. In 2005/06, a revised pay structure was agreed following a job evaluation process for the part of the workforce, which were covered by the compensatory payments scheme. The costs of the new pay structure are included in the net cost of services in the Income and Expenditure Account.

Notes to the Core Financial Statements

The Council has received a number of legal claims from employees relating to equal pay and equal value issues. The response to these claims is being assessed in the light of similar claims and legal cases involving other local authorities. The Council has a contingent liability arising from the risk that these cases may proceed to the courts and a settlement may need to be paid. The cost of this outcome is unknown.

39. Issue of Accounts

These accounts were approved by the Council's Accounts Committee on 29th June 2007 and were authorised for issue by the Leader of the Council.

40. Material Events

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 is authorised for issue. There have been no such issues.

41. 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.

Shingley 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. The trusts are summarised below: -

Fund	Balance at 01/04/06 £000s	Receipts £000s	Expenditure £000s	Balance at 31/3/07 £000s
Social Services Amenity Fund	129	38	111	56
Shingley Gallery Charity	46	2	0	48
Blind Welfare Trust Fund	21	2	0	23
Other	85	10	30	65
Total Trust Funds	281	52	141	192

Trust fund balances are mainly invested with the Council.

42. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and Government Departments.

	31 March	
	2006	2007
	£000s	£000s
Amounts falling due within one year		
Government Departments	20,257	20,225
Other Local Authorities	471	1,030
Other Public Bodies	2,576	2,435
Housing Rents	6,399	6,960
Sundry Debtors	30,184	39,505
Car Loans to Employees	25	25
	59,912	70,180
Amounts falling due after one year		
Car loans to employees	88	33
	60,000	70,213
Provision for Doubtful Debts	(8,975)	(6,133)
Total	51,025	64,080

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 2007 is made up as follows:

	Gross Debtors	Bad Debt Provision	Net Debtors 31 March
	£000s	£000s	£000s
Council Tax	9,265	(1,342)	7,923
National Non Domestic Rates	1,947	(206)	1,741
Housing Revenue Account	6,960	(3,972)	2,988
Sundry Debtors	52,041	(613)	51,428
Total	70,213	(6,133)	64,080

43. Long Term Debtors

	31 March	
	2006	2007
	£000s	£000s
Mortgages	632	112
Newcastle International Airport Long Term Loan Notes	2,172	1,862
North Music Trust	534	533
Total	3,338	2,507

44. Stocks and Work in Progress

	31 March	
	2006	2007
	£000s	£000s
Work-in-Progress		
Rechargeable Works	259	274
Stocks		
Direct Labour Organisation	374	364
Salt	43	227
Other	236	198
Total	912	1,063

45. Creditors

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

	31 March	
	2006	2007
	£000s	£000s
Government Departments	24,626	24,746
Pension Fund	981	1,045
Other Local Authorities	3,833	9,588
Sundry Creditors	27,580	19,615
Total	57,020	54,994

46. Pension Costs

As part of the terms and conditions of employment of its officers and other employees the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The Council participates in the following pension scheme where the benefits need to be accounted for under FRS17:

The Local Government Pension Scheme (Tyne and Wear Pension Fund) 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 pensions liabilities with investment assets.

The scheme 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 fund assets and liabilities.

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:

	Local Government Pension Scheme	
	2005/06	2006/07
	£m	£m
Net Cost of Services:		
Current service cost	19.8	22.9
Past service cost	8.1	3.2
Gains and losses on settlements and curtailments	0.4	0.0
Net Operating Expenditure:		
Interest cost	37.4	39.0
Expected return on assets	(28.4)	(33.2)
Amounts to be met from Government Grants and Local Taxation:		
Movement on pensions reserve	(10.4)	(3.9)
Actual amount charged against Council Tax for pensions in the year:		
Employer's contributions payable	24.9	23.4
Retirement benefits	2.0	4.6

Notes to the Core Financial Statements

Further information on the Tyne and Wear Pension Fund can be found in the 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

The actuarial loss identified as movement on the pensions reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007:

