

GATESHEAD COUNCIL
STATEMENT OF ACCOUNTS - 2007/08

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Introduction

The Statement of Accounts which follow demonstrate the Council's financial performance for the year ended 31 March 2008 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 2007: A Statement of Recommended Practice (the SORP), 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) 2007

The SORP for 2007 has introduced a number of changes to the format of the statements. The substantive changes that affect Gateshead Council's Statement of Accounts for 2007/08 are:

1. A new chapter on financial instruments based on FRS25, 26 and 29 that replaces the previous brief coverage based on FRS4 and 5;
2. The replacement of the Fixed Asset Restatement Account and Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account. There is no requirement to make a prior year adjustment for this change and consequently the opening Revaluation Reserve will be zero;
3. A new section on the accounting requirements for Local Area Agreement Grant.

Financial Statements

The Accounts of the Council are set out on pages 10 to 86. 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 10)

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 11)

This statement outlines the Council's approach to corporate governance and internal control, in line with Regulation 4 of the Accounts and Audit Regulations 2003. The statement was reviewed and approved by the Council's Audit Committee on 24 June 2008.

3. Independent Auditors Report to the Council (Page 15)

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

4. Statement of Accounting Policies (Page 19)

This explains the basis for the recognition, measurement and disclosure of transactions in the accounts. The accounts and the Council's financial position 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 28)

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 29)

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 30)

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 31)

This shows the Council's financial position and net assets at 31 March 2008. 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 33)

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

10. Notes to the Core Financial Statements (Page 35)

The notes provide additional information to support the core statements.

Supplementary Financial Statements

11. Housing Revenue Income and Expenditure Account (Page 77)

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 78)

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 79)

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

14. The Collection Fund Account (Page 84)

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.

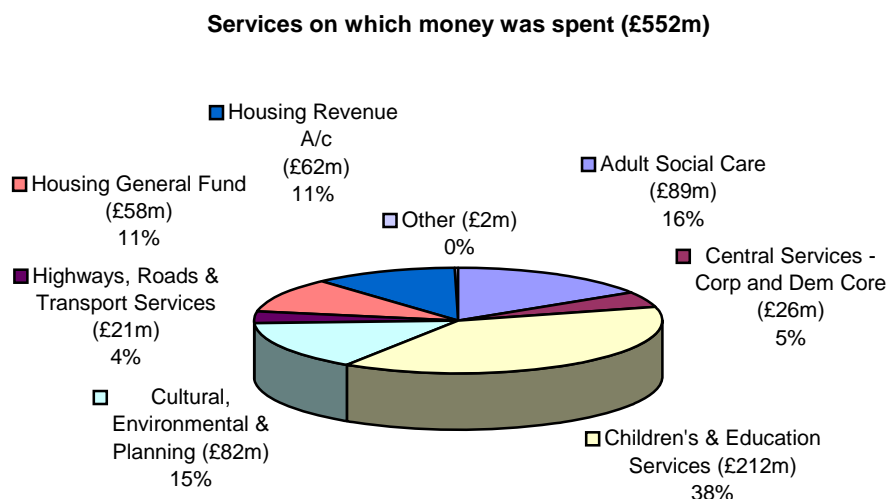
The Collection Fund receives all income in respect of Council Tax and National Non Domestic Rates. The Fund then pays out the demands and precepts made upon it by Gateshead Council, Northumbria Police Authority and Tyne & Wear Fire and Rescue Authority.

15. Notes to the Collection Fund Account (Page 85)

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. The Authority incurred gross expenditure in 2007/08 of £552m on its services to the public, which is summarised in the chart below:



For 2007/08 the net revenue budget to be met from Government Grants and local taxpayers was approved by the Council at £185.375m, (£185.383m including Parish Precepts), resulting in budgeted net appropriations of £2.5m from the General Reserve and £7.9m from Earmarked reserves.

Explanatory Foreword

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 £1.812m, made up of increases in the General Reserve of £0.641m and the Local Management of Schools (LMS) Budget Share Reserve of £1.171m. The final revenue outturn position is an underspend against service budgets of £1.57m resulting in actual use of the General Reserve of £0.93m. In addition, other results including a surplus on the DLO trading account and favourable results on the insurance fund result in an overall increase in the General Reserve before transfers to strategic reserves of £4.25m.

A number of Council services faced increasing budget pressures in 2007/08, resulting in the expenditure on these services exceeding the original budget estimate. However, the action taken during the year combined with the generation of additional income means that the overall spending of the Council has been contained within the original estimate. This is a significant achievement given the financial pressures faced by all Services and enables the Council's sound financial position to be maintained. A summary of the main areas of service variances is as follows:

- The Education and Young People's service overspent by £1.470m, most of which is additional expenditure reflecting insurance excess payments following the recent fire at Whickham Comprehensive School. Prudently, the Council maintains an Insurance Reserve to cover this outcome, which is then replenished by reassessing the insurance provision for future liabilities. In addition, the Service has received funding to maintain Neighbourhood Nurseries following cessation of the grant. Council agreed as part of the 2008/09 budget process to invest transitional growth in this area.
- Adult's Social Services overspent by £0.571m, due mainly to the additional costs of care packages.
- Sport and Leisure Services overspent by £0.495m, due mainly to additional expenditure on events and under recovery of income on catering.
- Development and Enterprise overspent by £0.763m, due mainly to the under recovery of Technical costs. Council agreed as part of the 2008/09 budget process to invest transitional growth in this area to deliver a sustainable solution.
- Local Environmental Services (LES) overspent by £1.6m in relation to a number of areas, in particular consultants fees for the South of Tyne Waste Partnership, external funding not secured, additional landscape adoptions and changes to the Landfill Allowance Trading Scheme. In addition, changes in the accounting treatment of Housing Market Renewal funding have increased the costs of the Neighbourhood Wardens and the Envite Team.
- Finance and ICT underspent by £0.693m, which reflects reduced spend on external suppliers and additional grant income.
- Other Services underspent by £1.592m reflecting the allocation of the contingency to specific services. It does include however a provision for estimated job evaluation payments backdated to April 2007 in anticipation of the new pay structure.
- Investment income increased by £2.927m compared to budget reflecting successful treasury management activity.
- Capital Financing expenditure reduced by £1.5m reflecting the fact that the budget included £2.0m of prudential borrowing which was to have been funded by the use of strategic reserves. This prudential borrowing was not required and therefore the reserve was not utilised.

Appropriations to / from strategic reserves are as follows:

£3m has been appropriated from the Pensions reserve as per the Council's Medium Term Financial Strategy in 2007/08, which earmarked use of £3m in 2007/08 and £3m notionally in 2008/09 pending the triennial valuation. £3m has subsequently been appropriated to the Pensions Reserve following the triennial valuation of the Tyne & Wear Pension Fund, which confirmed continuing liabilities to be funded from revenue in the future.

£2.053m has been appropriated from the Insurance Reserve.

£1.968m has been appropriated from the Landfill Allowance Trading Scheme Reserve.

Explanatory Foreword

£1.113m has been appropriated from the LPSA Reward Grant Reserve.
 £0.602m has been appropriated from the Cultural Development Reserve.
 £0.572m has been appropriated to the Gateshead Development Pool.
 £0.421m has been appropriated to the PFI Facilities Management Reserve.
 £0.419m has been appropriated to the DSG Reserve.
 £0.033m has been appropriated to the Developers Contribution Reserve

Following the appropriations outlined above the £1.812m increase in the General Fund balance for the year allows appropriations of £0.641m to the General Reserve, which compares favourably with the original budget position, which forecast a net decrease in the General Reserve of £2.5m. The Council's Medium Term Financial Strategy (MTFS) sets out the proposed use of the General Reserve to 2010/11.

The following table summarises the financial position for the year:

2006/07 Actual Outturn £000s		2007/08 Original Estimate £000s	2007/08 Actual Outturn £000s
154,816	Expenditure on Services	175,765	173,783
11,582	Levies and Precepts	11,892	11,914
558	(Gain) loss on disposal of fixed assets	0	157
1,971	(Surplus) / Deficit from Trading Operations and Dividends	0	(711)
21,193	Interest Payable and similar charges	25,179	23,748
(17,259)	Interest and investment income	(5,568)	(9,147)
5,770	Return on pension assets	6,690	6,690
8,364	Other operating costs	6,362	6,359
186,995	Net Operating Expenditure	220,320	212,793
	Net Expenditure Financed By:		
(14,792)	Revenue Support Grant	(13,828)	(13,828)
(73,266)	Council Tax Collection Fund Receipts	(77,256)	(77,256)
(78,756)	National Non Domestic Rates	(82,399)	(82,399)
(2,483)	LPSA Reward Grant	0	0
(6,655)	LABGI Grant	0	(188)
(2,000)	Collection fund transfer	(1,500)	(1,500)
(177,952)		(174,983)	(175,171)
9,043	(Surplus) / deficit for the year	45,337	37,622
17,148	Net transfer to / (from) Strategic reserves debited / (credited) to the General Fund balance for the year	(7,900)	(4,291)
(26,980)	Other additional amounts required to be debited or (credited) to the General Fund balance for the year	(34,937)	(35,143)
(789)	(Increase) / decrease in General Fund Balance for the Year	2,500	(1,812)

Housing Revenue Account Performance

This account showed a surplus for the year of £3.013m (2006/07 surplus of £8.578m). The expenditure on this service was financed by housing rents, government grant, housing subsidy and housing revenue account balances. The main reason for the decrease in the HRA surplus of £8.578m in 2006/07 to £3.013m in 2007/08 is a reduction in housing subsidy grant of £2.887m and higher interest costs of £3.199m associated with borrowing in respect of funding decent homes capital works.

Material Assets and Liabilities

As at 31 March 2008, the Council holds £1,698.581m of fixed assets, long-term investments of £31.691m and short-term investments amounting to £125.969m. Long-term investments have increased by £22.774m reflecting changes in the Council's Treasury Management Strategy to invest for periods longer than 364 days subject to limits. This also explains the decrease in short-term investments by £25.572m from 2006/07.

The Council also has current liabilities of £94.985m, long term borrowing of £372.124m and provisions for future liabilities of £8.178m. Long-term borrowing has increased by £53.969m from 2006/07, 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. Provisions for future liabilities have reduced by £0.982m from 2006/07, mainly due to the reduction in the Landfill Usage liability.

In accordance with FRS17 the Council's pension liability is also recorded in the balance sheet. A full description of the Council's material assets and liabilities is provided in the notes to the core financial statements.

Pensions Liability

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

The Council, 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.

Significant changes have been made in 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 £139.8m at its meeting in February 2007, which was revised to £136.478m at the third quarter. The final capital outturn for the year of £129.856m is £6.622m less than the revised budget. Additional funding to accelerate decent homes work has been offset by slippage in schools investment and land acquisition.

The programme has been managed to avoid any loss of time-limited resources with most of the major slippage being matched by flexible resources, which can be carried forward into 2008/09.

Explanatory Foreword

Actual capital expenditure for the year on fixed assets and investments totalled £120.143m (2006/07 £90.921m). 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, £9.713m (2006/07 £8.979m) was spent on schemes where no asset of the Council was created such as grants to private individuals and voluntary organisations, works to voluntary aided schools and Children's Centres, together with master planning feasibility work and capitalisation in accordance with Government requirements. This resulted in total capital expenditure to be financed of £129.856m (2006/07 £99.900m).

The successful award of two star status to the Gateshead Housing Company during 2005/06 has allowed the increased investment in the Council's housing stock during 2006/07 to be continued in 2007/08. Total Housing Revenue Account capital spending in 2007/08 was £76.413m (2006/07 £62.217m).

A summary of how the £129.856m was financed is as follows:

	£000s
Supported Borrowing	70,862
Prudential Borrowing	3,255
Capital Receipts	10,923
Capital Grants and Other Contributions	37,618
Major Repair Allowance	6,875
Revenue Contributions	323
Total	129,856

The Council also acquires the use of assets through operating lease agreements. Leasing rentals on vehicles and equipment during the year totalled £1.110m and payments for buildings on an operating lease basis totalled £0.680m.

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 NewcastleGateshead Pathfinder (Bridging NewcastleGateshead) was awarded a further tranche of funding for 2007/08 totaling £41m, 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. A further award of funding for 2008/09 to 2010/11 was announced in February 2008 totaling £95m (including a 10% performance element for 2009/10 and 2010/11). Gateshead Council is acting as Accountable Body for this Initiative.

