

Middlesbrough Council

Statement of Accounts 2005/6



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This document was prepared by HBS Service
Middlesbrough Accountancy Staff
in partnership with
Middlesbrough Council Finance Staff

Paul Slocombe Director of Resources


Middlesbrough
moving forward


HBS

Statement of Accounts 2005/2006



Contents

Page

Section 1

Explanatory Foreword

Review of 2005/2006 Financial Year

Statement of Responsibilities

Statement of Internal Control

Independent Auditors Report

5

13

14

24

Main Financial Statements

Section 2

Consolidated Revenue Account

Notes to the Consolidated Revenue Account

29

31

Section 3

Housing Revenue Account

Notes to the Housing Revenue Account

43

44

Section 4

Collection Fund Account

Notes to the Collection Fund Account

46

47

Section 5

Consolidated Balance Sheet

Notes to the Consolidated Balance Sheet

51

52

Section 6

Statement of Movement in Reserves

Notes to the Statement of Movement in Reserves

79

80

Section 7

Consolidated Cash Flow Statement

Notes to the Consolidated Cash Flow Statement

84

86

Section 8

Teesside Pension Fund

89

Section 9

Group Accounts

Notes to the Group Accounts

Group Cash Flow Statement

Note to the Group Cash Flow Statement

104

109

111

112

Section 10

Trust Funds

114

Section 11

Statement of Accounting Policies

117

Section 12

Glossary of Terms

125



Explanatory Foreword

Introduction

The Statement of Accounts presents the overall financial position for the year ended 31st March 2006 and incorporates all the financial statements and disclosure notes required by statute.

The aim of the Accounts is to provide all interested parties with details of the authority's financial performance for 2005/2006, a summary of which is included in the next section of this document, the Review of the 2005/2006 Financial Year.

The Consolidated Balance Sheet, and the relevant sections describing the make up of Capital Assets have continued to be subject to review and redefinition. This revision affects the Fixed Asset Restatement Account.

In line with the FRS17 disclosure the Net Pension Assets as at 31 March 2006 is a liability of £144.4m. This has reduced from a liability of £155.2m as at 31 March 2005. Most of the decrease in liability is in respect of the improved performance of the Stock Market. This figure represents the current valuation of potential future Pension liabilities.

The Council has continued to receive a large number of equal pay claims from members of staff. The financial impact of the claims on the Council is significant. The payments for those claims that have been settled have been capitalised and the costs of disputing the outstanding claims have been provided for in the Medium Term Financial Plan. The complicated process of dealing with this issue is ongoing and continues to be a major financial risk to the authority.

The finances of the Council continue to be prudently managed, with provision being made for future potential liabilities and a further contribution of £2.6m to the Council's Balances.

Main Financial Statements

A detailed analysis of the Council's financial position can be found in the main financial statements contained in this document on pages 29 to 51. A brief explanation of the purpose of each of the statements is given below :-

Consolidated Revenue Account

This provides a breakdown of revenue costs incurred and income received by Council services in 2005/06. It identifies the net total expenditure incurred by the Council in providing services and how this is financed from local taxation and government grants.

Consolidated Balance Sheet

The balance sheet provides details of the Assets, Liabilities, Balances and Reserves at the Council's disposal as at 31 March 2006.

It gives details of the assets employed in its operation and also identifies all liabilities to give the net Equity of the Council.

Explanatory Foreword *continued*

Housing Revenue Account

During the financial year 2004/5, the Council established a Housing company – Erimus, to which all relevant assets and liabilities transferred. The Housing Revenue Account Statement for the financial year 2005/6 therefore represents the closing entries to this Account.

Collection Fund Account

This shows the income received by the Council from non-domestic rates and local taxation and indicates how the income has been distributed to the preceptors and to the general fund.

Statement of Movement in Reserves

The statement provides details of the movement in the Council's capital and revenue reserves and changes to the value of the Council's assets arising from revaluation. The availability of reserves ensures the Council's future financial position is protected.

Consolidated Cash Flow Statement

The statement summarises the revenue and capital payments and receipts made by the Council to third parties. The cash inflows and outflows are analysed on a subjective basis excluding any internal transfers.

Teesside Pension Fund

The Teesside Pension Fund is a local authority Occupational Pension Scheme and the management structure and scheme rules are defined in the Local Government Pension Scheme Regulations 1997.

The Fund provides for the payment of retirement benefits to local authority employees and former employees of the Teesside area and other bodies admitted by agreement.

The Fund is administered by Middlesbrough Council via the Teesside Pension Fund and Investment Panel, which has plenary powers to make decisions without reference to the Council. The Panel acts in a similar manner to a Board of Trustees of a private sector pension fund.

The day to day running of the Teesside Pension Fund is delegated to the Director of Resources of Middlesbrough Council. He is responsible for implementing the strategies and policies set by the Pensions and Investment Panel. Supporting him is a team of staff split into two units, one being the Pensions Administration Unit is responsible for the calculation and payment of pension benefits and for looking after the employer interests in the Fund. The other is the Loans and Investment Unit, as its name suggests, looks after the investment of the Fund.

Review of 2005/2006 Financial Year

Revenue Spending In 2005/2006

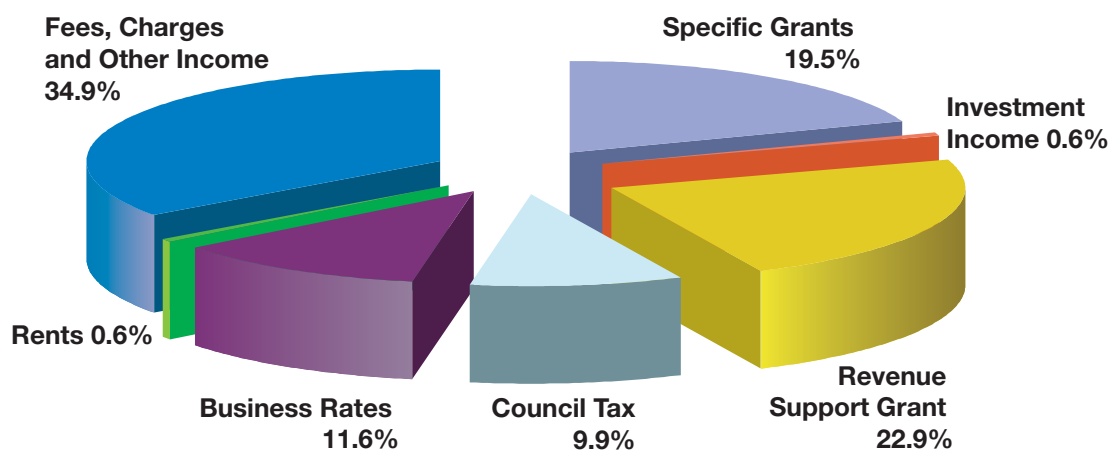
General Fund Summary Revenue Account

The General Fund covers all services provided by the Council with the exception of the Housing Revenue Account.

The charts summarise the gross expenditure in the year and the sources of funding for that expenditure. The charts cannot be directly compared to the data in the Consolidated Revenue Account as capital financing costs are shown differently for presentation purposes. Also the spending on the Housing Revenue Account is excluded.

Where the Money Comes From

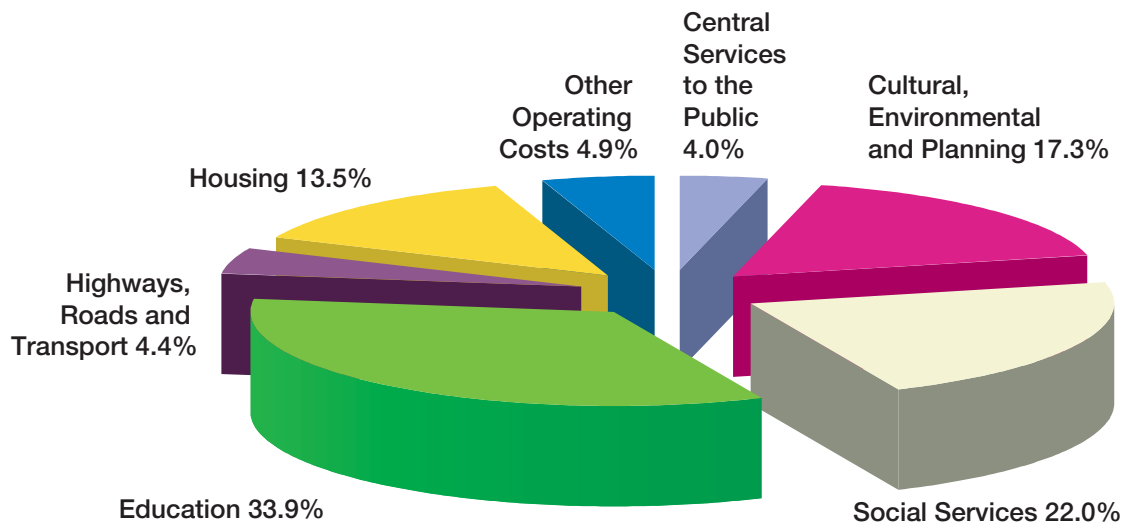
Source	Funding £	Percentage %
Revenue Support Grant	91.2 M	22.9
Specific Grants	77.6 M	19.5
Business Rates	46.3 M	11.6
Council Tax	39.4 M	9.9
Investment Income	2.2 M	0.6
Rents	2.5 M	0.6
Fees, Charges and Other Income	139.0 M	34.9
Total	398.2 M	100



Review of 2005/2006 Financial Year *continued*

Where the Money Goes

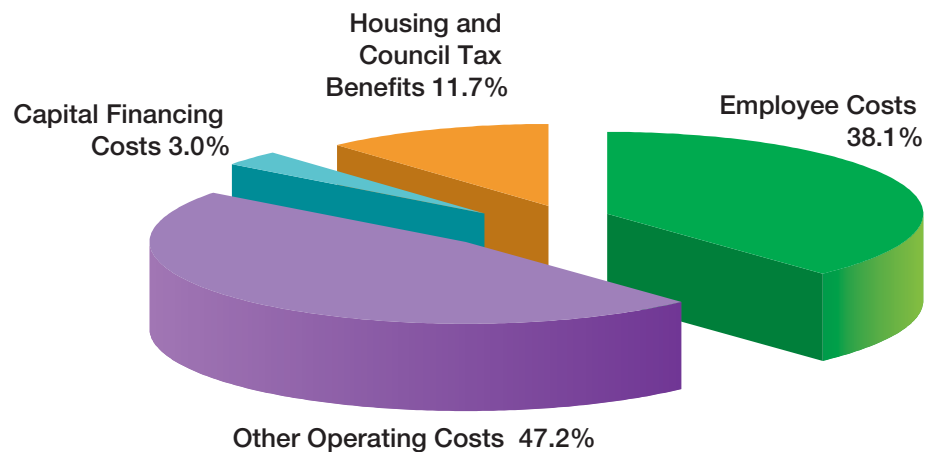
Service	Spending £	Percentage %
Central Services to the Public	15.9 M	4.0
Cultural, Environmental and Planning	69.0 M	17.3
Social Services	87.5 M	22.0
Education	135.0 M	33.9
Highways, Roads and Transport	17.6 M	4.4
Housing	53.8 M	13.5
Other Operating Costs	19.4 M	4.9
Total	398.2 M	100



Review of 2005/2006 Financial Year *continued*

What the Money is Spent On

Source	Amount £	Percentage %
Employee Costs	151.8 M	38.1
Other Operating Costs	187.8 M	47.2
Capital Financing Costs	11.9 M	3.0
Housing and Council Tax Benefits	46.7 M	11.7
Total	398.2 M	100



Housing Revenue Account

The Housing Revenue Account (HRA) is a result of a statutory obligation for Local Authorities to account separately for the provision of Council houses. It should be noted that during the financial year 2004/5, the Council transferred its Housing Stock to Erimus Housing. This activity therefore ceased on 15 November 2004 and the HRA will formally close in April 2006

	£'000s
Repairs and Maintenance	-26
Supervision and Management	-58
Capital Financing	0
Other Expenditure	148
Total	64

Review of 2005/2006 Financial Year *continued*

The 2005/2006 Revenue Budget

The main components of the revenue budget for 2005/2006, and how these compare with the actual income and expenditure are set out below

Budgeted Expenditure	Budget £M	Outturn £M	Variance £M
Service Budgets			
Children, Families & Learning	87.6	87.6	0
Social Care	26.1	26.0	-0.1
Environment	22.2	21.9	-0.3
Regeneration & Culture	6.4	6.3	-0.1
Central Services	25.1	23.9	-1.2
Corporate Costs	8.3	9.3	1.0
Net Service Expenditure	175.7	175.0	-0.7
Other Items			
Contributions to Balances	-0.7	-0.7	0
Net Service impact on General Fund	175	174.3	-0.7
Budgeted Contribution from Reserves			0

The major differences between the original budget and the Outturn are as follows:-

A net saving of £14k in Children, families and Learning. A number of savings throughout the service have been partly offset by budget pressures on Home to School Transport of pupils, and the increasing cost of supporting Children Looked After.

A net saving of £315k in the Environment service has resulted from additional grant income, additional income from the new Licensing Act, delay to the start of the recycling scheme and other small savings, partly offset by a number of small pressures – the most significant being the under recovery of Car Parking income.

A net saving of £50k in the Regeneration and Cultural Services has resulted from additional fee income for Development Control, and other small savings, partly offset by pressures on the Strategic Housing function, under recovery of rent for the Enterprise Centres and other small pressures.

A net saving of £136k in Social Care has resulted from additional income from Health, The Shaw Trust and the PCT, partly offset by budget pressures on Elderly Mentally Ill Placement, Nursing Placements and Residential Agency Placements.

A net saving of £1,153k on Central Services has resulted from increased Legal Fee income, less than expected expenditure on Members Allowances, increased recovery of Benefits Rent Allowance overpayments, reduced payment levels of Benefits, increased occupancy levels in Commercial Properties along with savings from Staffing vacancies throughout the service.

Review of 2005/2006 Financial Year *continued*

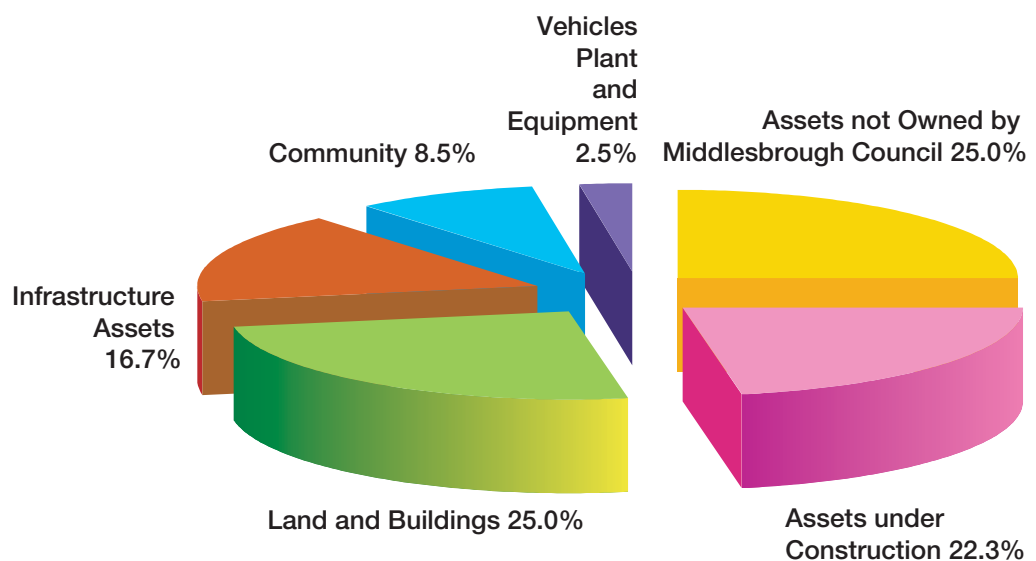
The total net Service saving is £1,670k. In addition to this, there are further savings on Capital Financing costs of £1,895k. After allowing for the creation of approved reserves and provisions, the net contribution to the Council's general Fund Balances is £728k

	£'000
Opening Balance	4,865
Agreed Contribution from Balances	0
Back Dated RSG (abbreviation)	1,866
Net Service impact on General Fund	728
General Fund Balances as at 31st March 2006	7,459

Capital Spending In 2005/2006

In 2005/2006 the Council spent £51.6M on capital projects. The charts provide details of this spending and how it was financed during the year.

Capital expenditure	Spending £	Percentage %
Assets not Owned by Middlesbrough Council	12.9 M	25.0
Assets Under Construction	11.5 M	22.3
Land and Buildings	12.9 M	25.0
Infrastructure Assets	8.6 M	16.7
Community	4.4 M	8.5
Vehicles, Plant and Equipment	1.3 M	2.5
Total	51.6 M	100.0



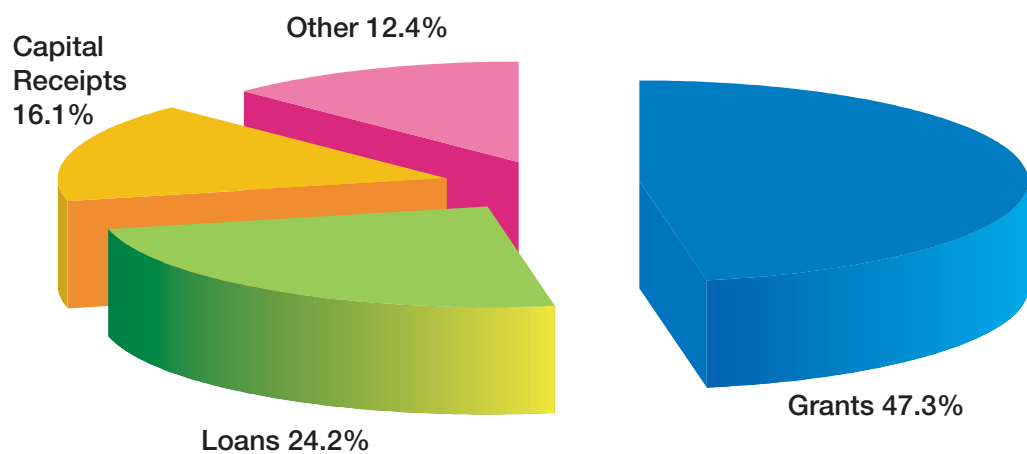
Review of 2005/2006 Financial Year *continued*

The main areas of capital expenditure are shown below:

- New Art Gallery
- A66 Interchange Access to Middlehaven
- Equal Pay Awards
- Older Housing – West Lane East
- Greater Middlehaven
- Central Whinney Banks
- Cargo Fleet Lane Reconstruction

Capital Financing

	Funding £	Percentage %
Grants	24.4 M	47.3
Loans	12.5 M	24.2
Capital Receipts	8.3 M	16.1
Other	6.4 M	12.4
Total	51.6 M	100



Statement of Responsibilities for the Statement of Accounts

The Authority's responsibilities

The authority 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 authority, that officer is the Director of Resources
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts

The Director of Resource's responsibilities

The Director of 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 ('the code of practice')

In preparing the statement of accounts, the Director of Resources has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the code of practice

The Director of 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

Certificate

I certify that the statement of accounts presents fairly the financial position of the authority at 31 March 2006 and its income and expenditure for the year ended 31 March 2006.

Paul Slocombe
Director of Resources

P. A. Slocombe

Date 19th June 2006

Statement of Internal Control

Scope of Responsibility

Middlesbrough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

Middlesbrough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency and effectiveness. In discharging this overall responsibility, Middlesbrough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council and Teesside Pension Fund functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Control

The system of internal control is based on an ongoing process designed to identify and prioritise the risk to the achievement of Middlesbrough Council's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place within Middlesbrough Council and Teesside Pension Fund for the year ended 31st March 2006 and up to the date of approval of the annual report and accounts.

The Internal Control Environment

In January 2004 the members of Middlesbrough Council approved "The Code of Corporate Governance". This code sets out the Council's policy in relation to corporate governance - which is used to help the Council and Teesside Pension Fund direct and control its functions. These key elements of the control environment, which underpins the credibility and confidence in the Council and the Pension fund, include:

Regular reviews by the Council of progress against its corporate plans/objectives:

- Annual Statement of Accounts;
- Middlesbrough Borough Council Corporate Strategic Plan (by 30 June annually);
- Summary Performance Plan (by 31 March annually);
- Community Strategy which is reviewed at least every 3 years, with a Delivery Plan reviewed annually;
- Comprehensive Performance Assessment (CPA) Improvement Plan.

Clear Policy and Decision Making

The council has in place a clearly documented and understood management process for policy development, implementation and review and for decision making, monitoring and control, and reporting; and formal and procedural and financial regulations to govern the conduct of the authority's business.

Statement of Internal Control *continued*

These processes are detailed in the following documents:

- Constitution
- Scheme of Delegation to Officers
- Financial Procedure Rules
- Independent Allowances & Remuneration Panel
- Scheme of Delegation to Individual members of the Executive
- Executive Members Performance Management Procedures
- Formal scrutiny process
- Independent Teesside Pension Fund panel

Ensuring Compliance with Council Decisions, Rules and Regulations:

Like all local authorities, Middlesbrough operates within a statutory framework which governs the behaviour of elected members and officers, in addition it has established a Standards Committee. The following officers also have a specific duty to ensure that the Council acts within the law and uses its resources wisely.