	Local Government Pension Scheme				
	2002/03	2003/04	2004/05	2005/06	2006/07
Difference between expected and actual return on pension assets (£m)	(92.9)	51.1	14.0	75.0	(3.23)
Percentage of scheme assets	30.0%	13.4%	3.4%	14.9%	(0.6%)
Experience gains/(losses) arising on the pension liabilities (£m)	0.0	(0.7)	(3.5)	(2.9)	(2.2)
Percentage of present value of scheme liabilities	0.0%	0.1%	0.5%	0.4%	(0.3%)
Changes in assumptions underlying the present value of pension liabilities (£m)	0.0	(7.5)	(90.0)	(57.3)	2.0
Percentage of present value of scheme liabilities	0.0%	1.4%	12.7%	7.2%	0.2%
Total Gain / (Loss) (£m)	(92.9)	42.9	(79.5)	14.8	(3.43)
Percentage of present value of scheme liabilities	17.8%	7.7%	11.2%	1.9%	(0.4%)

Hewitt, Bacon and Woodrow Limited, an independent firm of actuaries, has valued the Tyne and Wear Pension Funds assets and liabilities in accordance with FRS17 based upon the latest actuarial valuation of the fund as at 31 March 2004.

The main assumptions used in their calculations have been:

	2005/06	2006/07
Rate of inflation	3.0%	3.2%
Rate of increase in salaries	4.5%	4.7%
Rate of increase: pensions in payment	3.0%	3.2%
Rate of increase: deferred pensions	3.0%	3.2%
Rate for discounting scheme liabilities	4.9%	5.3%

Notes to the Core Financial Statements

Assets in the Tyne and Wear Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the fund.

	31 March 2006		31 March 2007	
	Long Term	Proportion	Long Term	Proportion
	Return	Assets	Return	Assets
	%	%	%	%
Equities	7.3	68	7.7	67
Government Bonds	4.3	12	4.7	14
Corporate Bonds	4.9	9	5.3	7
Property	6.3	9	6.7	10
Other Assets	4.6	2	5.6	2
Average Long Term Expected Rate of Return	6.6		7.0	

The actuaries have provided the Local Government Pension Scheme figures shown above to the Tyne and Wear Pension Fund using information provided by the scheme and assumptions determined by the Council in conjunction with the actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March are as follows:

	Local Government Pension Scheme	
	31/03/06	31/03/07
	£m	£m
Estimated funded liabilities in scheme	(718.9)	(762.5)
Estimated unfunded liabilities in scheme	(72.8)	(75.7)
Estimated assets in scheme	504.6	543.7
Net asset/(Liability)	(287.1)	(294.5)

The liabilities 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 £294.48m. However, statutory agreements 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.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Under the projected unit method, the current service cost will increase as members of the scheme approach retirement, for schemes in which the age profile of the active membership is rising significantly.

The Actuary has assumed that 50% of members will commute the maximum amount of pension permitted by the Inland Revenue so that their total lump sum is 25% of the value of their benefits and the rest will not commute any pension.

Teachers Pensions

Teachers employed by the Council are members of the Teachers Pension Scheme, administered by the Teachers Pensions Agency. 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.

In 2006/07, the Council paid £7.915 million to the Pensions Agency in respect of teacher's retirement benefits, representing 13.5% of pensionable pay. The figures for 2005/06 were £7.531 million and 13.5%. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with related increases. In 2006/07 these amounted to £2.682 million, representing 4.6% of pensionable pay (£2.544 million and 4.5% in 2005/06).

47. Deferred Capital Receipts

Deferred Capital Receipts 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.

48. Capital Receipts and Grants Unapplied

This represents receipts and grants held to finance future capital expenditure. The total figure shown in the Balance Sheet contains £2.7m in capital receipts unapplied, which relates to the balance of the capital receipt realised from the sale of shares in Newcastle International Airport Ltd. The Council has agreed that this capital receipt will be used to fund the Gateshead Development Pool. Revenue Contributions to the Development Pool are shown in strategic reserves.

49. 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 (Page 25) to the total cash transactions for all the Council's revenue activities.

