# Newcastle City Council

# Annual Report & Accounts for Financial Year Ended 31 March 2011

**City of Newcastle upon Tyne**
**Annual Report and Accounts 2010/11**

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## Explanatory Foreword by the Director of Finance & Resources

### Introduction

The purpose of the foreword is to provide a guide to the most significant elements of the detailed Statement of Accounts, along with commentary on the key issues.

The Council manages its affairs to ensure the economic, efficient and effective use of resources and to safeguard its assets. This is vital if the Council is to continue to play a leading role in the life of the City and provide quality services for the benefit of its citizens.

This task is shared by all Members and Officers of the Council under the leadership of the Executive and Chief Executive. The Director of Finance & Resources has a statutory responsibility to ensure sound financial management.

These accounts set out the results of Council activities for the year ended 31 March 2011 and its financial position at that date.

The accounts have been prepared in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code requires that the accounts present a true and fair financial position of the Council. Suitable accounting policies have been employed and where necessary prudent judgments and estimates were made which complied with the code.

**The foreword provides the reader with:**

- A review of the Council’s financial results in 2010/11 and its financial position.
- An overview of activities and significant matters which occurred during the year.
- An understanding of the accounting statements.

### Principal Financial Results 2010/11

The principal financial results for the year can be summarised as follows:

- The Council’s underlying financial position is sound and generally better than forecast in the revised budget.
- The target General Fund reserve of £10.1m has been achieved.
- Total usable reserves stand at £140.3m; these reserves are shown in the balance sheet and in the notes to the financial statements.
- School reserves total £12.6m (the schools reserves are included within earmarked reserves).
- In total, Directorates have managed their spending within the cash limit and trading account budgets. They are carrying forward balances within earmarked reserves of £2.3m (made up of cash limit balances of £1.0m and trading account balances of £1.3m) into 2011/12. These reserves will help meet commitments and cost pressures that are now due to be funded in the new year.
- Direct capital spending was £188.9m together with a further £42.2m through Private Finance schemes, overall capital investment was £231.1m.

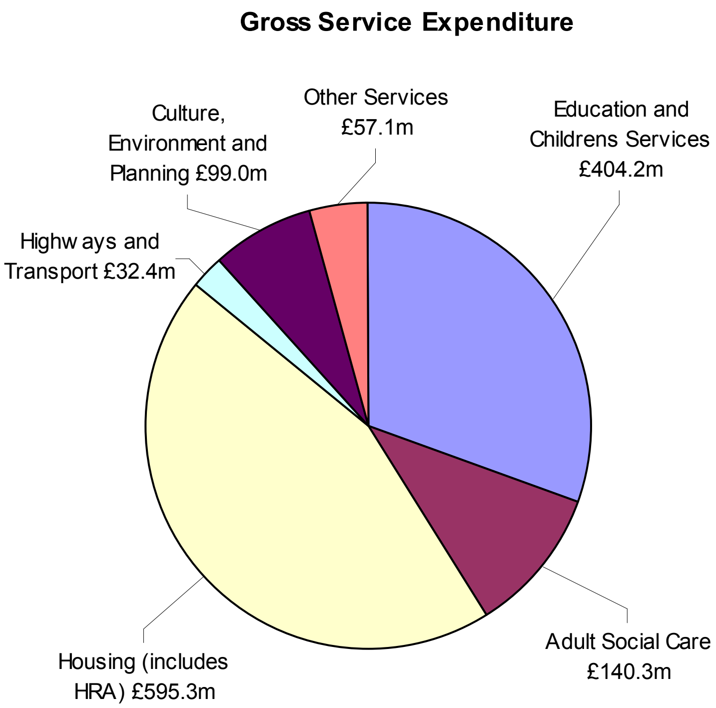
# Explanatory Foreword by the Director of Finance & Resources

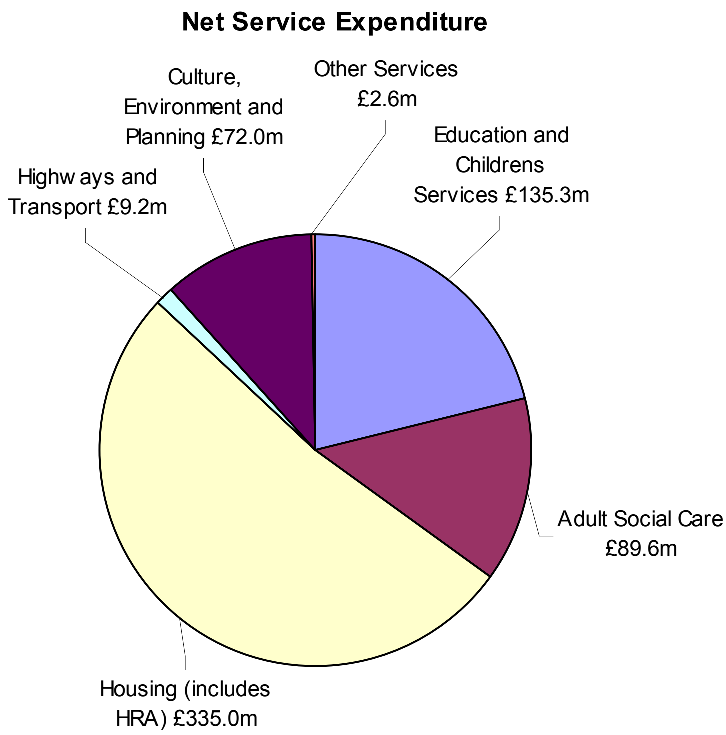
## Revenue Spending

The Comprehensive Income & Expenditure Statement details the Council's financial position for the year before taking into account statutory adjustments required to be made to local government accounts. The Movement in Reserves Statement reflects these statutory requirements and shows how the financial performance for the year has impacted on the Council's General Reserves.

For 2010/11 the Comprehensive Income & Expenditure Account shows a net deficit of £263.7m against the provision of services. This reflects charges for depreciation, impairment and the impact of accounting for pensions under International Accounting Standard (IAS) 19. After taking into account the statutory adjustments required for local government accounts, which reverse these charges out through the Movement in Reserves Statement, an increase of £2.3m arises against reserves held by schools. The net revenue budget for the year was £308.6m, funded from government grant and national business rates £205.1m, and council taxpayers £103.5m. Net revenue expenditure for the year was £306.3m against the budget of £308.6m resulting in the increased school reserves of £2.3m.

The gross revenue cost of services amounted to £1,171.1m in 2010/11. This includes both General Fund Services and the Housing Revenue Account. After deducting specific grants and income from fees and charges the net cost of services was £501.9m. The gross and net cost of services is shown in the Comprehensive Income & Expenditure Account (see page 16). The balance of expenditure between service areas is shown in the following charts, illustrating the gross and net cost of General Fund Services for 2010/11.



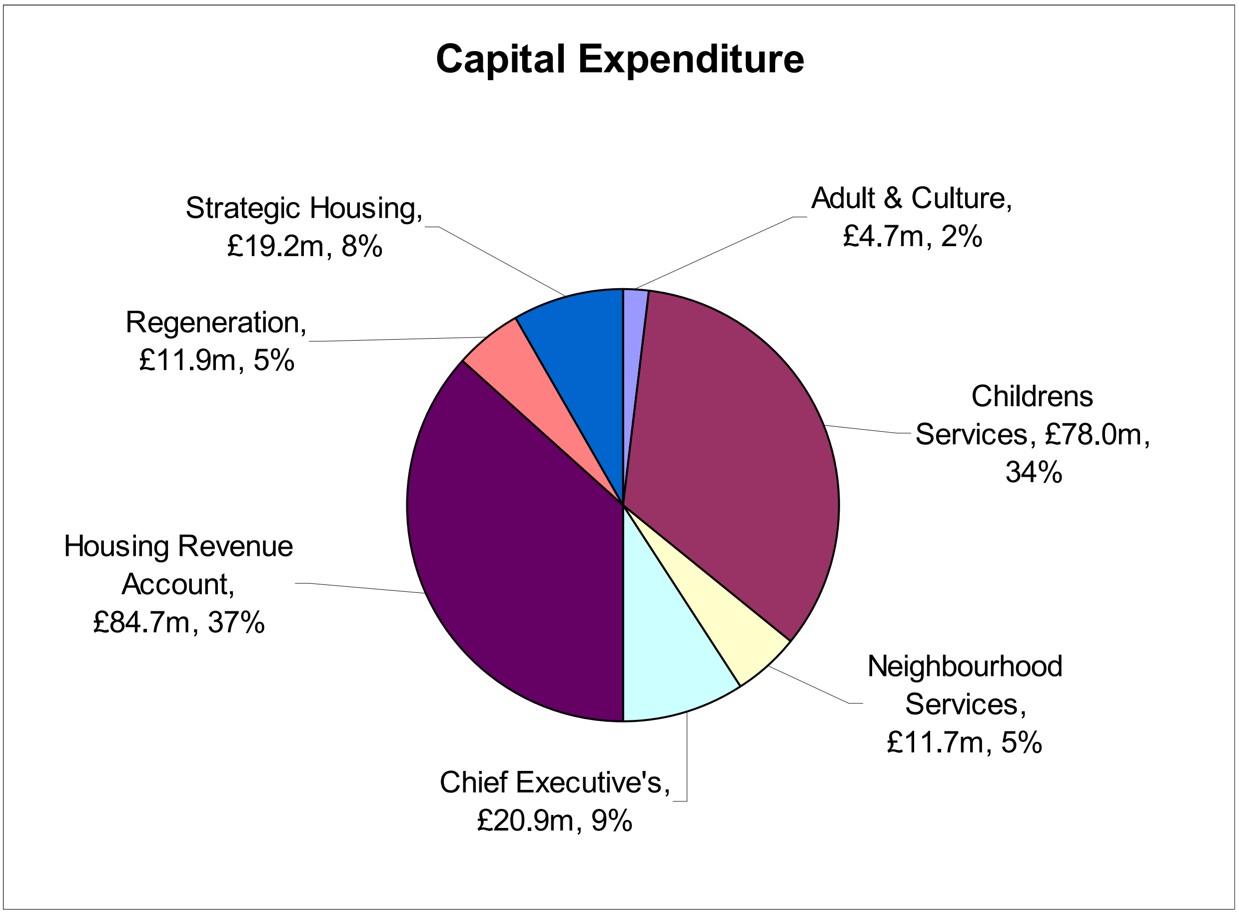




The above graphs exclude a reduction in service expenditure as a consequence of an actuarial review of pension liabilities totalling £157.1m.

The band D Council Tax for 2010/11 to fund the Council's expenditure was £1,511.26.

**Capital Investment**

The 2010/11 capital investment amounted to £231.1m. This is made up of £188.9m of the Council's own capital expenditure and £42.2m schools Private Finance Initiative spend. An analysis of capital expenditure by service and by method of financing is given in the charts below:




Capital spend for each area consisted in the main of:

Adult & Culture: Castle Dene, Elliot House Refurbishment and Theatre Royal Refurbishment.

Childrens Services: Private Finance Initiative Primary Schools, Various Design & Build Schools (St Cuthbert's High, Trinity Special School, Gosforth High School).

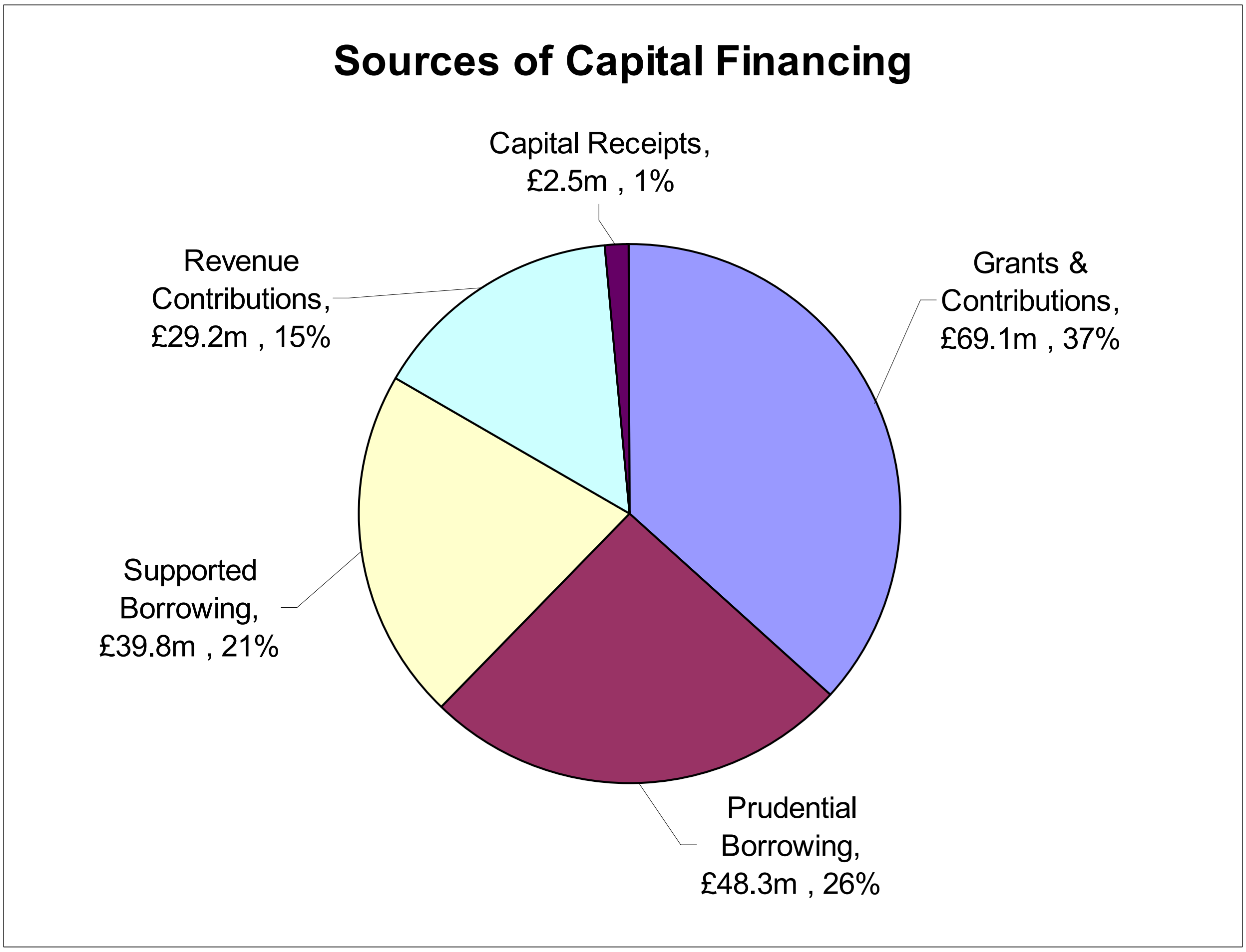
Neighbourhood Services: Highways & Footpaths Improvements, Ouseburn Park Restoration and West Road Mercury Emissions.

Chief Executive's: Purchase of Higham Place and Capitalisation of Equal Pay & Redundancies.

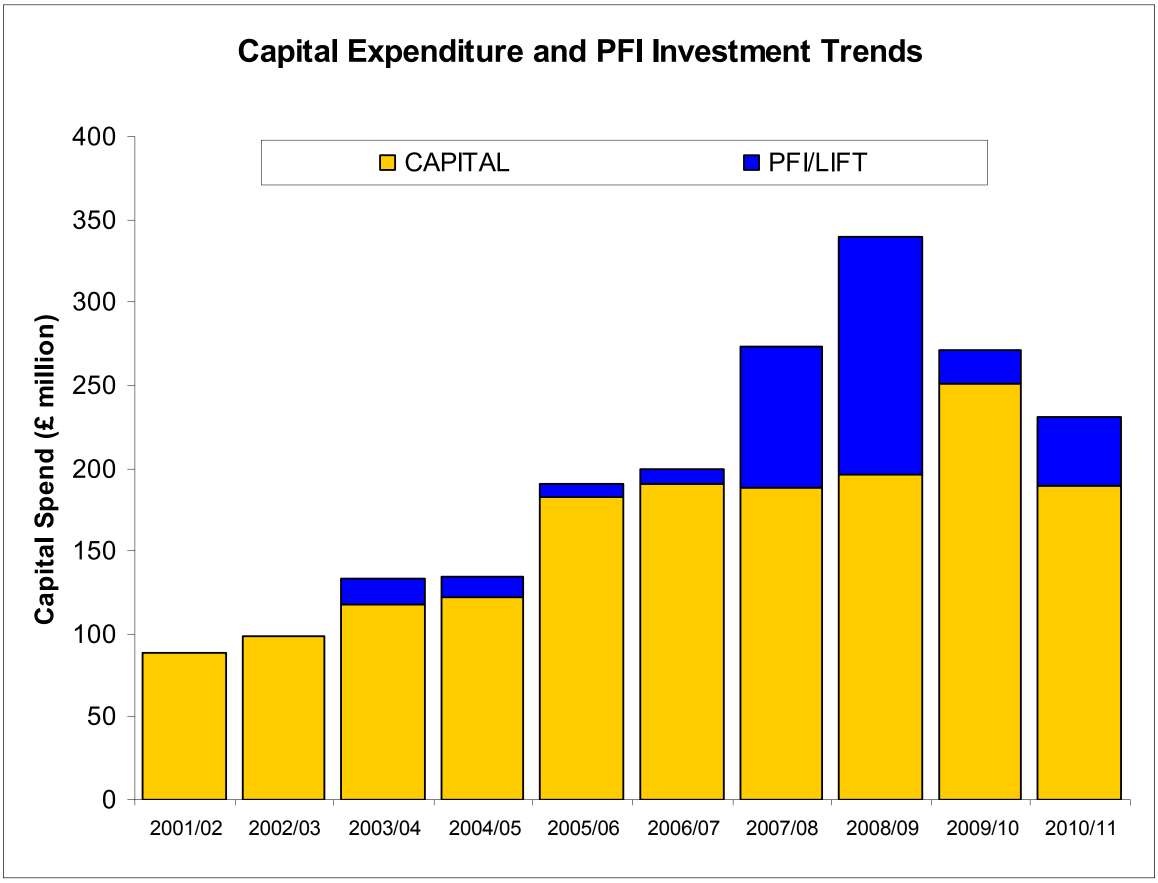
Housing Revenue Account: Decent Homes Programme.

Regeneration: Local Transport Plan, Riverside Dene Biomass and Haymarket Bus Station.

Strategic Housing: Bridging Newcastle Gateshead Programme, Disabled Facilities Grants, Toffee Factory, Newbridge Street Hostel Refurbishment and Science City.




The graph below shows the trends over recent years in relation to capital funding:



**Housing Revenue Account**

The balance on the HRA has increased from £9.4m to £11.0m at the year-end. The HRA operated at a surplus for the year of £4.7m. From this there were appropriations to reserves of £3.2m. The original budget for the year showed an anticipated surplus of £2.7m, and so the actual position was £2.0m higher than the original budget. The increase in the surplus was due largely to a lower than budgeted management fee to Your Homes Newcastle. There was also increased income and less Repairs and Maintenance spend than budgeted. The increased surplus will be utilised in 2011/12 towards financing the Decent Homes Programme.

The value of housing stock has been significantly impaired by £333.9m as a result of the Local Authority Adjustment Factor being revised in 2010/11. This factor is used to reduce the value of housing stock held within the accounts to reflect the fact that the properties are used for social housing. The factor reduced from 51% in 2009/10 to 37% in 2010/11.

The detailed Housing Revenue Account (HRA) position is set out from page 103 in the accounts.

**Treasury Management**

The balance sheet shows external borrowing of £962.6m. This consists of accrued interest £8.8m, trust funds £2.8m and external borrowing of £951m. The £962.6m is split between long term borrowing of £724.4m and temporary borrowing of £238.2m. Temporary borrowing is for periods less than 1 year.

Total interest charges in year amounted to £42.5m with an average rate of interest of 4.3% compared to 4.6% in 2009/10. External investments totalled £156.9m.

**Debtors**

The final accounts (financial statement note 15) show that the net value of short-term debtors has reduced from £92.7m to £86.6m. The following paragraphs outline significant variations in individual debtor categories:

- The value of outstanding balances with other local authorities has reduced primarily due to a reduction of £4.7m relating to Bridging Newcastle Gateshead no longer existing as an organisation.
- The value of Council Tax outstanding balances increased from £17.7m at the end of 2009/10 to £18.6m at the end of 2010/11, an increase of 0.6% on the previous year. (The figures included in note 15 are net of the provision for bad debt).
- The increase in the Private Finance Initiative debtor (£2.1m) is a result of setting aside additional amounts in anticipation of the future lifecycle costs of replacing assets.

Bad debt provisions total £19.9m at 31 March 2011 a reduction of £0.2m from the level at 31 March 2010. The Council’s policy on bad debt provision has been followed except where a judgment has been made to prudently increase the provision.

**Key Collection Figures**

The Council's performance at collecting Council Tax and National Non Domestic Rates (NNDR) improved in 2010/11 compared to the previous year, with 97.26% of Council Tax and 99.20% of NNDR being collected in year compared to 96.70% and 99.15% respectively in 2009/10.

The Housing Tenants Best Value Performance Indicator (BVPI) 66a proportion of rent collected has improved from 98.93% in 2009/10 to 99.21% for 2010/11.

**Schools Balances**

Newcastle school revenue balances retained as at 31 March 2011 have increased from £10.3m to £12.6m in 2010/11. Schools are experiencing unprecedented uncertainty around the future funding levels with the potential implementation of a National Funding Formula within the terms of the current government and are holding balances to mitigate against future funding changes. A review of balances in conjunction with the Newcastle Schools Forum is currently in progress to assess the level of committed balance at individual school level.

**Pensions Liabilities**

The Council is a member of the Tyne and Wear Pension Fund, which is part of the Local Government Pension Scheme. This is a scheme which provides defined benefits based on members' final pensionable salary. In the Council's accounts, a liability for future pension costs is recognised on the Balance Sheet, and pension contributions are shown in the Comprehensive Income and Expenditure Statement. The figure presented within the annual accounts is prepared on an International Accounting Standard (IAS 19) basis. Under IAS 19, the Council is required to disclose the total value of all pension payments that have accumulated (including deferred pensions) at the 31 March each year. This value is made up of:

- The total cost of pensions that are being paid out to former employees who have retired.
- The total sum of the pension entitlements earned to date for current employees.

The standard also requires all investments (assets) of the Pension Fund to be shown at their market value at 31 March each year. In reality, the value of such investments fluctuates in value on a day-to-day basis but this is ignored for the purpose of the accounting standard. Comparing the value of all future pension payments and the value of investments, as at 31 March, results in either an overall surplus or deficit for the Pension Fund. This is called the IAS 19 surplus or deficit.

In 2010/11, the actuaries have estimated that the IAS 19 deficit is £349.4m. This compares with an equivalent figure in the 2009/10 accounts of £532.5m. There are two main reasons for this significant decrease. As part of the emergency budget in June 2010, the Chancellor announced that from April 2011, increases to public sector pensions would be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Over the long term, CPI increases are expected to be lower than RPI increases, and therefore the defined benefit obligations on the Balance Sheet have been reduced. In addition the pension liability was also reduced substantially as a result of changes to the estimation method used by the actuaries, Aon Hewitt. In carrying out the IAS 19 valuation this year, the estimate of liabilities has been found to have been too high in previous years and has been reduced accordingly in the 2010/11 disclosure. This reduction has resulted from the actuarial review of financial assumptions and changes in market conditions.

**Claims under the Equal Pay Act 1970**

During 2010/11, the Council settled a further 145 claims under the Equal Pay Act. There remain a number of cases, 1,869 to date, which have been issued under the Equal Pay Act, some of which raise different legal arguments to the cases already settled, principally claims of equal value, male claims which are contingent upon female comparators establishing their claims and claims where earlier settlements are being challenged.

As the legal arguments to the residual litigation are complex and proceedings are still at an early stage it is too early to assess liability. Accordingly, a contingent liability has been included in the notes to the accounts.

**Accounting Developments**

For 2010/11 the main change that has been introduced into the Council's accounts is the statutory move to IFRS (International Financial Reporting Standards) across the public sector. The switch to an IFRS based Code from a UK GAAP (Generally Accepted Accounting Policies) based SORP (Statement of Recommended Practice) results in the following significant changes in accounting practice:

- Grants and contributions for capital purposes will be recognised as income immediately rather than being deferred and released to revenue to match depreciation once conditions are met. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.
- The main financial statements have changed, and there are additional requirements regarding segment reporting.
- There is a greater emphasis on component accounting, and a greater emphasis on derecognising parts of an asset that are replaced.
- Property leases are classified and accounted for as separate leases of land and buildings.
- Local authorities will also need to assess whether other arrangements contain the substance of a lease.
- Investment properties are measured at fair value, with gains and losses recognised in surplus or deficit rather than through the revaluation reserve.
- Impairment losses will be taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset.
- The Code introduces a new classification of non-current assets held for sale, specific criteria apply to this classification.
- All employee benefits are accounted for as they are earned by the employee. This will require accruals for items such as holiday pay. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a

result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

- The definition of associates is based on the ability to control rather than actual control and may lead to a change in the group boundary.

### Financial Planning

### Priorities

It is essential in the current climate of constrained resources that we are clear on which areas of activity are the highest priorities on which we should focus our efforts and resources. The Council's priorities are:

**A Working City** – creating a new generation of good quality jobs, in a range of sectors, and helping local people develop the skills to do them.

**Decent Neighbourhoods** – working with local communities to look after each other and the environment.

**Tackling Inequalities** – tackling discrimination and inequalities which prevent people and communities fulfilling their true potential.