City Development Company

During 2007/08, Gateshead Council have agreed to establish an operationally independent City Development Company in partnership with Newcastle City Council and One NorthEast to achieve accelerated economic growth. Initial funding totalling £4.5m has now been agreed by the partners with each partner providing £1.5m over the three years to 2009/10. Costs incurred in 2007/08 have been funded by One NorthEast. Gateshead Council is acting as the accountable body for the establishment of the company.

South Tyne and Wear Waste Management Partnership

The South Tyne and Wear Waste Management Partnership has been established to enable the three partner authorities (Gateshead, Sunderland City and South Tyneside Councils) to jointly procure solutions for the treatment and disposal of residual municipal waste. The Partnership has submitted an Outline Business Case to the Department for Environment, Food and Rural Affairs (Defra) seeking financial support through the Private Finance 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 three years.

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 2007/08.

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 tradable allowances and have to account for the value of these allowances, together with the value of any allowances traded, and the liability for allowances utilised for actual landfill disposal.

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

Prospects for 2008/09 and Beyond

For the financial year 2008/09 Gateshead Council has approved a net revenue budget of £214.462m, and a council tax at the headline rate of Band D of £1,375.29 (excluding precepts), an increase of 3.9%. The budget provides for growth and investment in services of £7.5m, and efficiency savings of £5.1m.

The Council approved a capital budget of £150m, the highest level ever to reflect the substantial investment in decent homes. The budget provides for new starts of £127m, which includes expenditure of almost £87m on new housing and housing market renewal projects, £10m on new education projects, and £6m on new transport projects.

Explanatory Foreword

The resources available to achieve the Council's 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. The annual review of the MTFS was been undertaken against the background of a tight funding settlement for the next three years, which could jeopardise the Council's sound financial position unless efficiency savings are delivered to allow the Council to deliver its corporate priorities. This requires the Strategy to reflect:

- The delivery of the Council's priorities in Vision 2030 and the Corporate Plan
- The Council's current financial position and outlook.
- The Council's overall financial strategy, including reserves.
- Internal and external pressures which will influence the Council's financial position.

The MTFS for 2008/09 to 2010/11 presents a sustainable financial position over the medium term that will allow resources to be directed towards the Council's corporate priorities.

Further Information

This publication provides a review of the financial performance of the Council for 2007/08. A summary set of the accounts has been produced and published on the Council's website, and can be found at www.Gateshead.gov.uk. These will also be included in the Council's Annual Report. Comments will be invited on the usefulness and readability of this summary document.

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

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 29th September 2008.

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 2008.

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 2008, 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 2008 and its income and expenditure for the year ended 31 March 2008.

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 facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at www.gateshead.gov.uk. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

The governance environment

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

The behaviour of Councillors is regulated through a Code of Conduct (approved by Parliament) which is supported by a number of protocols applying the principles of the Code to specific areas of Council activity. In addition, the Council's Standards Committee has the duty of maintaining high standards of conduct throughout the council and arranging training on ethical matters. Employees are also subject to a Code of Conduct and number of specific policies (e.g. on bullying and harassment) set out in the Employee Handbook. Advice on these matters is embedded in training courses such as Modern Gateshead Management. The Council's 'whistleblowing' procedure is set out in the employee handbook and contact details are on the web-site. Responsibilities for investigation of allegations are set out in the Fraud and Corruption Policy.

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

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

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

The Council's programme for securing continuous improvement in its services is set out in the Corporate Plan. Actions for improvement are drawn from a variety of sources including the Comprehensive 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 has Council-wide performance management ICT system that brings together performance indicators, action and financial information to provide real time reporting.

The Council has a Human Resources Strategy, which enables managers to realise the full potential of their team and employees participate in a regular review of their achievement and development needs.

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

Review of effectiveness

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

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

The review of the effectiveness of governance arrangements will be informed by:

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

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

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

A report was presented to the Audit Committee of 24 June 2008 in which Members of the Cabinet identified that they felt reliance could be placed on the Council's corporate governance arrangements when carrying out their roles.

The Chief Internal Auditor reports to the Council's Strategic Director, Finance and ICT, but in order to ensure independence has direct access to the Chief Executive, Strategic Director Legal and Corporate Services (Monitoring Officer), and the Audit Committee.

The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, which is incorporated in the Annual Internal Audit Report to the Audit Committee. The Annual Internal Audit Report for 2007/2008, which was presented to Committee 24 June 2008, 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 2007/08 in accordance with the Accounts and Audit Regulations 2006. This was presented to the Audit Committee on 24 June 2008 and concluded that the Council's System of Internal Audit was effective.

The Annual Risk Management Report was presented to the Audit Committee on 24 June 2008, in which it was concluded that risk management arrangements are sound.

Heads of Service have carried out self assessments of the processes, controls and governance arrangements they have in place to allow them to achieve their service objectives. A report was submitted to the Audit Committee on 24 June 2008, which concluded that based on the self-assessments Heads of Service agreed that effective controls were in place.

Regular reports on performance management information and data quality have been considered by Overview and Scrutiny Committees and Cabinet over the course of the year. Based on the information provided during the year and reviews of data quality, controls are in place.

Assurance on the effectiveness of the Council's legal and regulatory framework has been provided by the Strategic Director, Legal and Corporate Services, who as Monitoring Officer has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. Compliance with established policies, procedures, laws and regulations is ensured by the requirement in the Constitution to give the Chief Executive, the Monitoring Officer and the Chief Finance Officer the opportunity to comment on every committee report submitted to a decision-making body.

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

Heads of Service review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Heads of Service have also been required to provide assurance on governance arrangements through self-assessments and returns to the Partnership Officer. A report was submitted to the Audit Committee on 24 June 2008, which concluded that based on the self-assessments Heads of Service and evidence of other governance arrangements were found to be operating effectively.

The results of the review of the Council's governance arrangements, including the internal control environment, have concluded that it is satisfactory and effective.

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

Signed

Signed

Leader

Chief Executive

Dated

Dated

Opinion on the financial statements

I have audited the Authority financial statements and related notes of Gateshead Metropolitan Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority financial statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority 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 in the Statement of Accounting Policies.

This report is made solely to the members of 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 Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority financial statements, and consider whether it is consistent with the audited Authority financial statements. This other information comprises the Explanatory Foreword and 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 Authority 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 Authority financial statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority financial statements and related notes, 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 Authority financial statements and related notes 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 Authority financial statements and related notes.

Opinion

In my opinion:

- The financial statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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.

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.

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 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 on 19 December 2007. We 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.

Steve Nicklin
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

29 September 2008

Introduction

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

General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (2007 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.

1. Accruals of Income and Expenditure

a) 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 when compared with total net expenditure.

b) Capital Account

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

c) Interest

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

2. 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).

3. Capital Assets

a) 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.

The Statement of Accounting Policies

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 revaluation being credited to the revaluation reserve.

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

b) 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 adjustment account thus having no impact upon the amount to be raised from local taxation.

c) 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. 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.

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.

d) 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: 3-10 years;
- Vehicles: 3-10 years depending on make, model and use; and
- 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 2007/08.

e) 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.

f) 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 2007/08 revealed no instances of impairment.

g) 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 7.03% in 2007/08 (7.34% in 2006/07).

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 2007/08. 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.

h) Capitalised Housing Repairs

Certain items of renovation work are charged to capital.

i) 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.

j) Capital Receipts

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

k) 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.

4. 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.

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

5. DSO Trading Accounts

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

6. Estimation Techniques

The Council has not employed any estimation techniques for the income and expenditure account, which is based on outturn figures. Estimation techniques have been used to determine provisions, reserves and pension liabilities, as there is uncertainty over the monetary amounts.

Except where specified in the 2007 Code of Practice on Local Authority Accounting, the Council has determined the estimation techniques that most closely reflect the economic reality of the transactions.

7. Financial Instruments

a) Financial Assets

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

- Loans and receivables
Loans and receivables are carried at amortised cost using the effective interest rate method. Loans and receivables with a fixed rate to maturity are deemed not to require an effective interest rate calculation to be carried out. Amortised cost is adjusted for accrued interest.
- Financial assets at fair value through profit and loss
A financial asset is designated in this category if acquired principally for the purpose of selling it, or if they are designated as derivatives.
- Available-for-sale
Available-for-sale financial assets are carried at fair value. Where the value of assets held has been deemed to be immaterial fair value has not been calculated.

Equity investments with no active market have been measured at cost less impairment. Associated dividends are recognised in the Income and Expenditure Account when the right to receive payment is established.

b) Soft Loans

On occasion Local Authorities give loans for policy reasons rather than as financial instruments and these loans may be interest free or at rates below prevailing market rates. Commonly, such loans are to local voluntary sector organisations that undertake activities that the Authority considers benefits the local population.

These loans have been re-measured at amortised cost on the balance sheet. The Authority has set a de minimis level of £100,000; loans with a value below this amount have been measured at cost.

c) Financial Liabilities

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

The transaction costs of the financial liabilities held on the Authority's balance sheet are considered to be immaterial.

d) Financial Guarantees

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

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

e) Impairment of Financial Assets

A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset. The Council has not identified any events that would impact on the estimated future cash flows of the financial assets held.

f) Fair Value

For each class of financial assets and financial liabilities, the Council is required to disclose the fair value of that class of assets and liabilities in a way that permits it to be compared to its carrying amount. The Council assesses the fair value by calculating the present value of the cash flows that take place over the remaining life of the instruments, using a number of assumptions detailed in Note 39.

Fair values have not been calculated for assets or liabilities where the carrying amount is a reasonable approximation of fair value, such as trade creditors and debtors. Calculations have not been completed for individual liabilities where the impact on the total fair value would be minimal. These include mortgages with a carrying value of £93,404 and a loan serviced by another Council with a carrying value of £24,090.

g) 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).

h) Repurchase of Borrowing

Gains or losses on the repurchase or early settlement of borrowing are recognised in the Income and Expenditure Account in the period during which the repurchase or early settlement is made. Where however the repurchase of borrowing was coupled with a refinancing of borrowing via an exchange of debt instruments or the terms of an existing liability has not been substantially modified or are not substantially different, the gain or loss adjusts the carrying amount of the loan received under the exchanged or modified financial liability. Gains or losses relating to financial liabilities entered into prior to 2006/07 continue to be recognised over the life of the replacement borrowing for the general fund and a maximum of 10 years in respect of the HRA via the Financial Instruments Adjustment Account, this is in accordance with Local Authorities (Capital Financing and Accounting) (England) Regulations 2007.

8. Group Accounts

The Council has financial relationships with other related companies, joint ventures and joint arrangements, details of which are contained in the Notes to the Core Financial Statements. 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 2007/08. It is possible that it may be necessary to produce Group Accounts in future years.

9. Investments

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

10. Leases

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

11. 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 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.

Further information relating to pension costs is included as Note 45 to the Core Financial Statements.

12. Private Finance Initiative (PFI)

Gateshead Schools PFI

This scheme provides for seven new schools, all of which became operational in 2007/08 with the exception of one school and Phase 2 of another where expected handover remains to be August 2008. 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, incurred from April 2007 onwards. The payments made under the contract are in the form of a unitary charge and are shown in 'Net Cost of Services' in the Income & Expenditure Account.

The assets will transfer to the ownership of the Council at the end of the contract (August 2033) at nil cost and are accounted for by treating an element of the unitary charge as relating to their acquisition and treating it as a prepayment, creating a long-term debtor, which is then built up over the life of the contract. FRS 5 requires that the value of the long-term debtor balance should be what the Authority expects will be the fair value of assets at the time of transfer. The expected value of assets has been ascertained by the Councils Chief Valuer and will be built up in equal amounts over the life of the contract, in accordance with the SORP.

13. South Tyneside & Gateshead Building Schools for the Future (STaG BSF)

On 21 December 2007 the procurement of STaG's private sector partner to deliver the £175m BSF and £21m ICT programme financially closed. This created the unique public/private partnership, known as inspiredspaces STaG Ltd, between Carillion plc (40% shareholding), Royal Bank of Scotland (40% shareholding), Building Schools for the Future Investments (10% shareholding), Gateshead Council (5% shareholding) and South Tyneside Council (5% shareholding).

Inspiredspaces STaG Ltd will deliver the whole BSF build programme and ICT managed service, with exclusivity across education schemes above £100k, if value for money is demonstrated. This exclusivity, overarched by the Official Journal of European Union (OJEU), opens up the potential for inspiredspaces to delivery the primary capital programme, hard and soft facilities management, leisure facilities and various regeneration projects.

Gateshead's wave 1 BSF programme includes:

- Heworth Grange School: new build, refurbishment and ICT managed service
- Thomas Hepburn School: new build, refurbishment and ICT managed service
- Lord Lawson of Beamish: ICT managed service
- Kingsmeadow School: ICT managed service

The rest of Gateshead's programme will be delivered under wave 13 of the National BSF programme. Inspiredspaces are working with Partnership's for Schools (DCSF's delivery arm) to accelerate the wave 13 to form the 4th phase of the current programme.