2005/06		2006/07	
£000s		£000s	£000s
(38,769)	(Deficit) for Year – General Fund		(9,043)
(2,690)	(Deficit) for Year – Housing Revenue Account		(49)
(41,459)			(9,092)
Non-cash transactions			
(428)	Depreciation / Other Non Cash Transactions	17,211	
14,786	Direct Revenue Funding	13,663	
1,235	(Gain) / loss on sale of fixed assets	558	
(4,201)	Government Grants Deferred	(4,389)	
11,984	Deferred Charges	8,979	
10,380	FRS 17 adjustment	3,940	
(3,090)	Contributions (to) / from Provisions and Reserves	398	
30,666			40,360
Cash transactions not included in Income and Expenditure			
(12,384)	Payments to the Capital Receipts Pool	(9,116)	(9,116)
Items on an accrual basis			
734	Decrease / (Increase) in Stock	(151)	
59,118	Decrease / (Increase) in Debtors	(10,214)	
(14,138)	(Decrease) / Increase in Creditors	1,756	
(2,369)	Decrease / (Increase) in Landfill Allowance Asset	(1,864)	
688	Decrease / (Increase) in Long-term Debtors	521	
44,033			(9,952)
Items classified elsewhere in the Cash Flow Statement			
(367)	Dividends from Joint Ventures		(11,267)
12,850	Interest Paid (Net)		14,125
33,339	Net Cash Inflow from Revenue Activities		15,058

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

2005/06 £000s		2006/07 £000s
(805)	Decrease in cash during the year	(6,841)
22,706	Cash inflow from debt	13,469
<hr/>		<hr/>
21,901		6,628
159,765	Net Debt at 1 April 06	181,666
<hr/>		<hr/>
181,666	Net Debt at 31 March 07	188,294

51. Reconciliation of items under the Financing and Management of Liquid Resources

Movement 2005/06 £000s		Short Term Deposits £000s	Long Term Borrowing (& due <1yr) £000s	Short Term Loans £000s
(145,296)	Opening Balance 1 April 06	101,126	(249,691)	(4,271)
	Cash Flow Items:			
986,906	Loans Raised	735,427	(85,222)	(4,237)
(994,445)	Loans Repaid	(685,012)	16,685	4,855
<hr/>		<hr/>	<hr/>	<hr/>
(152,835)	Closing Balance	151,541	(318,228)	(3,653)
<hr/>		<hr/>	<hr/>	<hr/>

52. 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 its carrying amount, or traded in an active market. The amount shown within the management of liquid resources section of the cash flow statement is the difference between the opening and closing balances for short-term deposits.

53. Increase / Decrease in Cash

Movement 2005/06 £000s		Balance 01/04/2006 £000s	Balance 31/03/2007 £000s	Movement 2006/07 £000s
(2,549)	Cash	723	1,210	487
1,744	Bank Overdraft	(22,494)	(29,822)	(7,328)
(805)	(Decrease) / Increase in cash	(21,771)	(28,612)	(6,841)

54. Analysis of other Government Grants

2005/06 £000s		2006/07 £000s
6,464	Central Services to the Public	12,002
601	Cultural, Environmental and Planning Services	789
39,356	Education Services	135,385
0	Highways, Roads and Transport Services	1,825
34,779	Housing Services	37,160
12,224	Social Services	10,546
4,106	Other Corporate Services	1,893
18,295	Council Tax Benefits	19,775
115,825		219,375

Housing Revenue Income and Expenditure Account

Restated 2005/06 £000s	Income	2006/07 £000s	Note
53,662	Dwelling rents (gross)	56,027	15
1,011	Non-dwelling rents (gross)	1,065	
1,810	Tenants charges for services and facilities	1,971	
78	Leaseholders charges for services and facilities	185	
283	Other charges for services and facilities	255	
637	Contributions towards expenditure	1,275	
1,536	HRA subsidy receivable	4,682	10,14
<hr/>		<hr/>	
59,017		65,460	
Expenditure			
17,371	Repairs and maintenance	17,574	
11,947	Supervision and management	11,566	
2,935	Special Services	4,031	
1,363	Rents, rates, taxes and other charges	1,530	
(638)	Sums directed by Secretary of State transfer to GF	0	
0	Transfer of assumed surplus to DCLG	0	
758	Increased provision for bad or doubtful debts	215	
0	Cost of capital charge	0	
19,913	Depreciation on Dwellings	21,566	7
147	Depreciation on Other Assets	149	7
208	Debt management charges	164	
<hr/>		<hr/>	
54,004		56,795	
(5,013)	Sub-total: Net Cost of Services I&E Account	(8,665)	
0	HRA Services share of Corporate and Democratic Core	0	
0	HRA share of other amounts included in the whole authority Net	0	
0	Cost of Services but not allocated to specific services	0	
<hr/>		<hr/>	
(5,013)	Subtotal: Net Cost of HRA Services	(8,665)	
643	(Gain) or loss on sale of HRA Fixed Assets	0	
7,057	Interest Payable or other similar charges	8,890	
329	Amortised Premiums and Discounts	326	
(326)	HRA Investment Income	(502)	
<hr/>		<hr/>	
2,690	(Surplus) or deficit for the year on HRA services	49	

Statement of Movement in 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.