- Chief Executive (Head of Paid Service)
- Monitoring Officer
- Head of Legal services
- Director of Resources

Robust Risk Management Processes

The Council has continued to progress the development and embedding of risk management, both corporately, and across all Service areas during 2005/2006. Major developments over recent years have included:

- The adoption of a formal Risk Strategy, Chance or Choice.
- The inclusion of requirements in relation to Risk Management in the Council's Performance Management Minimum Standards.
- The inclusion of consideration of risk in all Service Plans.
- The use of a Strategic Risk Register for the Authority and all Services, reviewed and reported to CMT on a quarterly basis.
- Introduction of formal "Risk Events" at the planning stage of major projects, involving all interested staff and partner organisations.
- Amendment of the Council's scheme of delegation to include:
 - The role of "Risk Management Champion" in the portfolio of the Deputy Mayor.
 - Issues relating to "Corporate Risk Management" in the responsibilities of the Executive.
- The adoption of the responsibility for Risk Management by the Chief Executive.
- The appointment of Risk Champions within each Service area, and the expansion of the 'Risk Forum' Group to include them.
- Detailed Risk Management training for Service Risk Champions, potentially leading to them being able to achieve an intermediate-level qualification in the subject.
- Regular meetings of a 'Risk Forum' Group co-ordinating and promoting Risk Management across the Authority.

Statement of Internal Control *continued*

Formal Risk Awareness training for all Members.

Risk awareness raising for all staff, including the use of articles in the internal Middlesbrough Matters newsletter.

Developments already implemented or planned for 2006/2007 include:-

- An intranet site providing access to risk management documents, information, and guidance.
- Continuing the programme of training for Service staff.
- Review of the Risk Management strategy
- Review of Business Continuity plans across the authority
- Risk Management Manual

Strong Financial Management

The system of internal financial control is based upon a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a structure of delegation and accountability. Internal financial controls include:

- The establishment of key controls within the accounting systems of the Council
- A robust system of budgetary control including formal quarterly and annual financial reports which indicate financial performance up to year end and include action plans for dealing with pressure areas
- Setting targets to measure financial and other performance
- The production of regular financial reports at various levels within the Council which indicate actual expenditure against budgets
- A clear and concise capital appraisal process for prioritising and approving all capital projects
- In partnership with IPF producing a financial management training course for all budget managers and senior staff. This was rolled out during the first quarter of 2005/2006 for existing staff. The course has been provided on a quarterly basis for all new starters and newly promoted staff. The course has been incorporated into the Councils corporate induction process
- Clearly defined capital expenditure guidelines
- Use of appropriate project management disciplines
- Participation in the National Fraud Initiative and subsequent investigations;
- Membership of the North East Fraud Forum
- Incremental implementation of the Verification Framework for the administration of Council Tax and Housing Benefit
- A significant element of the Councils financial processes is delivered by HBS, the Councils Strategic Partner. The process and discipline of internal controls is also applied to the activities of HBS
- The role out of a corporate procurement strategy to all services
- Ongoing training for Council and HBS Service Middlesbrough financial and support staff on the Procurement / Debtors / Budget Management / Asset Management / Grant

Statement of Internal Control *continued*

monitoring procedures. Extra resources have been provided to ensure the continuous provision of a range of SAP courses for all new starters and staff changing jobs;

The Internal Audit Function

The effectiveness of internal control is audited and assessed by the internal audit function under the direction of the Director of Resources and in accordance with appropriate codes of practice.

Internal Audit provides management with assistance and independent guidance on systems, processes and risks and through its work forms a view on the strength of the component controls and the overall control framework.

The Internal Audit function operates under the Local Government Accounts and Audit Regulations, which require the maintenance of an adequate and effective system of internal audit of accounting records and control systems, and full assistance from officers and members in the provision of documents, records, information and explanation to enable the proper fulfillment of those audit responsibilities. The work of the Section is guided by and reflects professional best practice, in particular the CIPFA Code of Practice on Local Government Internal Audit and locally by the policies, procedures, rules and regulations established by the Authority.

The internal audit function, which works closely with the external auditor, undertakes a planned programme approved by the Overview and Scrutiny Board covering all the Councils activities. The programme includes independent reviews of the systems of internal control and risk management.

The overall objective of Internal Audit is to provide an independent and objective appraisal function, for reviewing and reporting upon the overall system of internal control. This work encompasses both operational and developing systems.

Through this responsibility Internal Audit:

- Facilitates good practice in managing risks
- Contributes to ensuring sound resource management
- Recommends improvements in control, performance and productivity
- Provides reassurance and challenge to managers
- Encourages development of consistent policies and high standards
- Assists in the impartial investigation of irregularities and policy breaches
- Supports the achievement of statutory and best practice requirements

The Director of Resources is the nominated s151 Officer and also has line management responsibility for the Internal Audit Manager. The Internal Audit Manager has direct access to the Chief Executive and other Directors and has well established reporting lines to members. As part of the constitution, the Council has designated the Overview and Scrutiny Board as its Audit Committee.

Statement of Internal Control *continued*

Its terms of reference, which accord with best practice guidelines, are as follows:

- To review the adequacy of Council's internal control framework
- To review the adequacy of plans, procedures and practices to ensure compliance with statutory and other guidance;
- To monitor the performance of the Council's internal audit function *and*
- To consider the external audit plan.

The Internal Audit Manager reports audit findings to Heads of Service and action is agreed to address these findings as necessary. Each Head of Service is responsible for operating systems of internal control within their area of responsibility, which provide reasonable assurance of effective and efficient operations, reliable information and compliance with laws and regulations. A report on audit activity together with details of internal audit is made regularly to the Overview and Scrutiny Board.

Internal Audit has concluded, based on the findings of work undertaken that there are sound systems of internal financial control in place. A number of areas for improvement have been identified and will be implemented on an agreed and phased basis subject to the level of risk

Monitoring and Reporting Management Performance

Performance management reporting has now become part of the regular quarterly monitoring process of the Council. Services are required to report progress against national Key Performance Indicators as well as locally set improvement targets.

Improvement on Performance Management during 2005/2006 have included:

- The integrated budget and performance clinics have been used to monitor the achievement of savings identified in the Councils 2005/06 Efficiency Statement
- The use of the integrated performance clinics to ensure that risk management is clearly linked to the Council's priorities
- The revision of the minimum standard for performance management to ensure that it meets changing requirements and also incorporates lessons learnt from the 2005 Corporate Assessment.

Review of Effectiveness

Middlesbrough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of Internal Audit and the Statutory officers within the authority who have a responsibility for the development and maintenance of the internal control environment, and also by comments made by our external auditors and other review agencies and inspectorates. In determining the effectiveness of the system of internal control review activities have been undertaken by a number of parties.

These include:

- The authority
- Statutory officers
- The Scrutiny panel process
- Internal Audit
- External audit
- Other inspection and review agents

Statement of Internal Control *continued*

For the year under consideration, the key internal assurance work has been provided through Internal Audit as reported earlier in the statement.

The following external bodies for: Education - Annual Performance Assessment (OFSTED & CSCI), Children's Service (CSCI Fostering inspection), Inspection of Children's Service by the Audit Commission, and Corporate (CPA) by the Audit Commission carried out reviews during 2005/2006. The Council will be carrying out the action plans resulting from the reviews during 2006/2007.

The Benefit Fraud Inspectorate made a series of recommendations in their CPA annual assessment of the benefit service during 2005/2006. The main concern centred around the Verification Framework and the fact that Middlesbrough Council is still not fully compliant with the three modules set down by Central Government. Two modules were undertaken by HBS on behalf of Middlesbrough Council during 2004/2005 and the remaining module (new claims) will be implemented during 2006/2007.

The following major reviews are due during 2006/2007:

- Benefit Fraud Inspectorate
- DWP Annual Benefit Review Team
- Benefits ISO 9000/2000 Assessment
- Adult community mental health services (Healthcare Commission and the Commission for Social Care Inspection)
- Education - Annual Performance Assessment (OFSTED & CSCI)
- Children's Service (CSCI Fostering inspection),
- Children's Service (CSCI Adoption inspection),
- Community Protection Advice Centre – Legal Services Commission

Matters raised by our external auditors have been addressed as they have arisen during the course of the year. The advice will be reflected in the management letter, which will be issued during 2006/07.

We have been advised of the implications of the result of the review of the effectiveness, of the system of internal control by the Council, the Executive and the Overview and Scrutiny Board, and a plan to address weakness and ensure continuous improvement of the system is in place.

Significant Internal Control Issues

The Internal Control environment has highlighted, at the end of 2005/2006, a number of areas of concern requiring improvement and / or careful monitoring. CIPFA guidance on the definition of a "significant internal control issue" (in relation to the Accounts & Audit Regulations 2003) has been used to identify appropriate issues for inclusion within this statement.

Statement of Internal Control *continued*

Areas requiring Improvement (2004/2005 Statement)	Action taken 2005/2006
<p>Housing & Council Tax Benefit Control and checking procedures within Benefits section have been identified as an area of significant risk.</p>	<ol style="list-style-type: none"> 1. Improved guidance and instructions were issued to staff to ensure a clear audit trail exists from receipt of an application to decision to award benefit. 2. New quality monitoring arrangements have been put in place by the Councils Strategic Partner and these are supported by the Councils client benefits unit
<p>Cash Receipting & Income Reconciliation backlogs have compromised the controls on the collection and banking of income</p>	<ol style="list-style-type: none"> 1. The cash receipting/income suspense accounts have all been brought up to date 2. New arrangements for reconciliation monitoring have been put in place by the Council's Strategic Partner.
<p>Payroll The Internal audit report identified Issues around control processes applied to key documents and the appropriate type and level of checking</p>	<ol style="list-style-type: none"> 1. The Council's Strategic Partner has improved control over, and accessibility to, source documents. 2. A random sample of payroll documents will be checked by HBS to confirm that officers with appropriate authority certify them
<p>Procurement There is evidence of weaknesses in authorisation and approval procedures within the IT system</p>	<ol style="list-style-type: none"> 1. Improvements in the functionality of the SAP system have been made. 2. Additional instructions concerning authorising procurement documents have been issued to all staff.
<p>The control issues identified by the District Audit reviews of the implementation of the Financial Information System (SAP) and application of the Disability Discrimination Act 1995</p>	
<p>Over reliance on manual intervention by ICT for extracting feeder files prior to interface with SAP</p>	<p>Detailed procedural notes have been prepared. Review of processes with the aim of automating all interfaces into SAP</p>

Statement of Internal Control *continued*

Areas requiring Improvement (2004/2005 Statement) *continued*

Action taken 2005/2006 *continued*

Excessive users with full access to application, in particular 'Consultant' access to SAP

A review of access for consultants has been undertaken and a control procedure put in place.

Lack of end to end source system to SAP reconciliation's – possibly resulting from a lack of ownership

A major review has been started by the Councils Strategic Partner and is ongoing during 2006/2007 to map all processes and put in place robust end-to-end reconciliation's.

Excessive number of users with access to the journals process in SAP

A review of staff access has been undertaken and the numbers reduced.

Bank reconciliation deficiencies contributed to by an under-developed understanding of processes

Monthly Bank reconciliations have been completed and verified independantly by the Deputy Director of Finance
In 2006/2007 the independent verification of the monthly Bank Reconciliation's will continue by the Deputy Director of Finance.

Progress on the implementation of DDA act requirements has been slow

A new post has been created to deal specifically with DDA and the allocation of additional funding.

The Council also identified the following control issues requiring attention during 2005/2006

Emerging Areas for Further Investigation

Action taken 2005/2006

There is insufficient capacity within the Internal Audit function and hence a risk that the audit plan will not be fulfilled.

Employment of agency staff over the year.
Re-advertisement of vacant posts
A review of the future provision of the audit function by an outside consultant.

The demand for In house project management skills is growing and the capacity within the authority is limited.

A tender exercise was undertaken to appoint an external trainer to set a minimum standard and improve. project management skills across the authority. The training will commence during June 2006/2007.

Statement of Internal Control *continued*

2005/2006 Areas requiring Improvements

Action Taken / Planned 2006/2007

Regeneration Service – Housing Bureau

The Internal audit report identified Significant issues around control processes applied to training/trainers and the appropriate type and level of checking

1. The problems were on such a scale that the Housing Bureau was closed from the 1st April 2006
2. The service has made arrangements for all trainees to complete their training.
3. Discussions are ongoing with the relevant funding body about possible grant claw back.

Home improvement Grants

Processes and procedures within the Housing Improvement Grant Section have contributed to produce an environment where there are high risks of:

- Fraud
- Grant payments exceeding the maximum amount *and*
- Inability to demonstrate all building work undertaken was satisfactory

1. The service has appointed consultants to assist with the introduction of a more robust control environment.
2. Increased frequency of monitoring by senior managers

Goods Receipting Control Account

Control and reconciliation procedures on this important account have been identified as an area of significant weakness

1. New arrangements for regular reconciliation & monitoring are to be put in place by the Councils Strategic Partner. The Deputy Director of Finance will monitor the reconciliations.
 2. Improved guidance and instructions are to be issued to staff to ensure orders and goods receipting are dealt with correctly.
-

Statement of Internal Control *continued*

Officer and Member Review

On the basis of the self-audit processes and effectiveness reviews carried out to date, we are satisfied that, except for the areas of concern listed above, the Council's corporate governance procedures, including the systems of internal control, are adequate and are operating effectively.

We are satisfied that the Council's management arrangements, supplemented by the continued Officer and Member involvement in the corporate governance processes, will address the required improvement and continue to review their development and effectiveness on an ongoing basis.

Signed  (Mayor)

 (Chief Executive)

P. A. Coombe. (Director of Resources)

Independent auditor's Report to Middlesbrough Council

Opinion on the financial statements

We have audited the financial statements and pension fund accounts of Middlesbrough Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Housing Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement, the Group Accounts and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Financial Officer's responsibilities for preparing the financial statements, including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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

We report to you our opinion as to whether the financial statements and the pension fund accounts present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Council and its income and expenditure for the year; and
- the financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware

of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Council and its Group as at 31 March 2006 and its income and expenditure for the year then ended; and the pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signed _____

Date _____

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH

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

Council's Responsibilities

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

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

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 for Principal Local Authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are required by Section 7 of the Local Government Act 1999 to carry out an audit of the Council's best value performance plan and issue a report:

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

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Middlesbrough Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the Council's best value performance plan for the financial year 2005/2006 in October 2005. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Signed _____

Date _____

Mr S Nicklin
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead
NE11 9NH



Consolidated Revenue Account

Year ended 31st March 2006

	Note	Exp £'000	Inc £'000	2005/6 Net £'000	2004/5 Net £'000
Central Services to the public	1	15,904	14,152	1,752	-202
Cultural, environmental and planning services		69,351	27,457	41,894	31,492
Education services		135,100	45,359	89,741	84,334
Highways, roads and transport services		17,058	7,335	9,723	11,013
Housing services		53,844	51,204	2,640	4,625
Social Services		86,948	42,791	44,157	39,459
Exceptional Item	1	0	0	0	-4,518
Court Costs		2,011	568	1,443	1,612
Corporate and democratic core	1,2	3,412	35	3,377	3,286
Non Distributed Costs	1	9,455	4305	5,150	5,406
Net cost of services		393,083	193,206	199,877	176,507
Miscellaneous costs/write offs		0	0	0	69
Parish council precepts		8	0	8	4
Surpluses/deficits on trading undertakings	3	18,757	19,173	-416	-443
Asset management revenue account	6	0	25,110	-25,110	-11,927
Contribution of housing cap. receipts to Govt.Pool		83	0	83	4,172
Losses on the repurchase of borrowing		3	26	-23	0
Interest and investment income		0	2,177	-2,177	-1,341
Pension Interest Cost		23,257	0	23,257	22,490
Expected Return on Pension Assets		0	18,779	-18,779	-17,396
Net operating expenditure		435,191	258,471	176,720	172,135
Transfer to HRA balances				-109	-1,511
Transfers to/from insurance reserve				-124	-125
Transfers from other earmarked reserves				4,723	197
Transfer from Usable Capital Receipts equal to the contribution to Housing Pooled Capital Receipts				-83	-4,172
Capital expenditure financed from revenue				1,256	1,177
Reconciling amount for provisions for loan repayment	10			-3,523	-2,212
Reconciling amount for the net change in the Pensions Liability				-4,508	-1,470
Amount to be met from government grants and local taxation				174,352	164,019

Consolidated Revenue Account *continued*

	2005/6	2004/5
	Net	Net
	£'000	£'000
Amount to be met from government grants and local taxation	174,352	164,019
General government grants	-91,203	-88,973
Non - domestic rates redistribution	-46,322	-37,401
Demand on the Collection Fund	-40,291	-38,106
Transfers (from)/to the Collection Fund in respect of surpluses/deficits	870	68
Net General Fund (surplus)/deficit	-2,594	-393
Balance on General Fund brought forward	-4,865	-4,472
Balance on General Fund carried forward	-7,459	-4,865
n.b. the general fund balances figure excludes schools balances. A summary of the schools balances position is shown below:-		
Balances attributable to schools budgets b/fwd	-4,727	-4,821
(Surplus)/Deficit in year	-158	94
Balances attributable to schools budgets c/fwd	-4,885	-4,727

Notes to the Consolidated Revenue Account

Note 1 Net Cost of Services

The analysis of income and expenditure by service area shown in the Consolidated Revenue Account reflects the requirements of CIPFA's Best Value Accounting Code of Practice. The following specific items are also shown in this account:

- Central Services to the Public
This consists of expenditure on Council Tax collection, Non-Domestic Rate collection, Council Tax Benefit administration, Registration of Births, Deaths and Marriages, Register of Electors, Emergency Planning and Local Land Charges
- Exceptional Item
The item is part of the FRS 17 Pension Adjustment and relates to curtailments.
- Corporate and Democratic Core
Corporate and Democratic Core consists of those activities and costs which provide the infrastructure which allows services to be provided, whether by the Council or its contractors and the information that is required for public accountability. It includes items such as the cost of the Council's Chief Executive, the costs of statutory external audit and inspection, Members expenses, allowances and support service costs associated with meetings of the Council and its various Boards
- Non Distributed Costs
This identifies costs which cannot be charged to individual service areas eg. unfunded pensions

Note 2 Members' Allowances

Included within Corporate and Democratic Core is the amount paid to Members in respect of basic, special responsibility and attendance allowance, as follows;

	2005/6	2004/5
	£	£
Special Responsibility Allowance	255,179	230,125
Basic Allowance	275,967	266,563
Attendance Allowance	0	0
	<hr/> 531,146 <hr/>	<hr/> 496,688 <hr/>

Notes to the Consolidated Revenue Account *continued*

Note 3 Trading Undertakings

The Council has established a number of operations which are required to operate in a commercial environment and balance their budgets by generating income from other parts of the authority or other organisations. Details of these operations are given below:-

Trading Activity	Description	Turnover £'000	Expend- iture £'000	2005/06 Deficit/ (Surplus) £'000	2004/05 Deficit/ (Surplus) £'000
Building Control	Ensures that all relevant building work complies with regulations existing to secure the health & safety of building users, promote energy efficiency and improve access for the disabled	294	337	43	29
Commercial & Industrial Properties	Estate management of properties for industrial and commercial tenants	1,970	1,629	-341	-186
Highways and Sewers	Work to general highways and sewers including street lighting maintenance	2,887	2,832	-55	-29
Building Maintenance Cleaning & Security	Construction and maintenance of public buildings and council houses	4,664	4,613	-51	41
Grounds Maintenance	Grass cutting, maintenance of ornamental parks and gardens, arboriculture and related activities	3,590	3,617	27	-109
Other Catering	The provision of staff catering, function catering and civic catering	247	321	74	28
School Support	The provision of administrative and support services to schools	3,920	3,916	-4	25
Architects Fee Account	The provision of architectural design work	1,064	997	-67	-65
Engineers Fee Account	The provision of civil & structural engineering services	537	495	-42	-63
Other Surpluses	Former Housing DSO	0	0	0	-114
Total		19,173	18,757	-416	-443

Notes to the Consolidated Revenue Account *continued*

Note 4 Pensions Contributions

Teachers

In 2005/2006 the Council paid £4.63 million to the Department for Education and Skills in respect of teachers pension costs, which represents 13.46% of teachers pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it has awarded, together with the related increases. In 2005/2006 these amounted to £67,134 representing 0.195% of pensionable pay. As stated in the explanatory forward, the statement of accounts now fully incorporates the requirements of FRS17.

Other Employees – contributions to the Teesside Pension Fund

The Teesside Pension Fund was established and operates under the Local Government Scheme Regulations 1997. Its purpose is to provide retirement benefits for local authority employees in the Teesside area and other bodies admitted by agreement. The fund is financed by way of contributions from employers and employees, based upon a percentage of pensionable pay and supplemented by earnings from fund investments. In 2005/06 the Council paid an employers contribution of £11.2 million into the Pension Fund, representing 17.5% of pensionable pay, This compares with figures of £10.6 million and 16.5% for 2004/05 respectively. The contribution rate is determined by the fund's Actuary based on triennial actuarial valuations, the most recent of which took place as at 31 March 2004. Following this a funding level of 81 % was given. In order to bring the funding level to 100% the actuary has set the contribution rate for Middlesbrough Council at 18.5% of pensionable pay for 2006/07. The actuarial valuation uses the projected unit method: this means that for schemes in which the age profile of the active membership is rising significantly, the current service cost will increase as the members of the scheme approach retirement.

In addition the Council is responsible for all pension payments relating to added years benefits awarded, together with the related increases. In 2005/06 these amounted to £1.63 million for Middlesbrough (2.5% of pensionable pay) and £2,99 million for the Designated Authority. No discretionary added years lump sum payments were awarded in the year.

The capital costs of discretionary increases in earlier years have been calculated as £29.4 million. The pension costs that would have to be provided for the year in order to meet future pension liabilities over the period during which the local authority derives benefit from its employees services has been calculated as £8.2 million (12.7% of pensionable pay). For details of gains and losses on any settlements or curtailments and past service costs please see Note 20 to the Consolidated Balance Sheet.