14. Pooled Arrangements

Surplus funds are pooled for investment purposes and managed by the Council. This included £119.048m relating to Northumbria Police Authority as at 31 March 2008. This amount is represented as a 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 £30.077m to the Company in 2007/08. 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.

15. Provisions

Provisions are made in the accounts where liabilities or losses have been identified, but where the amounts or dates on which they will arise are uncertain at present.

The provisions made by the Council are reflected in Note 40 to the Core Financial Statements.

16. Reserves

The Council sets aside amounts as reserves for specific strategic purposes and to cover contingencies and cash flow management. The Council's general and strategic reserves are explained in Notes 42 and 43 to the Core Financial Statements.

17. 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:

<u>Support Services</u>	<u>Basis</u>
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

18. Value Added Tax (VAT)

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

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 2006/07		2007/08			
Net Expenditure £000s	Service	Gross Expenditure £000s	Income £000s	Net Expenditure £000s	Notes
50,086	Adult Social Care	88,675	(34,828)	53,847	}
8,843	Central Services - Corporate & Democratic Core Costs	9,758	(174)	9,584	}
2,498	Central Services - Central Services to the Public	6,568	(4,130)	2,438	}
3,230	Central Services - Non Distributed Costs	9,640	0	9,640	} 1
36,024	Children's and Education Services	212,132	(173,822)	38,310	}
44,204	Cultural, Environment and Planning Services	82,303	(33,709)	48,594	}
13,681	Highways, Roads and Transport Services	20,795	(7,763)	13,032	}
4,915	Housing General Fund	58,149	(57,871)	278	}
(8,665)	Housing Revenue Account	62,208	(65,948)	(3,740)	}
0	Exceptional Item - Job Evaluation	1,800	0	1,800	} 5
154,816	Net Cost of Services	552,028	(378,245)	173,783	
558	(Gain) / Losses on the Disposal of Fixed Assets			157	
89	Environment Agency Levy			96	
23	Tyne Port Health Authority Precept			23	
11,463	Passenger Transport Authority Levy			11,787	
7	Parish Council Precept			8	
1,971	Total Net (Surplus)/Deficit on Trading Undertakings			(711)	
21,193	Interest payable and similar charges			23,748	
516	Losses on the Repurchase of Borrowing			327	
7,848	Amounts payable into the Housing Capital Receipts Pool			6,032	
(17,259)	Interest and Investment Income			(9,147)	
5,770	Pensions Interest Cost and Expected Return on Assets			6,690	
186,995	Net Operating Expenditure			212,793	
(73,266)	Demand on the Collection Fund			(77,256)	
(2,000)	Collection Fund Transfer			(1,500)	
(15,202)	Revenue Support Grant			(13,828)	
410	Adjustment to Revenue Support Grant			0	
(2,483)	LPSA Reward Grant			0	
(6,655)	LABGI Grant			(188)	
(78,756)	Distribution from Non-Domestic Rate Pool			(82,399)	
9,043	(Surplus) / Deficit for the Year			37,622	

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:

2006/07 £000s		2007/08 £000s	Notes
9,043	(Surplus) / Deficit for the year on the Income and Expenditure Account	37,622	
(9,832)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year	(39,434)	2
<u>(789)</u>	(Increase) / Decrease in General Fund Balance for the Year	<u>(1,812)</u>	
<u>(21,520)</u>	General Fund Balance brought forward	<u>(22,309)</u>	
<u>(22,309)</u>	General Fund Balance carried forward	<u>(24,121)</u>	
(11,506)	Amount of General Fund balance held by schools under Local Management Scheme	(12,677)	
(10,803)	Amount of General Fund balance generally available for new expenditure	(11,444)	
<u>(22,309)</u>		<u>(24,121)</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 2006/07 £000s		2007/08 £000s
9,043	(Surplus) / Deficit for the year on the Income and Expenditure Account	37,622
(56,609)	(Surplus) / Deficit arising on revaluation of fixed assets	(73,831)
3,430	Actuarial (gains) / losses on pension fund assets and liabilities	(64,140)
(13,937)	Other (gains) / losses	1,662
	(58,073) Total recognised (gains) and losses for the year	(98,687)

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

Capital grants unapplied have been reclassified as receipts in advance within creditors and the 2006/07 Statement of Total Recognised Gains and Losses comparators have been restated to reflect this.

Balance Sheet

Restated 31/03/2007 £000s		31/03/2008 £000s	£000s	Notes
Long Term Assets				
Fixed Assets				
Operational Assets				
1,056,760	Council Dwellings	1,162,147		22
358,337	Land and Buildings	383,579		22
8,689	Vehicles, Plant, Furniture and Equipment	15,977		22
85,664	Infrastructure	89,538		22
4,720	Community Assets	4,628		22
Non-Operational Assets				
468	Assets under Construction	1,445		22
7,959	Investment Properties	8,374		22
42,134	Surplus Assets	32,710		22
Intangible Fixed Assets				
0	Computer Software	183		21
<u>1,564,731</u>			<u>1,698,581</u>	23
8,917	Long Term Investments		31,691	37
2,507	Long Term Debtors		2,244	53
<u>1,576,155</u>	Total Long Term Assets		<u>1,732,516</u>	
Current Assets				
4,233	Landfill Allowances	318		
1,477	Stocks and Work in Progress	1,457		54
1,210	Cash	3,137		
64,080	Debtors	60,727		52
151,541	Short Term Investments	125,969		37
<u>222,541</u>		<u>191,608</u>		
Current Liabilities				
Borrowing Repayable within one year				
(73)	Loans	(8,292)		37
(29,822)	Bank Overdraft	(25,490)		
(62,413)	Creditors	(61,203)		55
<u>(92,308)</u>		<u>(94,985)</u>		
<u>130,233</u>	Net Current Assets		<u>96,623</u>	
1,706,388	Total Assets less Current Liabilities		1,829,139	
Long Term Liabilities				
(9,160)	Provisions	(8,178)		40
1,799	Deferred Liability	0		24
(318,155)	Long Term Borrowings	(372,124)		37
(188,920)	Government Grants Deferred	(214,109)		
(294,480)	Defined Benefit Pension Scheme	(238,569)		45
			<u>(832,980)</u>	
<u>897,472</u>	Total Assets Less Liabilities		<u>996,159</u>	

Balance Sheet

Restated 31/03/2007 £000s	Financed by:	31/03/2008 £000s	Notes
	Represented by:		41
(809,729)	Fixed Asset Restatement Account	0	
0	Capital Revaluation Reserve	(62,402)	
(251,715)	Capital Financing Reserve	0	
0	Capital Adjustment Account	(1,040,487)	
0	Financial Instrument Account	1,627	44
(1,973)	Deferred Capital Receipts	(1,658)	46
(14,770)	Capital Receipts Unapplied	(11,327)	47
294,480	Pension Reserve	238,569	45
(10,803)	General Reserve	(11,444)	42
(11,506)	LMS Budget Share Reserve	(12,677)	42
(1,438)	Collection Fund Reserve	(1,388)	
(15,274)	Housing Revenue Account	(18,287)	
0	Major Repairs Reserve	(6,232)	
(74,744)	Strategic Reserves	(70,453)	43
(897,472)	Total Net Worth	(996,159)	

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

Dated:

Cash Flow Statement

2006/07 £000s		2007/08 £000s	£000s	Notes
	Revenue Activities			
	Cash Outflows			
243,021	Cash paid to and on behalf of employees	246,503		
209,452	Other operating cash payments	246,655		
17,930	Housing Benefit paid out	19,144		
70,475	Non-Domestic Rate payments to National Pool	70,845		
11,582	Precepts paid	11,891		
9,116	Payments to Capital Receipts Pool	6,654		
<u>561,576</u>			601,692	
	Cash Inflows			
(28,696)	Rents (after rebates)	(31,058)		
(65,235)	Council Tax Receipts	(69,363)		
(1,231)	Precepts received	(1,249)		
(78,756)	Non-Domestic Rate Receipts from National Pool	(82,399)		
(70,762)	Non-Domestic Rate Receipts	(71,495)		
(14,792)	Revenue Support Grant	(13,828)		
(17,972)	DWP Grants for Benefits	(19,610)		
(219,375)	Other Government Grants	(226,054)		61
(83,167)	Cash received for goods and services	(100,274)		
<u>(579,986)</u>			(615,330)	
(18,410)	Net Cash Inflow - Revenue Activities		(13,638)	56
	Dividends from Joint Ventures and Associates			
	Cash Inflows			
<u>(11,267)</u>	Dividends from NIAL Holdings	<u>0</u>	0	
	Returns on Investments and Servicing of Finance			
	Cash Outflows			
20,432	Interest Paid	24,231		
	Cash Inflows			
<u>(6,307)</u>	Interest Received	<u>(8,936)</u>	15,295	
14,125				
	Capital Activities			
	Cash Outflows			
90,921	Purchase of fixed assets	120,143		
8,979	Other capital cash payments	9,713		
<u>99,900</u>		<u>129,856</u>		
	Cash Inflows			
(21,991)	Sale of fixed assets / investments	(19,944)		
(41,355)	Other capital cash payments	(51,860)		
<u>(63,346)</u>		<u>(71,804)</u>	58,052	
	Acquisitions and Disposals			
	Cash Inflows			
<u>(310)</u>	Sale of investments and joint ventures	<u>0</u>	0	
	Management of Liquid Resources			
<u>50,415</u>	Net Increase in Short Term Deposits		<u>(8,016)</u>	59
71,107	Net Cash Outflow / (Inflow) Before Financing		51,693	

Cash Flow Statement

2006/07 £000s		2007/08		Notes
		£000s	£000s	
	Financing			
	Cash Outflow			
20,957	Repayments of amounts borrowed	48		
	Cash Inflow			
<u>(85,223)</u>	New loans raised	<u>(58,000)</u>	(57,952)	
<u>6,841</u>	Net (increase)/ decrease in cash		<u>(6,259)</u>	60

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 2007/08

Restated 2006/07 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	Adult Social Care			
405	Service strategy	622	(29)	593
31,140	Older people (aged 65 or over) inc older mentally ill	50,042	(16,983)	33,059
5,104	Adults aged under 65 with a physical disability or sensory impairment	7,572	(2,500)	5,072
10,465	Adults aged under 65 with learning disabilities	23,581	(11,882)	11,699
2,417	Adults aged under 65 with mental health needs	4,249	(1,655)	2,594
479	Other adult services	2,281	(1,743)	538
76	Supported employment (inc sheltered employment)	328	(36)	292
50,086	Total Adult Social Care	88,675	(34,828)	53,847
	Corporate and Democratic Core Costs			
6,421	Democratic representation and management	6,420	(97)	6,323
587	Corporate management	771	0	771
1,835	Other Corporate and Central Costs	2,567	(77)	2,490
8,843	Total Corporate and Democratic Core Costs	9,758	(174)	9,584
	Central Services to the Public			
819	Local tax collection	4,753	(3,424)	1,329
225	Registration of births, deaths and marriages	409	(175)	234
454	Elections	543	(47)	496
97	Emergency planning	96	0	96
(267)	Local land charges	207	(284)	(77)
1,170	General grants, bequests and donations	560	(200)	360
2,498	Total Central Services to the public	6,568	(4,130)	2,438
3,230	Non Distributed Costs	9,640	0	9,640
	Education			
336	Nursery Schools	416	(318)	98
5,355	Primary Schools	76,779	(72,651)	4,128
4,058	Secondary schools	78,082	(71,782)	6,300
2,275	Special Schools	14,569	(11,552)	3,017
4,893	Non - School Funding	18,815	(12,472)	6,343
16,917	Total Education Services	188,661	(168,775)	19,886
	Children's Social Care			
167	Service Strategy	194	0	194
2,747	Commissioning and social work	3,666	(1,542)	2,124
11,630	Children looked after	11,107	(1,185)	9,922
2,688	Family support services	4,295	(94)	4,201
342	Youth Justice	1,912	(1,467)	445
0	Asylum Seekers	11	(2)	9
1,533	Other children's and families services	2,286	(757)	1,529
19,107	Total Children's Social Care	23,471	(5,047)	18,424
36,024	Total Children's and Education Services	212,132	(173,822)	38,310