Restated 2005/06 £000s		2006/07 £000s
2,690	(Surplus) or deficit for the year on HRA I & E account	49
(7,862)	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the Year (Note 1)	(8,627)
<hr/>		
(5,172)	(Surplus) for year	(8,578)
(1,523)	(Surplus) at Beginning of year	(6,695)
<hr/>		
(6,695)	(Surplus) at end of year	(15,273)

Notes to the Housing Revenue Account

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

Restated 2005/06 £000s		2006/07 £000s
	Items included in the HRA I&E account but excluded from the movement on HRA Balance for the year	
0	Difference between amounts charged to I&E for amortisation of premiums and discounts and the charge for the year in accordance with statute	0
0	Difference between any other item of income and expenditure in accordance with the SORP and determined in accordance with statutory HRA requirements (if any)	0
(643)	Gain or loss on sale of HRA Fixed Assets	0
(43)	Net charges made for retirement benefits in accordance with FRS17	(7)
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
<u>(686)</u>		<u>(7)</u>
	Items not included in the HRA I&E Account but included in the movement on HRA balance for the year	
(7,176)	Transfer to/(from) Major Repairs Reserve	(8,641)
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
0	Capital expenditure funded by the HRA	21
<u>(7,176)</u>		<u>(8,620)</u>
<u>(7,862)</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the Year	<u>(8,627)</u>

2. Housing Stock & Balance Sheet Valuation

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

	1/04/06	31/03/07
	£000s	£000s
Houses	12,253	12,120
Flats	6,712	6,555
Bungalows	3,165	3,165
	22,130	21,840

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

	1/04/06	31/03/07
	£000s	£000s
Operational Assets - Dwellings	995,639	1,078,325
Operational Assets - Other, Land & Buildings	3,446	3,446
Operational Assets - Vehicles, Plant & Equipment	369	371
Non-Operational Assets	340	720
Total Balance Sheet value of land, houses & other property in the HRA	999,794	1,082,862

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 2006 was £2,223,216,439 (£1,983,829,600 at April 2005). 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:

	2005/06	2006/07
	£000s	£000s
Opening Balance at 1 April	(674)	0
Amounts transferred to MRR during year	(20,060)	(21,715)
Amounts transferred from MRR during year	7,176	8,641
Capital expenditure on land, houses & other property	13,558	13,074
Repayment of principal of any amount borrowed	0	0
Costs of liability arising from credit arrangements	0	0
Closing balance as at 31 March	0	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 2006/07 was as follows:

	2005/06	2006/07
	£000s	£000s
Land	0	0
Houses	31,245	62,216
Other Property	28	1
Total Capital Expenditure	31,273	62,217

This was funded by: -

	2005/06	2006/07
	£000s	£000s
Borrowing	15,507	48,227
Usable Capital Receipts	674	0
Revenue Contributions	1,534	0
Housing Market Renewal Grant	0	915
Major Repairs Reserve	13,558	13,075
Total Funding	31,273	62,217

During 2006/07 the total receipts from disposal of HRA Assets by type were: -

	2005/06	2006/07
	£000s	£000s
Land	635	10,922
Houses	16,510	10,507
Other Property	0	0
Total Receipts	17,145	21,429

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:

	2005/06	2006/07
	£000s	£000s
Dwellings	19,913	21,566
Other Land & Buildings	68	72
Subtotal - Depreciation for land, houses & other property	19,981	21,638
Other Operational Assets - Vehicles, Plant & Equipment	72	70
Non-Operational Assets	7	7
Total	20,060	21,715

8. Impairment Charges

There were no charges in respect of impairment of HRA assets in 2006/07.

9. Deferred Charges

There were no deferred charges in 2006/07.