In accordance with FRS 17 and the requirements to provide funding Status disclosures for pension obligations under the Scheme a report was prepared by the Fund's Actuary in April 2006 the details of which are shown on the face of the Consolidated Revenue Account and the Consolidated Balance Sheet.

Notes to the Consolidated Revenue Account *continued*

Note 5 Officers Remuneration

The definition of remuneration excludes both employees and employers pension payments, but includes:

- (1) all taxable amounts paid to, or receivable by, employees, including sums due by way of expenses allowances and:
- (2) the estimated money value of all other benefits received by employees, otherwise than in cash

In accordance with the Accounts and Audit Regulations 2003, the number of employees including teachers whose remuneration falls into each pay bracket shown in multiples of £10,000, and starting at £50,000 is shown below:

Remuneration	Number of Employees as March 2006	Number of Employees as March 2005
£50,001 - £60,000	54	40
£60,001 - £70,000	19	19
£70,001 - £80,000	4	3
£80,001 - £90,000	1	4
£90,001 - £100,000	4	0
£100,001 - £110,000	0	0
£110,001 - £120,000	0	1
£120,001 - £130,000	1	0
£130,001 - £140,000	0	0
£140,001 - £150,000	0	0
£150,001 - £160,000	0	0
	83	67

Notes to the Consolidated Revenue Account *continued*

Note 6 Asset Management Revenue Account

The Asset Management Revenue Account is credited with notional charges made to services for the capital employed in the delivery of services. It is debited with actual capital financing costs incurred during the year. The balance on the account is then transferred back to the consolidated revenue account to ensure that the notional charges for capital do not impact on the level of Council Tax. The transactions within this account are detailed below:

	2005/6	2004/5
	General Fund	General Fund
	£'000	£'000
Income		
Capital Charges	-25,134	-22,841
Deferred Grants	-15,449	-6,558
Depreciation Credit	0	0
	-40,583	-29,399
Expenditure		
Depreciation	10,409	9,641
External Interest Charges	5,064	11,273
Fixed Assets	0	0
Charge to HRA	0	0
Balance to Consolidated Revenue Account	-25,110	-8,485

Note 7 Publicity & Advertising

Section 5(1) of the Local Government Act 1986 requires Council's to publish a separate account in relation to expenditure on publicity.

	2005/6	2004/5
	£'000	£'000
Recruitment Advertising	285	249
Other Advertising	1,019	728
Promotions	0	0
Other Publicity	0	0
	1,304	977

Note 8 Section 137 Discretionary Expenditure

Under the Local Government Act 1972, Section 137, a local authority may, where no other statutory power exists, incur expenditure which brings direct benefit to all or some of the inhabitants of the area i.e. Middlesbrough.

Notes to the Consolidated Revenue Account *continued*

An analysis of expenditure is shown here:

	2005/6		2004/5	
	£	£	£	£
Central Services				
North of England Assembly	48,169		53,739	
Local Government Association	46,879	95,048	46,173	99,912
Social Services				
Samaritans of Teesside	0		1,900	
Cleveland Relate	2,839	2,839	2,784	4,684
Community Services				
Cleveland Rape	0		9,500	
C.U.D.I.M. (Credit Union)	22,440		33,000	
Community Chest	23,990		17,069	
Community Councils	68,750		69,250	
Uniformed Organisations	3,260		8,590	
LDA (Local Development Agency)	30,600		30,000	
Community Transport	32,440		22,000	
St.Marys Centre	24,480	205,960	24,000	213,409
	Total	303,847	Total	318,005

Note 9 Agency Services

The Council carries out certain work on an agency basis for which it is fully reimbursed. Similarly, other organisations carry out work on behalf of the Council and for which payment is made. The following table shows agency expenditure on activities greater than £150,000.

	2005/6	2004/5
	£'000	£'000
Social Services		
Learning Disability Day Care Payments to Redcar & Cleveland	462	354
Provision of CSDP* Equipment to Redcar & Cleveland	298	304
Provision of CSDP* Equipment to Stockton on Tees	298	301
Provision of CSDP* Equipment to Hartlepool	272	0
*Chronically Sick & Disabled Persons		
Highways		
Public Transport Payments to Bus Operators	1,599	1,551

Notes to the Consolidated Revenue Account *continued*

Note 10 Minimum Revenue Provision

The Council is required by statute to set aside a minimum revenue provision for the redemption of external debt. For 2005/2006 the amount is £3,905M.

	2005/6	2004/5
	£'000	£'000
Minimum Revenue Provision	3,905	4,396
Made up of		
Amounts Charged to Revenue Accounts		
- Depreciation	10,409	9,641
- Deferred Charges	12,469	3,525
- Deferred Grants	-14,792	-6,558
- Deferred Contributions	-658	0
Less reconciling amount for provision for repayment	3,523	2,212
	3,905	4,396

Note 11 Local Government (Goods and Services) Act 1970

Subject to the provisions of Section 1 of the 1970 Act, a local authority may enter into an agreement to supply certain goods and services to other public bodies. During 2005/2006 the Council, under the provisions of this Act, supplied the following services:

	2005/6	2004/5
	Fee Income	Fee Income
	£'000	£'000
Admin, Professional and Technical Services		
Cleveland Fire Authority Insurance Services	4	2
Cleveland Constabulary:		
Treasury Management Advice	3	2
	7	4

Notes to the Consolidated Revenue Account *continued*

Note 12 Related Party Transactions

The Code of Practice on Local Authority Accounting in conjunction with FRS 8 requires disclosure of material transactions between the Council and related parties. Related parties are organisations or individuals that may have the potential to control or influence the Council or be controlled or influenced by the Council. These include:

- Central Government – Government controls the statutory framework within which the Council operates and provides the majority of the Council's funding via government grants. The details of grants paid to the Council are shown in the Consolidated Revenue Account and Consolidated Cash Flow Statement.
- Senior Officers and Councillors – The Council's Senior Managers and Elected Members and their close relations may influence the Council's financial and operating policies. Using the Council's Register of Members' Declarations of Interest and an independent survey of senior officers, the following disclosures meet the criteria for related party transactions :
 - The Chief Executive is also a Director of Tees Valley Regeneration and the Middlesbrough Town Centre Company.
 - The Director of Resources is also the Treasurer of the Teesside Pension Fund.
 - The Head of Legal Services is also Company Secretary of Dial-a-Ride Middlesbrough.
 - The Head of Community Education is also a Director of Tees Valley Connexions Partnership.
 - The Head of Policy and Resources (Children, Families & learning) is also a Director of Northern Grid for Learning.
- Several of the Council's elected representatives hold directorships of related companies. In some cases Members also have related transactions through their employment in companies which trade with the Council; where stated these have been investigated and found not to be material.
- Teesside Pension Fund- Details of all Transactions with the Pension Fund are shown in the Teesside Pension Fund section of the Statement of Accounts
- Related Companies – Under Part V of the Local Government and Housing Act 1989, the Council has to maintain a Register of interests in companies, where there is some form of relationship or control by the Council. The details of these companies, and their relationship with the Council are shown in the Notes to the Group Accounts Sheet
- In addition to the above, Middlesbrough Council has a £260 million, 10 year partnership with HBS Service Middlesbrough for the provision of business, finance, IT, HR and other support services which commenced 1st June 2001

Notes to the Consolidated Revenue Account *continued*

Note 13 Building Control Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control unit, cannot be charged for, such as providing general advice and liaison with other statutory authorities. The statement below shows the total cost of operating the Building Control unit, divided between the statutory and non-statutory activities.

	Statutory	Non-Statutory	Total Building Control	Total Building Control 2004/5
	£'000	£'000	£'000	£'000
Expenditure				
Employee Expenses	209	106	315	308
Supplies and Services	28	12	40	45
Central & Support Service Charges	100	55	155	182
Total Expenditure	337	173	510	535
Income				
Building Regulation Charges	294	0	294	327
Total Income	294	0	294	327
Net Trading (Surplus) /Deficit	43	173	216	208

Note 14 Audit Fees

An analysis of fees payable to the Council's external auditor during 2005/2006 is shown below

	2005/6	2004/5
	£'000	£'000
Financial Aspects of Corporate Governance	0	37
Audit of Accounts	132	58
Performance	81	119
Statutory inspection including CPA	10	70
	223	284
Additional Items:		
Certification of grant claims	65	72
Total Fee	288	356

Notes to the Consolidated Revenue Account *continued*

Note 15 Leasing Obligations

The Council has a policy of using operating leasing as a means of financing a substantial part of its equipment requirements, particularly computer equipment and vehicles. In 2005/2006, leasing rentals amounted to £732,300 with obligations for future years as detailed below.

	£'000
Next Year (2006/7)	697
Over the next five year period (2007/08 to 2011/12)	2,151

Note 16 Deferred charges

Deferred charges are created when expenditure has been incurred on items that are not capitalised as fixed assets, but have been financed from capital resources. From 2005/06, deferred charges are charged to the Consolidated Revenue Account in the year they are incurred. An amount of £12,469,000 has been charged to services as shown below:

	2005/6	2004/5
	£'000	£'000
Central Services to the Public	156	576
Education Services	1,023	20
Housing Services	1,851	188,043
Highways, roads and transport services	0	129
Social Services	298	187
Cultural Services	6,201	45
Public Protection	41	23
Other Services	2,899	4,031
Total	12,469	193,054

This amount was fully financed from capital resources, any deferred charges financed from government grants and other grants and contributions have been credited to the Appropriation Account in year.

Note 17 Restatement of 2004/2005 figures

A number of balancing restatements of 2004/2005 figures have been effected in the section relating to the Net cost of Services line and the Surplus on Trading line.

Note 18 Tees Community Equipment Service Pooled Budget

The Tees Community Equipment Service is a partnership established by an agreement under Section 31 of the Health Act 1999.

Notes to the Consolidated Revenue Account *continued*

The partnership agreement covers the costs of administering the Tees Community Equipment Service including:

- The procurement, storage, delivery, assembly or fitting, maintenance, collection, decontamination and recycling of community equipment provided to support vulnerable or disabled Service Users living in the community.
- To provide and maintain stock of Equipment at additional designated locations, where provided by the Partner of this Agreement, for demonstration and use by the Occupational Therapy Service of that locality.
- To incorporate mechanisms which enable Health and Social Service professionals and members of the Public to attend the Service's premises to collect equipment.
- A facility for the procurement of non-stock items.
- The production and distribution of a catalogue describing the Service and Equipment available.

The agreement is made between eight partners as set out in the memorandum account.

The eight partners in the Tees Community Equipment Service are Middlesbrough Council, Stockton Council, Redcar & Cleveland Borough Council, Hartlepool Council, Middlesbrough PCT, North Tees PCT, Langbaugh PCT and Hartlepool PCT.

The outturn position for the year is:

Gross Expenditure	721,240
Gross Income	(752,738)
Net Underspend	<u>(31,498)</u>

Contributions from partners	2005/06	2004/05
Middlesbrough Council	101,412	85,602
Stockton Council	106,038	86,976
Redcar & Cleveland Borough Council	109,089	90,341
Hartlepool Council	85,595	73,101
Middlesbrough Primary Care Trust	64,753	54,871
North Tees Primary Care Trust	67,858	56,195
Langbaugh Primary Care Trust	47,202	39,299
Hartlepool Primary Care Trust	51,533	43,958
	<u>633,480</u>	<u>530,343</u>



Housing Revenue Account

The account demonstrates the cost of financing, managing and maintaining the Council's housing stock. The total cost is met by income from rents, charges and Government subsidies. The Local Government and Housing Act 1989 ring-fenced the HRA, preventing cross-subsidisation from the Council's General Fund.

Year ended 31st March 2006

	Notes	2005/6 £'000	2004/5 £'000
Income			
Dwelling Rents (Gross)		0	18,563
Non - Dwelling Rents (Gross)		14	574
Charges for Services and facilities		0	1,056
Contributions towards expenditure		0	11
H.R.A. Subsidy receivable (including MRA)		0	0
Reduced provision for bad or doubtful debts		7	40
Contribution from General Fund for amenities shared by the whole Community		0	57
		21	20,301
Expenditure			
Repairs and Maintenance		-26	5,384
Supervision and Management		-58	3,935
Rents, rates, taxes, + other charges		-1	238
Rent Rebates		23	117
Negative Subsidy		126	856
Increased provision for bad or doubtful debts		0	0
Cost of Capital Charge		0	5,580
Depreciation of assets		0	5,921
Amortisation of Deferred Charges		0	185,499
Provision - pension contribution deficit		0	3,400
Debt Management Expenses		0	0
		64	210,930
Net Cost of Service			
		43	190,629
Net HRA Income on the AMRA		0	-187,637
Amortised Premiums and Discounts		66	40
HRA Investment Income		0	-224
		109	2,808
Net Operating Expenditure			
Revenue Contributions to Capital Expenditure		0	674
HRA Contribution to MRP		0	0
Net Transfer to Major Repairs Reserve		0	-1,971
		109	1,511
Deficit/(Surplus) for year			
Balance Brought Forward		2,185	3,696
Balance Carried Forward as at 31st March 2006		2,076	2,185

Notes to the Housing Revenue Account

Note 1 Cessation of Operations

The Council transferred its housing stock on 15 November 2004 to Erimus, a Registered Social Landlord (RSL). On 3 April 2006 the Office of the Deputy Prime Minister (Now succeeded by the Department for Communities and Local Government) gave its consent to close the Housing Revenue Account and closure takes effect on that day.

Under the terms of the transfer to Erimus, the Council received a capital receipt, which alongside additional Government funding settled the outstanding debt connected with the housing stock.

Erimus and the Council have agreed that the Council will receive a proportion of future receipts arising from the sale of council houses.

The Council has entered into the VAT Sheltered Scheme and the Council will direct environmental investment in partnership with Erimus.

A provision of £3.4 million has been retained to cover the guarantee the council has made to cover any potential pension fund deficit affecting those staff who transferred to the Erimus Housing Company.



Collection Fund Income and Expenditure Account

The Collection Fund is a statutory account introduced under the Local Government Finance Act 1988. The Code of Practice on Local Authority Accounting requires the inclusion of a separate Income and Expenditure Account for the Collection Fund. A separate balance sheet is not required as Collection Fund balances are consolidated with the other accounts of the authority (see Consolidated Balance Sheet).

	Notes	Year Ending 31st March 06 £'000	Year Ending 31st March 05 £'000
Income			
Council Tax Income	1	35,694	33,715
Transfers from General Fund			
Council Tax Benefits		13,164	12,669
Transitional Relief	1	4	2
Income from Business Rate Payers	2, 6	31,287	29,449
Contributions			
Towards Previous Years Est.			
Collection Fund Deficit	3, 4	1,033	77
Bad Debts provision		0	0
Total Income		81,182	75,912
Expenditure			
-Precepts and Demands			
-Middlesbrough Borough Council		40,291	38,106
-Cleveland Police Authority		5,594	5,281
-Cleveland Fire Authority		1,987	1,881
Business Rates			
-Payments to National Pool		31,096	29,258
-Costs of Collection		191	191
Bad & Doubtful Debts			
-Write Offs		42	29
-Provisions		626	1,034
Contributions			
-Towards Previous Years Est Collection Fund Surplus		0	0
Prior Year Adjustment			
-Community Charge Bad Debt		0	0
Total Expenditure		79,827	75,780
Movement on Fund Balance	5	1,355	132

Notes to the Collection Fund Income and Expenditure Account

Note 1 Income from Council Tax

Calculation of the Council Tax Base

The Council Tax replaced the Community Charge on the 1st April, 1993 and is a tax based on property valuation bandings (A to H). There is a basic tax for the middle band (Band D) with proportionately higher and lower taxes for the other bands. The Council's tax base i.e. the number of chargeable dwellings in each band (adjusted for discounts where applicable), converted to an equivalent number of Band D dwellings was calculated as follows:

Band	Estimated No. of Taxable Properties after Discounts	Ratio	Band D Equivalent Council Tax £'000	Band D Equivalent Dwellings
*A	46	+5/9	32	26
A	27,759	+6/9	22,751	18,506
B	7,903	+7/9	7,557	6,147
C	8,663	+8/9	9,466	7,700
D	3,919	+9/9	4,818	3,919
E	1,619	+11/9	2,433	1,979
F	589	+13/9	1,046	851
G	334	+15/9	685	557
H	22	+18/9	54	44
Less: Adjustments for assumed non-collection Based on budget assumption of 98% collection rate			977	795
			47,865	38,934

A* - Band A Properties receiving Disabled Relief

The average Council Tax for Band D dwellings for the Council and major precepting authorities was £1,229.41.

Notes to the Collection Fund Income and Expenditure Account *continued*

Council Tax Income

	2005/6	2004/5
	£'000	£'000
Estimated Income (as per CTB1 budget setting)	47,865	45,263
Add: Estimated Doubtful Debts	977	924
	<hr/>	<hr/>
Estimated Income (as per CTB1 budget setting)	48,842	46,187
Add: Impact of changes in discounts & exemptions between CTB1 and billing	809	163
	<hr/>	<hr/>
Total Council Tax Billed	49,651	46,024
Less: Council Tax Benefit	13,164	12,669
Add: Transitional Relief	4	2
	<hr/>	<hr/>
	36,491	33,357
Less: Impact of changes in discounts & exemptions between annual billing & 31st March 2005	797	-358
	<hr/>	<hr/>
Income from Council Tax	35,694	33,715

Note 2 Income from Business Ratepayers

Under the arrangements for uniform business rates the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform (national) rate. The total amount after deduction of certain reliefs and other allowable deductions is paid to a central pool (the NNDR pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of resident population. The total non-domestic rateable value at 31st March 2006 was £98,027,333 and the national non-domestic multiplier for the year was 41.5p.

Note 3 Previous Year's Council Tax Surplus/Deficit

The estimated previous year's Council tax deficit is payable to the Collection Fund by the billing Authority and the major precepting Authorities in proportion to amounts raised

	2005/6	2004/5
	£'000	£'000
Middlesbrough Borough Council	870	68
Cleveland Police Authority	120	9
Cleveland Fire Authority	43	0
	<hr/>	<hr/>
	1,033	77

Notes to the Collection Fund Income and Expenditure Account *continued*

Note 4 Previous Years' Community Charge Surplus

The estimated previous years Community Charge surplus/deficit is nil.

Note 5 Movement of Fund Balances

	£'000	£'000
Balance as at 1st April 2005		-726
The movement on the Fund Balance consists of:-		
Community Charge	0	
Council Tax	1,355	1,355
		<hr/>
Balance as at 31st March 2006		629
		<hr/>
The Collection Fund balance is split to the Billing authority and the major Precepting Authorities as follows:-		£'000
Middlesbrough Borough Council		529
Cleveland Police Authority		74
Cleveland Fire Authority		26
		<hr/>
		629
		<hr/>

Note 6 NNDR Income Reconciliation

	£'000	£'000
Estimated Income		
Gross Rateable Value	98,027	
Multiplier (pence in the £)	41.5	40,681
Less: Voids	546	
Exemptions	-3,555	-3,009
		<hr/>
Estimated Opening Debit		37,672
		<hr/>
Actual Income		
Actual Opening Debit	41,320	
Additional Debit/Credit	-1,550	39,770
Discretionary Relief	-9	
Empty Rates Loss	-3,555	
Hardship Relief	3	
Interest on Overpayments	-126	
Losses in Collection	-120	
Mandatory Relief	-2,158	
Section 44A Relief	0	
Transitional Relief	-2,632	
Small Business Relief	-432	
Void Rates Loss	546	-8,483
		<hr/>
Actual Income Collectable for All Years		31,287
		<hr/>



Consolidated Balance Sheet as at 31st March 2006

	Notes	31st March 06 £'000	31st March 05 £'000
FIXED ASSETS	1,2,3		
Intangible Fixed Assets	4	0	0
Tangible Fixed Assets			
Operational Assets			
Other Land & Buildings		314,954	323,620
Vehicles / Plant & Equipment		3,720	3,487
Infrastructure Assets		59,573	53,755
Community Assets		8,239	3,217
Non Operational Assets			
Assets under construction		14,590	3,411
Other Non Operational Assets		39,492	36,388
Total Fixed Assets		440,568	423,878
Long-term Investments	5	1,356	1,467
Long-term Debtors	6	1,063	1,262
Total Long Term Assets		442,987	426,607
Current Assets			
Stock & Work In Progress	7	1,767	1,273
Debtors & Payment In Advance	8	53,798	57,330
Short-term Investments		38,200	33,600
Cash and Bank		119	121
Total Current Assets		93,884	92,324
Current Liabilities			
Short Term Loans	9	0	0
Creditors & Income In Advance	10	35,366	39,355
Bank Overdraft		3,161	7,901
Total Current Liabilities		38,527	47,256
Total Assets less Current Liabilities		498,344	471,675
Long Term Liabilities			
Long-term Borrowing	11	97,090	91,000
Provisions	12	4,552	5,700
Pensions Liability	20	144,362	155,203
Total Assets less Liabilities		252,340	219,772
Financed by:			
Fixed Asset Restatement Account	13	16,501	26,834
Capital Financing Account	14	201,958	195,730
Government Grants Deferred	15	127,280	113,579
Deferred Capital Receipts	16	75	75
Major Repairs Reserve - HRA		140	443
Usable Capital Receipts Reserve	17	14,333	6,528
Pensions Reserve	20	-144,362	-155,203
Earmarked Reserves	18	26,880	24,736
Balances - Housing Revenue Account		2,076	2,185
Balances - General Fund		7,459	4,865
Total Equity		252,340	219,772

Note 1(a) The Movement of Fixed Assets

	Council Dwellings £'000	Other Land & Buildings £'000	Vehicles Plant & Equipment £'000	Infra- structure Assets £'000	Community Assets £'000	Non- Operational Assets £'000	Assets Under Cnstrction £'000	Total £'000
Gross book value as at 1 April 05	0	355,992	9,107	61,713	3,246	38,403	3,411	471,872
Adjustment to Bf MBC	0	1,774	239	156	875	442	0	3,486
Transfer	0	-1,617	0	0	0	1,617	0	0
Additions	0	12,387	1,348	8,262	4,361	112	11,428	37,898
Disposals	0	-32,827	-951	-955	-214	-3,352	-249	-38,548
Revaluations in yr	0	17,416	0	0	0	2,305	0	19,721
Gross book value at 31 March 2006	0	353,125	9,743	69,176	8,268	39,527	14,590	494,429
Depreciation Bfwd	0	32,372	5,622	7,958	29	2,014	0	47,995
Adjustments to Bf MBC	0	0	0	0	0	0	0	0
Transfer	0	159	0	0	0	-159	0	0
Disposals	0	-2,316	-345	0	0	-1,882	0	-4,543
Depreciation for Year	0	7,956	746	1,645	0	62	0	10,409
Total Depreciation 31-Mar-06	0	38,171	6,023	9,603	29	35	0	53,861
Net Book Value 31-Mar-05	0	323,620	3,485	53,755	3,217	36,389	3,411	423,877
Net Book Value 31-Mar-06	0	314,954	3,720	59,573	8,239	39,492	14,590	440,568

Fixed Asset Valuation

Operational and non-operational land and buildings valuations have been taking place since April 1994 by the Valuation Manager, Mr.P.Metcalf A.R.I.C.S. These assets, which include vehicles and plant and equipment, are recorded at the lower of net current cost or realisable value. Assets are revalued on a rolling programme at intervals of no more than five years and in accordance with the Council's Asset Management Strategy (as detailed in the Statement of Accounting Policies on page 117).