Service Expenditure Analysis – Mandatory Division of Service 2007/08

Restated 2006/07 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	Cultural and Related Services			
1,311	Culture and heritage	2,403	(844)	1,559
8,327	Recreation and sport	14,947	(6,334)	8,613
6,790	Open spaces	10,570	(3,883)	6,687
222	Tourism	390	(21)	369
5,268	Library services	5,127	(288)	4,839
21,918	Total Cultural and Related Services	33,437	(11,370)	22,067
	Environmental Services			
(188)	Cemetery, cremation and mortuary services	645	(1,032)	(387)
2,715	Environmental health	5,078	(1,898)	3,180
129	Community safety (Crime Reduction)	625	(515)	110
1,194	Community safety (Safety Services)	4,628	(3,443)	1,185
103	Flood Defence and Land Drainage	335	(3)	332
764	Trading Standards	788	(13)	775
4,492	Street cleansing (not charged to highways)	5,303	(721)	4,582
3,796	Waste collection	4,583	(704)	3,879
3,846	Waste disposal	7,964	(1,328)	6,636
16,851	Total Environmental Services	29,949	(9,657)	20,292
	Planning and Development Services			
384	Building control	1,553	(1,273)	280
997	Development control	2,057	(1,332)	725
1,343	Planning policy	1,913	(152)	1,761
1,094	Environmental initiatives	1,474	(502)	972
856	Economic development	9,286	(7,510)	1,776
761	Community development	2,634	(1,913)	721
5,435	Total Planning and Development Services	18,917	(12,682)	6,235
44,204	Total Cultural, Environmental and Planning Services	82,303	(33,709)	48,594
	Highways, Roads & Transport Services			
3,063	Transport Planning, Policy and Strategy	5,343	(2,348)	2,995
3,657	Highways/roads (structural)	3,592	(521)	3,071
3,379	Highways/roads (routine)	3,447	(40)	3,407
3,297	Street lighting	2,965	0	2,965
401	Winter Maintenance	626	(25)	601
(246)	Traffic management & road safety	3,453	(3,658)	(205)
(19)	Parking services	1,220	(1,171)	49
149	Public Transport	149	0	149
13,681	Total Highways, Roads & Transport Services	20,795	(7,763)	13,032

Service Expenditure Analysis – Mandatory Division of Service 2007/08

Restated 2006/07 Net Expenditure £000s	Service	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
	Housing General Fund			
269	Housing Strategy	264	0	264
0	Housing Advice	39	0	39
(27)	Housing Advances	77	(89)	(12)
5,697	Private Sector Housing Renewal	1,872	(1,847)	25
(198)	Homelessness	377	0	377
(858)	Housing Benefits Payments	55,200	(55,777)	(577)
32	Other Council Property	320	(158)	162
4,915	Total Housing General Fund	58,149	(57,871)	278
	Housing Revenue Account			
(56,027)	Dwellings Rent (Gross)	0	(58,430)	(58,430)
(1,068)	Non-dwelling Rents (Gross)	0	(1,110)	(1,110)
(1,912)	Tenants charges for services and facilities	0	(2,298)	(2,298)
(185)	Leaseholder's charges for services and facilities	0	(285)	(285)
(2,590)	Contribution towards expenditure	0	(2,030)	(2,030)
(4,682)	HRA subsidy receivable	0	(1,795)	(1,795)
(66,464)	Housing Revenue Account Sub Total Income	0	(65,948)	(65,948)
17,574	Repairs & maintenance	17,680	0	17,680
12,609	Supervision & Management	13,778	0	13,778
3,749	Special services	3,771	0	3,771
1,772	Rents, rates, taxes and other charges	1,917	0	1,917
215	Increased / (decrease) in provision for bad and doubtful debts	769	0	769
21,715	Depreciation and impairments of fixed assets	23,911	0	23,911
165	Amortisation of deferred charges and intangible assets	199	0	199
0	Debt Management costs	183	0	183
57,799	Housing Revenue Account Sub Total Expenditure	62,208	0	62,208
(8,665)	Total Housing Revenue Account	62,208	(65,948)	(3,740)
0	Exceptional Item - Job Evaluation	1,800	0	1,800
154,816	TOTAL NET COST OF SERVICES	552,028	(378,245)	173,783

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

2006/07 £000s		2007/08 £000s
0	Amortisation of intangible fixed assets	(47)
(17,212)	Depreciation and impairment of fixed assets (excluding HRA services)	(22,721)
(8,641)	Excess of depreciation charged to HRA services over the Major Repairs Allowance element of Housing Subsidy	(10,976)
4,390	Government Grants Deferred amortisation matching depreciation and impairments	12,313
(8,979)	Amounts treated as revenue expenditure in accordance with the SORP but which are classified as capital expenditure by statute (i.e. Deferred Charges)	(9,514)
(558)	Net loss on sale of fixed assets	(157)
0	Amount by which finance costs calculated in accordance with the SORP are different from the amount of finance costs calculated in accordance with statutory requirements	231
(3,940)	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	(8,229)
(34,940)		(39,100)

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

6,642	Statutory provision for repayment of debt	6,654
588	Capital expenditure charged to the General Fund Balance	322
(7,848)	Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool	(6,032)
(618)		944

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

8,578	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	3,013
17148	Net transfer to or from earmarked reserves	(4,291)
25,726		(1,278)
(9,832)	Net additional amount required to be credited to the General Fund Balance for the year	(39,434)

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

The increase in the general fund balance of £1.812m, made up by increases in the General Reserve of £0.641m and the LMS Budget Share Reserve of £1.171m, is not considered significant but along with the existing balances of £10.8m and £11.5m respectively 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

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

5. Exceptional Items

– Job Evaluation

The Council is currently consulting on phases 2 and 3 of Job Evaluation and the proposals for the new pay and grading structure and other terms and conditions are currently subject to trade union consultation. There are no set timescales for how long this process will take and the trade unions must obtain approval for the proposals at a national level before they can ballot their members. It has previously been agreed with the trade unions that the new grades arising from phases 2 and 3 will be backdated to 1 April 2007. In accordance with FRS12, a provision has been created based on an estimate provided by Human Resources, which takes into consideration the potential incremental cost for 2007/08. The estimate is based on spinal column points and an allowance has been added for National Insurance and Superannuation

6. Undischarged Operations Arising from Long-Term Contracts

– Schools PFI

In February 2006 the Council entered into a contract with Pinnacle Schools (Gateshead) Limited to design, build, finance and operate seven new schools in Gateshead. The contract expires in August 2033 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.

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

Commitment Expires	Year	£m
Within one year	2008/09	7.648
Year 2 to 5 inclusive	2009-12	29.966
Year 6 to 10 inclusive	2013-17	38.921
Year 11 to 15 inclusive	2018-22	40.713
Year 16 to 20 inclusive	2023-27	42.740
Year 21 to 26 inclusive	2028-33	50.320

- Building Schools for the Future

In December 2007 the Council entered into a public private partnership with Inspiredspaces to create a Local Education Partnership (LEP) for the redevelopment of schools in Gateshead and South Tyneside. The arrangement is the standard model under the government's initiative called Building Schools for the Future to rebuild or substantially refurbish all secondary schools in England. The LEP is for 10 years and will refurbish two schools in Gateshead and ten schools in South Tyneside although potentially it could be extended to redevelop other schools within both authorities.

The LEP will design and build the two refurbished schools within Gateshead. These are Thomas Hepburn and Heworth Grange for which government grant of around £30.8m is available. The set up and running costs of the LEP will be recovered proportionally against the capital cost of each scheme. These are estimated to be around £0.5m for the two schools. In addition there will be around £0.25m development and supervision costs relating to the two schools. Most of these costs will be funded from the capital grant.

The LEP will also provide an ICT managed service to the two refurbished schools and to two PFI schools, Lord Lawson and Kingsmeadow. Grant funding of £3.4m is available for ICT at Lord Lawson and Kingsmeadow and £3.3m is available for ICT at Thomas Hepburn and Heworth Grange. The schools will also be required to make an annual contribution in total of around £0.3m for the 5 years of the ICT contract.

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 2007/08 is as follows: -

	2006/07 (Surplus) / Deficit £000s	2007/08 Income £000s	2007/08 Expenditure £000s	2007/08 (Surplus) / Deficit £000s
Local Environmental Services (Construction)	284	(46,566)	44,968	(1,598)
FRS 17 Adjustment	519			458
	803			(1,140)

The Best Value Accounting Code of Practice requires trading account balances to be reapportioned to services if it would result in a material misstatement in the reported total cost of service. The surplus of £1.140m 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 2007/08 is as follows.

Trading Operations	2006/07 (Surplus) / Deficit £000s	2007/08 Income £000s	2007/08 Expenditure £000s	2007/08 (Surplus) / Deficit £000s
Cleaning of Buildings	(68)	(5,954)	5,809	(145)
Security	60	(1,352)	1,404	52
School Meals	572	(4,454)	4,745	291
Fleet	411	(7,168)	7,200	32
FRS 17 Adjustment	193			199
Total	1,168			429

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. During 2007/08, the following amounts were spent under Section 137 of the Act:

	2006/07 £000s	2007/08 £000s
Lamesley Parish Council	7	7
Grants to Voluntary Organisations	1,006	889
Total	1,013	896

9. Publicity

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

The Council spent £1.508m (2006/07 £1.072m) on all forms of publicity in 2007/08 of which 17% was spent on recruitment of staff advertising and 83% 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 2006/07 £000s	Chargeable 2007/08 £000s	Non Chargeable 2007/08 £000s	Total Building Control 2007/08 £000s
Expenditure	850	594	170	764
Income	(466)	(500)	(3)	(503)
(Surplus)/Deficit for Year	384	94	167	261

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	2006/07 £000s	2007/08 £000s
Horticultural Services	16	5
Construction	16,849	23,151
Cleaning	2,179	2,255
Cleansing	109	142
Security	56	49
Winter Maintenance	7	18
Grounds Maintenance	95	175
Waste and Recycling Centre	132	116
Waste Collection	6	19
Waste Disposal	8	0
Fleet Hire	76	87
Printing	0	8
Total	19,533	26,025

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

The outside bodies for which the largest amount of income was received were The Gateshead Housing Company (92% of the total) and Northumbria Police (7%).

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 2007/08 the total expenditure from the pooled fund was £0.330m (2006/07 £0.500m). This was funded from contributions from the PCT of £0.126m (2006/07 £0.171m), £0.050m from the Council (2006/07 £0.053m) and the use of £0.154m Learning Disability Development Fund income (2006/07 £0.276m).

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 2007/08 the Council's contribution to the fund was £0.548m (2006/07 £0.525m).

14. Gateshead Local Area Agreement (LAA)

Gateshead Council is a participant in a Local Area Agreement (LAA) – a partnership with other public bodies to agree priorities for Gateshead and involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/08, the LAA has completed the second year of its three-year agreement.

The purpose of the LAA is:

- to form an agreement between the Gateshead Local Strategic Partnership (LSP), Government (represented by Government Office North East), and other external agencies, to ensure that together we achieve Vision 2030, Gateshead's Sustainable Community Strategy and Corporate Plan.
- to agree specific outcomes and targets that will be achieved each year for the three years of the agreement.
- to improve the effectiveness and efficiency of public services in Gateshead by pooling and aligning funding streams.

The LAA partners are:

Local government bodies - Gateshead Council, Gateshead Housing Company, Bridging Newcastle Gateshead.

Community protection authorities - Northumbria Police, Tyne and Wear Fire and Rescue, Northumbria Probation Service

Health bodies - Gateshead Primary Care Trust, NHS Foundation Trust, NHS South of Tyne and Wear.

Learning bodies - Connexions, Learning & Skills Council, Gateshead College, NEETA.

Voluntary organisations - Job Centre Plus, GVOC, Great North Forest, Gateshead Community Network, Age Concern, Barnardos, Renew NE, Tyneside Women's Health.

Private Sector - Business Link, Entrust, Warm Zone, Empower.

Gateshead Council acts as the accountable body for the LAA. This means that Gateshead Council is responsible for managing the distribution of grant paid by the Government Office to the partners involved. It has been concluded as part of FRS 5 analysis for determining substance of transactions and SORP 2007 that the Council does have significant influence over determining which bodies are due payments, as a result, the Council acts as a principal and therefore recognises the full amount of LAA Grant in its financial statements including the outgoing cash as expenditure. The total amount of LAA Grant received by the LSP in 2007/08 is £10.3m. The council received £6.5m of this total to fund its own services.

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems are in place for distributing grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

2007/08 is the final year in which LAA Grant is payable to the Council. From April 2008 money previously paid through the grant will be paid through the new Area Based Grant, a non-ringfenced general grant.