**A Fit for Purpose Organisation** – a council which leads our city by enabling and empowering others to achieve.

The Newcastle Future Needs Assessment (NFNA) will provide an integrated, coherent and evidence based means of determining priorities for the city as a whole. It will have as its core objective the reduction of the inequalities that have held Newcastle back for too long. It will be informed by key datasets, statistics and analysis, by the experience of practitioners across all sectors in Newcastle and elsewhere, and critically by the direct input of the people of the city via Let's Talk Newcastle and other engagement channels. This will enable key public and voluntary sector services to align their resources to address the key issues and deliver the outcomes that the people of Newcastle need.

### Looking Ahead

The Council is facing significant funding reductions in future years. When coupled with the cost pressures arising from increased demand for services, employee costs, price inflation and reduced income as a result of the economic downturn, it means that savings totalling £44.1m are required in 2011/12.

The Councils budget for 2011/12 was set in this context. As set out in the 2011/12 budget report agreed by City Council in March 2011, the financial strategy focused on improving efficiency whilst protecting front-line services, with over 75% of the required savings coming from efficiency improvements. The Council's proposed net revenue budget for

2011/12 appears to increase from £270.3m to £279.6m, however this masks a significant underlying reduction in funding, which can be seen when a comparison is made between the 2010/11 Adjusted Formula Grant (£193.2m) and 2011/12 Formula Grant (£171.4m).

The Council's long-standing focus on improving value for money has enabled the majority of the required £44.1m of savings to come from efficiencies totalling £28.3m, additional income of £11.0m and £4.8m from service reductions.

The level of capital investment in public infrastructure in the city in 2011/12 will continue at a comparatively high level, although the overall level of investment is likely to be less than 2010/11.

Looking ahead the key financial issues for 2011/12 include:

- Responding to changes in revenue and capital cost pressures during the year to deliver a balanced budget.
- Lobbying for fairer funding and resource equalisation as part of the Review of Local Government funding.
- Bidding for Regional Growth Funds and European funds for capital projects.
- Implementing the low carbon Enterprise Zone and developing our proposals for an Accelerated Development Zone which will include a Tax Incremental Financing (TIF) scheme to fund infrastructure works to help deliver business growth.
- Generating one-off capital receipts and ongoing revenue savings from improved asset management.
- Resolving equal pay claims at the lowest cost possible to the Council.
- Developing further efficiency savings to help deliver the 2012/13 Budget.

**The main statements within the accounts and their purpose are:**

**Statement of Responsibilities for the Statement of Accounts (page 13)**

The statement explains both the Council's and the Director of Finance & Resources responsibilities in respect of the Statement of Accounts.

**Financial Statements**

**Movement in Reserves Statement (page 15)**

This statement shows the movement in the year on the different reserves held by the council, analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The net increase/decrease before transfers to earmarked reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**Comprehensive Income & Expenditure Statement (page 16)**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis as set out in the Best Value Accounting Code of Practice (BVACOP).

**Balance Sheet (page 17)**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line adjustments between accounting basis and funding basis under regulations.

**Cash Flow Statement (page 18)**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

**Notes to the Financial Statements (pages 19 to 102)**

This section provides the reader of the accounts with more details on the financial transactions of the Council.

**Statement of Accounting Policies (pages 84 to 102)**

The statement explains the accounting policies applied, which are significant to the understanding of the annual accounts.

### Supplementary Financial Statements & Notes

### Housing Revenue Account (HRA) (pages 103 to 110)

This account reflects the statutory obligation to "ring-fence" and show separately the major elements of the housing revenue expenditure (repairs and maintenance, administration and capital financing costs) and how this is met by rents, subsidies and other income. Included within the section on the HRA is the Statement of Movement on the HRA, which discloses how the HRA Income & Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year.

### Collection Fund (pages 111 to 113)

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

### Annual Governance Statement (pages 115 to 128)

The Annual Governance Statement sets out the Council's approach to corporate governance and internal control.

### Further Information Available to Council Tax Payers

Access to these accounts will be made available to Council staff through its intranet site and to the wider public via the Council's internet site. If, however, you wish to purchase a copy of this printed booklet, a nominal charge of £5.00 is usually made to cover printing costs. If this information is needed in another format or language please contact Peter Weir on 0191 211 6673 or e-mail peter.weir@newcastle.gov.uk.

Enquiries on the accounts or other general financial matters should be addressed in the first instance to the Director of Finance and Resources, Paul Woods.

As part of the Council's programme of continuous improvement we are striving to improve our system of reporting back to users of services. If you have problems understanding this publication, or have any suggestions on how it may be improved, please contact:

Paul Woods
Director of Finance & Resources
Chief Executive's Office
Civic Centre
Newcastle upon Tyne
NE99 1RD

Tel. (0191 277 7527)
Fax. (0191 211 4901)

## Statement of Responsibilities for the Statement of Accounts

### 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 Director of Finance & Resources.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

### The Director of Finance & Resources' Responsibilities

The Director of Finance & Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the local authority Code.

The Director of Finance & Resources has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Newcastle City Council at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Signed:

P.V. Woods, Director of Finance & Resources
Date: 19 December 2011

### Approval of the Accounts

I confirm that the Constitutional Committee has approved the attached Statement of Accounts.

Signed:

Cllr Hunter, Vice Chair of Constitutional Cttee
Date: 19 December 2011

# Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (surplus) or deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The net increase/decrease before transfers to earmarked reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Earmarked HRA Reserves | Housing Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | **Total Usable Reserves** | Unusable Reserves | **Total Authority Reserves** |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2009** | (10,135) | (75,048) | (9,876) | (17,932) | (20,308) | (977) | (9,122) | (143,398) | (557,642) | (701,040) |
| Movement in reserves during 2009/10 | | | | | | | | | | |
| Deficit on Provision of Services | 38,549 | - | 44,190 | - | - | - | - | 82,739 | - | 82,739 |
| Other Comprehensive Income & Expenditure | - | - | - | - | - | - | - | - | (67,807) | (67,807) |
| **Total Comprehensive Income & Expenditure** | 38,549 | - | 44,190 | - | - | - | - | 82,739 | (67,807) | 14,932 |
| Adjustments between accounting basis & funding basis under regulations (note 5) | (18,515) | - | (46,659) | - | (2,771) | 329 | (17,656) | (85,272) | 85,272 | - |
| **Net (Increase)/ Decrease before transfers to Earmarked Reserves** | 20,034 | - | (2,469) | - | (2,771) | 329 | (17,656) | (2,533) | 17,465 | 14,932 |
| Transfers (to)/from Earmarked Reserves (note 6) | (20,034) | 20,034 | 2,861 | (3,910) | 1,049 | - | - | - | - | - |
| **(Increase)/Decrease in 2009/10** | - | 20,034 | 392 | (3,910) | (1,722) | 329 | (17,656) | (2,533) | 17,465 | 14,932 |
| **Balance at 31 March 2010 carried forward** | **(10,135)** | **(55,014)** | **(9,484)** | **(21,842)** | **(22,030)** | **(648)** | **(26,778)** | **(145,931)** | **(540,177)** | **(686,108)** |
| Movement in reserves during 2010/11 | | | | | | | | | | |
| (Surplus)/Deficit on Provision of Services | (57,475) | - | 321,138 | - | - | - | - | 263,663 | - | 263,663 |
| Other Comprehensive Income & Expenditure | - | - | - | - | - | - | - | - | (15,950) | (15,950) |
| **Total Comprehensive Income & Expenditure** | (57,475) | - | 321,138 | - | - | - | - | 263,663 | (15,950) | 247,713 |
| Adjustments between accounting basis & funding basis under regulations (note 5) | 46,656 | - | (325,861) | - | 5,520 | (393) | 16,066 | (258,012) | 258,012 | - |
| **Net (Increase)/ Decrease before transfers to Earmarked Reserves** | (10,819) | - | (4,723) | - | 5,520 | (393) | 16,066 | 5,651 | 242,062 | 247,713 |
| Transfers (to)/from Earmarked Reserves (note 6) | 10,819 | (10,819) | 3,164 | (3,164) | - | - | - | - | - | - |
| **(Increase)/Decrease in 2010/11** | - | (10,819) | (1,559) | (3,164) | 5,520 | (393) | 16,066 | 5,651 | 242,062 | 247,713 |
| **Balance at 31 March 2011 carried forward** | **(10,135)** | **(65,833)** | **(11,043)** | **(25,006)** | **(16,510)** | **(1,041)** | **(10,712)** | **(140,280)** | **(298,115)** | **(438,395)** |

## Comprehensive Income & Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations, this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2009/10 Gross Expenditure £000 | 2009/10 Gross Income £000 | 2009/10 Net Expenditure £000 | | 2010/11 Gross Expenditure £000 | 2010/11 Gross Income £000 | 2010/11 Net Expenditure £000 |
|---|---|---|---|---|---|---|
| 42,283 | (35,138) | 7,145 | Central Services | 29,196 | (32,638) | (3,442) |
| 5,847 | - | 5,847 | Corporate & Democratic Core | 12,367 | (6,751) | 5,616 |
| 1,836 | - | 1,836 | Non Distributed Costs | (141,984) | - | (141,984) |
| 453 | - | 453 | Court Services | 566 | - | 566 |
| 125,634 | (27,422) | 98,212 | Cultural, Environmental, Regulatory & Planning Services | 99,044 | (27,025) | 72,019 |
| 374,476 | (244,020) | 130,456 | Education & Childrens Services | 404,225 | (268,917) | 135,308 |
| 37,369 | (15,892) | 21,477 | Highways & Transport Services | 32,354 | (23,135) | 9,219 |
| 138,468 | (124,203) | 14,265 | Housing Services General Fund | 164,563 | (130,715) | 33,848 |
| 158,020 | (130,469) | 27,551 | Local Authority Housing (HRA) | 430,555 | (129,502) | 301,053 |
| 134,501 | (52,484) | 82,017 | Adult Social Care | 140,256 | (50,607) | 89,649 |
| **1,018,887** | **(629,628)** | **389,259** | **Cost of Services** | **1,171,142** | **(669,290)** | **501,852** |
| 21,755 | - | 21,755 | Other Operating Expenditure (note 7) | 41,537 | - | 41,537 |
| 111,513 | (63,906) | 47,607 | Financing & Investment Income & Expenditure (note 8) | 159,703 | (90,683) | 69,020 |
| - | (375,882) | (375,882) | Taxation & Non-Specific Grant Income (note 9) | - | (348,746) | (348,746) |
| | | **82,739** | **Deficit on Provision of Services** | | | **263,663** |
| | | (74,203) | (Surplus)/Deficit on Revaluation of Non Current Assets (notes 10 & 17) | | | 20,600 |
| | | 666 | Deficit on Revaluation of Available for Sale Financial Assets | | | - |
| | | 5,730 | Actuarial (Gains)/Losses on Pension Fund Assets & Liabilities (note 40) | | | (36,550) |
| | | **(67,807)** | **Other Comprehensive Income & Expenditure** | | | **(15,950)** |
| | | **14,932** | **Total Comprehensive Income & Expenditure** | | | **247,713** |

## Balance Sheet

The balance sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "adjustments between accounting basis and funding basis under regulations".

| 1 April 2009 £000 | 31 March 2010 £000 | | Notes | 31 March 2011 £000 |
|---|---|---|---|---|
| 2,013,758 | 2,048,781 | Property, Plant & Equipment | 10 | 1,694,717 |
| 106,180 | 174,481 | Investment Property | 11 | 168,827 |
| 1,281 | 2,412 | Intangible Assets | 12 | 2,325 |
| 31,380 | 21,770 | Long Term Investments | 13 | 897 |
| 6,255 | 5,524 | Long Term Debtors | 13 | 10,197 |
| **2,158,854** | **2,252,968** | **Long Term Assets** | | **1,876,963** |
| 239,908 | 61,989 | Short Term Investments | 13 | 120,334 |
| 2,778 | 1,335 | Assets Held for Sale | 17 | 501 |
| 1,452 | 1,359 | Inventories | 14 | 1,593 |
| 79,100 | 92,687 | Short Term Debtors | 15 | 86,604 |
| 13,503 | 14,247 | Cash and Cash Equivalents | 16 | 48,294 |
| **336,741** | **171,617** | **Current Assets** | | **257,326** |
| (11,114) | (11,572) | Bank Overdraft | 16 | (6,614) |
| (143,991) | (49,095) | Short Term Borrowing | 13 | (238,221) |
| (171,557) | (221,632) | Short Term Creditors | 18 | (174,127) |
| (2,331) | (3,614) | Provisions | 19 | (1,763) |
| **(328,993)** | **(285,913)** | **Current Liabilities** | | **(420,725)** |
| (178,440) | (174,266) | Long Term Creditors | 13 | (170,081) |
| (380) | (380) | Deferred Liabilities | 13 | (349) |
| (745,671) | (719,123) | Long Term Borrowing | 13 | (724,047) |
| (9,872) | (8,643) | Provisions | 19 | (9,059) |
| (17,779) | (17,602) | Grants Receipts in Advance | 32 | (22,233) |
| (513,420) | (532,550) | Pension Liability | 40 | (349,400) |
| **(1,465,562)** | **(1,452,564)** | **Long Term Liabilities** | | **(1,275,169)** |
| **701,040** | **686,108** | **Net Assets** | | **438,395** |
| (143,398) | (145,931) | Usable Reserves | 20 | (140,280) |
| (557,642) | (540,177) | Unusable Reserves | 21 | (298,115) |
| **(701,040)** | **(686,108)** | **Total Reserves** | | **(438,395)** |

Director of Finance & Resources Certificate
I certify that the accounts set out on pages 15 to 113 give a true and fair view of the financial position of the City Council as at 31 March 2011.

Signed P.V. Woods, Director of Finance & Resources Date 19 December 2011

## Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2009/10<br>£000 | | 2010/11<br>£000 |
|---|---|---|
| (82,739) | Net deficit on the provision of services | (263,663) |
| 420,436 | Adjustments to net surplus or deficit on the provision of services for non cash movements | 602,191 |
| (291,497) | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | (361,542) |
| 46,200 | Net cash flows from Operating Activities (Note 22) | (23,014) |
| 75,663 | Investing activities (Note 23) | (128,857) |
| (121,577) | Financing activities (Note 24) | 190,876 |
| 286 | Net decrease in cash and cash equivalents | 39,005 |
| 2,389 | Cash and cash equivalents at the beginning of the reporting period | 2,675 |
| **2,675** | **Cash and cash equivalents at the end of the reporting period (Note 16)** | **41,680** |

## 1. Prior Period Adjustments

Adjustments have been made to the 2009/10 financial statements to take account of changes in accounting policies as a result of the introduction of IFRS (International Financial Reporting Standards). The main accounting developments include:

- Accumulated Absences - these refer to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The Council is now required to accrue for any annual leave earned but not taken at 31 March each year.
- Government Grants - under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

The adjustments below highlight the individual lines that have changed within the 2009/10 accounts, together with prior period adjustments. It should be noted that the sub-totals do not add up to the individual tables as unaffected lines are not included.

**Extracts from the Comprehensive Income & Expenditure Statement**

| 31 March 2010 (published) * £000 | | Accumulated Absences £000 | Accounting for Grant Income £000 | Property Reclass' £000 | IFRS Adjustments £000 | Changes in BVACOP Analysis £000 | 31 March 2010 Restated figure £000 |
|---|---|---|---|---|---|---|---|
| **371,435** | **Cost of Services** | **1,653** | **21,037** | - | (5,270) | **404** | **389,259** |
| 2,880 | (Gain)/loss on the disposal of non current assets | - | - | (406) | - | - | 2,474 |
| - | Income & expenditure in relation to investment property and changes in their fair value ** | - | - | - | (9,221) | | (9,221) |
| - | Capital grants and contributions ** | - | (84,103) | - | - | - | (84,103) |
| **158,645** | **Deficit on Provision of Services** | **1,653** | **(63,066)** | **(406)** | **(14,491)** | **404** | **82,739** |

*These are the published figures in the 2009/10 Annual Report and Accounts.

** These are lines that have been added to the Comprehensive Income & Expenditure Statement as a result of IFRS and as such were not included in the original Income & Expenditure Statement.

Additional accounting developments for the balance sheet include:

- Fixed Assets - under the Code, properties can only be classified as investment property if they meet the strict criteria of investment property, that is that they are only being held for capital appreciation or rental income purposes. Also, assets held for sale can only be classified as such if they are being actively marketed and a sale imminent.

**Extracts from the Balance Sheet 2009/10**

| 31 March 2010 (published) * £000 | | Accumulated Absences £000 | Accounting for Grant Income £000 | Property Reclass' £000 | IFRS Adjustments £000 | Reclass' Adjustments £000 | 31 March 2010 Restated figure £000 |
|---|---|---|---|---|---|---|---|
| 2,261,823 | Property, Plant and Equipment | - | - | (213,042) | - | - | 2,048,781 |
| - | Investment Property ** | - | - | 174,481 | - | - | 174,481 |
| 72,329 | Short Term Investments | - | - | - | (10,340) | - | 61,989 |
| - | Assets Held for Sale ** | - | - | 1,335 | - | - | 1,335 |
| 92,537 | Short Term Debtors | - | - | - | 150 | - | 92,687 |
| 3,907 | Cash and Cash Equivalents | - | - | - | 10,340 | - | 14,247 |
| (27,473) | Monies Held on Behalf of Other Organisations | - | - | - | - | 27,473 | - |
| (196,544) | Short Term Creditors | (6,450) | 8,835 | - | - | (27,473) | (221,632) |
| (40,715) | Capital Grants & Contributions Unapplied | - | 40,715 | - | - | - | - |
| - | Grants Receipts in Advance ** | - | (17,601) | - | - | - | (17,601) |
| (291,136) | Government Grant Deferred Account | - | 291,136 | - | - | - | - |
| **406,549** | **Net Assets** | **(6,450)** | **323,085** | **(37,226)** | **150** | **-** | **686,108** |
| (273,539) | Revaluation Reserve | - | - | 42,719 | - | - | (230,820) |
| (558,476) | Capital Adjustment Account | - | (291,136) | (5,493) | (150) | - | (855,255) |
| - | Capital Grants Unapplied ** | - | (26,778) | - | - | - | (26,778) |
| - | Revenue Grants Unapplied ** | - | (5,171) | - | - | - | (5,171) |
| - | Accumulated Absences Account ** | 6,450 | - | - | - | - | 6,450 |
| **(406,549)** | | **6,450** | **(323,085)** | **37,226** | **(150)** | **-** | **(686,108)** |

*These are the published figures in the 2009/10 Annual Report and Accounts.

** These are lines that have been added to the Balance Sheet as a result of IFRS and as such were not included in the original Balance Sheet.

**Extracts from the Balance Sheet 2008/09**

| 31 March 2009 (published) * £000 | | Accumulated Absences £000 | Accounting for Grant Income £000 | Property Reclass' £000 | IFRS Adjustments £000 | Reclass' Adjustments £000 | 31 March 2010 Restated figure £000 |
|---|---|---|---|---|---|---|---|
| 2,152,399 | Property, Plant and Equipment | - | - | (138,641) | - | - | 2,013,758 |
| - | Investment Property ** | - | - | 106,180 | - | - | 106,180 |
| 250,608 | Short Term Investments | - | - | - | (10,700) | - | 239,908 |
| - | Assets Held for Sale ** | - | - | 2,778 | - | - | 2,778 |
| 79,100 | Short Term Debtors | - | - | - | - | - | 79,100 |
| 2,803 | Cash and Cash Equivalents | - | - | - | 10,700 | - | 13,503 |
| (29,408) | Monies Held on Behalf of Other Organisations | - | - | - | - | 29,408 | - |
| (145,348) | Short Term Creditors | (4,797) | 7,996 | - | - | (29,408) | (171,557) |
| (21,213) | Capital Grants & Contributions Unapplied | - | 21,213 | - | - | - | - |
| - | Grants Receipts in Advance ** | - | (17,779) | - | - | - | (17,779) |
| (248,589) | Government Grant Deferred Account | - | 248,589 | - | - | - | - |
| **475,501** | **Net Assets** | **(4,797)** | **260,019** | **(29,683)** | **-** | **-** | **701,040** |
| | | | | | | | |
| (185,038) | Revaluation Reserve | - | - | 24,603 | - | - | (160,435) |
| (678,330) | Capital Adjustment Account | - | (248,589) | 5,080 | - | - | (921,839) |
| - | Capital Grants Unapplied ** | - | (9,122) | - | - | - | (9,122) |
| - | Revenue Grants Unapplied ** | - | (2,308) | - | - | - | (2,308) |
| - | Accumulated Absences Account ** | 4,797 | - | - | - | - | 4,797 |
| **(475,501)** | | **4,797** | **(260,019)** | **29,683** | **-** | **-** | **(701,040)** |

*These are the published figures in the 2009/10 Annual Report and Accounts relating to the 2008/09 Accounts.

** These are lines that have been added to the Balance Sheet as a result of IFRS and as such were not included in the original Balance Sheet.

## 2. Accounting Standards that have been issued but have not yet been adopted

### Heritage Assets - impact of the adoption of the new standard on the 2011/12 financial statements

The Code has introduced a change in accounting policy in relation to the treatment of heritage assets which will impact on the treatment of those heritage assets managed and held by the Council. These changes will need to be adopted fully by the Council in the 2011/12 financial statements.

Although full adoption of the standard is not required until the preparation of 2011/12 financial statements, the Council is required to make disclosure of the estimated effect of the new standard in the 2010/11 financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately in the Council's Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held and managed by the Council 'principally for their contribution to knowledge or culture'. The heritage assets held and managed by the Council are:

- Heritage assets managed by Tyne & Wear Museums & Archives (see page 65) on behalf of the five Tyne & Wear Authorities.
- Civic Insignia.
- Heritage assets included in the Mansion House.
- Public Art within the City.

### Tyne & Wear Museums & Archives

Heritage assets are assets that are managed by the Joint Committee 'principally for their contribution to knowledge or culture'. The heritage assets held and managed by the Joint Committee are the collections of assets and artefacts either exhibited or stored in:

- Shipley Art Gallery (founded 1915)
- Discovery Museum (founded 1934)
- Tyne and Wear Archives (based at Discovery Museum, est. 1974)
- Great North Museum: Hancock (founded 1829)
- Great North Museum: Resource Centre (based at Discovery Museum, est. 2009)
- Hatton Gallery: Great North Museum (founded 1926)
- Laing Art Gallery (founded 1901)
- Segedunum Roman Fort, Baths & Museum (founded 2000)
- Stephenson Railway Museum (founded 1986)
- Arbeia Roman Fort & Museum (founded 1953)
- South Shields Museum & Art Gallery (founded 1876)
- Monkwearmouth Station Museum (founded 1973)
- Sunderland Museum & Winter Gardens (founded 1846)
- Washington F Pit (founded 1976)
- Regional Museums Store and Regional Resource Centre (in partnership with and based at Beamish Open Air Museum (est. 2002))

The collections held by the Joint Committee are diverse, covering six principal fields. The collection ranges in medium and materials, and includes objects, specimens, documents, digital media and film. The total collection size is estimated at 1.1m museum objects and approximately 1,562 cubic meters of archive material. It reflects a period of collecting of over 200 years by the archives, museums and their predecessor bodies. The definition of numbers in the collection follows museum and archive best practice but, in terms of valuing the asset, is fairly arbitrary as single items accessioned may comprise a wide range of objects, artefacts, components or supporting papers. However, the following table indicates the estimated number of objects/records held within each field:

| Category | Estimated no. of objects/records as at 31 March 2011 |
|---|---|
| Art (including fine art, decorative art, contemporary craft and design) | 41,492 |
| Archaeology | 226,170 |
| Ethnography | 7,105 |
| History (including social history, costume, maritime history and engineering, science and industry) | 190,165 |
| Natural Sciences (including geology and biology) | 640,793 |
| **Total** | **1,105,725** |
| | **Cubic Meters** |
| Archives | 1,562 |

The collection is not currently recognised in the financial statements as no reliable information is available on the summative cost or the value of the assets. This is due to a number of factors, not all of which will apply consistently to the different fields, but includes: the lack of information on purchase cost; the lack of comparable market values; the diverse nature of the objects; and the volume of objects held. The assets are held in the asset register of the Joint Committee, currently MODES database software, but in the process of migrating to KE EMu collections management system.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (including the 2010/11 comparative information). The 2011/12 Code where it relates to heritage assets will permit some relaxations of the normal valuation requirements of heritage assets and this will mean that the Joint Committee is able to recognise more of its collections of heritage assets in the balance sheet.

The Council anticipates that it will be able to recognise its art collection on the balance sheet using as its base the detailed insurance valuations (which are believed to be a realistic assessment of the market values) held by the Joint Committee in respect of much of this collection. The Council is unlikely to be able to recognise the majority of the other collections in future financial statements as it is of the view that conventional valuation approaches lack sufficient reliability and obtaining any valuations for the vast majority of these collections would likely incur a significant and onerous cost. Even if valuations could be obtained it would involve a disproportionate cost not commensurate with any benefits to the Council, its senior management, the public or to the users of the Council's financial statements - this exemption is permitted by the 2011/12 Code.

Only items in the collection estimated to be worth in excess of £10k are identified separately for insurance purposes. The Joint Committee estimates, from its insurance records, that the value of those items within the art collection related to Newcastle City Council worth in excess of £10k is £101.3m as at 1 April 2010. Therefore, it is estimated that the total value of heritage assets to be recognised in the Balance Sheet at 1 April

2010 (under the requirements of the 2011/12 Code) will be £101.3m. As these assets have not yet been recognised in the balance sheet this will require a corresponding increase in the Revaluation Reserve of £101.3m, i.e. a revaluation gain.

The Council considers that the heritage assets held will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Council's heritage assets.