Infrastructure and community assets continue to be valued at historic cost.

There are also a number of community assets which are not accounted for on the balance sheet. These include some works of art, other museum exhibits and official council regalia.

De minimus limits for assets are detailed in the Statement of Accounting Policies on page 117.

The Consolidated Balance Sheet does not include Voluntary Aided School assets and thus they have not been included in the capital charges calculation process.

There are no assets held under finance leases accounted for on the balance sheet.

Note 1(b) Financing of Capital Expenditure

Expenditure During Year	%	2005/6	%	2004/5
		£'000		£'000
-Assets Under Construction	22.2	11,427	6.7	3,411
-Deferred Charges	24.0	12,403	14.8	7,556
-Asset Accounts	51.3	26,471	52.9	27,038
-Working Capital B/Fwd	2.5	1,270	1.2	598
-Enhancements Awaiting Revaluation	0	0	24.4	12,454
	100	51,571	100	51,057
Financed By				
-Loans Fund	24.2	12,470	21.9	11,185
-Grants	47.3	24,429	54.6	27,872
-Capital Receipts	16.1	8,284	15.4	7,863
-Revenue Contributions	3.0	1,563	2.61	1,323
-Other Contributions	9.4	4,825	3.0	1,544
-Working Capital B/Fwd	0	0	2.5	1,270
	100	51,571	100	51,057

Note 1(c) Disposal of Assets

Within the year there have been 8 major disposals of assets as shown below

	£'000
Disposal of assorted Council properties no longer in the ownership of the council	10,340
Coulby Newham Secondary School Block1	8,882
Coulby Newham Secondary School	5,142
Langbaugh Secondary School	3,652
Site 31 The Covert	2,900
Cambridge Road Site 2	2,280
Langbaugh Secondary School Block2	645
Riverside Park	539
	34,380

Notes to the Consolidated Balance Sheet *continued*

Note 1(d) Major Items of Capital Expenditure

Details of the amounts spent on major capital schemes in 2005/06 are shown below

Scheme Description	£'000
Corporate	
Equal Pay Awards	2,889
<i>- Special dispensation was given by the government to capitalise these costs, which would not normally constitute expenditure of a capital nature.</i>	
	<hr/> 2,889
Education	
Fernwood Pupil Referral Unit Renovation	1,253
<i>- Conversion of part of the former Langbaugh School into a Pupil Referral Unit to replace Fernwood.</i>	
Acklam Whin Nursery & Renovation	1,212
<i>- The creation of 4 new classrooms, a nursery, reception area and dining hall extension. The existing units are to be demolished.</i>	
Viewley Hill Primary School	1,199
<i>- Creation of a new Childrens Centre at the school.</i>	
Lanehead Outdoor Education Centre	998
<i>- General refurbishment, extension and the creation of a new outbuilding</i>	
	<hr/> 4,662
Environment	
A66 Interchange	3,545
<i>- Construction of a new interchange between North Ormesby and Middlehaven.</i>	
Cargo Fleet Lane Reconstruction	1,363
<i>- Defective concrete road overlays need to be reconstructed to reduce deterioration on this increasingly busy connection.</i>	
Purchase of New Vehicles	1,101
<i>- It was determined that the purchase of required vehicles and plant was a more cost effective method than the previous lease arrangements that were in place.</i>	
Claireville Stadium	730
<i>- Refurbishment and development of existing facilities in order to help with the viability of local athletics and cycling groups</i>	
	<hr/> 6,739

Notes to the Consolidated Balance Sheet *continued*

Scheme Description	£'000
Regeneration	
New Art Gallery Gen Cap Exp - Construction of the new Institute of Modern Art, (MIMA) including substantial improvements to the surrounding Victoria Square area	9,621
Older Housing - West Lane East - Acquisition and demolition of existing properties in the West Lane east area in order for regeneration of the immediate and surrounding area.	2,511
Greater Middlehaven SHIP 30% - This scheme relates to the acquisitions and clearance of both residential and commercial properties in the St. Hilda's area. It is one part of the overall Greater Middlehaven Strategic Framework.	2,218
Central Whinney Banks - Acquisition and demolition of existing properties in the Central Whinney Banks area in order for regeneration of the immediate and surrounding area.	1,394
	<hr/> 15,744
Social Care	
Elderly Persons Change Programme - This is the redevelopment of the Parklands Intermediate Care Centre, supported by the Primary Care Trust.	938
	<hr/> 938
Grand Total	<hr/> 30,972 <hr/>

Notes to the Consolidated Balance Sheet *continued*

Note 2(a) Information On Assets Held

Fixed assets of the Council include the following:

	Number as at 31st March 2006	Number as at 31st March 2005
Operational Buildings		
Administrative Buildings	7	4
Allotments	6	0
Centres for People with Learning Disabilities	1	1
Childrens Services Homes	1	1
Community Centres	15	10
Crematorium	1	1
Day Centres for People with Physical Disabilities	2	2
Day Centres for the Elderly	1	1
Depots and Workshops	9	6
Enterprise Employment Centres	3	7
Farms	1	0
Garden Centres (<i>Nurseries</i>)	2	0
Halls and Theatres	2	2
Housing Area Offices & sub Offices	2	4
Law Courts	1	1
Leisure Centres and Pools	12	7
Libraries	10	13
Mental Health Day Centres	1	1
Museums and Galleries	3	4
Nautical Centre	1	0
Outdoor Centre	2	0
Primary Schools including Nurseries	31	31
Public Conveniences	3	0
Pupil Referral Units (PRU's)	2	2
Registrars	1	0
Secondary Schools	6	6
Social Care Homes	4	6
Special Schools	4	4
Sports Stadium	1	1
Trading Standards Building	1	2
Training and Development	1	0
Travellers Site	1	0
Youth & Community Centres	11	10
Operational Equipment		
Vehicles/Heavy Plant	433	261
Personal Computers	4,315	3,496
IT Systems	79	0
Infrastructure Assets		
Kilometres of Road	488	488
Bridges / Retaining Walls / Culverts	169	169
Community Assets		
Golf Course	1	1
Markets	1	1

Notes to the Consolidated Balance Sheet *continued*

	Number as at 31st March 2006	Number as at 31st March 2005
Cemeteries	6	6
Multi Storey Car Parks	3	3
Surface Car Parks	23	24
Parks and Recreation Grounds	52	52
Non-Operation Land/Buildings		
Surplus/Commercial Properties	63	13

Note 2(b) Custodian Properties

The interest in the properties listed below passed to the Council on 1st April 1996 following the abolition of Cleveland County Council. In agreement with the Districts of the former County Council area, liabilities and benefits arising from the properties are shared between the four Districts

Gurney House	Leasehold to June 2008
Melrose House	Freehold
Douglas House	Freehold - site only.
Exchange House	Freehold
51A Kings Road	Freehold
Former County Depot, Cargo Fleet Lane	Freehold
High Force House	Leasehold
Aurora Court	Leasehold
Parliament Road Depot	Freehold

Note: Parliament Rd Depot costs are split 3/7 Middlesbrough, 3/7 Stockton, 1/7 Redcar & Cleveland following deregulation and sale to Stagecoach in circa 1985/6.

Notes to the Consolidated Balance Sheet *continued*

Note 3 Capital Programme Commitments

The Council prepares an annual capital programme but a number of schemes take several years to complete thus committing the authority to capital expenditure in future years. Contractual commitments arising in 2006/2007 with a commitment of £100,000 or more are shown below:

Capital Programme Scheme Description	Scheme Start Date	Scheme End Date	2006/7 Balances Committed £'000	Total Scheme Cost £'000
Corporate Services				
Disability Discrimination Act Compliance <i>- Government legislation requires councils to provide easier access to council properties for the disabled members of the community.</i>	1999/00	2007/08	100	730
Capital Enhancements - Civic Buildings <i>- This is a provision for the major repair and redevelopment of council owned civic buildings</i>	2002/03	2007/08	100	547
Capital Enhancements - Non Civic Buildings <i>- This is a provision for the major repair and redevelopment of council owned non-civic buildings.</i>	2002/03	2007/08	100	462
IT Refresh <i>- This is a provision to improve efficiency through the continuous enhancement of IT systems.</i>	2001/02	2007/08	400	1,778
			700	3,517
Children, Families & Learning				
Fernwood Pupil Referral Unit Renovation <i>- Conversion of the former Langbaugh School into a Pupil Referral Unit to replace Fernwood.</i>	2004/05	2006/07	796	2,018
Schools Access Works <i>- Provision for disabled access to various schools.</i>	2005/06	2006/07	189	228
Primary Review Phase 1 - East Middlesbrough <i>- This is the creation of a new primary school in East Middlesbrough, to cater for 630 pupils. The name is to be confirmed.</i>	2005/06	2007/08	1,472	2,679
Captain Cook Primary <i>- The extension of 2 classrooms. The existing units are to be demolished.</i>	2005/06	2006/07	357	376

Notes to the Consolidated Balance Sheet *continued*

Capital Programme Scheme Description	Scheme Start Date	Scheme End Date	2006/7 Balances Committed £'000	Total Scheme Cost £'000
Newham Bridge Primary <i>- A new extension to provide a 26 place nursery. There are existing units requiring demolition.</i>	2005/06	2006/07	590	837
Education Formula Funding <i>- This relates to the main Children, Families & Learning budget which has not yet been allocated against specific schemes.</i>	2005/06	2008/09	321	3,765
			3,725	9,903
Environment				
Borough Road Flyover Approach Bridge <i>- This scheme was introduced for required repairs to the above bridge.</i>	2006/07	2006/07	700	700
Local Transport Plan <i>- This relates to the main Local Transport budget which has not yet been allocated against specific schemes.</i>	2005/06	2008/09	2,588	21,185
Purchase of New Vehicles <i>- It was determined that the purchase of required vehicles and plant was a more cost effective method than the previous lease arrangements that were in place.</i>	2004/05	2007/08	1,500	5,500
Linthorpe Cemetery Restoration <i>- This is to restore the physical environment of the cemetery.</i>	2003/04	2007/08	497	1,120
Alleygates and Crime Prevention Measures <i>- Due to the success of installing alleygates in other areas of town, it was agreed to extend the project to other areas of high priority</i>	2005/06	2006/07	150	280
CCTV Enhancement <i>- Enhancement of CCTV coverage in hotspot areas such as Hemlington and Linthorpe etc.</i>	2005/06	2006/07	150	150
Urban Bus Challenge <i>- Provision of facilities for providing an 'on demand' bus service to Riverside Park and James Cook University Hospital.</i>	2004/05	2007/08	216	647
			5,801	29,582

Notes to the Consolidated Balance Sheet *continued*

	Scheme Start Date	Scheme End Date	2006/7 Balances Committed	Total Scheme Cost
Capital Programme				
Regeneration				
Disabled Facilities Grant <i>- Under the Construction & Regeneration Act 1996, Local Authorities are expected to provide funding for adaptations to dwellings to enable disabled people to continue living at home.</i>	2001/02	2007/08	303	3,147
Middlehaven Redevelopment <i>- This scheme relates to the acquisitions and clearance of both residential and commercial properties in the St. Hilda's area. It is one part of the overall Greater Middlehaven Strategic Framework.</i>	2004/05	2006/07	300	4,427
Single Housing Improvement Programme <i>- This relates to the main Housing budget which has not yet been allocated against specific schemes.</i>	2006/07	2008/09	5,427	14,689
East Middlesbrough Business Zone <i>- This is to landscape the area between the A66 and Cargo Fleet Lane.</i>	2005/06	2006/07	100	245
New Art Gallery and Public Square <i>- Construction of the new Institute of Modern Art, including substantial improvements to the surrounding Victoria Square area.</i>	2001/02	2007/08	1,566	19,608
Public Art <i>- Embellishments to buildings and public squares with external works of Art.</i>	2006/07	2007/08	100	174
Town Hall Refurbishment <i>- Refurbishment of a number of areas within the Town Hall</i>	2002/03	2006/07	351	1,715
Middlesbrough Historic Quarter <i>- This is to Preserve and enhance the distinctive character of Historic areas such as Exchange Square.</i>	2002/03	2006/07	536	825

Notes to the Consolidated Balance Sheet *continued*

	Scheme Start Date	Scheme End Date	2006/7 Balances Committed	Total Scheme Cost
Capital Programme				
Middlehaven Provision <i>- As part of the overall Greater Middlehaven Strategic Framework, this provision has been made for future development</i>	2005/06	2006/07	2000	2000
Business Property Improvement Initiative <i>- This provides grants to private businesses to improve occupied properties and to bring vacant properties back into use.</i>	2005/06	2006/07	111	236
			10,794	47,066
Social Care				
Chronically Sick and Disabled Persons Act - Adaptations <i>- This is to ensure that chronically sick patients receive the support they need to be able to be discharged from hospital and able to return home.</i>	2002/03	2007/08	100	692
Chronically Sick and Disabled Persons Act - Equipment <i>- This is to ensure that chronically sick patients receive the support they need to be able to be discharged from hospital and able to return home.</i>	1998/99	2007/08	100	777
Extra Care Housing Development (Former Robert Huggins Day Centre) <i>- Development of some independent housing units with on-site care facilities.</i>	2006/07	2006/07	197	197
			397	1666
Grand Total			21,417	91,734

Notes to the Consolidated Balance Sheet *continued*

Note 4 Intangible Assets and Deferred Charges

Analysis of the Capital Expenditure balances had revealed that there were no Intangible Assets, nor have any been acquired during 2005/6. Further details of Intangible Assets may be found within the Glossary of Terms starting on page 125.

Deferred Charges expenditure incurred during 2005/6 has been written off to the Consolidated Revenue Account

	Totals
	£'000
Balance as at 1st April 2005	0
Expenditure in year:	
Disabled Facilities Grant	653
Equal Pay Awards	2,889
Magistrates	57
New Deal for Communities	1,659
Private Disabled Adaptations	298
Private Housing Improvement Grant	4,411
Single Programme	566
Diocese Owned Schools	125
Other	1,811
	12,469
Write-off to Revenue Account in-year	-12,469
Balance at 31st March 2006	0

Note 5 Long Term Investment

	Balance as at	Balance as at
	31st March 06	31st March 05
	£'000	£'000
Investment In Association of:		
District Council's Accommodation	150	150
Durham Tees Valley International Airport	897	1,008
SITA Tees Valley Ltd - formerly		
Cleveland Waste Management	309	309
	1,356	1,467

Notes to the Consolidated Balance Sheet *continued*

Note 6 Long Term Debtors

	As at 31st March 05 £'000	Adjustments £'000	Repayments £'000	As at 31st March 06 £'000
MBC Mortgages	109	47	34	122
Former CCC Mortgages	7	0	0	7
Residual Authority Insurance	64	0	64	0
Probation Capital	406	0	24	382
Co-op Agency	4	0	0	4
Insurance Fund	211	0	24	187
Magistrates	381	0	20	361
Appliance Services	80	0	80	0
	1,262	47	246	1,063

Note 7 Stock and Work In Progress

	As at 31st March 06 £'000	As at 31st March 05 £'000
Stock		
Trading Services	248	256
Landfill Usage Allowances	291	0
Other	1,228	1,017
	1,767	1,273
Work In Progress		
Trading Services	0	0
Total	1,767	1,273

Notes to the Consolidated Balance Sheet *continued*

Note 8 Debtors & Payment in Advance

	As at 31st March 2006	As at 31st March 2005
	£'000	£'000
Amounts falling within 1 Year		
Government Departments	18,746	24,060
Other Local Authorities	3,790	3,840
Housing Rents Payers	1,567	2,006
Council Tax Payers	6,684	5,698
Non Domestic Rates Payers	3,270	3,532
Community Charge Payers	0	4
Other Debtors	26,038	30,537
	60,095	69,677
Less: Provision for Doubtful Debts	10,656	15,712
	49,439	53,965
Amounts falling due after 1 Year		
Car Loans to Employees	436	413
	49,875	54,378
Payments In Advance	3,923	2,952
	53,798	57,330

Note 9 Short Term Loans

Short Term loans are from the Public Works Loan Board and the European Investment Bank.

Note 10 Creditors & Income in Advance

	As at 31st March 2006	As at 31st March 2005
	£'000	£'000
Government Departments	3,752	2,744
Other Local Authorities	1,485	648
Other Creditors	22,563	27,834
	27,800	31,226
Income In Advance	7,566	8,129
	35,366	39,355

Notes to the Consolidated Balance Sheet *continued*

Note 11 Long Term Borrowing

	As at 31st March 2006 £'000	As at 31st March 2005 £'000
Public Works Loan Board	54,000	48,000
Bonds And Mortgage	43,090	43,000
	97,090	91,000
Analysis of Loans Maturity is:		
Maturing in 1 - 2 Years	0	0
Maturing in 2 - 5 Years	5,000	0
Maturing in 5 - 10 Years	6,500	10,000
Maturing in over 10 Years	85,590	81,000
	97,090	91,000

Note 12 Provisions

	31st March 2005 £'000	Additions £'000	Reductions £'000	31st March 2006 £'000
Repayments of Grants	46	0	46	0
Rating Appeals	108	0	108	0
Business Loan Guarantees	193	0	33	160
Magistrates Costs	88	0	88	0
Write Back of Unpresented Cheques	264	139	192	211
Industrial Tribunal Cases	12	0	12	0
Repayment of Income – Mental Health Act Section 117	555	2	477	80
Overpayment of NNDR	91	0	91	0
IT Development	233	0	233	0
Streetscene Hotspot Team	200	0	200	0
Asylum Seekers	139	0	139	0
Building Schools for the Future Fees	162	1,153	1,315	0
Social Care & Vulnerable Children	89	500	589	0
Service Middlesbrough Development	72	557	629	0
Housing Pension Contribution Deficit	3,400	0	0	3,400
EiC Premature Retirement	0	113	0	113
Headstones Maintenance	0	262	20	242
Landfill Usage Liability	0	291	0	291
Boro In Bloom	48	0	48	0
Middlesbrough Town Centre Company	0	55	0	55
	5,700	3,072	4,220	4,552

Business Loan Guarantees

The provision covers loan guarantees given by the Council to local businesses.

Unpresented Cheques Write Back

A provision has been created to cover any replacement cheques raised where the original cheque was previously unpresented after six months and had been written back to the accounts.

Repayment of Income – Mental Health Act Section 117

As a result of recent Court rulings affecting service users previously charged under the 1983 Mental Health Act, the Council has a liability to reimburse individuals for their residential care charges. The initial call on funds was estimated to be £1m including Middlesbrough's share of Designated Authority costs. Following a review of potential commitments the figure was subsequently adjusted to more accurately reflect the likely cost. A significant number of payments were made in 2005/06 with the balance of the provision being retained to cover any claims received in future years.

Housing Stock Transfer

The Council has made appropriate provision to cover the pensions deficit over the next twenty years for staff transferred to Erimus Housing Association when the Housing Stock was transferred in November 2004.

EIC Premature Retirement Costs

Provision has been made to cover pension costs associated with redundancies following the winding up of Excellence in Cities schemes.

Headstones Maintenance

The Council has opted to test and repair headstones for health & safety reasons. Provision has been made for future costs in connection with this work.

Landfill Usage Liability

A provision has been made to cover the 2005-6 estimated Landfill Usage Liability in accordance with LAAP Bulletin 64. The Liability will be discharged in 2006-7 when the authority's reconciled landfill usage is established.

Middlesbrough Town Centre Company

Appropriate provision has been made to cover future costs incurred in connection with the winding up of the Middlesbrough Town Centre Company in 2006/07.

Notes to the Consolidated Balance Sheet *continued*

Note 13 Fixed Asset Restatement Account

The Fixed Asset Restatement Account principally represents the movements arising as a result of the periodic revaluation of assets

	£'000
Balance as at 1 April 2005	26,834
Acquisitions of Fixed Assets	3,311
Revaluation of Fixed Assets	19,720
Disposals of Fixed Assets	-33,364
Balance as at 31 March 2006	16,501

Note 14 Capital Financing Account

The Capital Financing Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The balance on the reserve is reduced as loan debt is repaid.