10. HRA Subsidy

The HRA subsidy available is made up from:

	2005/06	2006/07
	£000s	£000s
Allowance for Management & Maintenance	31,191	32,225
Allowance for Major Repairs	12,884	13,074
Admissible Allowance	81	40
Charges for Capital	10,464	12,713
Rental Constraint Allowance	0	1,460
Other Items of Reckonable Expenditure	4	4
	<hr/> 54,624	<hr/> 59,516
Assumed Rent Income	(53,037)	(56,774)
Interest on Receipts	(4)	(4)
	<hr/> 1,583	<hr/> 2,738
Defects Repurchases Loan	9	0
Adjustments (Previous Years)	(56)	1,944
Total Receivable	<hr/> 1,536	<hr/> 4,682

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

The Council employees are eligible to join the Local Government Pension Scheme (Tyne and Wear Pension Fund) and so are eligible for retirement benefit. This includes employees accounted for within the 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 Supervision and Management.

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 additional current service cost above the cash cost is £0.007m and needs to be 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 2007 was £7.354m (£6.878m at 31 March 2006). The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2007 is £3.972m (£4.390m at 31 March 2006).

Notes to the Housing Revenue Account

Movement during the year relates to write-offs of uncollectable rent of £633K and an increase in provision of £215K 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

In 2005/06 the Council's rent rebates exceeded the limit level determined by the Secretary of State under the Rent Rebate Subsidy Limitation scheme by £164,176. In 2006/07 there were no rent rebates that exceeded this limit.

14. Exceptional Items and Prior Year Adjustments

There were no exceptional items affecting the HRA for 2006/07. However, a prior year adjustment of £1.944m was made relating to the receipt of housing subsidy as shown in note 10.

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 1.6% of the lettable properties were vacant (1.6% in 2005/06). Average rents were £51.46 per week in 2006/07, an increase of 5% over 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 63.9% 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 £29.202m in 2006/07 (£28.522m in 2005/06) and is broken down as follows: -

	2005/06 £000s	2006/07 £000s
Repairs and Maintenance	17,339	17,500
Supervision and Management	9,722	10,292
Special Services	1,239	1,286
Rents, rates, taxes & other charges	222	124
Total Management Fee	28,522	29,202

Collection Fund Account

Restated 2005/06 £000s		2006/07 £000s	Notes
	<u>Income</u>		
61,276	Council Tax	64,220	2
18,064	Council Tax Benefit	18,690	2
63,499	Business Rate Payers	70,831	3
<u>142,839</u>	Total Income	<u>153,741</u>	
	Precepts and Demands		
69,734	Gateshead MBC (including Parish Councils)	73,266	
3,000	Transfer of Surplus to General Fund	2,000	4
141	Transfer of Surplus to the Police Authority	116	4
131	Transfer of Surplus to Tyne and Wear Fire and Rescue Authority	108	4
3,980	Northumbria Police Authority	4,112	5
3,716	Tyne and Wear Fire and Rescue Authority	3,912	5
63,218	Payments to National Pool for business rates	70,544	3
281	Costs of Collection	288	3
(245)	Bad and Doubtful Debts / Appeals		6
245	Write Offs	(925)	
	Movement on provisions	(1,325)	
<u>144,201</u>	Total Expenditure	<u>152,096</u>	
	Collection Fund Balances		
(1,362)	(Deficit)/Surplus for the Year	1,645	
<u>1,156</u>	Balance Brought Forward 1 April	<u>(206)</u>	
<u>(206)</u>	Balance carried forward 31 March	<u>1,439</u>	

Notes to the Collection Fund Account

1. General

This account represents the transactions of the Collection Fund, which is a statutory fund and must be kept separate from the main accounts of the Council. The account is therefore not consolidated with the Council's accounts. This account has been prepared on an accruals basis.

2. Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 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 Northumbria Police Authority, Tyne & Wear Fire and Rescue Authority and the Council, for the forthcoming year and dividing this by the Council Tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and further adjusted for discounts).