15. Members' Allowances

The total amount of Members Allowances paid in the year was £0.966m (£0.946m in 2006/2007), which was represented by Basic Allowance of £0.620m and Special Responsibility Allowance of £0.346m.

A schedule of payments made to individual members for 2007/08 is available from the Civic Centre, Gateshead.

16. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires an Authority to set aside an amount from revenue, the minimum revenue provision (MRP) for the repayment of external loans. The Council's MRP for 2007/08 was £6.654m (2006/07 £6.642m). This charge is based upon a statutory percentage of the Authority's underlying need to borrow for a capital purpose (the Capital Financing Requirement) at the start of each year. The charge excludes HRA loans.

17. 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	
	2006/07	2007/08	2006/07	2007/08
£50,000 - £59,999	37	37	23	25
£60,000 - £69,999	5	10	8	9
£70,000 - £79,999	5	6	5	6
£80,000 - £89,999	0	2	2	4
£90,000 - £99,999	0	0	3	0
£100,000 - £109,999	0	0	2	3
£110,000 - £119,999	0	0	1	0
£120,000 - £129,999	0	0	1	1
£130,000 - £139,000	0	0	0	1
£170,000 - £179,999	0	0	1	0
£180,000 - £189,999	0	0	0	1

For some employees, identified in Note 18 to the Core Financial Statements, remuneration in relation to responsibilities to Northumbria Police Authority are taken into account when compiling the bands above.

18. 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.

	2006/07 £000s	2007/08 £000s
Department for Children, Schools and Families	134,305	138,603
Department for Innovation, Universities and Skills	0	577
Department of Transport	1,768	1,702
Department of Health	7,064	7,298
Department for Work and Pensions	76,014	78,637
Department for Communities & Local Government	16,547	14,104
Home Office	2,119	1,611
Other Government Departments	863	3,133
Total	238,680	245,665

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.

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 2007/08 for Northumbria Police Authority is available from the Treasurer at the Civic Centre, Gateshead.

19. Disclosure of Audit Costs

In 2007/08 the Council incurred the following fees relating to external audit and inspection:

	2006/07	2007/08
	£000s	£000s
External audit services carried out by the appointed Auditor	244	286
Statutory Inspection	99	0
Grant claims and returns	85	82
Other services	1	17
Total	<u>429</u>	<u>385</u>

The £0.286m represents the fixed fee chargeable by the Audit Commission for the audit of Gateshead Council's 2006/07 Accounts.

The £0.099m incurred in 2006/07 related to the Comprehensive Performance Assessment statutory inspection.

20. Statement of Total Recognised Gains and Losses

The Statement of Total Recognised Gains and Losses includes a loss of £1.627m in other gains and losses due to the implementation of the Financial Instrument Account in 2007/08.

21. Intangible Fixed Asset movements in 2007/08 are shown in the table below:

	Intangibles
	£000s
Expenditure on software in 2007/08	230
Amortisation for the year	<u>(47)</u>
	<u>183</u>

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

	Council Dwellings	Land and Buildings	Assets Under Construction	Vehicles Plant and Equipment	Infra - structure	Community Assets	Non Operational Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Gross Book Value at 01/04/07	1,078,326	377,086	468	38,552	104,361	4,720	50,100	1,653,613
Reclassification	0	6,497	(342)	(212)	194	(827)	(5,310)	0
Upward and Downward Revaluations	39,543	(9,828)	0	782	0	0	302	30,799
Additions	75,921	32,574	1,319	3,112	6,051	735	201	119,913
Disposals	(7,925)	(1,398)	0	(379)	0	0	(4,132)	(13,834)
Gross Book Value at 31/03/08	1,185,865	404,931	1,445	41,855	110,606	4,628	41,161	1,790,491
Depreciation at 01/04/07	(21,566)	(17,371)	0	(29,863)	(18,697)	0	(7)	(87,504)
Reclassification	0	(7,994)	0	8,151	185	0	(342)	0
Depreciation Write Out on Revaluation	21,566	6,801	0	0	0	0	246	28,613
Depreciation Write Out on Disposal	0	7,436	0	364	0	0	26	7,826
Depreciation for the Year	(23,718)	(10,224)	0	(4,530)	(2,556)	0	0	(41,028)
Depreciation at 31/03/08	(23,718)	(21,352)	0	(25,878)	(21,068)	0	(77)	(92,093)
Impairments at 01/04/07	0	(1,378)	0	0	0	0	0	(1,378)
Impairment Write Out on Disposal	0	1,378	0	0	0	0	0	1,378
Impairments at 31/03/08	0	0	0	0	0	0	0	0
Net Book Value at 31/03/08	1,162,147	383,579	1,445	15,977	89,538	4,628	41,084	1,698,398
Net Book Value at 31/03/07	1,056,760	358,337	468	8,689	85,664	4,720	50,093	1,564,731

£7.436m depreciation and £1.378m impairment have been written out as a disposal following a review of the accumulated depreciation and impairment balances held in the asset register as part of the implementation of the new fixed asset register. These adjustments corrected previous overstatements.

23. Ownership of Fixed Assets

The following table shows the net value of fixed assets split between the General Fund, the Housing Revenue Account and Trading Accounts.

	Council Dwellings	Land and Buildings	Assets Under Construction	Vehicles Plant and Equipment	Infra - structure	Community Assets	Non Operational Assets	Intangibles	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund	0	379,894	1,445	12,218	89,538	4,628	40,516	183	528,422
H.R.A.	1,162,147	3,436	0	152	0	0	470	0	1,166,205
Trading Accounts	0	249	0	3,607	0	0	98	0	3,954
Net Book Value at 31/03/08	1,162,147	383,579	1,445	15,977	89,538	4,628	41,084	183	1,698,581

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

24. Deferred Charges and Deferred Liabilities

In accordance with the SORP, capital expenditure which has not resulted in the creation of a Fixed Asset has been amortised to revenue in year, as shown below

	Deferred Charges £000s
Balance at 1 April 2007	0
Expenditure in Year	9,713
Amounts amortised to revenue	(9,713)
Balance at 31 March 2008	0

In accordance with the SORP deferred liability relating to premium on the early resettlement of debt previously shown in the balance sheet has been charged to revenue and then transferred to the Financial Instrument Adjustment Account in accordance with Regulations.

	Deferred Liability £000s
Balance at 1 April 2007	(1,799)
Amounts charged to revenue	1,799
Balance at 31 March 2008	0

25. Commitments Under Capital Contracts

The Council has not entered into any significant capital contracts during 2007/08.

26. Assets Held

Fixed assets owned by the Council: -

	Number as at 31 March 2007	Number as at 31 March 2008
Council Dwellings	21,839	21,676
Operational Assets		
Civic Centre	1	1
Other Offices	10	10
Social Services Homes and Hostels	11	8
Leisure Centres and Swimming Pools	10	10
International Stadium	1	1
Libraries	14	13
Primary Schools	56	47
Secondary Schools	8	8
Special Schools	6	6
Depots	18	17
Off Street Car Parks	37	37
Multi-Storey Car Parks	1	1
Cemeteries	10	10
Crematoria	2	2
Art Galleries	1	1
Music Centre	1	1
Operational Equipment		
Vehicles	411	417
Infrastructure		
Highways (Kilometres)	925	927
Bridges	159	159
Permanent Ways	500	500
Community Assets		
Parks & Open Space (Hectares)	959	959
Allotments (Plots)	1,331	1,329
Civic Regalia (Items)	75	75

27. Leasing - Disclosure by Lessee

The Council has held in 2007/08 various assets under operating leases.

The Council uses machinery and equipment financed under terms of an operating lease. The amount paid under these arrangements in 2007/08 was £1.110m (£1.200m 2006/07). This amount was charged to the Income and Expenditure Account.

In 2007/08, the Council paid £0.680m (£0.755m 2006/07) in respect of buildings leased for operational purposes.

The Council was committed at 31 March 2008 to making payments of £0.864m under operating leases, comprising of the following elements:

	Vehicles, Plant & Machinery £000s
Leases expiring in 2008/09	766
Leases expiring between 2009/10 and 2012/13	98
Leases expiring after 2013/14	0
Balance at 31 March 2008	864

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	35
2 to 5 years	231
Over 5 years	341
Total	607

There are no assets held under finance leases by the Authority and no outstanding obligations to make any payments for finance leases at 31 March 2008.

28. 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.

29. 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. This scheme provides for seven new schools, all of which become operational in 2007/08 with the exception of one school and Phase 2 of another where expected handover remains to be August 2008.

The assets will transfer to the ownership of the Council at the end of the contract (August 2033) at nil cost and a notional adjustment for this transfer has been made in the accounts for the PFI schools. As the transfer will be at nil consideration a proportion of the unitary charge is deemed to relate to the acquisition of the residual value of the assets and is transferred to a long-term debtor, in accordance with the SORP. To ensure that this transaction does not impact on the level of Council Tax an adjustment is made to the revenue account to match the notional charge.

30. Capital Expenditure

Capital expenditure of £129.856m was split between the HRA and non HRA as shown below:

	£000s
Housing Revenue Account	76,413
Non HRA	53,443

This expenditure was split between the creation and addition to existing fixed assets and deferred charges as follows:

	2006/07 £000s	2007/08 £000s	Note
Expenditure			
Fixed Assets	90,921	120,143	
Deferred Charges	8,979	9,713	24
Total	99,900	129,856	
Financing			
Supported Borrowing	49,415	70,862	
Prudential Borrowing	5,758	3,255	
Capital Receipts	10,565	10,923	
Capital Grants and Other Contributions	20,499	37,618	
Major Repairs Allowance	13,074	6,875	
Revenue Contributions	589	323	
Total	99,900	129,856	

31. 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 dwellings, 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 revalued at intervals of not more than five years and the revised amount is included in the balance sheet with any surpluses arising on the revaluation being credited to the revaluation reserve.

The revaluation movements are recorded in the Council's Fixed Asset Register with the changes demonstrated, by class of fixed asset, in Note 22 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.

32. 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: 3-10 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 2007/08.

Depreciation is calculated using the Council's Fixed Asset Register with the amount charged for the period (shown in Note 22) 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 2007/08 revealed no instances of impairment.

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

33. Intangible Fixed Assets

Intangible fixed assets have been capitalised and recorded in the Balance Sheet at cost and amortised over the relevant useful life of that asset.

34. 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 £30.077m to the Company in 2007/08. This sum is shown in full in the Council's accounts as part of the Housing Revenue Account, as disclosed in Note 17 to the HRA.

In addition to this, The Gateshead Housing Company managed capital works totalling £74.177m in 2007/08 in respect of Decent Homes works. This expenditure is reclaimed from Gateshead Council and forms part of the total HRA capital expenditure of £76.413m as disclosed in Note 6 to the HRA. The Gateshead Housing Company receive 5% of the total value of capital works to cover management and administration costs incurred in respect of these works. This totalled £3.532m in 2007/08, which is included within the £74.177m and is in addition to the revenue management fee of £30.077m.

The Gateshead Housing Company purchases goods and services totalling £31.469m from the Council as part of its operating activities, this includes capital work undertaken by LES. The balance outstanding at the year end was £3.327m.

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 Ltd

Under the Airport Act 1986, Newcastle International Airport Ltd (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer the Council received £4.355m worth of shares.

On 4 May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Ltd for the latter to purchase a 49% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Ltd, which the LA7 owned 51%. The 51% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the LA7. Gateshead Council has a material interest in Newcastle Airport Local Authority Holding Company Ltd. The Newcastle Airport Local Authority Holding Company Ltd has a called up share capital of 10,000 shares with a nominal value of £1 each. Gateshead Council has a shareholding of 1,304 shares representing 13.04% interest in the company. The shares are not held for trading outside of the LA7.

At the time of acquisition of the new shares, the net worth of NIAL Holdings Ltd was £134m and the Council's share of this valuation (13.04% of 51%) was £8.912m. The valuation of NIAL Holdings Ltd is reviewed annually and any movement in the value of our shareholdings is reflected in the Newcastle International Airport Reserve.

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

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

During 2006, Newcastle Airport Local Authority Holding Company commissioned a refinancing exercise, which resulted in additional income to shareholders. The total income from refinancing was £79m and Gateshead Council received a 13.04% share of this equating to £10.302m, resulting in an upward revaluation of £4.557m in the Council's shareholdings. The valuation of the holding has been reviewed again in line with SORP guidance and has remained at the original total cost as the current fair value of the airport holding (£8.912m).

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

The principal activity of Newcastle International Airport Ltd (Registered No 04184967) is the provision of landing services for both commercial and freight operators. There have been no trading transactions between the Council and NIAL during the year. There has been no dividend declared for 2007 (2006 £4m total dividend). There are no outstanding balances owed to or from NIAL at the end of the year. NIAL Group Ltd made a loss before tax of £0.605m and a profit after tax of £2.171m.