	£'000
Balance as at 1 April 2005	195,730
2005/06 Capital Financing	
Capital Receipts	8,284
DRF	1,563
2005/06 MRP (less depreciation provision)	-6,902
Less: Write down of deferred charges	-12,469
MRR used to Finance HRA	303
Capital Grants & Contributions Write Down	15,449
Balance as at 31 March 2006	201,958

The Fixed Asset Restatement Account and the Capital Financing Account were introduced as part of the new system of capital accounting, which came into effect on 1 April 1994. Neither of these accounts are 'cash backed' and therefore they cannot be called upon to support spending.

Notes to the Consolidated Balance Sheet *continued*

Note 15 Government Grants Deferred Account

This account has been set up under the capital accounting system, and represents grants and contributions received to finance (wholly or partly) the acquisition of fixed assets. The account has been established in accordance with SSAP4 (the Accounting Treatment of Government Grants). These amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

	£'000
Balance as at 1 April 2005	113,579
Financing of 2005/06 Capital Expenditure	
Grants	24,126
Other contributions	5,024
	142,729
Amortised to revenue during the year	-15,449
Balance as at 31 March 2006	127,280

Note 16 Deferred Capital Receipts

This is the amount derived from the sale of council houses, which will be received in instalments over agreed time periods. They are backed up by long term debtors in the form of CP Mortgages

Note 17 Usable Capital Receipts Reserve

The Usable Capital Receipts Reserve is the earmarked element of income from the disposal of assets available to be spent on capital projects.

	£'000
Balance as at 1 April 2005	6,528
Adjustment to balance brought forward	0
Net proceeds on sale of fixed assets	16,172
Less:	
Pooling of Housing Capital Receipts	83
Applied to finance new expenditure	8,284
Transferred to provision account	0
Balance as at 31 March 2006	14,333

Notes to the Consolidated Balance Sheet *continued*

Note 18 Earmarked Reserves

Reserve	31st March 2005 £'000	Receipts In Year £'000	Payments In Year £'000	31st March 2006 £'000
Capital Reserves				
Capital Contributions Unapplied	5,101	2,454	4,968	2,587
Capital Grants Unapplied	4,639	24,264	24,136	4,767
Direct Revenue Financing Unapplied	529	1,256	1,563	222
Total Capital Reserves	10,269	27,974	30,667	7,576
School Reserves				
School Balances	4,727	158	0	4,885
Total Schools Reserves	4,727	158	0	4,885
Investment Reserves				
Durham Tees Valley Airport	1,008	0	110	898
SITA Tees Valley Ltd-formerly Cleveland Waste Management	309	0	0	309
Total Investment Reserves	1,317	0	110	1,207
Specific Revenue Reserves				
Insurance Fund (MBC)	2,882	2,663	3,434	2,111
Insurance Fund (CCC)	1,606	51	567	1,090
Lane Rental Income	1,603	0	715	888
Education Windfall Income	700	0	0	700
Collection Fund Balance	-726	1,355	0	629
HR Initiatives and Equal Pay	614	566	375	805
Job Evaluation	131	0	61	70
Job Evaluation Legal Fees	200	0	0	200
VAT on Car Parking charges	0	490	0	490
Asbestos Survey	62	0	11	51
DDA Access	100	0	60	40
TAD Centre Development	34	0	0	34
Cleveland Centre Roof	400	0	0	400
Education Windfall	170	0	100	70
Accommodation Review	543	288	0	831
Linthorpe Road Improvements	0	38	0	38
Independent Sector Price Increases	0	250	0	250
Winter Maintenance	0	70	0	70
IT Development	0	483	0	483
Ayresome Industries	0	415	0	415
Service Middlesbrough	0	629	0	629
Social Care & Vulnerable Children	0	589	0	589
Building Schools for the Future	0	1,315	0	1,315
ODPM Performance Reward	0	965	0	965
NRF grant	104	0	55	49
Total Revenue Reserves	8,423	10,167	5,378	13,212
Totals	24,736	38,299	36,155	26,880

School Balances

This contribution equals the difference between the aggregate budget for school based expenditure and actual expenditure incurred by schools in 2005/2006. In accordance with government regulations and the Council's scheme of delegation for schools, these monies are carried forward and specifically earmarked for school based expenditure in future years.

Insurance Fund

Middlesbrough Council set up an Insurance Fund from 1 April 1996, covering nearly all the authority's insurable risks with a limited amount of external cover for catastrophe or special risk incidents. The nature of the risks covered by the insurance provision includes fidelity guarantee, personal accident, employers liability, fire, motor, marine, engineers, public liability, money and all risks.

Insurance Fund (former CCC)

The Insurance Fund set up by Cleveland County Council to cover virtually all the insurable risks of that authority transferred to Middlesbrough Borough Council as part of its duties as designated authority. The fund is used to settle claims relating to incidents occurring before 1 April 1996 for which Cleveland County Council would have been liable.

There is also a continuing liability transferred from Cleveland County Council for payments in respect of claims up to agreed excess levels for incidents prior to 28 February 1992 when the insurance arrangements for Cleveland County were changed. There is also a contingent liability in respect of claims above the agreed limits in the event that the assets of Municipal Mutual are ultimately inadequate to meet the full cost of claims.

Lane Rental Income

This reserve represents lane rental income received from the pilot scheme for charging for utility access to the Highways.

This pilot arrangement ceased to operate on 31 March 2004.

Education Windfall Income

Due to the closure of Keldholme and Langbaugh schools in Middlesbrough and the opening of the Unity City Academy the local education authority received a one-off "windfall" funding of £1.964m arising from changes to the school funding regimes. Part of this "windfall" was expended on the new arrangements for the UCA and other specific revenue commitments in the Education Services, specifically £750,000 was set aside and added to corporate balances. Of this , £50,000 was spent in 2004/2005, leaving a balance of £700,000.

Collection Fund Balance

Details of the movement on this reserve are shown on pages 46 to 49.

HR Initiatives and Equal Pay

Middlesbrough Council has received over 600 equal pay claims from current or former members of staff. The Council denies there has been any discrimination or breach of the right to receive equal pay and will be vigorously defending the claims that have been brought against it. This reserve has been used to cover the costs of legal advice and representation that the Council has incurred since 2004/2005. The complicated process of dealing with this issue is ongoing and the provision has been increased in 2005/2006 to fund costs in 2006/2007 and beyond. The reserve also covers the ongoing costs of the Council's job evaluation exercise which started in 2004/2005.

VAT on Car Parking Charges

In setting the Council's car parking budget for 2006/2007 it has been assumed that no VAT is payable on car parking income receipts. A legal judgement on this issue is still awaited and provision has been made to cover any potential VAT payable.

Asbestos Survey

A provision was created to cover the costs of asbestos surveys to be undertaken on all Council buildings.

Disability Discrimination Act 1995

The requirement, under the Disability Discrimination Act (DDA) 1995, to make services accessible to the public came into effect on the 1st October 2004. The legislation relies on individuals or groups to bring cases before a tribunal. A provision has been created as the Council may face significant risk dependant on the outcome of any tribunal decisions.

TAD Centre Development

A provision has been made to cover the future development of the Councils Training and Development (TAD) Centre including improvements to IT support systems, Heating & Lighting and equipment.

Cleveland Centre Car Park Roof

A provision was created to meet the potential costs of repair work to the Cleveland Centre Car park. The Council is disputing the validity of the claim, pending resolution the provision of £400,000 is to be retained.

Education Windfall

The unspent balance of Education "windfall" funding was used to create a provision to fund Education schemes that were delayed from 2004/2005. Of this, £100,000 was used in 2005/2006 in relation to the transfer of Lanehead Outdoor Education Centre with the balance to be used in relation to the completion of administration/ curriculum links in schools.

Accommodation Review

The Council is undertaking a review of service accommodation following on from the departure of the Housing function. Provision has been made for costs associated with this review.

Linthorpe Road Improvements

Provision has been made for the future cost of ongoing work in relation to improvements on Linthorpe Road.

Independent Sector Price Increases

Provision has been made to cover price increases over and above inflation agreed between the Council's Social Care Directorate and Independent Sector Care providers resulting from the increase in the minimum wage.

Winter Maintenance

Funding has been set aside to cover potential additional costs arising from changes in legislation that require Councils to commence gritting roads at a higher temperature than previously was the case.

IT Development

Funding has been set aside to cover ongoing development and training issues in relation to the SAP financial system and to fund the potential development of other financial systems.

Ayresome Industries

Ayresome Industries is a Council managed Sheltered Workshop. A reserve has been created from the surplus generated by the workshop in 2005/2006 for future investment in the business.

Service Middlesbrough

A reserve has been set up to cover the cost of future developments in relation to the Councils strategic partnership with HBS – Service Middlesbrough.

Social Care & Vulnerable Children

The pressures on the budgets for vulnerable children and adults in care are difficult to forecast and a reserve has been created to cover peaks in demand that the services need time to manage.

Building Schools for the Future

Funding has been set aside to cover a proportion of future costs incurred in supporting the Councils Building Schools for the Future project.

ODPM Performance Reward Grant

The Council achieved levels of performance specified in the Local PSA such that Performance Reward Grant became payable from the ODPM. In total, £1,929,600 was

Notes to the Consolidated Balance Sheet *continued*

awarded in 2005/2006 to be split 50:50 between revenue and capital purposes. A reserve has been created from the revenue proportion of the grant to be used in future years.

NRF grant

Unspent NRF grant allocation has been carried forward to be used to part fund future years NRF programmes.

Note 19 The Euro

The Council is a member of the CIPFA Euro Advisory Service and continues to review the financial impacts and risks to the Council in advance of the decision by the United Kingdom to consider its joining of the economic monetary union.

At this stage the Council has not incurred any significant direct costs associated with the euro.

Note 20 Pension Fund Net Asset or Liability relating to the Council

The Teesside Pension Fund is a defined benefit statutory scheme administered by Middlesbrough Council in accordance with the Local Government Pension Scheme Regulations 1997.

For the financial year ending 31st March 2006, the Council is required to disclose a note to the balance sheet relating to FRS 17 containing the following information

- Net asset or liability of the Pension Fund
- Net pension costs to the Fund
- Movement in surpluses or deficits during the year

A report was produced by the Fund's Actuary in May 2005, the key assumptions and disclosures of which are shown below and overleaf;

Assumptions as at	2005/6	2004/5
Price Increases	3.00%	2.90%
Salary Increases	5.00%	4.90%
Pension Increases	3.00%	2.90%
Discount Rate	4.90%	5.40%

FRS17 Disclosure in respect of the 2006 Changes to the Local Government Pension Scheme(England and Wales only)

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

The Actuarial Valuation of the future Pension Liability of the scheme has been based on an assumption that 50% of such eligible employees will take this option.

This has reduced the value of the Council's pension liability by £7.452m to the value of £144.362m as reported in this Statement of Accounts.

- The information contained in the remainder of this note has been based on an actuarial valuation at March 2006

Notes to the Consolidated Balance Sheet *continued*

Assets	Long Term Return	31st March 2006	Return
	% p.a	£'000s	£000 p.a
Equities	7.0%	275,412	19,279
Gilts	4.2%	33,256	1,397
Bonds	4.9%	6,082	298
Property	6.5%	16,291	1,059
Cash	4.0%	27,765	1,110
Total	6.5%	358,806	23,143
Net Pension Asset as at		2005/2006	2004/2005
		£'000s	£'000s
Present Value of Scheme Liabilities		469,950	397,576
Present Value of Unfunded Liabilities		33,218	31,774
Total Value of Liabilities		503,168	429,350
Estimated Employers Assets		358,806	274,147
Net Pension Asset		-144,362	-155,203

The net operating costs of the Pension Fund are disclosed below, and are expressed as a percentage of total payroll costs

Revenue Costs for the year to 31st March 2006

	2005/6	2005/6	2004/5
	£'000s	% Payroll	£'000s
Analysis of amount charged to operating profit			
Service cost	13,367	20.5%	13,117
Past service costs	0	0.0%	10
Curtailment and Settlements	70	0.1%	-4,064
Decrease in irrecoverable surplus	0	0.0%	0
Total Operating Charge A	13,437	20.6%	9,063
	2005/6	2005/6	2004/5
	£'000s	% Payroll	£'000s
Projected Amount Credited to Other Finance Income			
Expected Return on Employer Assets	18,779	28.8%	17,396
Interest on Pension Scheme Liabilities	-23,257	-35.7%	-22,490
Net Return B	-4,478	-6.9%	-5,094
Net Revenue Account Cost (A-B)	17,915	27.5%	14,157

The table below provides details of the actuarial gains and losses for the Pension Fund in 2005/2006.

Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2005/6	2004/5
	£'000s	£'000s
Actual return less expected return on pension scheme assets	63,762	13,449
Experience gains and losses arising on the scheme liabilities	0	14,205
Changes in financial assumptions underlying the present value of the scheme	-47,775	-8,313
Actuarial gain/loss in pension plan	15,987	19,341
Increase/decrease in irrecoverable surplus	0	0
Actuarial gain/loss recognised in STRGL	15,987	19,341

The impact of annual pension costs, contributions and the net return on assets are detailed in the table below. The table shows the overall movement in the assets or liabilities of the fund.

Movement in Surplus/Deficit During the Year

	2005/6	2004/5
	£'000s	£'000s
Surplus(+) /deficit(-) at beginning of the year	-155,203	-98,630
Effect of Change in Accounting Methodology	0	-74,990
Current Service Cost	-13,367	-13,117
Employer contributions	11,345	13,233
Unfunded Pension payments	1,424	0
Other income	-4,477	0
Impact of settlements and curtailments	-70	4,064
Net return on assets	0	-5,094
Gains(+)/Losses(-)	15,986	19,341
Past Service Cost	0	0
Surplus/deficit at end of year	-144,362	-155,203
	2005/6	2004/5
	£'000s	£'000s
Actuarial Gains and Losses		
Difference between the expected and actual return on assets	63,762	13,449
Value of assets	358,806	274,147
Percentage of assets	17.8%	4.9%
Experience gains/losses on liabilities	0	14,205
Present value of liabilities	503,168	429,349
Percentage of the present value of liabilities	0.0%	3.3%
Actuarial gains/losses recognised STRGL	15,986	19,341
Present value of liabilities	503,168	429,349
Percentage of the present value of liabilities	3.2%	4.5%

With regard to the Teachers' Pensions Scheme, there were no contributions remaining payable at the year end. The Scheme is a defined benefit scheme, administered by the Teachers Pensions Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities (LEAs). However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. These benefits are fully accrued in the pensions liability described in note 4 to the Consolidated Revenue Account.

Note 21 Restatement of 2004/2005 figures

Balancing restatements of 2004/2005 figures has been effected between Provisions and Earmarked Reserves.

Note 22 Contingent Liabilities/Assets

Home Housing Guarantee

An agreement was entered into with Home Housing, which guaranteed an initial liability of £2.4 million. This was increased to £4.01 million in 1996/97 as a result of further development at St Johns Gate. The assets of Home Housing are considered sufficient to meet their liabilities without calling upon the guarantee and no provision has been made in the accounts.

Public Private Partnership Bonds

As part of the Public Private Partnership with HBS Business Services Group Ltd there was a requirement for a performance bond of £6 million. In addition to this the Pension Fund Admission Agreement contained a requirement that a guarantee bond be provided by HBS Business Services Group Ltd in the sum of £2,691,250.

Equal Pay Claims

Middlesbrough Council has received over 600 equal pay claims from current and former members of staff. The nature of such claims, if substantiated, would have a significant financial impact on the Council. The Council continues to deny that there has been any discrimination or breach of the right to receive equal pay and is vigorously defending the claims that have been brought against it. However in view of the implementation of the new pay system and to limit lengthy legal proceedings, offers of settlement payments have been made to a number of groups of manual employees in 2004/2005 and 2005/2006. A large number of these offers have been accepted and capitalised. The complicated process of dealing with this issue is ongoing and continues to be a major financial risk to the authority.

CADCAM Applications, Training & support Co. Ltd. Ceased trading 31st March 2004.

Under a guarantee originally entered into by Cleveland County Council, the four successor authorities are liable for rent payments on Aurora Court, offset by rent collected from the buildings tenants. There is potentially a substantial liability over the remaining term of the lease, though it is anticipated that it may be possible to obtain new tenants or to negotiate the guarantee. In the circumstances it is not practical to provide an estimate of the expected liability.

Note 23 Post Balance Sheet Event

The Council has a stake in the Tees Valley Connexions Partnership (20% voting rights). The partnership is due to be wound up at the 31st March 2007. The position on realising the assets and liabilities of the partnership is currently uncertain. The Council's liability is limited to £1.



Statement of Total Movement in Reserves

The statement of Movement in Reserves brings together all recognised gains and losses of the authority and identifies those that have not been recognised in the Consolidated Revenue Account. The availability of reserves will help protect the Council's future financial position.

The statement also identifies the unrealised increase/decrease in the value of the Council's assets arising from a revaluation of the Council's assets on the Balance Sheet. As the majority of these assets are needed for the continued provision of services and cannot therefore be sold, the reduction/increase in value does not affect the Council's overall financial position. Details of the movements for 2005/2006 are show below:

	2005/6	2004/5
	£'000	£'000
Surplus/(Deficit) for the year:		
General fund	2,594	393
Housing Revenue Account	-109	-1,511
Add back Movement on pensions reserve	10,841	-56,573
Add back Movement on specific revenue reserves (note 1)	4,948	230
Total increase/(decrease) in revenue reserves	18,274	-57,461
increase/(decrease) in useable capital receipts	7,805	-3,180
increase/(decrease) in unapplied capital grants	128	1,598
increase/(decrease) in unapplied major repairs grants	-303	-44
increase/(decrease) in unapplied revenue financing	-307	-68
increase/(decrease) in unapplied capital contributions	-2,514	3,345
Total increase/(decrease) in realised capital resources (note 2)	4,809	1,651
Gains/(losses) on revaluation of assets	19,720	148,983
Amounts written off to Fixed Asset Restatement Account in respect of expenditure not increasing asset values and deferred charges written down	-12,476	-205,508
Teesside Airport Share Revaluation	-110	-25
Total increase/(decrease) in unrealised capital assets (note 3)	7,134	-56,550
Retrospective Revaluations from FARA (note 4)	3,311	20,545
Value of assets sold, disposed of or decommissioned (note 4)	-33,357	-374,534
Capital receipts set aside	8,284	332,213
Revenue resources set aside	-5,037	-36,860
Movement on Government Grants	29,150	23,295
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	32,397	318,648
Total recognised gains and losses	32,568	-147,701

Notes to the Statement of Total Movement in Reserves

	2005/6	2004/5
	£'000	£'000
Reconciliation of movements in net worth		
Total Equity 1st April 2005	219,772	369,804
Total Equity 31st March 2006	252,340	219,772
Decrease/increase in net worth	32,568	-150,032
Add movement on Government Grants Deferred Account		
	32,568	-150,032
Adjustment to Total Equity 1st April 2005 for Deferred Charges Write Down (net of Government Grants and Other Contributions Deferred) required by change in local authority accounting regs	0	3,640
	32,568	-146,392

Notes to the Statement of Total Movement in Reserves

Note 1 Movement in Specific and Pension Reserves

See Consolidated Balance Sheet Note 18 on page 70 for details of movements in Specific Reserves and see Consolidated Balance Sheet Note 20 on page 73 for details of movements in the Pension Reserve.

Note 2 Movement in realised Capital Resources

	Useable Capital Receipts £'000	Unapplied Capital Grants £'000	Unapplied Capital Contributions £'000
Amount receivable in 2005/2006	16,172	24,264	2,454
Set aside Re - Pooling of Capital Receipts Requirement	-83	0	0
Set aside for provisions	0	0	0
Amount applied to finance capital expenditure in 2005/2006	-8,284	-24,136	-4,968
Total increase/(decrease) in realised capital resources 2005/2006	7,805	128	-2,514
Balance brought forward at 1st April 05	6,528	4,639	5,101
Balance carried forward at 31st March 06	14,333	4,767	2,587

Notes to the Statement of Total Movement in Reserves *continued*

Note 3 Movements in Unrealised Value of Fixed Assets

	Fixed Asset Restatement Account £'000
Gains/(losses) on revaluation of fixed assets in 2005/2006	19,720
Amounts written off on Fixed Asset Restatement Account in respect of expenditure not increasing asset values and deferred charges written down	-12,476
Durham Tees Valley Airport Share Revaluation	-110
Total increase/(decrease) in unrealised capital resources 2005/2006	7,134

Note 4 Value of Assets Sold, Disposed of or Decommissioned

	Fixed Asset Restatement Account £'000
Total increase/(decrease) in unrealised capital resources 2005/2006	7,134
Less Durham Tees Valley Airport Share Revaluation	110
Less Deferred Charges	12,469
Amounts written off on Fixed Asset balances for disposals in 2005/2006	-33,357
Total movement in reserve in 2005/2006	-13,644
Balance brought forward at 1st April 2005	26,834
Acquisitions Re Previous Years Expenditure	3,311
Balance carried forward at 31st March 2006	16,501

See Consolidated Balance Sheet Note 13 on page 68 for details of Fixed Asset Restatement Account.