The table below shows the calculation of the Council Tax Base:

	Proportion of Band D Charge	No of Properties		Band D Equivalent Properties	
		2005/06	2006/07	2005/06	2006/07
Band A	0.67	46,010	45,981	30,660	30,640
Band B	0.78	9,377	9,473	7,293	7,368
Band C	0.89	12,958	13,263	11,518	11,789
Band D	1.00	4,681	4,767	4,681	4,767
Band E	1.22	1,885	1,914	2,304	2,339
Band F	1.44	675	681	975	984
Band G	1.67	324	325	540	542
Band H	2.00	11	13	23	26
		75,921	76,417	57,994	58,455

The basic amount of Council Tax for Band D property (£1,418.90 including precepts for 2006/07) is multiplied by the proportion specified for the particular band to give an individual amount due. Council Tax bills were based on the statutory proportions for Bands A to H shown in the table above.

The Council Tax for 2006/07, which is receivable from council taxpayers, is the amount billed to Council Tax payers of £64.220m and Council Tax benefits of £18.690m. These amounts are disclosed in the Collection Fund Account.

Allowances of £13.181m (2005/06 £13.698m), in the form of reliefs and discounts, were received but were not disclosed in the Collection Fund Account as they were not amounts which the Council collected from taxpayers.

The amount billed to Council Tax payers, Council Tax benefits and allowances give a gross Council Tax debit for 2006/07 of £97.074 (2005/06 £93.618m).

3. National Non-Domestic Rates (NNDR)

The Government specifies an amount (43.3p in 2006/07 and 42.2p in 2005/06) and subject to the effects of small property relief and transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that 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.

The 2006/07 charge of £78.867m and the NNDR income of £70.831m (excluding reliefs, but inclusive of bad debt provisions and costs of collection) for 2006/07 were based on an average rateable value for the Council's area of £183.5m for the year (£182m 2005/06).

The table below shows a reconciliation of the amount collected and the 2006/2007 charge.

	£m
NNDR Income	70.831
Exemptions	7.309
Discretionary Relief	0.058
Bad Debts Written Off	0.622
Interest on Repayments	<u>0.047</u>
2006/07 Charge	<u>78.867</u>

4. Contributions to Collection Fund Surpluses and Deficits

A transfer to the collection fund in 2006/07 was based on an estimated surplus of £2.0m as at 31 March 2006 and which was notified to all authorities in January 2006. This was taken into account when setting the Councils budget for 2006/07. The collection fund 2005/06 showed a deficit at the year-end of £0.206m and this was reflected in the estimated collection fund balance at 31 March 2007 for budget setting purposes.

A surplus on the fund arising in the previous year of £0.116m was transferred to the Northumbria Police Authority in 2006/07 (2005/06 £0.141m).

A surplus on the fund arising in the previous year of £0.108m was transferred to the Tyne & Wear Fire and Rescue Authority in 2006/07 (2005/06 £0.131m).

5. Precept Payments

	2005/06	2006/07
	£000s	£000s
Northumbria Police Authority	3,980	4,112
Tyne and Wear Fire and Rescue Authority	3,716	3,912
	<u>7,696</u>	<u>8,024</u>

6. Bad and Doubtful Debts

The Council has made provision for bad and doubtful debts in respect of Council Tax and this is reviewed on an ongoing basis. The level of bad debt provision in the collection fund is based on an aged debt analysis. The provision as at 31 March 2007 is £1.547m (£4.070m 2005/06).

7. Prior Year Adjustments

A prior year adjustment of £0.245m has been made relating to Council Tax write-offs. The movement on provision for bad debts has been amended by the same figure to restate the provision to its original value.

Glossary of Terms

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

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

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

Amortise

Intangible assets should be amortised over their relevant useful life and shown in the balance sheet at the net book value of cost less accumulated amortisation.

Appropriations

In the Income and Expenditure Account an appropriation is a transfer to/from the Council's capital and revenue reserves. Transfers to/from DSO and HRA reserves are classified as appropriations. In addition appropriations include the reconciling transactions needed to convert expenditure to amounts required from Council Tax.

Assets

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.

Audit Commission

An independent body, responsible for the appointment of external auditors to the Council. Assesses whether the Council makes proper arrangements for economy, efficiency and effectiveness in its use of resources and is also required to review the Council's corporate governance arrangements.

Audit Committee

The Audit Committee was established in March 2006 in line with CIPFA guidelines and the requirements of Use of Resources element of the Comprehensive Performance Assessment (CPA). The Committee reviews control issues relating to the control environment and submits an annual report to the Cabinet and Council, based on the Annual Governance Statement.