The following table sets out the movements of heritage assets in the year to provide users of the financial statements with a fuller understanding of the impact of the new standard on the balance sheet in the 2010/11 financial year and provides a split between the owners of the assets.

| District | Estimated number of art objects valued at £10k or above as at 1 April 2010 | Heritage Assets recognised for the first time at valuation as at 1 April 2010 | Additions 2010/11 (purchase of painting) | Carrying Value as at 31 Mar 2011 |
|---|---:|---:|---:|---:|
| Gateshead | 148 | £13.12m | £0.00m | £13.12m |
| Newcastle | 699 | £101.33m | £0.04m | £101.37m |
| North Tyneside | 0 | £0.00m | £0.00m | £0.00m |
| South Tyneside | 13 | £0.49m | £0.00m | £0.49m |
| Sunderland | 133 | £9.13m | £0.00m | £9.13m |
| **Total** | **993** | **£124.07m** | **£0.04m** | **£124.11m** |

**Civic Insignia**

The Civic Insignia include the following:

- Lord Mayors Chain
- Lady Mayoress Chain
- Sheriffs Chain
- Consort Medallion
- Great Mace
- Swords Of State
- Silver Gallery - a permanent display of Civic Plate and regalia, housed in the Lord Mayor's Silver Gallery, Civic Centre, together with some of the gifts made to the City.

This collection is currently not recognised within the financial statements. The Code will require that Heritage assets are measured at valuation in the 2011/12 financial statements. The Council anticipates that it will be able to recognise its Civic Insignia on the balance sheet using as its base the detailed insurance valuation, with a corresponding revaluation gain. The current insurance valuation for the Civic Insignia is £0.7m.

**Heritage assets included in the Mansion House**

This collection includes all furnishings and works of art and other artefacts within the Mansion House. This collection is currently not recognised within the financial statements.

The Code will require that Heritage assets are measured at valuation in the 2011/12 financial statements. The Council anticipates that it will be able to recognise its assets within the Mansion House on the balance sheet using as its base the detailed insurance valuation with a corresponding revaluation gain. The current insurance valuation for these items is £1.2m.

**Public Art within the City**

Public art is used by the Council to create and revitalise public spaces, to improve the environment and to enhance new developments. It is also an important and creative community development tool and is used to engage local people in shaping and defining their own communities and to enhance teaching in a range of subjects across the curriculum.

Newcastle has a wealth of public art. Some pieces, like Blue Carpet are well known, but others are not. Much of the work that the Council does in the field of public art is intended to increase public awareness of the importance of good design; the value of a welcoming, distinctive environment; and the many examples of exemplary work that exist in the City.

The Council is unlikely to be able to recognise these works of art in future financial statements as it is of the view that obtaining valuations for the vast majority of these works of art would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements - this exemption is permitted by the 2011/12 Code.

The Council considers that the heritage assets held by the Council will have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the authority's heritage assets.

The movements on all Heritage Assets for the Council in the 2010/11 accounts are set out in the table below:

| | £000 |
|---|---|
| Heritage assets recognised for the first time at valuation as at 1 April 2010 | 103,205 |
| Additions | 40 |
| **Carrying value as at 31 March 2011** | **103,245** |

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 44 Accounting Policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are considered to be:

- Determining whether an arrangement meets the definition of a service concession within the scope of IFRIC (International Financial Reporting Interpretations Committee)12.
- Determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets.
- Determining whether the Council has to produce group accounts.

Following a review of the Council's contracts Private Finance Initiative (PFI) schemes have been recognised on the balance sheet as they meet the criteria of IFRIC12, however no other contracts are within the scope of IFRIC12. The Council has also reviewed its relationship with other entities that it has an interest in and concluded that group accounts are not required.

## 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council’s Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £96.1m. However, the assumptions interact in complex ways. During 2010/11, the Council’s actuaries advised that the net pensions liability had decreased by £9.6m as a result of estimates being corrected as a result of experience and decreased by £2.7m attributable to the updating of the assumptions. |
| Arrears | At 31 March 2011, the Council had a gross balance of sundry debtors for £106.5m. A review of significant balances suggested that an impairment of doubtful debts of £19.9m was appropriate resulting in net debtors of £86.6m. However, in the current economic climate it is not certain that such an allowance would be sufficient. | If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £19.9m to set aside as an allowance. |

## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

**2010/11**

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | **General Fund Balance** | **Housing Revenue Account** | **Major Repairs Reserve** | **Capital Receipts Reserve** | **Capital Grants Unapplied** | **Movement in Unusable Reserves** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Adjustments involving the Capital Adjustment Account:** | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Charges for depreciation and impairment of non current assets | (98,633) | (358,297) | - | - | - | 456,930 |
| Movements in the market value of Investment Properties | (9,867) | - | - | - | - | 9,867 |
| Amortisation of intangible assets | (1,043) | (21) | - | - | - | 1,064 |
| Capital grants and contributions applied | 43,565 | 5,400 | - | - | | (48,965) |
| Revenue expenditure funded from capital under statute | (34,459) | (1,095) | - | - | - | 35,554 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (23,406) | (2,359) | - | - | - | 25,765 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Statutory provision for the financing of capital investment | 20,761 | 3,031 | - | - | - | (23,792) |
| Capital expenditure charged against the HRA balance | - | 3,841 | - | - | - | (3,841) |
| **Adjustments involving the Capital Grants Unapplied Account:** | | | | | | |
| Grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement | 4,123 | - | - | - | (4,123) | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | 20,189 | (20,189) |

### 2010/11 continued

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 1,075 | 3,018 | - | (4,093) | - | - |
| Transfer of repayments of advances | 29 | 4 | - | (33) | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | 2,488 | - | (2,488) |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (1,674) | - | - | 1,674 | - | - |
| Transfer from Deferred Capital Receipts Reserve | - | - | - | (428) | - | 428 |
| **Adjustment involving the Major Repairs Reserve:** | | | | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | 25,332 | - | - | (25,332) |
| Reversal of MRA credited to the HRA | - | 19,812 | (19,812) | - | - | - |
| **Adjustments involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (538) | 804 | - | - | - | (266) |

**2010/11 continued**

| | Usable Reserves General Fund Balance | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40) | 102,340 | - | - | - | - | (102,340) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 44,260 | - | - | - | - | (44,260) |
| **Adjustments involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (32) | - | - | - | - | 32 |
| **Adjustment involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 155 | - | - | - | - | (155) |
| **Total Adjustments 2010/11** | **46,656** | **(325,862)** | **5,520** | **(392)** | **16,066** | **258,012** |

**2009/10**

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments involving the Capital Adjustment Account:** | | | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Charges for depreciation and impairment of non current assets | (124,687) | (87,647) | - | - | - | 212,334 |
| Movements in the market value of Investment Properties | 30,146 | - | - | - | - | (30,146) |
| Amortisation of intangible assets | (1,080) | (21) | - | - | - | 1,101 |
| Capital grants and contributions applied | 64,067 | 9,312 | - | - | | (73,379) |
| Revenue expenditure funded from capital under statute | (25,909) | - | - | - | - | 25,909 |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (9,867) | (3,663) | - | - | - | 13,530 |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement: | | | | | | |
| Statutory provision for the financing of capital investment | 23,095 | 1,527 | - | - | - | (24,622) |
| Capital expenditure charged against the General Fund and HRA balances | 12,484 | 8,540 | - | - | - | (21,024) |
| **Adjustments involving the Capital Grants Unapplied Account:** | | | | | | |
| Grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement | 22,653 | - | - | - | (22,653) | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | 4,997 | (4,997) |

**2009/10 continued**

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments involving the Capital Receipts Reserve:** | | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 7,660 | 3,396 | - | (11,056) | - | - |
| Transfer of repayments of advances | 148 | 5 | - | (870) | - | 717 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | 11,171 | - | (11,171) |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals | (149) | - | - | 149 | - | |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool | (1,367) | - | - | 1,367 | - | - |
| Transfer from Deferred Capital Receipts Reserve | - | - | - | (432) | - | 432 |
| **Adjustment involving the Major Repairs Reserve:** | | | | | | |
| Use of the Major Repairs Reserve to finance new capital expenditure | - | - | 17,850 | - | - | (17,850) |
| Reversal of MRA credited to the HRA | - | 20,621 | (20,621) | - | - | - |
| **Adjustments involving the Financial Instruments Adjustment Account:** | | | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (890) | 1,271 | - | - | - | (381) |

**2009/10 continued**

| | Usable Reserves | | | | | |
|---|---|---|---|---|---|---|
| | General Fund Balance | Housing Revenue Account | Major Repairs Reserve | Capital Receipts Reserve | Capital Grants Unapplied | Movement in Unusable Reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments involving the Pensions Reserve:** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 40) | (59,980) | - | - | - | - | 59,980 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 46,580 | - | - | - | - | (46,580) |
| **Adjustments involving the Collection Fund Adjustment Account:** | | | | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 234 | - | - | - | - | (234) |
| **Adjustment involving the Accumulated Absences Account:** | | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (1,653) | - | - | - | - | 1,653 |
| **Total Adjustments 2009/10** | **(18,515)** | **(46,659)** | **(2,771)** | **329** | **(17,656)** | **85,272** |

## 6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2010/11.

| | Balance at 1 April 2009 | Transfers Out 2009/10 | Transfers In 2009/10 | Balance at 31 March 2010 | Transfers Out 2010/11 | Transfers In 2010/11 | Balance at 31 March 2011 |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **General Fund** | | | | | | | |
| Balances held by schools under a scheme of delegation | (9,762) | - | (576) | (10,338) | 535 | (2,824) | (12,627) |
| Corporate resource pool (1) | (8,989) | 18,491 | (12,013) | (2,511) | 9,834 | (7,433) | (110) |
| Other capital reserves | (1,218) | 616 | (842) | (1,444) | 426 | (575) | (1,593) |
| Revenue grants unapplied | (2,308) | 2,308 | (5,171) | (5,171) | 5,171 | (5,791) | (5,791) |
| Insurance & risk management reserve | (3,177) | 1,703 | (313) | (1,787) | 1,225 | - | (562) |
| Urban Development Corporation reserve | (1,204) | 238 | - | (966) | 88 | - | (878) |
| Strategic reserve (2) | (15,408) | 8,605 | - | (6,803) | 9,052 | (23,847) | (21,598) |
| Cash limits (3) | (3,286) | - | (151) | (3,437) | 3,691 | (1,294) | (1,040) |
| Trading accounts | (6,942) | 4,263 | - | (2,679) | 1,754 | (379) | (1,304) |
| Other revenue reserves (4) | (22,754) | 4,880 | (2,004) | (19,878) | 4,027 | (4,479) | (20,330) |
| | (75,048) | 41,104 | (21,070) | (55,014) | 35,803 | (46,622) | (65,833) |
| **Housing Revenue Account** | | | | | | | |
| Furniture investment reserve | (2,000) | 1,046 | (1,424) | (2,378) | 141 | (933) | (3,170) |
| Decent Homes programme reserve | - | 5,000 | (9,400) | (4,400) | 2,000 | (9,200) | (11,600) |
| Capital programme reserve | - | 1,606 | (4,000) | (2,394) | 1,444 | (1,100) | (2,050) |
| Renewals fund | (555) | 192 | (83) | (446) | 35 | (75) | (486) |
| Pensions reserve | (1,000) | 1,000 | - | - | - | - | - |
| Workforce planning reserve (5) | (3,000) | - | - | (3,000) | 2,300 | - | (700) |
| Concierge projects (6) | - | - | - | - | - | (2,500) | (2,500) |
| Revenue projects (7) | - | - | - | - | - | (1,000) | (1,000) |
| Demolitions projects | - | - | - | - | - | (2,500) | (2,500) |
| Repairs fund | (3,000) | - | - | (3,000) | 2,000 | - | (1,000) |
| Investment reserve | (8,377) | 2,153 | - | (6,224) | 6,224 | - | - |
| | (17,932) | 10,997 | (14,907) | (21,842) | 14,144 | (17,308) | (25,006) |
| **Total General Fund & HRA** | **(92,980)** | **52,101** | **(35,977)** | **(76,856)** | **49,947** | **(63,930)** | **(90,839)** |

# Notes to the Financial Statements

(1) The Corporate Resource Pool is a corporate reserve used to finance one-off Directorate schemes, with the advances being repaid over a number of years by the relevant Directorate.
(2) The Strategic Reserve was established to address future potential significant external cost pressures on the Council's budget.
(3) The Cash Limit reserve represents the carry forward of earmarked Directorate balances which will be used to meet commitments and cost pressures that are due to be funded in the new year.
(4) Other Revenue Reserves includes the PFI (Private Finance Initiative Subsidy) reserves £14.5m, earmarked excluded items £3.9m, LPSA Performance Reward £1.2m and other miscellaneous reserves £0.7m.
(5) The Workforce planning reserve is intended to meet pension and redundancy costs resulting from changes in staffing structures.
(6) The Concierge reserve is used to fund the capital expenditure on CCTV, equipment and networking incurred as part of the concierge review to enable the service to be redesigned.
(7) The Revenue projects reserve is used to finance initiatives and projects whilst seeking mainstream funding.

## 7. Other Operating Expenditure

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 80 | Parish council precepts | 52 |
| 17,834 | Levies | 18,139 |
| 1,367 | Payments to the Government Housing Capital Receipts Pool | 1,674 |
| 2,474 | Losses on the disposal of non current assets | 21,672 |
| **21,755** | Total | **41,537** |

## 8. Financing and Investment Income and Expenditure

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 53,008 | Interest payable and similar charges | 55,805 |
| 35,650 | Pensions interest cost and expected return on pensions | 8,180 |
| (5,410) | Interest receivable and similar income | (3,718) |
| (35,673) | Income and expenditure in relation to investment properties and changes in their fair value | 5,169 |
| 32 | External trading accounts | 3,584 |
| **47,607** | **Total** | **69,020** |

Investment Properties are shown as a negative balance in 2009/10 due to the reversal of the Eldon Square impairment charge.

## 9. Taxation and Non Specific Grant Income

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| (102,081) | Council tax income | (103,471) |
| (133,666) | Non domestic rates | (145,787) |
| (56,032) | Non-ringfenced government grants | (59,319) |
| (84,103) | Capital grants and contributions | (40,169) |
| **(375,882)** | **Total** | **(348,746)** |

## 10. Property, Plant & Equipment

### Movements in 2010/11

| | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Land Awaiting Development | Assets Under Construction | Total Property, Plant and Equipment | PFI Assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | | | | | | | |
| At 1 April 2010 | 1,118,732 | 689,493 | 124,615 | 276,994 | 3,074 | 14,600 | 9,910 | 16,312 | 2,253,730 | 192,820 |
| Additions | 76,856 | 32,009 | 12,744 | 14,467 | 714 | 965 | 5,718 | 4,925 | 148,398 | 205 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (86,371) | (6,333) | 4,389 | - | 9 | (406) | - | - | (88,712) | (5,615) |
| Revaluation increases/(decreases) recognised in the Deficit on the Provision of Services | (268,016) | (61,232) | (600) | (51) | (3) | (1,231) | (516) | (2,152) | (333,801) | (6,921) |
| Derecognition - Disposals | (1,451) | (22,296) | (29,779) | - | - | (538) | - | - | (54,064) | - |
| Assets reclassified (to)/from Held for Sale | - | (262) | - | - | - | 892 | - | - | 630 | - |
| Other reclassifications | - | (89,917) | 96,586 | 4,186 | - | 1,173 | (1,324) | (10,704) | - | - |
| **At 31 March 2011** | **839,750** | **541,462** | **207,955** | **295,596** | **3,794** | **15,455** | **13,788** | **8,381** | **1,926,181** | **180,489** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | | |
| At 1 April 2010 | (72,825) | (19,373) | (69,906) | (42,521) | (152) | (71) | (101) | - | (204,949) | (14,188) |
| Depreciation charge | (19,811) | (7,212) | (22,376) | (7,119) | (31) | (54) | - | - | (56,603) | (6,555) |
| Depreciation written out to the Revaluation Reserve | 11,968 | 983 | 99 | - | - | 8 | - | - | 13,058 | 2,301 |
| Depreciation written out to the Deficit on the Provision of Services | 8,644 | 4,893 | - | - | - | 23 | - | - | 13,560 | - |
| Elimination of impairment on revaluation | 52,207 | 2,705 | - | - | - | - | - | - | 54,912 | - |
| Impairment losses/(reversals) recognised in the Deficit on the Provision of Services | (74,463) | (3,585) | - | - | - | (85) | (1,839) | (114) | (80,086) | - |
| Derecognition - Disposals | - | - | 28,644 | - | - | - | - | - | 28,644 | - |
| Reclassifications | - | 2,958 | (2,958) | - | - | - | - | - | - | - |
| **At 31 March 2011** | **(94,280)** | **(18,631)** | **(66,497)** | **(49,640)** | **(183)** | **(179)** | **(1,940)** | **(114)** | **(231,464)** | **(18,442)** |
| **Net Book Value** | | | | | | | | | | |
| **At 31 March 2011** | **745,470** | **522,831** | **141,458** | **245,956** | **3,611** | **15,276** | **11,848** | **8,267** | **1,694,717** | **162,047** |
| **At 31 March 2010** | **1,045,907** | **670,120** | **54,709** | **234,473** | **2,922** | **14,529** | **9,809** | **16,312** | **2,048,781** | **178,632** |

**Comparative Movements in 2009/10**

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Surplus Assets £000 | Land Awaiting Development £000 | Assets Under Construction £000 | Total Property, Plant and Equipment £000 | PFI Assets Included in Property, Plant and Equipment £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | | |
| At 1 April 2009 | 1,030,954 | 694,095 | 108,090 | 263,651 | 8,833 | 15,073 | 13,803 | 12,244 | 2,146,743 | 242,868 |
| Additions | 106,545 | 37,338 | 16,627 | 13,411 | 825 | 358 | 1,014 | 9,124 | 185,242 | 215 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 14,952 | 49,982 | - | - | (186) | 2,165 | 161 | - | 67,074 | 491 |
| Revaluation increases/(decreases) recognised in the Deficit on the Provision of Services | (29,976) | (94,588) | (57) | (53) | (807) | - | (6,554) | (68) | (132,103) | (50,754) |
| Derecognition - Disposals | (3,653) | (6,229) | (281) | - | - | (2,825) | (37) | - | (13,025) | - |
| Assets reclassified (to)/from Held for Sale | (151) | (50) | - | - | - | - | - | - | (201) | - |
| Other reclassifications | 61 | 8,945 | 236 | (15) | (5,591) | (171) | 1,523 | (4,988) | - | - |
| **At 31 March 2010** | **1,118,732** | **689,493** | **124,615** | **276,994** | **3,074** | **14,600** | **9,910** | **16,312** | **2,253,730** | **192,820** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | | |
| At 1 April 2009 | (21,786) | (17,530) | (56,185) | (37,098) | (183) | (203) | - | - | (132,985) | (8,378) |
| Depreciation charge | (20,616) | (10,247) | (13,837) | (5,427) | (35) | (74) | | - | (50,236) | (5,810) |
| Depreciation written out to the Revaluation Reserve | 632 | 6,276 | - | - | - | - | 221 | - | 7,129 | - |
| Depreciation written out to the Deficit on the Provision of Services | 21,154 | 5,044 | - | - | - | - | - | - | 26,198 | - |
| Impairment losses/(reversals) recognised in the Deficit on the Provision of Services | (52,207) | (3,886) | - | - | - | - | (101) | - | (56,194) | - |
| Derecognition - Disposals | - | 793 | 140 | - | - | 206 | - | - | 1,139 | - |
| Reclassifications | (2) | 177 | (24) | 4 | 66 | - | (221) | - | - | - |
| **At 31 March 2010** | **(72,825)** | **(19,373)** | **(69,906)** | **(42,521)** | **(152)** | **(71)** | **(101)** | **-** | **(204,949)** | **(14,188)** |

**Depreciation**:
The following useful lives and depreciation rates have been used in the calculation of depreciation:
- Council Dwellings 50 years
- Other Land and Buildings 25-100 years
- Vehicles, Plant, Furniture & Equipment 3-10 years
- Infrastructure 25-60 years

**Capital Commitments:**

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £48m. Similar commitments at 31 March 2010 were £79m. The major commitments (£1m or more) are:

| | £m |
|---|---|
| **Housing Revenue Account Programme** | |
| Frank Haslam Milan | 7,875 |
| Electrical services | 7,619 |
| Kendal Cross | 4,202 |
| Mears | 2,118 |
| Straightline | 1,893 |
| Turney Wylde | 1,635 |
| | 25,342 |
| **General Fund Programme** | |
| Scotswood | 10,710 |
| Theatre Royal | 4,874 |
| Toffee Factory | 3,717 |
| Milecastle Primary | 2,634 |
| Trinity School | 1,107 |
| | 23,042 |
| **Total Commitments** | **48,384** |

**Valuation Policies**

Assets are carried on the Council's balance sheet based upon the Code of Practice and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS).

- Properties classified as operational were valued on the basis of net realisable value in existing use or, where this could not be assessed because there was no market for the subject asset, on the basis of depreciated replacement cost.
- Vehicles, plant, furniture and equipment - non-property assets (furniture and equipment) are included at historical cost net of depreciation. Plant and machinery is included in the valuation of the buildings where it is considered to form part of the building service installation.
- Council dwellings were valued on the basis of existing use for social housing. This value is calculated by adjusting the existing use value with vacant possession by a regional factor provided by the Department for Communities and Local Government to reflect their status as social housing. Consequently council dwellings are included in the balance sheet at 37% of current value (2010: 51%).
- Properties classified as non-operational have been valued on the basis of market value.
- Community assets are recorded at historical cost, depreciated where appropriate. Community assets can include parks, historic buildings and museum exhibits/collections.
- Infrastructure assets are included at historical cost, net of depreciation. It should be noted that where a capital scheme includes some infrastructure works (such as the building of roads and sewers in the construction of a housing estate) these have usually been included in the category "council dwellings" or "other land and buildings" as appropriate. It is not always possible to identify the full cost separately.
- It is a requirement that assets carried at current value are reviewed at periods of not more than 5 years, and when circumstances occur that materially change the valuations. The process of review is a 5 year rolling programme and accordingly at least 20% of the property asset register was valued during 2010/11. The Council has adopted a policy of componentisation for assets which is described on page 99. Assets have been valued in accordance with the principles of the RICS Appraisal and Valuation Standards. The valuations were supervised by M. Lloyd, RICS, Head of Strategic Asset Management, Newcastle City Council.

The table below summarises when assets were most recently valued and shows the progress of the Council's 5 year rolling programme for assets that are carried at current value.

| | Council Dwellings £000 | Other Land and Buildings £000 | Land Awaiting Development £000 | Surplus Assets £000 | Investment Properties £000 | Total £000 |
|---|---|---|---|---|---|---|
| Valued at fair value as at: | | | | | | |
| 2010/11 | 745,470 | 255,890 | 3,340 | 10,971 | 168,827 | 1,184,498 |
| 2009/10 | - | 115,726 | 7,460 | 2,632 | - | 125,818 |
| 2008/09 | - | 101,162 | 15 | 754 | - | 101,931 |
| 2007/08 | - | 44,459 | 1,033 | 693 | - | 46,185 |
| 2006/07 | - | 5,594 | - | 226 | - | 5,820 |
| Total Cost or Valuation | 745,470 | 522,831 | 11,848 | 15,276 | 168,827 | 1,464,252 |

## 11. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| (7,503) | Rental income from investment property | (10,378) |
| (28,170) | Direct operating expenses arising from investment property | 15,547 |
| **(35,673)** | **Total** | **5,169** |

The change in the direct operating expenses between 2009/10 and 2010/11 reflects the movement in the market value of the Investment Properties (Eldon Square and Partnership House) and the reversal of the Eldon Square impairment charge.

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 106,180 | Balance at start of the year | 174,481 |
| | Additions: | |
| 21,912 | Purchases | - |
| 15,666 | Construction | - |
| 577 | Subsequent expenditure | 4,213 |
| 30,146 | Net gains/(losses) from fair value adjustments | (9,867) |
| **174,481** | **Balance at end of the year** | **168,827** |

## 12. Intangible Assets

The intangible assets relate to purchased licenses. The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The cost of software licences is written-off over the five-year life of the licences.

The software licences are held for various systems within the Council, such as e-mail, teamware and archiving, contact centre and mainframe migration.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £1,064k charged to revenue in 2010/11 was charged to the following lines in the Comprehensive Income & Expenditure Account: Local Authority Housing (HRA) £21k; Cultural, Environmental, Regulatory & Planning Services £47k; Adult Social Care £84k; Education & Childrens Services £130k and Central Services £782k.