Notes to the Statement of Total Movement in Reserves *continued*

Note 5 Movements in Amounts Set Aside to Finance Capital Investments

	Capital Financing Account £'000	Government Grants Deferred £'000	Total £'000
Capital Receipts set aside in 2005/2006			
Reserved receipts	0	0	0
Useable capital receipts	8,284	0	8,284
Total capital receipts set aside in 2005/06	8,284	0	8,284
Revenue Resources set aside in 2005/2006			
Capital expenditure financed from revenue	0	0	0
Reconciling amount for provisions for loan repayment and depreciation	-5,037	0	-5,037
Deferred Charges Adjustment	-12,469	0	-12,469
Total revenue resources set aside in 2005/06	-17,506	0	-17,506
Grants applied to fund capital investment in 2005/06	0	0	0
Amounts credited to the asset management revenue account in 2005/2006	15,450	13,701	29,150
Movement on Government grants Deferred in 2005/06	15,450	13,701	29,150
Total increase/(decrease) in amounts set aside to finance capital investment			
Total movement in reserves in 2005/2006	6,228	13,701	
Balance brought forward at 1st April 2005	195,730	113,579	
Balance carried forward at 31st March 2006	201,958	127,280	

See Consolidated Balance Sheet Note 14 on page 68 for details of Capital Financing Account and Note 15 on page 69 for details of Government Grants Deferred Account.

Consolidated Cash Flow Statement



Cashflow Statement for the Year End 31st March 2006

The statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	Year Ending 31 March 06 £'000	Year Ending 31 March 05 £'000
Revenue Activities			
Cash Outflows			
	1		
Cash paid to and on behalf of employees		159,657	160,707
Other operating cash payments		155,172	222,689
Housing Benefit Paid Out		46,700	27,220
Precepts Paid		7,509	7,166
NNDR paid to National Pool		31,097	29,258
		400,135	447,040
Cash Inflows			
	1		
Rents (after rebates)		-5,145	-4,001
Council Tax Income		-35,257	-33,715
NNDR receipts from National Pool		-46,322	-37,401
Non-domestic rate receipts		-30,065	-29,449
Revenue Support Grant		-91,203	-88,974
DWP grants for benefits		-45,770	-45,820
Other government grants	5	-78,018	-71,116
Cash received for goods and services		-78,483	-138,444
Other operating cash receipts		-1,583	-717
		-411,846	-449,637
Net Cash Flow Revenue Activities	1	-11,711	-2,597
Returns on Investments and Servicing of Finance			
Cash Outflows			
Interest Paid		5,038	11,865
Interest element of finance lease rental payments		0	0
		5,038	11,865
Cash Inflows			
Interest received		-2,447	-1,620
		2,591	10,245

Cashflow Statement for the Year End 31st March 2006 *continued*

	Notes	Year Ending 31 March 06 £'000	Year Ending 31 March 05 £'000
Capital Activities			
Cash Outflows			
Purchase of fixed assets		35,937	42,235
Purchase of long-term investments		0	0
Other Capital Cash Payments		12,403	7,556
		48,340	49,791
Cash Inflows			
Sale of fixed assets		-16,088	-148,244
Capital grants received	6	-24,016	-22,999
Other capital cash receipts		-2,454	-4,951
Disposal of subsidiary undertakings		0	0
		-42,558	-176,194
		5,782	-126,403
Net Cash Inflows/Outflows before Financing		-3,338	-118,755
Management of Liquid Resources			
Net increase/(decrease) in short term deposits	3	4,600	18,400
Net increase/(decrease) in other liquid resources		0	0
Financing			
Cash Outflows			
Repayments of amounts borrowed		0	161,712
Capital element of finance lease rental payments		0	0
Cash Inflows			
New loans raised		-6,000	-56,662
New Short term loans		0	0
Net Increase/Decrease in Cash	2	-4,738	4,695

Notes to the Cashflow Statement

Note 1 Reconciliation of Revenue Activities to Net Revenue Cash Flow

	2005/6	2004/5
	£'000	£'000
Net Cashflow from revenue activities	-11,711	-2,474
Expenditure		
Revenue Account Outflow	438,479	441,548
Cashflow Outflow	400,135	450,098
	<u>38,344</u>	<u>-8,550</u>
Income		
Revenue Account Inflow	-441,073	-441,941
Cashflow Inflow	-411,846	-452,572
	<u>-29,227</u>	<u>10,631</u>
Net Revenue Outflow	<u>9,117</u>	<u>2,081</u>
Revenue Deficit for year	<u>-2,594</u>	<u>-393</u>

Note 2 Reconciliation Of The Movement In Net Debt To Cash

	£'000
Balance as at 1st April 2005	-7,780
Balance as at 31st March 2006	-3,042
Net inflow of Cash	<u>-4,738</u>
Movements in fixed assets	16,690
Movements in long term assets	-311
Movement in current assets (excluding bank)	1,271
Movement in current liabilities (excluding bank)	3,989
Movement in long term liabilities	5,295
Movement in equity	-31,672
	<u>-4,738</u>

Notes to the Cashflow Statement *continued*

Note 3 Reconciliation of Liquid Resources

	2005/6
	£'000
Short term investments as at 1st April 2005	33,600
Short term investments as at 31st March 2006	38,200
	<hr/>
Net Inflow	4,600

Note 4 Explanation of Liquid Resources

Included within the liquid resources of the Council are short term investments. Short term investments are monetary deposits of less than one year.

Note 5 Analysis of Government Revenue Grants

	2005/6	2004/5
	£'000	£'000
Home Office	4,373	1,166
Office of Deputy Prime Minister	24,486	22,729
Dept of Health	5,696	17,987
Dept for Education and Skills	23,803	21,119
Dept for Works and Pensions	15,926	1,785
Registrar General	13	6
Dept for the Environment, Farming and Rural Affairs	109	273
Dept for Transport	1,127	1,310
Dept for Trade and Industry	846	0
Miscellaneous Minor	366	0
European Grants	742	0
Dept for Constitutional Affairs	79	4,354
Countryside Agency	2	0
National Lottery	450	387
	<hr/>	<hr/>
	78,018	71,116

Note 6 Analysis Of Government Capital Grants

	£'000	£'000
National Lottery Fund	1,479	5,420
Home office	94	103
Dept for Transport	190	0
Dept for Constitutional Affairs	70	987
Misc Minor Grants	3,469	0
Dept for Education and Skills	5,980	3,378
Dept of Health	104	0
Office of the Deputy Prime Minister	11,572	10,212
Dept for Trade and Industry	1,058	2,349
New Opportunitiers Fund	0	550
	<hr/>	<hr/>
	24,016	22,999



Teesside Pension Fund

Scope and Nature of the Fund

The Teesside Pension Fund is part of the Local Government pension Scheme and is governed by the local Government Pension Scheme Regulations 1997 (as Amended). These regulations specify the pensions and other benefits payable and fix the rates of member contributions. Employer contributions are set every three years by the Fund's Actuary. The purpose of the Fund is to provide retirement benefits for local authority employees in the Teesside area and other bodies admitted by agreement. The Fund is administered by Middlesbrough Council on behalf of all participating employers. A full list of all participating organisations is given below.

The fund is financed by way of contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from fund investments. The surplus monies, after payment of benefits, are invested by an Investment Panel. The Panel comprises elected members of Middlesbrough Council, representatives of the other unitary authorities, the Trade Unions and the Fund's Investment Advisers.

Investments are regulated by the Trustees Act 1961, and the Local Government Act 1972, as amended by Local Government Pension Regulations.

The Organisations participating in the Fund are as follows:-

Beamish Museum	Middlesbrough Borough Council
Bede College	Middlesbrough Refuge
Business Link Tees Valley	Middleton Grange Shopping Centre
Cleveland College of Art & Design	Tees Valley National Care Standards Commission
Cleveland Fire Authority	Newtown Community Resource Centre
Cleveland Magistrates Court Committee	NextiraOne Ltd
Cleveland Police Authority	OCS
Coast and Country Housing	Prior Pursglove College
Community Integrated Care	Redcar & Cleveland Borough Council
Connexions Tees Valley	Redcar and Cleveland College
CSCI	Saltburn & Marske Parish Council
Dial a Ride	St Mary's College
Dimensions UK Ltd	Stagecoach Hartlepool
EPICC	Stagecoach Transit
Erimus Housing	Stockton 6th Form College
Five Rivers	Stockton Borough Council
Future Regeneration of Grangetown	Stockton Riverside College
Guisborough Town Council	Swindon Urban Regeneration Co
Hartlepool 6th Form College	Tees Active Ltd
Hartlepool Borough Council	Hartlepool College of Further Education
Tees Forest Development Co	Tees Valley Development Co
HBS Business Services	Tees Valley Leisure
Housing Hartlepool	Tees Valley Urban Regeneration Co
Jarvis	Durham Tees Valley International Airport
Kings Academy	Teesside Probation Service
Liberata	Loftus Town Council
The Open College Network	Tristar Homes Ltd
MacMillan Academy	Unity City Academy
McAlpine Government Services Ltd	University of Teesside
Middlesbrough College	

The total number of	Contributing Employees	26,457
	Pensioners	14,817
	Deferred Pensioners	10,119
	Total	51,393

Teesside Pension Fund: The Financial Statements

Fund Account for the year ended 31st March 2006

	Notes	2005/6 £'000	2004/5 £'000
Contributions and Benefits			
Contributions receivable	3	89,770	82,817
Transfers in	4	16,064	22,457
Other income	5	1,814	4,191
		107,648	109,465
Benefits payable	6	56,692	55,333
Leavers	7	9,422	10,382
Administrative expenses	8	1,389	1,420
		67,503	67,135
Net additions (withdrawals) from dealings with members		40,145	42,330
Returns on investments			
Investment income	9	54,049	40,865
Change in market value of investments	10	313,659	110,305
Investment management expenses	11	-698	-651
Net returns on investments		367,010	150,519
Net increase (decrease) in the fund during the year		407,155	192,849
Net assets of the scheme as at 1 April 2005		1,422,912	1,230,063
At 31 March 2006		1,830,067	1,422,912

Net Assets Statement as at 31st March 2006

	Notes	2005/6 £'000	2004/5 £'000	
Investments				
	10			
Fixed interest securities		148,297	136,642	
Equities		1,051,122	792,770	
Index-linked securities		47,245	50,014	
Managed and unitised funds		334,748	243,909	
Properties		85,835	70,725	
Cash Bonds		0	501	
Cash Deposits		129,500	109,000	
		1,796,747	1,403,561	
Current assets and liabilities		12	32,190	17,270
Debtors due over 1 year		13	1,130	2,081
Net assets of the scheme at 31 March 2006		1,830,067	1,422,912	

Notes to the Financial Statements

Note 1 Basis Of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Scheme (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits that fall due after the end of the scheme year.

Note 2 Accounting Policies

Introduction

These accounts have been prepared in accordance with recommendations of the SORP - Financial Reports of Pension revised November 2002.

Basis on which Debtors and Creditors are included in the Accounts

The accruals concept has been observed in the preparation of the accounts with the following exception. Transfer values payable and receivable are accounted for on a cash basis rather than when they are agreed. The difference when compared with the accruals basis is not regarded as material.

Valuation of Investments

Investments have been included in the Net Assets Statement at their market value as at 31 March 2005 as provided by the Fund's custodians. Quoted UK securities are valued at the mid point of the quotations in the Stock Exchange Daily Official List. Overseas quoted securities are similarly valued at middle market prices from overseas stock exchanges, translated at closing rates of exchange. Unquoted investments are valued by the trustees, based on the cost of those investments unless other evidence exists.

The acquisition costs of investments are accounted for as part of the cost of investments. Property is valued annually by a qualified valuer.

Foreign Exchange

Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the Scheme year end date.

Overseas Investments

The Pension Fund is in the same position as all other local authority pension funds when investing abroad. Investments in unit trusts are held in the name of the fund, while investments made by custodians on behalf of the fund are held in nominee names. In the latter situation, fund administrators and auditors are not in the position to vouch investment certificates to the accounts. They have to rely upon certified lists of investments provided by the custodians. Indemnities have been provided by the custodian and are designed to protect the interests of the fund, in defined circumstances, where investments are held in nominee names.

Notes to the Financial Statements *continued*

Disposal of Investments

Profits and losses on the disposal of investments are realised when the transactions are legally complete.

Dividends

Dividends from quoted securities are accounted for when they become ex-dividend.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Pension Liabilities

The accounts summarise the transactions and net assets of the fund. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the notes relating to the most recent actuarial valuation.

Contingent Liabilities

The Pension Fund currently has no contingent liabilities.

Note 3 Contributions Receivable

		2005/6	2004/5
		£'000s	£'000s
Employers	Normal	65,218	59,586
	Special	413	296
Members	Normal	24,139	22,935
		89,770	82,817

Analysis of Total Contributions receivable

	2005/6	2004/5
	£'000s	£'000s
Administering Authority	15,122	14,486
Scheduled Bodies	50,112	46,784
Admitted Bodies	24,536	21,547
	89,770	82,817

Notes to the Financial Statements *continued*

Note 4 Transfers In

	2005/6	2004/5
	£'000s	£'000s
Individual transfers in from other schemes	16,064	22,457

Note 5 Other Income

	2005/6	2004/5
	£'000s	£'000s
Capital Costs of Early Retirements	1,711	4,164
Other income	103	27
	1,814	4,191

Note 6 Benefits Payable

	2005/6	2004/5
	£'000s	£'000s
Pensions	47,689	44,716
Commutations and lump sum retirement benefits	8,091	9,594
Lump sum death benefits	912	1,023
	56,692	55,333

Analysis of Total Benefits Payable

	2005/6	2004/5
	£'000s	£'000s
Administering Authority	14,361	14,247
Scheduled Bodies	33,833	31,697
Admitted Bodies	8,498	9,389
	56,692	55,333

Note 7 Payments to and on account Leavers

	2005/6	2004/5
	£'000s	£'000s
Refunds to members leaving service	152	312
Payments for members joining state scheme	100	192
Individual transfers to other schemes	9,170	9,878
	9,422	10,382

Notes to the Financial Statements *continued*

Note 8 Administrative Expenses

	2005/6	2004/5
	£'000s	£'000s
Administration and processing	1,272	1,344
Actuarial Fees	93	52
Audit Fee	24	24
	1,389	1,420

Note 9 Investment Income

	2005/6	2004/5
	£'000s	£'000s
Income from fixed interest securities	9,559	3,919
Dividends from equities	29,636	23,320
Income from index linked securities	1,346	1,264
Income from pooled investment vehicles	2,982	2,399
Net rents from properties	4,410	4,443
Interest on cash deposits	6,116	5,520
	54,049	40,865

The accruals for 'Income from fixed interest securities' were understated in the 2004/2005 accounts by £2.8M. This amount is included in the income for 2005/2006. The balance of the fund at 31st March 2006 is correct.

Note 10 Investments

	Value at	Purchases		Change in	Value at
	31st March	at	Sale	market	31st March
	2005	cost	proceeds	value	2006
	£'000s	£'000s	£'000s	£'000s	£'000s
Fixed interest securities	136,642	134,148	-125,227	2,734	148,297
Equities	792,770	135,289	-87,853	210,916	1,051,122
Index-linked securities	50,014	22,614	-28,585	3,202	47,245
Managed & unitised funds	243,909	11,424	-7,348	86,763	334,748
Properties	70,725	6,329	-1,264	10,045	85,835
Cash Bonds	501	0	-500	-1	0
Cash Deposits	109,000	20,500	0	0	129,500
	1,403,561	330,304	-250,777	313,659	1,796,747

Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Notes to the Financial Statements *continued*

	2005/6	2004/5
	£'000s	£'000s
Fixed interest securities		
UK public sector quoted	65,777	64,417
Overseas public sector	82,520	72,225
	148,297	136,642

	2005/6	2004/5
	£'000s	£'000s
Equities		
UK quoted	711,532	594,948
Overseas quoted	339,590	197,822
	1,051,122	792,770

	2005/6	2004/5
	£'000s	£'000s
Index-linked securities		
UK quoted	35,217	32,967
Overseas quoted	12,028	17,047
	47,245	50,014

	2005/6	2004/5
	£'000s	£'000s
Managed and unitised funds		
Unit trusts UK	129,372	109,429
Overseas	205,376	134,480
	334,748	243,909

	2005/6	2004/5
	£'000s	£'000s
UK Properties		
Freehold	69,735	56,250
Leasehold	16,100	14,475
	85,835	70,725

The properties were subject to independent valuation, as at 31 March 2006, by Mr D.V. Tittle Bsc FRICS in April 2006.

	2005/6	2004/5
	£'000s	£'000s
Cash Bonds		
UK Cash Bonds	0	501

Notes to the Financial Statements *continued*

Note 11 Investment Management Expenses

	2005/6	2004/5
	£'000s	£'000s
Administration, management and custody	698	651

Note 12 Current Assets and Liabilities

	2005/6	2004/5
	£'000s	£'000s
Other Debtors	15,593	16,395
System Debtors	823	793
Contributions Due	6,332	6,503
Other Creditors	-2,631	-8,378
Cash balances	7836	532
Short Term Investments	4,237	1,425
	32,190	17,270

Note 13 Debtors due over 1 year

	2005/6	2004/5
	£'000s	£'000s
Capital cost of early retirements	1,130	2,081

Note 14 Related Party Transactions

The Fund is administered by Middlesbrough Council which is a related party as defined by Financial Reporting Standard 8 (FRS 8) 'Related Party Disclosures'. FRS 8 requires disclosure of information on related party transactions. In its position as Administering Authority Middlesbrough Council has recharged scheme administration services to the Fund as follows;

	2005/6	2004/5
	£'000s	£'000s
Support Service Recharges	86	160

In addition Middlesbrough Council has a £260 million, 10 year partnership with HBS Service Middlesbrough for the provision of business, finance, IT, HR and other support services which commenced 1 st June 2001.

Notes to the Financial Statements *continued*

Note 15 Additional Voluntary Contributions

Member's investments in Additional Voluntary Contributions (AVC's) are made directly to 3rd Party providers and do not form part of these accounts.

Note 16 Actuarial Valuation

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation.

An Actuarial Valuation was carried out as at 31st March 2004 using the 'Projected Unit Method' which produced the following results:

	£million
Net Liabilities	1,526.0
Assets	1,231.0
Surplus (Deficit)	-295.0
Funding Level	81%

The latest Actuarial Statement is included on page 100.

Note 17 Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain Statements of Investment Principles (SIP).

The Teesside Pension Fund SIP contains statements on;

- 1 Investment responsibilities
- 2 Types of investments to be held
- 3 The balance between different types of investment
- 4 Risk
- 5 Expected return on investments
- 6 The realisation of investments
- 7 Fund Investment Strategy: Ethical, Social and Environmental Perspective
- 8 Corporate Governance
- 9 Performance Measurement
- 10 Compliance and Monitoring

The statement is maintained and published by Middlesbrough Council, copies of which are available on application.

Note 18 The Funding Strategy Statement

The Local Government Pension Scheme (Amendment) Regulations 2004 have established the requirement for each Administering Authority to produce a Funding Strategy Statement setting out a long term view on funding liabilities. The main areas to be included in the Statement are;

- 1 The purpose of the Statement
- 2 The aims and purpose of the Fund
- 3 The responsibilities of the key parties
- 4 The solvency of the Fund
- 5 The identification of risks to the Fund
- 6 The links to the Statement of Investment Principles
- 7 Future Monitoring

The Funding Strategy Statement for the Teesside Pension Fund has been approved by the Pensions Panel on 10 March 2006.

Note 19 Actuarial Statement

Introduction

The last full triennial valuation of the Teesside Pension Fund was carried out by Hymans Robertson as at 31 March 2004. The results were published in their report dated March 2005.

2004 Valuation

The 2004 valuation certified a common contribution rate of 17.2% of pensionable pay to be paid by each employing body participating in the Teesside Pension Fund. In addition to this each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Contribution Rates

The contributions rates, in addition to those paid by the members of the scheme, are set to be sufficient to meet

- 100% of the liabilities in respect of each employer that have built up within the Fund in respect of service to the valuation date, allowing for future pay increases and increases to pension in payment when these fall due
- plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100% of their liabilities in the Fund.

Asset Value and Funding Level

The market value of the Funds assets as at 31 March 2004 was £1,231m which represented 81% of the Fund's accrued liabilities at that date allowing for future increases in pay and pensions in payment.

The contribution rates were calculated using the Projected Unit Method taking account of the market value of assets at that date.

To be consistent with the market value of assets the liabilities were valued allowing for expected future investment returns and increases to benefits as determined by market levels at the valuation date and were as follows;

∑ Rate of return on investments	6.5% per annum
∑ Rate of increases in pay	4.9% per annum
∑ Rate of Increases to pensions in payment	2.9% per annum

Post Valuation Events - Changes to the LGPS

Amending regulations have been issued which will phase out the Rule of 85 from 1 October 2006 although this may be extended to 1 April 2008. Contributions rates set at the 2004 valuation assumed that the Rule of 85 would remain in force until at least 1 April 2008.

Notes to the Financial Statements *continued*

Since March 2004 investment returns have been greater than assumed at the 2004 valuation although liabilities will also have increased faster than assumed due to a reduction in bond yields. The reduction in bond yields also increases the cost of ongoing benefit accrual.

In summary therefore, we estimate that the funding level will have increased since the 2004 valuation thus reducing the required contributions to fund the deficit. However this will have been offset by the increase in ongoing costs and in aggregate, we estimate that the total required contribution rate will not have changed in any material way.

Further changes were also introduced effective from 6 April 2006 allowing scheme members to be able to exchange pension for additional lump sum benefits and a new scheme with potentially a different benefit structure is also planned from 1 April 2008. As part of the next valuation due as at 31 March 2007 we will be assessing the impact of these changes on the financial position of the Fund and required levels of employer contributions.

We continue to monitor the situation and will provide a further update in our next statement.

Graeme D Muir FFA
Fellow of the Faculty of Actuaries

6 June 2006

Notes to the Financial Statements *continued*

Note 20 Schedule of Contribution Rates

Net rate of contribution payable by each employing Organisation for the period 1st April 2005 to 31st March 2006 under regulation 79 of the LGPS Regulations 1997.