Best Value

Best Value is the duty for Local Authorities to deliver quality, cost effective services in an efficient way. We monitor and review what we do so to deliver what local people want and need in a way that is accessible to all.

Best Value Accounting Code of Practice (BVACOP)

The CIPFA Best Value Accounting Code of Practice provides guidance on financial reporting to ensure data consistency and comparability. The Code 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 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. Prior to 2006/07, notional interest was also charged to the revenue accounts; however, this requirement was removed in the SORP 2006.

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 Financing Account

The capital financing account reflects all capital financing transactions. It is debited or credited with the adjustment made in the Income and Expenditure Account for the Minimum Revenue Provision (MRP) less than, or in excess of the provision made for depreciation already charged to revenue, to adjust the provision in line with statutory requirements.

Capital Grant

Grants from Central Government used to finance specific schemes in the capital programme.

Capital Grant Unapplied

This account holds the accumulated portion of capital grant not yet applied to finance capital expenditure.

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 for practitioners in the interest of public services. It is the professional body for accountants working in the public sector. 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 matters.

Community Assets

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

Comprehensive Performance Assessment (CPA)

The Audit Commission introduced the Comprehensive Performance Assessment in 2002 with the aim of measuring how well councils deliver services to local people.

Glossary of Terms

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.

Contingent Liabilities

Where a material loss to the Council is not included in the accounts because it cannot be accurately estimated or because the event is not considered sufficiently certain to arise. Contingent liabilities are disclosed as notes to the year end balance sheet.

Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Corporate Governance

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

Council Tax

Council tax was introduced on 1st April 1993. There is one bill per household; it has two elements, the property element and the personal element. The level of charge is determined by the capital value of the property. The personal element consists of discounts and exemptions depending on the circumstances of the person in possession of the property, or the individual occupants.

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 (31st March).

Current Assets

Those assets with a value that varies on a daily basis. These include items such as cash, debtors and work in progress.

Current Liabilities

Money owed to individuals or organisations that will be paid within 12 months of the balance sheet date.

Debtor

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

Depreciation

The measure of the economic benefits of a fixed asset that have been consumed during the period. Consumption includes the using up, wearing out or other reduction in useful life.

Direct Revenue Financing

Resources provided from an authority's revenue budget to finance the cost of capital projects.

Discontinued Operations

An operation should be classified as discontinued if all of the following conditions are met:

- The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- The activities related to the operation have ceased permanently.
- The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the local authority's continuing operations.
- The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes. Operations not satisfying all these conditions are classified as continuing.

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.

The European Regional Development Fund (ERDF)

The European Regional Development Fund, set up in 1975, is designed to stimulate development in less prosperous areas of the European Union.

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.

External Audit

The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

A finance lease usually involves payment by a lessee of the full cost of the asset together with a return on the finance provided by the lessor. SSAP 21 requires that finance leases should be capitalised by the lessee.

Financial Reporting Standards (FRS)

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

Financial Year

The period covered by a set of financial accounts – the Council financial year commences 1 April and finishes 31 March the following year.

Fixed Asset

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

Gateshead Housing Company (GHC)

The Gateshead Housing Company was established in January 2004. They manage houses owned by the Council and deal with the day to day running of the service. This involves repairing and improving the stock as well as managing services to tenants.

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.

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 an authority in return for past or future compliance with certain conditions relating to the activities of the authority

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 Benefit

An allowance to persons on low income (or none) to meet, in whole or part, their rent. Benefit is allowed or paid by the Council but central government refunds part of the cost of the benefits and of the running costs of the service. Benefit paid to the Council's own tenants is known as rent rebate and that paid to private sector tenants as rent allowance.

Housing Benefit Subsidy

This represents reimbursement to the Council for rent rebates granted to council house tenants in respect of statutory housing benefit entitlement.

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, rent rebates 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.

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.

Infrastructure Assets

Examples of infrastructure assets are highways and footpaths.

Intangible Assets

These are non-physical assets owned by the Council, which cannot be seen or touched, such as software licenses.

Interest Income

The money earned from the investment of surplus cash.

Investments

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.

Investment Properties

Interest in land and/or buildings:

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

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. There are a number of different types of lease available but finance and operating leases are the ones most commonly used.

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.