The movement on Intangible Asset balances during the year is as follows:

| | 2009/10 Purchased Licences £000 | 2010/11 Purchased Licences £000 |
|---|---|---|
| Balance at start of year: | | |
| Gross carrying amounts | 6,683 | 8,915 |
| Accumulated amortisation | (5,402) | (6,503) |
| Net carrying amount at start of year | 1,281 | 2,412 |
| Additions: | | |
| Purchases | 2,232 | 977 |
| Amortisation for the period | (1,101) | (1,064) |
| | 2,412 | 2,325 |
| Net carrying amount at end of year | | |
| Comprising: | | |
| Gross carrying amounts | 8,915 | 9,892 |
| Accumulated amortisation | (6,503) | (7,567) |
| **Total** | **2,412** | **2,325** |

## 13. Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

| | 01 Apr 2009 £000 | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|---|
| **Long term investments:** | | | |
| Loans and receivables | 29,817 | 20,873 | - |
| Available-for-sale financial assets | 1,409 | 743 | 743 |
| Unquoted equity investment at cost | 154 | 154 | 154 |
| **Total long term investments** | **31,380** | **21,770** | **897** |
| **Short term investments:** | | | |
| Bank deposits | 215,408 | 33,989 | 92,334 |
| Nexus investments | 24,500 | 28,000 | 28,000 |
| **Total short term investments** | **239,908** | **61,989** | **120,334** |

Available-for-sale financial assets represent the Council's investment in Newcastle Airport Local Holding Company Ltd. The unquoted equity investments are LIFTCo £147k and Eldon Square Company Ltd £7k.

| Long term debtors: | 01 Apr 2009 £000 | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|---|
| Council house mortgages & major works | 68 | 63 | 178 |
| Car loans (principal outstanding) | 212 | 157 | 121 |
| Airport loan notes | 1,282 | 854 | 428 |
| Loans to other local authorities - North Tyneside Council (transferred debt) | 3,808 | 3,655 | 3,509 |
| Leazes Homes | - | - | 4,914 |
| Other | 885 | 795 | 1,047 |
| **Total long term debtors** | **6,255** | **5,524** | **10,197** |
| **Short term debtors:** | | | |
| Short term debtors (less Council Tax) | 68,588 | 81,168 | 74,803 |
| **Total short term debtors** | **68,588** | **81,168** | **74,803** |

| Borrowings: | 01 Apr 2009 £000 | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|---|
| Short term borrowing | (143,991) | (49,095) | (238,221) |
| Financial liabilities at amortised cost - long term borrowing | (745,671) | (719,123) | (724,047) |
| **Total borrowings** | **(889,662)** | **(768,218)** | **(962,268)** |

| Other Long Term Liabilities: | 01 Apr 2009 £000 | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|---|
| Long term creditors - PFI finance lease liabilities | (178,440) | (174,266) | (170,081) |
| Deferred liabilities | (380) | (380) | (349) |
| **Total other long term liabilities** | **(178,820)** | **(174,646)** | **(170,430)** |
| **Short term creditors:** | | | |
| Short term creditors (less Council Tax) | (170,264) | (220,402) | (172,732) |
| **Total short term creditors** | **(170,264)** | **(220,402)** | **(172,732)** |

**Income, Expense, Gains and Losses**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB (Public Works Loan Board) interest rates for new fixed rate borrowing in the appropriate maturity bands as at 31 March 2011.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

**The fair values calculated are as follows:**

**Financial Liabilities**

| | 31 March 2010 | | 31 March 2011 | |
|---|---|---|---|---|
| | Carrying amount £000 | Fair value £000 | Carrying amount £000 | Fair value £000 |
| Financial liabilities | (768,218) | (839,495) | (962,268) | (1,051,878) |
| Long-term creditors | (174,266) | (174,266) | (170,081) | (170,081) |
| | **(942,484)** | **(1,013,761)** | **(1,132,349)** | **(1,221,959)** |

**Financial Assets**

| | 31 March 2010 | | 31 March 2011 | |
|---|---|---|---|---|
| | Carrying amount £000 | Fair value £000 | Carrying amount £000 | Fair value £000 |
| Loans and receivables | (21,770) | (21,770) | (897) | (897) |
| Long-term debtors | (5,524) | (5,524) | (10,197) | (10,197) |
| | **(27,294)** | **(27,294)** | **(11,094)** | **(11,094)** |

The fair value differs from the carrying value as fair value is assessed according to market rates relating to the outstanding life of the loan. Carrying amount relates to the actual interest rate applicable to the loan outstanding. The fair value differences for financial instruments relates to the fact that the Council has loans at fixed rates that result in it paying a higher interest charge than if it had taken out variable rate loans.

The fair value of the PFI's (Private Finance Initiative) is taken to be the same as the carrying value as the interest rate applied is driven from the overall calculation of the unitary charge in the operators' models. This calculation takes into account wider factors applying to the contract, therefore it is not considered appropriate to apply an interest rate from a simple loan over a comparable contract term.

## 14. Inventories

| | Adult & Cultural Services | | Chief Executive's | | Environment & Regeneration | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2009/10 | 2010/11 | 2009/10 | 2010/11 | 2009/10 | 2010/11 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at start of year** | 56 | 369 | 69 | 83 | 1,327 | 907 | 1,452 | 1,359 |
| Purchases | 39 | 40 | 108 | 93 | 2,902 | 3,344 | 3,049 | 3,477 |
| Recognised as an expense in the year | 274 | (27) | (94) | (125) | (3,322) | (3,089) | (3,142) | (3,241) |
| Written off balances | - | - | - | - | - | (2) | - | (2) |
| Total In Year Movement | 313 | 13 | 14 | (32) | (420) | 253 | (93) | 234 |
| **Balance at year-end** | 369 | 382 | 83 | 51 | 907 | 1,160 | 1,359 | 1,593 |

The information below gives the split of the 2010/11 opening and closing balances by category of stock.

| | Adult & Cultural Services | | Chief Executive's | | Environment & Regeneration | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 01.04.10 | 31.03.11 | 01.04.10 | 31.03.11 | 01.04.10 | 31.03.11 | 01.04.10 | 31.03.11 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Consumables | 369 | 382 | 83 | 51 | 210 | 375 | 662 | 808 |
| Building Materials | - | - | - | - | 697 | 785 | 697 | 785 |
| **Balance at year-end** | 369 | 382 | 83 | 51 | 907 | 1,160 | 1,359 | 1,593 |

## 15. Short Term Debtors

| 01 Apr 2009 | 31 Mar 2010 | | 31 Mar 2011 |
|---|---|---|---|
| £000 | £000 | | £000 |
| 21,926 | 25,132 | Central government bodies | 25,231 |
| 10,210 | 11,071 | Other local authorities | 7,248 |
| 564 | 854 | NHS bodies | 1,213 |
| 2,956 | 3,508 | Public corporations and trading funds | 2,496 |
| 10,512 | 11,519 | Council Tax | 11,801 |
| 1,899 | 1,379 | Housing Tenants | 933 |
| 556 | 1,645 | Private finance initiative lifecycle prepayments | 3,787 |
| 30,477 | 37,579 | Other entities and individuals | 33,895 |
| **79,100** | **92,687** | **Total** | **86,604** |

### 16. Cash and Cash Equivalents

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

| 01 Apr 2009 £000 | 31 Mar 2010 £000 | | 31 Mar 2011 £000 |
|---|---|---|---|
| 2,803 | 3,907 | Cash held by the Council | 4,776 |
| 10,700 | 10,340 | Short-term deposits with building societies | 43,518 |
| 13,503 | 14,247 | | 48,294 |
| (11,114) | (11,572) | Bank overdraft | (6,614) |
| **2,389** | **2,675** | **Total Cash and Cash Equivalents** | **41,680** |

### 17. Assets Held for Sale

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **2,778** | **Balance at start of year** | **1,335** |
| | Assets newly classified as held for sale: | |
| 201 | Property, Plant and Equipment | 262 |
| - | Revaluation losses | (4) |
| - | Revaluation gains | 145 |
| | Assets declassified as held for sale: | |
| - | Property, Plant and Equipment | (892) |
| (1,644) | Assets sold | (345) |
| **1,335** | **Balance at year-end** | **501** |

### 18. Short Term Creditors

| 01 Apr 2009 £000 | 31 Mar 2010 £000 | | 31 Mar 2011 £000 |
|---|---|---|---|
| (20,743) | (17,613) | Central government bodies | (8,987) |
| (10,064) | (6,074) | Other local authorities | (9,574) |
| (198) | - | NHS bodies | (390) |
| (425) | (33) | Public corporations and trading funds | (271) |
| (1,293) | (1,230) | Council tax | (1,395) |
| (8,303) | (4,389) | Private finance initiative lease creditor | (4,389) |
| (4,797) | (6,450) | Accumulated absences accrual | (6,295) |
| (29,408) | (27,473) | Monies held on behalf of other organisations | (50,757) |
| (96,326) | (158,370) | Other entities and individuals | (92,069) |
| **(171,557)** | **(221,632)** | **Total** | **(174,127)** |

Monies held on behalf of other organisations represents cash held and invested under treasury management agreements on behalf of partner organisations where the Council is the lead authority which must be returned on request. This includes Theatre Royal (£3.53m), Tyne & Wear Integrated Transport Authority (£45.83m), Your Homes Newcastle (£3.22m), Archives & Museums £1.50m, Trust Funds £0.15m, Insurances £0.45m and Palatine (£0.30m).

## 19. Provisions

| Long Term Provisions | Insurance | Equal Pay | Other Provisions | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2010** | (8,028) | (1,713) | (2,517) | (12,258) |
| Additional provisions made in 2010/11 | (7,171) | - | (163) | (7,334) |
| Amounts used in 2010/11 | 5,423 | - | - | 5,423 |
| Unused amounts reversed in 2010/11 | 1,622 | - | 1,725 | 3,347 |
| **Balance at 31 March 2011** | (8,154) | - | (955) | (10,822) |
| Which is split:- | | | | |
| **Short Term** | - | (1,713) | (50) | (1,763) |
| **Long Term** | (8,154) | - | (905) | (9,059) |

### Insurances

From 1991 the City Council has self-funded the first £100,000 of each and every public and employer's liability claim subject to aggregate protection. In 2003 this liability deductible increased to £250,000. Since April 1994 the Council has self-insured the first £100,000 of fire damage claims for the Childrens Services Directorate and the first £5,000 of all other fire damage claims (except Housing). Motor vehicle own damage is self-funded and there is an excess of £25,000 in respect of third party claims.
The insurance provision of £8.2m at 31 March 2011 (31 March 2010 £8.0m) covers, in the main, the Council's liabilities in respect of outstanding claims already reported.

It is expected that some insurance claims will be settled within the next financial year and others over a longer period of time, but it is not possible to say on a claim-by-claim basis when particular claims will be settled due to their varied nature.

### Equal Pay

This provision is to cover potential income tax and national insurance liability for the settled equal pay claims and it is anticipated that the provision will be drawn down in 2011/12.

### Other Provisions

All other provisions are individually insignificant and are anticipated to be drawn down over the next few years.

## 20. Usable Reserves

The following table summarises the Council's usable reserves. Further detail is contained in the Movement in Reserves Statement and Note 6.

| 01 Apr 2009 | 31 Mar 2010 | | 31 Mar 2011 |
|---|---|---|---|
| £000 | £000 | | £000 |
| (10,135) | (10,135) | General Fund Balance | (10,135) |
| (75,048) | (55,014) | Earmarked General Fund Balances | (65,833) |
| (9,876) | (9,484) | Housing Revenue Account (HRA) | (11,043) |
| (17,932) | (21,842) | Earmarked HRA Balances | (25,006) |
| (20,308) | (22,030) | Housing Major Repairs Reserve | (16,510) |
| (977) | (648) | Capital Receipts Reserve | (1,041) |
| (9,122) | (26,778) | Capital Grants Unapplied | (10,712) |
| **(143,398)** | **(145,931)** | **Total Usable Reserves** | **(140,280)** |

## 21. Unusable Reserves

| 01 Apr 2009 £000 | 31 Mar 2010 £000 | | 31 Mar 2011 £000 |
|---|---|---|---|
| (160,435) | (230,820) | Revaluation Reserve | (207,439) |
| (1,409) | (743) | Available for Sale Financial Instruments Reserve | (743) |
| (921,839) | (855,255) | Capital Adjustment Account | (453,467) |
| 8,303 | 7,922 | Financial Instruments Adjustment Account | 7,656 |
| 513,420 | 532,550 | Pensions Reserve | 349,400 |
| (1,778) | (1,346) | Deferred Capital Receipts Reserve | (914) |
| 1,299 | 1,065 | Collection Fund Adjustment Account | 1,097 |
| 4,797 | 6,450 | Accumulated Absences Account | 6,295 |
| **(557,642)** | **(540,177)** | **Total Unusable Reserves** | **(298,115)** |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

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

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **(160,435)** | **Balance at 1 April** | **(230,820)** |
| (67,012) | Upward revaluation of assets | (29,100) |
| (7,191) | (Upward)/Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 49,700 |
| (74,203) | (Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | 20,600 |
| 1,047 | Difference between fair value depreciation and historical cost depreciation | 1,951 |
| 2,771 | Accumulated gains on assets sold or scrapped | 830 |
| 3,818 | Amount written off to the Capital Adjustment Account | 2,781 |
| **(230,820)** | **Balance at 31 March** | **(207,439)** |

### Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are either revalued downwards or impaired and the gains are lost; or disposed of and the gains are realised. The reserve represents the long term investment in Newcastle Airport Local Authority Holding Company Limited.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| (1,409) | Balance at 1 April | (743) |
| 666 | Downward revaluation of investments not charged to the Deficit on the Provision of Services | - |
| **(743)** | **Balance at 31 March** | **(743)** |

### Capital Adjustment Account

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

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 5 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| **(921,839)** | **Balance at 1 April** | **(855,255)** |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | |
| 212,334 | Charges for depreciation and impairment of non current assets | 456,930 |
| 1,101 | Amortisation of intangible assets | 1,064 |
| 25,909 | Revenue expenditure funded from capital under statute | 35,554 |
| (3) | External debt redeemed | (34) |
| 720 | Write down of long term debtors | 30 |
| 13,530 | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 25,765 |
| 253,591 | | 519,309 |
| (3,818) | Adjusting amounts written out of the Revaluation Reserve | (2,781) |
| 249,773 | Net written out amount of the cost of non current assets consumed in the year | 516,528 |
| | Capital financing applied in the year: | |
| (11,171) | Use of the Capital Receipts Reserve to finance new capital expenditure | (2,488) |
| (17,850) | Use of the Major Repairs Reserve to finance new capital expenditure | (25,332) |
| (73,379) | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (48,965) |
| (4,997) | Application of grants to capital financing from the Capital Grants Unapplied Account | (20,189) |
| (24,622) | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | (23,792) |
| (21,024) | Capital expenditure charged against the General Fund and HRA balances | (3,841) |
| (153,043) | | (124,607) |
| (30,146) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | 9,867 |
| **(855,255)** | **Balance at 31 March** | **(453,467)** |

**Financial Instruments Adjustment Account**

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. It provides a balancing mechanism between the different rates at which gains and losses (e.g. premiums on the early repayment of debt) are recognised under the Code and are required by statute to be met from the General Fund.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 8,303 | **Balance at 1 April** | 7,922 |
| (77) | Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement | (171) |
| (304) | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (94) |
| 7,922 | **Balance at 31 March** | 7,656 |

**Pensions Reserve**

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

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 513,420 | **Balance at 1 April** | 532,550 |
| 5,730 | Actuarial (gains) or losses on pensions assets and liabilities | (36,550) |
| 59,980 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (102,340) |
| (46,580) | Employer's pensions contributions and direct payments to pensioners payable in the year | (44,260) |
| 532,550 | **Balance at 31 March** | 349,400 |

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| (1,778) | **Balance at 1 April** | (1,346) |
| 432 | Transfer to the Capital Receipts Reserve upon receipt of cash | 432 |
| (1,346) | **Balance at 31 March** | (914) |

### Collection Fund Adjustment Account

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

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 1,299 | **Balance at 1 April** | 1,065 |
| (234) | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 32 |
| 1,065 | **Balance at 31 March** | 1,097 |

### Accumulated Absences Account

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

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 4,797 | **Balance at 1 April** | 6,450 |
| 1,653 | Amounts accrued at the end of the current year | (155) |
| 6,450 | **Balance at 31 March** | 6,295 |

## 22. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 11,723 | Interest received | 3,767 |
| (55,842) | Interest paid | (55,959) |

## 23. Cash Flow Statement - Investing Activities

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| (225,629) | Purchase of property, plant and equipment, investment property and intangible assets | (153,588) |
| - | Purchase of short-term and long-term investments | (342,202) |
| 676 | Other payments for investing activities | (4,709) |
| 11,056 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 4,093 |
| 187,529 | Proceeds from short-term and long-term investments | 304,730 |
| 102,031 | Other receipts from investing activities | 62,819 |
| **75,663** | **Net cash flows from investing activities** | **(128,857)** |

## 24. Cash Flow Statement - Financing Activities

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| 270,261 | Cash receipts of short and long-term borrowing | 847,936 |
| 7,955 | Other receipts from financing activities | 1,011 |
| (8,088) | Cash payments for the reduction of the outstanding liabilities relating to on-balance sheet PFI contracts | (4,185) |
| (391,705) | Repayments of short and long-term borrowing | (653,886) |
| - | Other payments for financing activities | - |
| **(121,577)** | **Net cash flows from financing activities** | **190,876** |

## 25. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular: no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement; the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year and expenditure on some support services is budgeted for centrally and not charged to Directorates.

The tables on the following pages provide information on the Directorate income and expenditure based on the Directorate structure of the organisation as at 31 March 2011. The tables for 2009/10 and 2010/11 have been prepared in line with this structure based on the information within the council's financial systems, it must however be noted that structural changes have occurred between the two comparative years and these account for the variations between Directorates in comparing one year with the other.

**Directorate Income and Expenditure 2010/11**

| | Adult and Culture Services £000 | Chief Executive's £000 | Childrens Services £000 | Environment and Regeneration £000 | Housing Revenue Account £000 | Total £000 |
|---|---|---|---|---|---|---|
| Fees, charges & other service income | (46,280) | (7,357) | (12,056) | (94,807) | (114,671) | (275,171) |
| Interest and investment income | - | - | - | - | (1,201) | (1,201) |
| Income from Council Tax | - | - | - | - | - | - |
| Government grants | (18,601) | (146,922) | (225,343) | (11,531) | (20,231) | (422,628) |
| **Total Income** | (64,881) | (154,279) | (237,399) | (106,338) | (136,103) | (699,000) |
| Employee expenses | 43,869 | 47,980 | 185,664 | 95,336 | - | 372,849 |
| Other service expenses | 121,267 | 156,922 | 102,462 | 74,340 | 72,236 | 527,227 |
| Support service recharges | 9,620 | 44,855 | 27,403 | 32,794 | 143 | 114,815 |
| Interest payments | - | - | - | - | 27,202 | 27,202 |
| Precepts & levies | - | - | - | 196 | - | 196 |
| Gain on Disposal of Non Current Assets | - | - | - | - | (659) | (659) |
| **Total Expenditure** | 174,756 | 249,757 | 315,529 | 202,666 | 98,922 | 1,041,630 |
| **Net Expenditure** | **109,875** | **95,478** | **78,130** | **96,328** | **(37,181)** | **342,630** |

**Directorate Income and Expenditure**
**2009/10 Comparative Figures**

| | Adult and Culture Services £000 | Chief Executive's £000 | Childrens Services £000 | Environment and Regeneration £000 | Housing Revenue Account £000 | Total £000 |
|---|---|---|---|---|---|---|
| Fees, charges & other service income | (47,691) | (23,981) | (16,474) | (25,379) | (112,438) | (225,963) |
| Interest and investment income | - | - | - | - | (1,833) | (1,833) |
| Income from Council Tax | - | - | - | - | - | - |
| Government grants | (30,851) | (138,511) | (221,134) | (17,272) | (27,343) | (435,111) |
| **Total Income** | (78,542) | (162,492) | (237,608) | (42,651) | (141,614) | (662,907) |
| Employee expenses | 46,008 | 57,611 | 188,541 | 100,452 | - | 392,612 |
| Other service expenses | 130,635 | 131,230 | 129,469 | 17,876 | 70,149 | 479,359 |
| Support service recharges | 10,539 | 49,084 | 18,076 | 17,391 | - | 95,090 |
| Interest payments | - | - | - | - | 27,375 | 27,375 |
| Precepts & levies | - | - | - | 221 | - | 221 |
| Loss on Disposal of Non Current Assets | - | - | - | - | 267 | 267 |
| **Total Expenditure** | 187,182 | 237,925 | 336,086 | 135,940 | 97,791 | 994,924 |
| **Net Expenditure** | **108,640** | **75,433** | **98,478** | **93,289** | **(43,823)** | **332,017** |

**Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to a subjective analysis of the Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| 2010/11 | Directorate Analysis £000 | Services and Support Services not in Analysis £000 | Amounts not reported to management for decision making £000 | Amounts not included in CI&ES £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| Fees, charges & other service income | (275,171) | - | (1,777) | - | - | - | - | (276,948) |
| Interest and investment income | (1,201) | - | (60,900) | - | - | - | (2,517) | (64,618) |
| Income from Council Tax | - | - | - | - | - | - | (103,471) | (103,471) |
| Government grants and contributions | (422,628) | - | (1,179) | - | - | - | (239,875) | (663,682) |
| **Total Income** | (699,000) | - | (63,856) | - | - | - | (345,863) | (1,108,719) |
| Employee expenses | 372,849 | - | (154,936) | - | (1,354) | - | - | 216,559 |
| Other service expenses | 527,227 | - | 40 | - | (42,031) | - | - | 485,236 |
| Support Service recharges | 114,815 | - | - | - | (114,065) | - | - | 750 |
| Depreciation, amortisation, impairment & Refcus | - | - | 493,547 | - | - | - | 9,868 | 503,415 |
| Interest payments (incl Pension Interest Costs | 27,202 | - | 69,080 | - | - | - | 28,603 | 124,885 |
| Precepts & levies | 196 | - | - | - | - | - | 17,995 | 18,191 |
| Payments to Housing Capital Receipts Pool | - | - | 1,674 | - | - | - | - | 1,674 |
| (Gain)/ Loss on Disposal of Non Current Assets | (659) | - | - | - | - | - | 22,331 | 21,672 |
| **Total Expenditure** | 1,041,630 | - | 409,405 | - | (157,450) | - | 78,797 | 1,372,382 |
| **(Surplus)/Deficit on the Provision of Services** | 342,630 | - | 345,549 | - | (157,450) | - | (267,066) | 263,663 |

| 2009/10 Comparative | Directorate Analysis £000 | Services and Support Services not in Analysis £000 | Amounts not reported to management for decision making £000 | Amounts not included in CI&ES £000 | Allocation of Recharges £000 | Cost of Services £000 | Corporate Amounts £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| Fees, charges & other service income | (225,963) | - | - | - | - | - | - | (225,963) |
| Interest and investment income | (1,833) | - | (37,250) | - | - | - | (3,577) | (42,660) |
| Income from Council Tax | - | - | - | - | - | - | (102,081) | (102,081) |
| Government grants and contributions | (435,111) | - | - | - | - | - | (263,602) | (698,713) |
| **Total Income** | (662,907) | - | (37,250) | - | - | - | (369,260) | (1,069,417) |
| Employee expenses | 392,612 | - | (20,596) | - | (460) | - | - | 371,556 |
| Other service expenses | 479,359 | - | (38,366) | - | (29,439) | - | - | 411,554 |
| Support Service recharges | 95,090 | - | - | - | (82,905) | - | - | 12,185 |
| Depreciation, amortisation, impairment & Refcus | - | - | 218,419 | - | - | - | (9,221) | 209,198 |
| Interest payments (incl Pension Interest Costs | 27,375 | - | 72,900 | - | - | - | 25,633 | 125,908 |
| Precepts & levies | 221 | - | - | - | - | - | 17,693 | 17,914 |
| Payments to Housing Capital Receipts Pool | - | - | 1,367 | - | - | - | - | 1,367 |
| Loss on Disposal of Non Current Assets | 267 | - | - | - | - | - | 2,207 | 2,474 |
| **Total Expenditure** | 994,924 | - | 233,724 | - | (112,804) | - | 36,312 | 1,152,156 |
| **(Surplus)/Deficit on the Provision of Services** | 332,017 | - | 196,474 | - | (112,804) | - | (332,948) | 82,739 |

## 26. Trading Operations

The Council has established external trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. No unit had a deficit of greater than £1.0m in 2010/11 or 2009/10. Details of those units with a turnover of greater than £1.0m in 2009/10 or 2010/11 are as follows:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Grainger Market** | | |
| Turnover | (1,186) | (1,349) |
| Expenditure | 789 | 737 |
| Surplus | **(397)** | **(612)** |
| **Walker Quay** | | |
| Turnover | (1,050) | (856) |
| Expenditure | 81 | 69 |
| Surplus | **(969)** | **(787)** |

Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public (e.g. refuse collection), whilst others are support services to the Council's services to the public (e.g. schools catering). The expenditure of these operations is allocated or recharged to headings in the Cost of Services in the Comprehensive Income & Expenditure Account. External trading undertakings that cannot be accommodated by particular services within the Service Expenditure Analysis have been included under Financing and Investment Income and Expenditure (see Note 8).