Employer	Total Contribution Rate %	Additional Cash Sum
Major Employers		
Hartlepool Borough Council	12.3	£1,900,000
Middlesbrough Council	17.5	
Redcar & Cleveland Borough Council	13.0	£1,750,000
Stockton Borough Council	12.3	£2,800,000
Other Scheduled Bodies		
Cleveland Fire Authority	18.5	
Cleveland Police Authority	15.7	
Cleveland Probation Service	15.6	
Guisborough Town Council	17.4	
Loftus Town Council	17.4	
Saltburn & Marske Parish Council	17.4	
University of Teesside	14.9	
Admitted Bodies		
Beamish Museum	13.8	
Business Link Tees Valley	13.8	
Coast and Country Housing	14.5	
Commission for Social Care Inspection	14.7	
Community Integrated Care	25.0	
Connexions Tees Valley (formerly Future Steps Ltd)	13.8	
Dial a Ride	13.8	
Erimus Housing	18.5	
Five Rivers	16.0	
Future Regeneration of Grangetown	13.8	
HBS Business Services	21.3	
Housing Hartlepool	13.9	
Jarvis	18.8	
Liberata	15.6	
McAlpine Government Services	22.2	
Middlesbrough Refuge	13.8	
Dimensions (UK) Ltd (formerly New Era)	18.2	

Notes to the Financial Statements *continued*

Note 20 Schedule of Contribution Rates *continued*

Employer	Total Contribution Rate %	Additional Cash Sum
Admitted Bodies <i>continued</i>		
Newtown Community Ltd	16.4	
NextiraOne UK Ltd (HBS)	19.9	
NextiraOne UK Ltd (SBC)	17.8	
OCS	21.2	
Open College Network (TROCN)	13.8	
Stagecoach Hartlepool	20.4	£20,000
Stagecoach Transit	19.4	£393,000
Tees Active	13.1	
Tees Forest Development Co	13.8	
Tees Valley Leisure	14.6	
Tees Valley Urban Regeneration Co	13.8	
Teesside International Airport	16.2	
The New Swindon Co Ltd	13.8	
Tristar Homes	14.8	
Colleges		
Bede College	14.8	
Cleveland College of Art & Design	14.8	
Hartlepool 6th Form College	14.8	
Hartlepool College of Further Education	14.8	
Kings Academy	13.7	
Macmillan College	13.7	
Middlesbrough College	14.8	
Prior Pursglove College	14.8	
Redcar and Cleveland College	14.8	
St Mary's College	14.8	
Stockton 6th Form College	14.8	
Stockton Riverside College	14.8	
Unity City Academy	13.7	



Group Income and Expenditure Accounts

Group Revenue Account	Year End			Year End
	Exp	Inc	Net	Net
	£'000	£'000	£'000	£'000
Central Services to the public	15,876	14,152	1,724	-215
Cultural, environmental & planning services	66,289	27,457	38,832	29,261
Education services	129,554	45,384	84,170	78,641
Highways, roads and transport services	16,100	7,410	8,690	10,167
Housing services	53,759	51,204	2,555	-1,029
Social Services	86,453	42,791	43,662	38,931
Exceptional Item	0	0	0	-4,518
Court Costs	1,341	568	773	1,612
Corporate and democratic core	3,078	35	3,043	2,942
Non Distributed Costs	9,158	4,305	4,853	5,119
Share of Operating results of Associates	0	3	-3	-17
Share of Operating results of Joint Ventures				
- Turnover	0	4	-4	-5
- Other Operating Income & expenditure	2	0	2	25
Profits/losses on disposal of assets	0	0	0	0
Government grants amortised in year	-15,449	0	-15,449	-6,558
Net cost of services	366,161	193,313	172,848	154,356
Miscellaneous costs/write offs	0	0	0	69
Parish council precepts	8	0	8	4
Surpluses/deficits on trading undertakings	13,248	16,723	-3,475	-3,877
Interest payable	5,064	0	5,064	13,727
Contribution of housing cap receipts to Govt. pool	83	0	83	4,172
Losses on the repurchase of borrowing	3	26	-23	0
Interest and investment income	0	2,216	-2,216	-1,389
Share of Assoc/Joint venture Interest/Inv Income	0	8	-8	0
Share of Assoc/Joint venture Corp Tax	0	0	0	-1
Pension Interest Cost	23,257	0	23,257	22,490
Expected Return on Pension Assets	0	18,779	-18,779	-17,396
Share of Assoc/Joint venture Pension Interest cost and Return on Pensions Assets	16	0	16	0
Sub Total	407,840	231,065	176,775	172,155
Minority Interest share of subsidiary			-3	-1
Net operating expenditure			176,772	172,154
Transfer to HRA balances			-109	-1,511
Transfers to/from insurance reserve			-124	-125
Transfers from other earmarked reserves			4,723	197
Transfer from Usable Capital Receipts equal to the contribution to Housing Pooled Cap Receipts			-83	-4,172
Capital expenditure financed from revenue			1,256	1,177
Profits/losses on disposal of assets			0	0
Reconciling amount for provisions for loan repayment			-3,523	-2,212
Reconciling amount for the net change in the Pensions Liability			-4,508	-1,470
Appropriation to Group Income & Exp Reserve			-52	-19
Amount to be met from government grants and local taxation			174,352	164,019

Group Income and Expenditure Accounts *continued*

	Year End 31 March 06 £'000	Year End 31 March 05 £'000
Amount to be met from government grants and and local taxation	174,352	164,019
General government grants	-91,203	-88,973
Non-domestic rates redistribution	-46,322	-37,401
Demand on the Collection Fund	-40,291	-38,106
Transfers (from)/to the Collection Fund in respect of surpluses/deficits	870	68
Net General Fund (surplus)/deficit	-2,594	-393
Balance on General Fund brought forward	-4,865	-4,472
Balance on General Fund carried forward	-7,459	-4,865
n.b. the general fund balances figure excludes schools balances .A summary of the schools balances position is shown below:-		
Balances attributable to schools budgets b/fwd	-4,727	-4,821
(Surplus)/Deficit in year	-158	94
Balances attributable to schools budgets c/fwd	-4,885	-4,727
Group Income and Expenditure Reserves		
Council General fund brought forward	4,865	
Share of Subsidiary and Associates reserves brought forward	2,108	
Prior year adjustment re Associate	16	
	6,989	
General Fund Surplus	2,594	
Less Appropriation re Subsid/Assoc	-52	
	2,542	
Council general fund carried forward	7,459	
Subsid and Assoc carried forward	2,072	
	9,531	

Group Consolidated Balance Sheet

	As at 31 March 06 £'000	As at 31 March 05 £'000
Fixed Assets		
Intangible Fixed Assets	0	0
Tangible Fixed Assets		
Operational Assets		
Other Land & Buildings	316,078	324,747
Vehicles / Plant & Equipment	3,720	3,487
Infrastructure Assets	59,573	53,755
Community Assets	8,239	3,217
Non Operational Assets		
Assets Under Construction	14,590	3,411
Other Non Operational Assets	39,492	36,388
Total Fixed Assets	441,692	425,005
Long-term Investments	1,356	1,467
Share in Net Assets of Associates	239	244
Share in Gross Assets of Joint Ventures	190	129
Share in Gross Liabilities of Joint Ventures	-225	-182
Long-term Debtors	1,063	1,262
Total Long Term Assets	444,315	427,925
Current Assets		
Stock & Work In Progress	1,767	1,273
Debtors & Payment In Advance	53,832	57,359
Short-term Investments	38,200	33,600
Cash and Bank	1,101	1,161
Total Current Assets	94,900	93,393
Current Liabilities		
Short Term Loans	0	0
Creditors & Income In Advance	35,560	39,571
Bank Overdraft	3,161	7,901
Total Current Liabilities	38,721	47,472
Total Assets less Current Liabilities	500,494	473,846
Long Term Liabilities		
Long-term Borrowing	97,090	91,000
Provisions	4,624	5,754
Pensions Liability	145,196	155,203
Total Assets less Liabilities	253,584	221,889

Group Consolidated Balance Sheet *continued*

	As at 31 March 06 £'000	As at 31 March 05 £'000
Fixed Asset Restatement Account	16,501	26,834
Capital Financing Account	201,958	195,730
Government Grants Deferred	127,280	113,579
Deferred Capital Receipts	75	75
Major Repairs Reserve - HRA	140	443
Usable Capital Receipts Reserve	14,333	6,528
Pensions Reserve	-145,196	-155,203
Earmarked Reserves	26,880	24,736
Balances - Housing Revenue Account	2,076	2,185
Balances - General Fund	9,531	6,973
Group Equity	253,578	221,880
Minority Interests	6	9
Total Equity	253,584	221,889

Group Statement of Movement in Reserves

	General Fund £000	HRA £000	School reserves £000	Pensions reserves £000	Other reserves £000	Total £000	Trans- actions in Year
REVENUE							
Balance at 1st April 2005							
Group	6,782	2,185	4,727	-155,203	9,740	-131,769	
Associates & Joint Ventures	191	0	0	0	0	191	
Prior year adj re Joint Ventures	16	0	0	0	0	16	16
Net surplus/deficit in yr							
Group	2,545	-109	0	0	0	2,436	
Associates & Joint Ventures	-3	0	0	0	0	-3	2,433
Transactions in yr							
Group	0	0	158	10,841	4,679	15,678	
Associates & Joint Ventures	0	0	0	-834	0	-834	14,844
Balance at 31st March 2006	9,531	2,076	4,885	-145,196	14,419	-114,301	

Transactions in year

17,293

	Fixed Asset restatement reserve £000	Capital financing reserve £000	Major repairs reserve £000	Other Capital reserve £000	Govt Grants Deferred £000	Total £000	Trans- actions in Year
CAPITAL							
Balance at 1st April 2005							
Group	26,834	195,730	443	16,872	113,579	353,458	
Associates & Joint Ventures	0	0	0	0	0	0	
Unrealised gains/losses on Revaluation							
Group	19,720	0	0	0	0	19,720	
Associates & Joint Ventures	0	0	0	0	0	0	19,720
Impairment losses on fixed assets from Revaluation							
Group	0	0	0	0	0	0	
Associates & Joint Ventures	0	0	0	0	0	0	0
Effects of disposals of fixed assets							
Group	-33,364	0	0	0	0	-33,364	
Associates & Joint Ventures	0	0	0	0	0	0	-33,364
Effects of amounts payable to Housing capital receipts pool							
Group	0	0	0	-83	0	-83	
Associates & Joint Ventures	0	0	0	0	0	0	-83
Financing of fixed assets							
Group	0	9,847	0	0	29,150	38,997	
Associates & Joint Ventures	0	0	0	0	0	0	38,997
Other transactions in year							
Group	3,311	-3,619	-303	5,195	-15,449	-10,865	
Associates & Joint Ventures	0	0	0	0	0	0	-10,865
Balance at 31st March 2006	16,501	201,958	140	21,984	127,280	367,863	

Transactions in year

14,405

Reconciliation of movements in net worth

£'000

Total Equity per Group Accounts 1st April 2005	221,889
Total Equity per Group Accounts 31st March 2006	253,584
Net change in Equity	31,695
Net change on Minority interest in year	3

31,698

Total Transactions in year

31,698

Note - there was a prior year adjustment of £16,000 made during the year relating to an Associate company.

Notes to the Group Accounts

Note 1

The Group Accounts include the Accounts of the Local Authority, together with the Local Authority's share of the results of the following Companies :-

Subsidiary Companies (and principal activities)

Dial A Ride Middlesbrough (71% of voting rights)- provision of Transport facilities for persons who have special needs for such facilities by reason of their age, infirmity, sickness, hardship or disability.

Hustler Playing Fields Trust (100% controlled) - provision of playing fields and recreation grounds for juvenile population of Middlesbrough.

Joint Venture (and principal activities)

CADCAM (25% of voting rights) - provision of Training and support re Computer Aided Engineering, Computer Aided Draughting, Information technology and Networking.

Associate Companies (and principal activities)

Tees Valley Connexions Partnership (20% of voting rights)- provision of Advice & Guidance to Young people.

Cleveland Accredited Training Centre (33% of voting rights)- provision of training for schemes implementing Training & Enterprise projects.

In most of the above Companies, the Authority has obtained copies of the Latest Management Accounts to 31st March 2006. The only exception is Cleveland Accredited Training Centre, where the Audited accounts to 31st March 2005 are the latest information available.

None of the Companies' 2006 Accounts have yet been audited.

Copies of Accounts can be obtained from the Authority.

None of the Companies were acquired during the year.

All of the Companies are Limited by Guarantee.

Net Assets £'000

Dial a Ride	26
CADCAM	-140
Tees Valley Connexions	1,109
Cleveland Accredited Training Centre	50

Note 2

All information which would improve the understanding of the Group Accounts is provided in the Notes to the Accounts. Notes are shown where there are material additional amounts/details in relation to Subsidiaries and Associates.

Note 3a Accounting Policies

Similar Accounting policies have been adopted by all the Bodies in the Group.

The exception is the method of accounting for FRS17 - Retirement benefits. The major statements of the Authority have been amended to show the impact of the FRS17 report, as have those of Tees Valley Connexions (associated company).

Notes to the Group Accounts *continued*

The impact of FRS17 on other consolidated Companies is limited to Companies Act requirements.

Note 3b UK GAAP

To ensure the Group accounts are UK GAAP compliant, a number of adjustments have been made to the Group Income and Expenditure Account:

	£000
Removal of Notional Interest element of Capital Charges	14,725
Adjustment for Profit/Loss on disposal of Fixed Assets	0
Adjustment of Amortisation of Capital Grants	15,449

Note 4 Exclusions within Group Accounts

No subsidiaries or Associates were excluded from the Group Accounts. Intra Group transactions of £429,000 with Dial A Ride have been eliminated.

Note 5 Interest in Companies

An exercise to identify all Local Authority Companies in line with the Local Authorities (Companies) Order 1995 and the Local Government and Housing Act 1989 was undertaken during the year. The review identified that, apart from the companies included within the Group Accounts, the Council had interests in the following companies:

Authorised Unregulated

SITA Tees Valley, Tees Valley Regeneration, Business Link Tees Valley, Community Ventures (Middlesbrough), Groundwork South Tees, Hemlington Community Partnership, Middlesbrough Environment City Trust, Middlesbrough Town Centre Company, Tees Valley Arts, Teesside Environment Trust, Teesside Play and Education Resource Centre, Botanic Centre Middlesbrough, Shopmobility, Age Concern Teesside, Safe in Tees Valley, North East Community Forest Development, Cleveland Innovations, North East Museums, Libraries and Archives Council, Northern Grid for Learning and Tees Valley Tomorrow.

Authorised Exempt

Durham Tees Valley Airport, the Local Government Information Unit.

Group Cash Flow Statement

	Year Ending 31st March 06	Year Ending 31st March 05
	£'000	£'000
Net Net Cash Inflow/Outflow from Revenue Activities	-11,653	-2,803
Dividends from Joint Ventures and Associates		
Cash Inflows		
Dividends received	0	0
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Cash outflows		
Interest paid	5,038	11,865
Cash inflows		
Interest received	-2,447	-1,620
Taxation	0	0
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Cash outflows		
Purchase of fixed assets	35,937	42,235
Purchase of long-term investments	0	0
Other capital cash payments	12,403	7,556
	48,340	49,791
Cash inflows		
Sale of fixed assets	-16,088	-148,244
Capital grants received	-24,016	-22,999
Other capital cash receipts	-2,454	-4,951
Disposal of subsidiary undertakings	0	0
	-42,558	-176,194
Equity dividends paid	0	0
NET CASH INFLOW/OUTFLOW BEFORE FINANCING	-3,280	-118,961
Management of liquid resources		
Net increase/decrease in short term deposits	4,600	18,400
FINANCING		
Cash outflows		
Repayments of amounts borrowed	0	161,712
Cash inflows		
Issue of share capital	0	0
New loans raised	-6,000	-56,662
	-6,000	-56,662
NET INCREASE/DECREASE IN CASH	-4,680	4,489

Note to the Group Cash Flow Statement

Reconciliation of Revenue Activities to Net Cashflow

Year ended 31st March 2006	MBC	Subsidiaries	Total
Net Cashflow from Revenue Activities	-11,711	58	-11,653
Expenditure			
Revenue Account Outflow	438,479	621	439,100
Cashflow Outflow	<u>400,135</u>	<u>625</u>	<u>400,760</u>
	38,344	-4	38,340
Income			
Revenue Account Inflow	-441,073	-569	-441,642
Cashflow Inflow	<u>-411,846</u>	<u>-567</u>	<u>-412,413</u>
	-29,227	-2	-29,229
Net Revenue Outflow	9,117	-6	9,111
Minority Interest adjustment		-3	-3
Revenue Surplus for Year	-2,594	49	-2,545

Reconciliation of Movement in Net debt to cash

Balance as at 31st March 2005			6,740
Balance as at 31st March 2006			2,060
			-4,680
	MBC	Subsidiaries	Total
Movement in Fixed assets	16,690	-3	16,687
Movement in long term assets	-311	0	-311
Movement in current assets	1,271	5	1,276
Movement in current liabilities	3,989	22	4,011
Movement in long term liabilities	5,295	-18	5,277
Movement in Equity	-31,672	52	-31,620
Net outflow of cash	-4,738	58	-4,680



Trust Funds

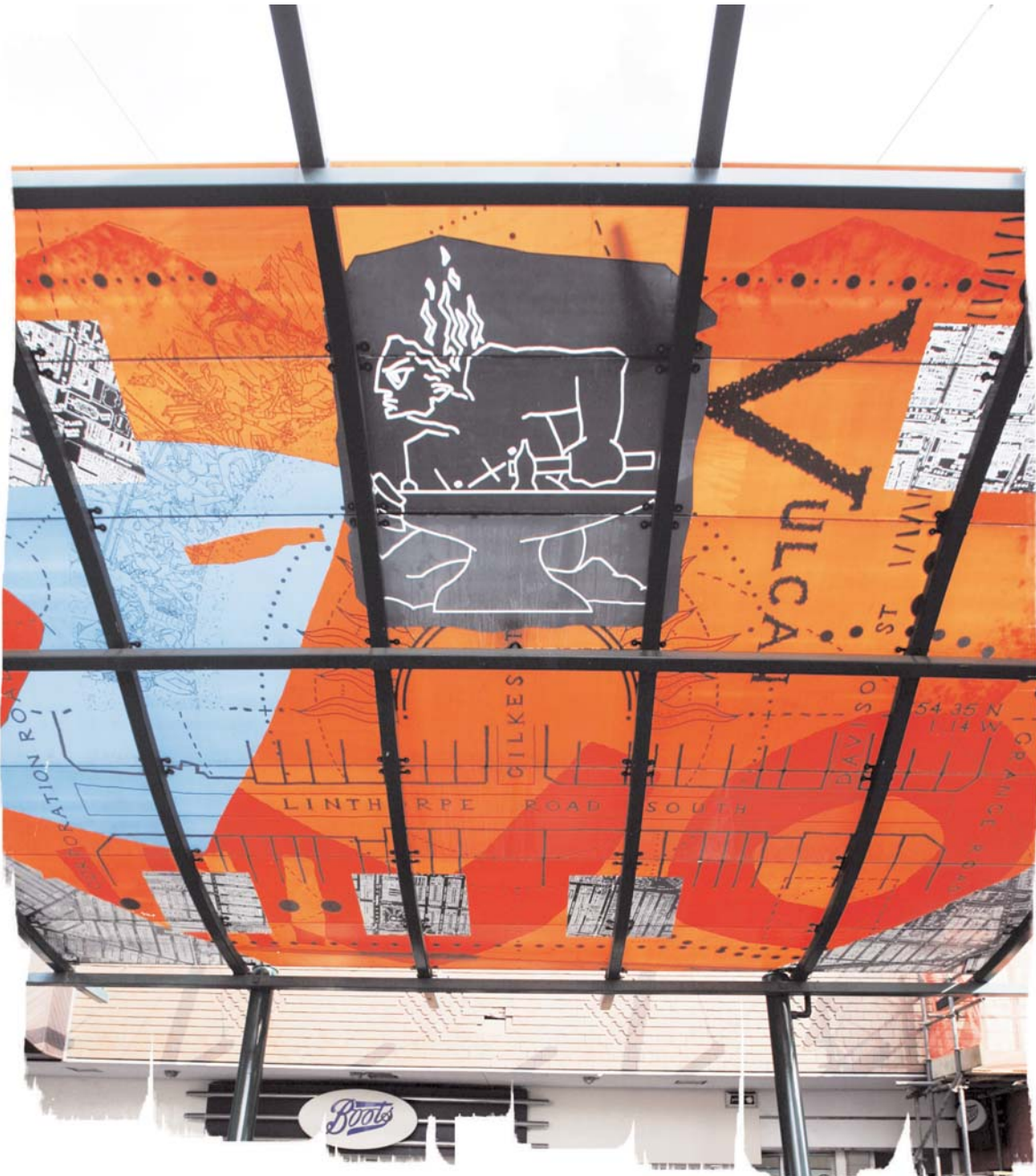
The Council administers 19 Trust Funds, which are varied in nature and relate principally to legacies left by local inhabitants of the area over a number of years. All funds are invested in external marketable securities, with any cash either being invested internally at 7 day interest rates or externally in the money market. None of the funds are included in the Consolidated Balance Sheet of the Council.

The Council is in the process of reviewing the individual funds in anticipation of merging the funds to make more efficient use of these resources.