A request for a copy of NIAL Group Limited accounts should be made in writing to the following address:

Head of Finance
South Tyneside Council
Town Hall and Civic Offices
Westoe Road
South Shields
Tyne & Wear
NE33 2RL

35. Capital Instruments

There have been no capital instruments issued by the Council.

36. Nature and Extent of Risk Arising from Financial Instruments

Key Risks

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

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

Procedures for Managing Risk

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

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

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria previously outlined in the TMPs.

At the Balance Sheet date, 56% of the Council's investments were with AA rated counterparties, 42% were with A rated counterparties and 4% were with non-rated counterparties. Where counterparties are not rated the net asset size is used to determine both the amounts the Council can place with them and for what periods.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits

Collateral – during the reporting period the Council held no collateral as security.

Liquidity Risk

The Council has ready access to borrowings from the Co-operative Bank to cover any day to day cash flow need, and whilst the Public Works Loans Board (PWLB) provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

Refinancing and Maturity Risk

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

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

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

The maturity profiles of financial liabilities and financial assets are detailed in Note 37 Financial Instruments Balances.

Market Risk

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

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

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

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

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

Price Risk – The Council does not generally invest in equity shares. A small amount of Government Gilts is held, which are classified as Available-for-Sale. Where the fair value of these assets has been calculated movements in price will impact on gains and losses recognised in the STRGL. The Council holds shares in Newcastle International Airport that are not quoted on an active market. Associated dividends are recognised in the Income and Expenditure Account and any realised profits or losses will be recognised on the sale of the asset.

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

37. Financial Instrument Balances

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

	Long Term		Current	
	31/3/07 £000s	31/3/08 £000s	31/3/07 £000s	31/3/08 £000s
Financial Liabilities at amortised cost	318,155	372,124	73	8,292
Financial Liabilities at Fair Value through I and E	-	-	-	-
Total Borrowing	318,155	372,124	73	8,292
Loans and Receivables	-	22,774	151,541	125,969
Available for Sale Assets	5	5	-	-
Financial Assets at Fair Value through I and E	-	-	-	-
Unquoted equity investment at cost	8,912	8,912	-	-
Total Investments	8,917	31,691	151,541	125,969

Analysis of Financial Liabilities at Amortised Cost

Source of Loan	Range of Interest Rates Payable	Total Outstanding 31 March	
		2007 £000s	2008 £000s
Public Works Loans Board	3% - 13.75%	312,093	350,123
Loans Serviced by Other Local Authorities	7.63%	38	24
Other Loan Instruments	3.6% - 6.75%	6,097	30,269
		318,228	380,416
An analysis of loan by maturity is: -			
Maturing within one year		73	8,292
Maturing in 1 – 2 years		4,031	17,031
Maturing in 2 – 5 years		61,596	87,375
Maturing in 5 – 10 years		58,183	64,236
Maturing in more than 10 years		194,345	203,482
Long Term Borrowings		318,155	372,124

Loans and Receivables

During 2007/08 £22.774m of loans and receivables over 364 days have been placed in accordance with the treasury management strategy, there were no such investments made during 2006/07. All of these loans mature in 1-2 years.

Available for Sale

Available for Sale assets are carried at cost in the Balance Sheet, Market Value as at 31 March 2008 was £0.009m.

38. Financial Instruments Gains/Losses

The Council does not hold any financial instruments that have been recognised at fair value through the profit and loss and income received in relation to the available-for-sale assets held is considered to be immaterial. Therefore all gains and losses on financial instruments have been recognised in the Council's Income and Expenditure Account.

The gains and losses recognised in the Income and Expenditure Account in relation to loans and receivables and financial liabilities at amortised costs are as follows:

	£000s
Interest and investment income	9,146
Interest payable and similar charges	(23,748)
Total	<u>(14,602)</u>

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

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

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

	31 March 2007		31 March 2008	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
PWLB Debt	312,093	-	350,123	405,381
Non-PWLB Debt	6,135	-	30,293	30,374
Total Debt	318,228	-	380,416	435,755
Trade Creditors	58,762	-	61,156	61,156
Total Financial Liabilities	376,990	-	441,572	496,911
Market Loans < 1 year	151,541	-	125,969	125,859
Market Loans > 1 year	-	-	22,774	22,827
Trade Debtors	64,080	-	60,726	60,726
Total Loans and Receivables	215,621	-	209,469	209,412

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

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

Fair values have not been calculated for 2006/07 carrying amounts; this is in accordance with the SORP, which states there is no need to restate comparative figures. This is due to the complexity of the calculations involved.

40. Provisions

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

	Balance at 01/04/07 £000s	Receipts £000s	Payments £000s	Balance at 31/03/08 £000s
Insurance	(5,161)	(1,000)	947	(5,214)
Landfill Usage	(2,140)	(2,485)	4,540	(85)
Waste Disposal	(882)	0	882	0
Job Evaluation	0	(1,800)	0	(1,800)
Improvement Contracts	0	(798)	0	(798)
Sundry	(977)	(91)	787	(281)
Total Provisions	(9,160)	(6,174)	7,156	(8,178)

- **Insurance.** Provision is made for known outstanding liability claims, the costs of which have been estimated by the Council's 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 in operation 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 2007-08, Gateshead Council was allocated 99,270 tonnes worth of allowances in addition to the 101,947 tonnes worth of unused allowances carried forward from the previous year, leaving a balance of 201,217 tonnes. The trading value of allowances was set at £1.58 per tonne, based on the average trading price through the year. These allowances are therefore valued at £0.318m. At the year-end it was estimated that 54,265 tonnes were used, valued at £0.085m.

In accordance with the LAAP Bulletin 64, the Council has a provision (£0.085m) to recognise the liability, which arises from the obligation to hold landfill allowances equal to usage. This is matched by a current asset (£0.318m) to represent the total allowances allocated to the Council and a reserve of £0.232m, which represents the unused allowances as at 31 March 2008. The payment above represents the net effect on confirmation of LATS usage.

- **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. This has been written back to revenue under Cultural, Environmental and Planning Services (Waste Disposal).
- **Job Evaluation.** The Council is currently consulting on phases 2 and 3 of Job Evaluation and the proposals for the new pay and grading structure and other terms and conditions are currently subject to employee and trade union consultation. It has previously been agreed with the trade unions that the new grades arising from phases 2 and 3 will be backdated to 1 April 2007. In accordance with FRS12, a provision has been created based on an estimate provided by the Director of Corporate Services, which takes into consideration the potential incremental cost for 2007-08. The estimate is based on spinal column points and an allowance has been added for National Insurance and Superannuation.
- **Improvement Contracts.** The Council undertakes two of the Decent Homes contracts on behalf of the Gateshead Housing Company. This provides for the potential liability for disputed works and potential repayments under the Pain / Gain Share mechanism which forms part of the overall contract conditions. The Pain / Gain share benefits are calculated on completion of each scheme.

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

Bottle Bank Compulsory Purchase Orders (£0.116m) - To cover the cost of a claim made by former owner of a plot of land at Bottle Bank, which was acquired under a compulsory purchase order. The costs were originally to be recovered from Collingwood Developments, who are now in administration. These costs will now be claimed from the administrators for Collingwood Developments. The Council has also disclosed a contingent liability, as shown in Note 48.

Frozen Holiday Pay of (£0.073m) - 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.

Financial Guarantee Liability (£0.091m) - During 2007/08 the Council entered into a financial guarantee contract for £91,000. In accordance with the SORP 2007 this was assessed at fair value taking into consideration the likelihood of the guarantee having to be met. This revaluation resulted in the requirement of a provision.

Provision for debt repayment (£0m) - 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. This has been written back to revenue under Cultural, Environmental and Planning Services (Waste Disposal).

41. Movement in Reserves

Reserve	Balance as at 01/04/07 £000s	Appropriation to Reserves £000s	Appropriation from Reserves £000s	Balance as at 31/03/08 £000s
General Reserve	(10,803)	(641)	0	(11,444)
LMS Budget Share Reserve	(11,506)	(2,526)	1,355	(12,677)
Strategic Reserves				
Pensions	(6,000)	(4,049)	4,049	(6,000)
Capital	(5,622)	0	0	(5,622)
Newcastle International Airport	(8,912)	0	0	(8,912)
Insurance	(7,931)	(947)	3,000	(5,878)
Grant Clawback	(7,444)	0	0	(7,444)
Landfill Allowance Trading Scheme	(2,200)	0	1,968	(232)
Gateshead Development Pool	(29,908)	(572)	0	(30,480)
Cultural Development Reserve	(1,728)	0	602	(1,126)
Bridge Maintenance	(2,117)	0	0	(2,117)
Developers' Contributions	(956)	(33)	0	(989)
LPSA Reward Grant Reserve	(1,524)	0	1,113	(411)
PFI Facilities Management	0	(421)	0	(421)
DSG Reserve	(402)	(419)	0	(821)
Total Strategic Reserves	(74,744)	(6,441)	10,732	(70,453)
Fixed Asset Restatement Account	(809,729)	0	809,729	0
Capital Revaluation Reserve	0	(62,402)	0	(62,402)
Capital Financing Reserve	(251,715)	0	251,715	0
Capital Adjustment Account	0	(1,040,487)	0	(1,040,487)
Financial Instrument Adjustment Account	0	(437)	2,064	1,627
Deferred Capital Receipts	(1,973)	0	315	(1,658)
Capital Receipts Unapplied	(14,770)	(310)	3,753	(11,327)
Pension Reserve (FRS 17)	294,480	(55,911)	0	238,569
Collection Fund	(1,438)	0	50	(1,388)
HRA Surplus	(15,274)	(3,013)	0	(18,287)
Major Repairs Reserve	0	(6,232)	0	(6,232)
Total Reserves	(897,472)	(1,178,400)	1,079,713	(996,159)

42. The General Reserve (£11.4m) 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 (£12.7m). This amount represents the cumulative net unspent element of school budget shares, which, under LMS, must be carried forward into the following financial year.

43. Strategic Reserves

- **Pensions (£6m).** This reserve is earmarked to meet increases in employer's liability and increases in back funding requirements, with £3.0m earmarked in 2008/09 and £3.0m in 2009/10. Following the triennial valuation, the reserve will be reviewed as part of the MTFS. The reserve exists to ensure potential increases in back funding payment to the Tyne and Wear Pension Fund are provided for. In addition, the reserve is used as a smoothing mechanism to fund Strain on the Fund payments, which must be made at the date of retirement. The reserve is replenished by a contribution from services, which is offset by a permanent saving equal to one fifth of the total payment.
- **Capital (£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 (£5.9m).** 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 in 2006/07 proposed that this reserve be reduced to £4m over the life of the MTFS, the annual review undertaken as part of the MTFS has confirmed this level.
- **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 European Regional Development Fund (ERDF) grant claims and is based on the value of claims in respect of Baltic and The Sage Gateshead and other projects subject to audit.
- **LATS (£0.2m).** 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 (£30.5m).** 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 2007/08 due to the 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 (£1.1m).** 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.
- **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.
- **PFI Facilities Management (£0.4m).** This reserve was established to meet the affordability of the schools PFI Facilities Management account and will be fully utilised in 2008/09.
- **LPSA Reward Grant (£0.4m).** 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. The reserve is earmarked for outstanding awards to partners.

- **Dedicated Schools Grant (£0.8m).** From 2006/07, school funding for Local Authorities in England is provided by a ring-fenced grant called Dedicated Schools Grant (DSG) from the Department of Children, Schools and Families, whereas previously such support was paid as part of Revenue Support Grant. DSG meets the definition of service-related income and should be accounted for as part of the Net Cost of Services under the Education heading on the Income and Expenditure Account. This is a change in the nature of grant payable, rather than a change in accounting policy.

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

Details of the deployment of DSG receivable for 2007/08 are as follows:

	Central Expenditure £000s	Individual Schools Budget £000s	Total £000s
Original grant allocation	(11,350)	(85,588)	(99,938)
Adjustment to final grant allocation	(244)	0	(244)
DSG received	(11,594)	(85,588)	(100,182)
Expenditure	11,175	85,588	99,763
Underspend	(419)	0	(419)
Use of School Balances B/Fwd	0	0	0
Underspend from Prior Year	(402)	0	(402)
Underspend C/Fwd to 2008/09	(821)	0	(821)

44. Financial Instrument Adjustment Account

This is a statutory reserve, required to account for the changes in accounting policies implemented by the SORP 2007. The balance relates to £1.447m relating to deferred liabilities that Regulations specify can continue to be recognised over the life of the replacement borrowing for the general fund and a maximum of 10 years in respect of the HRA. The balance contains a further £0.180m relating to the re-measurement of soft loans entered into by the Council, which Regulations allow to be recharged over the life of the loans.