Medium Term Financial Strategy (MTFS)

A three-year plan that focuses on ensuring that spending is in line with the Council's vision and its medium term objectives by making the most effective use of Council resources.

National Non-Domestic Rates (NNDR)

A levy on businesses, based on a national rate in the pound set by the government, multiplied by the 'rateable value' of the premises they occupy. The rate generally rises in line with the Retail Price Index. The Council is responsible for collecting and paying over this amount to the NNDR pool administered by central government. The government redistributes sums paid into the pool on the basis of a fixed amount per head of population.

Net Book Value

This is the cost or revalued amount of an asset, net of depreciation.

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 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 Lease

An operating lease involves the lessee paying a rent for the hire of an asset for a period of time that is normally substantially less than its useful economic life. Operating leases do not come within the government's capital control system. Ownership of the asset must remain with the lessor for a lease to be classified as an operating lease. These cover items such as computer equipment, office equipment and furniture.

Operational Assets

Assets that are held, used, occupied or contracted to be used on behalf of Gateshead Council in the direct delivery of services for which it has statutory or discretionary responsibility.

Overview & Scrutiny Committees

An integral part of the council's framework and should work alongside other parts of the council to contribute to the development of council policy. The committees are responsible for addressing the interests of the local community, focusing on improving services and seeking to reduce inequalities in service delivery/service provision and access to services.

Partnership

When two or more people are in a business relationship together, with each partner sharing the risks and rewards.

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.

Performance Indicators

A requirement for local authorities to implement systems of performance measurement. Under the Local Government Act, the Audit Commission has a duty to specify a list of indicators against which every local authority is obliged to report annually. These indicators include many non-financial measures e.g. average class sizes, number of planning appeals as well as financial indicators such as net expenditure per resident and the net costs of collecting council tax for each home.

Performance Management

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 is currently implementing a Council-wide performance management ICT system that will bring together all performance indicators, action and financial information to provide real time reporting.

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 administered by the host partner.

Precepting Authorities

Those authorities, which are not billing authorities, i.e. do not collect council tax or non-domestic rates. County councils, police authorities and joint authorities are 'major precepting authorities' and parish, community and town councils are 'local precepting authorities'.

Precepts

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 Civil Defence Authority. Parish precepts are charged separately and only on the area of the Parish Council concerned.

Primary Care Trusts (PCT)

Established as part of the Government's modernisation plan. Using their knowledge of local health, and by working in partnership with health and social care professionals, voluntary and community groups, they aim to spend money where it is needed most.

Private Finance Initiative (PFI)

Private Finance Initiatives 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 than merely being a replacement for existing funding.

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 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 1st 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 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.

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.

Revenue Expenditure

The day-to-day running costs incurred by a Council in providing services.

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.

Risk Management

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.

Service Reviews

As part of the Council's programme for securing continuous improvement in its services, as set out in the Corporate Plan, regular service reviews are carried out and actions are implemented on their findings.

Statement of Recommended Practice (SORP)

Specifies the principles and practices of accounting required to prepare the Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority.

Statement of Standard Accounting Practice (SSAP)

Prepared by the Accounting Standards Committee to ensure consistency in accountancy matters. Many standards are now applied to local authorities and any departure must be disclosed in the published accounts.

Stock

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

Subjective Analysis

This is an analysis of income or expenditure according to type. Such expenditure headings include salaries and wages, premises, transport, supplies and services and support services. On the income side headings include government grants, fees and charges, sales and interest.

Supported Capital Expenditure (Capital)

The government provides capital support towards some capital expenditure incurred by local authorities. This is known as Supported Capital Expenditure (Capital).

Supported Capital Expenditure (Revenue)

The government provides revenue support towards some capital expenditure incurred by local authorities. This is known as Supported Capital Expenditure (Revenue) where support is provided through Revenue Support Grant (RSG) or Housing Revenue Account Subsidy.

Support Services

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

The period over which, the local authority will derive benefits from the use of a fixed asset.

Waste Disposal Authority (WDA)

As a Waste Disposal Authority (WDA), an obligation was placed on Gateshead Council by the Waste and Emissions Trading Act 2003 to reduce the amount of biodegradable municipal waste (BMW) that is put into landfill sites.

Work in progress

Work in progress within the Council consists of private rechargeable works, which are valued at cost less anticipated liquidated damages and progress payments received.