The table below sets out the external trading activities.

| 2009/10 (Surplus)/ Deficit £000 | | 2010/11 Expenditure £000 | 2010/11 Income £000 | 2010/11 (Surplus)/ Deficit £000 |
|---|---|---|---|---|
| (1,909) | Industrial Estates | 1,575 | (2,591) | (1,016) |
| 1,542 | Corporation Estates | 4,213 | (3,706) | 507 |
| 171 | Market Undertakings | 2,854 | (321) | 2,533 |
| 227 | Building Schools for the Future - ICT | 2,042 | (2,321) | (279) |
| 1 | Other Trading | 8,498 | (6,659) | 1,839 |
| **32** | **Total** | **19,182** | **(15,598)** | **3,584** |
| | | | | |
| **(35,673)** | Investment Properties | **15,547** | **(10,378)** | **5,169** |

## 27. Pooled Budgets

(a) The Council has a partnership agreement with Newcastle Primary Care Trust under Section 75 of the National Health Service Act 2006. The purpose of the partnership is to purchase equipment for an integrated health and social services equipment service ("the Newcastle City Loan Equipment Service") which will provide equipment to people living in Newcastle or people registered with a GP in Newcastle to support their daily living/nursing needs to enable them to live as safely and independently as possible in their own homes. Details of the contributions and expenditure in the year are set out below:

| | 2009/10 | 2010/11 |
|---|---|---|
| **Funding** | **£000** | **£000** |
| Newcastle City Council | 556 | 605 |
| Newcastle Primary Care Trust | 833 | 908 |
| | 1,389 | 1,513 |
| Expenditure met from the pooled budget | 1,389 | 1,513 |

(b) The Council has a partnership agreement with Newcastle Primary Care Trust under Section 31 of the Health Act 1999. The purpose of the partnership is to support the funding of package of care for children with complex needs. Details of the contributions and expenditure in the year are set out below:

| | 2009/10 | 2010/11 |
|---|---|---|
| | **£000** | **£000** |
| **Funding** | | |
| Newcastle City Council | 1,477 | 1,290 |
| Newcastle Primary Care Trust | 100 | 100 |
| | 1,577 | 1,390 |
| Expenditure met from the pooled budget | 1,577 | 1,390 |

## 28. Members' Allowances

The Council paid the following amounts to Members of the Council during the year:

| | 2009/10 | 2010/11 |
|---|---|---|
| | **£000** | **£000** |
| Allowances | 934 | 922 |
| Expenses | 88 | 85 |
| National insurance contributions payable | 54 | 53 |
| **Total** | **1,076** | **1,060** |

## 29. Officers' Remuneration

The remuneration paid to the Council’s senior employees is as follows:

| | | Salary, Fees and Allowances £ | Bonuses £ | Expenses Allowances £ | Compensation for Loss of Office £ | Pension Contribution £ | Total £ |
|---|---|---|---|---|---|---|---|
| Chief Executive (Barry Rowland)* | 2010/11 | 173,784 | - | 963 | - | 24,354 | 199,101 |
| | 2009/10 | 157,309 | - | 946 | - | 24,827 | 183,082 |
| Executive Director of Environment & Regeneration | 2010/11 | 123,882 | 6,194 | - | - | 19,771 | 149,847 |
| | 2009/10 | 123,882 | 9,291 | - | - | 17,418 | 150,591 |
| Executive Director of Childrens Services (in post from August 2009) | 2010/11 | 113,369 | - | - | - | 16,924 | 130,293 |
| | 2009/10 | 75,759 | - | - | - | 11,488 | 87,247 |
| Executive Director of Adult & Cultural Services * | 2010/11 | 125,967 | - | - | - | 18,971 | 144,938 |
| | 2009/10 | 112,464 | - | 110 | - | 17,095 | 129,669 |
| Director of Finance & Resources* | 2010/11 | 106,862 | - | - | - | 16,243 | 123,105 |
| | 2009/10 | 106,084 | - | - | - | 16,124 | 122,208 |
| Head of Corporate Law (in post from September 2009) | 2010/11 | 70,175 | - | - | - | 10,667 | 80,842 |
| | 2009/10 | 41,573 | - | - | - | 6,041 | 47,614 |
| Acting Director of Corporate Services (April to July 2010) ** | 2010/11 | 32,598 | - | - | 101,277 | 165,765 | 299,640 |
| | 2009/10 | 73,276 | - | - | - | 11,138 | 84,414 |
| Director of Corporate Services (from June 2010 ) | 2010/11 | 82,260 | - | - | - | 12,299 | 94,559 |
| Director of Policy Strategy & Communication | 1 Apr to 12 Apr '10 | 2,988 | - | - | - | 454 | 3,442 |
| | 2009/10 | 96,089 | - | - | - | 14,605 | 110,694 |
| Director of Policy Strategy & Communication | Jul 2010 to Mar '11 | 79,296 | - | - | - | 12,053 | 91,349 |

*The Chief Executive held the position of Acting Chief Executive up to August 2009. In 2009/10 the Director of Policy, Strategy and Communication was previously the Director Of Policy/Assistant Chief Executive, the Director of Finance & Resources was previously the City Treasurer and the Executive Director Of Adult & Culture Services was previously the Executive Director of Adult Services and the Director of Adult Services.
**The Head of Organisational Development was temporarily Acting Director of Corporate Services until the succesful candidate could take up the post, pension contributions includes £160,810 strain on the fund payment in 2010/11.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| Remuneration band | Officer 2009/10 | Teacher 2009/10 | Total 2009/10 | Officer 2010/11 | Teacher 2010/11 | Total 2010/11 |
|---|---|---|---|---|---|---|
| £50,000 - £54,999 | 43 | 43 | 86 | 113 | 45 | 158 |
| £55,000 - £59,999 | 39 | 19 | 58 | 101 | 32 | 133 |
| £60,000 - £64,999 | 36 | 22 | 58 | 31 | 21 | 52 |
| £65,000 - £69,999 | 27 | 16 | 43 | 6 | 15 | 21 |
| £70,000 - £74,999 | 24 | 5 | 29 | 18 | 10 | 28 |
| £75,000 - £79,999 | 21 | 3 | 24 | 4 | 3 | 7 |
| £80,000 - £84,999 | 10 | 2 | 12 | 7 | 4 | 11 |
| £85,000 - £89,999 | 13 | 1 | 14 | 5 | 3 | 8 |
| £90,000 - £94,999 | 4 | 3 | 7 | 4 | 1 | 5 |
| £95,000 - £99,999 | 9 | 2 | 11 | 1 | 2 | 3 |
| £100,000 - £104,999 | 6 | 1 | 7 | - | - | - |
| £105,000 - £109,999 | 5 | - | 5 | - | 4 | 4 |
| £110,000 - £114,999 | 5 | 1 | 6 | 1 | - | 1 |
| £115,000 - £119,999 | 1 | - | 1 | 1 | 1 | 2 |
| £120,000 - £124,999 | 2 | 1 | 3 | - | - | - |
| £125,000 - £129,999 | - | - | - | 1 | - | 1 |
| £130,000 - £134,999 | 2 | - | 2 | - | - | - |
| £135,000 - £139,999 | 2 | - | 2 | - | - | - |
| £150,000 - £154,999 | - | - | - | - | - | - |
| £160,000 - £164,999 | 2 | - | 2 | - | - | - |
| £165,000 - £169,999 | - | - | - | - | - | - |
| £180,000 - £184,499 | 1 | - | 1 | - | - | - |
| | 252 | 119 | 371 | 293 | 141 | 434 |

Single Status payments in lieu of back pay in 2010/11 resulted in an additional 180 staff being included in the disclosure note who wouldn't otherwise have been.

## 30. External Audit Costs

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

| | 2009/10 | 2010/11 |
|---|---|---|
| | £000 | £000 |
| Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor for the year | 398 | 396 |
| Fees payable in respect of statutory inspections | 17 | 1 |
| Fees payable for the certification of grant claims and returns for the year | 78 | 50 |
| Fees payable in respect of other services provided during the year - Association of North East Councils fees and charges review | - | 19 |
| **Total** | **493** | **466** |

## 31. Dedicated Schools Grant

The Council's expenditure on schools is funded by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2010/11 are as follows:

| | Central Expenditure | Individual Schools Budget | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| (a) Final DSG for 2010/11 | 12,551 | 129,731 | 142,282 |
| (b) Brought forward from 2009/10 | 1,031 | - | 1,031 |
| (c) Carry forward to 2011/12 agreed in advance | - | - | - |
| (d) Agreed budgeted distribution in 2010/11 (a+b) | 13,582 | 129,731 | 143,313 |
| (e) Actual central expenditure | 16,215 | - | 16,215 |
| (f) Actual ISB deployed to schools | - | 129,731 | 129,731 |
| (g) Local authority contribution for 2010/11 | 3,504 | - | 3,504 |
| (h) Carry forward to 2011/12 (d-e-f)+g | **871** | **-** | **871** |

DSG is shown as an income item in the Comprehensive Income & Expenditure Statement for Children's & Education Services.

## 32. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2010/11:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Credited to Taxation and Non Specific Grant Income** | | |
| Council tax income | (102,081) | (103,471) |
| National Non-Domestic Rates | (133,666) | (145,787) |
| Revenue Support Grant | (30,852) | (21,170) |
| Area Based Grant | (25,180) | (38,149) |
| Capital Grants | | |
| Capital Investment grant | (1,300) | - |
| National Affordable Housing | - | (1,200) |
| Standards Fund | (45,246) | (10,910) |
| Arts Council | (1,511) | - |
| Transport Supplementary Grant - LTP | (1,868) | (2,647) |
| Department for Education - Childrens Centres | (1,247) | (1,671) |
| Heritage Lottery | (789) | (2,856) |
| Single programme - Regional Development Agency | - | (2,143) |
| Bridging Newcastle Gateshead Funding | (13,045) | (9,346) |
| Strategic Housing Investment Pot | (1,482) | (1,198) |
| New Deal For Communities | (3,182) | - |
| Homes and Communities Agency | (1,700) | - |
| Other Grants | (12,733) | (8,199) |
| **Total** | (375,882) | (348,746) |
| **Credited to Services** | | |
| Dedicated Schools Grant | (137,652) | (141,747) |
| Mandatory Rent Rebates | (61,913) | (63,654) |
| Mandatory Rent Allowances | (44,341) | (49,855) |
| Council Tax Benefit Grant | (26,713) | (27,632) |
| Learning Skills Council | (23,591) | (21,545) |
| Standards Fund (Revenue) | (22,832) | (22,506) |
| Private Finance Initiative Subsidy | (20,131) | (20,432) |
| Housing Revenue Account Subsidy | (18,032) | (14,831) |
| Supporting People | (14,788) | (2,616) |
| Sure Start | (9,445) | (11,081) |
| School Standards Grant | (7,770) | (7,892) |
| Housing Benefit Administration | (3,362) | (3,006) |
| Transport Grant | (672) | (2,620) |
| New Deal for Communities | (2,163) | - |
| Housing Renewal Pathfinder | (1,991) | (1,871) |
| Asylum Seekers | (1,626) | (362) |
| Youth Justice | (1,617) | (1,507) |
| Local Area Agreements | (1,473) | - |
| Drug Intervention Programme | (1,327) | (1,220) |

| | | |
|---|---|---|
| Plugged In Places | - | (1,121) |
| Parent Practitioner Grant | (598) | (1,067) |
| Social Care Reform Grant | (1,435) | (1,451) |
| Other Grants | (9,510) | (7,470) |
| Capital Grants | | |
| Standards Fund - Capital | (4,392) | (4,564) |
| Pathfinder - Bridging Newcastle Gateshead | (3,951) | (3,425) |
| Department for Education - Childrens' Centres | - | (1,205) |
| Regional Housing Capital Pot (SHIP) | (952) | (902) |
| Disabled Facilities Grant | (783) | (810) |
| Homes & Communities Agency | - | (1,000) |
| Other Grants | (1,852) | (1,013) |
| **Total** | (424,912) | (418,405) |

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

| | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|
| **Grants Receipts in Advance** | | |
| Revenue Grants | | |
| Transport Grant | (1,008) | (2,326) |
| Other Grants | (2,657) | (4,661) |
| Capital Grants | | |
| Standards Fund | (7,225) | (10,698) |
| Other Grants | (5,712) | (4,548) |
| Homes and Communities Agency | (1,000) | - |
| **Total** | (17,602) | (22,233) |

## 33. Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in note 25 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in note 32.

**Members of the Council** have direct control over the Council's financial and operating policies and are required to disclose all pecuniary and non-financial interests which could conflict with those of the council. Two disclosures were made in 2010/11, however they were not material.

**Officers** - under the Officer's Code, officers must declare any potential contractual or financial interest in the work of the Council. There were no such declarations during the year.

**Other Public Bodies (subject to common control by central government)**

The Council has a pooled budget arrangement with Newcastle Primary Care Trust for the purchase of equipment for an integrated health and social services equipment service and to support the funding of packages of care for children with complex needs. Transactions and balances are detailed in note 27.

**Entities Controlled or Significantly Influenced by the Council**

**Newcastle International Airport Ltd/ NIAL Holdings Limited** - Under the Airport Act 1986, Newcastle International Airport Limited (NIAL) was formed and seven Local Authorities were allocated shares in consideration for all the property, rights and liabilities that were transferred into the new company. In consideration of this transfer the Council received £5.8m worth of shares.

On 4th May 2001, the seven Local Authority (the 'LA7') shareholders of NIAL entered into a strategic partnership with Copenhagen Airports Limited for the latter to purchase a 49.0% share of Newcastle International Airport. This involved the creation of a new company, NIAL Holdings Limited, which is 51.0% owned by LA7. The 51.0% holding is held in the Newcastle Airport Local Authority Holding Company Ltd, a company wholly owned by the seven authorities.

The Newcastle Airport Local Authority Holding Company Limited has a called up share capital of 10,000 shares with a nominal value of £1 each. The City Council has a shareholding of 1,731 shares representing a 17.3% interest in the company.

The shares are not held for trading outside of the LA7.

At the time of the acquisition of the new shares, the net worth of NIAL Holdings Limited was £134.0m and the Council's share of this valuation (17.3% of 51.0%) was £11.8m. The valuation of NIAL Holdings Limited is reviewed annually. A full independent valuation was carried out in May 2010 which valued the shareholding at £0.7m based upon the discounted cashflow method. There has been no significant change in external factors since the valuation that would materially affect the value of the shareholding.

The seven local authorities received £95m in cash for the 49.0% shareholding in NIAL Holdings Limited and an additional £100m issued by the Company in the form of short and long-term loan notes. The latter payments are in recognition of the value built up in Newcastle International Airport Limited over previous years. £25m long-term loan notes are being paid in ten annual instalments, starting in 2005/06, of which the Council will receive £4.3m over the 10 years.

Newcastle City Council's 17.3% shareholding in Newcastle Airport Local Authority Holding Company Ltd is an effective shareholding of 8.8% in Newcastle International Airport Limited (and the group companies of NIAL Group Limited, NIAL Holdings Ltd).

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

No dividend payments were made for the financial year ending 31 December 2010 or 31 December 2009.

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 and Wear, NE33 2RL.

**Integrated Transport Authority (ITA)** - in respect of levying bodies the Clerk to the ITA (Barry Rowland), the Deputy Clerk & Treasurer (Paul Woods) and the Director of Strategic Housing, Planning & Transportation (Harvey Emms) are Non-executive Directors of Nexus. All 3 members of staff are employed directly by the City Council. The ITA levy payable by the Council in 2010/11 was £17.9m (2009/10 £17.6m). The ITA received Local Transport Plan grant of £584k in 2010/11 (2009/10 £736k). A payment of £774k for the provision of services to the ITA and the Tyne Tunnels was made in 2010/11 to the Council (2009/10 £753k).

**Your Homes Newcastle (YHN)** - on 1st April 2004 YHN Ltd was formed to manage the housing stock of the Council which represents its principal activity. Although the Council owns 100% of the issued share capital it only has one-third of the voting rights. Its management responsibilities are contained in a formal management agreement and any change to its role and responsibilities would require a variation to that agreement. Its present role is as follows:

- assessment of housing needs and policy;
- provision of general housing management services;
- management of the Rent Income Account for the Council Housing stock;
- determination and management of investment in and renewals and major repairs to the housing stock;
- Council house sales administration; and

management of, but not the operational activities associated with, the provision of services such as lighting, caretaking and cleaning, security, wardens for sheltered accommodation, communal services and maintenance of lawns, verges and open spaces on housing estates.

The provision of the above services such as repairs is undertaken by a Council directorate or a third party supplier in line with 'best value' but not by YHN.

YHN is paid a management fee to fund the staff costs and related other administration expenses. The management fee totalled £29.2million and, being based on actual cost, there was no operating surplus or deficit in YHN's books. YHN owns fixed assets of £3.6m as at 31 March 2011 and its balance sheet consists of sundry debtors of £6.0m of which £4.9m is owed by the Council and creditors totalling £4.7m. Of the creditor balance £1.1m represents monies owed to the Council for services provided to YHN.

In addition, transactions totalling £10.5m took place with YHN (2009/10 £4.7m). These related to interest charges, support services such as temporary staffing, general office supplies, legal services, human resources management, IT, exchequer services and other centrally administered services. The total cost of these transactions was £4.5m, with transactions of £6.0m relating to loan and land grants to YHN.

YHN is a company limited by guarantee with the liability of members limited to £1. Any YHN net surplus or deficit in a financial year is offset against the management fee payable for the following year. Therefore, in the event of incurring deficits, YHN would request the City Council to cover that deficit, representing a risk to the Council. However, any deficits arising from an overspend in housing management costs in the past would have been borne by the Council through the Housing Revenue Account so the risk to the Council is no greater than previously. The Council has put in place arrangements to manage this risk through an agreed delivery plan, protocols and Section 151 reporting. Conversely any surpluses earned by YHN would be returned to the Council through a reduced management fee.

In relation to the Pension Fund, the Council has confirmed that it will assume any current and future funding deficit relating to the company. Accordingly, the scheme surplus or deficit does not appear in YHN's balance sheet. The deficit on the pension fund stood at £6.4m as at 31 March 2011. There was a deficit of £18.6m as at 31 March 2010.

| | **2009/10** | **2010/11** |
|---|---|---|
| | **£000** | **£000** |
| Management fee | 30,100 | 29,200 |

YHN has a subsidiary Leazes Homes Limited which has charitable status. Leazes Homes Ltd is wholly owned by YHN and is involved in a £10million development in Blakelaw providing 91 homes, 41 of which will be owned by Leazes Homes for shared ownership and rent. A loan of £4.9m has been given to Leazes Homes by the Council to facilitate this development.

**Tyne & Wear Archives & Museums (TWAM)** is a joint service of the five local authorities (Newcastle, Sunderland, South Tyneside, North Tyneside and Gateshead) and is governed by a Joint Committee consisting of 15 members drawn from the 5 constituent Councils.

A 10 year Joint Agreement lays out the terms and conditions of the relationship and the involvement of central government. Under the Joint Agreement, TWAM manages ten museums and the archives for Tyne & Wear. In addition, it manages two museums Great North Museum:Hancock (GNM) and the Hatton Gallery, under an agreement with Newcastle University.

The allocation of costs is governed by Service Level Agreements enabling the constituent authorities and the University to pay agreed charges. Costs are classified under four major headings - Museums operational, Museums specialist, Archives and Corporate.

The figures included in the financial statements relate to the year ended 31 March 2011.

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| Operating deficit | 119 | 195 |
| Net Assets at 31 March | 2,049 | 1,854 |
| Payments to the Council for administrative support | 324 | 288 |
| Amounts owed to the TWAM by the Council | 676 | - |

**Theatre Royal Trust Ltd** - the Council has a majority of directors on the Trust's Board. Members have no shareholdings, but in the event of winding up they have undertaken to contribute to liabilities up to £1 each. The Theatre Royal is a company limited by guarantee.

The principal activity of the company is to operate the Theatre Royal, Grey Street, The figures included in the financial statements relate to the year ended 31 March 2011.

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| Operating surplus | 701 | 717 |
| Net Assets at 31 March | 1,290 | 1,967 |
| Payments to the Council for administrative support | 17 | (2) |
| Amounts owed by the Theatre Royal to the Council | 211 | 104 |
| Amounts owed to the Theatre Royal by the Council | 3,708 | 3,525 |

The negative administrative support in 2010/11 relates to the recovery of charges related to previous years that were refunded in that year.
The Theatre Royal Trust Ltd is exempt from corporation tax under Section 505 of the Income and Corporation Taxes Act 1988. The 2009/10 figures have been adjusted to reflect the audited accounts.

**The Armstrong Centre Company Ltd** is wholly owned by the Council. It is a holding company for Tynexe Ltd (a lettings company) holding 50% of its shares.
The principal activity of the group is land and property development at the Armstrong Centre, Elswick, Newcastle upon Tyne.
The figures included in the financial statements relate to the year ended 31 March 2011, they include its interests in Tynexe Ltd except where otherwise stated.

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| Group Profit to 31 March | 229 | 202 |
| Group Net Assets to 31 March | 4,737 | 4,781 |
| Group payments to the City Council for administration | 20 | 21 |

In the opinion of the directors this Group will be able to pay its debts as they fall due. Should they fail to do so, the Council has given a guarantee to the lease creditor of Tynexe Ltd, a subsidiary company.
The maximum risk to which the City Council is exposing itself by such a guarantee is £0.0m (2009/10 £0.43m).
The Armstrong group of companies is liable to corporation tax on taxable profits at the current rate. Deferred taxation has been calculated on the liability method.
The 2009/10 figures have been updated to reflect the audited accounts.

**Newcastle Gateshead Initiative Ltd** is a joint undertaking between Gateshead Council, Newcastle Council and more than 160 public and private sector members.
Its principal activity is the destination marketing agency for the North East area.
The figures included in the financial statements relate to the year ended 31 March 2011.

| | 2009/10 | 2010/11 |
|---|---|---|
| | £000 | £000 |
| Profit/(Loss) to 31 March | 21 | (12) |
| Net Assets to 31 March | 616 | 604 |

It is a company limited by guarantee and each of the members has undertaken to contribute £1 towards any deficit in the event of the company being wound up.

**Newcastle Science Company Ltd** is a joint undertaking between One North East Regional Development Agency, Newcastle Council and Newcastle University.
Its principal activities are to develop new, high growth businesses, create employment and support local businesses in the science sector.

The figures included in the financial statements relate to the year ended 31 March 2011.

| | 2009/10 | 2010/11 |
|---|---|---|
| | £000 | £000 |
| Profit to 31 March | - | - |
| Net Assets at 31 March | - | - |
| Amounts owed by the Company to the City Council | 1 | - |
| Amounts owed to the Company by the City Council | - | 13 |

It is a company limited by guarantee and each of the members have undertaken to contribute £1 towards any deficit in the event of the company being wound up.

**Newcastle Mansion House** is a trust set up to provide a Mansion House for the City of Newcastle Upon Tyne. The Newcastle Mansion House is the official home of the Lord Mayor of the City.
The Council is the sole Trustee of the Mansion House and has appointed an Advisory Committee to oversee the use and management of the premises. The Committee comprises three City Councillors, the Lord Mayor and three external advisors.
The figures included in the financial statements relate to the year ended 31 March 2011.

| | 2009/10 | 2010/11 |
|---|---|---|
| | £000 | £000 |
| Movement in funds to 31 March | 215 | (34) |
| Net Assets to 31 March | 251 | 217 |
| Payments to the Council for administrative support | 34 | 41 |

**Eldon Square Company Ltd** is wholly owned by the Council.
Its principal activity is the collection of rent on behalf of the Council from the retail units.
The figures included in the financial statements relate to the year ended 31 March 2011 and are draft subject to audit.

| | **2009/10** | **2010/11** |
|---|---|---|
| | **£000** | **£000** |
| Profit/(Loss) to 31 March | 4 | (1) |
| Net Assets to 31 March | 10 | 9 |

**1NG Ltd** is a joint undertaking between Newcastle City Council, Gateshead Council and One North East.
Its principal activity is the promotion and delivery of priority regeneration, development and investment projects within the Newcastle Gateshead area.

The figures included in the financial statements relate to the year ended 31 March 2011.

| | **2009/10** | **2010/11** |
|---|---|---|
| | **£000** | **£000** |
| Profit to 31 March | - | - |
| Net Assets at 31 March | - | - |
| Amounts owed by the Company to the City Council | - | 192 |
| Amounts owed to the Company by the City Council | 6 | - |

It is a company limited by guarantee. The liability of each member is limited to £1.

**Newcastle Futures Ltd** is a company limited by guarantee. The liability of each member is limited to £1.
The figures included in the financial statements relate to the year ended 31 March 2011.

| | **2009/10** | **2010/11** |
|---|---|---|
| | **£000** | **£000** |
| Profit to 31 March | - | - |
| Net Assets at 31 March | 602 | 326 |

During the year the Council paid over £1.6m of grant money (2009/10 £0.8m) and recharged the company £1.6m for payroll costs and other expenditure (2009/10 £0.8m)

### 34. Capital Expenditure & Capital Financing

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

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Opening Capital Financing Requirement** | 1,036,029 | 1,134,524 |
| Capital investment: | | |
| Property, Plant and Equipment | 185,242 | 148,398 |
| Investment Properties | 38,155 | 4,213 |
| Intangible Assets | 2,232 | 977 |
| Revenue Expenditure Funded from Capital under Statute | 25,909 | 35,554 |
| Long term debtor | - | 4,914 |
| Sources of finance: | | |
| Capital receipts | (11,171) | (2,488) |
| Government grants and other contributions | (78,376) | (69,154) |
| Sums set aside from revenue: | | |
| Direct revenue contributions | (38,874) | (29,172) |
| Minimum Revenue Provision | (24,622) | (23,792) |
| **Closing Capital Financing Requirement** | 1,134,524 | 1,203,974 |
| Explanation of movements in year: | | |
| Increase in underlying need to borrow (supported by government financial assistance) | 51,755 | 32,175 |
| Increase in underlying need to borrow (unsupported by government financial assistance) | 46,525 | 37,070 |
| Assets acquired under PFI contracts | 215 | 205 |
| **Increase in Capital Financing Requirement** | 98,495 | 69,450 |

## 35. Leases

### Council as Lessee

### Operating Leases

The Council has entered into a number of agreements to use vehicles, plant and equipment. These assets are financed under the terms of operating leases. The Council has also entered into agreements to lease land and buildings.

Operating lease payment commitments 2011/12 onwards are:

| Land & Buildings | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|
| Not later than one year | 1,574 | 1,411 |
| Later than one year and not later than five years | 5,042 | 4,542 |
| Later than five years | 9,750 | 9,087 |
| **Total** | 16,366 | 15,040 |

| Vehicles, Plant & Equipment | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|
| Not later than one year | 377 | 329 |
| Later than one year and not later than five years | 436 | 430 |
| Later than five years | - | - |
| **Total** | 813 | 759 |

| Summary | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|
| Not later than one year | 1,951 | 1,740 |
| Later than one year and not later than five years | 5,478 | 4,972 |
| Later than five years | 9,750 | 9,087 |
| **Total: Land & Buildings, Vehicles, Plant & Equipment** | 17,179 | 15,799 |

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| Minimum lease payments | 1,861 | 1,605 |

### Council as Lessor

### Operating Leases

The Council has granted a number of leases to organisations (commercial and community) for the use of Council-owned buildings and land. These leases have been accounted for in 2010/11 as being operating leases and the future minimum lease payments in future years are:

| | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|
| Not later than one year | 4,883 | 4,998 |
| Later than one year and not later than five years | 16,980 | 16,647 |
| Later than five years | 115,800 | 118,363 |
| | 137,663 | 140,008 |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## 36. Private Finance Initiatives and Similar Contracts

The Council operates the following PFI (Private Finance Initiative) contracts, schools PFI1, street lighting, Building Schools for the Future (PFI element), Library PFI and Customer Service Centres.