45. 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	
	2006/07 £m	2007/08 £m
Net Cost of Services:		
Current service cost	22.9	21.8
Past service cost	3.2	9.6
Gains and losses on settlements and curtailments	0.0	0.0
Net Operating Expenditure:		
Interest cost	39.0	44.5
Expected return on assets	(33.2)	(37.8)
Amounts to be met from Government Grants and Local Taxation:		
Movement on pensions reserve	(3.9)	(8.2)
Actual amount charged against Council Tax for pensions in the year:	23.4	25.3
Employer's contributions payable	4.6	4.6
Retirement benefits		

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

Notes to the Core Financial Statements

The actuarial gain identified as movement on the pensions reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2008:

	Local Government Pension Scheme				
	2003/04	2004/05	2005/06	2006/07	2007/08
Difference between expected and actual return on pension assets (£m)	51.1	14.0	75.0	(3.23)	(73.6)
Percentage of scheme assets	13.4%	3.4%	14.9%	(0.6%)	(14.3%)
Experience gains/(losses) arising on the pension liabilities (£m)	(0.7)	(3.5)	(2.9)	(2.2)	11.5
Percentage of present value of scheme liabilities	0.1%	0.5%	0.4%	(0.3%)	1.5%
Changes in assumptions underlying the present value of pension liabilities (£m)	(7.5)	(90.0)	(57.3)	2.0	126.2
Percentage of present value of scheme liabilities	1.4%	12.7%	7.2%	0.2%	16.8%
Total Gain / (Loss) (£m)	42.9	(79.5)	14.8	(3.43)	64.1
Percentage of present value of scheme liabilities	7.7%	11.2%	1.9%	(0.4%)	8.5%

Hewitt Associates 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 2007.

The main assumptions used in their calculations have been:

	2006/07	2007/08
Rate of inflation	3.2%	3.7%
Rate of increase in salaries	4.7%	5.2%
Rate of increase: pensions in payment	3.2%	3.7%
Rate of increase: deferred pensions	3.2%	3.7%
Rate for discounting scheme liabilities	5.3%	6.8%

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 2007		31 March 2008	
	Long Term	Proportion	Long Term	Proportion
	Return	Assets	Return	Assets
	%	%	%	%
Equities	7.7	67	7.6	64
Government Bonds	4.7	14	4.6	11
Corporate Bonds	5.3	7	6.8	9
Property	6.7	10	6.6	10
Other Assets	5.6	2	6.0	6
Average Long Term Expected Rate of Return	7.0		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 March 2007	31 March 2008
	£m	£m
Estimated funded liabilities in scheme	(762.5)	(682.0)
Estimated unfunded liabilities in scheme	(75.7)	(71.3)
Estimated assets in scheme	543.7	514.7
Net asset/(Liability)	(294.5)	(238.6)

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 £238.6m. However, statutory regulations for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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.

Teachers Pensions

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

In 2007/08, the Council paid £8.964 million to the Pensions Agency in respect of teacher's retirement benefits, representing 13.8% of pensionable pay. The figures for 2006/07 were £7.915 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 2007/08 these amounted to £2.803 million, representing 4.3% of pensionable pay (£2.682 million and 4.6% in 2006/07).

46. 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, Housing Act Advances, loans to Housing Associations and Newcastle International Airport long-term loan notes.

47. Capital Receipts Unapplied

This represents receipts held to finance future capital expenditure. The total figure shown in the Balance Sheet contains £1.9m 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.

48. Contingent Liabilities

Bottle Bank Compulsory Purchase Orders

As disclosed in Note 40, the Council has made a provision of £0.116m for the estimated cost of a claim made in relation to a plot of land at Bottle Bank, which was acquired under a compulsory purchase order. This provision represents the Council's best estimate of the costs, which will be incurred in settling the claim, 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 owner of the land may disagree with the Council's assessment of the value of the plot, and may subsequently choose to pursue claims via Lands Tribunal.

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, phase one of 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. Phase two of the revised pay structure is currently subject to consultation with employees and trade unions. A provision for the estimated costs of phase two of the proposed pay structure, which is to be backdated to 1 April 2007, has been made in 2007/08.

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.

49. Issue of Accounts

These accounts were reviewed by the Council’s Audit Committee on 24 June 2008 and approved by the Council’s Accounts Committee on 30 June 2008 and were authorised for issue by the Leader of the Council.

50. 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.

51. 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 01/04/07	Receipts	Expenditure	Balance at 31/03/08
	£000s	£000s	£000s	£000s
Social Services Amenity Fund	(56)	(40)	13	(83)
Shingley Gallery Charity	(48)	0	34	(14)
Blind Welfare Trust Fund	(23)	(1)	0	(24)
Other	(65)	(4)	6	(63)
Total Trust Funds	(192)	(45)	53	(184)

Trust fund balances are mainly invested with the Council.

52. Debtors

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

	31 March	
	2007 £000s	2008 £000s
Amounts falling due within one year		
Government Departments	20,225	31,465
Other Local Authorities	1,030	887
Other Public Bodies	2,435	3,444
Housing Rents	6,960	6,185
Sundry Debtors	39,505	24,140
Car Loans to Employees	25	12
	70,180	66,133
Amounts falling due after one year		
Car loans to employees	33	26
	70,213	66,159
Provision for Doubtful Debts	(6,133)	(5,432)
	64,080	60,727
Total Debtors	64,080	60,727

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 2008 is made up as follows:

	Gross Debtors	Bad Debt Provision	Net Debtors
	£000s	£000s	£000s
Council Tax	8,275	(1,480)	6,795
National Non Domestic Rates	1,967	(568)	1,399
Housing Revenue Account	5,787	(2,892)	2,895
Sundry Debtors	50,130	(492)	49,638
	66,159	(5,432)	60,727
Total	66,159	(5,432)	60,727

53. Long Term Debtors

	31 March	
	2007	2008
	£000s	£000s
Mortgages	112	107
Newcastle International Airport Long Term Loan Notes	1,862	1,552
Soft Loans	533	354
Education PFI	0	231
Total Long Term Debtors	2,507	2,244

Soft loans above the Council's stated de minimis level of £100,000 have been re-measured at amortised cost. The reduction in the carrying value has been accounted for in line with the SORP and LAAP Bulletin 73.

Schools PFI relates to the contract provision for seven schools representing the build up of the residual value of assets after the contract terminates.

54. Stocks and Work in Progress

	31 March	
	Restated	2008
	2007	£000s
	£000s	£000s
Work-in-Progress		
Rechargeable Works	274	288
Direct Labour Organisation	414	457
Stocks		
Direct Labour Organisation	364	338
Salt	227	146
Other	198	228
Total Stocks and Work in Progress	1,477	1,457

55. Creditors

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

	31 March	
	Restated	2008
	2007	£000s
	£000s	£000s
Government Departments	24,746	19,712
Pension Fund	1,045	1,136
Other Local Authorities	9,588	11,142
Sundry Creditors	27,034	29,213
Total Creditors	62,413	61,203

Prior period adjustments were made to the 06/07 Sundry Creditors figure as follows:

	2006/07 £000s	Adjustment £000s	Restated £000s	Note
Work in progress	1,063	414	1,477	54
Loans	(3,725)	3,652	(73)	37
Creditors	(54,994)	(7,419)	(62,413)	55
Capital Receipts and Grants Unapplied	(18,124)	3,354	(14,770)	47

The adjustments related to £0.414m Housing Company W.I.P., which had been excluded from the figures, £3.652m received relating to third parties in advance of expenditure, which should have been included in creditors and £3.354m shown in Capital Receipts and Grants Unapplied, which had been classified incorrectly.

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

This note reconciles the surplus or deficit shown in the Income and Expenditure Account (Page 28) to the total cash transactions for all the Council's revenue activities.

2006/07 £000s		2007/08 £000s	£000s
(9,043)	(Deficit) for Year - General Fund		(37,622)
(49)	(Deficit) for Year - Housing Revenue Account		(7,070)
(1,645)	Collection Fund		50
9,832	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year.		39,434
(905)			(5,208)
	Non-Cash Transactions		
17,211	Depreciation		22,721
558	Net gain or loss on sale of fixed assets		157
(4,389)	Government Grants Deferred		(12,313)
8,979	Deferred Charges		9,514
(3,353)	Other Non-Cash Transactions		0
398	Contributions (to) / from Provisions		2,609
19,404			22,688
	Items on an accrual basis		
(565)	Decrease / (Increase) in Stock		20
(10,214)	Decrease / (Increase) in Debtors		(23,979)
9,175	(Decrease) / Increase in Creditors		907
(1,864)	Decrease / (Increase) in Landfill Allowance Asset		3,915
521	Decrease / (Increase) in Long-term Debtors		0
(2,947)			(19,137)
	Items classified elsewhere in the Cash Flow Statement		
(11,267)	Dividends from Joint Ventures		0
14,125	Interest Payable and Receivable (net)		15,295
18,410	Net Cash Inflow from Revenue Activities		13,638

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

2006/07		2007/08
£000s		£000s
(6,841)	(Decrease) / Increase in cash during the year	6,259
13,469	Cash inflow from debt	89,240
<u>6,628</u>		<u>95,499</u>
181,666	Net Debt at 1 April 07	188,294
<u>188,294</u>	Net Debt at 31 March 08	<u>283,793</u>

58. Reconciliation of Financing and Management of Liquid Resources

Movement		Short Term	Long Term
2006/07		Deposits	Borrowing
£000s		£000s	(& due <1yr)
£000s		£000s	£000s
(148,565)	Opening Balance 1 April 07	151,541	(318,228)
	Cash Flow Items:		
650,204	Loans Raised	638,677	(58,000)
(668,326)	Loans Repaid	(646,693)	48
<u>(166,687)</u>	Closing Balance 31 March 08	<u>143,525</u>	<u>(376,180)</u>

59. Liquid Resources

These relate to investments, which are of a short-term nature and can be disposed of at reasonably short notice without curtailing or disrupting the Authority'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 amounts 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.

60. Increase / Decrease in Cash

Movement 2006/07 £000s		Balance 01/04/2007 £000s	Balance 31/03/2008 £000s	Movement 2007/08 £000s
(487)	Cash	(1,210)	(3,076)	(1,866)
7,328	Bank Overdraft	29,822	25,429	(4,393)
6,841	(Decrease) / Increase in cash	28,612	22,353	(6,259)

61. Analysis of other Government Grants

2006/07 £000s		2007/08 £000s
(12,002)	Central Services to the Public	(5,016)
(789)	Cultural, Environmental and Planning Services	(614)
(135,385)	Education Services	(147,759)
(1,825)	Highways, Roads and Transport Services	(1,760)
(37,160)	Housing Services	(37,953)
(10,546)	Social Services	(11,851)
(1,893)	Other Corporate Services	(1,707)
(19,775)	Council Tax Benefits	(19,394)
(219,375)		(226,054)

Housing Revenue Income and Expenditure Account

Restated 2006/07 £000s	Income	2007/08 £000s	Note
(56,027)	Dwelling rents (gross)	(58,430)	15
(1,068)	Non-dwelling rents (gross)	(1,110)	
(1,912)	Tenants charges for services and facilities	(2,298)	
(185)	Leaseholders charges for services and facilities	(285)	
0	Other charges for services and facilities	0	
(2,590)	Contributions towards expenditure	(2,030)	
(4,682)	HRA subsidy receivable	(1,795)	10,14
0	Sums directed by the Secretary of State that are income in accordance with UK GAAP	0	
(66,464)		(65,948)	
	Expenditure		
17,574	Repairs and maintenance	17,680	
12,609	Supervision and management	13,778	18
3,749	Special Services	3,771	
1,772	Rents, rates, taxes and other charges	1,917	
0	Negative Subsidy Payable to the Secretary of State	0	
0	Negative Subsidy Transferable to the General Fund under the transitional arrangements	0	
215	Increased provision for bad or doubtful debts	769	
21,566	Depreciation on Dwellings	23,717	7
149	Depreciation on Other Assets	194	7
0	Impairment of Fixed Assets	0	
0	Amortisation of Deferred Charges and Intangible Assets	199	9
165	Debt management charges	183	
0	Sums directed by the Secretary of State that are expenditure in accordance with UK GAAP	0	
57,799		62,208	
(8,665)	Sub-total: Net Cost of Services I&E Account	(3,740)	
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	
(8,665)	Subtotal: Net Cost of HRA Services	(3,740)	
0	(Gain) or loss on sale of HRA Fixed Assets	(764)	
8,890	Interest Payable or other similar charges	12,089	
326	Amortised Premiums and Discounts	327	
0	HRA share of pensions interest cost and expected return on pensions assets	0	
(502)	HRA Investment Income	(842)	
49	(Surplus) or deficit for the year on HRA services	7,070	