	2005/06 Surplus/ Deficit £	Fund Balance as at 31st March 06 £	Fund Balance as at 31st March 05 £
Teesside Education Endowment Reg. Charity No 514301 For the award of scholarships, bursaries and other financial assistance for those under the age of 25 years	109	7,230	7,121
Sanderson Prize Reg. Charity No 516308 Provision of prizes for pupils at Acklam Grange School	55	1,295	1,240
Haines Prize Reg. Charity No 516305 Provision of prizes for pupils at Brackenhoe School, Middlesbrough	181	4,211	4,030
Capt J.V. Nancarrow Reg. Charity No 506937 For the award of scholarships, bursaries, and other financial assistance to those under the age of 25 years	521	109,292	108,771
Middlesbrough Educational Trust Fund Reg. Charity No 532293 For the award of grants, scholarships, bursaries and other financial assistance to those under the age of 25 years	565	60,894	60,329
Hustler Playing Fields Reg. Charity No 523381 To provide funding for a sports project at Grove Hill Youth and Community Centre and for the Development of open spaces in Brookfield and Lingfield Park, Coulby Newham.	-41,745	1,848,389	1,890,134
Miss Olive Scarr Reg. Charity No 508539 Music prizes at schools in Middlesbrough.	536	11,694	11,158
W.M. Anderton Reg. Charity No 509198 Academic prizes for pupils of Kings Manor School and Acklam Sixth Form College.	50	1,155	1,105
Rev. J.W. Dales Reg. Charity No 512215 To provide a university scholarship	77	1,794	1,717
Teesside Relief In Sickness Reg. Charity No 229137 To provide support to those with physical or health needs	134	3,108	2,974

Trust Funds *continued*

	2005/06 Surplus/ Deficit £	Fund Balance as at 31st March 06 £	Fund Balance as at 31st March 05 £
Levick Trust Reg. Charity No 255056 To provide accommodation and tenancies to people in need over the age of 60 and resident in Middlesbrough	-1860	4,588	6,448
Settlement Hall Reg. Charity No 226877 The provision of accommodation for social and religious purposes.	4,129	85,958	81,829
Lady Crossthwaite Bequest Reg. Charity No 234932 To provide appropriate support and assistance to older people in Middlesbrough.	20,875	443,679	422,804
King Edward VII & Sister Purvis Convalescent Fund Reg. Charity No 226433 To provide support and relief to those with physical or health needs and living in Middlesbrough and the Grangetown and South Bank areas of Redcar & Cleveland.	2,456	36,239	33,783
Captain Cook Birthplace Trust Reg. Charity No 507317 To help support the work of the Captain Cook Birthplace Museum in Stewart Park Middlesbrough.	164	3,812	3,648
Wilson & Marwood Charity Reg. Charity No 221291 To support disadvantaged people in the St Hilda's Ward of Middlesbrough.	488	12,989	12,501
Dorman Museum And Art Gallery Appeal Trust To support and assist the museum and art gallery, and to assist in the purchase or acquisition of items or works of art.	10	222	212
Davison Home Reg. Charity No 226430 To provide holidays and relief for children in Middlesbrough with health problems. <i>This Fund was transferred to new Trustees during the year</i>	-412,263	0	412,263
Middlesbrough Little Theatre Trust Reg. Charity No 503828 The advancement of education by the promotion and encouragement of drama and arts.		0	0
The assets of this Trust do not have a carrying value in the accounts and it's annual operating deficit is paid by Middlesbrough Council. As a result there are no balances to disclose.			
Totals	-425,518	2,636,549	3,062,067



Statement of Accounting Policies

1 Introduction

The general principles adopted in compiling the accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). All Statements of Standard Accounting Practice which CIPFA has so far determined as being relevant to local authority accounts; and the Code of Practice on Local Authority Accounting published by CIPFA have been followed.

2 Definition of Capital Expenditure

Capital expenditure is defined as the acquisition, reclamation, enhancement, or laying out of land, the acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures, and the acquisition, installation or replacement of movable or immovable plant, machinery, equipment, vehicles and vessels.

The definition of 'enhancement' is works intended to lengthen substantially the useful life of the asset, increase substantially the open market value of the asset or increase substantially the extent to which the asset can or will be used for the purposes of, or in conjunction with, the functions of the local authority.

Major overhaul or replacement expenditure can also be capitalised if it relates to an asset that has previously been depreciated.

A fixed asset should initially be recognised at its cost, which is its purchase price plus any costs directly attributable to bringing it into working condition for its intended use. Directly attributable costs are the labour costs of own employees (eg site workers, in-house architects & surveyors) arising directly from the construction or acquisition of the specific asset, the incremental costs to the entity that would have been avoided only if the particular fixed asset had not been constructed or acquired. Admin & general overhead costs are excluded.

Costs will also be ineligible to the extent that they relate to activity that takes place before the intention to acquire or construct a particular fixed asset has been confirmed. Examples include project appraisals and feasibility studies.

Currently the Authority does not adopt a de minimis level for capital expenditure. It has been agreed that in order to harmonise expenditure with the recording of fixed assets on the asset register, a de minimus level of £5,000 will be adopted in 2006/07 for expenditure on non trading fixed assets, and a £1,000 level for expenditure on trading service assets.

3 Fixed Assets

Fixed assets are valued on the basis recommended by CIPFA and the Royal Institute of Chartered Surveyors (RICS).

Operational and non-operational land and buildings have been valued by the Council's Valuation Service and are included in the Consolidated Balance Sheet. The basis of the valuation, including that for vehicles, equipment and plant, is the lower of net current

Statement of Accounting Policies *continued*

replacement cost or net realisable value in existing use. Infrastructure assets, community assets and assets under construction continue to be valued at historical cost net of depreciation.

Revaluations of fixed assets are being carried out as part of a rolling programme over a five year cycle, although material changes to asset valuations will be adjusted in the interim period as they occur. Material additions to fixed assets during 2005/2006 are included in the Consolidated Balance Sheet at cost of acquisition. Any surpluses or deficits arising on the revaluation of assets are adjusted through the Fixed Asset Restatement Account.

Where there is a material reduction in the value of an asset caused by a consumption of economic benefits (e.g. physical damage or a deterioration in the quality of the service provided by the asset) the loss is reflected through an increase in the depreciation charge to the service accounts. No such adjustments have been required in 2005/2006.

The Council applies a de minimus level of £5,000 to the acquisition, renewal or replacement of non trading undertaking vehicles, plant and other equipment, £1,000 for trading undertaking vehicles, plant and equipment and £20,000 for Land and Buildings which are recorded in the Council's Asset Register. It has been agreed that the de minimus level for the acquisition of Land and Buildings be changed to £5,000 in 2006/07, in line with the adoption of a capital expenditure de minimus level.

4 Depreciation

Depreciation is provided for on all fixed assets with a finite useful life. Where depreciation is provided for, assets are being depreciated using the 'straight line' method on the opening balance over the following periods:

Buildings (where appropriate)	15 - 60 years
Vehicles, Plant & Equipment	2 - 12 years

In previous years, authorities did not need to depreciate assets if regular repairs and maintenance work were being carried out to extend the asset's life. Since 2000/01, all assets must be depreciated. This change in accounting policy has meant that Middlesbrough has had to estimate the remaining useful economic life of its assets. As this will take some time to compile, 40 years has been used for the majority of its assets and depreciation has been processed on this basis. Full implementation is being planned in future years. A programme of work is in progress to revise the economic life of all assets on a more accurate basis.

5 Capital Charges

The capital charges made to service revenue and trading services equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is included in the balance sheet as at 1st April 2005. The notional rate of interest used was 3.5% for assets carried at current value and 4.8% for assets at historical cost.

Statement of Accounting Policies *continued*

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure are disclosed separately as appropriations, in the face of the Consolidated Revenue Account, below net operating expenditure.

6 Deferred Charges and Intangible Assets

Deferred charges represent expenditure which would otherwise be classified as revenue, but which is classified as capital for control purposes. Deferred charges represent expenditure which is properly financed from capital resources but for which there is no asset creation. As the authority seldom controls the economic benefit of this expenditure, the 2004/05 SORP changes require authorities to amortise 100% to revenue in the year the expenditure is incurred.

Where the authority does control the economic benefit these should be classified as assets in their own right, as intangible assets. An example of such an asset would be software licences.

7 Capital Receipts

Capital receipts from the disposal of assets have been recorded in the accounts on an accrual basis. Usable receipts are shown separately in the Consolidated Balance Sheet and can be used either to finance capital expenditure or as a voluntary provision for credit liabilities.

Under the 1985 Housing Act Council tenants have the right to buy their dwellings. The government has prescribed the ways in which Councils may utilise those receipts.

Until 1st April 2004, 75% of receipts from house sales and 50% of receipts from housing land sales were to be set aside to repay existing external debt or meet liabilities on leasing arrangements. This arrangement was changed under the Local Government Act 2003. Regulations were made to replace the Housing Capital Receipts set aside with the Pooling regime whereby local authorities are now required to pay to the Department of Communities and Local Government poolable portion of capital receipts on a quarterly basis. Capital receipts not exceeding the de-minimus level of £10,000 are not subject to this arrangement. The usable element is immediately available to finance new capital expenditure. The disposal of most non-HRA assets does not involve a similar pooling arrangement.

With effect from 15th November 2004 the authority undertook a large scale voluntary transfer of its housing stock to Erimus Housing. As part of the arrangement the authority will receive a portion of Right to Buy sales for the next five years. However these receipts will be below the de-minimus level and, therefore, not subject to pooling.

Legislation covering the application of capital receipts by Local Authorities does not allow them to credit capital receipts to the general fund or collection fund accounts unless they

Statement of Accounting Policies *continued*

fall below the £10,000 de-minimus level. It is, therefore, not possible for Local Authorities to comply with SSAP 6 by including profits or losses arising from the disposal of capital assets in the revenue accounts.

8 Redemption of Debt

The Council makes provision for all scheduled debt repayments. The basis of these payments is dependent on the type of loans raised. The Authority will also redeem or restructure debt early as part of its overall debt management policy utilising its ability to repay and/or replace debt based on prevailing market conditions. Any gains or losses arising on the repurchase or early settlement of borrowing have been shown in the Consolidated Revenue Account in accordance with Accounting Standards.

9 Government Grants and Contributions

Government grants are accounted for on an accruals basis and income is credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to the Government Grants-Deferred account. Amounts are released from the Government Grants-Deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate. Any grants relating to Deferred Charge expenditure should be amortised to revenue immediately.

10 Leases

The council will consider using operating leases as well as other methods of financing equipment purchases in line with the Prudential Code.

In accordance with current recommended accounting practices, as laid down in SSAP 19: Accounting for Leases, the operating leases are charged to revenue on an accruals basis. Sums not yet paid are accrued for and prepaid payments are treated as payments in advance. An analysis of leasing costs is shown in the notes to the Consolidated Revenue Account.

11 Debtors and Creditors

In compliance with the Code of Practice on Local Authority Accounting and SSAP 2 in all material respects with the exception of Council Tax Benefits, both revenue and capital accounts of the Council are maintained on an accruals basis. That is, sums due to or payable by the Council during the year are included in the accounts whether or not the cash has actually been received or paid in the year.

12 Stocks and Works In Progress

With the exception of the Council's trading undertakings stocks held at 28th February 2006 are valued at the lower of actual cost or net realisable value in accordance with SSAP 9. Stocks in trading undertakings are valued at the last notified price (i.e. current cost). Work in progress in trading undertakings is valued at sale value. The following bases have been used for arriving at cost values: Average Cost; Original Cost; Selling price less

Statement of Accounting Policies *continued*

estimated profit margin. Where stocks have been identified as being of no further use to the Council and the appropriate procedures have been complied with, the obsolete stock has been written off, otherwise an allowance has been made for obsolescence.

13 Costs of Support Services

The accounting treatment for support services has been prepared in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP). The costs of management and administration overheads have been allocated to all services including trading undertakings. The basis of allocation used for the main costs of management and administration is outlined below:

Description	Basis of Allocation
Financial, Legal and Human Resources	Time apportionment / workload
Administrative Buildings	Area Occupied
Information & Communication Technology	Estimated Usage
Architectural / Engineering	Professional fee scales / time spent

The costs of the Corporate and Democratic Core and of Non Distributed Costs are allocated to a separate expenditure head and are shown on the face of the Consolidated Revenue Account.

14 Provisions

The Council makes general provisions for significant liabilities or losses which are likely to be incurred, or certain to be incurred but are uncertain as to the amounts or dates on which they will arise. Details of each provision is included in the notes to the Consolidated Balance Sheet. In addition the Council makes provision for bad debts which for most services is calculated as 50% of all debts between 12 and 24 months old and 100% of all debts over two years old. Separate bad debt provisions are calculated for:

- Council Tax & NNDR
- Housing and Council Tax Benefits

15 Earmarked and General Reserves

The Council sets aside earmarked reserves for specific future expenditure. A list of these reserves and an explanation of their use is included in the notes to the Consolidated Balance Sheet.

In addition the Council maintains certain reserves to meet general, rather than specific, future expenditure.

Capital Reserves are not available for revenue purposes and some can only be used for specific statutory purposes.

16 Self Insured Risks

The Council has created an internal insurance fund to cover its liability in respect of the risks from fire damage, employers and public liability, motor vehicles, cash in transit and personal accident claims enquiries. The balances on the fund are reviewed biannually with surpluses transferring to general reserves and deficits being funded from increased premiums in the following financial year.

In addition a separate internal insurance fund exists to cover remaining liabilities of the former Cleveland County Council.

17 Pensions

The Council participates in two different pension schemes, which meet the needs of employees in particular services. Both the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

a Teachers

This is an unfunded scheme administered by the Teachers Pensions Agency. The pension cost charged to the accounts is the contribution rate set by the agency on the basis of a notional fund.

b Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Superannuation Scheme. As stated in the explanatory forward, the statement of accounts now fully incorporate the requirements of FRS 17.

In order to comply with FRS 17, the net pension scheme asset/liability is now recognised in full on the consolidated balance sheet matched by a pensions reserve. The consolidated revenue account (CRA) includes the increase in the present value of the pension schemes liabilities arising from employee service in the year as part of total service costs instead of the employers annual pension contributions. The liabilities increased considerably as of March 2005 as a result of the change in the discount rate used to calculate the liability. However, the Fund benefited from the improved performance of the Stock Market in 2005/06. The CRA is also required to include interest costs and the expected non fund assets as part of net operating expenditure. The change in accounting policy has a nil impact overall on the net cost ultimately charged against council tax and government grants as an appropriation is made from the pension reserve to reconcile back to the employers pension contribution cost.

18 Investments

Investments are shown in the Consolidated Balance Sheet at the lower of cost or market value, with the exception of the investment in Durham Tees Valley International Airport which is at market value. Dividends are credited to revenue when received or when receivable. Investments are made in accordance with the appropriate statutory revaluations and the Council's Treasury Management strategy.

19 Internal Interest

Interest is compounded monthly and charged or credited to internal funds based upon the level of fund balances. The amounts are calculated using 7 day money market rates, averaged over the year. The rate was 4.66% for 2005/2006, the equivalent rate for 2004/2005 was 3.482%.

20 External Interest

Interest payments on external borrowings (PWLB and other bodies) is fully accrued in order that each year bears the costs of interest related to its actual external borrowing. External interest income is credited to revenue over the period to which it relates.

21 Contingent Assets/Liabilities

Where a material receipt or payment is expected but the amount and/or timing is uncertain no entry is made in the accounts. The transaction is disclosed as a note to the Consolidated Balance Sheet.

22 Post Balance Sheet Events

Where a material receipt or payment occurs which affects the Consolidated Balance Sheet after the end of the financial year no entry is made in the accounts. The transaction is disclosed as a note to the Consolidated Balance Sheet.

23 Research and Development Costs

Expenditure on research and development is regarded as part of the continuing operation of the authority and is written off as it is incurred.

24 Non Distributed Costs

Expenditure on unfunded pensions incurred by predecessor authorities has been included in non distributed costs as there is no perceived relevance to distribution over specific services.

25 Group Accounts

The 2005 Local authority SORP (Code of Practice on Local Authority Accounting in the United Kingdom 2005: A Statement of Recommended Practice) contains Group Accounting requirements. These require Local Authorities to consider all their interests (including those in local authorities and similar bodies) and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures.

26 Estimation Methods

In order to achieve publication of this document within the deadline set by legislation it has been necessary to introduce or modify estimation methods in relation to Debtors, Creditors, Stocks and Petty Cash balances. However, none of the estimation methods used have had a material effect on the information disclosed



Glossary of Terms

Accounting Period

The period of time covered by the accounts; normally a period of 12 months commencing on 1st April and ending as at the balance sheet date of 31st March.

Accrual

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the balance sheet date.

Agency Services

Services provided by an outside agent for which the Council is responsible.

Assets Under Construction

At any time some projects will be incomplete and will need to be classified as 'fixed assets under construction'. The term can include assets which are complete but not yet operational as well as items that are not complete. It is usual for assets under construction to be recognised but recorded as non-operational until they are brought into use, at which point they are recognised as operational assets.

Audit

An independent examination of the Council's activities, either by internal audit or the Council's external auditor, the District Audit Service.

Balance Sheet

A statement of the balances and reserves at the local authority's disposal, the net current assets employed in its operation and the value of fixed assets held.

Budget

A statement reflecting the Council's spending plans for a specific period. The annual revenue budget is normally finalised and approved in February prior to the commencement of the new financial year.

Capital Charges

A charge to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or which adds to the value of an existing fixed asset.

Capital Financing

The methods of financing capital expenditure. This includes borrowing, direct revenue financing, the use of capital receipts, capital grants and external Contributions.

Capital Receipts

Proceeds from the sale of capital assets. Such income may only be used for capital purposes, i.e. to repay outstanding borrowing or to finance new capital expenditure. Any receipts not yet been utilised are referred to as “capital receipts unapplied”.

Capital Financing Account

Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans.

Collection Fund Account

This account records the income received by the council in relation to local taxation and non domestic rates. It also shows how the income has been distributed to the preceptors and to the general fund.

Community Assets

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Community Charge

The form of local taxation in use between April 1990 to March 1993, based on householder numbers. It was replaced by Council Tax from April 1993.

Consolidated Balance Sheet

The aggregate of all the Council fund balance sheets excluding trust funds and the pension fund.

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 events not wholly within the local authority's control.

Contingent Liability

A contingent liability is either:

- 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 authority's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Corporate and Democratic Core

The corporate and democratic core comprises all activities in which local authorities

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

Council Tax

The form of local taxation in use since April 1993, based on property values.

Creditors

Amounts owed by the Council for work done, goods received or services provided by the end of the financial year for which payment has not yet been made.

Current Assets

An asset which will be consumed or cease to have material value within the next financial year (e.g. stocks and debtors).

Current Liabilities

These are amounts owing by the Council, which fall due for payment within a year, for example creditors or cash overdrawn

Debtors

Income due to the Council for services performed in the financial year for which payment has not been received by the end of the year.

Deferred Credits

Capital income due to be received in the future when disposals have taken place e. g. the principal outstanding from the sale of council houses.

De minimis

A de minimis level is adopted to only reflect material transactions in the capital accounts. The Authority's policy on de minimus levels are outlined in the statement of accounting policies.

Depreciation

The measurement of the cost or revalued amount of the benefit of the fixed assets that have been consumed during the accounting period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Equity

The net value of the Council's assets represented by reserves and balances.

Fixed Assets

Fixed assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Fixed Asset Restatement Account

This represents the balance of any surpluses or deficits arising from the revaluation of fixed assets.

General Fund

The local authority's main revenue fund from which the cost of providing council services is met. The main sources of income paid into the fund are the precept on the collection fund and specific government grants.

Housing Revenue Account

The statutory account covering the provision, maintenance and administration of council housing services.

Impairment

Where there is a clear consumption of economic benefits to a fixed asset, such as physical damage or deterioration in the quality of service provided by the asset. Also, it can include a significant decline in a fixed assets market value.

Intangible Assets

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. Examples of this type of expenditure are software and other licences, patents and trademarks and artistic originals.

Local Management of Schools

This refers to the statutory delegation of management and budget responsibility to individual schools. Individual schools spending is not included in the consolidated revenue account. Surpluses or deficits are carried forward into the next financial year.

Major Repairs Allowance (MRA)

Annual allowance paid to the Council to assist with the maintenance of the Housing stock.

Materiality

The concept that the Statement of Accounts should include all amounts which, if omitted or mis-stated could be expected to lead to distortion of the financial statements.

Minimum Revenue Provision (MRP)

The minimum annual charge to the revenue account for the repayment of outstanding long term debt.

Non Distributed Costs

These are costs for which no user directly benefits and should not be apportioned to services.

Operating Leases

A lease other than a finance lease.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept

The levy made on billing authorities by other bodies requiring them to collect income from Council taxpayers on their behalf e.g. Police Authority.

Provisions

Funds set aside to cover potential liabilities which are likely or certain to be incurred at a future date but where the exact amount and timing of the liability is currently not known.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

Related Parties

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or
- the parties in entering a transaction are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own separate interests

Related Party Transactions

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

Reserves

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some reserves are earmarked for specific purposes.

Revenue Account

The account which records revenue costs incurred and income received by council services during the year. A separate account is kept for each council service. The Consolidated Revenue Account in the Statement of Accounts aggregates all the individual service revenue accounts.

Revenue Expenditure

The day-to-day costs incurred in providing council services. This comprises of staff costs, other operating costs and capital charges.

Revenue Support Grant

The main source of funding for local authorities provided by Central Government.

Specific Grants

Government grants given to Local Authorities and earmarked for specific services e.g. Standards Fund grant paid to Education Services.

Stocks

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:

- goods or other assets purchased for resale;
- consumable stores;
- raw materials and components purchased for incorporation into products for sale;
- products and services in intermediate stages of completion;
- long-term contract balances; and
- finished goods.

Useful Life

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

Work in Progress

The cost of work undertaken on an uncompleted project as at the end of the financial year.

Middlesbrough Council

Statement of Accounts 2005/6




Middlesbrough
moving forward


HBS