**Schools PFI 1**

In April 2003 the Council entered into a 25 year contract with Focus Education (Newcastle) Ltd for the provision and maintenance of six schools (1 first school, 1 primary school, 3 middle schools and 1 secondary school). The actual contract payments (unitary charge) made in 2010/11 amounted to £6.3m (2009/10 £6.3m). The estimated payment to be made in 2011/12 is £6.5m, subject to availability and performance related deductions and to contractually agreed inflation adjustments.

**Street Lighting**

In July 2004 the Council entered into a joint contract with North Tyneside Council and Tay Valley Lighting for the provision of street lighting services for a period of 25 years. The contract covers the replacement and maintenance of the City's street lighting columns and in 2010/11 the contract payment was £5.1m (2009/10 £6.3m). The estimated payment to be made in 2011/12 is £5.2m.

**Building Schools for the Future - PFI element**

On 5 July 2007 the Council entered into a long term strategic partnership arrangement with Aura Newcastle Limited, the Local Education Partner (LEP), in which it is a shareholder to procure the rebuilding or refurbishment of a number of schools. On the same date the Council entered into a PFI contract with Aura (Newcastle) Project Company Limited, a subsidiary of Aura Newcastle Limited, for the first phase of this programme to build 7 new schools and refurbish one. All of the phase 1 new build schools became operational between May 2008 and February 2009. Phase 1 PFI contract payments made in 2010/11 were £12.1m (2009/10 £11.6m) and estimated payments for 2011/12 are £12.4m. On 27 November 2009 the City Council entered into an additional PFI contract with Aura (Newcastle) Project Company Limited to procure a second phase comprising 4 new build schools and 4 refurbished schools. The four PFI schools (Sir Charles Parsons, St Marys, Gosforth Junior High and Walker Technology College) are all due to open in 2011/12 with a PFI contract length of 25 years. The estimated unitary charge payment in 2011/12 is £6.4m.

**Library PFI**

The Council has entered into a 25 year contract with Kajima Ltd for the City Library and the library at High Heaton. The contract payments made in 2010/11 amounted to £3.3m (2009/10 £3.3m) and the estimated payments for 2011/12 are £3.4m.

**LIFT/ Customer Service Centres**

The Council has entered into a 25 year contract with NNT LIFT Company Limited for the provision of customer service centres and office accommodation. Five centres are operational at Walker, Kenton, Gosforth, Benwell and Byker. In 2010/11 contract payments were £1.3m (2009/10 £1.5m) and the estimated payment for 2011/12 is £1.3m.

For all of the above PFI schemes the contract specifies minimum standards for the services to be provided by the contractor, with deductions from the fee payable being made if facilities are unavailable or performance is below the minimum standards. In all cases the contractor took on the obligation to construct the asset and maintain them in a minimum acceptable condition and to procure the plant and equipment needed to operate the asset. The buildings and any plant and equipment installed in them at the end of the contract will be transferred to the Council for nil consideration. The Council only has rights to terminate the above contracts if it compensates the contractor in full for costs incurred and future profits that would have been generated over the remaining term of the contract. The exception is the Customer Service Centres where the Council can either choose to walk away from the contract or continue with the contract at a reduced rate.

**Property, Plant & Equipment**

The assets used to provide services are recognised in the Council's balance sheet. Movements in their value over the year are detailed in the analysis of the movements in Property, Plant and Equipment balance in note 10.

**Payments**

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contracts at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

| | Payment for Services £000 | Reimbursement of Capital Expenditure £000 | Interest £000 | Total £000 |
|---|---|---|---|---|
| Payable in 2011/12 | 8,419 | 4,688 | 14,008 | 27,115 |
| Payable within 2 to 5 years | 36,079 | 22,140 | 53,813 | 112,032 |
| Payable within 6 to 10 years | 52,930 | 35,636 | 60,540 | 149,106 |
| Payable within 11 to 15 years | 55,733 | 45,789 | 48,814 | 150,336 |
| Payable within 16 to 20 years | 50,573 | 45,645 | 25,256 | 121,474 |
| Payable within 21 to 25 years | 26,199 | 31,992 | 7,403 | 65,594 |
| Total | **229,933** | **185,890** | **209,834** | **625,657** |

This table sets out the future unitary charge payments expected to be paid in relation to the operational PFI schemes. The expected payments, which exclude inflation and pass through costs such as electricity, are split into their constituent parts based on the Operator's financial models, which predict the future charges on the scheme. It should be noted that the total repayment of the liability is higher than the level of PFI-related liability reflected in the Balance Sheet as at 31 March 2011. This is because the Street Lighting capital investment phase is not due for completion until 2030.

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Balance outstanding at start of year** | **(186,743)** | **(178,655)** |
| Payments during the year | 8,303 | 4,389 |
| Capital expenditure incurred in the year | (215) | (204) |
| **Balance outstanding at year-end** | **(178,655)** | **(174,470)** |

### 37. Impairment Losses

During 2010/11, the Council has recognised a total impairment loss of £411m in the accounts. An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Examples of events or circumstances that indicate an impairment may have incurred include: a significant decline in an asset's carrying amount during the period; evidence of obsolescence or physical damage of an asset. The majority of the impairment charge relates to the HRA (Housing Revenue Account) £335m with the remaining £76m relating to the General Fund. The amount charged to the HRA relates to dwellings and is charged against the local authority (HRA) line in the Comprehensive Income & Expenditure Statement. The General Fund charge mainly relates to the schools estate. The Council is not required to raise Council Tax to cover impairment losses and the amounts are reversed out of the accounts in the Movement in Reserves Statement.

### 38. Termination Benefits

The Council terminated the contracts of 106 employees in 2010/11 (384 in 2009/10), incurring liabilities of £1,975,745 including £715,757 strain on the fund payments (£24,901,815 in 2009/10 which included £11,868,001 strain on the fund ). Of this total, £101,277 is payable to the Director of Corporate Services, in the form of compensation for loss of office and enhanced pension benefits of £165,765, as disclosed in Note 29. The remaining  is payable to employees who were made redundant as part of the Council's rationalisation of services.

Strain on the Fund payments are charged to the Comprehensive Income & Expenditure Statement over three years.

### 39. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/11, the Council paid £11,882k to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.1% of pensionable pay. The figures for 2009/10 were £11,640k and 14.1%. There were no contributions remaining payable at the year-end.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 40.

## 40. Defined Benefit Pension Schemes

### Participation in the Pension Scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:
The Tyne & Wear Pension Fund, administered locally by South Tyneside Council - this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Arrangements for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| | Local Government Pension Scheme | | Discretionary Benefits Arrangements | |
|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2009/10 | 2010/11 |
| | £000 | £000 | £000 | £000 |
| **Comprehensive Income and Expenditure Statement** | | | | |
| Cost of Services: | | | | |
| Current service cost | 23,820 | 27,590 | - | - |
| Past service costs | 510 | (130,120) | - | (7,990) |
| Financing and Investment Income and Expenditure: | | | | |
| Interest cost | 67,740 | 64,770 | 5,160 | 4,310 |
| Expected return on scheme assets | (37,250) | (60,900) | - | - |
| **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **54,820** | **(98,660)** | **5,160** | **(3,680)** |
| Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement: | | | | |
| Actuarial (gains) and losses | (1,330) | (37,280) | 7,060 | 730 |
| **Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement** | **53,490** | **(135,940)** | **12,220** | **(2,950)** |
| Movement in Reserves Statement: | | | | |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (53,490) | 135,940 | (12,220) | 2,950 |
| Actual amount charged against the General Fund Balance for pensions in the year: | | | | |
| Employers' contributions payable to scheme | (41,010) | (38,050) | - | - |
| Retirement benefits payable to pensioners | - | - | (5,570) | (6,210) |

**Assets and Liabilities in Relation to Post-employment Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

| | Funded liabilities: Local Government Pension Scheme | | Unfunded liabilities: Discretionary Benefits | |
|---|---|---|---|---|
| | 2009/10 £000 | 2010/11 £000 | 2009/10 £000 | 2010/11 £000 |
| **Opening balance at 1 April** | (1,039,780) | (1,276,990) | (80,860) | (87,510) |
| Current service cost | (23,820) | (27,590) | - | - |
| Interest cost | (67,740) | (64,770) | (5,160) | (4,310) |
| Contributions by participants | (10,620) | (10,640) | - | - |
| Actuarial gains/(losses) | (186,590) | 12,310 | (7,060) | (730) |
| Net benefits paid out | 52,070 | 36,760 | 5,570 | 6,210 |
| Past service costs | (510) | 130,120 | - | 7,990 |
| **Closing balance at 31 March** | **(1,276,990)** | **(1,200,800)** | **(87,510)** | **(78,350)** |

Reconciliation of fair value of the scheme assets:

| | Local Government Pension Scheme | |
|---|---|---|
| | 2009/10 £000 | 2010/11 £000 |
| **Opening balance at 1 April** | 607,220 | 831,950 |
| Expected return on assets | 37,250 | 60,900 |
| Actuarial gains on assets | 187,920 | 24,970 |
| Employer contributions | 41,010 | 38,050 |
| Contributions by scheme participants | 10,620 | 10,640 |
| Net benefits paid out | (52,070) | (36,760) |
| **Closing balance at 31 March** | **831,950** | **929,750** |

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

### Scheme History

| | 2006/07 £000 | 2007/08 £000 | 2008/09 £000 | 2009/10 £000 | 2010/11 £000 |
|---|---|---|---|---|---|
| **Present value of liabilities:** | | | | | |
| Local Government Pension Scheme | (1,060,270) | (942,630) | (1,039,780) | (1,276,990) | (1,200,800) |
| Discretionary benefits | (85,180) | (78,630) | (80,860) | (87,510) | (78,350) |
| **Fair value of assets in the Local Government Pension Scheme** | **759,940** | **727,950** | **607,220** | **831,950** | **929,750** |
| **Surplus/(deficit) in the scheme:** | **(385,510)** | **(293,310)** | **(513,420)** | **(532,550)** | **(349,400)** |
| Local Government Pension Scheme | (300,330) | (214,680) | (432,560) | (445,040) | (271,050) |
| Discretionary benefits | (85,180) | (78,630) | (80,860) | (87,510) | (78,350) |
| **Total** | **(385,510)** | **(293,310)** | **(513,420)** | **(532,550)** | **(349,400)** |

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £1.3bn has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £349.4m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £38.5m. In addition Strain on the Fund contributions may be required. Expected payments direct to beneficiaries in the year to 31 March 2012 are £6.4m.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Aon Hewitt, an independent firm of actuaries, estimates for the pension fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

| | Local Government Pension Scheme | | Discretionary Benefits | |
|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2009/10 | 2010/11 |
| Long-term expected rate of return on assets in the scheme: | | | | |
| Equity investments | 8.0% | 8.4% | - | - |
| Property | 8.5% | 7.9% | - | - |
| Government bonds | 4.5% | 4.4% | - | - |
| Corporate bonds | 5.5% | 5.1% | - | - |
| Cash | 0.7% | 1.5% | - | - |
| Other | 8.0% | 8.4% | - | - |
| Mortality assumptions: | | | | |
| Longevity at 65 for current pensioners: | | | | |
| Men | 20.0 | 21.5 | 20.0 | 21.5 |
| Women | 22.9 | 23.7 | 22.9 | 23.7 |
| Rate for discounting scheme liabilities | 5.5% | 5.4% | 5.5% | 5.5% |
| Rate of inflation - Retail Price Index | 3.7% | 3.5% | 3.6% | - |
| Rate of inflation - Consumer Price Index | - | 2.6% | - | 2.5% |
| Rate of increase in pensions | 3.7% | 2.6% | 3.6% | 2.5% |
| Rate of increase to deferred pensions | 3.7% | 2.6% | - | - |
| Rate of increase in salaries | 4.2% | 4.0% | - | - |

The Discretionary Benefits arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

| | 31 March 2010 | 31 March 2011 |
|---|---|---|
| | % | % |
| Equity investments | 67.8 | 68.0 |
| Property | 7.4 | 8.1 |
| Government bonds | 9.3 | 7.0 |
| Corporate bonds | 11.4 | 11.7 |
| Cash | 1.3 | 1.2 |
| Other | 2.8 | 4.0 |
| Total | 100.0 | 100.0 |

**History of Experience Gains and Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

| | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Differences between the expected and actual return on assets | - | - | (30.6) | 22.6 | 2.7 |
| Experience gains and losses on liabilities | - | - | 1.0 | 1.0 | 0.8 |

## 41. Contingent Liabilities

At 31 March 2011, the Council had 3 contingent liabilities:

- The Council has a contingent liability in respect of grants received from Workstep for Palatine Products which are considered loans for a five year period following the grant and are repayable on cessation of business. This is currently estimated at £1m.
- Claims under the Equal Pay Act - during 2010/11 the Council settled a further 145 claims under the Act. There remain a number of cases, 1,869 to date, which have been issued under the Equal Pay Act, some of which raise different legal arguments to the cases already settled, principally claims of equal value, male claims which are contingent upon female comparators establishing their claims and claims where earlier settlements are being challenged. As the legal arguments to the residual litigation are complex and proceedings are still at an early stage it is too early to assess liability.
- The Council has a contingent liability in respect of Your Homes Newcastle pension fund guarantee. The Council has confirmed that it will assume any liabilities relating to YHN pension fund both in terms of the current funding and deficit and any ongoing funding obligations/ liabilities. The deficit on the pension fund stood at £6.4m at 31st March 2011 (31 March 2010 £18.6m), however any liability would only be payable if the admitted body did not have sufficient assets to meet the pension liabilities.

## 42. Nature & extent of risks arising from Financial Instruments

The Council’s activities expose it to a variety of financial risks:

- 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 funds available to meet its commitments to make payments.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and financial market movements.

The Council’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy Statement. The statement provides 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.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council’s customers. This risk is minimised through the Treasury Management Statement, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Statement also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the Council are detailed fully in the Annual Treasury Management Strategy Statement.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of recoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

**Customer Debt**

Based on the Council's experience of debt management, it is prudent to make a bad debt provision for debt that may not be collectable. The method of calculating the appropriate provision is based on an analysis of the type of debt rather than a general percentage on the whole of the debt. The calculation of the provision takes into account the age of the debt for the General Fund, the Collection Fund and the value of the debt for the HRA.

The Council has gross debt figure of £106.5m as at the 31 March 2011 (a net debt figure of £86.6m). However, only £70.5m was deemed at risk and the Council provided a bad debt provision of £19.9m against risk of default on the debt, a net debt figure of £50.6m. This net value is included in the balance sheet figure for Short Term Debtors and represents the maximum customer credit risk to which the Council is exposed. The remaining £36.0m of the £86.6m on the balance sheet refers to debt not deemed at risk and is debt outstanding by Government Departments, Other Local Authorities, NHS bodies, Public Corporations and Trading Funds.

**Liquidity Risk**

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure maturing loans may be replaced through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

| | **31 March 2010** | **31 March 2011** |
|---|---|---|
| | **£000** | **£000** |
| Between 1-2 years | 18,161 | 48,030 |
| Between 2-5 years | 169,598 | 50,756 |
| Between 5-10 years | 247,624 | 76,546 |
| More than 10 years | 284,120 | 548,715 |
| | **719,503** | **724,047** |
| Less than 1 year | 49,095 | 238,221 |
| Total long term borrowing | **768,598** | **962,268** |

All trade and other payables are due to be paid in less than one year.

**Market Risk**

**Interest Rate Risk**

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- Borrowings at fixed rates - the fair value of the liabilities borrowings will fall.
- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise.
- Investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to ensure that the level of its borrowings in variable rate loans does not expose the portfolio to excessive movements in interest rates. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

The table below shows the impact on the debt portfolio at 31st March 2011 if interest rates had been 1% higher with all other variables held constant. The only loans affected by such a movement would be new loans taken during 2010/11 and variable interest rate loans. Existing fixed rate loans, which make up the greater proportion of the portfolio, would not be affected. Loans wherein the terms give the lender an option to change the interest rate at specific dates during the year have been excluded from the calculation. For example, based on experience and current trends, and the fact that interest rates have fluctuated during the lives of these loans but lenders have not exercised their options to change the rates, treasury management officers consider these loans to be fixed rate.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £000 |
|---|---|
| Increase in interest payable on borrowings | 1,426 |
| Increase in interest receivable on investments | (1,554) |
| Impact Deficit on the Provision of Services | (128) |

Decrease in fair value of fixed rate borrowings liabilities (no impact on the Deficit on the Provision of Services or Other Comprehensive Income and Expenditure).
The impact of a 1% fall in interest rates would be as above but with movements being reversed. The increase in interest payable on borrowings does not take into account loans where the interest is fixed for the period of the loan at the outset or will mature in 2012 or later. Changes to interest rates will not impact on such loans. As a result only loans taken out in 2010/11 or loans maturing in 2010/11 that require new borrowing have been included in determining the figure quoted.

**Price Risk**
The Council does not generally invest in equity shares but does have shareholdings in LIFTCo to the value of £147k. The investment in LIFTCo represents the interest that the Council holds in the company in the form of subordinated debt. The Council has invested in LIFTCo as part of the LIFT (Local Improvement Finance Trust) procurement of Customer Service Centres.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for ‘open book’ arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings. The investment in LIFTCo was taken out for policy reasons rather than as a financial investment.

The Council holds an investment in Newcastle Airport Local Authority Holding Company Ltd. The shares are all classified as ‘available for sale’, meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. The value of the investment at 31 March 2011 was £743k.

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

### 43. Trust Fund Accounts

The following trust funds, relating to bequests and third party funds, are held and administered by the Council. The funds do not represent assets of the Council and they are not included in the authority's balance sheet.

| Trust Fund | Income | Expenditure | Net Expenditure | Assets | Liabilities |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fire Brigade Relief Fund | 1 | - | (1) | 29 | (29) |
| Richard Thompson Bequest | 1 | - | (1) | 45 | (45) |
| Sir Thomas White Bequest | 4 | - | (4) | 188 | (188) |
| Thomas Davison Bequest | 1 | - | (1) | 69 | (69) |
| Museums Service Trust Funds | 2 | - | (2) | 110 | (110) |
| Education Scholarship and Prize Funds | 2 | 2 | - | 58 | (58) |
| Other Trust Funds | - | - | - | 18 | (18) |
| Mansion House Holding Account | 435 | 469 | 34 | 217 | (217) |
| **Total** | **446** | **471** | **25** | **734** | **(734)** |

The purpose to which the funds are applied include education scholarships and prizes, assisting new business (Richard Thompson, Sir Thomas White and Thomas Davison bequests) as well as more general charitable works.
Net expenditure on the Mansion House is funded by a fixed contribution from the City Council's General Fund and income from operating activities.

## 44. Statement of Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 2. Accruals of Income & Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council has adopted a de-minimis level of £1,000 for creditors which means that they are not included in the accounting statements. Generally a full year's charge is included in the accounts for those supplies and services used continuously and charged on a periodic basis (e.g. gas, electricity and water), but the period covered by the payments does not always coincide with the financial year.

### 3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

In addition the Council holds monies on behalf of partner organisations where the Council is the lead authority. Cash is held and invested under treasury management agreements and covers the Theatre Royal, Tyne & Wear Integrated Transport Authority, Your Homes Newcastle and Archives & Museums.

### 4. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### 5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

### 6. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**7. Employee Benefits**

**Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

**Post Employment Benefits**

Employees of the Council are members of two separate pension schemes: the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE) and the Local Government Pensions Scheme, administered by South Tyneside Council. The funds website may be visited at www.twpf.info.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

**The Local Government Pension Scheme**

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

- The liabilities of the pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.4% based on the indicative rate of return on high quality corporate bonds.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
    - Quoted securities at current bid price.
    - Unquoted securities based on professional estimate.
    - Unitised securities at current bid price.
    - Property at market value.
- The change in the net pensions liability is analysed into seven components:
    a) Current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

    b) Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

    c) Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

    d) Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return.

    e) Credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

    f) Gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

g) Actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve.

h) Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

**Discretionary Benefits**

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

**8. Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 9. Financial Instruments

**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/ settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

**Financial Assets**

Financial assets are classified into two types:

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

**Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the

Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

**Available-for-Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices - the market price.
- Other instruments with fixed and determinable payments - discounted cash flow analysis.
- Equity shares with no quoted market prices - independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred - these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

**10. Government Grants & Contributions**

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

- The Council will comply with the conditions attached to the payments.
- The grants or contributions will be received.

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

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

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

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

### 11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired - any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The only category of intangible assets for the Council is software licences; the asset life used for licences is 3-5 years.

### 12. Interests in Companies & Other Entities

The Code of Practice requires local authorities to produce group accounts to reflect significant activities provided to Council taxpayers by other organisations in which an authority has an interest. The Council has reviewed its partnership arrangements against the criteria for group accounts as set out in the Code and has concluded that there are no such material interests that require the preparation of group accounts.

### 13. Inventories & Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO (first in first out) costing formula and in some instances the average weighted method.  Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

**14. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**15. Leases**

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

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

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

**a) The Council as Lessee**

**Finance Leases**

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

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment - applied to write down the lease liability.
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

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

**Operating Leases**

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

**b) The Council as Lessor**

**Finance Leases**

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

Lease rentals receivable are apportioned between:

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

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

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

**Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### 16. Overheads & Support Services

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

- Corporate and Democratic Core - costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 17. Property, Plant & Equipment

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

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- Infrastructure, community assets and assets under construction - depreciated historical cost.
- Dwellings -fair value, determined using the basis of existing use value for social housing (EUV-SH). In accordance with Government guidance on Housing Resource Accounting a sample of properties was chosen to be representative of each type of property and were valued as 'beacons'. The full valuation was obtained by extrapolating these beacon values across the whole housing stock. The beacon values are reviewed annually to reflect movements in property market values.
- All other assets -fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).
- Community Buildings are shown at nil net book value as the Council does not charge community groups for the use of the building.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. To ensure that this takes place a rolling programme of valuations has been put in place by the Head of Property Services. Assets are valued in accordance with the principles of the RICS (Royal Institution of Chartered Surveyors) Appraisals and Valuation Standards. The valuations are supervised by M. Lloyd, MRICS, Head of Strategic Property & Asset Management, Strategic Property, Newcastle City Council. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

**De Minimis Levels**

The use of a de-minimis level for capital expenditure means that in the above categories assets below the de-minimis level are charged to the revenue account and are not classified as capital expenditure, i.e. the asset is not included in the balance sheet unless they are part of an overall project costing more than the established de-minimis level.

For all capital expenditure apart from plant, vehicles and equipment the de minimis level is £10,000. The de minimis levels established for plant, vehicles and equipment are detailed below:

- £5,000 - Environment & Regeneration plant, vehicles and equipment.
- £10,000 - all other Council owned plant, vehicles and equipment.

In the case of Sure Start capital expenditure a de minimis limit of £2,500 has been established.

All capital expenditure is included in the Asset Register.

**Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant  assets (except vehicles) has been calculated by taking the asset value at 31st March 2011 less any residual value, divided by life expectancy. Depreciation is therefore charged in the year of acquisition.

Depreciation on vehicles is based on the asset life and is calculated on a straight line basis.

Depreciation on intangible assets is also on a straight-line basis, commencing in the year of acquisition.

Council dwellings use the MRA (Major Repairs Allowance) as a proxy for depreciation and componentisation of council houses.  The life expectancy for each asset category falls within the following ranges:

| **Asset Category** | **Years** |
|---|---|
| Council Dwellings | 50 |
| Buildings | 25-50 |
| Private Finance Initiative Buildings | 60 |
| Infrastructure | 25-60 |
| Plant | 40 |
| Equipment | 3-25 |
| Vehicles | 3-10 |
| Purchased software | 3-5 |

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council's policy is that all assets with a carrying value greater than or equal to £5.0m will be considered for componentisation. A standard list of components is used by the Council:

- Building fabric.
- Roof.
- Mechanical and electrical.
- External.