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 2006/07 £000s		2007/08 £000s
49	(Surplus) or deficit for the year on HRA I & E account	7,070
(8,627)	Additional items required by statute and non-statutory proper practices to be taken into account in determining the movement in the HRA balance (Note 1)	(10,083)
<hr/>		<hr/>
(8,578)	(Surplus) for year	(3,013)
(6,696)	(Surplus) at Beginning of year	(15,274)
<hr/>		<hr/>
(15,274)	(Surplus) at end of year	(18,287)
<hr/>		<hr/>

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

Restated 2006/07 £000s		2007/08 £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)	(173)
0	Gain or loss on sale of HRA Fixed Assets	764
(7)	Net charges made for retirement benefits in accordance with FRS17	67
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>(7)</u>		<u>658</u>
	Items not included in the HRA I&E Account but included in the movement on HRA balance for the year	
(8,641)	Transfer to/(from) Major Repairs Reserve	(10,803)
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
<u>21</u>	Capital expenditure funded by the HRA	<u>62</u>
(8,620)		(10,741)
<u>(8,627)</u>	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the Year	<u>(10,083)</u>

2. Housing Stock & Balance Sheet Valuation

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

	01/04/07	31/03/08
Houses	12,119	12,008
Flats	6,555	6,504
Bungalows	3,165	3,164
	<u>21,839</u>	<u>21,676</u>

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

	01/04/07	31/03/08
	£000s	£000s
Operational Assets - Dwellings	1,078,325	1,185,864
Operational Assets - Other, Land & Buildings	3,446	3,624
Operational Assets - Vehicles, Plant & Equipment	371	563
Non-Operational Assets	720	470
Total Balance Sheet value of land, houses & other property in the HRA	<u>1,082,862</u>	<u>1,190,521</u>

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 2007 was £2.189m (£2.223m at April 2006). 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:

	2006/07	2007/08
	£000s	£000s
Opening Balance at 1 April	0	0
Amounts transferred to MRR during year	(21,715)	(23,911)
Amounts transferred from MRR during year	8,641	10,803
Capital expenditure on land, houses & other property	13,074	6,875
Repayment of principal of any amount borrowed	0	0
Costs of liability arising from credit arrangements	0	0
Closing balance as at 31 March	<u>0</u>	<u>(6,233)</u>

5. Housing Repairs Account

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

6. Capital Expenditure

The total HRA capital expenditure in 2007/08 was as follows:

	2006/07 £000s	2007/08 £000s
Land	0	0
Houses	62,216	75,921
Other Property	1	293
Deferred Charges	0	199
Total Capital Expenditure	62,217	76,413

This was funded by: -

	2006/07 £000s	2007/08 £000s
Borrowing	(48,228)	(68,199)
Usable Capital Receipts	0	(42)
Revenue Contributions	0	(62)
Capital Grants	(915)	(1,235)
Major Repairs Reserve	(13,074)	(6,875)
Total Funding	(62,217)	(76,413)

During 2007/08 the total receipts from disposal of HRA Assets by type were: -

	2006/07 £000s	2007/08 £000s
Land	(10,922)	(1,234)
Houses	(10,507)	(7,960)
Other Property	0	0
Total Receipts	(21,429)	(9,194)

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:

	2006/07 £000s	2007/08 £000s
Dwellings	21,566	23,717
Other Land & Buildings	72	85
Subtotal - Depreciation for land, houses & other property	21,638	23,802
Other Operational Assets - Vehicles, Plant & Equipment	70	109
Non-Operational Assets	7	0
Total	21,715	23,911

8. Impairment Charges

There were no charges in respect of impairment of HRA assets in 2007/08.

9. Deferred Charges

There were deferred charges totalling £0.199m in 2007/08 in respect of Home Loss payments.

10. HRA Subsidy

The HRA subsidy available is made up from:

	2006/07	2007/08
	£000s	£000s
Allowance for Management & Maintenance	(32,225)	(32,754)
Allowance for Major Repairs	(13,074)	(13,108)
Admissible Allowance	(40)	0
Charges for Capital	(12,713)	(14,760)
Rental Constraint Allowance	(1,460)	(1,569)
Other Items of Reckonable Expenditure	(4)	0
	<u>(59,516)</u>	<u>(62,191)</u>
Assumed Rent Income	56,774	59,326
Interest on Receipts	4	2
	<u>(2,738)</u>	<u>(2,863)</u>
Defects Repurchases Loan	0	0
Adjustments (Previous Years)	(1,944)	1,068
Total Receivable	<u>(4,682)</u>	<u>(1,795)</u>

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

Council employees are eligible to join the Local Government Pension Scheme (Tyne and Wear Pension Fund) and so are eligible for retirement benefit. This includes employees accounted for within the 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 reduction in current service cost below the cash cost is £0.067m 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 2008 was £6.185m (£7.354m at 31 March 2007). The aggregate balance sheet provision in respect of uncollectable debts at 31 March 2008 is £2.892m (£3.972m at 31 March 2007).

Movement during the year relates to write-offs of uncollectable rent of £1.849m and an increase in provision of £0.769m to ensure the provision reflects the estimated doubtful debt based on an age profile of value of rent arrears.

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

There were no such items affecting the HRA in 2007/08.

14. Exceptional Items and Prior Year Adjustments

There were no exceptional items affecting the HRA for 2007/08. However, a prior year adjustment of £1.068m 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 1.8% of the lettable properties were vacant (1.6% in 2006/07). Average rents were £54.00 per week in 2007/08, an average increase of 5% on the previous year.

16. Rent Rebate

The Local Government Act 2003 transferred responsibility for administering rent rebates from the HRA to the General Fund from 1 April 2004. This brings together accounting for rent rebates and rent allowances within the General Fund. Rent rebates are available for those on low incomes. Some 64.1% 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 £30.077m in 2007/08 (£29.202m in 2006/07) and is broken down as follows: -

	2006/07	2007/08
	£000s	£000s
Repairs and Maintenance	17,500	17,584
Supervision and Management	10,292	10,998
Special Services	1,286	1,337
Rents, rates, taxes & other charges	124	158
Total Management Fee	29,202	30,077

18. Supporting People Grant

In previous years, Supporting People Grant was shown offsetting expenditure in Supervision and Management; this has been restated in 2007/08 to be shown as income in Contributions Towards Expenditure.

Collection Fund Account

2006/07 £000s		2007/08 £000s	Notes
	Income		
(64,220)	Council Tax	(68,004)	2
(18,690)	Council Tax Benefit	(20,248)	2
(70,831)	Business Rate Payers	(71,495)	3
(153,741)	Total Income	(159,747)	
	Precepts and Demands		
73,266	Gateshead MBC (including Parish Councils)	77,256	
2,000	Transfer of Surplus to General Fund	1,500	4
116	Transfer of Surplus to the Police Authority	92	4
108	Transfer of Surplus to Tyne and Wear Fire and Rescue Authority	87	4
4,112	Northumbria Police Authority	4,355	5
3,912	Tyne and Wear Fire and Rescue Authority	4,081	5
70,545	Payments to National Pool for business rates	70,844	3
288	Costs of Collection	288	3
	Bad and Doubtful Debts / Appeals		6
(925)	Write Offs	(368)	
(1,325)	Movement on provisions	868	
152,097	Total Expenditure	159,003	
0	Prior Year Adjustment NNDR Payment to National Pool	794	7
	Collection Fund Balances		
(1,644)	Deficit/(Surplus) for the Year	50	
206	Balance Brought Forward 1 April	(1,438)	
(1,438)	Balance carried forward 31 March	(1,388)	

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	
		2006/07	2007/08	2006/07	2007/08
Band A	0.67	45,981	46,885	30,640	31,241
Band B	0.78	9,473	9,630	7,368	7,490
Band C	0.89	13,263	13,439	11,789	11,946
Band D	1.00	4,767	4,803	4,767	4,803
Band E	1.22	1,914	1,920	2,339	2,347
Band F	1.44	681	698	984	1,008
Band G	1.67	325	325	542	542
Band H	2.00	13	13	26	26
		76,417	77,713	58,455	59,403

The basic amount of Council Tax for a Band D property (£1,468.13 including precepts for 2007/08) 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 2007/08, which is receivable from council taxpayers, is the amount billed to Council Tax payers of £68.004m and Council Tax benefits of £20.248m. These amounts are disclosed in the Collection Fund Account.

Allowances of £13.953m (2006/07 £13.181m), in the form of relief's 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 2007/08 of £101.252m (2006/07 £97.074m).

3. National Non-Domestic Rates (NNDR)

The Government specifies an amount (44.4p in 2007/08 and 43.3p in 2006/07) 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 area but pays the proceeds into an NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to Local Authorities' General Funds on the basis of a fixed amount per head of population.

The 2007/08 charge of £81.414m and the NNDR income of £71.495m (excluding relief's, but inclusive of bad debt provisions and costs of collection) for 2007/08 were based on an average rateable value for the Council's area of £186.4m for the year (£183.5m 2006/07).

The table below shows a reconciliation of the amount collected and the 2007/08 charge.

	£m
NNDR Income	71.495
Exemptions	9.465
Discretionary Relief	0.067
Bad Debts Written Off	0.247
Interest on Repayments	0.140
2007/08 Charge	81.414

4. Contributions to Collection Fund Surpluses and Deficits

A transfer to the collection fund in 2007/08 was based on an estimated surplus of £1.5m as at 31 March 2007 and which was notified to all authorities in January 2007. This was taken into account when setting the Councils budget for 2007/08. The collection fund 2006/07 showed a surplus at the year-end of £0.144m and this was reflected in the estimated collection fund balance at 31 March 2008 for budget setting purposes.

A surplus on the fund arising in the previous year of £0.092m was transferred to the Northumbria Police Authority in 2007/08 (2006/07 £0.116m).

A surplus on the fund arising in the previous year of £0.087m was transferred to the Tyne & Wear Fire and Rescue Authority in 2007/08 (2006/07 £0.108m).

5. Precept Payments

	2006/07	2007/08
	£000s	£000s
Northumbria Police Authority	4,112	4,355
Tyne and Wear Fire and Rescue Authority	3,912	4,081
	8,024	8,436

6. Bad and Doubtful Debts

The Council has made a provision for bad and doubtful debts in respect of Council Tax and NNDR 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 2008 is £2.048m (£1.548m 2006/07).

7. Prior Year Adjustments

As part of the 2006/2007 audit, a prior year adjustment of £0.794m was made to amend the NNDR bad debt provision, this is reflected in the 2007/08 Collection Fund Account.

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.

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 Adjustment Account

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

Capital Charges

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

Capital Expenditure

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

Capital Instruments (FRS4)

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

Capital Receipts

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

CIPFA

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

Community Assets

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

Contingencies

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

Contingent Asset

A contingent asset is a possible asset arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent Liabilities

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.

Constructive Obligation

An obligation that derives from the Council's actions where:

- (i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities, and
- (ii) as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Corporate & Democratic Core

The corporate and democratic core comprises all activities that the Council engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single-purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs of service.

Corporate Governance

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

Creditors

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

Debtors

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

Defined Benefit Scheme

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

Defined Contribution Scheme

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

Direct Service Organisation

A unit operating within the Council's responsibility that has won a competitive tendering exercise to provide services to the Council.

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.

Events after the Balance Sheet Date

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

Exceptional Items

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

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 Instruments

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

Financial Reporting Standards (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.

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.

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 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.

Impairment

Impairment is a permanent reduction in the valuation of an asset, caused either by a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or a general fall in prices.

Infrastructure Assets

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Investment

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council for 365 days or more. A short-term investment occurs when surplus funds are invested for 364 days or fewer.

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.

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. Capital charges are required to be calculated. Assets owned by the Council but used by another organisation are classified as non-operational assets.

Pension Fund

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

Pooled Funds

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

Precepts

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

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. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Revaluation Reserve

The SORP 2007 introduced the Revaluation Reserve, which accounts for upward revaluations previously contained within the Fixed Asset Restatement Account (FARA). The implementation of the revaluation reserve is intended to compliment the existing arrangements for capital accounting rather than change them in any substantial way.

Revenue Expenditure

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

Revenue 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.

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.

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.

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.