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

**Disposals & Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

**18. Private Finance Initiative (PFI) and Similar Contracts**

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

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year - debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost - an interest charge of 11.2% on schools PFI, 7.1% street lighting PFI, 5.8% Building Schools for the Future PFI, 9.3% library PFI and 3.8% to 9.7% on customer service centres PFI on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent - increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability - applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle replacement costs - proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

**19. Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For example, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

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

**20. Contingent Liabilities**

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

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

**21. Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**22. Reserves**

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

**23. Revenue Expenditure Funded from Capital under Statute**

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

**24. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue & Customs. VAT receivable is excluded from income.

**25. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

# Housing Revenue Account

## Income & Expenditure Statement

This account reflects the statutory obligation to "ring-fence" and show separately the major elements of the housing revenue expenditure (repairs and maintenance, administration and capital financing costs) and how this is met by rents, subsidies and other income. Included within the section on the HRA is the Statement of Movement on the HRA, which discloses how the HRA Income & Expenditure Account surplus or deficit for the year reconciles to the movement on the HRA balance for the year.

| 2009/10 £000 | | 2010/11 £000 |
|---|---|---|
| | **Expenditure** | |
| 24,790 | Repairs and maintenance (note 5) | 23,512 |
| 43,600 | Supervision and management | 44,478 |
| 2,477 | Rents, rates, taxes and other charges | 2,471 |
| 87,647 | Depreciation and impairments of non-current assets (notes 8 & 9) | 358,297 |
| (654) | Movement in the allowance for bad debts (note 10) | 366 |
| 160 | Debt management costs | 336 |
| - | Sums directed by the secretary of state in accordance with the code (note 14) | 1,095 |
| 158,020 | | 430,555 |
| | **Income** | |
| (83,391) | Dwelling rents | (85,346) |
| (1,535) | Non-dwelling rents | (1,544) |
| (13,478) | Charges for services and facilities | (13,945) |
| (14,034) | Contributions towards expenditure | (13,836) |
| (18,031) | HRA Subsidy receivable (including the MRA element) (note 15) | (14,831) |
| (130,469) | | (129,502) |
| **27,551** | **Net Cost of HRA Services as included in the Comprehensive Income & Expenditure Statement** | **301,053** |
| 142 | HRA services' share of Corporate and Democratic Core | 143 |
| **27,693** | **Net Cost of HRA Services** | **301,196** |
| | **HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement** | |
| 27,375 | Interest payable and similar charges | 27,202 |
| (1,833) | Interest and investment income | (1,201) |
| 267 | (Gain)/loss on sale of HRA non-current assets | (659) |
| (9,312) | Capital grants and contributions receivable | (5,400) |
| **44,190** | **Deficit for the year on HRA services** | **321,138** |

## Housing Revenue Account

### Statement of Movement on the HRA Balance

| 2009/10 £000 | | 2010/11 £000 | 2010/11 £000 |
|---|---|---|---|
| (9,876) | Balance on the HRA at the end of the previous year | | (9,484) |
| 44,190 | Deficit for the year on the HRA Income & Expenditure Statement | 321,138 | |
| 1,271 | Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with statute | 804 | |
| (87,647) | Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with HRA requirements | (359,414) | |
| 39,717 | Adjustments between accounting basis and funding basis under statute | 32,749 | |
| (2,469) | Net increase/(decrease) before transfer (to)/from reserves | (4,723) | |
| 2,861 | Transfers to/(from) reserves | 3,164 | |
| 392 | (Increase)/decrease in year on the HRA | | (1,559) |
| (9,484) | **Balance on the HRA at the end of the current year** | | (11,043) |
| | Transfers (to)/from reserves is represented by: | | |
| 3,910 | Appropriations to reserves | | 3,164 |
| (1,049) | Transfer (to)/from Major Repairs Reserve | | - |
| 2,861 | | | 3,164 |

## Housing Revenue Account - Notes and Disclosures

### 1. An analysis of the City's Housing Stock is as follows:

| | 01 Apr 2010 No's | 31 Mar 2011 No's |
|---|---|---|
| Houses & Bungalows | 16,504 | 16,437 |
| Low Rise Flat/Maisonettes | 3,857 | 3,812 |
| Mid Rise Flat/Maisonettes | 4,165 | 4,047 |
| High Rise Flat/Maisonettes | 4,823 | 4,339 |
| | 29,349 | 28,635 |
| Homeless accommodation | 44 | 44 |
| Shared ownership properties | 3 | 3 |
| | **29,396** | **28,682** |
| An analysis of the change in stock is as follows: | | |
| Stock at 1st April | **29,519** | **29,396** |
| Sales | (44) | (46) |
| Demolitions | (84) | (618) |
| Reclassified Properties | 5 | (50) |
| **Stock at 31st March** | **29,396** | **28,682** |

### 2. Housing Revenue Account Assets: Balance Sheet Valuation

| **Asset Category** | 31 Mar 2009 £000 | 31 Mar 2010 £000 | 31 Mar 2011 £000 |
|---|---|---|---|
| Property Plant & Equipment | | | |
| Council Dwellings | 1,009,169 | 1,045,907 | 745,470 |
| Other Land & Buildings | 20,150 | 17,708 | 19,484 |
| Vehicles, Plant, Furniture & | 7,614 | 9,503 | 10,253 |
| Infrastructure and Community Assets | 12 | 12 | 13 |
| | 1,036,945 | 1,073,130 | 775,220 |
| Assets under construction | - | - | 312 |
| Surplus assets not held for sale | 1,539 | 1,776 | 1,268 |
| Assets Held for Sale | 676 | 314 | 36 |
| Land Awaiting Development | 455 | 1,424 | 1,424 |
| **Total** | **1,039,615** | **1,076,644** | **778,260** |

### 3. Vacant Possession Valuation of HRA Dwellings as at 1 April 2010

| Dwelling Type | Vacant Possession £000 | Existing Use Value for Social Housing (EUV-SH) £000 |
|---|---|---|
| General Council Housing | 1,999,144 | 739,683 |
| Sheltered | 15,108 | 15,108 |
| Hill Court Homeless Accommodation | 447 | 447 |
| Shared Ownership Properties | 214 | 214 |
| **Total** | **2,014,913** | **755,452** |

The vacant possession valuation shown above illustrates the economic cost to Government of providing council housing at less than open market rents when compared to the EUV-SH valuation. EUV-SH reflects a valuation for a property if it were sold with sitting tenants enjoying rents at less than open market rents and tenants' rights including the Right to Buy.

### 4. Major Repairs Reserve

Local authorities are required to maintain a Major Repairs Reserve (MRR) with the main credit to the reserve being an amount equivalent to the total depreciation charges for all HRA assets. Under Item 8 of part 6 of the Local Government and Housing Act 1989 any difference between the depreciation credit to the reserve and the Major Repairs Allowance is transferred back to the HRA. Authorities are able to charge capital expenditure directly to the reserve, along with any voluntary set aside to repay debt. The movement on the MRR is shown below:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Income** | | |
| Depreciation on Non Current Assets: | | |
| Council dwellings | (20,621) | (19,811) |
| Other assets | (2,453) | (3,425) |
| | (23,074) | (23,236) |
| Appropriations transfer from the HRA | 1,049 | - |
| | (22,025) | (23,236) |
| **Expenditure** | | |
| Depreciation on other Non Current Assets | 2,453 | 3,425 |
| Capital expenditure funded from the Reserve: | | |
| Houses | 17,850 | 24,827 |
| Other Property | - | 505 |
| | 20,303 | 28,757 |
| Deficit/(surplus) for the year | (1,722) | 5,521 |
| Balance brought forward | (20,308) | (22,030) |
| Deficit/(surplus) for the year | (1,722) | 5,521 |
| **Balance carried forward** | **(22,030)** | **(16,509)** |

An appropriation transfer was not required in 2010/11 as the Major Repairs Allowance does not differ from the depreciation charge on council dwellings.

## Housing Revenue Account - Notes and Disclosures

### 5. Housing Repairs Account

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Income** | | |
| Contributions from the Housing Revenue Account | (24,790) | (21,512) |
| **Expenditure** | | |
| Financing of Housing Revenue Account repairs during year | 24,790 | 23,512 |
| Deficit for the year | - | 2,000 |
| Balance brought forward | (3,000) | (3,000) |
| Deficit for the year | - | 2,000 |
| **Balance carried forward** | **(3,000)** | **(1,000)** |

### 6. Housing Revenue Account Capital Expenditure & Financing

During the financial year total capital spending was £84.7m (£110.6m in 2009/10) split between houses £77.2m (£102.6m in 2009/10), land £1.3m (£1.3m in 2009/10) and other property £6.2m (£6.7m in 2009/10). The table below provides details of how this expenditure was financed:

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| Major Repairs Reserve | 17,850 | 25,332 |
| Borrowing | 74,035 | 47,930 |
| Grants & Other Contributions | 8,739 | 4,553 |
| Usable Capital Receipts | 964 | 2,152 |
| Revenue Contributions | 44 | 256 |
| Earmarked Reserves | 8,405 | 3,584 |
| Capital Contributions | 573 | 847 |
| **Total** | **110,610** | **84,654** |

### 7. Housing Revenue Account Capital Receipts

| | 2009/10 Gross Receipt £000 | 2010/11 Gross Receipt £000 |
|---|---|---|
| Sale of Houses | (2,334) | (2,567) |
| Sale of Land | (1,201) | (600) |
| | (3,535) | (3,167) |
| Repayment of Advances | (5) | (4) |
| **Total** | **(3,540)** | **(3,171)** |

The Local Government Act 2003 stipulates that income from the disposal of assets must be split into usable and reserved elements. The reserved element is paid over to the national pool £1.6m in 2010/11 and the useable element can be used to fund capital expenditure. The Council's Corporate Resource Pool top slices 50% of the useable element of capital receipts for use on housing schemes. The net effect of this exercise leaves the HRA with 12.5% of council house sale receipts.

### 8. Housing Revenue Account Depreciation Charge

| Asset Category | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| Operational Assets: | | |
| Council Dwellings | 20,621 | 19,811 |
| Other Land & Buildings | 266 | 239 |
| Vehicles, Plant, Furniture & Equipment | 2,174 | 3,182 |
| | 23,061 | 23,232 |
| Non-Operational Assets: | | |
| Surplus assets not held for sale | 12 | 4 |
| | 12 | 4 |
| **Total** | **23,073** | **23,236** |

### 9. Housing Revenue Account Impairment 2010/11

Impairment charges of £335.1m (£64.6m in 2009/10) have been made to the HRA of which dwellings is £333.9m (£61.0m 2009/10) and other property £1.2m (£3.6m 2009/10).

### 10. Housing Revenue Account Rent Arrears

This note details the amount of rent arrears and the aggregate balance sheet provision in respect of uncollectable debts. The note details the financial year and the rent year, the rent week is converted into a financial year in this note to take into account the 3 days in week 52. The movement of £366k shown in the HRA Income & Expenditure Statement relates to both tenant and general bad debt provisions.

| | End of Financial Year | |
|---|---|---|
| | 31 March 2010 £000 | 31 March 2011 £000 |
| Rent collection arrears (including arrears of water rates) | 8,456 | 7,609 |
| Provision in respect of uncollectable rent arrears | 7,077 | 6,723 |

| | End of Rent Year | |
|---|---|---|
| Breakdown of Rent Collection Arrears: | 01 April 2010 £000 | 31 March 2011 £000 |
| Current Tenants: | | |
| Arrears on current tenancy (including arrears of water rates) | 2,605 | 2,193 |
| Arrears arising from former tenancies of current tenants | 3 | 2 |
| Housing Benefit overpayments to be recovered | 519 | 443 |
| Court Costs | 359 | 337 |
| | 3,486 | 2,975 |
| Former Tenant Arrears | 6,073 | 5,464 |
| **Total** | **9,559** | **8,439** |

### 11. Housing Renewals Fund

| | 2009/10 £000 | 2010/11 £000 |
|---|---|---|
| **Income** | | |
| Charges to the Housing Revenue Account | (83) | (75) |
| **Expenditure** | | |
| Financing of Housing Revenue Account computer equipment during year | 192 | 35 |
| **(Surplus)/deficit for the year** | 109 | (40) |
| Balance brought forward | (555) | (446) |
| (Surplus)/deficit for the year | 109 | (40) |
| **Balance carried forward** | **(446)** | **(486)** |

The Housing Renewals Fund was created from a one-off £500,000 contribution from the Housing Revenue Account (HRA) in 2001/02. The fund is used to finance computer equipment purchases for the HRA.

The fund regenerates its balances by charging the HRA for funding computer equipment purchases over three year periods.

The charges to the HRA are significantly less than those charged for lease agreements, leases being the previous form of financing computer equipment purchases. In addition, the HRA will in future save the costs of either buying out leases at the end of their term, taking out secondary leases, or returning equipment back to the lessor in it's original condition at the end of the lease period.

### 12. HRA contribution to Pension Reserve

The HRA share of contributions from the Pension Reserve was £4,551 (2009/10 £3,124) representing the excess of current service cost over pension contributions as a result of implementing International Financial Reporting Standard (IAS) 19.

### 13. Your Homes Newcastle

Your Homes Newcastle was set up through Transfer of Undertakings (Protection of Employment) Regulations TUPE transfer of HRA employees to form an Arms Length Management Organisation on 1st April 2004. Your Homes Newcastle is paid through a management fee to carry out many of the activities previously carried out by HRA employees. The management fee payable to Your Homes Newcastle was £29.2m (£30.1m in 2009/10).

### 14. Revenue expenditure funded from capital under statute

The transfer of the notional capital receipt for land at Throckley Leazes valued at £1,095,473 to Your Homes Newcastle as part of the agreement between Newcastle City Council, Your Homes Newcastle and Barratt to build social housing on that site has been recorded as revenue expenditure funded from capital under statute.

## 15. Housing Revenue Account Subsidy Calculation

| 2009/10 Actual £000 | 2009/10 Per Dwelling £ | | 2010/11 Provisional Actual £000 | 2010/11 Per Dwelling £ |
|---|---|---|---|---|
| | | Subsidy earning elements | | |
| | | Notional management and maintenance allowance | | |
| 19,269 | 647.48 | Management allowance | 19,281 | 653.19 |
| 34,577 | 1,162.01 | Maintenance allowance | 34,297 | 1,162.01 |
| 53,846 | 1,809.49 | | 53,578 | 1,815.20 |
| 28,608 | | Capital charges | 27,609 | |
| 1 | | Other reckonable expenditure (lease rentals) | 1 | |
| 82,455 | | | 81,188 | |
| | | Deductions from entitlement: | | |
| (84,341) | 2,891.90 | Notional rent income | (86,364) | 2,985.43 |
| (5) | | Interest (mortgages) | (3) | |
| (84,346) | | | (86,367) | |
| (1,891) | | Housing element of HRA subsidy | (5,179) | |
| 19,572 | 657.72 | Major Repairs Allowance | 19,811 | 671.19 |
| **17,681** | | **Total HRA Subsidy Entitlement** | **14,632** | |

Notes:

(i) The table above shows HRA subsidy claimed in 2009/10 and 2010/11 rather than the cash received in each of the years (an adjustment of £200k arose from previous years claims as the final claim settlement was lower than anticipated resulting in HRA subsidy receivable of £14,831k).

(ii) Following government guidelines the 2010/11 calculation per dwelling is based on the number of dwellings in 2008/09 (i.e. 2 years in arrears) and not the current number of Council dwellings.

## Collection Fund

This statement summarises the transactions of the Collection Fund, a statutory fund distinct from the General Fund of the Council. The Collection Fund accounts independently for income relating to Council Tax and Non-Domestic Rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised.
The costs of administering collection are accounted for in the General Fund. Collection Fund balances are consolidated into the Council's balance sheet.

### Income and Expenditure Statement as at 31st March 2011

| 2009/10 £000 | | Notes | 2010/11 £000 |
|---|---|---|---|
| | **Income** | | |
| (88,437) | Income from Council Tax | | (89,444) |
| (26,527) | Transfers from General Fund - Council Tax benefits | | (27,435) |
| (123,754) | Income collectable from Business Ratepayers | 2 | (124,676) |
| | **Contribution towards previous year's Collection Fund deficit** | | |
| (700) | Transfer of Deficit to General Fund | | (864) |
| (42) | Transfer of Deficit to the Police Authority | | (53) |
| (38) | Transfer of Deficit to Tyne & Wear Fire & Civil Defence | | (47) |
| (239,498) | | | (242,519) |
| | **Expenditure** | | |
| | Precepts and demands: | | |
| 102,627 | Newcastle City Council (including Parish Councils) | | 104,386 |
| 6,247 | Northumbria Police Authority | | 6,446 |
| 5,569 | Tyne & Wear Fire and Civil Defence Authority | | 5,636 |
| | Business Rates: | | |
| 123,296 | Payments to National Pool | 2 | 124,222 |
| 458 | Costs of collection | | 454 |
| | Bad and doubtful debts/ appeals: | | |
| 697 | Write offs | | 717 |
| 343 | Provisions | | 694 |
| 239,237 | | | 242,555 |
| **(261)** | **Movement on Fund balance** | | **36** |

### Change in Collection Fund Balances

| 2009/10 £000 | | Notes | 2010/11 £000 |
|---|---|---|---|
| 1,449 | Opening balance at 1st April | | 1,188 |
| (261) | Deficit / (Surplus) for the year | | 36 |
| **1,188** | **Closing balance at 31st March** | 3 | **1,224** |

## Collection Fund - Notes and Disclosures

### 1. Council Tax

The 2010/11 Collection Fund account reflects the requirement for a billing authority to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and national non-domestic rates (NNDR) and for any residual surplus or deficit arising from community charge transactions.

Council tax is broadly based on the capital value of domestic property as estimated at 1 April 1991 and classified into 8 bands. Charges are calculated by dividing the preceptors' income requirements by the council tax base (the total number of properties in each band, adjusted for discounts and expressed as an equivalent number of Band D dwellings). This gives the basic amount of council tax for a band D property, which when multiplied by the specified proportion (as follows) will give the individual amount due.

| | 2009/10 | 2010/11 |
|---|---|---|
| Council Tax base | 76,810 | 77,033 |
| Council Tax (Band D) amount payable per property | 1,489 | 1,511 |

| | | 2009/10 | 2010/11 | 2009/10 | 2010/11 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|---|
| Band | Proportion | No of Properties | | No of Band D Equivalent | | Council Tax Charge | |
| | | | | | | £ | £ |
| A | 6 / 9 | 71,638 | 71,128 | 37,466 | 37,088 | 993 | 1,008 |
| B | 7 / 9 | 17,766 | 18,238 | 10,510 | 10,612 | 1,158 | 1,175 |
| C | 8 / 9 | 17,472 | 17,608 | 12,949 | 13,027 | 1,323 | 1,343 |
| D | 9 / 9 | 8,109 | 8,211 | 6,844 | 6,832 | 1,489 | 1,511 |
| E | 11 / 9 | 3,979 | 4,017 | 4,158 | 4,423 | 1,820 | 1,847 |
| F | 13 / 9 | 1,868 | 1,926 | 2,502 | 2,576 | 2,151 | 2,183 |
| G | 15 / 9 | 1,446 | 1,493 | 2,217 | 2,301 | 2,481 | 2,519 |
| H | 18 / 9 | 119 | 121 | 164 | 174 | 2,978 | 3,023 |
| | | 122,397 | 122,742 | 76,810 | 77,033 | | |

### 2. National Non-Domestic Rates (NNDR)

Non-domestic rates are organised on a national basis. Local businesses are required to pay, subject to transitional arrangement, an amount calculated by applying a sum specified by central government (expressed as a rate in the pound) to the rateable value of their property.

The Council is responsible for collecting and paying over this amount to the NNDR pool administered by central government. The government redistributes sums paid into the pool on the basis of a fixed amount per head of population.

| | 2009/10 | 2010/11 | Change |
|---|---|---|---|
| Rate in the pound - standard business rate | 0.485 | 0.414 | (0.071) |
| Total non-domestic rateable value per NNDR system | 305,328,393 | 384,342,743 | 79,014,350 |

The rateable value has increased substantially from 2009/10 to 2010/11 because every five years all non-domestic (business) properties are assessed and given new rateable values by the Valuation Office Agency, based on rental values at a particular date. This is called the revaluation and came into effect on 1st April 2010, using the rental value at 1 April 2008.

In the year of a revaluation the multipliers are set at a level which will keep the total amount raised in rates after the revaluation the same as before, plus inflation for that year, this explains why the multiplier has decreased in 2010/11.

## 3. Redistribution of Collection Fund Deficit

The deficit on the closing balance of the Collection Fund at 31 March 2011 will be credited to the Council's General Fund and major precepting authorities respectively in future years.

| | 2007/08<br>£000 | 2008/09<br>£000 | 2009/10<br>£000 | 2010/11<br>£000 |
|---|---|---|---|---|
| Collection Fund closing balances: | | | | |
| - Council Tax | 635 | 1,449 | 1,188 | 1,224 |

## 4. Collection Fund Balance

Any surplus arising in the Collection Fund can be utilised to reduce future years' council tax. Any deficit can be recovered from the precepting bodies in the following year or carried forward and recovered either from any surplus generated in future years or from increased council tax. Any surplus or deficit to be shared is distributed to the billing and precepting authorities pro-rata to their precepts upon the Fund. The Code of Practice requires that the precepting bodies share of the surplus or deficit should be shown as part of the Council's debtors or creditors leaving only the Council's share in the closing balance.

The Collection Fund deficit is shared between the precepting bodies as follows:

| | 2009/10<br>£000 | 2010/11<br>£000 |
|---|---|---|
| Newcastle City Council | 1,065 | 1,097 |
| Northumbria Police Authority | 65 | 68 |
| Tyne and Wear Fire and Civil Defence Authority | 58 | 59 |
| | 1,188 | 1,224 |

## Annual Governance Statement



**Section 1: Scope of Responsibility**

We (Newcastle City Council) are responsible for ensuring that our 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. We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which we exercise our functions, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council's Executive and Strategic Leadership Team are responsible for putting in place proper arrangements (known as a Governance Framework) for:

(i) The governance of our affairs.
(ii) Facilitating the effective exercise of our functions, including arrangements for the management of risk.

In relation to (i) we have adopted a Local Code of Corporate Governance ("the Code"), which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy is available on our website at: www.newcastle.gov.uk/core.nsf/a/corpgovernance.

The Code evidences our commitment to achieving good governance and demonstrates how we comply with the governance standards recommended by CIPFA. It has been updated and approved as part of this review.

In relation to (ii) the Council has put in place a system of internal control 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:

(a) Identify and prioritise the risks to the achievement of our policies, aims and objectives.
(b) evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

**Section 2: The Purpose of the Governance Framework**

In addition to the above the Council's Governance Framework comprises the systems, processes, culture, values and activities through which we are directed and controlled and through which we account to, engage with, and lead the community. It enables us to monitor the achievement of the strategic objectives set out in our Corporate Plan and to consider whether those objectives have led to the delivery of appropriate, cost effective services. It has been in place for the year ended 31 March 2011 and up to the date of approval of the Council's Annual Report and Accounts.

This Annual Governance Statement explains how we have 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".

**Section 3: The Governance Framework**

The main features of our governance arrangements in force during 2010/11 are described in the Code and are summarised below. Following the Council's Annual General Meeting on 25 May 2011 a number of these arrangements have been changed, for example the Executive now replaced by a Cabinet. References to the Executive have been retained in this statement since it was part of the governance arrangements for the whole of 2010/11. These changes will be reflected in the annual review of the Code.

Core Principle 1

Focusing on our Purpose and Outcomes for Residents

1.1 We ensure that we are clear on our vision, purpose and the intended outcomes for residents and service users, ensuring these are effectively communicated internally and externally:

- The Local Strategic Partnership (the Newcastle Partnership) has identified the City's priorities in the Sustainable Community Strategy and Local Area Agreement through consideration of local priorities, consultations and through dialogue with Government Office on national and regional priorities. The Sustainable Community Strategy also reflects key partnership strategies such as the Newcastle Plan for Children and Young People.
- The Corporate Plan sets out our key strategic objectives and related activities to deliver the Sustainable Community Strategy and Local Area Agreement, our statutory responsibilities and our internal improvement priorities.
- We ensure that there is effective external communication through the Citylife publication, Ward Committees, Neighbourhood Committee and activity-specific consultations.
- We ensure that there is effective internal communication through the service planning process and through managers' communication sessions.

1.2 We ensure we assess and review our vision and the implications for our governance arrangements through:

- The Corporate Strategic Planning Framework, in particular the Performance Management Framework, Medium Term Plan (our financial plan) and Service Planning Process ensure that the Corporate Plan is translated into deliverable and appropriately resourced activities in each service area.
- There is continual review through Quarterly Performance and Risk Reporting to the Executive and through an annual review of the Corporate Plan.
- The management structures within The Newcastle Partnership and within our own Business Model ensure that priorities, current and projected performance, risks and the associated implications receive regular attention.
- Internal and external auditors and independent inspection agencies.
- Consultations, the Resident's Survey, Neighbourhood Committee, Corporate Complaints System.
- Close working relationships with key partners and stakeholders.

1.3 We measure the quality of services for users, ensuring they are delivered in accordance with our objectives and that they represent the best use of resources through:

- Annual Resident's Survey, statutory and non-statutory surveys, feedback through Ward Committees, Neighbourhood Committee, Customer Service Centres, the Corporate Complaints System and risk management process.
- Quarterly Performance and Risk Reporting against the Corporate Plan.
- Annual review of the Medium Term Plan reviews service spends and identifies actions to improve value for money.
- A Corporate Transformation Programme has been established to achieve financial efficiency against cost pressures whilst preserving and improving performance and service quality.
- The Corporate Procurement Strategy ensures we procure goods and services in the most efficient and effective way.
- The Capital Appraisal Framework and asset management planning ensure the effective upkeep and utilisation of assets and ensures that assets are effectively deployed.

<u>Core Principle 2</u>

<u>Members and Officers have Clearly Defined Roles & Responsibilities</u>

2.1 We have defined and documented the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication:

These are set out in our constitution (Newcastle Charter):

- The collective and individual roles and responsibilities of the Executive, councillors and officers have been agreed by the Council, Constitutional Committee and/or the Leader of the Council as appropriate and are supported by individual personal development plans (Members) and staff appraisals.
- The basis upon which decisions are made and who has the proper authority to make them is set out in Part 3 of the Newcastle Charter, including details of those matters specifically reserved for collective decision by full Council.
- We have recently reviewed and updated our scrutiny function which continues to encourage constructive challenge, and enhances overall performance.

Core Principle 3
We Promote High Standards of Conduct and Behaviour

3.1 We develop, communicate and embed codes of conduct, defining standards of behaviour for members and staff:

- Expected standards of conduct and behaviour are contained in Part 5 of the Newcastle Charter, supported by staff and member training programmes.
- We have a Code of Conduct for Members, Code of Conduct for Employees and a Protocol for Member/Officer Relations.
- High standards of behaviour are supported by employee contracts of employment, the Performance Management Framework (including staff appraisals and personal development plans for Members), the Members Training Programme, and the Dignity at Work Policy.
- Standards Committee deals with issues of conduct and generally promotes high standards among officers and members, reporting annually to Full Council.
- To prevent members and employees from being influenced by prejudice, bias or conflicts of interest, we maintain and perform regular checks on our Register of Interests and Register of Gifts and Hospitality for both members and officers.
- The provisions of Financial Regulation 8 (which includes our Procurement Procedure Rules) ensure objectivity, fairness and probity in our procurement process.
- The Newcastle Charter contains a Policy Statement on Fraud and Corruption which is supported by our Internal Audit department through their annual work plan.

Core Principle 4
Transparent Decision Making Subject to Scrutiny & Risk Management

4.1 We review and update our standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals - these clearly define how decisions are taken and the processes and controls required to manage risks

- The Newcastle Charter is reviewed and updated annually.
- Decisions are properly documented and are taken with regard to all relevant considerations as required by the Newcastle Charter and Executive reporting guidance.
- Part 3 of the Newcastle Charter sets out who the decision makers are.  Policy and decision making is undertaken by the Executive with key decisions outlined in the Forward Plan.  Decisions taken under delegated powers are regularly reported to the Executive.
- We have a scrutiny function which has been reviewed and updated to ensure that it continues to provide constructive challenge, and enhances overall performance.
- We have a Risk Management Strategy requiring the risks associated with our objectives to be fully considered and reported.  This is supported by the activities of the Financial Risk and Insurance Manager, the Head of Resilience, the Health and Safety Section and the Risk Management Unit.
- We purchase appropriate levels of insurance cover from the insurance market, maximising self funding insurance arrangements and the Risk Management Fund which enables specific risk management initiatives.

- The Monitoring Officer (Head of Corporate Law) and the Council's in-house lawyers (comprising the Corporate and Commercial Law Services) advise on compliance with our policy framework, ensuring that decision making is lawful and fair.

4.2 We ensure that our Audit Committee undertakes the core functions identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

- Our Audit Committee is independent of the Executive and Scrutiny functions, helping to provide assurance in relation to governance and internal control issues, and assisting with the early identification and resolution of weaknesses in our arrangements.
- Regular training is provided to support the effective implementation of their Terms of Reference. Their work is demonstrated through their agendas and minutes which are available on our website.

4.3 We ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- The Monitoring Officer (Head of Corporate Law) and the Council's lawyers advise managers on compliance with our policy framework, ensuring that decision-making is lawful and fair.
- Advice is provided to members and officers on the likely impact of new legislation affecting the City Council, and the legal implications of key decisions are highlighted.
- We are subject to a number of internal and external audit and inspection regimes.
- The Monitoring Officer Group and Corporate Governance Officer Group consider governance and internal control issues when appropriate, ensuring that issues are highlighted and addressed.
- The Standards Committee and Audit Committee ensure high standards of conduct and oversee issues relating to governance and internal control.
- The Director of Finance and Resources is the officer nominated under section 151 of the Local Government Act 1972, ensuring the proper administration of our financial affairs and financial reporting.
- The Newcastle Charter sets out how the Council operates, how decisions are to be made and the procedures to be followed to ensure that these are efficient, transparent and accountable to citizens and service users. Awareness training and guidance is provided for members and officers.
- The City Council's Financial Regulations (and detailed financial procedure notes) set out the key features of our system of internal financial control.
- Monthly Financial Issues reports are submitted to the Executive setting out any significant issues that require approval.
- We have an effective Internal Audit service, which meets the requirements of the CIPFA Code of Practice on Internal Audit.

4.4 We ensure that there are effective arrangements for "Whistle-blowing" and for receiving and investigating complaints from the public

- The Newcastle Charter contains a 'Policy for Confidential Reporting of Concerns – Whistle blowing'. This is available to all staff, highlighted through training, issued to all those contracting with us and included in the Standard Contract Terms and Conditions that are part of our procurement procedures.

- We have a Corporate Complaints Procedure and have nominated a Corporate Complaints Officer to co-ordinate this, undertake reviews of complaints, prepare an Annual Report and provide a link to the Ombudsman as well as to link with complaints officers nominated by our departments.

Core Principle 5
Developing the Capacity of Members & Officers to be Effective

5.1 We identify the development needs of members and senior officers in relation to their strategic roles, and support these with appropriate training

- We have a Workforce Learning and Development Plan to ensure that members and officers have the necessary skills and knowledge to be effective in carrying out their responsibilities.
- There is a Workforce Learning and Development Board acting as an advisory group of senior officers and members responsible for ensuring that progress against workforce development objectives are developed and evaluated.
- Staff appraisals (part of the Performance Management Framework) further support the identification of officer learning and development needs.
- Members are supported through an induction programme, training needs assessments linked to a training programme, mentoring and their own Learning and Development Plans which include role descriptions and personal development plans.

Core Principle 6
Engaging with Local People and Stakeholders

6.1 We have established clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

- The Community Engagement Strategy sets out how we engage with stakeholders and this is supported by the Customer Service Strategy, Social Inclusion Strategy and Communications Strategy.
- Arrangements such as ward committees, customer service centres, regeneration centres and libraries encourage open communication with citizens and service users.
- Meetings are held in public unless there are good reasons for confidentiality, in accordance with the Newcastle Charter, Access to Information Procedure Rules.

6.2 We incorporate good governance arrangements in respect of our partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflect these in our overall governance arrangements.

- We have a framework for setting up and managing our partnerships and have classified those we consider 'significant'.
- A partnership approval process is in place and is overseen by the Central Policy Unit.
- The governance and internal control arrangements of our significant partnerships are reviewed annually and reported to Corporate Governance Officer Group.

- We are in a group relationship with Your Homes Newcastle and Theatre Royal Trust and undertake significant activities through this group. The main features of their governance and internal control arrangements are documented and assessed each year through written assurance statements.
- Standard documentation and guidance has been agreed and publicised, to assist officers in implementing good governance and standard requirements.

### Section 4: Annual Review of Effectiveness of governance Framework

We have a legal responsibility to conduct an annual review of the effectiveness of our governance framework, including the system of internal control. The review is led by the Corporate Governance Officer Group and supported by a sub-group of members from Audit Committee and Standards Committee who provide independence and challenge. The outcomes of the review are considered by Audit Committee and Constitutional Committee (which is charged with final approval of this statement). The implications of the review are considered by the Business Management Group, Strategic Leadership Team and Executive Members and incorporated within our improvement plan.

The review is informed by:

(a) The views of our internal auditors, regularly reported to the Corporate Governance Officer Group and Audit Committee though regular progress reports, and the Annual Internal Audit Opinion.
(b) An annual review of the effectiveness of the system of Internal Audit (as required by Regulation 6(3) of the Accounts and Audit Regulations 2003).
(c) The views of our external auditors, regularly reported to Audit Committee though regular progress reports, the Annual Audit Letter and Annual Governance Report.
(d) The independent views of regulatory agencies such as Ofsted and the Care Quality Commission.
(e) The activities and operations of council departments and significant partnerships through written assurance statements.
(f) We are in a group relationship with Your Homes Newcastle and Theatre Royal Trust and undertake significant activities through this group. The main features of their governance and internal control arrangements are documented and assessed each year through written assurance statements. The statements have been considered as part of this review.
(g) Lessons learned through Serious Case Reviews and Unexpected Child Death reviews by the Local Safeguarding Children's Board (as appropriate, we work to relevant action plans which are closely monitored by the Local Safeguarding Children's Board, Ofsted and the Care Quality Commission).
(h) The views of Members through the ongoing activities of Standards Committee and Audit Committee (Audit Committee provides independent assurance on the effectiveness of the governance and internal control environment. Standards Committee ensures that effective arrangements are in place to maintain high standards of conduct and behaviour). and through the joint informal sub-group of these committees which assists with the annual review.
(i) The Risk Management Process, specifically the Strategic Risk Register.
(j) The Council's internal Business Model, in particularly the Business Management Group, Monitoring Officer Group and Corporate Governance Officer Group (which has specific responsibility for considering governance and internal control issues).

### Section 5: Significant Weaknesses in Governance and Internal Control in 2010/11

The system of governance (including the system of internal control) can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of our objectives have been mitigated.

**The review process itself did not highlight any issues as significant weaknesses in governance during 2010/11.**

**However, some internal control issues emerged at the final stages of the process of producing the Council's Annual Report and Accounts that prevented the Accounts from being signed off before the statutory deadline. This should be disclosed as a significant weakness in internal control.**

| | |
|---|---|
| **Quality Assurance of the Annual Report and Accounts** | **Summary**<br>During the audit of the 2010/11 Annual Report and Accounts quality assurance and process issues were discovered which resulted in the financial statements showing an imbalance, preventing the Annual Report and Accounts being recommended for signature by the statutory deadline of 30 September 2011. An action plan and lessons learned exercise is being undertaken to address the quality assurance issues to ensure they are not replicated in 2011/12.<br><br>**Issues**<br>The accounts presented to Audit Committee in September 2011 included an un-reconciled difference between the comprehensive income and expenditure statement and the movement in reserves in the balance sheet. This was as a result of transactions involving reserves being accounted for incorrectly.<br><br>**2011/12 Actions**<br>Complete a full lessons learned exercise and implement the required changes to processes and systems. Initial areas identified for improvement include: clarifying the overall framework for the production of the annual accounts.<br><br>Limiting access to the balance sheet to a limited number of staff in Finance who are involved in the production of the accounts and prevent feeder systems from posting transactions directly to reserves.<br><br>Procuring a new fixed asset/capital accounting system to reduce the time taken to produce the accounts to free up more time for quality checks.<br><br>Improving internal quality assurance processes in relation to the production of the draft financial statements and supporting documentation. |

Constructing the income and expenditure account in a much more transparent and methodical manner, with quality checks at each stage.

Introducing regular ‘soft closes’ of the accounts during the year to identify any issues before the end of the financial year.

Providing further training to all relevant staff involved in the accounts closedown process (including staff raising invoices and processing payments) on a range of accounting procedures, and coaching/support to specific individuals who have made errors.

**Financial Context**
The review of the imbalance on the accounts has shown no impact on the level of available resources for the council.

**Section 6: Significant Improvements Needed to Governance and Internal Control**

The review also identifies:

(a) Issues that may need significant improvement but which do not constitute “significant weaknesses” in our governance and internal control arrangements. These are set out in Appendix A and will be monitored as part of the next review.

(b) Issues that have improved during 2010/11 and no longer represent significant improvements needed to our governance and internal control arrangements. These are:

  (i) Extension of partnership management arrangements.

  (ii) Technical Issues relating to the implementing of International Financial Reporting Standards.

## Section 7: Conclusion

We consider the governance and internal control environment operating during 2010/11 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. As well as the weakness that has been identified, there also remain a number of issues that require significant improvement as detailed in Appendix A. Implementing the action plans is a priority.

Systems are in place to continually review and improve the governance and internal control environment. A number of additional mid-year checks are being undertaken to provide assurance that improvements are being implemented and that the assessment is improving.

The annual review has shown that the arrangements are in place and operating as planned.

**We have been advised on the implications of the review by the Corporate Governance Officer Group. We propose over the coming year to improve our governance and internal control arrangements as noted in this statement and are satisfied that this will address the need for the required level of improvement. We will monitor the implementation and operation of the improvements, as part of our next annual review.**

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| **Barry Rowland** | **Nick Forbes** | **Paul Woods** |
| **Chief Executive** | **Leader of the Council** | **Section 151 Officer** |
| **Date: 19 December 2011** | **Date: 19 December 2011** | **Date: 19 December 2011** |

## Appendix A: Significant Improvements Needed to Governance and Internal Control

| Governance and Internal Control Item | The issue and action required / taken |
| --- | --- |
| Information Governance | **Summary**<br>Information Governance was removed from the list of significant weaknesses in 2009/10. During 2010/11 progress has continued, and has been recognised both by internal audit and by the Information Commissioner's Office (ICO), which carried out a consensual audit of our data protection arrangements in January 2011.<br>**Issues**<br>Internal audit identified "some weaknesses" in relation to records management, and the ICO gained "limited assurance" (equivalent to some weaknesses) on data protection arrangements.<br>**2011/12 Actions**<br>Improve communication and overall awareness of information governance requirements.<br>Improve consistency of compliance with corporate policies and frameworks.<br>Complete our register of information assets.<br>Complete the laptop encryption programme.<br>Introduce records management checklists for new ICT systems and review programmes for retention schedules.<br>**Financial Context**<br>Information governance covers all of the Council's activities and cannot be quantified as such. The corporate function responsible for information governance costs approximately £100k (it involves varying proportions of the time of several officers). In addition to any potential civil or criminal penalties, the ICO can levy fines of up to £500k for serious breaches of data protection. |
| Governance of Major Programmes and Projects | **Summary**<br>The Council's revised Programme and Project Management System (PMS) introduced new programme structures to replace the old Directorate Programme Boards. The programmes are now based on the themes of the Sustainable Community Strategy (SCS), ensuring that all programmes have clear objectives aligned to the council's priorities. At the core of the PMS are six stages, linked to a gateways approvals process for new project proposals. This ensures that projects are properly assessed before being taken into the relevant programme and that we only commission projects where we can see a direct link to our priorities and a real likelihood of delivering improved outcomes. To clarify, the six stages are: 1. Project Mandate (alignment with priorities and commissioning next stage work); 2. Project Proposal (strategic fit, corporate considerations and high level risk & impact assessment); 3. Business Case (detailed project planning); 4. Project Start Up (completion of preparation for project delivery); 5. Project Delivery (project stages and milestones); 6. Project Close (benefits realisation, post-contract |

| Governance and Internal Control Item | The issue and action required / taken |
|---|---|
| | management and lessons learned).<br>**Issues**<br>Implementation monitoring, supported by internal audit work, has confirmed that good progress has been made but that further work is still required to achieve the intended benefits of the PMS on a consistent basis.<br>**2011/12 Actions**<br>Complete training of PMS users.<br>Population of on-line database and on-line completion of forms.<br>Develop community of practice to support programme and project managers.<br>**Financial Context**<br>The PMS applies to many areas of activity that do not have direct budgets, but the Council's capital investment programme for 2010/11 was £243 million. |
| Business Continuity, Planning and Testing | **Summary**<br>Following an audit of the function in 2010 and a recent interim check in 2011 it has been judged that reasonable progress is being made to implement the audit recommendations with most recommendations either fully or partially implemented. Those that have not yet been started are dependant on other recommendations being completed first.<br>**Issues**<br>The move to embed ownership of the plans and arrangements in each of the Directorates continues with close working taking place between the Business Continuity officers and the co-coordinators in the Directorates. This network has been expanded to include other relevant colleagues from across the council e.g. ICT, HR, Risk Management, Insurance etc This has been helped by simplifying the process and working to put in place cross-cutting strategic arrangements that will support the Council in the event of a Business Continuity incident occurring. This has been done against a back-drop of unprecedented change for the organisation which has made gathering data challenging. The review of the Resilience function across Tyne and Wear has also created some uncertainty about the how the central function will be filled in the future. The resolution of this is imminent. |

| Governance and Internal Control Item | The issue and action required / taken |
|---|---|
| | **2011/12 Actions**<br>Continue to embed arrangements in the directorates.<br>Agree strategic arrangements with BMG and Directors.<br>Development and agreement of Resilience Strategy.<br>Decision needed about going for accreditation for BS 25999.<br>Finalise arrangements for resources in the BC post.<br>Develop and implement training and awareness programme for wider council staff.<br>Develop and implement an exercise programme for Business Continuity arrangements.<br>**Financial Context**<br>The budget for the business continuity function is approximately £100k. The impact of the work could include any or all of the Council's functions so cannot be specifically quantified. |
| Workforce Planning | **Summary**<br>The focus during 2010/11 on workforce planning as a key contribution to STEP reviews has allowed us to build on the progress made during 2009/10. We have in particular focused on how to support staff through the unsettling and potentially stressful change process. The Council deals with work-related stress through a wide range of people management interventions and processes. Pro-active measures, aimed at prevention, include effective engagement with staff, training for managers and activities delivered through our health and wellbeing framework. Support is also available for staff through a free, 24-hour employee assistance helpline.<br>Working closely with the HR function, our Occupational Health Unit provides support and counselling for staff affected by work-related stress, to enable them to continue working or return to work on a supported basis. Absence statistics are gathered and monitored regularly to identify any business areas or worker groups with higher levels of work-related stress so appropriate interventions can be made.<br><br>The successful employee support programme, that provides assistance for staff 'at risk' of redundancy, is being extended to cover all Council staff, with the aim of providing a general level of support to employees facing change in the workplace or wanting to access independent advice or career guidance. |

| Governance and Internal Control Item | The issue and action required / taken |
|---|---|
| | **Issues**<br>Internal audit found “some weaknesses” in workforce planning, largely relating to consistency.<br>**2011/12 Actions**<br>Embed workforce planning in service-level planning beyond STEP.<br>Include workforce planning targets in senior manager appraisals.<br>**Financial Context**<br>The Council’s total workforce budget for 2010/11 was £399 million. Workforce planning is supported by OD officers but is carried out as part of the responsibilities of all Heads of Service so cannot be directly quantified. |
| Consistent Performance Monitoring on the Outcomes of Grant Funded Projects | **Summary**<br>The process of distributing grant aid for 2011/12 was significantly overhauled in autumn 2010. The council moved to a single fund – the Newcastle Fund – with the aim of introducing greater transparency and fairness in the allocation of grant aid funding. Part of the outcome of this process is a common monitoring approach across the council which is built on existing good practice in the council.<br>**Issues**<br>It is recognised that the new process will require evaluation and this is planned for May 2011 so that improvements can be built into the next round in autumn 2011.<br>**2011/12 Actions**<br>Evaluate 2011/12 allocation process and apply lessons to the process for 2012/13 (May 2011).<br>Align the criteria for grant allocation more directly with the priorities of the Council.<br>**Financial Context**<br>The Newcastle fund is £10 million over three years, of which £3.5 million was allocated to 2011/12 to help mitigate the front-loading of national spending reductions. |

## Glossary of Terms

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| Abbreviations | The symbol “k” following a figure represents £ thousand.<br>The symbol “m” following a figure represents £million. |
| Accruals | Income and expenditure are recognised as they are earned or incurred, not as money is received or paid. |
| Accounting policies | Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements. |
| Actuarial gains or losses (Pensions) | For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise either because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or the actuarial assumptions themselves have changed. |
| Amortise | To write off gradually and systematically a given amount of money within a specific number of time periods. |
| Assets | Items of worth which are measurable in terms of money. |
| Assets Held for Sale | Those assets, primarily long-term assets, that the Council wishes to dispose of through sale to others. |
| Balances | The total level of surplus funds the Council has accumulated over the years. |
| Budgets | A statement of the Council’s forecast expenditure, that is, net revenue expenditure for the year. |
| Capital Expenditure | Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset. |
| Capital Adjustment Account | The account accumulates (on the debit side) the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (revenue expenditure funded from capital under statute). The balance on the account represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements. |

## Glossary of Terms

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| Capital Receipts | Monies received from the disposal of land and other fixed assets, and from the repayment of grants and loans made by the Council. |
| Code of Practice on Local Authority Accounting in the UK | The Code specifies the principles and practices of accounting to give a “true and fair” view of the financial position and transactions of a local authority. |
| Collection Fund | A fund administered by the Council recording receipts from Council Tax and payments to the General Fund and other public authorities. It also records receipts of non-domestic rates collected on behalf of Central Government. |
| Comprehensive Income & Expenditure Statement | This account summarises the resources that have been generated and consumed in providing services and managing the Council during the financial year. |
| Consistency | The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same. |
| 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 Liability | A contingent liability is either (i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council’s control, or (ii) a present obligation from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability. |
| Contingent Rent | The portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time,<br>e.g. future price indices, future market rates of interest. |
| Corporate & Democratic Core | The corporate & democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. |
| Creditors | An amount owed by the Council for work done, goods received or services rendered, but for which payment has not been made. |
| Current Service Cost (Pensions) | The increase in the present value of a defined benefit scheme’s liabilities expected to arise from employee service in the current period. |

## Glossary of Terms

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| Curtailment (Pensions) | For a defined benefit pension scheme an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Examples include termination of employee's service through redundancy or amendment of the terms affecting future benefits. |
| Debtors | Monies owed to the Council but not received at the balance sheet date. |
| Defined Benefit Scheme (Pensions) | A pension or other retirement scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded. |
| Depreciation | The measure of the wearing out, consumption or other reduction in the useful economic life of an asset. |
| Earmarked Reserve | A sum set aside for a specific purpose. |
| Emoluments | Payments received in cash and benefits for employment. |
| 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. |
| Existing Use Value - Social Housing (EUV-SH) | This is a vacant possession valuation of Council dwellings adjusted to reflect the continuing occupation by a secure tenant. A further adjustment is made to reflect the difference between open market rented property and social rented property. |
| Expected Rate of Return on Pensions Assets | This is an actuarially calculated estimate of the return on the scheme's investment assets during the year. |
| Fair Value | The fair 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 assets. |
| Fees and Charges | Income arising form the provision of services, for example, charges for the use of leisure facilities. |
| Finance Lease | A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. The payments usually cover the full cost of the asset together with a return for the cost of finance. |

## Glossary of Terms

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| Financial Instrument | Document (such as a cheque, draft, bond, share, bill of exchange, futures or options contract) that has a monetary value or evidences a legally enforceable (binding) agreement between two or more parties regarding a right to payment of money. |
| Financial Instruments Adjustment Account | The reserve records the accumulated difference between the financing costs included in the Comprehensive Income & Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance. |
| General Fund | The total services of the Council except for the Housing Revenue Account and the Collection Fund, the net cost of which is met by Council Tax, Government Grants and business rates (NNDR). |
| Going Concern | The concept that the council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations. |
| Housing Revenue Account (HRA) | A separate account detailing the expenditure and income arising from the provision of Council dwellings. |
| Impairment | A reduction in the value of a fixed asset below its carrying amount on the balance sheet resulting from causes such as obsolescence or physical damage. |
| Intangible Assets | An asset that is not physical in nature, e.g. software licences. |
| Interest Cost (Pensions) | For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement. |
| Investment Properties | Interest in land and buildings where construction work and development has been completed and the asset is held for its investment potential, any rental income being negotiated at arms length. |
| Liabilities | Any amounts owed to individuals or organisations which will have to be paid at some time in the future. |
| Liquid Resources | Current asset investments that are readily disposable by the council without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market. |

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| Materiality | An item is material if its omission, non-disclosure or mis-statement in the financial statements could be expected to lead to a distortion of the view given by the financial statements. |
| Minimum Revenue Provision (MRP) | An amount charged by the Council to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities. |
| Movement in Reserves Statement | The statement shows the movement in the year on the different reserves held by the Council. |
| National Non-Domestic Rates (NNDR) | Rates which are levied on business properties. The Council collects these rates and pays them into a national pool which is then re-distributed on the basis of population. |
| Net Book Value | The amount at which fixed assets are included in the balance sheet being the historical cost or current value less the cumulative amounts provided for depreciation. |
| Net Debt | The council's borrowings less cash and liquid resources. |
| Operating Leases | Leases other than a finance lease. |
| Precept | The amount levied by the various joint authorities which is collected by the Council on their behalf. |
| Property, Plant & Equipment (PPE) | Assets that yield benefits to the Council and the services that it provides for a period of more than one year. Examples include land, buildings and vehicles. |
| Provisions | These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain. |
| Prudence | This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in the light of information available. |
| Public Works Loan Board | This is a Government agency which provides loans to local authorities at favourable rates. |
| Related Party Transactions | A related party transaction is 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. An example could be the purchase, sale, lease, rental or hire of assets between related parties. |

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| Reserves | These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred. |
| 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 reserve records the accumulated gains on the fixed assets held by the council arising from increases in value as a result of inflation or other factors. |
| Revenue Expenditure | Expenditure on providing day-to-day services, for example employee cost and premises costs. |
| Revenue Expenditure Funded from Capital under Statute | Expenditure which may be properly incurred, but which does not result in an asset owned by the Council, e.g. improvement grants. |
| Revenue Support Grant | A grant from Government towards the cost of providing services. |
| Unusable Reserves | The Council cannot use this category of reserves to provide services. Includes reserves that hold unrealised gains and losses (e.g. revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “adjustments between accounting basis and funding basis under regulation”. |
| Usable Reserves | Those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. |
| Useful Life | The period over which the council will derive benefits from the use of a fixed asset. |

# External Audit Opinion

## Independent Auditors' Report to Members of Newcastle City Council

### Opinion on the Authority accounting statements

We have audited the accounting statements and related notes of Newcastle City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 44, the Housing Revenue Account and related notes 1 to 15, and the Collection Fund and related notes 1 to 4. These accounting 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 Newcastle City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Director of Finance & Resources and auditor

As explained more fully in the Statement of the Director of Finance & Resources' Responsibilities, the Director of Finance & Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on accounting statements

In our opinion the accounting statements:

- give a true and fair view of the state of Newcastle City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

**Opinion on other matters**

In our opinion, the information given in the explanatory foreword and the content of the Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

**Matters on which we report by exception**

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

**Conclusion on Authority's 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 regularly to review the adequacy and effectiveness of these arrangements.

**Auditors' Responsibilities**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Basis of Conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

## External Audit Opinion

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Newcastle City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

**Report by exception**

The Audit Commission's guidance also requires us to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. Such a matter has come to our attention relating to a significant weakness in the Authority's arrangements for reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people.

**Certificate**

We certify that we have completed the audit of the accounts of Newcastle City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

David Wilkinson FCA CF (Engagement Lead)
for and on behalf of Deloitte LLP
Appointed Auditor

**Newcastle, United Kingdom**

22 December 2011

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